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## Dear Maine Consumers,

Designed to serve as a valuable resource in matters of consumer lending, the *Downeaster Guide: "Consumer Credit 101"* covers a variety of topics including: comparison shopping for credit, financing auto loans, arranging a mortgage, establishing credit, purchasing land, and avoiding borrowing mistakes. As co-authors of this guide, we hope to arm readers with the information necessary to become "smart shoppers" of consumer credit in Maine.

This guide represents the first segment of a planned multi-media financial literacy program offered by the Bureau of Consumer Credit Protection. This booklet's companion videos and online resources will delve into the subject matter presented in this guide in even greater detail, and will be available online for consumer use in the very near future. Please visit our website at: [www.Credit.Maine.gov](http://www.Credit.Maine.gov) for the latest updates.

The staff here at the Bureau of Consumer Credit Protection hopes that this booklet provides Maine consumers with helpful advice and important information. If you need further assistance answering your consumer credit questions, please feel free to contact our office by calling toll free, 1-800-332-8529 (1-800-DEBT-LAW), Monday through Friday, 8:00 a.m. to 5:00 p.m.

Sincerely,

**David Leach, Principal Examiner**

Bureau of Consumer Credit Protection

**Angela Morse, Margaret Chase Smith Intern  
Assistant to the Principal Examiner**

Bureau of Consumer Credit Protection

## Chapter One

### Loans and Credit: Risk-Based Lending, and How Loans are “Priced”

#### Risk-Based Credit

**Risk-based lending permits creditors to develop loan interest rates that match their lending risk.** For example, since loans are priced based on risk, the lowest annual percentage rates (APRs) are associated with conventional mortgage loans where borrowers make a minimum 20% down payment toward the purchase of their new home. The APR expresses the annual rate of interest on a consumer loan, including any prepaid finance charges. Mortgage loans may be lower-priced than other forms of consumer borrowing because the value of the property/collateral reduces risk for the lender, and the substantial down payment associated with conventional mortgages similarly lessens the probability that a deficiency balance will result if a foreclosure sale occurs. **In contrast, unsecured credit card loans issued to consumers with blemished credit histories will likely carry high APRs,** since not only is there a higher risk of default, but no collateral is offered to compensate the lender if a default does occur.

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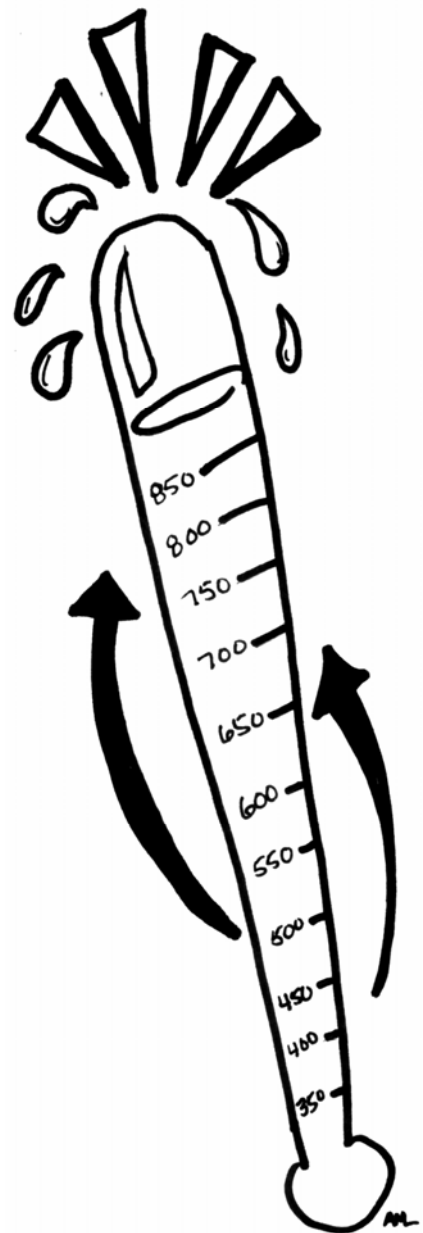
#### Credit-able Quote

*“The higher the risk, the higher the rate.”*

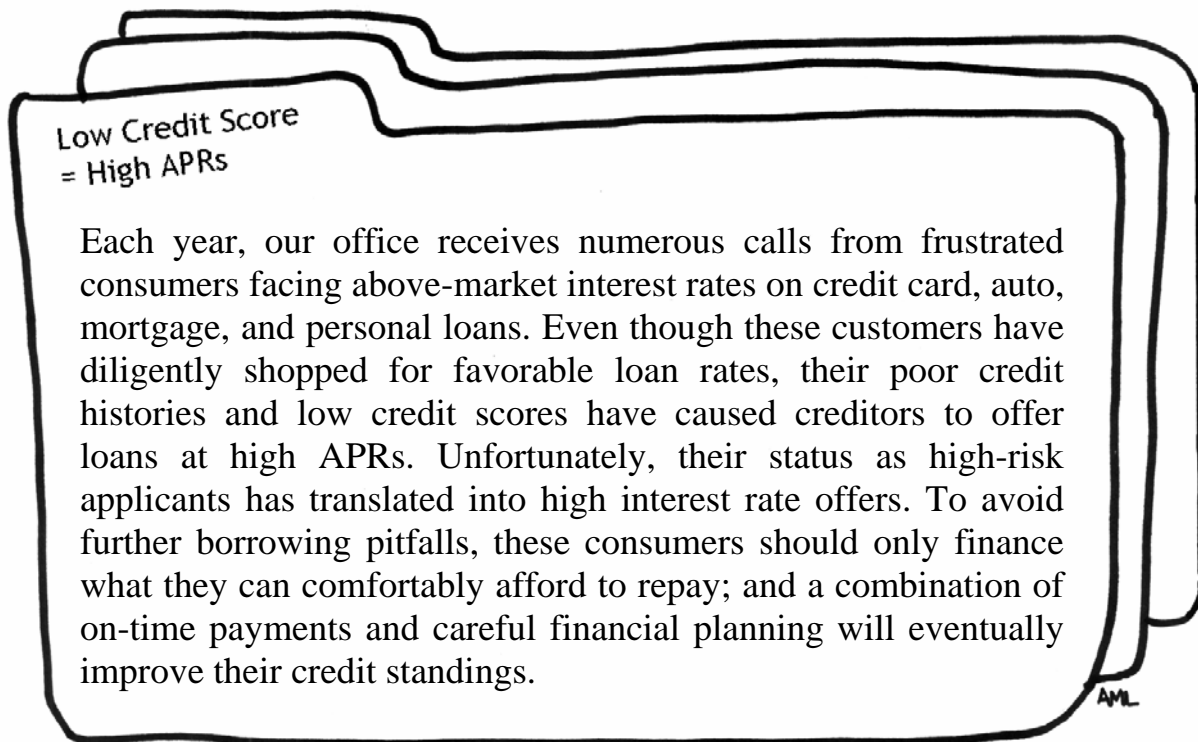
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#### FICO Scores/“Credit” Scores

**A borrower’s credit score is a major factor in how a lender will price a consumer’s loan.** FICO is an acronym for the “Fair Isaac Corporation,” a for-profit company that provides a well-known credit score model in the United States. **FICO scores range from 300 to 850 (with a higher score indicating more creditworthiness), and are intended to predict the likelihood that the borrower will repay his or her obligations.** Lenders such as mortgage companies, banks and credit card issuers use credit scores to help determine who qualifies for a loan, and at what interest rate. **Since FICO**



scores are used by lenders to evaluate risk, consumers with high credit scores are generally offered lower interest rates and are more likely to gain approval when applying for auto, mortgage, and credit card loans. Both FICO and the major credit reporting agencies (Experian, Equifax, and Trans Union) furnish lenders and consumers with credit scores, for a fee.



### **Mortgage Loans (see Chapter Seven [page 31] for more details)**

A mortgage is simply an installment loan where the lender agrees to provide a lump sum (loan proceeds) to buy a home in exchange for the borrower's agreement to pay back the borrowed amount according to a re-payment schedule, and in which the borrower's promise to repay the loan is secured by a lien on the house and land. **APRs on a conventional mortgage loan, featuring a minimum 20% down payment, are among the lowest loan rates a consumer can obtain.** Consumers with less than perfect credit, or who can't afford to make a substantial down payment, often find themselves facing mortgage loans with higher APRs. Mortgage loan terms typically vary from ten to thirty years. Interest rates can be fixed or variable (*i.e.*, can move up or down during the loan's term).

## **Automobile Loans and Credit Sales (see Chapter Three [page 9])**

**Pursuant to the Maine Consumer Credit Code (Title 9-A of the Maine Revised Statutes), interest rates on credit sales of automobiles cannot exceed an APR of 18%.** Just like consumers seeking a mortgage loan, car loan applicants with better FICO scores and larger down payments, improve their chances for loan approval and generally are offered lower interest rates. **To increase sales, captive finance companies such as GMAC, Toyota Motor Credit and Ford Motor Credit periodically offer cut-rate financing (rates below market levels) to qualified buyers.** Automobile credit terms generally range from 12 to 84 months. These installment contracts generally feature fixed APRs.

## **Home Equity Lines of Credit (see Chapter Seven [page 31])**

**A home equity line of credit (HELOC) is an open-ended/revolving loan which allows consumers to borrow funds using their homes as collateral.** This line of credit is secured against the equity in a borrower's primary residence, and the consumer can choose when and how often to borrow against the equity in their property, with the lender setting an initial dollar limit to the credit line. **The APRs on HELOCs are generally variable (can rise and fall), and are usually based on a certain number of percentage points (margin) above an "index rate" (a guideline interest rate that banks utilize in calculating appropriate rates for loan contracts).**

## **Credit Card Loans (see Chapter Four [page 18])**

The interest rates that credit card companies charge their customers can vary widely. Most credit cards are unsecured loans, meaning they are not backed up by collateral (bank deposit, auto, home, boat). **Since there is generally no collateral pledged by the cardholder, and the loans are backed only by the borrower's promise to repay, APRs are typically higher with credit cards than with secured loans, since the lender undertakes greater risk.** Interest rates can range from the high single digits (8.9% or 9.9% APR), to over 30% APR. Shopping around and finding a credit card with a low interest rate can yield significant savings, and consumers with the highest credit scores should receive the best APRs. Like home equity lines of credit, credit cards are open-ended, revolving loans and have no fixed loan terms. While the APRs are technically fixed, rates can be adjusted up or down by the card issuer with 30 days advance notice.

## Chapter Two

### Your Credit History: How to Establish and Maintain “Good” Credit

#### Credit History



A person’s history of honoring debts and repaying obligations is used by lenders to determine the individual’s creditworthiness. A **borrower’s past ability to repay indebtedness is a major factor used by lenders to evaluate a loan application, with the credit history investigation helping lenders determine whether to extend credit, and on what terms.** Credit reporting agencies operate on a national basis, and a person’s credit history (good or bad) will follow them wherever they go in the United States.

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**Lenders trust credit reports, because they believe in this adage:**

*“The best indication of **future** loan performance is **past** loan performance.”*

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**Tradelines** (types of debt) that commonly appear on one’s credit history include:

- Mortgage Loans
- Credit Card Loans
- Auto Loans
- Student Loans
- Personal Loans
- Unpaid Utility Bills
- Tax Liens (federal, state, etc.)
- Non-payment of Music/Movie Club Charges

By signing a loan or credit application, the consumer allows lenders to conduct an investigation into their credit history. Loans paid on a timely basis will typically remain on a report for 3-4 years following the loan’s pay-off of date. **Loans containing delinquent payments can remain on a report for up to 7 years, and bankruptcy information may be reported for as long as 10 years.** Unfortunately, when it comes to accurate, negative information, only the passage of time can ensure its removal.

