LENDING & MORTGAGE

Payday & Title Loans-Advanced Fee Loans-Predatory Lending-Reverse Mortgage-Property Tax Freeze

Decisions about credit and loans involve a number of factors, including how much money you need, what terms you're offered, and who is behind the offer. If you are wondering whether offers of credit and loans are on the up and up, remember, transaction such as these will have a significant impact on your budget.

PAYDAY & TITLE LOANS

A payday loan is a type of short-term borrowing where an individual borrows a small amount at a very high rate of interest. The borrower typically writes a post-dated personal check in the amount they wish to borrow plus a fee in exchange for cash. The lender holds onto the check and cashes it on the agreed upon date, usually the borrower's next payday. These loans are also called cash advance loans or check advance loans.

Title loans are a popular type of short-term loan that afford borrowers a small amount of money for only a small amount of time. With a title loan, lenders place a lien on a car owner's car title in exchange for a loan; they also collect the hard copy of the vehicle's title. The lien is then removed when the loan is paid off. When car or vehicle owners find themselves in a tough financial situation, title loans allow them to get a small amount of money quickly in order to better their economic position.

Companies selling payday loans and title loans often charge high fees and interest rates. Consider other ways to borrow money and compare the costs between your options.

ADVANCED FEE LOANS

When you need money, a promise to give you a loan or help you get one (even if you have a bad credit record) may seem like the answer to your prayers. But beware, it could be a crook trying to steal your money, not lend you money. Consumers nationwide continue to be victimized by advance fee loan scams that demand up-front fees for personal loans that almost always never get delivered.

Most people stumble upon the scam online or learn about the bogus loan offer from ads in

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local publications and online through classified sites. Often, an advance-fee loan scam website will be created and taken down within a couple weeks only to be replaced by another operating under a different name and fake business address.

Here are some tips to avoid becoming a victim:

- **Don't pay upfront**. It's against the law for telemarketers to charge any fees in advance if they guarantee or claim that it's likely that they can help you get a loan.
- **Don't fall for promises that you'll get a loan regardless of your credit problems**. If you have poor credit or haven't established a good credit record yet, it's unlikely that anyone will lend you money. Your credit history is one of the main things that legitimate lenders use to decide if you are a good credit risk.
- **The lender has a bad reputation –or none at all**. Most trustworthy lenders have an established track record; be wary if you can't find much information about the lender online. Always check out a lender - or any business - with the Attorney General's Consumer Protection Division at 1-800-300-1986 before you finalize the deal.
- **Do business with licensed companies**. Ask the State Banking Division 605-773-3421 about the licensing requirements for lenders and loan brokers, and find out if the company has complied.
- **Have proof of what you were promised.** Get the agreement in writing or in an electronic form that you can use to document the terms and conditions. Make sure you understand all requirements before entering into any agreement.
- **If you have credit problems, get counseling**. Consumer Credit Counseling Services (CCCS) can provide advice about how to build a good credit record and may be able to make payment plans with your creditors.

PREDATORY LENDING

As a homeowner looking for a mortgage you need to protect yourself from predatory lending practices. Predatory lenders are any lender that takes advantage of homeowners for financial gain by imposing unfair and abusive loan terms on borrowers.

The following are three examples of predatory lending practices you will want to avoid:

- **Refinancing Required in the Mortgage Contract.** There are lenders that require that a mortgage be refinanced at periodic intervals. This could come in the form of a balloon payment or blatant automatic refinancing requirements.

  Mortgage lenders profit from required refinancing by charging fees. These fees are usually paid at closing; however, some lenders finance the closing costs by tacking them onto the loan's principal balance. When this happens the interest paid on those finance charges can quickly become extremely expensive. These fees do nothing to help the homeowner; they only serve to line the pockets of the mortgage lender.
- **Requiring Additional Services to Qualify.** Some mortgage lenders require homeowners to purchase additional services to qualify for the loan. Requiring the purchase of credit life insurance, also called loan life insurance, is a predatory practice many

mortgage lenders are guilty of. Do not let your mortgage lender sell you an insurance policy. Predatory lenders practice high pressure sales tactics on overpriced insurance policies.

- **Excessive Mortgage Lender Fees.** One example of excessive lender fees is the so called "no closing cost" mortgage. Lenders boast that the mortgage will save you $2,000-$3,000 in closing costs. What they bury in the fine print is the fact that they are charging as much as 2%-3% more for this loan than if you had paid the closing costs. This higher interest rate will cost you 2-3 times more over the life of the mortgage.
  Unscrupulous mortgage lenders hide excessive fees in their appraisals fees, at torney fees, processing, origination, and administrative fees. Excessive prepay ment penalties are another example of predatory lending practices.

To avoid becoming a victim of predatory lending practices, do your homework, and research mortgage lenders and their offer. Read the contracts carefully and understand everything before signing. Remember you can back out of a loan at any time before you sign it.

REVERSE MORTGAGE

A reverse mortgage is a special type of home equity loan that allows a homeowner to convert home equity into cash, either through a lump sum or through monthly payments. The amount you can borrow depends on several factors, including how much your home is worth, current interest rates, the age of the homeowner(s), and the terms of the loan.

Depending on the product, a reverse mortgage may provide you with cash to supplement your retirement income. It can also help you with expenses such as home improvements and health care costs. But it can also be complicated, confusing, and costly.

