SPECIAL EDITION

FDIC Consumer News

51 Ways to Save Hundreds on Loans and Credit Cards

Simple strategies for cutting costs any time, plus special tips just for …

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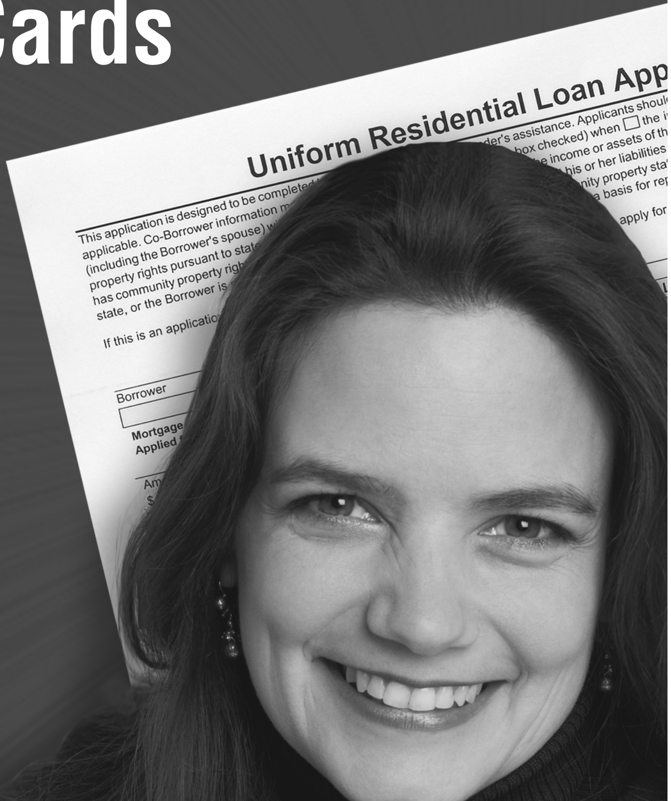


Cutting Your Costs: Simple Strategies for Saving Money on Loans and Credit Cards

Loans and credit cards provide great consumer benefits, but as with any form of borrowed money, you've got to be careful about how you manage credit. Here are tips for saving money on credit products — in your basic financial affairs, when shopping for new credit, and when using loans and credit cards.

Getting a Grip on Credit

1. Pay your bills on time to maintain a good credit record and qualify for low rates. Don't wait until the last minute to pay your monthly bills. Not only will you incur late-payment fees (see Page 4), but perhaps more importantly you risk triggering higher interest costs. That's because your payment history on your debts and bills is one of the biggest factors in your credit report and credit score.

A credit report is a compilation of how you pay your credit card bill, loans, rent, and selected other debts and bills. A credit score is a number that is based on your credit report and reflects your financial responsibility. Both are part of your overall credit history, which can determine your chances for a low-cost loan or a lower interest rate on a credit card.

While one or two late payments over a long period of time may not significantly damage your credit history, if at all, making a habit of missing payments can result in a higher interest rate, higher fees or both when you apply for any type of loan or credit card. Lenders put more emphasis on your *recent* payment history, so be particularly careful with payments in the months before you apply for a loan.

Consumers who pay their credit card bill late may face a major hike in their interest rate — often to between 29 and 35 percent. Late payments on that card also can trigger rate increases on *other* cards or loans, especially if your credit record shows other signs of risk.

2. Don't have "too many credit cards." There are good reasons to have at least two credit cards, but some people collect a stack of cards, including those from stores and oil companies, several of which they rarely use. One problem with having a lot of credit cards is that lenders look at the ones with no existing balance or a very low balance and conclude that you have the *potential* to use them and get into debt. Even if you've proven in the past to be a responsible user of credit, these "extra" cards could come back to haunt you the next time you apply for a mortgage or other loan.

"There is a cost to having too much credit," said Suzy Gardner, an FDIC bank examination specialist and an expert in consumer credit issues. "Although individual circumstances vary, having more credit available than what you can reasonably use, need or afford can hurt you in the long run."

Example: You have several credit cards and the combined outstanding balance on them is $15,000 below your credit limit. Then you apply for a home loan. The mortgage lender may question your ability to repay both a mortgage *and* $15,000 worth of new purchases on your credit cards. And, your overall credit score can suffer, resulting in the lender charging you a higher interest rate or denying the loan altogether.

One solution is to cancel the credit cards you rarely or never use, preferably well before you apply for another loan. Start by closing your newer credit card accounts — that's because your credit score can be lowered if your credit history appears shorter than it really is. Another option is to ask your card issuers to reduce your credit limit.

3. Check your credit report for accuracy. Something as simple as correcting incomplete or erroneous information in your credit record may be enough to qualify you for a better interest rate on a loan or credit card and save you hundreds of dollars each year in interest payments. For example, if you always pay your loans on time, but your credit report shows late payments, you'll want to correct that.

By federal law, you are entitled to one free copy of your credit report every year from each of the three nationwide credit bureaus — Equifax, Experian and TransUnion. Each company issues its own report, so it's smart to check each one. Go to www.AnnualCreditReport.com or call toll-free 1-877-322-8228 to

A Message to Readers

You probably think of loans and credit cards as services — as ways to borrow money and buy things. And of course, you're right about that. But given the astounding array of credit-related services available today, with their varying degrees of complexity and costs, it's smart to think of mortgages, credit cards and auto loans as *products* — tangible items that you should research and compare before you buy, and then use with care.