### How to Establish Credit

Each year, our staff receives consumer inquiries from high school and college students asking about the best way to establish and maintain a good credit history. Many first-time borrowers utilize a co-signer on their first loan and build up their credit scores; others ensure a positive credit history by repaying their student loans in a timely fashion. Some first time borrowers pledge a portion of their savings account balance (passbook loan) as loan collateral. When approaching a credit opportunity, consumers new (and old!) to the credit process should proceed with caution, and should only assume debt when their income will allow repayment to be made in a timely, consistent fashion. **Think before you borrow!**

### How to Establish and Maintain Good Credit

While it's never too early to establish good credit, consumers should approach the use of credit cautiously. **Potential debtors should carefully consider whether or not they can afford the addition of a new monthly payment before signing on the "dotted line."**

### Tips to Earn (and Protect) Good Credit

- Pay all your debts on time (or early) to keep finance charges low and strengthen your credit score. To avoid interest charges altogether, pay cash when possible!
- Don't skip payments – instead, re-budget non-essential items.
- Borrow only what you can afford, and **always utilize credit responsibly**.
- Annually obtain a copy of your free credit report and check for inaccuracies by going online at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com), **or** - calling 1-877-322-8228.
- Keep copies of sales slips and loan statements to help resolve any disputes which might arise.
- Don't lend your credit card to others. Immediately report a stolen or lost card to the issuer to limit fraud and avoid possible complications with your credit history.
- Know the difference between "wants" and "needs." While you may really *want* an expensive new vehicle, exotic vacation or luxury item,

you might not *need* it. Think carefully before undertaking major purchases on credit by calculating the effect of a new monthly payment on your personal finances *before* agreeing to the new debt obligation.

## CREDIT REPORTS AND FILE FREEZES

A file freeze is a block you place on a consumer report, that prohibits consumer reporting agencies from releasing your credit report, credit score, or any information contained within the report to all creditors (except your current creditors) without your express authorization. Maine law permits all residents to impose a file freeze on their credit reports with the three credit reporting agencies (Equifax, Experian and TransUnion). **If you are a victim of identity theft and have filed a police report, then the process of freezing your credit report files is free of charge.** If you are *not* the victim of identity theft, each credit reporting agency can assess a \$10 fee to freeze your file, plus an additional \$10 for a general "unfreezing" of your file or an additional \$12 if you want to unfreeze your file so that only a specific creditor can view that file.

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**For additional information concerning how to enact a file freeze, or to obtain file freeze request forms, please contact the Bureau of Consumer Credit Protection at:**

**1-800-332-8529.**

**If you suspect your identity has been stolen, call the Federal Trade Commission's (FTC's) *ID Theft Hotline* at 1-877-438-4338 for information on protecting your rights!**

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## **Chapter Three**

### **Auto Buying and Financing: Drive Your Best Deal**

Many consumers approach the process of buying and financing a new vehicle with fear and trepidation. Yet, it does not need to be this way! A little research and careful pre-budgeting can help put you on the road to car-buying/financing success!

**When choosing a vehicle, work backwards. Before visiting the dealer, realistically determine what monthly payments you can afford (factor in additional expenses such as the cost of gasoline, auto insurance, and routine maintenance and repairs). Never impulsively purchase a desired type of car or truck, and then try and “cram” it into your budget. Let your finances guide your vehicle selection!**

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#### **Free Booklet!**

*The Downeaster Pocket Credit Guide* has extensive listings of interest rates and rate tables to help you determine monthly loan payments. Call 1-800-332-8529 for your **free copy**.

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In order for you, the consumer, to stay in the “driver’s seat” when applying for an automobile loan, comparison shopping is key. **Call banks, finance companies, credit unions, and other direct lending sources to find the lowest APR.** This rate will vary based on whether you plan to purchase a new or a used car, and the loan term (for example, 24, 48, 60 or more months) requested. Most lenders provide consumers with APR quotes over the telephone. The Internet can be a great source for determining the interest rates charged by local lenders. With automobile loans, the terms “interest rate” and “APR” are generally synonymous. APR quotes assist potential car buyers to compare lenders and loan terms. Always pre-shop APRs!

### **Finding the Right Car for YOU**

There are a variety of ways to locate the “perfect” vehicle for your lifestyle and financial situation. Many consumers still prefer the traditional method of visiting dealerships and seeking assistance during normal business hours, while other shoppers (including one of the authors of this guide!) prefer to initially peruse lot selection on Sundays or after dealerships have closed for

the day. Classified ads and weekly used vehicle guides are viable sources as well. Increasingly, consumers can utilize dealership websites to check inventories and compare asking prices. Additionally, online search engines allow Internet users to locate new and used vehicles of a certain make and model within a specified geographic area. Auto magazines and Internet websites can also be good resources for comparing/contrasting the features and the mechanical reliability of different models.

Once you have found the (potential) vehicle of your dreams, how do you determine a fair sales price? The Internet offers many reliable websites which list average retail and wholesale prices, along with trade-in values. Keep in mind that with used vehicles, variables such as mileage, model year, options, and overall condition affect a vehicle's value. Before visiting dealerships, take notes to guide you in the bargaining process. When trading in a vehicle, many experts generally recommend that a car shopper inquire about the price the dealership will allow for their trade-in before discussing the sales price of the new vehicle. **Don't let the prospect of driving a shiny new car cloud your judgment and make you less vigilant in establishing a fair trade-in price!**

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## **A “Primer” on Car Buying Jargon** **“Talk the Talk”**

**Destination Charge:** *This is the assessment the dealer passes along to the buyer for the expenses associated with shipping a new vehicle from the manufacturer to the dealership.*

**Document (Doc) Fee:** *An add-on fee that some (not all!) dealerships charge for preparing the loan and title documents (\$100-\$500).*

**Finance and Insurance (F&I) Office:** *This is the office or cubicle where you actually sign the documents to “close” the auto deal. Whether you are paying cash or financing your purchase, you will pass through this office before being “handed the keys.” Be prepared for the F&I person to try and sell you additional items such as extended warranties, credit insurance, and optional equipment.*

**MSRP:** *The “Manufacturer’s Suggested Retail Price” is the price set by the maker of the new vehicle as the established retail selling price.*

**Retail Price:** *The retail price is the asking price of a new or used vehicle.*

**Sticker Price:** *The sticker price is found at the bottom line (literally) of the window sticker. This is the highest price quoted and includes charges for all options and delivery charges.*

**Sticker Shock:** *A feeling of surprise experienced by a consumer who finds an unexpectedly high price on the bottom line of a vehicle’s window sticker.*

**Upside Down:** *When you owe more on your auto loan or credit contract than the value of your vehicle (negative equity), you are considered “upside down.” Consumers who make little or no down payment when financing an automobile oftentimes find themselves in this situation throughout the first few years (2 or more) of their loan’s term.*

**Trade-In Value:** *The amount of money or allowance the dealer will grant in a vehicle trade-in.*

**Wholesale Price:** *A below trade-in allowance that the dealership offers you for your trade. The dealer justifies this lower price by noting that they will not be selling your vehicle at their lot, but rather shipping it to an auction for subsequent sale. A wholesale price quote is commonly given to consumers who trade in older vehicles.*

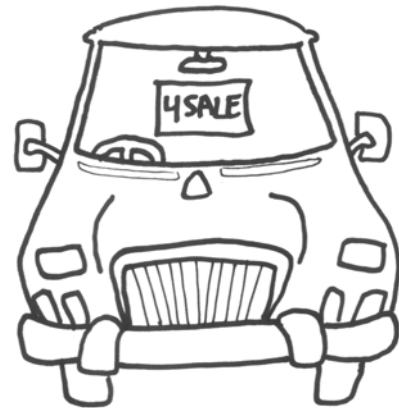
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## Trade-In vs. Private Sale

**Consumers are generally able to privately sell their used vehicles at a higher price than a dealer would allow for a trade-in.** This only makes sense, considering in a private sale, a used vehicle is offered at or just below the retail price, while in a trade-in scenario, the dealer offers a price closer to the (lower) trade-in value. Many new car dealers only offer customers a "wholesale value" for their trade; a dollar amount below trade-in and *much less* than retail value. The wholesale price quote is commonly offered by new car dealers when the vehicle in question is several years old (and therefore not viable for sale on their lot). The car is generally sent to a "dealers only" auction for re-sale to yet another auto dealer!

Weigh the pros and cons in evaluating whether a possible higher price you could get from a private sale offsets the potential "hassle" of selling your own vehicle, and make an informed decision.



## Financing a Vehicle at the Dealership

Many dealerships are equipped to offer their customers financing when purchasing a vehicle. New car manufacturers like General Motors, Toyota, and Ford all have captive financing companies available that extend credit (indirect loans) for an automobile purchase. Most dealerships also make arrangements with a wide variety of other lending sources (banks, savings banks, credit unions and finance companies) which can make loans on an indirect basis as well. A number of used car dealers offer their own financing through so-called "buy-here-pay-here" arrangements.

## Borrowing Choices...Local Lenders vs. the Dealership?

When at the dealership, ask what the lowest APR their indirect lenders are offering. **If this figure is less than the lowest APR you found elsewhere through comparison shopping with direct lenders, you should consider financing through the dealership.** In order to prevent multiple inquiries on your credit report (which can lower your credit score), make sure to specify that you don't want your credit application forwarded to multiple indirect lenders, but only to the lender the dealer has identified that has the lowest APR. Smart!

## The Length of the Loan: Longer Terms = More Interest (Finance Charge)

While the maximum auto loan term was once 60 months, nowadays it is not unheard of for some lenders to offer loans or credit contracts lasting 72 months or longer. Even though a longer-term loan reduces the monthly payment amount, it means higher interest and results in higher total financing charges (\$) on a rapidly depreciating asset (your car). **The longer you stretch out your auto loan, the less you will pay monthly but the more you will pay overall in finance charges. In addition, longer loan terms are generally priced with higher APRs.**

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### The Effect of Loan Term and APR on Your Monthly Payment

*New Car Cost: \$25,000, \$5,000 Down Payment, \$20,000 Financed*

<u>Loan Term (months)</u>	<u>APR</u>	<u>Monthly Payment</u>	<u>Total Cost*</u>
36	4.9%	\$598.52	\$26546.73
48	4.9%	\$459.68	\$27064.66
60	4.9%	\$376.51	\$27590.54
36	9.9%	\$644.41	\$28198.59
48	9.9%	\$506.29	\$29302.00
60	9.9%	\$423.96	\$30437.45
36	14.9%	\$692.33	\$29923.79
48	14.9%	\$555.60	\$31668.88
60	14.9%	\$474.75	\$33484.97

\* Total of loan payments plus down payment.

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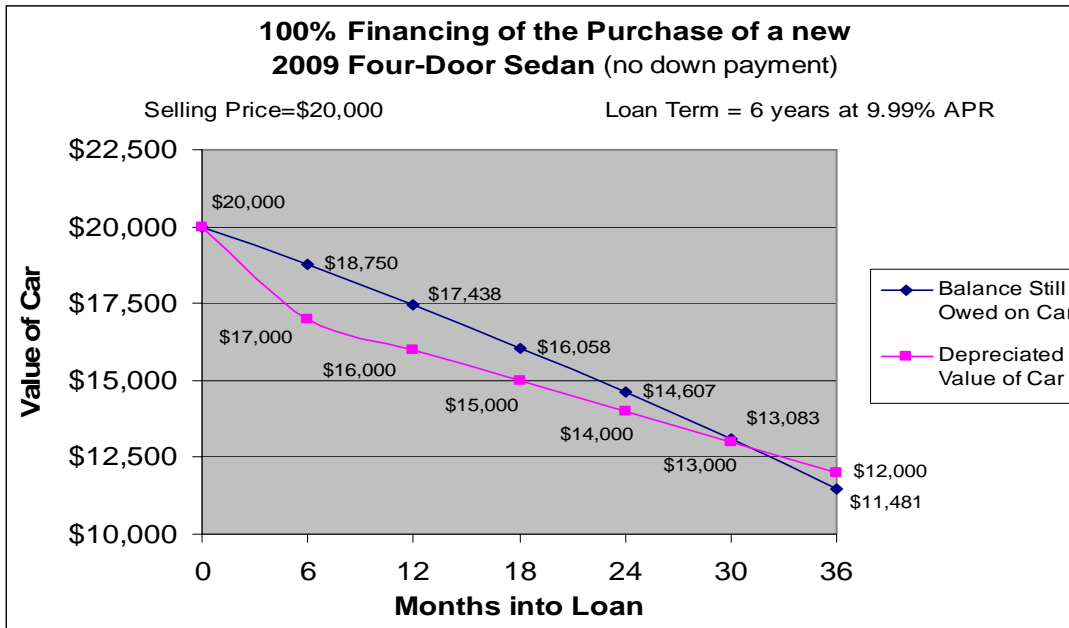
Many consumers report that immediately upon visiting an auto dealership a salesperson approaches them and asks: “*How much can you afford to pay each month?*” While this is certainly a reasonable question for a sales representative to pose to a customer, a primary focus on only the monthly payment amount, and not the sale price of the vehicle, proves a **very superficial way** for a financially-responsible consumer to approach car buying/financing.