Under a reverse mortgage, you still own the home and the bank pays you instead of you making monthly payments to the bank. The loan does not generally have to be repaid until the last surviving owner moves out, sells, or dies. At that time, the lender will sell the home to pay off the reverse mortgage.

The following are types of reverse mortgages:

- **Home Equity Conversion Mortgage (HECM).** This is a reverse mortgage that's insured by the Federal Housing Administration. The homeowner must be at least 62 and live in the home. The homeowner must own the home outright, or have a low mortgage balance that can be paid off at closing time with proceeds from the reverse loan.
- **Proprietary Reverse Mortgage.** This is a private loan backed by commercial institutions, such as a bank, a mortgage company or other private lender. It's generally more expensive than other types of reverse mortgages or traditional home loans.
- **Single Purpose Reverse Mortgage.** This type of loan may be offered by a state, local government, or non-profit agency. The loan may be restricted to specific types of home repairs, home improvements, or paying property taxes. This is generally the least expensive of the three types of reverse mortgages.

If someone is inheriting your home, they must repay the loan in order to take possession. If the amount owed is equal to the home's value, your heirs would not inherit the home as it would revert to the lender. Also, with lump sum payments, the interest charges are added each month. Over time the total debt owed can far surpass the original loan. However, most mortgages have a "nonrecourse" clause, which prevents you or your estate from owing more than the value of your home when the loan becomes due and the home is sold (though if your heirs would like to retain ownership, they generally must repay the loan in full, even if the loan value is greater than the home's value).

- **Understand your options and rights.** Know the benefits, your costs, and the loan terms before entering into a reverse mortgage agreement. A reverse mortgage may not be your best option if you need a small amount of money for a limited time. This is why it's so important to get good advice, look at your options, and comparison shop. Always consider consulting with a lawyer or a trusted financial advisor before entering into this complicated type of loan.

Here are some tips to remember when considering a reverse mortgage:

- Some loan agents may try to aggressively sell you a reverse mortgage product. Beware of high-pressure sales tactics, so-called "educational seminars," sales pitches that instill fear about nursing home finances, and sales pitches that are tied to other investments. Be cautious of "mortgage consultants" who push for costly renovations or specific contractors.
- You may see advertisements on TV with celebrities endorsing reverse mortgages. All these guarantees make the loans sound as safe as the celebrities promoting them promise. But there's something they overlooked. You can keep the house only as long as you can pay your property taxes and homeowners insurance. If you run out of money and let these bills slide, you're in default, and the bank can foreclose on your house.
- Before applying for an HECM, federal law requires that the borrower must meet with an independent government-approved housing counseling agency (information at www.HUD.gov). A private lender may also require counseling.
- You have the right to cancel within three (3) business days after closing the loan. To cancel you must do so in writing. Send your letter by certified mail, and ask for a return receipt. Keep copies of all documents and letters. Contact the Attorney General's Office, Division of Consumer Protection Division immediately if you think you've been scammed.

PROPERTY TAX FREEZE

This program offers eligible senior citizens and disabled individuals a once-a-year refund of sales or property taxes. The program is funded through an annual appropriation from the South Dakota Legislature. Property is the house, garage and the lot upon which it sits or one acre, whichever is less.

To be eligible:

- You must be at least 66 years old on or before January 1 of the current year or Disabled during any part of the year. Disabled means you're qualified to receive Social Security Disability benefits, Supplemental Security Disability benefits, or you're a veteran with a rated disability of 60% or higher.
- You must have been a South Dakota resident for the entire previous year.
- You must meet the annual income requirements set by the Legislature.

To apply: Applications are accepted from May 1 to July 1. Please submit your application to the Department of Revenue, Special Tax Division, 445 East Capitol Avenue, Pierre, SD 57501-3185.

Refunds: Refunds are calculated based on your income; the Division begins issuing refund checks at the end of August.

Assessment Freeze for the Elderly & Disabled

This program reduces the assessed value of the homeowner's property. Property is the house, garage and the lot upon which it sits, or one acre, whichever is less.

To be eligible:

- You must be 65 years of age or older OR disabled (as defined by the Social Security Act).
- You must own the home or retain a life estate in the property.
- Un-remarried widow/widowers of persons previously qualified may still qualify in some circumstances.
- Have resided for at least 200 days of the previous calendar year in the single-family dwelling.
- Income and property value limits apply.

To apply: Applications are available online or at any county Treasurers office beginning in January of each year. Applications must be submitted annually to your County Treasurer on or before April 1st.

Property Tax Reduction Municipal Taxes for the Elderly & Disabled

This program reduces your city property taxes the year following your application. Property is the house, garage and the lot upon which it sits, or one acre, whichever is less.

To be eligible:

- You must be 65 years old or older or disabled (as defined by the Social Security Act).
- You must own the property.
- Un-remarried widow/widowers of persons previously qualified may still qualify.
- Income limits apply.
- This program is only offered in those cities that have passed ordinances allowing the reduction. (As of July 1, 2003, only Rapid City has such an ordinance.)

To apply: Applications are available online or at any county courthouse beginning in January of each year. Applications must be submitted annually to your County treasurer on or before April 1st.

For more information about a property tax relief programs, contact your County Treasurer or the South Dakota Department of Revenue, Property Tax Division, at 1-800-829-9188.