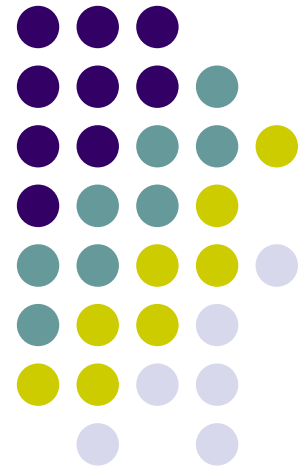


# Money Scams

And How Consumers Are Fighting Back

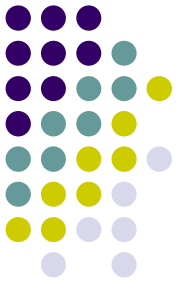
Presented by:  
Norma Garcia, Senior Attorney  
June 2010



**Consumers  
Union**

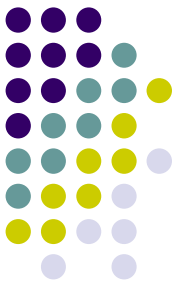
Nonprofit Publisher  
of Consumer Reports

# Financial Services Advocacy Team



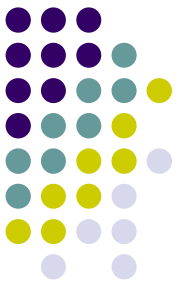
- **Pam Banks**
  - DC lobbyist
- **Lauren Bowne**
  - Credit cards, overdraft, payday loans
- **Norma Garcia**
  - Mortgage lending, California lobbyist
- **Gail Hillebrand**
  - Campaign Manager, debt settlement, CFPA
- **Michelle Jun**
  - Financial privacy, emerging payment methods
- **Tim Marvin**
  - Team organizer
- **Michael McCauley**
  - Communications director

# We work to make the financial services marketplace safe for consumers by:



- Monitoring the financial marketplace for new tricks and traps
- Collaborating with consumers to raise awareness
- Working to pass strong consumer protection laws

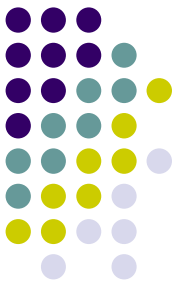
# There has been progress



- Credit CARD Act
- Federal Reserve Board's Overdraft Rule
- Federal and State Gift Card Protections
- Federal and State Protections for Mortgage Holders

**BUT there are new tricks to look out for...**

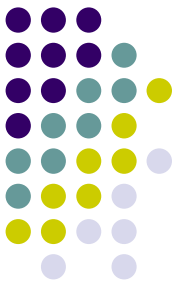
# The Problem of Credit Cards



- Americans owe approximately \$840 billion in revolving credit card debt.
- That amounts to about \$15,000 of debt for each household with credit card debt.
- Six companies account for about 70% of all credit card debt.
- In a 2009 study of the 12 largest credit card issuers, all engaged in practices that would violate the CARD Act.

# The Credit CARD Act

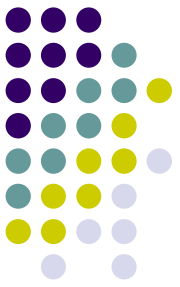
## New Protections



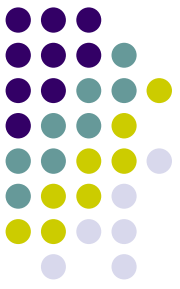
- More notice when the terms change
- Statements mailed earlier
- No rate increases at all during the first year\*
- No rate increases applied to an existing balance\*
- Payments will be allocated more fairly
- Reasonable and proportional penalty fees
- No double cycle billing
- Right to reject changes
- No over limit charges unless you sign up
- Due dates will be the same day each month
- New warnings about minimum payments
- No more fees for paying by phone/internet
- Issuers must consider ability to pay
- Protections for young people

*\*Exceptions do apply*

# What's not covered by the CARD Act?



- Rate increase exceptions  
*(60 days late, variable rates, expired promotional rate)*
- Future rate increases permitted for any reason
- Limited right to cure penalty rates
- No interest rate cap
- No notice for lowered limit or closed account
- Deferred interest promotions

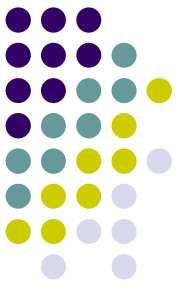


# Practical Credit Card Tips

- Read everything that comes in the mail
- Remember interest rate expiration dates
- Pay on time immediately after a penalty rate
- Watch out for new fees
- Consider rejecting changes
- Pay more than the minimum payment
- Keep balance at 30% of credit limit

# Overdraft Programs

## A form of involuntary credit!



Overdrafts are really high cost short term loans.

- Banks collected \$38 billion in overdraft fees in 2009.
- The median overdraft fee is \$27.
- The average overdraft is \$17.
- This amounts to a 4140% APR.