### **Down Payments**

**Unlike home loans, auto loans require the borrower to finance a rapidly depreciating item.** In an automobile loan, the vehicle itself acts as the collateral to secure the loan. While homes generally gain in value over time, a new car's value may drop by 50% or more within the first three or four years of ownership.

**While *used* car values certainly depreciate due to wear and tear, the depreciation of *new* cars is considerable, as many models lose thousands of dollars in value only months after being driven off the lot. This rapid depreciation underscores the importance of making a healthy down payment.** A common mistake made by consumers when buying their new car or truck is taking advantage of seemingly attractive “no money down” financing offers. Consumers who make a small or zero down payment when purchasing a new vehicle find that the value of their car is almost immediately less than their loan's balance, resulting in negative equity, or being “upside down” in their car loan. **In the event that the consumer wants to trade in the vehicle, he or she will likely owe more on the loan balance than the car is actually worth!** The chart on the following page illustrates this point:

## “No Money Down” Chart



After a down payment of 20% or more, the new auto's value is likely to remain higher than the principal balance throughout the loan's term, allowing the consumer the flexibility to sell the vehicle at any point during the loan's term and to use that equity toward the down payment on his/her next vehicle purchase. Larger down payments (20% or more) also improve a consumer's chance of being approved for a vehicle loan.

### Rebates and Cut-Rate Financing

Periodically, automobile manufacturers with excess vehicle inventory will offer potential buyers financial incentives to purchase their overstocked vehicles. **Additionally, in order to reduce their inventories, manufacturers may offer low/cut-rate financing (such as 2.9%, 1.9%, or 0.9% APR), or cash-back rebates which can save car buyers hundreds/thousands of dollars.** When a consumer is offered both cut-rate financing and rebates on a vehicle, little thought is needed in this win-win situation. However, when a consumer can only take advantage of either the cut-rate financing or the rebate, the situation can become a little confusing. Fortunately, the table shown on the next page may aid the shopper in this purchase decision:

<b>Cash Rebate v. Cut Rate Financing</b>				
Auto sale price: \$29,999		Down payment: \$4,999		Amount Financed: \$25,000
<b>Loan Term</b>	<b>Cash Rebate</b>	<b>APR</b>	<b>Finance Charge</b>	<b>Bureau Suggestion</b>
24 Months	\$2,000	7.9%	\$2,109	Since the difference in finance charges is \$1,611, take the \$2,000 rebate and save \$389!
24 Months	\$0.00	1.9%	\$498	
36 Months	\$2,000	7.9%	\$3,161	\$3,161 minus \$739 = \$2,422 Pass on the rebate and select the 1.9% APR
36 Months	\$0.00	1.9%	\$739	
48 Months	\$2,000	7.9%	\$4,239	Since you save \$3,257 by going with 1.9% APR v. the cash rebate, it's an easy decision!
48 Months	\$0.00	1.9%	\$982	

The previous chart demonstrates that selecting cut-rate financing is not always the most money-saving option. In many instances, lenders may offer APRs that are low enough to make choosing a manufacturer's rebate the wiser choice. **In order to make a well-researched decision, consumers should *comparison shop for APRs* with direct lenders (banks, finance companies, credit unions) before visiting a dealership, and continue their "credit shopping" at the dealership with the lowest APR quote from an indirect lender (Ford Motor Credit, GMAC, etc.) serving that dealer.**

### **Warranties/Credit Life & Disability Insurance**

After researching your best financing options, searching for the perfect car, negotiating your trade-in and purchase price, and just before you have signed on the dotted line, you will likely be encouraged by the dealership's finance and insurance manager to purchase an extended warranty. This is an extended service contract covering the cost of certain repairs and problems after a car's factory warranty expires. **The choice whether to purchase this warranty is up to you.** You may be covered even if you don't pay extra, since all new car manufacturers (and some used car sellers) offer warranties on their vehicles which last for various amounts of time/mileage. Evaluate whether the cost of replacing a pricey engine part, the air conditioner, or the transmission would "bust" your monthly budget; assess how long you plan to keep the car after the original warranty expires; and ask yourself whether you would be put at ease by having certain major repairs covered under an



extended service contract. **Decide carefully, knowing that extended warranties are highly profitable for dealerships. Make an individual decision on whether you want to pay this extra expense.** Additionally, you may be offered the opportunity to purchase credit life or disability insurance which will pay off the loan's balance in the event of the borrower's death, or cover loan payments during a period of disability. Your current level of life insurance and disability coverage may be important factors to you as you make this decision.

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***Note:** Dealership finance and insurance (F&I) personnel may try to sell you other products such as rust proofing, GPS, fabric protection and vehicle anti-theft systems. Again, these products are high-profit items for dealerships and can add considerably to the final price (down payment plus total of monthly payments) if you finance these "add-ons" in your loan. Be prepared for a "sales pitch" just before you sign on the dotted line! If you desire one or more of these items, research prices with "aftermarket" retailers prior to visiting the dealership.*

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#### The Value of a Down Payment

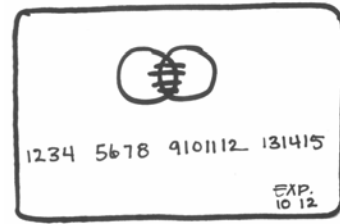
Each year, the Bureau's consumer outreach specialists field calls from desperate Maine consumers who are mid-way through long-term auto loans. They want to trade in their vehicle, but find themselves in a negative equity positions/"upside down" (often to the tune of several thousands of dollars). The best advice our staff can offer these consumers is to continue making regular or extra payments until the car is worth more than the loan's balance. Consumers can avoid this potentially uncomfortable situation by making larger down payments when pursuing future automobile loans.

AML

## **Chapter Four**

### **Credit Cards and You: Easy to Get, (Sometimes) Difficult to Pay Back**

Credit cards are the most popular type of consumer loan account used by Americans today. They can be a great financial tool, since credit cards allow borrowers the flexibility to make purchases at a variety of retail establishments worldwide without carrying large sums of cash. They also spare consumers the hassles sometimes associated with utilizing personal checks and traveler's checks. **However, while credit cards offer a convenient source of credit, they pose a big responsibility, since credit card misuse can damage your credit rating and quickly lead to seemingly insurmountable debt.**



Chances are your mailbox is full of offers from credit card issuers, and every week the typical American household receives several pre-approved credit card applications in the mail.

#### **Opt-Out & Clean Your Mailbox**

If you would like to remove yourself (opt-out) from most mail-generated credit card offers, call this safe and convenient toll-free number provided by the three major credit reporting agencies (Experian, Equifax, and Trans Union):

**1-888-567-8688 / (1-888-5-OPT-OUT)**

**Borrower Beware: While credit cards make it easy to buy something now and pay for it later, continuing to charge while carrying an outstanding balance can quickly cause debt to snowball. A “tarnished” credit history can make financing a car, gaining approval on a mortgage loan, or obtaining insurance more difficult and expensive (higher APRs/premiums).** While some consumers choose to pay their card balance in full each month, others find themselves making only the minimum payment each billing cycle.

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**CONSUMER CREDIT TIP:** While it may not be possible to pay off your card's balance in full each month, consumers should make as large a payment as can comfortably be afforded to avoid being locked into credit card debt for a long period of time. Paying off (or at aggressively paying down) your balance can be a sound financial strategy which will significantly lessen finance charges!

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Credit cards are unsecured loans and thus feature higher APRs than most secured loans. This means that consumers who overspend on credit cards are often faced with substantial balances which must be paid back at high rates of interest.

### Comparison Shopping for Credit Cards

As was discussed in the first chapter of this guide, with **risk-based lending, a good credit score and “clean” credit history can lead to lower interest rates**. Credit cards are no exception to this rule. For the best borrowers, APRs can be 9.9% or lower! Currently, the national average APR charged by credit card lenders is around 16%. Borrowers with troubled credit histories can expect to be approved for cards with rates in excess of 20% APR. Consumers interested in obtaining a credit card would be wise to check with both local and out-of-state lenders to find the best combination of rates (APRs) and fees. Direct mailings and reputable Internet sites are also good sources for comparison shopping.

### Annual Fees

Although this fee has become less prevalent due to intense competition in the credit card industry, some card issuers still charge an annual fee, typically \$15 to \$55, for the use of their credit card. Some credit card companies attempt to offset an annual fee though offering lower interest rates or other incentives. In contrast, some credit cards do not carry an annual fee, but instead feature higher APRs. **When faced with this trade-off, borrowers who consistently pay off their balances in full each month are advised to seek a card without an annual fee.**

### Grace Period

Many credit cards lenders offer their customers “grace periods” (the time between the date of a purchase and the date the lender starts charging interest on the purchase). A standard grace period allows an opportunity to

avoid finance charges by paying the card's balance in full each and every month. Many credit cards carry a 20-25 day grace period within which the balance can be paid in full each month. If the card issuer offers no grace period, they may impose a finance charge from the date cardholders use their card, or from the date each transaction is posted to the account. **Make sure to ask a potential card issuer if the all-important grace period is a feature of their credit card. In addition, most grace periods disappear, even for new purchases, once you start running a monthly balance on your card.**

#### "Maxed-Out" in Maine

Every month, the consumer outreach staff here at the Bureau of Consumer Credit Protection receives calls from Maine citizens who are thousands of dollars in debt with credit card lenders. These consumers are oftentimes struggling to make minimum monthly payments on "maxed out" cards. When faced with this unenviable situation, a consumer's options are many. Enrolling in credit counseling, reviewing personal spending (re-budgeting), taking on additional employment, selling assets, consolidating existing loans, or even filing for bankruptcy are several possible solutions.

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### Repayment Options and Reward Cards

Some consumers repay their credit card balance in full each month, while others make only the minimum monthly payment. **Credit cards can serve as a valuable financial tool to consumers who use their cards for travel and emergencies, and pay their balances in full each month.** Some disciplined consumers use their credit cards like checkbooks, charging most of their daily purchases and then paying off their balances in full each month. Reward cards offer the added incentive of free goods and services, and through frequent use, consumers accumulate points they can trade in for airline miles, gift certificates, or even cash rebates. **Unfortunately, a growing number of credit card users have fallen into the habit of only making minimum monthly payments, and subsequently struggle with long-term balances subject to high APRs.**

The chart below shows the repayment period for a consumer who only makes the minimum monthly payment (4% of the current balance in most purchase examples below), on a credit card with an 18% APR:

**“The Twelve Days of Debt”**

<b>Item</b>	<b>Cost of Item</b>	<b>Minimum Monthly Payment</b>	<b>Finance Charge</b>	<b>Months to Pay Off Purchase</b>	<b>Final Cost of Item w/Interest</b>
One Blueberry Pie	\$10	\$10	\$ .15	2	\$10.15
Two Lobster Dinners	\$50	\$10	\$2.38	6	\$52.38
Three Pairs of Hiking Boots	\$100	\$10	\$9.16	11	\$109.16
Four Whale Watch Tours	\$200	\$10	\$39.58	24 (2 years)	\$239.58
Five Adirondack Chairs	\$400	\$16	\$155.69	51	\$555.69
Six Pup Tents	\$600	\$24	\$275.67	67 (more than 5 years)	\$875.67
Seven Days at a Seaside Bed & Breakfast	\$800	\$32	\$395.65	78	\$1,195.65
Eight Pairs Binoculars	\$1,000	\$40	\$513.63	87	\$1,513.63
Nine Ski Jackets	\$2,000	\$80	\$1,115.73	114	\$3,115.73
Ten Sets of Snowshoes	\$2,500	\$100	\$1,415.69	123 (more than 10 years)	\$3,915.69
Eleven Kayaks	\$5,000	\$200	\$2,915.66	150	\$7,915.66
Twelve Inflatable Rafts	\$10,000	\$400	\$5,915.67	178 (almost 15 years!)	\$15,915.67

- Needless to say, the Bureau highly recommends that credit card holders avoid long-term credit card repayment patterns and their substantial finance charges!

**Credit Card Protections**

Credit cards do offer valuable consumer protections for some purchases under federal and state law. **In the event of a lost or stolen card, Regulation Z, the Truth in Lending Act, limits a cardholder’s liability to a maximum of \$50 per card.** Additionally, if the consumer immediately contacts the issuer(s) and alerts them of the situation, the borrower generally has no further responsibility for unauthorized charges (in addition to your phone call, we recommend that you follow up with a confirming letter to the issuer).

