

Need a loan?

Make sure you don't get cheated!



This booklet is for people who **own or are buying a home** and need a loan. The person or company that gives loans is called a **lender**.

Important!

1. Talk to a lawyer or housing counselor **BEFORE** you sign any loan papers. Need help finding a housing counselor? Call HUD at **1-888-466-3487**. It's a free call.
2. **Don't trust anyone who calls or comes to your house to talk you into a loan.** Tell them "No". Most good lenders or credit companies wait for you to come to them. They don't call you or show up at your door.
Don't tell anyone your bank account numbers, credit card numbers or Social Security numbers. **What if someone says they are from the bank or credit card company?** Don't believe them. The bank and credit card companies know your numbers. They don't call and ask you.
3. **You can always back out of a loan before you sign the papers.**
4. Are you borrowing on a home you already live in? Then you have **at least 3 business days to change your mind AFTER you sign papers.** See page 11.

How can you protect yourself from bad lenders?

It is easy to get cheated because lenders use words that are hard to understand. **Don't let anyone talk you into a loan. Before you sign anything, talk to a housing counselor or lawyer.** Ask them to read the loan papers or offers. Getting the wrong kind of loan could put you deeper in debt. You also could lose your home.

Do you own your home? Many lenders want you to get a **mortgage loan**. This means you put your house up as security for the loan. **Security** means they can take your house if you don't pay the loan.

Be careful about getting mortgage loans. Some bad lenders give you a loan they know you can't pay back. When you get behind, they take your house. They sell your home for the money to pay the loan. Often there is no money left for you.

Are you 62 or older and own your home?

You may be able to get a special loan called a **reverse mortgage**. You don't have to repay the loan until you move, sell the house or die. With a reverse mortgage, you **can't** lose your home. But a reverse mortgage uses up the money you have in your house (the equity). What if your loved ones want the house after you die? They will have to pay off the loan



to get the house. Talk to a housing counselor before you get a reverse mortgage.

Protect yourself before you get a loan



1. Talk to a housing counselor. Are you going to promise your house as security for the loan? Then it is very important to find out what kind of loan you need. A housing counselor can help you for **free**.

Do you need help finding a **free** housing counselor? Call HUD at **1-888-466-3487**. They can give you a list of counselors near you. Or you may call Legal Aid at **1-800-238-1443**.

Are lenders already offering you a loan? You should still talk to a housing counselor. The counselor can tell you if the loans are good. The counselor will know if you can get a lower cost loan from a bank.

2. Shop around for the best lender.

- See if you can get a loan from your bank. Or try a credit union or mortgage company. **Don't get loans from people who call you first or come to your house.**
- Use the phone yourself to check out lenders. Ask the lender for names of other customers. Call them to see if they are happy with their loan.



3. Compare loans. Ask several lenders about the best loan you can get.

- **Ask what the annual percentage rate (APR) is.** The APR is the most important thing to look at when shopping for a loan. It shows all the interest, fees and charges you must pay as a yearly rate. Most of the time, **the lower the APR, the less the loan will cost you.** Ask if the APR

will change. What is the highest rate your loan can be? What will the monthly payments be? Don't believe promises that you can refinance the loan before your payments go up.



- **Ask how much the points and fees are.** **Points** are interest you pay up front. **Fees** are costs you have to pay for the paperwork of getting a loan. Points and fees for bank loans usually cost 1% to 3% of the loan amount. **If you are being charged more than 5%, find out why. See if you can get a better deal somewhere else.**

When you apply for loans, get the points and fees **in writing**. Ask for a **"good faith estimate"**. This is a good guess of what the loan will cost you. It will help you compare loans from different lenders. By law, lenders must give you an estimate within 3 days after you apply. What if a lender won't give you an estimate until the closing? Get a loan somewhere else.

- **Ask how long it will take to pay off the loan.** How many years will you make payments on the loan?
- **Ask how much the monthly payment is. Will it stay the same or change?** Decide if you can pay it and all your other bills each month.
- **Ask if there is a balloon payment.** These are loans with small monthly payments. **BUT** they have one big payment at the end of the loan. This big payment is called a **balloon payment**. When the balloon payment is



due, you must pay it. If you can't, you may need another loan. This means new closing costs, points, fees and more interest. **Don't get a loan with a balloon payment.**

- **Ask if you must pay extra if you want to pay off the loan early.** This is called a **prepayment penalty**. It makes you keep a high interest loan. Why? Because paying the loan off early costs too much. How much is the prepayment penalty? Is there a chance you will refinance the loan before paying it off? Then you should probably get a loan with no prepayment penalty.
- **Ask if the interest rate will go up if you miss a payment or pay late.** You might miss a payment or pay late. If you do, some loans make you pay higher interest for the rest of the loan. **Don't** sign a loan agreement that says this.
- **Ask if the loan includes a charge for credit life, disability, or unemployment insurance.** Talk to a lawyer or housing counselor before you get this kind of insurance. This kind of insurance is added to your loan. It costs a lot. Paying it up front makes you pay more interest too.
- **Ask if you have the right to sue in court if the lender does something illegal.** This is called an "arbitration clause". Some loan papers make you give up your right to sue in court. **Don't get a loan if it says you can't sue the lender.**
- **Be careful with loans to pay off all your debts.** They may lower your monthly payments at first. But you



may end up paying more over time. Be careful about adding credit card and other bills to your mortgage loan. **You can lose your home if you can't make the payment.**