The Federal Deposit Insurance Corporation wants to help you reap the benefits of loans and credit cards at the lowest possible costs. That's why this special edition of our quarterly ***FDIC Consumer News*** is a collection of 51 simple, practical tips and other guidance that can help you save hundreds, if not thousands, of dollars.

In this special edition you'll find ideas and information on topics such as how to: get the best possible interest rates on loans and credit cards avoid paying unnecessary fees; find "emergency" loans at affordable prices; and steer clear of credit-related rip-offs and scams.

At the FDIC, we not only help keep your money safe in insured bank accounts, we also want to help you keep more of your money.

order free credit reports or for more information. Although you can ask to receive copies from all three credit bureaus at the same time, you also can spread out your requests throughout the year to check for major changes or inconsistencies.

Identity theft is another reason to regularly review your credit reports. Make sure an ID thief hasn't opened credit cards or other accounts in your name to commit fraud (see Page 5).

4. Periodically review your existing loans and credit cards with an eye toward saving money. "Talk to a customer service representative at your bank to make sure you're signed up for the accounts and features that best fit your needs, especially if your financial situation has changed recently," said Janet Kincaid, FDIC Senior Consumer Affairs Officer. "For example, if you tend to carry a balance on your credit card, find out if you qualify for a credit card with a lower interest rate or other features that can cut your costs."

For tips on refinancing an existing loan or credit card, see Page 5.

Shopping Tips

5. Compare the products offered by your bank and a few competitors and then negotiate the best deal. "Don't hesitate to let lenders know that you are shopping around for the best possible terms and that you are not afraid to negotiate," Kincaid stressed. "Competition can be a good thing."

One of your most important shopping aids for a loan or credit card is the APR — the Annual Percentage Rate. This required disclosure shows the total cost, including interest charges and other fees, expressed as a yearly rate. When you're comparing loans from different lenders, make sure you use the same dollar amount and time frame so you can compare the APRs. That way there's no confusion about which loan will cost less. For a good example of how the APR can help you shop for credit, see the discussion of payday loans on Page 9.

6. Focus on the long-term cost of the loan, not the monthly payment. "Many car dealers or even mortgage lenders will entice borrowers by asking how much they can afford to pay each month," added Kincaid. "It may be better to pay slightly more money each month, but for a shorter time period, if it means you will be paying less in total interest."

She also said that some people look so much at the monthly payment that they don't notice certain fees or service charges that are imposed. "You've got to look at the full picture before signing a loan agreement, including the APR and provisions of the loan that can increase fees," Kincaid said.

You can also avoid unnecessary interest charges if you pay for certain costs out of your own pocket instead of borrowing that money, too. Let's say you're getting a new mortgage and you're offered the chance to add the closing costs to the loan instead of paying them upfront. Sounds good on the surface, but remember that you're not getting out of paying the closing costs — they're added to the loan balance, so your monthly payments will increase and you'll be paying interest on the closing costs.

7. Take advantage of the Internet. Not only can you research credit products and comparison shop among hundreds of lenders over the Internet, but you can also apply for a loan or credit card online from those same lenders.

"The Internet is, without question, the fastest and easiest way for consumers to find out about and compare the various types of loans and credit cards offered by banks around the country," observed Michael Jackson, Associate Director of the FDIC's Division of Supervision and Consumer Protection. He added that if you find an interesting offer from a far-away bank or an Internet-only lender, "in most cases you can apply for and finalize the loan online; you don't have to pass up a good deal just because the institution doesn't have an office in your area."

However, Jackson also warned that because con artists use the Internet to trick consumers into divulging personal financial information, you should never respond to unsolicited e-mails or to Web sites offering products or services that appear "too good to be true." For guidance on whether a bank is legitimate, call the FDIC at 1-877-275-3342 or use Bank Find, our online directory of insured institutions, at www2.fdic.gov/idasp/main_bankfind.asp. (See more about frauds on Page 5.)

8. Read the fine print before signing up for any loan or credit card. For example, realize that if you get a new credit card promoting zero-percent interest on new purchases and you don't pay off the *entire balance* by the due date (typically after six to 18 months), you may be charged interest on all your original purchase amounts — not just on the remaining balance — retroactive to the original purchase date. The costs could be more than if you had used a card without a zero-percent offer. With a mortgage loan, find out when your payments will or could change and how much higher the payments would be under different scenarios. What you don't read and don't know can cost you a lot of money.

9. Don't pay for expensive insurance coverage you probably don't need. Many lenders sell disability, life insurance or other similar protection plans which, as an example, might cover minimum loan payments due if the borrower becomes ill or dies. Credit protection programs may be the best or only coverage for certain people who want this kind of protection, such as some consumers who are ill or who are concerned about making loan payments if they lose their job. But these plans may be far more costly or more limited in purpose than other options, such as traditional insurance not tied to loans.

continued on next page

Before purchasing a credit protection product, consider if you already have, or would be better off with, traditional insurance. Look at your savings and other assets, because you may have sufficient emergency funds to do what these programs promise if you become sick or unemployed. Also remember that most credit protection is optional.

