FDIC Consumer News

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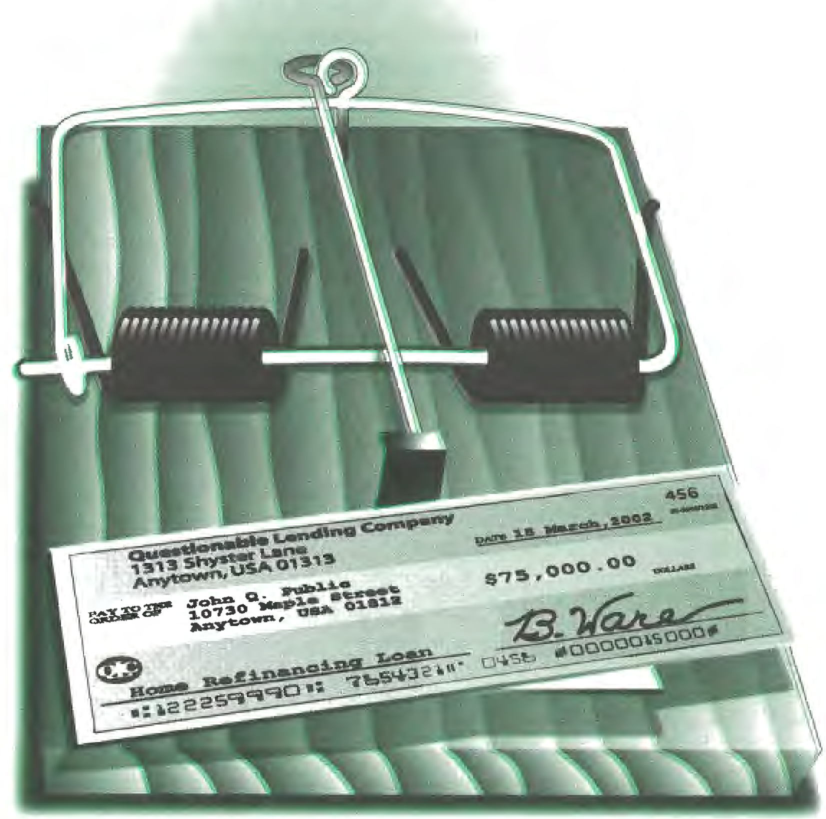
High-Cost "Predatory" Home Loans: How to Avoid the Traps

A few unscrupulous lenders are tricking cash-strapped, unknowing borrowers into expensive home equity loans and mortgages. The big risk: If you can't repay the loan you could lose your home. Here is useful information for anyone thinking about a home loan.

Homeownership is at an all-time high. That's great news. But the media, financial regulatory agencies and law enforcement officials also are reporting that something is robbing homeowners of money and putting many of these same families at risk of *losing* their homes. It's a problem known as "predatory" lending.

There is no clear-cut definition of a predatory loan, but many experts agree that it is the result of a company misleading, tricking and sometimes coercing someone into taking out a home loan (typically a home equity loan or mortgage refinancing) at excessive costs and without regard to the homeowner's ability to repay. Victims who have trouble repaying a predatory loan often face harassing collection tactics or are encouraged to refinance the loan at even higher fees.



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And remember this: If you pledge your home as collateral for a loan, and you can't repay, *you could lose your home*.

Predatory mortgage lending primarily has been a problem with nonbank companies that specialize in marketing to people with poor credit histories. These companies may include some mortgage brokers, home improvement contractors and finance companies. Predatory lending also has been associated with non-mortgage loans.

Obviously, not every nonbank lender is unscrupulous, but you need to be informed so you can avoid doing business with those that are.

Reports indicate that predatory lenders target consumers they believe are in need of cash or are otherwise vulnerable. Examples include older people who need money for medical bills or home repairs; moderate- and middle-income consumers who need to pay off credit card bills or consolidate other debts, or who

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want to make some dream purchase; people who don't shop around for goods and services; and lower-income or minority communities where there may be limited competition from more reputable lenders.

"Some abusive lenders use misinformation and high-pressure tactics to prey on vulnerable homeowners," says FDIC Chairman Donald E. Powell. "Clearly, one solution is to make sure that homeowners are aware of the predatory lending problem, so they are in a better position to protect their investment."

Various federal laws help protect consumers from certain predatory lending practices. The Truth in Lending Act, for example, requires lenders to provide timely information about loan terms and costs. The law also gives consumers the right to cancel a home equity loan and certain other loans secured by a home up to three business days after signing the loan contract. (This is known as your "right of rescission.")

Furthermore, under the federal Home Ownership and Equity Protection Act (HOEPA), if a refinancing or a home equity loan is classified as "high cost," the lender must provide key information about the loan three days before closing on the loan. The HOEPA also prohibits lenders from making a home equity loan without regard to a borrower's ability to repay.

These laws provide important protections and information for consumers. But there also are important steps you can take to protect yourself... and your home... from a predatory loan. Here are our suggestions, many of which can be useful for anyone thinking about obtaining a home equity loan or mortgage.

