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## **NEWS RELEASE**

**FOR IMMEDIATE RELEASE**

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### **STATE ENCOURAGES CONSUMERS TO “BORROW SMART”**

#### **Offers Tips For Borrowers**

BOISE, IDAHO – In connection with National Consumer Protection Week, February 5 – 10, 2001, the Idaho Department of Finance encourages consumers to become informed about credit options before borrowing, and to avoid loan-related scams and unconscionable lending practices.

One of the first steps in “borrowing smart” is to recognize that different kinds of loans exist for different situations, and that a consumer who doesn’t shop around may pay too much on any loan. For typical smaller “consumer” loans, those in which the money is to be used for personal, family or household uses, borrowers can choose to look to traditional sources of credit, such as credit cards, other lines of credit, finance companies, or merchants who offer credit to finance a purchase. Other sources of credit are available and may be the right choice in a particular situation, although the loan may cost substantially more if obtained from a non-traditional lender. For example, “payday” loans, in which the borrower gives the lender a postdated check for the amount of the loan plus a fee, may be convenient and easy to obtain, but come at an extremely high interest rate when compared to other loans.

Consumers in need of a larger loan to purchase a home, or those who already own a home and

wish to use the equity to obtain a loan, may look to lenders such as banks, credit unions, finance companies, mortgage brokers or mortgage bankers. As with smaller loans, different lenders offer different products, and some cost more than others. “Subprime” loans (with rates far above the prime rate to cover increased risks or costs) are costly, but often are the only means for a borrower with a poor credit history to obtain financing.

Before obtaining any loan it is important for the borrower to shop around and understand the terms of the credit being offered. The Department of Finance offers these tips:

- Ask questions.
  - ✓ ✓ *What are the fees? Ask to have all fees explained.*
  - ✓ ✓ *What is the annual percentage rate (APR)?*
  - ✓ ✓ *What are the total costs of the loan?*
  - ✓ ✓ *What are the payments and when are they due?*
  - ✓ ✓ *How long do I have to pay it back?*
  
- Read all documents carefully.
  - ✓ ✓ *Don't sign any documents you don't understand.*
  - ✓ ✓ *Be certain all of the blanks are filled in before you sign.*
  - ✓ ✓ *Ask for copies of all documents.*
  
- Be certain you are taking out a loan you can repay.
  - ✓ ✓ *The biggest pitfall in small consumer loans, for example “payday” and “title” loans, is when they are refinanced and the amount owed accumulates quickly. These refinances may soon result in fees which are near the principal amount of the loan, and the debtor has no reasonable probability of repaying the loan.*
  
- Protect your credit rating.
  - ✓ ✓ *Make loan payments on time.*
  - ✓ ✓ *Periodically check your credit report for accuracy.*
  - ✓ ✓ *Save enough money for emergencies so that rent or mortgage and other payments can still be made.*
  - ✓ ✓ *Recognize that a good credit rating will save you money when you need to borrow.*

The good news in Idaho is that many lenders have chosen to offer credit here, which has resulted in a competitive interest rate environment. Gavin Gee, Director of the Department of Finance, stated: “As a result of Idaho’s rapid growth, overall healthy economy, strong work ethic and favorable

regulatory environment, Idahoans enjoy a wide variety of credit choices and very competitive interest rates. If Idaho consumers will shop around for credit like they would other products and services, and become well informed in credit matters, they will find favorable interest rates and terms.”

### **Fraudulent Loan Practices To Avoid**

Part of becoming an informed borrower is being aware that not all lenders are legitimate. Gee warns Idahoans to avoid the following scams and fraudulent practices and, if in doubt, to call the Department of Finance to check out offers of credit.

**Advance Fee Loan Schemes** - Companies that promise loans for an advance fee, but never deliver them, have been the target of multiple enforcement actions by the Department and other regulatory agencies. In these scams, loans or credit cards are “guaranteed” to consumers who must first submit a “security deposit” or “processing fee”. Loans for which a fee is charged before the loan is made are known as “advance fee loans”, and are prohibited by Idaho law. In most cases, consumers never receive the promised loans or credit cards.

**Credit Repair Scams** - Companies have offered to “repair” the credit of Idaho residents for a fee. Last year, two companies offered to provide residents with a number to use in place of Social Security numbers on credit applications, and advised the consumers to obtain new mailing addresses and telephone numbers in order to open new credit files to present to potential creditors, thereby avoiding disclosure of past credit histories. The companies also offered to assist residents in adding positive information to their credit files, providing an “unconditional guarantee” that the consumers would then qualify for loans. However, Idaho law prohibits people from engaging in the business of credit repair unless they are licensed with the Department of Finance, and neither company was licensed. Further, providing fraudulent information to a financial institution in a credit application is a potential felony under Idaho and federal law.

**Predatory Home Loans** – Much attention has been paid lately to predatory lending practices tied to home loan refinancing or home equity loans. Although this has not surfaced as a problem in

Idaho, the Department warns consumers about the following in an effort to keep these predatory practices out of Idaho:

- “Loan flipping” – Repeated refinances of a home loan with little or no resulting benefit to the home owner, but substantial fees to the lender or loan broker.
- Home equity loans tied to unsolicited home improvement contracts.
- Excessive fees – sometimes charged by third parties such as home improvement contractors or mortgage brokers.
- “Bait and switch” – Borrowers are offered one set of home loan terms, and then pressured into signing a contract with more expensive terms. In other situations the borrowers are simply deceived about the terms of the loan. For example, borrowers believe they are entering into a fixed rate mortgage, but actually sign an adjustable rate (ARM) contract in which the interest rates increase over time.

The same borrowing tips explained above apply to home loans: shop around and compare loan terms, read all documents carefully, ask questions and be certain all terms are understood, and don't borrow more than can be repaid.

*Department of Finance press releases and other information are available on the Internet via the world wide web at <http://www2.state.id.us/finance/dof/htm> and may be obtained by contacting the Department at (208) 332-8000, or toll-free in Idaho at 1-888-346-3378.*