Using a Loan or Credit Card

10. Avoid or limit interest charges. While it may sound like a bargain to pay the minimum due on your credit card so you have more money to spend on other things, the long-term costs of this strategy can be staggering. That's because credit card interest rates can be quite high — with the best of rates often being in the low double-digits. Instead, try to pay all or as much as possible of your outstanding credit card balance to avoid interest charges. "The amount you pay toward your credit card bill each month can have greater long-term consequences for your finances than how much money you save or invest each month," added FDIC Consumer Affairs Specialist Howard Herman.

Similarly, many people send in more than the amount due on their mortgage (see Page 7) and other loans so they can pay off the debt faster and reduce their total interest cost.

11. Avoid late-payment fees. These are penalties, typically $30 or more, charged by your lender when you don't make a loan or credit card payment on time. One way to prevent late fees is to arrange, at no charge, for an automatic withdrawal from your checking account to cover these and certain other recurring expenses (such as a utility or insurance bill). The automatic debiting of your account also takes the hassle out of making scheduled payments and saves on postage. However, be sure to record these automatic payments in your checkbook, said FDIC attorney Susan van den Toorn. "If you don't," she cautioned, "you might end up accidentally overdrawing your checking account and subjecting yourself to fines and damage to your credit score."

It is also possible to pay your loan or credit card bill online, but it's recommended that you pay about two days before the due date to be sure it is processed on time. Also know your financial institution's cut-off time for recording payments each day. If you're bumping up against the deadline and you can't pay online, consider calling your card company and asking for other options, such as providing bank account information to authorize an electronic fund transfer from your checking account. "Even though there may be a small service charge for these options, it will likely be less than a late-payment fee," said Kirk Daniels, a supervisor in the FDIC's consumer affairs section.

Should you pay the old-fashioned way — by regular mail — allow enough time for delivery and processing by sending your payment about a week before the deadline.

12. Closely review your account statements and other mailings from your lenders. Check your statements as soon as they arrive to look for errors, unauthorized withdrawals and other matters you might want to question or challenge. The sooner a problem is detected, the easier it is to correct. And if you don't report an error within prescribed time limits, you may not be covered by some federal consumer protection rules.

Also, don't assume that literature inside a loan statement or credit card bill is junk mail. It could be your only notice of new fees, an increase in the interest rate, or other significant changes. If you don't monitor these mailings, you could pay more for banking services and not even realize it.

13. Don't be afraid to ask for a break. Do you think the fees for your mortgage application are a bit steep? What about the fee you were charged for being late with your loan or credit card payment? Depending on the circumstances, your lender might be willing to reduce an interest rate or waive a fee or penalty, especially if you've been a good customer. Even the interest rate on your credit card may be subject to negotiation.

Also talk to your banker if you're having problems repaying a loan. Explain the situation and any unusual circumstances. Many lenders will agree to temporary or permanent reductions in your loan interest rate, monthly payment or other charges. Open communication is key. Again, it helps if you've had a clean record in the past.

14. If you have a serious debt problem, a reputable counseling service might help you avoid losses. A variety of organizations specialize in helping borrowers deal with debt overload, minimize the damage to credit histories and, in the worst cases, avoid foreclosures that could result in the loss of a home or other property. Their services range from helping people establish a budget to talking with lenders to discuss modifying the terms of a loan. But be careful before signing an agreement with a credit counselor because some may offer questionable or expensive services, and others may be scams.

Start your search by asking people you trust for referrals. Then check with your state Attorney General, local consumer protection agency and the Better Business Bureau about any complaints against the organization. "You'll also want to know as much as possible about the services, the fees, the qualifications of the counselors, and how much input you will have in working out the details of any commitments with your lender," added Sam Frumkin, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection.

In addition, the FDIC and other banking regulators have been urging borrowers who are delinquent on a mortgage loan and at risk of losing their home to get help from a specialist called a "housing counselor." To find a reputable one in your area, contact the U.S. Department of Housing and Urban Development (1-800-569-4287 or www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm) or the Homeownership

Preservation Foundation (1-888-995-4673 or www.995hope.org).

15. Don't be afraid to complain. Your bank's managers probably would prefer you bring a problem to their attention and be given the chance to fix it rather than see you take your business elsewhere or tell all your friends about your bad experience. If you don't get satisfaction from a customer service representative or another employee, consider talking to a supervisor.

If you're still having problems, consider contacting the institution's federal regulator. The FDIC and other banking regulators cannot intervene in many disputes but can help you understand your consumer rights. The appropriate agency also can seek corrective action if the institution is in violation of a law or regulation. To find out which government agency regulates a particular lender, you can contact the FDIC (see back page).

Refinancing: Tips for Mortgages and Other Credit

Here are ways to save money by refinancing — by paying a loan off "early" with a new, better loan.

16. Know when refinancing a mortgage makes sense. According to the *Consumer Action Handbook* published by the Federal Citizen Information Center, "Consider refinancing your mortgage if you can get a rate that is at least one percentage point lower than your existing mortgage rate and if you plan to keep the new mortgage for several years." Also consider the extra fees for the new mortgage.

17. Be smart about dropping one credit card for another. Transferring an outstanding balance to another credit card can give you a lower interest rate, but find out how long the new interest rate will last and how it will change. Also see if there's a balance transfer fee.

