

Credit Repair Scams

There is a brisk business among so-called “credit repair” companies that charge from \$50 to more than \$1,000 to “fix” your credit report. In many cases, these outfits take your money and do little or nothing to improve your credit report. Often, they just vanish. There are no quick or easy cures for a poor credit history. If a credit repair company promises you it can clean up your credit report, remember the following:

Your credit history is maintained by private companies called credit bureaus that collect information reported to them by banks, mortgage companies, department stores, and other creditors;

These credit bureaus can legally report accurate negative credit information for seven years and bankruptcy information for ten years;

Accurate items that are within the seven (or ten) year reporting period cannot be erased from your credit record by companies advertising “credit repair” services; and

If you have a poor credit history, even if your past problems were due to illness or unemployment, time is the only thing that will heal your credit report.

Tips:

Shop Around

Once you have determined which type of loan is best for you, check with several lenders, compare terms, rates and conditions.

Ask Questions

Is the application fee refundable if you don't qualify or decide not to accept the loan? What is the annual percentage rate? Is it fixed or adjustable? Is there a balloon payment at the end of the term?

Review and Negotiate

Once you have chosen a lender, try to negotiate. Perhaps the lender could lower the interest rate or remove a term you do not like. Make sure you ask for a blank copy of the forms you will get at closing and review them carefully. Be certain you can afford the loan; if you can't, you could lose your home.

The Final Deal

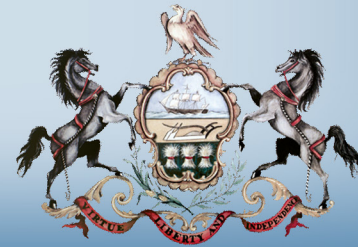
Before closing, ask for an explanation of anything you don't understand. Never sign a loan agreement if the terms differ from what you were originally told or if there are blanks to be filled in later by the lender. Make sure you get a copy of all the documents you sign before you leave!

What is in your Credit Report?

If you're having trouble getting credit, try checking your credit report yourself. You can obtain one free credit report a year from each credit reporting bureau, by visiting www.annualcreditreport.com or by contacting the three credit reporting bureaus: Equifax, Experian, and Transunion. The credit report tells how you've managed your credit in the past. Companies examine your credit report before deciding whether to give you credit. When a company denies your request for credit because of your credit report, it must tell you so and identify the credit reporting bureau that supplied the report.

Pennsylvania
Office of Attorney General
Public Protection Division
Bureau of Consumer Protection

Toll Free Helpline:
1-800-441-2555



www.attorneygeneral.gov

P E N N S Y L V A N I A
OFFICE OF ATTORNEY GENERAL

Loans & Credit

Know all your options

before you sign,

from different types

of loans available

to credit repair scams

Michelle A. Henry
Attorney General

Types of Loans

You may see advertisements for home equity loans, debt consolidation loans, second mortgages, or offers to refinance or modify your current loan. Understand that most of these loans use your home as collateral, which means that you are putting your property in jeopardy if you cannot make the payments.

Home Equity Loans use a credit line to borrow against the value (equity) of your home. These loans provide you with large amounts of cash at relatively low interest rates, which may be tax deductible. Some loans have a final, balloon payment at the end of the term. You must either pay this lump sum or refinance the loan.

A **Refinancing** means paying off an existing mortgage loan with the proceeds from a new loan, using the same property as collateral. It is important to note that you may be subject to the same costs you paid to get your original mortgage, including settlement costs, discount points and other fees. A prepayment penalty may apply for paying off the original loan early. The amount you save will vary depending upon factors such as interest rates, refinancing costs and tax consequences.

A **Second Mortgage** is an additional mortgage on the property. A property can have multiple loans or liens against it. The loan which is registered with the county registrar first is called the first mortgage. In most cases, a second mortgage takes the form of a home equity loan or line of credit.

A **Debt Consolidation Loan** is a single loan, such as a home equity loan or the refinancing

Your home is likely to be your biggest investment and financial asset. That's why it is extremely important to know the facts when considering refinancing or borrowing against your home equity. While most lenders are legitimate and honest, unfortunately there are some unscrupulous ones who will try to take advantage of consumers.

Understand the different types of loans available to consumers and familiarize yourself with the issues associated with home and credit lending.

Be certain to understand all of the terms and conditions before agreeing to any loan or you may put your most valuable asset at risk – your credit history!

Consumers searching for an easy way out of their credit problems are susceptible to a wide range of credit-related scams in addition to credit repair fraud.

of an existing loan, used to pay off multiple debts – credit card bills, for example. Debt consolidation loans often offer a lower monthly payment, but with a longer term to pay off the loan. This means you may be paying more in interest in the loan run.

A **Loan Modification** is a process where the terms of a mortgage are modified outside the original terms of the contract agreed to by the lender and borrower. A loan modification will typically result in the change to the loan's monthly payment, interest rate, term or outstanding principal.

Credit Information

By now you've probably received many credit card offers. Credit card companies are always looking for new customers. They would like you to become a cardholder as early as possible in order to keep you as a satisfied customer for many years. There are a lot of businesses willing to let you have their credit card. It's easy to get credit cards and they can help you develop a healthy financial record if used sparingly and responsibly. Unfortunately, you can also get trapped with huge debt and no way out.

Be Careful!

It's enticing to use your credit card and run up a tab you cannot pay. The credit card companies recognize that many people are unable to pay the full balance each month. Instead, they will allow you to make a minimum monthly payment. Although this sounds appealing, it can be the start of serious financial problems.

Borrowers Beware

Use a lender you know and trust. An unscrupulous lender may attempt one of these common scams:

Equity Stripping

This is a practice where loans are made to consumers without regard to the borrower's ability to pay. For instance, an unscrupulous lender may encourage you to overstate your income on the loan application in order to get the loan approved, knowing you will not have the income to cover the monthly payments. You may also be encouraged to borrow more than you need so you will have extra spending money. As soon as you default on the loan, the lender will foreclose, taking your home and the equity in it.

Signing Over the Deed

You can't pay your mortgage and face foreclosure. A "lender" contacts you, offering help. First, the lender requires you to deed the property to him, claiming this is a temporary safety measure to prevent foreclosure. It is not. Once the lender has the deed, he owns your property. He can borrow against it or sell it to someone else. The lender can treat you as a tenant, using the mortgage payments as rent. Once you default on the payments, the lender can evict you from your own home.