**If you, the consumer, want to dispute a merchandise purchase** (for example, if you order an item using your credit card, and it arrives broken or inoperative), **then the Fair Credit Billing Act allows you to address the matter through the card issuer. You must notify the card issuer in writing within 60 days after the first bill containing the error was mailed to you.** In your letter, include: your name; account number; the type, date and amount of the error; and the reason why you believe the bill contains an error. By law, the card issuer must investigate the problem and either correct the error or explain to you why the bill is correct. **This must occur within two billing cycles and not later than 90 days after the issuer receives your letter.** Do not pay the dollar amount in dispute during the investigation. For more information regarding dispute resolution, contact the billing dispute department via the toll free number found on your credit card statement. This Act applies to credit card purchases made in your home state or within a 100 mile radius of your residence, whichever is greater.

### **Late Fees and Over-the-Limit Fees**

**Just as consumers who are late in making credit card payments are assessed a penalty fee, usually \$20 to \$40, card holders who exceed their credit limit can be assessed an “over-the-limit fee.”** The most effective and simplest strategies to avoid being assessed these fees is to closely monitor your spending, keep your balances low and your payments current.

### **Universal Default/Penalty Phase and High APRs**

Many credit card issuers now insert “Universal Default” clauses into their contracts which allow them to substantially raise APRs on the accounts of cardholders who are delinquent on other debts, who exceed their credit limits, or who experience a drop in credit score. A number of consumers have told us that during this so-called “penalty phase” they have seen their APRs “skyrocket” to 30% or more.

### **“Double Jeopardy”**

"Maxed out" cardholders can find themselves in a financial *double jeopardy* situation, with credit cards that are both over their credit limit *and* being paid late. If the penalty for each violation (over the limit/late payment) is \$25.00/each per month, over a one year period, the combined fee charge is \$600.00, plus interest! Remember, always use credit cards wisely. **Strive to**

**regularly pay your account balance in full and on time each month to avoid interest charges and related fees and penalties.**

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**Big Plastic on Campus:**

**A Graduate Study of Credit Card Usage on the University of Maine  
Orono Campus**

*- By David Leach, MPA*

In the spring of 2002, a sample group of undergraduate students residing in dormitories at the University of Maine completed a survey regarding credit card solicitation and card utilization on the Orono campus.

Noteworthy findings included:

- 92% of students surveyed had been solicited for credit cards on campus.
  - 86% had been solicited over the telephone in their dorm rooms.
  - 60% of students surveyed had at least 1 credit card in their own name.
  - 18% of students had acquired at least 1 credit card through a UMaine on-campus solicitation.
  - 47% of male students that carried credit card balances owed \$3,000 or more, while only 6% of balance-carrying female cardholders fit into this category.
  - On average, undergraduate seniors carrying credit card balances owed \$2,338 (total of all cards), while first-year students (freshmen) averaged a total card balance of \$867.
-

## **Chapter Five**

### **Tips for Buying & Financing Boats, Campers, Snowmobiles and ATVs**

#### **Financing the Purchase**

The well-planned finance and purchase of recreational items can both facilitate hours of fun and adventure in the great outdoors, and help create treasured memories sure to last a lifetime. When it comes to financing these recreational items, consumers have a myriad of options to meet their borrowing needs. Like new and used car dealers, most recreational dealerships offer in-house financing through their manufacturers. Banks, credit unions and non-bank lenders also make direct and indirect loans for recreational items. Consumers should comparison-shop a variety of sources to locate the lowest available APR. While boats, campers, snowmobiles, and ATVs can provide their owners with years of enjoyment, consumers should always pre-calculate the potential financial impact that a newly-added monthly loan payment will have on their budget.

#### **Avoiding “Buyer’s Remorse”**

Over the years, a number of consumers have contacted the Maine Bureau of Consumer Credit Protection expressing “buyer’s remorse” over purchases of major recreational items. Consumers should look beyond the advertised *low monthly payments* (sometimes stretching 10 years or more!) and consider how this new purchase will impact their overall economic well-being. Do your “financial homework” and make certain that you can make room in your budget for that additional expense before agreeing to a loan. After all, nobody wants to face the unpleasant challenge of trying to sell a boat in the dead of winter, or liquidating a six-month-old snowmobile in the middle of July!

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#### **Finding Your “Best Price”**

The Internet and written publications offer a variety of resources where a consumer can review the retail and trade-in values for a variety of new and



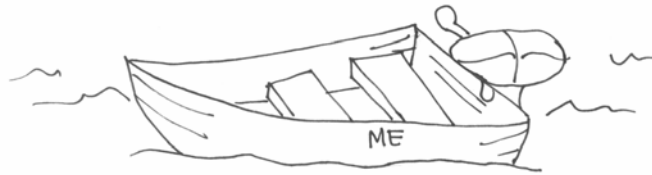
used recreational items. Armed with this information, the consumer can visit dealerships with a better idea of what constitutes a fair selling price. Many consumers elect to wait until season's end to obtain the best price for: leftover stock, "demos," or soon to be "retired" rental units. Other buyers prefer to visit pre-season events (such as boat or camper shows), where they may find exceptional deals (discounted prices and/or cut-rate financing).

## Buying Pre-Owned (Used)

Given the depreciation rate of most recreational items, many pennywise Mainers purchase these items on a pre-owned or "used" basis. Local newspaper classified ads, weekly used-goods booklets, and items parked on the seller's front lawn with a "for sale" sign are three of the most popular sources for locating used recreational items.

## Down Payments

**Given the rapid depreciation rates of many new recreational items, consumers are wise to plan ahead for their purchase. After negotiating the lowest purchase price, borrowers should consider making down payments of at least 15-20%. Down payments are also recommended when financing pre-owned units.**



## Loan Term

Many potential owners of boats, campers, snowmobiles, and ATVs, are drawn to dealerships through electronic and print ads pitching low monthly payments. This was the case for "Captain Jack," who saw a brand new bowrider boat advertised in a Sunday newspaper for a "small" payment of \$299 a month with an APR of 13%.



Intrigued by the idea of motoring into the sunset with his brand new boat, the Captain did a few calculations. Since he had no funds saved for a down payment, his loan would have been 100% (no money down!) financing. The sale price of the boat may have been \$20,000, but even if the Captain makes all his

payments on time, with the 120 month (10 year) loan term, the total finance charge (dollars of interest alone!) would be just under \$16,000. That's almost the cost of the boat itself! While the Captain relished the idea of owning a sparkling new bowrider, after learning some helpful buying/financing tips from this booklet, he decided to buy the boat next spring at a pre-season boat show--after first accumulating enough money over the winter for a sizable down payment! The Captain financed a smaller amount, and ended up with much lower monthly payments. Aaarrrr!

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A Helpful Tip from the Bureau of Consumer Credit Protection: Don't finance any item (boat, ATV, camper, snowmobile, auto) for longer than its useful life!

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## Chapter Six

### Personal and Payday Loans: Unsecured Credit at a Higher Cost Plus: Avoiding Loan Scams!

#### Personal Loans



As a loan that can be used for almost any reason (to consolidate debts, finance a wedding, fund a special vacation, complete home improvements, or cover a variety of other expenses), personal loans can seem almost too good to be true. **However, personal installment loans can carry certain pros and cons which a borrower must consider before signing on the “dotted line.”**

In contrast to a secured loan which requires some form of security such as a house or car, in an unsecured transaction, credit is extended solely on the borrower's promise to repay the debt (collateral is not required). **Unsecured personal loans prove the most risky for lenders since the borrower does not offer any of his or her personal property as collateral that the lender can repossess if the consumer defaults. Since the lender undertakes greater risk, borrowers face higher APRs.**

#### Payday Loans

Payday loans, also known as paycheck advance loans, can be a short-term option to consumers who have bad credit and cannot obtain a traditional bank loan, credit card, or other borrowing alternative, and who urgently need cash to cover expenses prior to a payday. Since payday loans often do



not involve a credit check, they can be speedily approved, often within a few hours. **However, while payday loans may seem like a simple and quick means to obtain much-needed fast cash, they are not quick fixes for larger financial problems.** Since borrowers oftentimes need only a checking account and verification of employment to qualify for payday

loans, lenders routinely do not base their loan decisions on the ability of borrowers to repay. Thus, payday loans could pose a sort of “financial quicksand” as many financially challenged borrowers may need a month or more (rather than just a few weeks) to pay off these expensive, short-term debts.

Under the state and federal Truth in Lending laws, designed to protect consumers and promote the informed use of consumer credit, lenders must provide a clear disclosure of the key terms and costs of the payday lending arrangement. **Thus, when considering a payday loan, the borrower is entitled to receive in writing both the finance charge and the annual percentage rate (APR).**

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### **Maine Law and Payday Loans: 9-A M.R.S.A §2-201 (6)(c)**

Under Maine law, payday lenders may charge no more than \$25.00 when the amount financed is \$250.00 or more. Although \$25 may seem like a small fee, it equates to a substantial APR if calculated for a one or two-week loan. Think about it: If you renew a two-week loan of \$250 every other week for a year, you will be paying \$650 in interest for your \$250 loan! Most Internet (unlicensed) payday lenders charge even greater fees, and are already be violating the law if they make loans to Maine residents without first obtaining a Supervised Lender license!

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### **Advance Fee Loan Scams – A Warning!**

The Bureau advises consumers to avoid falling prey to so-called advance fee loan scams. An advertisement (TV, newspaper/print, radio, Internet) or telemarketing solicitation will offer to loan/grant a consumer “thousands of dollars” at a low APR in exchange for a one-time payment (\$100 - \$1,000 or more) to handle “administrative” or “insurance” costs. The victims wire funds, oftentimes to Canada, in anticipation of the loan/grant proceeds, which are promised in “a week or two.” Bottom line, the funds never arrive. **Never give out personal information to an unknown solicitor!**

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**WARNING! Internet/Unlicensed Payday Lenders**

The Bureau of Consumer Credit Protection has received numerous complaints from Maine consumers who have entered into payday loan agreements with unlicensed payday lenders located outside of Maine, and sometimes even from foreign countries!

These lenders obtain checking account information so that they can make a deposit into the consumer's account, but also so that they can debit/withdraw money back out of the account to pay the loan's fees, principal and high interest charges.

Most of these companies choose to illegally ignore Maine licensing laws, and likely do not have a local brick-and-mortar office location. **Because they feel that they can't be effectively regulated by states outside of their home location, many of these lenders engage in predatory tactics such as charging hundreds of dollars in fees for a relatively small payday loan. The APRs for these unlicensed companies' loans can be astronomical.**

One southern Maine consumer complained about a Nevada-based Internet payday lender that debited his bank account \$90.00/week for fourteen weeks (\$1,260) for a \$300 loan – incredible!

- **Use Extreme Caution When Providing Private Personal Information to Internet Lenders!** To see if a lender is licensed, call the Bureau of Consumer Credit Protection Monday through Friday between 8 a.m. and 5 p.m., or check our website at [www.Credit.Maine.gov](http://www.Credit.Maine.gov), and click on "rosters" for Supervised Lenders. Our agency strongly recommends only dealing with payday lenders licensed by our agency!

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## **Yet Another Scam!**

Many Mainers (including those offering to sell items on the Internet) report that they have received a realistic-looking check in the mail, together with a request to deposit the check in their bank account and mail or wire a portion of the check back to sender. The problem is, the bank check is a fake, and the consumer has been hoodwinked into sending “real” money back.

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## **Chapter Seven**

### **Home Sweet Home: Home Mortgages, Second Mortgages, Home Equity Lines of Credit, and Reverse Mortgages**

Maine is a state with high homeownership rates, and like most Americans, Mainers' homes are often their most important investments. Many consumers begin their lives as homeowners by purchasing so-called "starter homes." As their incomes increase, they often move to dwellings more suitable to meet their changing needs.