1 Ask yourself: Do I really need this loan? "If you're having money problems, consider all your options before you use your home as collateral for a loan," says Jeanne M. Hogarth, program manager for consumer policies with the Federal Reserve Board. "Talk with someone knowledgeable and trustworthy before making any decisions. Remember, if you decide to get a home loan and can't make the payments, the lender could foreclose and you could lose your home."

Hogarth says among the resources you may wish to consult are your lenders, a reputable credit counseling service in your community, and a local social services agency. There also are housing counseling agencies that offer advice on everything from buying and financing a home to avoiding foreclosure if you miss loan payments. The U.S. Department of Housing and Urban Development (HUD), which is listed in the box on Page 4, can suggest a housing counseling agency near you.

2 Deal with a reputable lender. Be careful when dealing with unfamiliar lenders, home-improvement contractors or loan brokers, especially those who contact you out of the blue. And, don't fall for a friendly voice or a fantastic-sounding sales pitch, either.

"Many people can avoid being talked into loans they cannot afford if they learn how to recognize fair and honest lenders *before* borrowing money," says Valerie Williams, a Community Affairs Officer with the FDIC. Your best approach? "Deal with lenders who have a good reputation in the community," she says, "and guard against lenders who resort to high-pressure practices."

Other qualities to look for in a lender, according to Williams: someone who will put all costs in writing, carefully explain the loan, encourage you to ask questions, and not rush you into a quick decision.

Also, find out if there have been consumer complaints filed against an unfamiliar lender. Start by contacting your state government's consumer protection or Attorney General's office (listed in your phone book

The FDIC vs. Predatory Loans

While FDIC-supervised institutions are not at the heart of the problem, the FDIC is concerned that predatory loans, from any source, can harm consumers and damage communities. The FDIC has held nationwide forums with bankers and community leaders to identify predatory lending problems and recommend solutions. "When we meet with bankers, we also encourage them to think creatively and to develop new loan products for borrowers who might otherwise turn to predatory lenders," says Michael J. Zamorski, Director of the FDIC Division of Supervision and Consumer Protection. The FDIC also has urged bankers not to purchase loans made by predatory lenders or provide financial support to these companies.

The FDIC also has unveiled a new adult financial education program called "Money Smart" that is designed to help educators teach money management skills. "Consumer education can be an effective line of defense against predatory tactics," adds Donna J. Gambrell, FDIC Deputy Director for Compliance and Consumer Protection. Organizations interested in more information about the Money Smart program can find details at www.fdic.gov/consumers/consumer/moneysmart.

or other directories) or the local Better Business Bureau.

3 Ask questions and shop around. If you need to borrow money, contact several banking institutions or other reputable lenders, not just one. Most experts recommend getting quotes from a minimum of three lenders. "The best deal isn't always the first one you find," says Kevin Shields, an FDIC Community Affairs Specialist.

Find out about the different types of loans that meet your needs and financial situation, especially the loans that don't require you to put your home at risk if you run into repayment problems. Also, be wary of any offer to lend more than what your house is worth. That may sound like a good opportunity, but remember that if you run into problems repaying the loan, you could lose your home and *still* owe money to the lender (the amount of the loan above the value of your home).

Don't focus on getting the lowest monthly payment. Consider the duration or term of the loan and the total cost of the loan fees, especially those you'd be paying back (with interest) during the life of the loan. Then negotiate for the best deal just as you would for a new car. Let the lenders know you've been shopping around. They may be willing to compete for your business by offering better rates or terms. For a list of questions to ask a lender, see our suggestions on Page 5.

4 Understand the importance of credit reports and credit scores. It's a good idea to make sure your credit report accurately reflects your credit history, such as how you repay credit cards and loans. Some consumers who have inaccurate information in their credit report (compiled by credit bureaus) could qualify for a lower-priced loan after their records are corrected.

You can get a copy of your credit report (free in some cases but no more than $9 under current law) by contacting any of the three major credit bureaus: Equifax (call 800-685-1111 or go to www.equifax.com on the Internet); Experian (866-200-6020, which is toll free, or go to www.experian.com); and Trans Union (800-888-4213 or www.transunion.com). Primarily because not all lenders report information to all three of these credit bureaus, your credit reports may vary significantly. That's why some experts suggest that you review your credit report from all three.

For certain loans secured by a home, you have up to three business days after signing a loan contract to change your mind and cancel the deal without penalty.

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Examples of Predatory Practices in Mortgage Lending

Bait-and-switch schemes: The lender may promise one type of loan or interest rate but, without good reason, gives you a different one. Sometimes a higher (and unaffordable) interest rate doesn't kick in until months after you have begun to pay on your loan.

"Equity stripping": The lender encourages you to borrow heavily from the equity in your home (the amount you own free and clear of your mortgage) as an easy way to get additional money, consolidate debt or fund home repairs, knowing that the fees and payments are so high you may not be able to make them. You dramatically reduce your equity and, in the worst case, the lender forecloses on the loan, takes possession of your home, and strips you of the equity.

"Loan flipping": The lender encourages you to get additional cash by refinancing your mortgage again and again. This tactic significantly increases your debt because fees (often exorbitant) are tacked on to each loan transaction, and you may pay a higher interest rate than with your original loan. You become saddled with higher payments, higher debt, and the risk of losing your home.