18. Consider refinancing an auto loan if you expect to make payments for several more years. It may be harder to find a better interest rate because your car has probably depreciated in value. But if the savings from a lower interest rate more than offsets any closing costs, refinancing can make sense.

19. If you have multiple student loans, look into the potential benefits of consolidating them into one new loan at a lower interest rate. Compare the rates, terms and costs. "It may not be worth consolidating if it means losing a good fixed-interest rate, giving up a long grace period before loan payments are due, or running up other costs that would exceed those on your existing loans," said Sam Frumkin, a Senior Policy Analyst in the FDIC's Division of Supervision and Consumer Protection.

Borrower Beware: How to Avoid Fraudulent or Deceptive Deals

20. Steer clear of fraudulent or deceptive offers targeting borrowers. Unscrupulous individuals try to lure consumers into questionable, high-cost deals or fraudulent transactions, usually involving new loans or credit cards or offers to help deal with debt problems. Here are examples:

"Predatory" loans: People from non-bank or home improvement industries may use false or misleading sales tactics to make high-cost loans to consumers in need of cash. Victims who can't afford the loan may be pressured to refinance. Borrowers who pledge their house as collateral could lose it in a foreclosure.

Credit repair scams: Con artists may promise to erase a bad credit history or make easy loans to people with spotty credit histories. Most charge exorbitant fees or never provide the promised money. Only steady and consistent on-time payments by a consumer can legally repair a credit record.

Mortgage foreclosure frauds: Thieves may contact homeowners at risk of losing their home to foreclosure and propose to help by "paying your mortgage" while you temporarily "rent" your home from them. They then trick you into signing documents that transfer the ownership of the property to the crooks. In other scams, phony companies claiming to be housing counselors offer to negotiate a new loan or perform other services for very high upfront fees and do little or nothing in return.

Credit card fraud: Identity thieves steal personal information and apply for new credit cards or make counterfeit cards. Under federal law, if a thief uses your credit card or card number the most you are liable for is $50. Even so, ID theft in general can be costly to fix, and it can take months to repair the damage. Notify your card issuer about any problems as soon as possible to help limit your losses.

How can you avoid credit-related fraud or deception in general? "Deal with financial institutions or other companies you know or that you have independently verified as being legitimate," explained Randall Howe, a fraud specialist at the FDIC. When in doubt, he said, you may contact the FDIC for guidance (see the back page) or call your state or county's consumer protection office.

As for preventing credit card fraud, safeguard your personal and financial information and monitor your credit card statements and credit reports for signs that a thief has stolen your identity.

For more specific recommendations, go to www.fdic.gov/quicklinks/consumers.html.

Taking Charge of Your Credit Cards

Many of our general tips starting on Page 2 can help save you money on credit cards. For example, we said it's important to pay your credit card bill and other debts on time to avoid late-payment fees and additional interest costs. Here are more suggestions.

21. When choosing a credit card, ask yourself if you plan to pay the balance in full each month. Many people don't pay their bill each month — they always carry a balance and pay interest on it. Yet many of these same people sign up for a card because it has no annual fee, without considering the benefits of a card with a lower interest rate or a more generous grace period (before interest begins accumulating). In the long run, a card that doesn't charge an annual fee could end up costing you far more in interest than a card that charges an annual fee.

In general, if you expect to pay your balance in full most months, look for a card with a full grace period and no annual fee. However, if you plan on carrying a balance, then a card with an annual fee and low APR (Annual Percentage Rate) may be a better choice.

22. Read and save the "disclosures" describing a card's features and fees so you know how to save money. "When it comes to information about the terms of your credit card, be a pack rat," said Janet Kincaid, FDIC Senior Consumer Affairs Officer.

Key information to look for and keep: What is the interest rate and how can it change? Is there an annual fee? What about charges for late payments, returned checks, balance transfers or exceeding your credit limit? What's the cost of a "cash advance" — typically meaning you use your credit card to get cash from an ATM or to make a purchase using one of the blank "convenience checks" sent with monthly statements? Cash advances are likely to carry sizable upfront fees, a high interest rate and no grace period before interest begins accumulating. Also, stay on top of fee increases by reading and saving the disclosures sent in monthly statements or other mailings.

Avoiding additional charges isn't the only reason to become an avid reader of your credit card company's literature. Potential cost savings built into your card also are worth exploring. For example, your credit card may automatically include, at no extra charge, extended warranties on purchases and insurance for car rentals. Your card also may offer cash back on purchases, rewards good for airline travel or products and services, and various other extras. Also be aware of the rules governing these perks because limitations, fees and deadlines may greatly reduce their value.

23. Be especially aware of your card issuer's billing practices, which can significantly affect your costs. How your card company treats the balances on which you are charged interest can be critical. Here are examples of potentially high-cost practices that many people don't know about even though card issuers must disclose them:

Two-cycle billing: This billing practice is rare but is used by some card issuers. Practices may vary but, in general, if you pay your credit card bill in full one month but then only pay a portion of the bill the next month, your interest charges ultimately will be based on two months of card charges and not one. This may result in you paying more in interest charges than you would under the more common one-cycle billing method. To find out if your card is subject to two-cycle billing, review the cardholder agreement and disclosures from your lender or call their customer service number.