#### **Financing the Purchase**

There are a variety of lending sources that consumers can turn to when interested in financing a home purchase. These include:

- Banks
- Savings Banks
- Mortgage Companies
- Mortgage Loan Brokers
- Credit Unions
- Savings and Loans
- Private Lenders
- Family Members



**The term of a conventional mortgage generally runs from 20 to 30 years and requires a minimum 20% down payment.** Many established consumers who have recently sold a home are able to apply the equity gained through years of homeownership toward the purchase of a new home. Oftentimes, first-time homebuyers do not have the funds necessary to meet this conventional downpayment requirement. **Agencies like the Maine State Housing Authority (MSHA), Federal Housing Administration (FHA), the Department of Veteran Affairs (VA), and Rural Development, offer programs that allow less-established applicants to offer down payments that are less than the traditional 20%.** Contact these agencies for more information about their programs:

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**MSHA: 1-800-452-4668**

**FHA: 1-800-225-5342**

**Veteran Affairs: 1-800-827-1000**

**Rural Development: 1-800-414-1226**

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## Private Mortgage Insurance

Private Mortgage Insurance (PMI) is an insurance product that lenders require from most homebuyers who obtain loans that are more than 80% of their new home's value (thus, buyers with less than a 20% down payment are usually required to pay for PMI coverage). **PMI protects the lender in the event that the mortgagor (borrower) is not able to repay the loan, and the lender is not able to pay off the loan's balance after foreclosing and selling the mortgaged property. The borrower must pay this insurance until the loan-to-value ratio is 80% or less. Under the Home Owner's Protection Act of 1998, homeowners may request cancellation of PMI when their loan is paid down to 80% of the original purchase price or the appraised value when the loan was obtained, whichever is less.** A loan-to-value ratio of 77% or less requires an automatic termination of PMI insurance. This is a federal law.

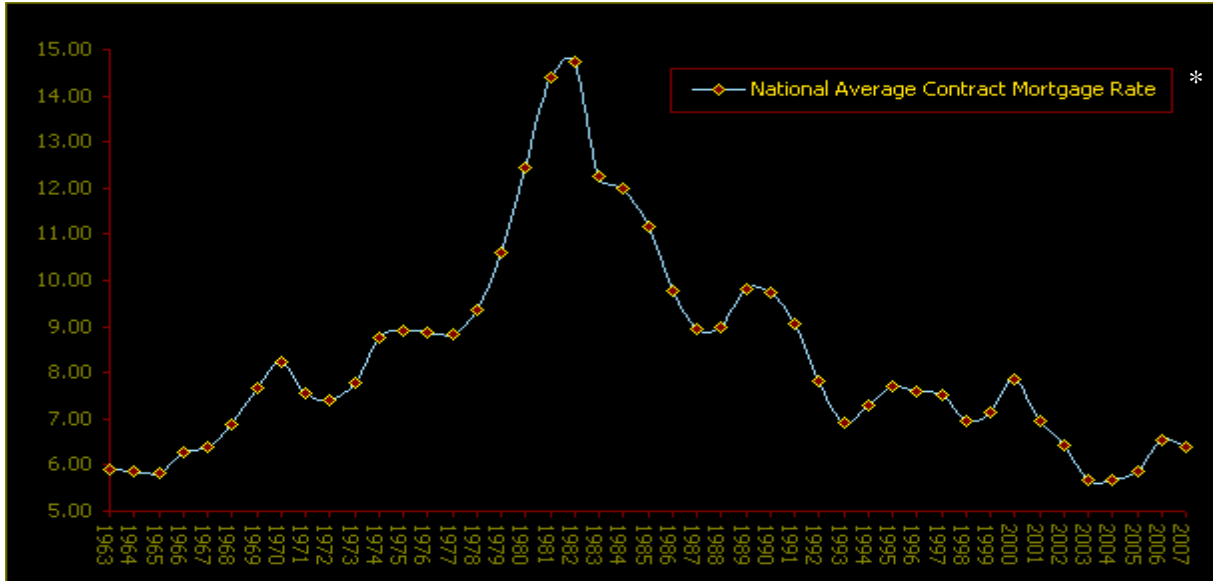
## Fixed vs. Variable Rate Mortgages: Which Rate is Right?

At the time of the publication of this booklet, mortgage rates (see the top of page 33) remain historically low, and thus, many borrowers are opting for fixed-rate mortgages to "lock in" a low rate for the entire term of the loan. During the early-to mid-1980s, and in other times of high interest rates, a greater proportion of borrowers opted for Adjustable Rate Mortgages (ARMs) that are based on current (market) interest rates. **Borrowers typically select ARMs when they believe interest rates have peaked, and will subsequently steadily decline.** Other borrowers select ARMs because of low "teaser rates" which, while providing lower initial monthly payments, eventually increase to their "fully indexed" rate and, can cause payment difficulties or even foreclosure for the consumer.

## Annual and Lifetime Rate Caps

ARMs set annual and lifetime caps/limitations on the upward and downward movement of mortgage interest rates. Traditionally, annual caps are 2% and lifetime caps are 6%. An ARM that starts at 9% APR can go no higher than 15%, or lower than 3%.





\* The National Average Contract Mortgage Rate is derived from the Federal Housing Finance Board's Monthly Interest Rate Survey (MIRS) and is reported by the FHFB on a monthly basis. This index is the weighted average rate of initial mortgage interest rates paid by home buyers reported by a sample of mortgage lenders for loans closed for the last 5 working days of the month. The weights are determined by the type, size and location of the lender. The rate is based on conventional fixed and adjustable rate mortgages on previously occupied non-farm single-family homes.

<b>Mortgage Chart</b>			
<b>Monthly Payment Mortgage</b>			
All examples are based on a home selling for \$125,000 with the buyer making a \$25,000 (20%) down payment. In each example the borrower finances \$100,000 at 7% APR (no points loan). All mortgages in the following two charts begin payments in January of 2010.			
	<b>Monthly Payment*</b>	<b>Total of Payments Principal and Interest</b>	<b>Pay off Date</b>
15 Year Mortgage	\$898	\$161,792	Oct. 2025
20 Year Mortgage	\$776	\$186,072	Oct. 2030
25 Year Mortgage	\$706	\$212,034	Oct. 2035
30 Year Mortgage	\$666	\$239,509	Oct. 2040

<b>Mortgage Chart</b>			
<b>Bi-Weekly (Every Two Weeks) Mortgage</b>			
	<b>Bi-Weekly Payment*</b>	<b>Total of Payments Principal and Interest</b>	<b>Pay off Date</b>
15 Year Mortgage	\$449	\$152,771	August 2023 12 years 11 months
20 Year Mortgage	\$388	\$170,977	July 2027 16 years 9 months
25 Year Mortgage	\$353	\$188,592	February 2031 20 years 2 months
30 Year Mortgage	\$333	\$205,047	April 2034 23 years 7 months

\* All monthly payments are rounded to the nearest dollar. The “total of payments” column is based on actual (non-rounded) monthly payments.

The previous two charts clearly demonstrate how a borrower’s choice of loan term (15-30 years) and repayment options (monthly vs. bi-weekly payments) can impact the amount of money a consumer must remit to a lender in order to pay off their mortgage. From a high of \$239,509 (total of payments) on a traditional 30-year monthly payment mortgage to a low of \$152, 771 on a 15-year bi-weekly payment scenario, repayment costs *vary greatly* on a \$100,000 mortgage based on length of term and frequency of payments!

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### **Advice from the Bureau**

When shopping for mortgage financing, find a loan term that best fits your ability to repay. While a shorter term mortgage (15-20 years) may save you thousands of dollars over the life of the loan, make sure your budget will allow you to comfortably make those payments and maintain a suitable lifestyle. Bi-weekly mortgages, which save borrowers a substantial amount of interest paid (finance charges), require the borrower to make 26 one-half (1/2) payments per year – the equivalent of *one full* extra monthly payment during a 12-month period.

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## Closing Costs, Points, and Assorted Fees

Under the Real Estate Settlement Procedures Act (RESPA), lenders must provide loan applicants with a “Good-Faith Estimate” of their mortgage fees, within three business days of receiving a loan application. **The Bureau of Consumer Credit Protection recommends that home buyers receive pre-application quotes from a variety of lenders in order to compare costs.** Mortgage loans can feature charges ranging from less than \$2,000 to over \$10,000, and those fees vary according to the size of the loan, the customer’s credit history, and the lender’s fee structure.

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**Many lenders charge “points” for originating and/or closing a loan. One point equals 1% of the total amount borrowed:**

**Amount Borrowed = \$100,000**

1 point = \$1,000,

2 points = \$2,000, etc.

*\* Points can be used to pay down the note rate on a mortgage. For example, some lenders may offer a note rate of 6% by paying 2 points, 5.75% by paying 3 points, etc.*

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As a general rule, the longer you plan on owning your new home, the better off you are “buying down” a lower interest rate by paying points. On the other hand, if you are only planning to stay in your home for a couple of years, it may be best to forego the “buy down” by paying points, and settling for a slightly higher note rate.

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**CAUTION!** Some lenders/loan brokers only charge points as a means of enhancing their profits through fee income! Homebuyers will also pay a variety of other charges including: title search, credit report, application and appraisal fees. Shop around and compare rates!

## Mortgage Pre-Payment Penalties

A number of mortgages (fixed-rate only) feature prepayment penalties, which are fees assessed by the lender (usually a percentage of the loan amount) if the loan is fully repaid within a certain time period (generally during the loan's first 1-3 years). These penalties can be substantial, often in the thousands of dollars. When mortgage comparison-shopping, ask the lender "up-front" if they charge this penalty. Check again at the closing to make sure the terms haven't changed. Carefully read and understand all closing documents before signing them! Lenders regulated by our agency and the Maine Bureau of Financial Institutions may not assess prepayment penalties on adjustable rate (ARM) mortgages. One Mainer who didn't know her mortgage contained such a clause was within several weeks of the expiration of her fixed-rate mortgage's pre-payment penalty period. She was legally assessed a penalty fee of several thousands dollars as a result of her ill-timed mortgage refinance.

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## Second Mortgages and Home Equity Lines of Credit (HELOCs)

It is becoming increasingly common for consumers to utilize the equity that they have accumulated in their homes to pay for college tuition, consolidating credit cards, or making home improvements. **A traditional second mortgage provides a one-time lump sum of money (loan proceeds) paid back on an installment basis for 5-10 years. Unlike a traditional second mortgage, a home equity line of credit (HELOC) is a revolving loan without a fixed payment term.** HELOCs feature a line of credit with an established credit limit. Some consumers like the borrowing flexibility offered by HELOCs, and also enjoy the feature that interest assessed (finance charge) is generally tax deductible (check with a tax expert). **One potential disadvantage of HELOCs is that they are generally a variable interest rate loan, so monthly payments can vary (go up or down) in an unpredictable manner.**

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## **Second Mortgage/HELOC Advisory**

Be financially prudent when considering a second mortgage loan secured by your “home sweet home.” The failure to make timely payments on this debt can result in a home foreclosure. Think twice before you commit to this sizeable new debt. Borrowers who “close” (sign loan papers) on a second mortgage must be given a “three day right of rescission” to change their mind and cancel the loan contract.

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### **A Few Words on Predatory Mortgage Lending from the Superintendent of the Bureau of Consumer Credit Protection:**

*Especially in recent years, state regulators have seen many cases of what could be termed "predatory mortgage lending." Generally speaking, this refers to a situation in which a lender or loan broker takes unfair advantage of a consumer by charging excessive fees, or by convincing the consumer to take out a mortgage that has disadvantageous terms (such as large prepayment penalties or balloon payments), especially when the consumer would qualify for a less-expensive loan.*

*Maine consumers have complained that they were given one set of loan terms when they applied for a loan, but when it came time to close, the loan had new, unexpected and expensive features. They tell us that they did not learn about expensive loan terms until they reviewed the paperwork months later. They additionally explain that loan officers misled them by telling them that 1) they would be able to refinance later to get out of expensive loan terms; or 2) they were not subject to prepayment penalties when in fact their loan contained such features.*

*– William N. Lund, Superintendent*

If you would like to learn more about predatory lending and how to avoid it, please visit the Bureau of Consumer Credit Protection’s website at: **[www.Credit.Maine.gov](http://www.Credit.Maine.gov)**, or call our office at: **1-800-332-8529**.