"Loan packing": The lender adds charges into the loan contract for overpriced items or items you don't need or didn't use, often totaling thousands of dollars. Examples: The lender may pressure you into buying insurance you don't need or trick you into paying for phony services.

Home improvement scams: A contractor talks you into costly or unnecessary repairs, steers you to a high-cost mortgage lender to finance the job, and arranges for the loan proceeds to be sent directly to the contractor. All too often, the contractor performs shoddy or incomplete work, and the homeowner is stuck paying off a long-term loan where the house is at risk.

Mortgage servicing scams: After getting the loan, you're told you owe additional money for bogus taxes, insurance, legal fees or late fees. Or, if you try to pay off the loan, the lender provides inaccurate information that causes you to pay too much or discourages you from refinancing with another lender.

Many lenders also use an applicant's credit score in deciding whether to give that person credit and at what cost. Your credit score usually is a number between 300 and 900. A high score means you could get a "prime" loan with an attractive interest rate. A low score means you may only qualify for a "subprime" loan with higher rates and fees than those quoted to people with unblemished credit.

Your credit score information, which includes an explanation of how your score was derived and, in some instances, how you can improve your score, is available for a small fee. You can obtain your credit score information by calling or checking the Web site of any of the credit bureaus mentioned previously.

"Knowing your credit score, correcting errors in your credit report and aggressively shopping among several lenders will help you get a good loan," says Angelisa Harris, a Senior Community Affairs Specialist with the FDIC. She adds that if you currently have a low credit score, you may want to wait until you improve your credit score before taking out a loan that could place your home at risk.

5 Know what you are signing. Read the loan documents carefully, especially the fine print. Only sign a loan agreement after you understand the terms of the loan, the fees, and your obligation to repay. For example, know whether your loan agreement contains a "balloon payment" or a prepayment penalty. (See the questions on the next page.)

Under federal laws such as the Real Estate Settlement Procedures Act and the Truth in Lending Act, you have a right to key information about how much you can expect to pay for a loan. For example, you must receive a "Good Faith Estimate" of mortgage loan settlement fees and services early on in the process. You also have the right to get a preliminary statement of final settlement costs (it's called the "HUD-1" form) the day before the closing. You may want to ask an attorney or a housing counselor to review this document prior to closing.

When you get these and other loan documents, look in the fine print for overcharges—perhaps a payment to a broker you never met, a bill for a detailed appraisal when only a drive-by review was performed, and fees for credit reports that are many times their actual cost. At closing, compare the interest rate, fees and other costs shown in the final documents with those given to you in preliminary estimates.

Other words of wisdom: Never let a lender rush you or pressure you into signing a loan contract—a possible sign that the lender has changed loan terms and doesn't want you to notice. Check that all the information in your application accurately reflects your financial situation, and never agree to falsify information on a loan application in order to qualify for the loan.

Don't sign a loan contract if the terms have changed from what you were told previously and if the lender can't explain to your satisfaction the reasons for the change. Likewise, make sure you only sign a complete and final loan agreement. Don't sign if there are blanks for dollar amounts or loan terms, even if someone offers to "take care of things" for you, because they may only take *you* for a lot of money!

If you're not comfortable going to the closing alone, consider having a lawyer there with you to examine the loan documents before you sign. Get a copy of the signed loan documents before you leave the closing and keep them

Government Agencies That Can Help

The **FDIC and the other federal banking regulators** listed on Page 11 have publications, Web sites, staff and other resources that can help answer questions and direct you to the appropriate state or federal agency that regulates a particular lender.

The **Federal Trade Commission** works to prevent unfair business practices. For more information, including brochures and procedures for filing a complaint against a nonbank lender, call toll-free 877-FTC-HELP (877-382-4357) or go to www.ftc.gov.

The **U.S. Department of Housing and Urban Development** (HUD) enforces fair lending practices involving home loans backed by the federal government, including Federal Housing Administration (FHA) loans. HUD also maintains a list of approved housing counseling agencies that can give advice. Call toll-free 800-569-4287, go to www.hud.gov, or write to HUD, 451 7th Street, SW, Washington, DC 20410.

The **Federal Consumer Information Center** is a clearinghouse for free and low-cost booklets published by various federal agencies on topics such as getting a mortgage or home equity loan. One such brochure is "Looking for the Best Mortgage: Shop, Compare, Negotiate," published by 11 federal agencies, including the FDIC. For a free catalog, call toll-free 888-878-3256. Or, read or order the publications online at www.pueblo.gsa.gov.

Your state government's consumer protection or Attorney General's office can respond to your questions or concerns about a lender. Check your local phone book or other directories.

in your files. Should a predatory lender change the terms of the loan from what was agreed upon at the closing, contact HUD, a housing counselor or an attorney and provide a copy of your signed loan documents.

Important reminder: For certain loans secured by your home, federal law gives you up to three business days after signing a loan contract to change your mind for any reason and cancel the deal without penalty.

6 Speak up if you think you've been treated improperly. Try to resolve any problems with the lender. If that doesn't work, consider asking for help from the appropriate state or federal government agency. A good place to start is your state's consumer protection office or Attorney General. In addition, the federal government agencies listed in the box on the previous page also are good sources of guidance and assistance.