Payment allocation: This involves cards with multi-tiered interest rates. For example, there may be a low rate on a balance transferred from another card, a higher rate on new purchases, and an even higher rate on a cash advance. If you pay only part of your monthly bill, card companies typically will apply your payment to the balance with the *lowest* interest rate first, while the highest-rate balance continues to run up interest costs until you pay the entire balance.

Read and save the "disclosures" describing a card's features and fees so you know how to save money. When it comes to information about the terms of your credit card, be a pack rat.

Universal default: This happens when a card issuer increases a customer's interest rate because he or she made late payments to *other* lenders or had an overall decline in a credit score — even if that customer paid the card bill in full and on time. While this once-common practice is rare, be aware that it could be used.

24. Know your credit limit and stay below it. There are two problems with going over your card's credit limit. One is that your card issuer will charge you a penalty, which can be expensive, typically about $30 for each instance. Also, exceeding your credit limit may damage your credit score, which may mean higher interest rates, now and in the future.

To be confident you are within your credit limit, Kincaid recommends the following. "Periodically check your balance by phone or online to make sure you stay within your limit," she said. "Also give yourself an extra cushion — either try not to get too close to your credit limit or call the card company to get a higher limit if you anticipate a special need, such as a vacation or major purchase."

Home Loans: How to Keep Costs from Going Through the Roof

Buying and maintaining a house is expensive enough, so why pay more than you have to for a home loan? Suggestions throughout this special edition can help keep down the costs of a mortgage or a home equity loan, but here are additional tips.

25. You can negotiate the rates and terms of a home loan. You should look for a mortgage the way you'd look for a car — get all the important cost information, shop around and, yes, negotiate for the best deal. That's one of the key messages of *Looking for the Best Mortgage*, a free consumer brochure published by the FDIC and other federal government agencies (online at www.fdic.gov/consumers/looking/index.html).

Many consumers aren't aware that they can negotiate the rates, closing costs and other terms of a mortgage or home equity loan and possibly save thousands of dollars. People often think that when they get a quote on a loan from a lender or a mortgage broker (someone who finds a lender for you) that the same price is being offered to everyone. But a lender or broker may offer the *same* loan at *different* prices for different consumers, even if those consumers are equally qualified for the loan. Why? Often that's because the loan officer or broker is able to keep as income some or all of the difference between the lowest-price loan available and any higher rate the consumer agrees to pay.

26. Consider a fixed-rate loan even if adjustable-rate mortgages (ARMs) carry a lower initial interest rate. A fixed-rate loan adds certainty and stability to a big part of your loan payment, which can provide peace of mind, especially given that other housing costs — such as real estate taxes, insurance and home upkeep — are likely to rise in the future. ARMs generally start with a lower interest rate, but remember that an ARM rate can go up, sometimes significantly. It may be worth shopping around because you may be able to obtain a fixed-rate mortgage with payments comparable to an ARM and not have to worry about future rate increases.

"If you are thinking about an ARM, make sure you know how much and how often the interest rate and payment could go up before you sign on, and be comfortable that you can meet those higher monthly payments," cautioned Janet Kincaid, FDIC Senior Consumer Affairs Officer. "Don't let a low teaser rate lure you in; you may be surprised later."

27. Mortgages that involve little or no documentation of your income or assets may mean higher costs. While these mortgages can save you time and are attractive if your source of income is unpredictable, the lender generally charges a higher interest rate. "If you have income that's easy to document, such as regular statements from your employer or a monthly Social Security payment, it's probably not worth paying extra over the long term of the loan just to save a few days during the application period," said Mira Marshall, an FDIC Senior Policy Analyst on consumer issues. "Be sure to ask about full documentation loans and compare the costs."

28. Look into paying off your mortgage sooner rather than later. A mortgage with a long repayment term (30 or even 40 years) is very appealing because the monthly payments are relatively small, which can put a more expensive home within reach. However, the downside of this strategy is that you'll have a much smaller amount going to pay off your loan each month, and that can dramatically increase the total interest costs.

You can save tens of thousands of dollars in interest — depending on the amount of your loan and the interest rate — by choosing to reduce the length of your mortgage. Many people pay off their 15- or 30-year mortgage loan faster by sending in extra payments — say, an additional $50 or $100 each month or one large payment once a year. If you can afford the extra payments and don't have other uses for the money, "this is an easy way to pay off the loan and save thousands of dollars in interest charges without incurring the cost of refinancing," said Marshall. There are pros and cons to the different strategies, so you may wish to consult with a financial or tax advisor about what is best for you.

29. Save money on insurance. Because the value of your house is backing your mortgage, you will be required by your lender to have homeowners insurance to cover a variety of damages that could reduce the property's value. Prices can vary significantly, so shop around.

Also make sure you get the right coverage for your situation. For example, if you live in an area that is at high risk for floods or earthquakes, you should consider purchasing additional insurance coverage if it is not otherwise required by your lender.

Private Mortgage Insurance (PMI) protects the lender when a borrower fails to pay. It is usually required for loans in which the down payment is less than 20 percent of the sales price. For the typical mortgage loan, PMI costs about $40 to $70 per month or around $500 to $800 a year. "PMI is costly and you should try to avoid it," said Luke Reynolds, an FDIC Community Affairs Specialist. "If you can't afford the large down payment that would save you from PMI, ask the bank if there are other options for a smaller down payment without PMI." Under federal law, with certain exceptions, PMI automatically will be terminated if the borrower accumulates 22 percent equity in the home and is current on mortgage payments.