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## Reverse Mortgages

Unlike a traditional mortgage in which the borrower makes payments to a lender each month, a reverse mortgage allows homeowners to *receive* payments from a lending company, thereby drawing equity from **their home**. Unlike purchase money mortgages, reverse mortgages allow consumers with a substantial amount of equity in their homes to receive regular monthly checks from a lender. Reverse mortgages are primarily utilized by consumers (62 years of age or older) who wish to stay in their homes, but may lack the financial resources to do so. Reverse mortgages can be used to pay property taxes, fund needed home maintenance projects, or to help homeowners maintain a healthy, desirable lifestyle. For more information about reverse mortgages, contact:

- The Federal Trade Commission at 1-877-FTC-HELP (382-4357)

**or**

- The US Department of Housing and Urban Development at 1-800-CALL-FHA (2255-342)

*Consumers may order free booklets from these agencies, and they must obtain financial counseling prior to obtaining a reverse mortgage.*



## **Chapter Eight**

### **Buying Land: This Land Is (or May Eventually Be) Your Land**

#### **Buying and Financing Land is Not “Dirt Cheap!”**

Consumers shouldn't consider buying a parcel of property (raw land) with no building on it unless they are first willing to “get their hands dirty” and learn the basics of financing a land purchase. Obtaining financing for undeveloped land is not as simple as financing the purchase of a finished home and land because many lenders view land loan transactions as moderate to high risk. Because loan rates are based on risk, land with a building on it is much easier to liquidate than an undeveloped housing lot in a new subdivision. **Besides charging higher interest rates for land loans, lenders generally require significant down payments from applicants so that, in the event of a loan default, the borrower's equity position should allow the lender to sell the land and use the sale proceeds to fully pay off the loan.**

Loan terms for the financing of land are generally short (usually 1-5 years in length), in anticipation that the borrower will subsequently obtain a construction loan. Buyers purchasing unimproved, “raw” land, with no plans for improvement, will face the most difficult challenge in securing a loan for their property, since it can be considered a speculative investment.

Few buyers want to pay for unbuildable land. Thus, the future homeowner's top priorities lie with making sure that he or she will be able to obtain a building permit, and determining that the land will legally, geographically, and geologically support the type of house desired. The buyer should evaluate the land's soil quality (using a soil test) and its topography, consider how the land is zoned, if the lot has road access, and whether there is ready access to utilities such as water, sewer, electricity, and telephone. These factors could influence not only property value, but also one's ability to get a loan. A real estate broker can provide invaluable assistance during the land purchasing process.

#### **Land Buying Tips (Restrictive Covenants, Title Searches, etc.)**

Homeowners in many housing developments are now subject to **restrictive covenants** that can govern everything from a home's size to its color. Buyers should make certain that they are willing and able to abide by those restrictions. The buyer must also determine the location of the property's

boundary lines. Mortgage surveys are typically required by title companies and lending institutions before a loan will be approved.

Additionally, to ensure that they obtain free and clear title to the property, buyers must obtain a title search of the property before purchasing land. A title search will reveal if there are any liens (mortgages, back taxes, mechanic's liens, etc.) or other encumbrances on the property that may prevent or delay the land purchase. A title report will also show any easements (recorded legal rights) to the property or portions of the property (for example, a previous owner may have legally given a neighbor shared use of a driveway). Some unwary land purchases are surprised to learn, years after the sale has closed, that a right-of-way to a new housing development runs through or abuts their property! As a protective measure, buyers often elect to purchase title insurance, which offers protection against any undiscovered title problems which may arise after the sale.





## **Chapter Nine**

### **Debt Collection, Repossession, Foreclosures, and Bankruptcy**

#### **Debt Collection**

Although the vast majority of consumers intend to pay their bills in a timely fashion, there comes a time for many individuals when circumstances beyond their control leads to the debt collection process. Collections can either be performed directly by the **creditor**, or through a third-party **debt collection agency** (a separate company trained and licensed in the business of collecting debts). Varying rules apply to creditors and debt collectors. **The Maine Bureau of Consumer Credit Protection administers the Maine and federal Fair Debt Collection Practices Act (FDCPA), which creates guidelines under which debt collectors may conduct business.** This Act helps ensure that Maine consumers are treated fairly, and provides consumers with an avenue for disputing inaccurate debt information. Our agency also licenses debt collectors.

#### **A debt collector is prohibited from:**

- Calling at unusual hours (before 8:00 a.m. or after 9:00 p.m.), although collectors can call 7 days a week
- Continuing to call a place of employment after receiving written notification from the debtor that their employer does not permit such contact
- Making empty threats of legal action (under normal circumstances, a collection agency cannot initiate legal action against a debtor. The most they can do is recommend such action to the creditor).
- Calling neighbors to discuss the debt (although collectors are allowed to initially contact a neighbor to inquire about a debtor's whereabouts)
- Continuing telephone contact after receipt of written notification from the consumer requesting that future telephonic calls cease

#### **What should I do if a collector calls me?**

First, determine if you really owe the debt. Within 5 days of the initial contact, the debt collector must send you a letter offering to verify the debt. If you wish to dispute the validity of the debt, write to the collection agency within 30 days, and keep a dated copy of the letter for your records. **The collection agency must then halt collection activity until verification is sent to you.** If verification is provided, they can resume collection efforts. **If**

**the debt is not verified, the collection agency must cease activity.** During the time you are disputing the debt, the collector may not disclose any information about the debt to credit reporting agencies without also stating that the debt is disputed.

## How to Deal with Delinquent Payments

It is wise for consumers to approach any delinquencies in a positive and upfront manner. **Creditors appreciate pro-active consumers who alert them when to expect a late payment.** The creditor and the consumer are more likely to engage in constructive dialogue when the consumer honestly and fully explains their difficulties. A possible solution may include a proposal to pay off the debt in full/or in part through a payment plan (settlement agreement). A creditor may be able to offer helpful suggestions concerning repayment. Strive to keep constructive lines of communication open!

## Prioritizing Payments

Consumers experiencing financial difficulties should allocate their limited resources in the most productive manner. **Payments for housing, food, transportation, and medication should take priority over non-essential items (e.g., cable television, eating out, and personal entertainment).** Credit card lenders may insist that you make their overdue payments first. However, no consumer should risk losing a home to foreclosure or a car to repossession because payments on unsecured debt are taking priority over housing, transportation and basic living needs.

## Repossession

**When you finance or lease a vehicle or other item, your creditor (or, in the case of a lease, the lessor), holds certain rights on the item until the last payment is made on the contract. Until that point, creditors have a right of ownership which can trump consumers' rights of possession, and allows creditors to take back the property in question.** The signed contract legally grants creditors the right to use "self-help" to repossess an item when a consumer becomes late (generally more than 60 days late on an installment payment), or defaults on the contract through the cancellation of automobile insurance.

## The Rules of Repossession

- Before a repossession company or the creditor can take your car, you must have first defaulted on the loan. **This could include falling behind on payments or defaulting under some other provision of the contract** [for example, failing to keep the vehicle (collateral) insured].
- **If your default is for missing a payment, repossession should not occur until after the creditor has mailed a *Notice of Right to Cure Default*.** A Right to Cure Notice is effective for 12 months, so if you become delinquent (10 days or more past due) again in the next 12 months, repossession can occur without a new Right to Cure Default notice being sent.
- **This Notice of Right to Cure Notice grants the consumer 14 days to catch up on back payments.** The creditor must only prove that this notice was sent, not that it was actually received; thus, if you, the consumer, refuse to sign for any certified or registered mail or don't keep the creditor updated on your current mailing address, you may never receive the notice. **If you receive a "Notice of Right to Cure Default," don't ignore it, because this is the only required notice prior to repossession!**
- The repossession agent cannot enter into a dwelling, nor can they "breach the peace" when repossessing your car. If you confront repossession personnel prior to the removal of the collateral, they are supposed to leave your property if you verbally demand they do so. **The consumer should make their statement in a *tactful, non-threatening manner*. If the repossession agent does not respect your requests, then do not provoke a confrontation. Rather, contact our office right away, and we will take steps to investigate and potentially discipline the state-licensed repossession agent.**

### Repossessions and Personal Items

One memorable call received at the Bureau of Consumer Credit Protection came from a woman who had her car repossessed, and to her dismay, realized that her wedding ring was left in the vehicle! This distressed consumer was relieved to learn from our agency that she would be able to retrieve her prized possession. However, consumers should be aware that items attached to the vehicle, including stereos, speakers, rims, and roof racks, can be legally retained. However, items such as fuzzy dice . . . and wedding rings . . . which can be removed without making any holes in the vehicle, must be inventoried and then made available to the consumer for pick-up.

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### Free Booklet

The Maine Bureau of Consumer Credit Protection offers a free booklet entitled, *Downeaster Guide to Debt Collection and Repossession*. This guide provides helpful hints and a listing of specific rights you have in a variety of debt collection situations. To request your **free copy**, please call our agency at 1-800-332-8529.

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### Foreclosures

Foreclosures on real estate occur for a whole host of reasons. Foreclosure can be the unpredictable consequence of a loss of employment, a divorce, a job transfer, an inability to work and make payments due to medical circumstances, or the result of excessive spending, and seemingly insurmountable debt. **A foreclosure is a legal proceeding in which a secured creditor repossesses a house and land due to the owner's failure to make timely loan payments.** The process of foreclosure allows the lender to recover the amount owed on a defaulted loan by selling or repossessing the property securing the loan. **In a foreclosure, borrowers usually lose title of their property and are evicted from their homes.**

There are several ways that homeowners can retain title to their properties. Prior to the filing of the foreclosure action, borrowers could reinstate their loan by taking advantage of the right-to-cure period granted by state law,

and pay off the defaulted amount. Additionally, a borrower could sell their property to a third party, pay off the loan, and avoid having a foreclosure on their credit history, or a third party could buy the property at the end of the pre-foreclosure period.

If foreclosure is inevitable, a homeowner may decide to permit the lender to take possession of the property through a written agreement (deed in lieu of foreclosure) with that lender.

Our agency cannot represent consumers in court proceedings. Therefore, since foreclosure is a legal matter, our agency recommends that you obtain an attorney immediately to protect your legal interests.

### **What Happens in a Maine Foreclosure**

**Before a foreclosure can begin, a borrower must receive a default notice. The borrower then has 30 days in which to pay the full amount in default, plus fees and interest, before the lender may begin foreclosure proceedings.** If this amount is not paid within the allotted time, the lender may begin the foreclosure process by filing the appropriate court documents and serving them on the borrower. If the borrower has a legal defense to the court action, the case can go to trial. If the court rules for the lender, the borrower has ninety days to stop foreclosure proceedings by paying the entire unpaid balance on the loan. The pre-foreclosure period can last six or seven months, and the entire foreclosure process can take up to nine months.

### **What to Do When Facing Foreclosure**

Generally, the only action that will end foreclosure proceedings is a repayment of the debt. **If you fall behind in mortgage payments and are facing foreclosure, don't let yourself feel hopeless, and DON'T ignore the lender's letters or phone calls. Ignoring the problem won't make it go away.** Contact your lender as soon as you realize your payments are going to be late, and tell them about your circumstances. A consumer may also seek financial counseling or legal assistance. Financial problems rarely resolve themselves, so don't delay in calling the lender to discuss payment options. Some mortgage lenders are willing to consider forbearance (delay in payments) or a restructuring of the loan, if the lender believes the consumer will be able to resume making timely payments in the near future.

## Bankruptcy

Bankruptcy is the legal process through which individuals with an established inability or impairment to pay their creditors can pay off some or all of their debts under the **protection of a bankruptcy court**. Bankruptcy allows debtors to have many legal obligations discharged through the liquidation and reorganization of their debt. The primary purposes of bankruptcy are to both relieve the debtor of most debts and to repay creditors in an orderly manner by liquidating the consumer's non-exempt assets, with the bankruptcy court or a trustee distributing the proceeds to creditors.

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### **TYPES OF BANKRUPTCY**

#### **Chapter 7: Basic Liquidation for Individuals and Businesses**

Through Chapter 7 Bankruptcy, a debtor surrenders his or her non-exempt property, and the proceeds from this liquidation of property are distributed to creditors. In exchange, the debtor is legally discharged of most debt (excluding certain debts such as child and spousal support, some taxes, etc.) Chapter 7 relief is available only once in any eight-year period.

#### **Chapter 11: Rehabilitation or Reorganization**

Chapter 11 Bankruptcy is a form of reorganization used primarily by business debtors, but sometimes used by individuals with substantial debts and assets. A Chapter 11 filing allows a company to stay in business while the bankruptcy court supervises the reorganization of the business's contractual obligations.