The FDIC's Kevin Shields also notes that a variety of legal services organizations provide special help to low-income people who have been victimized by predatory lenders. They also can be found in your phone book or by calling your state or local government.

Final Thoughts

The bottom line: Don't rush into a decision with any loan, but especially one where you can lose your home if you can't make your payments. Be aware of your options—especially the different kinds of loans available from reputable lenders. Review the terms and conditions of the loan before you sign on the dotted line. And remember that if you have questions or concerns, there are government agencies and other organizations in your community that can come to your assistance. You do not need to face a loan problem alone.

Questions to Ask Before Signing a Loan Contract

What will my monthly payment be? Can the amount change? What would cause the payment to change? How much and how often could the payment go up? When will the loan be paid off? Just because a lender says you qualify for a certain loan amount doesn't mean you are getting a loan that is affordable for you. Make sure you can meet the loan payments now and in the future.

Is there a "balloon" payment? If so, when is it due, and how much will I owe? A balloon payment is a large, lump-sum payment due at the end of the loan term. A balloon loan may keep monthly payments low in the early years, but it must be refinanced or paid off in full at the end of the loan term, and the low payments mean that relatively little of the loan balance has been reduced. For some borrowers, a balloon loan can be very appropriate. For others, the consequences can be costly, perhaps even resulting in the loss of their home if they can't repay or refinance the amount due.

What is the APR—the annual percentage rate—for this loan? Is this the lowest rate you can offer? The APR is the total cost of the loan, including interest charges and other fees, expressed as a yearly rate. Comparison shop among several lenders so you have a good sense of the costs you should be incurring, then negotiate the best possible terms. Don't be afraid to make lenders compete for your business by letting them know that you are shopping for the best deal.

What "points" and fees would I be charged? Are any of these charges being added to the loan balance and increasing my payments? If so, how much extra would I pay each month and over the life of the loan? Each point equals one percent of the loan amount. Make sure you have a good understanding of all costs, terms and conditions of the loan. Compare verbal answers with what is written in your loan documents.

Does the loan amount include fees for credit insurance, such as life, disability or unemployment insurance? If so, why, and how much will it cost me in up-front, monthly and total fees? You may not need the extra insurance, or you may get a better deal from your insurance agent or other sources, so shop around. Also, the lender is prohibited from conditioning approval of a loan on whether you buy insurance through the same company. Be very suspicious if the lender pushes single-premium insurance. The one-time payment usually is so big that consumers add the fee to their loan amount and pay interest each month, adding significantly to the monthly payments and to the total cost.

Is there a prepayment penalty if I pay off the loan early by refinancing or selling my house? What is the penalty? On some loans, a prepayment penalty will be charged if you pay more than is required on your monthly payment or pay off the loan before its term ends. Many lenders offer loans with prepayment penalties at lower interest rates than the same loans without prepayment penalties. Depending on your circumstances, a loan with a prepayment penalty can be a good alternative. However, prepayment penalties also can trap a borrower into a loan. For example, if market interest rates drop, you may miss out on a chance to refinance if the prepayment penalty on your loan is too high. Under the Truth in Lending Act, lenders must disclose any prepayment penalty and how it is determined. If the lender says there is no prepayment penalty, there should be a statement to that effect in the documents. You should ask the lender to show you where that is stated in the documents.

Do any of the loan terms differ from what was previously discussed or provided? If yes, which terms and why? Review documents prior to signing them and make sure you understand why any changes in terms and conditions have been made.

Privacy Mailings Arriving Again: Toss At Your Own Risk

Here they come again—those privacy notices from your bank and other financial institutions.

The notices, first sent last year under new federal requirements, describe the kinds of personal information these institutions collect about their customers or share with other companies. In some cases, the notices explain your rights to "opt out" or say "no" to certain types of information sharing practices. You cannot opt out of some types of information transfers—such as information shared to process your transactions. However, you must be provided an opportunity to opt out of other types of information sharing, such as if your bank plans to provide names, addresses and other information to a third party that wants to offer a non-financial product.

You should be receiving the privacy notices required to be sent to customers at least once a year. Regarding these annual notices, we recommend the following:

Watch for privacy notices. They may be included with another mailing from your financial institutions, and not as a separate, distinct piece of mail.

Toss at your own risk. Remember that this isn't junk mail. "While the information could be identical to what the institution told you a year ago, it may not be," says Deanna Caldwell, a Senior Policy Analyst with FDIC's Division of Supervision and Consumer Protection. "The institution may be informing you, for example, of a significant change to its information sharing practices that includes a new opportunity to opt out. That's why you should read these mailings carefully."

Tim Burniston, an Associate Director of the Division of Supervision and Consumer Protection, adds: "Your financial information is some of the most sensitive information about you. Take the time to understand what your financial institution is doing with that information, how the institution protects your financial information, and what more, if anything, you must do to protect your private information."

If you previously told an institution you want to opt out of information sharing, you do not have to renew your wishes. Your instructions remain in effect until you revoke them in writing. However, if you previously opted out but the institution is expanding its information sharing into new areas where you have a right to say no, you would have to opt out again to cover the new practices.