Some homebuyers inadvertently pay for PMI if they add the closing costs

continued on next Page

to the loan balance, thereby reducing their down payment to less than 20 percent of the home's value. By paying the closing costs instead of adding them to your loan, you can avoid paying interest on the closing costs and avoid paying PMI.

30. Look for government incentives for first-time homebuyers, low- or moderate-income families and other borrowers. Eligible applicants can save on the interest rate, closing costs, down payment, and other loan terms.

For example, mortgages insured by the Federal Housing Administration may feature low down payments and low closing costs (go to www.hud.gov/buying/loans.cfm or call 1-800-569-4287). For details about programs offered by your city, county or state government, call its housing agency or check the government Web site.

31. Borrowing money from your home's value can be low-cost but also risky. Many people take out low-cost loans based on their equity in the house. The equity refers to the difference between what is owed the mortgage lender and the current market value of the property. If you owe $100,000 on your mortgage but your home is worth $250,000, your equity is $150,000.

Home equity products can be used for many purposes, including home improvements, college tuition and car purchases. They also can be low-cost loans because the interest rate is usually lower than for credit cards, and the interest paid is often tax deductible (check with your tax advisor).
But — and this is important — the big risk with home equity products, as with a mortgage loan, is that *you can lose your home if you can't make your payments*. "Home equity products can be fine for many people but, because you would be putting your home on the line, these loans are not to be taken lightly," Kincaid stressed.

For guidance on where to turn for help if you are at risk of defaulting on a home loan, see Page 4.

Auto Loans: Take Control of the Financing Before You Take Control of the Wheel

Stereos and tinted windows aren't the only options you'll need to consider when you're ready for your next vehicle. Also look closely at your different choices for financing a new car. For many people, an auto loan is their second biggest monthly expense after their mortgage or rent. Here are some strategies to consider.

32. Shop for a loan before you visit a dealership or bid for a car over the Internet. After reviewing your credit report to correct errors (see Page 2), ask your bank and several other lenders about their loans and costs so you are in a better position to get the best possible terms. If you're a homeowner, you could also consider using a home equity loan or line of credit instead of a traditional auto loan, but remember, *you could lose your home if you can't repay the loan*.

Know what car dealers are offering in terms of financing by reading their advertisements, making phone calls or checking the Internet. Many dealers offer discounted loans (such as zero-percent financing) or cash rebates, but not both. "In some situations, it may be better to accept the dealer's rebate and pass up the zero-percent financing in favor of a loan from a bank that *does* charge interest," said Joni Creamean, an FDIC Senior Consumer Affairs Specialist.

33. Think carefully about how much car you can afford and how much of a loan you need. The dollar amount of your loan largely will be determined by the sales price of the vehicle minus your down payment, any rebates and the value of any trade-in. Don't forget, however, the costs of auto insurance, sales taxes, annual property taxes on the car (if any), and options you may be inclined to buy, such as an extended warranty.

Also remember that every item you add to your loan instead of paying upfront will add to the total cost of the loan because you will pay interest on the amount financed.

34. Consider getting "pre-qualified" by a lender for a specific loan amount. "This doesn't mean you have been approved for a loan," said Creamean, "but it will help you know approximately how much you can afford to spend on a car and how much it will cost you in finance charges before you get to the dealership."

Consumer advocates also suggest that you not tell the dealer if you've been pre-approved elsewhere for a loan until after you've negotiated the best price on a car. They say that some dealers may be less flexible on the price of the vehicle if it's clear that the dealership won't be earning money on a loan.

35. Understand the costs and risks of choosing a long repayment period. "A longer loan term will be tempting because it means a lower monthly payment, but that also means a higher total cost overall because you will be paying interest longer," warned Creamean.

For example, a $25,000 loan at a seven percent interest rate for three years will cost $772 a month. Stretching the term to five years will drop the monthly payment to $495 but will increase the total cost of the loan by about $2,000.

Creamean offered another reason to be cautious with a repayment term of five years or more: The aging vehicle's resale value may fall below what you owe on the loan if the terms are spread out too long. "In the later years of the loan, you'll still be making payments on what is an older vehicle that may have a lot of repair and maintenance costs," she said. "And if you decide to sell your car, you may have to come up with extra cash out of your own pocket just to pay off the old loan."

For an extra tip about refinancing an auto loan, see Page 5.

When You Need Money *Fast:* Sources of Affordable Cash

It's two weeks until payday, your credit cards are maxed out … and then your car breaks down. You only need a few hundred dollars for the repair but you need it *now*. Many people in these situations have turned to "alternative" financial services providers such as pawnshops, car-title lenders (for a loan secured by the borrower's car) and payday lenders (for unsecured loans that borrowers promise to repay out of their next paycheck or regular income payment). But while many nonbank lenders advertise quick and easy cash, their services tend to come at a steep price. Here are some tips for finding emergency cash at affordable prices.

36. Build your own rainy-day fund and borrow from yourself. The best way to avoid a cash crunch is to put money into an emergency savings account that you can use to pay for unforeseen expenses. Experts say this fund should equal about three to six months of living expenses to get you through a difficult period without having to take out a loan or borrow from retirement savings.