#### **Chapter 13: Rehabilitation with a Payment Plan for Individuals with a Regular Source of Income**

In Chapter 13 Bankruptcy, the debtor retains possession of most assets, but devotes a portion of future income to repaying creditors. The debtor is generally allowed 3 to 5 years for repayment, and the amount of payment and period of repayment are unique to each consumer's circumstances.

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Bankruptcy is governed by the federal law found in Title 11 of the United States Code. The bankruptcy court is a federal court. **The District of Maine has two court locations where you may file, depending on your county:**

#### **Portland**

(207) 780-3482

*USBC, District of Maine*

*537 Congress Street, 2nd Floor*

*Portland, ME 04101*

#### **Bangor**

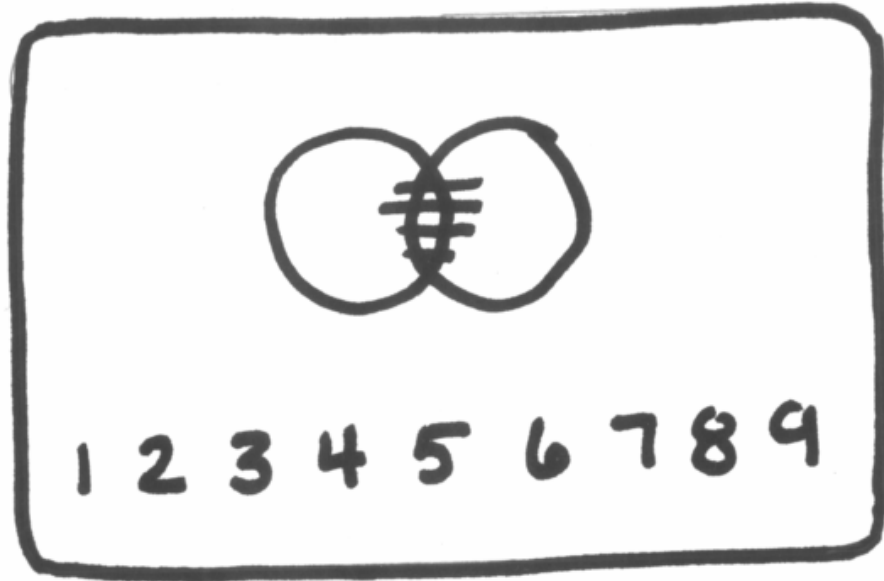
(207) 945-0348

*USBC, District of Maine*

*202 Harlow Street, 3rd Floor*

*Bangor, ME 04401*

**\* Since bankruptcy is a legal, rather than a regulatory matter, if at all possible, consumers should hire an attorney to represent their interests in the bankruptcy proceeding.**



## **Chapter Ten**

### **Selected Federal and Maine Consumer Credit Protection Laws and Regulations**

#### **SELECTED FEDERAL REGULATIONS**

##### **- Regulation B: Equal Credit Opportunity Act (ECOA) -**

Lenders are prohibited from discriminating against borrowers based on age, sex, marital status, religion, race, color, national origin, or receipt of public assistance. Regulation B also prohibits discrimination if consumers make a good faith exercise of any of their rights under any federal consumer credit laws. Regulation B additionally requires that a lender provide an applicant with a written denial notice (adverse action) within 30 days of their loan application date.

##### **- Federal Reserve Board Regulation M: Truth in Leasing Act -**

“The Truth in Leasing Act” governs consumer lease transactions such as auto leases. For any consumer leases of \$25,000 or less, and for leases longer than four months, the consumer must receive the following disclosure:

- The amount (\$) due at lease signing
- The monthly payment amount
- Other charges such as: early termination fees, charges for excessive vehicle wear/mileage, reconditioning charges, and purchase option at the end of the lease

As is the case with renting, consumers who lease a vehicle don't actually own the car or truck in question. Unlike renting, the consumer (called the lessee) must insure the vehicle during the entire term of the lease. Auto leasing is not for everyone. Some consumers who put relatively few (10,000/year or less) miles on their vehicles could be potential lease customers, oftentimes electing to swap their vehicle and lease another brand new car or truck at the end of their 2-3 year lease term. Our agency has also heard multiple stories from lessees who have paid substantial penalties for exceeding the maximum mileage allotments allowed in their lease agreement.

Ask the lessor questions before committing to a lease, and get promises in writing. Attempt to negotiate (down) the initial capitalized cost of the



vehicle in question. Remember, the lower the price, the lower your monthly payments!

### **- Regulation Z: The Truth in Lending Act -**

Shoppers for consumer credit are provided with a "measuring stick" to compare loan rates/fees from one creditor or lender to another: the Annual Percentage Rate (APR). This important provision of REGULATION Z allows consumers to shop for credit by simply comparing APRs from one lender to another. For mortgage borrowers, the APR must include certain prepaid finance charges like points and other fees which are added to the percentage. For example, with a mortgage loan, the note rate could be 6.50% and the APR 6.98%. For other loans (auto, boat, personal, etc.) the note rate and APR are almost always identical (example: auto loan interest rate 9.99%, APR 9.99%). REG Z also allows some mortgage borrowers to rescind or cancel a transaction (home equity loans/lines of credit most frequently have this protection since consumers are putting their homes "on the line" as collateral). REG Z also requires specific disclosures to the consumer at closing so that costs such as the finance charge, total of loan payments, and monthly payment amount are clearly understood by the consumer before he/she becomes indebted by signing the loan documents.

- **REMEMBER:** take the time to shop for the lowest APR when applying for a credit sale or loan!

## **SELECTED MAINE LAWS**

### **- Credit Card Restrictions: Title 9-A M.R.S.A §8-303 -**

"No seller in any sales transaction may impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check or similar means." Essentially, this law prohibits store owners from adding an extra fee to consumers who choose to utilize credit cards when making purchases. Each year, the Bureau of Consumer Credit Protection receives several consumer inquiries alleging the illegal imposition of a surcharge by a Maine merchant. (Note: The law does not prohibit the merchant from offering a discount for cash purchases).

### **- Maine Funded Settlement Act: Title 33 M.R.S.A, Chapter 9 - Subchapter 1-A -**

This Act governs the funding of mortgage loans at or around their closing date. Lenders must provide funds to the settlement agents at or before the mortgage's closing. In the case of a mortgage loan that has a rescission period, funds must be made available prior to noon on the first business day

after the rescission period (3 days after the closing date; Sundays do not count).

This Act was created due to the Bureau of Consumer Credit Protection's experience with of lenders that failed to provide loan proceed checks in a timely manner. Violation of this act can result in a court award of between \$250 and \$1,000, plus court costs and reasonable attorney's fees.

**- Mortgage Discharge Time Limits: Title 33 M.R.S.A, Chapter 9, §551 -**

Within 60 days of a mortgage payoff, lenders must record a valid and complete release of the paid mortgage to establish their former borrower's record of ownership. After the expiration of 60 days, damages for failure to follow this Act can result in penalties of \$200/week up to an aggregate amount of \$5,000.

This Act was created in response to consumer complaints fielded by Bureau of Consumer Credit Protection staff from frustrated consumers whose mortgage loans were not discharged in a timely manner.

**-Protection of Social Security Numbers: Title 10 M.R.S.A, Chapter 208-**

"Except as otherwise provided in federal or state law, a person, a corporation or other entity may not deny goods or services to an individual because the individual refuses to provide a Social Security number." However, the law contains several exceptions, including lenders, landlords, insurance companies, healthcare providers, and employers conducting background checks, who have the right in certain situations to request the Social Security number from an individual.

**- Budget Planning Companies: Title 17 M.R.S.A, Chapter 29 -**

**&**

**- Debt Management Services: Title 32 M.R.S.A, Chapter 8-A -**

Any company that makes contracts with debtors to accept and then distribute funds to a debtor's creditors must be licensed as a debt management service provider (credit counselor) with the Bureau of Consumer Credit Protection. Maine lawyers, banks, and supervised lenders such as mortgage companies are exempt from this rule.

*Warning:* Licensed companies must post a \$50,000 bond; and are examined by the Bureau of Consumer Credit Protection on a regular basis. Our agency deals with many consumer complaints that result when Maine citizens enter into contracts with unlicensed debt settlement or credit counseling companies that they have found on the Internet. Be a safe and smart consumer and visit the "Roster" section of the Bureau of Consumer Credit

Protection's website ([www.Credit.Maine.Gov](http://www.Credit.Maine.Gov)) to see if the Debt Management Service Provider (credit counseling company) you are considering is licensed!

**- Pawnbroker Act: Title 30-A M.R.S.A, Chapter 183 -**

A pawnbroker may not directly or indirectly receive a finance charge of greater than 25% per month on the part of a loan that is \$500 or less, nor more than 20% per month on the part of a loan that is more than \$500, made on property pawned. Pawnbrokers may contract for and receive a minimum charge of not more than \$2.50, notwithstanding the fees in the previous sentence. No additional fees, other than those mentioned above, are allowed.

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**Bureau of Consumer Credit Protection at Your Service:**

If you are a Maine citizen with questions pertaining to these or other consumer lending laws and regulations, please do not hesitate to contact the Bureau of Consumer Credit Protection via our consumer hotline at **1-800-332-8529**. TTY (for hearing impaired) 1-888-577-6690.

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## **The Department of Professional and Financial Regulation “Consumer Assistance Services”**

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The **Maine Bureau of Consumer Credit Protection** is an agency within the State of Maine Department of Professional and Financial Regulation (PFR). Below please find a listing of the other agencies within PFR that provide consumer assistance services.

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**Maine Bureau of Insurance:** 1-800-300-5000

TTY: 1-888-577-6690

The regulator of the insurance industry in Maine

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**Maine Bureau of Financial Institutions:** 1-800-965-5235

TTY: 1-207-624-8563

Regulation of state-chartered financial institutions (banks, savings banks, savings and loans, credit unions and nondepository trust companies).

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**Maine Office of Securities:** 1-877-624-8551

TTY: 1-207-624-8563

This agency regulates securities, broker-dealers and their product/investment offerings.

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**Maine Office of Licensing and Registration:** 1-207-624-8603

TTY: 1-888-577-6690

“OL&R” regulates over 100,000 professionals working in licensed professions in Maine including: accountants, architects, electricians, land surveyors, manufactured housing professionals, plumbers, real estate appraisers and real estate professionals.

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## Glossary of Financial Terms

**A-Credit:** Borrowers that have the "best" credit fall under this category. High credit scores, low debt-to-income ratios, and high down payments all equate to an A-Credit applicant. These borrowers *potentially* receive the best loan rates – if they comparison shop for APRs!

**Annual Percentage Rate (APR):** The APR is the cost of credit expressed as a yearly rate. Determining the APRs from two or more lenders allows consumers to effectively comparison-shop for credit. APR disclosures to consumers are required under federal Truth in Lending statutes and “Regulation Z.”.

**Balloon Payment:** A balloon payment is a large, final payment due at the end (last payment) of a loan’s term.

**Bi-Weekly Mortgage:** A bi-weekly mortgage loan requires payments every 14 days. Example: If a borrower's monthly mortgage payment was \$1,000, in a bi-weekly format, he or she would pay \$500 every two weeks (the equivalent of 26 half-payments or 13 full payments each year.) Because of this, bi-weekly mortgages amortize or "pay off" well before their loan's full term. A 30 year fixed rate bi -weekly mortgage pays off in full in just under 24 years! Consumers should only consider this type of mortgage if they have the financial capacity to fund that extra (13th) full payment each year, and should also determine whether they will pay extra fees for this “service”.

**Cash-Out:** When refinancing their mortgages, consumers can receive “cash” at closing. In order for borrowers to qualify for this option, they must have equity, meaning their home and land is worth more than the total mortgage amount against their property. While a “cash out” refinance is an attractive option because it puts funds in the borrower's pocket, it also increases the amount borrowed and therefore, the monthly payments.

**Charge Card:** A charge card is a plastic card with a magnetic stripe that requires payment in full each billing cycle. Like a credit card, funds in the form of a line of credit are provided by the card issuer.

**Collateral:** Collateral is property the borrower pledges to the creditor in case of loan default (repossession, foreclosure).

**Cosigner:** A cosigner is a second individual (not necessarily a relative), who signs/guarantees a loan contract and assumes equal responsibility, with the primary borrower, for loan repayment.

**Credit Life and Disability Insurance:** Insurance offered to loan applicants that pays the monthly payments on their debt if they become disabled, or pays off the balance of their debt if they die before completing the payments. Maine lenders cannot require this coverage as a condition of granting a loan request.