If you did not previously opt out, you can do so now or at any other time. Perhaps you chose not to opt out before but now you've changed your mind. Or, maybe you didn't have a choice previously because your financial institution only shared information you had no right to block, but now the institution is significantly changing its information sharing practices into areas where you have a right to opt out.

Burniston suggests that you "closely follow the instructions provided by the financial institution to be sure your request is honored." For example, if you are instructed to sign the opt-out notice or send it to a particular address, be sure to do so. Burniston also notes that any personal information an institution shares before a customer opts out cannot be retrieved later.

Keep good records. Make a note of when you wrote or called an institution to opt-out. If you provided your instructions to an employee over the phone, jot down that person's name and the time of your call. If you left your information on a recording, make a note of that as well the date and time. These details could, for example, save you from submitting duplicate opt-out instructions or help protect you in case of a dispute about whether you asked to opt out. We also suggest that you keep a copy of an institution's annual privacy notice in your files for at least a year in case you have questions or you want to compare it to a future notice.

Your financial information is some of the most sensitive information about you. Take the time to understand how your institution protects it and what more you can do.

For more information about your rights to financial privacy, consider contacting your financial institution or any of the five federal regulators of depository institutions (see Page 11). These government agencies and the Commodity Futures Trading Commission, the Federal Trade Commission and the Securities and Exchange Commission also have published a brochure entitled "Privacy Choices for Your Personal Financial Information." To obtain a copy from the FDIC, contact our Public Information Center (also Page 11) or read or print the publication on the FDIC's Web site www.fdic.gov/consumers/privacy/privacychoices/index.html.

Bogus "Bonus" Checks

We have warned readers about unsolicited offers of a job, a reward or some similar "opportunity" that are scams to convince people to send cash or give out valuable personal information. Now we want to tell you about a new wrinkle involving bogus checks that are costing victims big bucks.

Here's how it works: You say "yes" to a phone, mail or Internet offer, for which you are to receive an advance payment as a bonus. But when the check arrives, it's for an amount much larger than what you were expecting, and you are instructed to deposit the check and wire the excess to a third party. You follow the instructions and, weeks later, your bank discovers that the check is fraudulent. The result: The money you transferred from your account is gone and, depending on the circumstances, you may be liable for all of the money deposited, even if it's far beyond what you have in your account.

For example, consumers who accepted jobs that came with a $2,000 "signing bonus" received checks ranging from $19,000 to $50,000 with instructions to keep $2,000 but wire the rest to Europe. Some consumers who complied had to repay the entire amount wired from their own accounts, plus the remainder of the original deposit. In some cases, banks lost money when customers were unable to cover the fraudulent checks.

Words of wisdom: Be skeptical of unsolicited offers that involve up-front payments, sound too good to be true, or otherwise don't make sense. "No legitimate company is going to send you an extremely large check and say, 'take out what we owe you and send the rest back,'" explains Karen Currie, an FDIC fraud investigator.

She adds that if you detect any pressure to send a payment fast, that should raise red flags. "Speed is essential to pulling off a fraud with counterfeit checks," Currie says. "The idea is to get you to wire money from your account before your bank realizes that the check you deposited is bogus."

Fake Cashier's Checks

A cashier's check—one where funds are already set aside in a special account at a bank—can be a safe way to receive payment for that used car you're selling or items you auction over the Internet. Unfortunately, FDIC fraud investigators are reporting that fake cashier's checks are getting easier for crooks to produce on personal computers. In one example recently reported to the FDIC, an individual lost a classic car worth $41,000 to a thief who used a counterfeit cashier's check. How can you protect yourself?

"First, insist on a cashier's check drawn on a local bank or a bank that has a local branch," says FDIC fraud investigator Gene Seitz. "That way you can take the check to that bank to ensure it's valid." If you can't get a cashier's check from a bank with a local office, Seitz says, confirm that the out-of-town cashier's check is good by calling the bank.

Use the phone number from a reliable source, such as directory assistance. "Don't depend on the phone number given to you by the buyer," he warns, "because if this is a fraud, that phone number could just put you in touch with a partner in crime." If you're not sure where the bank is located or if it is legitimate, check the FDIC's "Institution Directory" on the Internet at www3.fdic.gov/idasp.

Be comfortable that you're dealing with an honest person. "Start by verifying the name, address, home number and work number of the purchaser through some independent means, such as an Internet database or directory assistance," he says. "Trying to determine who this person is will be especially important if you're selling over the Internet, because you're taking a big chance that the buyer could be a thief."

Finally, Seitz cautions, hold on to the merchandise for several days after you deposit the cashier's check, or even longer. "To be safe, you may want to wait a couple of weeks before releasing the merchandise if you have suspicions about the buyer or the check," he says. "That's how long it could take for your bank to discover if the cashier's check is phony, and if it is, the bank will come looking to *you* for the money."