# Overdraft Loans New Protections



No more fees for covering overdrafts UNLESS:

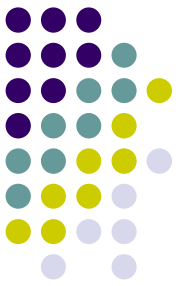
- Bank sends notice and consumer gives **affirmative consent**
- Applies only to ATM and Debit Card purchases

Compliance dates:

August 15, 2010 *for existing accounts*

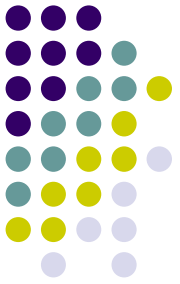
July 1, 2010 *for new accounts*

# Overdraft loans- Still tricky!



- Banks can still manipulate the order transactions clear
- No limit on the # of fees per day/month/year
- No restrictions on sustained overdraft fees
- Not required to disclose fee as APR%
- Fees can be as high as bank chooses
- No required warning at the ATM
- No opt-in required for checks and recurring debits

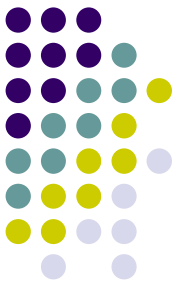
# Practical Overdraft Tips



- Opt Out if possible
- Ask about other options
  - Linked savings account or line of credit
- Sign up for e-mail or text message alerts
- Maintain a small buffer

# Mortgage Foreclosures

## A National Crisis

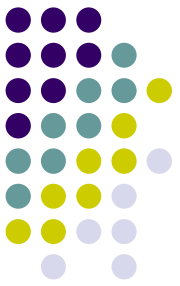


- 1<sup>st</sup> quarter 2010: Nearly 5% of all mortgages in foreclosure
- 2.8 million U.S. properties with foreclosure filings in 2009
- 3.9 million foreclosure filings in 2009
- 21 percent increase from 2008
- 120 percent increase from 2007

Source: Realtytrac.com

# Who is impacted?

## Top 4 States-2009



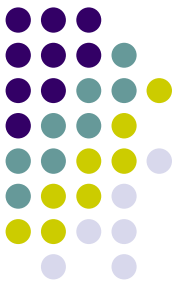
1. Nevada—one in every 10 housing units
2. Arizona-one in every 16 housing units
3. Florida—one in every 17 housing units
4. California –one in every 21 housing units

# Toxic Mortgages

## What are the pitfalls?



- Poorly underwritten
- High interest rates and loan origination fees
- Adjustable rate mortgages
- Negative amortization
- Prepayment penalty fees



# **Faces of Foreclosure**

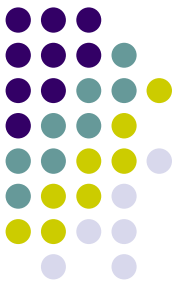
## **Real People, Real Stories**

# **Carl Lee**

<http://www.defendyourdollars.org/video.htm>

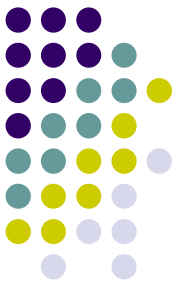
!

# Help on the Way?



- New state legislation, federal regulations and initiatives slow foreclosures
- SB 1137—requires lender/loan servicer to contact homeowner to explore options to foreclosure
- HAMP initiative—March 2009 (voluntary, limited)
- Oct. 2009- New federal regulations became effective for all mortgage lenders, positive step but some key areas not addressed
- Key protection needed: CFPA

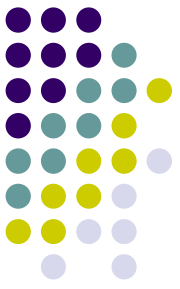
# Reverse Mortgages



- Not your everyday mortgage: complex and costly way to tap home equity
- Who can qualify?
- Growing demographic becoming eligible

# Reverse mortgage

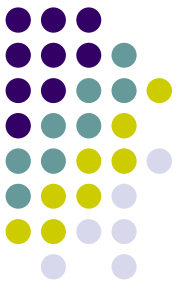
## Tricks and traps



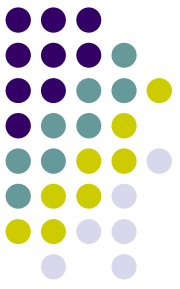
- Other alternatives not explored first
- Sneaky sales tactics
- Fees pile up quickly
- The upsell: costly add-on products
- Taxpayers on the hook: increasing number of federally backed reverse mortgages generating claims against FHA insurance fund

# Reverse mortgages

## More protections needed

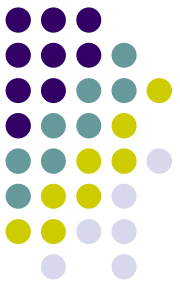


- Strengthen independent counseling requirements
- Improve quality of counseling
- Sellers of reverse mortgages should be required to make sure a loans are suitable for borrowers
- Restrict product cross-selling
- Pass legislation establishing the CFPA to create a strong regulator for the reverse mortgage lending industry



# Other Money Scams

- Debt Settlement Programs
  - Expensive product with no guarantee!
- Payday Loans
  - High interest debt traps!
- Prepaid Cards
  - Watch out for lots of fees!



For More Information on Money Issues,  
visit:

[www.defendyourdollars.org](http://www.defendyourdollars.org)

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and safe marketplace for all...”**

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