"Saving money can seem impossible when you are staring down at a stack of bills and other expenses, but many people are able to make small, simple changes in their habits or banking practices that can make the difference," said Sandra Thompson, Director of the FDIC's Division of Supervision and Consumer Protection. Possibilities include having your paycheck directly deposited into your checking account with a portion automatically placed into your emergency account.

37. Comparison shop for loans by looking at both total dollar costs and the Annual Percentage Rate (APR). Payday lenders, for example, typically charge about $15 for every $100 borrowed. So, on a $500 loan for two weeks, you'd pay $75 in interest. That might not sound like a lot of money to pay for a small loan, but it translates to a whopping *391 percent Annual Percentage Rate!* (The APR is the effective annual interest rate on a loan after taking into account one-time fees and interest.)

And if you renew or "roll over" the $500 loan for another two weeks, you'd pay an additional $75 in fees. At that rate, in just 14 weeks, you will owe more in fees ($525) than the original loan! "Consumers often roll over the same payday loan several times because they cannot pay the full amount on the due date," said Rae-Ann Miller, special advisor on consumer issues in the FDIC's research division. "These consumers can end up paying significant sums to borrow what started out as a small amount of money."

38. Ask your bank about linking your checking account to your emergency savings account. With this arrangement, an overdrawn checking account can be covered by having the shortage automatically transferred from your savings account. "Expect to pay a small transaction fee for using this service, but it will be less than what you'd be charged in interest and fees for a bounced check or a short-term loan," said Miller. "Remember that it's always cheaper to borrow from yourself than to borrow from someone else."

39. Check out other options for emergency cash from banks. Many banks offer reasonably priced, small loans that enable you to write a check for more than what you have in your account and repay the money later. One example is an overdraft line of credit, which means the bank will automatically cover checks you write, up to a specified amount, even if you don't have enough funds in the account. "The best way to ensure that reasonably priced emergency credit will be there if you need it," said Thompson, "is to work with a bank to set up an account in advance instead of waiting until you're in a rush to get cash." As with any other line of credit, you will be told the APR in advance of signing a formal agreement.

Alternatively, some banks offer "bounce protection" that will cover individual overdrafts by check or ATM/debit card withdrawal, usually for a fee. This protection typically involves an informal agreement and no APR disclosure. While it can be helpful for rare and limited overdrafts, the costs can quickly add up depending on the number of transactions covered. To learn more, read the interagency brochure *Protecting Yourself from Overdraft and Bounced-Check Fees* available online at www.federalreserve.gov/pubs/bounce/default.htm.

FDIC Encourages Affordable Small-Dollar Lending

FDIC Chairman Sheila C. Bair has challenged the banking industry to be more active in providing reasonably priced small-dollar loans and reducing consumer reliance on high-cost, nonbank service providers, some of which charge triple-digit Annual Percentage Rates (APRs). "Many borrowers who use payday loans have a checking account and a steady paycheck," she said. "So, why aren't they borrowing from their bankers?"

The FDIC has issued guidelines for small loans that encourage banks to set reasonable interest rates below 36 percent, low origination fees, and repayment periods longer than a single pay period. The guidelines also support the idea of including an "automatic" savings component to help small-loan borrowers start a savings account at the bank. The FDIC also has launched a two-year pilot project that will highlight "best practices" among banks to meet the needs for low-cost, small-dollar loans.

"It is my hope that, over the next few years, responsibly priced small dollar loans will become a staple offering among our nation's banks," Chairman Bair said.

Paying for College … the Smart Way

Loans for higher education can be costly so take the time to research your options

The cost of college has risen faster than the general inflation rate for many years. So, it's no surprise that many parents borrow to pay for higher education and that many college graduates owe tens of thousands of dollars on student loans and related debt. Here are strategies for keeping college financing costs down.

40. Make saving, not borrowing, your first choice for paying for college. "Planning and saving for college should be something parents begin when their son or daughter is still in diapers," said Kirk Daniels, a supervisor in the FDIC's consumer affairs section. "College loans can be costly, and the easiest way to avoid those costs is to have your own college savings fund."

Starting a college savings account, such as a state-sponsored "529 Plan," allows families to maximize growth in a tax-advantaged account and reap the benefits of compounding small amounts of money into a large sum when the child graduates from high school. Investment advisers also recommend setting up an automatic investment plan through your bank account or paycheck to encourage systematic savings.

41. Take the time to research your options for a loan. If you think you need a loan, do your homework and ask lots of questions before settling on one. Among the many options are federal government loan programs, including "PLUS" loans for parents and Perkins and Stafford loans for students (usually with fixed interest rates and some form of deferment on repayment until after graduation). Also available are loans from private financial institutions and state government agencies.

Of course, you'll want to know whether a loan is fixed- or variable-rate and what could trigger a rate increase. But student loans may have unusual features to consider. In particular, ask about any options for delaying payment until after graduation and any policies on "forbearance" (temporarily reducing or postponing payments from a borrower in financial distress). Also find out about any rebates for on-time payments and other incentives for good performance.

"There are often substantial differences between private loans and student loans guaranteed or insured by the government," noted Luke Reynolds, an FDIC Community Affairs Specialist. "A private lender likely will offer both types of loans, so be sure to ask questions to fully understand the pros and cons of any loan product."