Miscellaneous Mischief

Federal banking regulators and the Internal Revenue Service are warning consumers about **fake bank correspondence and IRS forms** that are trying to trick people into divulging their Social Security number, bank account PINs (personal identification numbers), mother's maiden name and other information that a con artist can use to tap bank accounts or commit fraud. For more details, including examples of fake letters and instructions about where to report a suspicious letter, go to www.fdic.gov/news/news/financial/2002 and click on document #39, issued by the FDIC in April.

Law enforcement authorities report that **thieves are taking cash from automated teller machines** by inserting high-tech "skimming" devices that read customer account numbers later used in making counterfeit cards. While federal law limits your

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liability for unauthorized ATM withdrawals from your account, you should take some precautions. The Florida Department of Banking and Finance in July offered these tips: When using an ATM, be suspicious of anything that seems unusual, such as odd-looking equipment or wires attached to the machine, or a jammed machine that forces you to use another ATM (where there may be a skimmer attached). Also be sure to check your bank accounts regularly to make sure there are no unusual or unauthorized transactions. To check out the Florida banking department's consumer alert, go to www.dbf.state.fl.us and click on "news releases."

For solid advice about preventing or reporting any type of **identity theft**, check out the U.S. government's central Web site on this crime at www.consumer.gov/idtheft. It includes a new affidavit to simplify the process of disputing fraudulent debts and accounts opened by an identity thief. The affidavit was developed by the Federal Trade Commission in conjunction with consumer groups, industry organizations and the law enforcement community.

Card Cops, a fraud prevention group, has added to its www.cardcops.com Web site a free service that may alert you to the possibility that **your credit card number is about to be used for fraudulent purposes.** Card Cops has developed a database of more than 100,000 credit card numbers collected from "chat rooms" and other public areas of the Internet frequented by credit card thieves. You can see if your card number shows up in the database and, if it does, alert your financial institutions. (Note: Our mention of this private service is not an endorsement by the FDIC.)

Brokers, Deposits and Failed Banks: Why the FDIC Check Isn't In the Mail (Yet)

If an insured bank or savings institution fails, the FDIC arranges for payment of deposit insurance as soon as possible, typically within a few days, either through a transfer of deposits or a direct payout. But as some investors have found, if you make a deposit through a broker and not directly with a bank, and the bank fails, it can take the FDIC longer to send an FDIC insurance payment. Here's why:

The failed institution's records often do not show the names of the individuals who made deposits through the broker. "The bank's records may simply indicate that the deposit was placed by a broker as custodian for one or more clients or investors," says Debra Foster, an FDIC insurance claims specialist. "The broker must then submit information to the FDIC documenting who owns the account; until we receive that documentation, deposit insurance cannot be paid."

In many cases, brokers will buy one CD (certificate of deposit) perhaps totaling millions of dollars, using smaller deposits from many clients. If the bank fails, each investor's share of that large CD can qualify for up to $100,000 of FDIC coverage, but the FDIC must obtain from the broker the names and deposit amounts for each customer.

"Until that information is received, the FDIC cannot determine the appropriate insurance coverage," says Martin Becker, a senior specialist with the FDIC division that handles insurance claims. Adds FDIC attorney Christopher Hencke, "Investors in brokered CDs need to realize that we must rely on the broker to give us the information we need to make a prompt insurance payment."

Also part of the equation: After the FDIC receives all the information from a broker, the FDIC must determine whether each customer had other accounts at the failed bank and, if so, whether the combined funds exceed the insurance limit.

Let's say, for example, a bank is offering extremely attractive interest rates, and you use one broker to invest $50,000 there, a different broker to invest another $50,000 at the same bank, and you decide on your own to place $50,000 in that bank without using a broker. Before paying your insurance claim, the FDIC must cross check the deposit records. In this case, assuming all three accounts were in the same ownership category for FDIC insurance purposes, your $150,000 in deposits would be covered for only $100,000, including any interest you may have earned. Your remaining balance of $50,000, as well as any accrued interest, would be uninsured.

As previously reported in ***FDIC Consumer News***, brokers sometimes can negotiate a higher interest rate on a bank-issued CD. However, CDs sold by brokers also often involve terms and conditions that you do not commonly see with traditional deposits sold directly by banks, and these terms and conditions may carry more risks than traditional bank CDs. For more information, see our Fall 2000 edition posted on the FDIC Web site at www.fdic.gov/consumers/consumer/news/cnfall00/.

Shifting from Stocks to Deposits? Consider Your FDIC Insurance.

If the recent stock market woes have you thinking about placing some of your money into deposits at an FDIC-insured bank or savings institution, remember this: The FDIC fully protects you or your family if your deposits at an insured institution total less than $100,000. You or your family also can qualify for more than $100,000—potentially much more—at one insured institution if you are able to hold your accounts in different ownership categories, such as individual accounts or joint accounts. But if your funds total more than $100,000 at a single institution, you should take the time to understand your coverage and how to properly structure your accounts, because you could be at risk of losing some of your funds if the institution fails.

The FDIC has staff and information that can help you learn more about how to qualify for more than $100,000 in coverage. You may start by checking out our deposit insurance information on the FDIC Web site at www.fdic.gov. Call toll-free (877) ASK-FDIC—that's (877) 275-3342. Or, write to the FDIC Division of Supervision and Consumer Protection at 550 17th Street, NW, Washington, DC 20429, or fax to (202) 942-3098. You also can send an e-mail using the Customer Assistance Form on the Internet at www2.fdic.gov/starsmail/index.html.