**Debit Card:** A debit card is a plastic card, which looks similar to a credit card, that consumers may use to make purchases, withdrawals, or other types of electronic fund transfers. Funds are immediately drawn from the consumer's checking account.

**Debt Consolidation Loan:** Consumers who are faced with multiple debts frequently seek the assistance of a lender to convert those obligations into one, larger loan. Many consumers who find themselves "swamped" with credit card debt convert multiple high APR cards to a single loan with a lower interest rate. Lenders are increasingly asking potential borrowers to secure these loans with real estate (a first lien "cash-out" refinance or a second mortgage/home equity loan) due to the size of the loan and the risks involved. Consumers who pledge their homes as collateral on consolidation loans face the possibility of losing their homes to foreclosure if they cannot make timely payments.

**Debt-to-Income Ratio:** Lenders use this ratio to calculate the effect that a new loan payment will have on an applicant's finances. The lender totals the borrower's current monthly debts (mortgage payments, rent, student loan payments, auto loan payments, credit card payments, etc.), adds the potential new loan payment, and divides this amount by the borrower's net or gross monthly income. Items such as utility bills and groceries are not considered monthly debts. When a new payment replaces an old payment, the old payment is not included in the monthly debt calculation. For example, if a consumer currently has a \$400 monthly payment on a vehicle, and then trades it in, and the monthly payment for the new car or truck is \$500, the lender will only include the new payment amount in the debt-to-income calculation.

**Deficiency Balance:** When the proceeds of the sale of collateral after a default in a secured loan scenario is not enough to pay off the loan's principal, a deficiency balance results. The borrower generally remains liable to repay this outstanding dollar amount.

**Direct Loan:** A loan in which money is loaned directly to a consumer, who uses the funds to purchase an item. (Compare to “indirect loan”.)

**Divorce Decree:** A divorce decree is a court’s legal ruling that assigns obligations for the payments of various debts. Any debts held jointly may be primarily assigned by the decree to one party. However, despite the judge’s order, *both* parties remain legally liable to the creditor on joint debts due to the contractual language contained in the signed (original) loan documents.

**Finance Charge:** The finance charge is the total dollar amount that the interest associated with a loan will cost the borrower.

**Identity Theft (Credit):** Identity theft is the unauthorized taking of personal and/or financial information that identifies the consumer, which is used to apply for credit in the victim’s name. For instance, a thief may obtain your name and Social Security number, and then open loan accounts in your name. Consumers who are victims of identity theft have several protections available, including placing a “fraud alert” on their credit reports, or even imposing a “file freeze” preventing any creditor from viewing their credit report. The Federal Trade Commission (FTC) offers an “Identity Theft Hotline” (1-877-438-4338) for consumers to report I.D. theft, and our office has information posted on [www.Credit.Maine.gov](http://www.Credit.Maine.gov).

**Indirect Loan:** A consumer signs a “credit sale” contract, and the contract is then sold (assigned) to a finance company.

**Installment (Closed-End) Loan:** This type of loan features regular payments (usually monthly), and an established term/end date. Auto loans, personal loans and first mortgages are good examples of closed-end installment loans.

**Loan Acceleration Clause:** When is a 60-month car loan due in full prior to the due date? When the borrower is severely late making monthly payments! Lenders have the contractual right to accelerate, or move up the date when a loan must be paid in full, if you default on payments. If the delinquent borrower does not “cure” or eliminate a past due amount following receipt of a right-to-cure notice, the lender generally has the right to demand payment of the loan in full (*i.e.*, accelerate and demand the total amount due).

**Loan Amortization:** This term refers to the amount of time it takes to pay off a loan. For example, assuming regular payments are made, a 30-year mortgage fully amortizes in 360 months.

**Loan (Mortgage) Brokers:** These individuals/companies serve as liaisons between loan applicants and lenders. Loan (Mortgage) Brokers find financing for applicants through their established lender contacts, and receive fees from the borrower/and or lender for arranging credit. In Maine, the majority of loan brokers are in the residential mortgage field. The Bureau of Consumer Credit Protection licenses and regulates loan brokers in Maine.

**Loan Origination Fees:** Loan origination fees are charges made by the lender or loan broker for processing a loan application/transaction. These fees are often assessed as points or percentages of the loan amount. (See “Points”)

**Loan Term:** The loan term is the amount of time that is set for the repayment of an installment loan. The term is usually expressed in months or years. When on-time, full payments are made, the loan's balance should be \$0.00 at the end of the term. Auto loan terms range from 12-84 months, construction loans for 6-18 months, and mortgage loans 10-30 years.

**Mortgage:** A mortgage is a document signed by a borrower when a home loan is closed that gives the lender a right to take possession of the property (by foreclosing) if the borrower becomes severely delinquent and fails to pay off the loan.

**Mortgage Company (Supervised Lender):** A Supervised Lender is any company authorized to make or take assignments of supervised loans, either under a license issued by the Bureau of Consumer Credit Protection, or as a bank or credit union. Our agency regulates mortgage companies, and they must be licensed with this office. The Maine Bureau of Financial Institutions regulates supervised financial organizations (banks, credit unions, savings and loans and savings banks).

**Mortgage Deed:** This document shows ownership transfers for a property.

**Mortgage Escrow Account:** Many lenders require their mortgage borrowers to make monthly payments to this special account for the payment of property taxes and homeowner's insurance. When the borrower makes his/her mortgage payments, a predetermined portion is held in reserve for the payment of taxes and insurance. The lender/servicer is required to pay taxes and insurance from this account to satisfy those obligations, and to pay a small amount of interest on the amounts held in escrow.



**Mortgage Grace Period:** Most lenders allow their borrowers to make payments up to two weeks after their due date before imposing a late fee. Consumers are advised to read their contracts to learn of any grace periods, and should understand that while their lender may have granted them this period, the interest on the mortgage continues to accrue each day (per diem interest) that the loan carries a principal balance.

**Mortgage Rate Locks:** Some lenders allow mortgage loan applicants to pay a fee to “lock in” or freeze a specific mortgage interest rate several weeks prior to closing. In a period of rising interest rates, rate locks can be a valuable option. However, rate locks may be a waste of money if rates drop prior to the mortgage closing.

**Mortgage Refinance:** This occurs when an existing mortgage borrower “exchanges” their current mortgage for another one. Some borrowers refinance for cash out for lower rates or for a lower monthly payment. Other borrowers refinance for a lower rate, keep essentially the same monthly payments, and elect to shorten their loan term. Smart consumers weigh the costs involved (application and other processing/closing fees) against the savings the lower rate will produce *before* committing to a refinance.

**Points:** A loan processing fee that represents a percentage (1 point = 1%, 2 points = 2%, etc.) of the loan proceeds. Two points assessed on a \$100,000 mortgage would equal \$2,000. Points are generally associated with residential mortgage loans, and because they are a form of interest, lenders must include them in the APR.

**Predatory Lending:** While there are many definitions for predatory lending, predatory lenders are basically lenders who take advantage of borrowers with less than favorable credit. Predatory loans are characterized by high rates and high fees. Some predatory lenders inflate the income/appraisal figures in order to ensure an applicant’s approval (this can be characterized as mortgage fraud).

**Principal Balance:** The loan’s current unpaid balance.

**Principal & Interest:** Most loan payments are distributed between two categories: principal and interest. When borrowers sign closing documents, they agree to pay back the amount borrowed at an established rate of interest. When payment is received, interest is paid first, and the remainder of the funds is applied to the loan's principal, lessening the amount owed.

**Property Appraisal:** Mortgage lenders require that a third party establish the value of a property prior to making a loan decision. Appraisers must follow professional standards and procedures in arriving at home values. Appraisers in Maine are subject to oversight (licensing and complaint investigations) by the Board of Real Estate Appraisers (1-207-624-8603). Please direct your appraisal/appraiser questions or complaints to this Board.

**Rescission:** The cancellation, or “tearing-up,” of a contract. Some consumer loans (home equity loans in particular) feature a 3-day right of rescission during which time the borrower can cancel the loan without penalty. Auto credit sales are not subject to rescission, despite a common belief that such a protection exists.

**Revolving (Open-End) Loan:** These types of loans feature a line of credit that the borrower draws down, and require minimum payments each month. Unlike installment loans, revolving loans have no fixed term/end date. Credit cards and home equity lines of credit (HELOCs) are two good examples of revolving, open-end loans.

**Secondary Mortgage Market:** Many lenders provide the funds to close a mortgage loan, and then sell the closed loan to a secondary source called the “secondary mortgage market.” Mortgages are turned into investments (securitized) and traded. Lenders that sell their mortgages to the secondary market receive a percentage of their funds back (while keeping the fee income charged to the borrower during the application process), and use those funds to make additional loans.

**Security Interest:** The creditor’s right to take property or a portion of property offered as security.

**Sub-Prime Loans/Lending:** Consumers who have poor credit histories or high debt-to-income ratios oftentimes pay *above-market interest rates* for loans. For more information about loan pricing and risk based lending, consult Chapter One of this booklet.

**Telemarketing Fraud:** Telemarketing fraud often consists of unsolicited telephone calls from criminals who try to trick consumers into disclosing personal information such as their bank account, credit card, and Social Security numbers. Many fraudulent telemarketing calls (and sometimes newspaper advertisements) are placed by Canadian scammers. These “offers” contain promises of: unclaimed lottery winnings, low-rate loans and other non-existent items, in exchange for the wiring of funds (from \$100 to several thousand dollars) to their location. PhoneBusters Canada (1-888-495-8501, [www.Phonebusters.com](http://www.Phonebusters.com)) is a national anti-fraud call center, jointly operated by the Royal Canadian Mounted Police and the Ontario Provincial Police that is charged with combating illegal telemarketing fraud originating from Canada.

**Title Search:** A title search is the process of examining public records to ensure that the seller is the recognized owner of the real estate and that there are no unpaid liens or other claims against the property.

**Unlicensed Companies:** If you are a Maine consumer and are uneasy about an initial contact with a mortgage company, non-bank lender, credit repair company, debt consolidator, loan/mortgage broker, Internet lender, debt collector, credit counselor, rent-to-own company, or payday lender, please do not hesitate to contact the Maine Bureau of Consumer Credit Protection (1-800-332-8529), or view our website’s “roster” link at [www.Credit.Maine.gov](http://www.Credit.Maine.gov), to verify that the company is licensed.

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## **Filing a Complaint**

The Maine Bureau of Consumer Credit Protection administers state laws relating to consumer credit, debt collection, credit reporting, and other non-bank consumer financial activities. To file a complaint online, visit our website at <http://www.credit.maine.gov>.

Our office mailing address is:

**Bureau of Consumer Credit Protection  
Department of Professional & Financial Regulation  
#35 State House Station  
Augusta, ME 04333-0035**

or, call our consumer hotline at: **1-800-332-8529**  
**TTY 1-888-577-6690**

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Be sure to order other free Bureau of Consumer Credit Protection credit-related booklets by contacting our agency:

- ***Downeaster Pocket Credit Guide***: This handy booklet offers credit shopping advice and features extensive rate tables used for furniture and appliance financing, home improvement loans, auto loans and mortgage loans.
- ***Downeaster Guide to Debt Collection and Repossession***: Provides an explanation of rights and duties under the Fair Debt Collection Practices Act, and includes answers to frequently-asked questions about repossession.
- ***Downeaster Guide to Cut-Rate Auto Financing***: Shopping for a new or used car is made easier with this guide to dealer mark-ups, rebates, financing, interest rates, and credit insurance. Includes helpful rate tables.
- ***Downeaster Guide to Credit Bureaus and Credit Reports***: This booklet answers the twenty-two most commonly-asked questions about Maine's Fair Credit Reporting Act. An order form for free credit reports is attached.
- ***Downeaster Guide to Consumer Rights***: This guide provides an extensive listing of your rights in a variety of consumer transactions, including: Credit reports, debt collection, mortgage companies, loan brokers, non-bank ATMs, rent-to-own, debt management companies, and more!

\*These guides are **FREE** to Maine residents, and only \$2.00 each for out-of-state individuals. Checks can be made payable to our agency.

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**Please Note:** *This booklet is not intended to be a complete discussion of all statutes applicable to consumer credit. If you require further assistance, consider contacting an attorney or our agency for additional help.*

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The State of Maine Bureau of Consumer Credit Protection