4. **Don't trust anyone who promises you easy credit.** A good lender will check your credit before making promises.
 - **Say "No"** to lenders who promise you can't be turned down.
 - **Say "No"** to lenders who want your bank account or credit card numbers. They can cheat you if they get them. They don't need the numbers to check your credit.
 - **Say "No"** to offers that are only good for a short time.
 - **Say "No"** to lenders who let you apply over the phone.
 - **Say "No"** to lenders who offer next-day approval if you pay them some money today. You may never get the loan.
 - **Say "No"** to lenders who ask for up-front fees to cover the first payment and other expenses. You may never get the loan.
5. **Ask questions until you understand everything.** You have a legal right to know:
 - the total cost of the loan
 - all points and fees
 - the annual percentage rate
 - the monthly payments and
 - how long you have to pay back the loan.
6. **Ask the lender to give you a better deal.** Any paper you sign is a contract. Before you sign, you can change anything in a contract you don't like. Can you get a lower annual percentage rate? Will the lender take out a charge you don't want to pay? Will the lender take out something you don't like? If the lender won't change



the contract, maybe you should get a loan somewhere else.

7. **Don't get a loan from someone who:**
- **Tells you to lie or makes you lie** on the loan papers. **Example:** Tells you to lie about how much money you make. **Or** tells you to lie about where your money comes from.
 - Pushes you to apply for a loan or apply for more money than you need.
 - Pushes you to accept monthly payments you can't make.
 - Promises one thing when you apply but changes it when it's time to sign.
 - Says you can't have copies of papers you signed.
 - Doesn't give you all the facts about your loan or tells you not to read the papers.
 - Doesn't call the kind of credit you're getting by its right name. **Example:** calls a one-time loan a "line of credit."
8. **Don't get a loan you can't afford.** Can you make the monthly payments plus your other bills and expenses? If you're not sure, don't get the loan.

9. **Don't agree to or sign anything that doesn't seem right.** Read everything you sign. Make sure all your information is true, including your income, debts and credits.



Don't sign blank loan papers or papers with blank spaces "to be filled out later."

10. **BEFORE signing, get a copy of your loan papers with the final loan terms.** Take the forms home and go over them with a housing counselor or lawyer. Ask about things you don't understand. What if the lender won't let you have a copy? **DON'T sign the loan.**

Protect yourself at the closing. The closing is when you sign the loan papers.

Important! You can always back out of a loan before you sign the papers.

Before you sign any papers, ask the lender to explain anything you don't understand.

Read carefully to see if anything you were promised has changed.



Don't sign a loan agreement that is different from what you thought it would be. **Example:** You are told an annual percentage rate.

But the rate is different at closing and there is no good reason why. Ask for what you were promised. If you don't get it, get a loan somewhere else.

Think carefully before you buy credit insurance. Before you sign, read the papers. Is credit insurance part of the loan? **You don't have to take it.** Talk with your lawyer or housing counselor before you get a loan with credit insurance. **Credit insurance costs a lot.** And it may not even pay off the loan if something happens to you.

BEFORE leaving the lender, get a copy of the papers you sign. They have important information about your rights and payments.

Protect yourself after you sign the papers

Are you borrowing on a home you already live in? **If so, you have at least 3 business days get out of the loan after you sign.** The 3 days, not counting



Sundays, start only **after all 3** of these things happen:

1. The loan is signed
2. You get explanations of all the loan terms in writing
3. You get 2 copies of a paper that explains your right to stop the loan.



If you change your mind, you must tell the lender **in writing**. Then the lender has 20 days to return money

or property you paid to anyone. The lender must give up any right to take your home if you don't pay. You must return any money or property you got from the loan. You might have to get a new loan from someone else.

In some cases, you may have as long as 3 years to cancel. You will need a lawyer to tell you if this is true for you.

Get help if you think you have an unfair loan.

About to lose your house? Call Legal Aid at **1-800-248-1443**. Call right away. There are time limits for fixing some problems. If Legal Aid takes your case, they will help you for **FREE**.

You can call the Tennessee Attorney General's office at **615-741-1671**.

Or call the Tennessee Department of Financial Institutions at **1-800-778-4215**. It's a free call.

You can also call the office of Consumer Affairs at **1-800-342-8385**. It's a free call.

LEGAL AID SOCIETY

OF MIDDLE TENNESSEE AND THE CUMBERLANDS

1-800-248-1443

It's a free call.



NOTE: This information cannot take the place of advice from a lawyer. Each case is different and needs individual attention. 2/04

**Tennessee Legal Aid/
Legal Services Offices**

Legal Aid Society

of Middle Tennessee and the Cumberland

1-800-238-1443

Offices in Clarksville, Columbia, Cookeville, Gallatin, Murfreesboro, Nashville, Oak Ridge, and Tullahoma

West Tennessee Legal Services Jackson Office 1-800-372-8346

Dyersburg Office (731) 285-8181

Huntingdon Office (731) 986-8975

Selmer Office (731) 645-7961

Memphis Area Legal Services

Memphis Office 1-888-207-6386

Covington Office (901) 476-1808

Legal Aid of East Tennessee

Knoxville Office (865) 637-0484

Johnson City Office 1-800-321-5561

Kingsport Office 1-800-821-1309

Chattanooga Office 1-800-572-7457

Cleveland Office 1-800-445-3219