Do You Have Questions About Credit Cards or Debit Cards?

We'd like to know. Send us your questions about topics such as:

- *Choosing a card*
- *Using a card*
- *Fees and penalties*
- *Your privacy*
- *Protecting against fraud*
- *Your rights and responsibilities*
- *Error resolution*

Write by October 15th to: Jay Rosenstein, Editor, ***FDIC Consumer News***, 550 17th Street, NW, Room 7100, Washington, DC 20429. You can also send an e-mail to JRosenstein@fdic.gov or a fax to (202) 898-3870. Please include your name, address and phone number. No names will appear in print without permission.

Reminder: Our Consumer News Arrives by E-Mail

The FDIC offers our quarterly ***FDIC Consumer News*** by e-mail sent directly to your computer at home or work. After each new edition is posted to our Web site, you can get an e-mail telling you about the issue and linking you to any story that interests you. You'll find out about the newsletter as soon as it's published, it can't get lost or delayed in the mail, and you can share stories with anyone who has an e-mail address. The online version contains the same information as our printed newsletter.

If you'd like to try our free online delivery service, send an e-mail to listserv@peach.ease.lsoft.com and type "Subscribe FDIC-consumernews" (make sure you include the hyphen) and your name in the message area. You can still receive ***FDIC Consumer News*** in the mail, even if you subscribe to our e-mail service.

Did You KNOW...?

Co-Signing a Loan Can Be Costly

A friend or relative has asked you to co-sign a loan, perhaps to buy a car or home, or for some other worthy purpose. You're told your signature is needed because he or she has no established credit record, or maybe there have been credit problems in the past. "Honest, all you've got to do is sign a piece of paper. I'll pay everything back. You won't owe a thing."

We can't tell you if co-signing a particular loan is a good or bad idea—that's a personal decision. But we will tell you that co-signing a loan can be risky. It means you are guaranteeing to pay the money back if the other person doesn't. And even though you may have great trust in your friend or relative, the odds say you may indeed be called upon to pay money.

The Federal Trade Commission says that *as many as three out of four co-signers are requested to make payments on a loan.* "When you're asked to co-sign, you're being asked to take a risk that a professional lender won't take," explains the FTC. "If the borrower met the (basic lending) criteria, the lender wouldn't require a co-signer" in the first place. In addition, the borrower may become unemployed or ill and no longer be able to repay the loan.

Unfortunately for the co-signer, the lender often looks to him or her soon after troubles start with a loan. "In many states, if the borrower misses just one payment, the lender can immediately try to collect from the co-signer without first trying to collect from the borrower," says Robert Patrick, an FDIC attorney.

And what could happen if you, as a co-signer, refuse to make the loan payments? You could get a bad mark on your credit record, and that could make it tougher to get a loan, a job, an insurance policy or something else you might apply for in the future. The lender can sue you and attempt to "garnish" wages (withhold a percentage of your paycheck until the loan is paid). You may be responsible for late fees or legal fees. And, if you offered collateral (such as furniture) as security for the loan, the lender may seize the property and sell it to cover the debt.

Even though you may trust your friend or relative, the odds say you may be called upon to pay money.

If you decide to co-sign a loan after all, we offer the following suggestions:

Before you sign on the dotted line: The borrower may not realize that when he or she is late with payments or misses a payment, that could tarnish *your* credit record. So, it's best to have an understanding (if not a written agreement) with the borrower that you will get early notice of any troubles, including late payments, so you can keep on top of the loan and work out problems with the lender before your credit record is damaged. Also, be sure you can afford to pay the loan, if you have to.

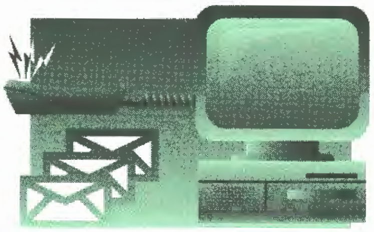
Be sure that the lender gives you a notice required by federal law before you agree to co-sign a loan. It explains your risks and responsibilities. (The fact that a lender didn't provide the required notice doesn't automatically excuse your debt as a co-signer, but it may help you in the long run. In some instances, for example, juries have decided that co-signers weren't liable for loan payments because they weren't advised of their responsibilities.) Ask the lender to estimate the amount of money you might owe if the borrower defaults. And, while a lender isn't obligated to do so, perhaps it would agree to limit what you'd owe in the event of a default. Such as, maybe you'd be expected to pay back the loan amount but not certain additional fees or costs. Be sure to include any limitations on your liability in the loan contract.

After you co-sign the loan: "Keep copies of all loan documents," says FDIC attorney Susan van den Toorn. "These records could protect you from excessive fees or penalties if the borrower defaults on the loan."