Your state's department of education and the college's financial aid department may be good resources. Don't depend on your school to pick the right loan or lender, though. Some colleges and private lenders have been scrutinized for conflicts of interest in steering students toward "preferred lenders."

42. Think twice before borrowing against your home or retirement accounts. Parents who do not qualify for a tax deduction on loans for higher education may want to consider using a home equity loan if they qualify for a tax break on the interest. But remember, a home loan puts your house at risk. Another option is to borrow from your retirement savings, but most investment advisers recommend against that approach because it may reduce your future earnings and make it tougher for you to retire when you want.

"Given the many ways to borrow for college at competitive interest rates, ask yourself if you really want to put your house at risk with a home equity loan or reduce your hard-earned retirement savings just to pay tuition," Daniels said.

43. Shop for a good price on a college, not just on the college financing. "For most families, the price of tuition and room and board should be an important part of the decision process, just like buying a home, a car or any other major purchase," said Daniels. "The cost should be considered along with the academic programs of a school."

For many families, the comparison shopping should include options such as two-year community colleges and schools close to home, which can help save on room and board, Daniels said.

44. Youth is no excuse for defaulting on a loan. At some point, perhaps after graduation, the loan payments will begin. How a young person manages student debt can be crucial. "Other loans, such as credit cards, and high living expenses can make it tough for a student or graduate to pay off college loans," Daniels cautioned. "The non-payment of a student loan is a bad way to start your career because your credit report will be damaged and the ability to obtain new credit or even qualify for certain jobs may be jeopardized."

To help stay out of trouble, he recommends getting a job, setting and sticking to a budget that includes money for loan payments, and building an emergency savings fund (see Page 9). But what if your good intentions fail and you have no way of making a payment? Contact the lender immediately. "Many lenders would rather work out some modified payment plan than have the borrower stop making payments completely," Daniels said.

For more information, start at www.students.gov, a comprehensive Web site with information from the U.S. government and other sources on topics such as paying for college.

Financing a Small Business: Saving Money to Help Your Company Grow

Here are tips on borrowing to start or operate a small enterprise.

45. Plan to borrow money with a business loan instead of using your personal credit card. "For some small business owners, particularly those at startup companies, a personal credit card may be their only or best option for financing expenses," said Luke Reynolds, an FDIC Community Affairs Specialist. "But for many owners, a business loan will be a much less expensive option," he said, because the bank loan will be secured by the business' property or equipment.

46. Consider an SBA-guaranteed loan. Under this program, the U.S. Small Business Administration (SBA) guarantees a portion of a loan, often up to 85 percent, and enables a small business owner to qualify for attractive interest rates and financing options. For more information, call the SBA toll-free at 1-800-827-5722 or go to www.sba.gov.

47. Research local small business loan programs. These programs may include loans with below-market interest rates or no origination fees. Start by contacting your state or local department of economic development.

48. Shop around for good deals and good service for small businesses. Ask about loans as well as deposit accounts and other services for small businesses. Some banks may specialize in serving companies like yours.

49. Develop a good working relationship with a banker who can help you save money. Look for someone who seems genuinely interested in your business and the market you serve. "The more the banker understands your company and its needs, the more likely he or she can help you with everything from financing and getting the best interest rate to referrals," Reynolds said.

50. Keep your own credit record in good shape. If you apply for a business loan, the lender will likely review the personal financial statements of the main owners of the business. Concerns about the financial skills of the owners can raise the interest rate on a business loan.

51. Learn tips on saving money from experts. Sign up for free or low-cost workshops and confidential counseling for small business owners. Start with the local SBA office (for referrals to local resources), SCORE (formerly called the Service Corps of Retired Executives, a nonprofit SBA partner that provides free counseling to small businesses), and various small business development centers (generally operated by schools, nonprofit organizations and corporations).

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The Federal Deposit Insurance Corporation publishes consumer information and has other resources that can help answer questions on loans, credit cards and other financial matters. Start at www.fdic.gov or call toll-free 1-877-275-3342. Back issues of our quarterly ***FDIC Consumer News*** and articles referenced in this special edition are available at that same Web site or upon request from our Public Information Center at the same phone number as above. To send a question to the FDIC, e-mail us using the Customer Assistance Form at www2.fdic.gov/starsmail/index.asp or send a letter to the FDIC, Division of Supervision and Consumer Protection, 550 17th Street, NW, Washington, DC 20429-9990.

Other federal agencies also publish consumer information and respond to inquiries. A good place to start is www.mymoney.gov, the federal government's central Web site about managing your money. It is a service of the interagency Financial Literacy and Education Commission, of which the FDIC is a partner.

The Federal Citizen Information Center (FCIC), perhaps best known for its information clearinghouse based in Pueblo, Colorado, helps answer questions on everyday issues. For example, the FCIC can direct you to the appropriate federal government agency that can respond to a question or complaint. Go to www.usa.gov or toll-free 1-800-333-4636.

State and local government agencies also publish consumer information and help answer questions on money matters. Go to your state or local government's Web site or call a consumer protection office listed in your phone book or other directories.

FDIC-insured banks, other financial institutions and professional associations, consumer organizations and the news media publish personal finance tips on loans, credit cards and other topics. You can find a number of excellent sites by searching the Internet.