If you have questions or complaints: Try to resolve the matter with the lender directly. If you can't, a government agency may be able to help. In the case of a loan from a banking institution, call or write the appropriate federal agency listed on Page 11 of this newsletter. For nonbank lenders, such as a consumer finance company or automobile dealer, contact the Federal Trade Commission (call toll-free 877-382-4357, use the online complaint form at www.ftc.gov or write to the FTC, Consumer Response Center, 600 Pennsylvania Avenue, NW, Room 130, Washington, DC 20580).

Finally, if you have questions or concerns about the collection methods used by a lender or a collection agency, start with your state government's consumer protection office, division of financial regulation or Attorney General, which should be listed in your local phone book.

For More Information



The **Federal Deposit Insurance Corporation** insures deposits at banks and savings associations, and supervises state-chartered banks that are not members of the Federal Reserve System. The FDIC's services include a toll-free consumer assistance line, answers to written questions, and informational material. Toll-free phone: (877) ASK-FDIC or (877) 275-3342. The phone line is staffed Monday through Friday, 8:00 a.m. to 8:00 p.m., Eastern Time. Recorded information is available 24 hours a day. The toll-free TTY number for hearing-impaired consumers is (800) 925-4618. Home Page: www.fdic.gov. Mail: 550 17th Street, NW, Washington, DC 20429.

For questions about deposit insurance coverage: Contact the FDIC Division of Supervision and Consumer Protection at the address and phone numbers above, by fax to (202) 942-3098, or by e-mail using the Customer Assistance Form on the Internet at www2.fdic.gov/starsmail/index.html. The National Credit Union Administration (listed below) insures deposits at federally insured credit unions.

For other questions, including those about consumer protection laws, or complaints involving a specific institution: First attempt to resolve the matter with the institution. If you still need assistance, write to the institution's primary regulator listed on this page. Although the FDIC insures nearly all banks and savings associations in the United States, the FDIC may not be the primary regulator of a particular institution. Other regulators are listed below. To submit a complaint about an FDIC-supervised institution, contact the FDIC Division of Supervision and Consumer Protection as listed above. For inquiries involving problems or complaints related to the FDIC, contact the FDIC Office of the Ombudsman at the mailing address and phone numbers listed above, by fax to (202) 942-3040, or by e-mail to ombudsman@fdic.gov.

The **Federal Reserve System** supervises state-chartered banks that are members of the Federal Reserve System. Phone: (202) 452-3693. Fax: (202) 728-5850. Home Page: www.federalreserve.gov. Mail: Division of Consumer and Community Affairs, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

The **Office of the Comptroller of the Currency** charters and supervises national banks. (The word "National" appears in the name of a national bank, or the initials "N. A." follow its name.) Phone: (800) 613-6743. Fax: (713) 336-4301. Home Page: www.occ.treas.gov. E-mail: consumer.assistance@occ.treas.gov. Mail: Customer Assistance Group, 1301 McKinney Street, Suite 3710, Houston, TX 77010.

The **Office of Thrift Supervision** supervises federally and state-chartered savings associations plus federally chartered savings banks. (The names generally identify them as savings and loan associations, savings associations or savings banks. Federally chartered savings associations have the word "Federal" or the initials "FSB" or "FA" in their names.) Phone: (800) 842-6929 or (202) 906-6237. Home Page: www.ots.treas.gov. E-mail: consumer.complaint@ots.treas.gov. Mail: Consumer Affairs Office, 1700 G Street, NW, Washington, DC 20552.

The **National Credit Union Administration** charters and supervises federal credit unions, and insures deposits at federal credit unions and many state credit unions. Phone: (703) 518-6330. Fax: (703) 518-6409. Home Page: www.ncua.gov. E-mail: pacamail@ncua.gov. Mail: Office of Public and Congressional Affairs, 1775 Duke Street, Alexandria, VA 22314.

Your state government also may offer assistance and publish useful information. Contact your state's Attorney General's office, consumer protection office or financial institution regulatory agency as listed in your phone book or other directories, or visit your state's official Web site.

FDIC
Consumer News

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A Final Exam

Test your financial IQ by taking this quiz based on information in this issue

1 If you pledge your home as collateral for a loan, you could lose your home if you can't repay the loan. **True or False?**

2 For home equity loans and certain other loans secured by your home, federal law gives you up to three business days after signing a loan contract to cancel the deal without penalty. **True or False?**

3 If you're applying for a home loan and you decide to purchase credit-related insurance, such as life insurance, the lender is permitted to condition the approval of your loan on whether you buy the insurance through the same company. **True or False?**

4 Your financial institutions are required to send you a notice of their privacy policies at least once a year. **True or False?**

5 You're selling a used car and you find a buyer who offers to pay with a cashier's check. Because there is no risk involved in accepting a cashier's check, it's safe to hand over the car to this person once you have the cashier's check in hand. **True or False?**

6 Co-signing a bank loan—guaranteeing to pay money back if the other person doesn't—is a low-risk way for you to help a friend or relative with no credit record or a poor credit record qualify for a bank loan. Statistics show that co-signers rarely are called upon to make payments on a loan. **True or False?**

Correct answers:

1. True *(See Page 1)*
2. True *(See Page 2)*
3. False *(See Page 5)*
4. True *(See Page 6)*
5. False *(See Page 7)*
6. False *(See Page 10)*

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