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Consumer Advisory Bulletin- June 2005

"No-Equity Loans!" "Consolidate Your Debt!"**Beware: If you "hock your home," you could pay for decades.**

The ads can be tempting: The solicitation comes in an official-looking envelope, with a fake check for \$40,000. "Consolidate your debts and lower your monthly payments," it says. "Some credit problems OK." Ads may claim there are "no up-front fees" and tout their "low rates." Former star athletes may tout the benefits of such home equity loans even if you have no equity. They'll make you a home mortgage loan up to 135% of the value of your home! It does sound tempting, especially if you're having debt problems.

Here's the "catch" -- the "savings" from consolidating monthly payments on your debts can be extremely costly over the long haul. For example, ads may claim you could reduce a \$20,000 credit card and car loan debt, with \$709 of monthly payments, to payments of only \$271 per month. The catch is that you would have a high loan-to-value (high-LTV) home equity loan. The problem is, you could be paying off the consolidated debt for 22 years!

Without consolidating these debts through this program, you would be debt-free in three years. With the high-LTV consolidation, you would pay \$271 per month for 22 more years and shell out over \$71,500. (Think about it. It's the year 2023, the car is long gone, and the charges on the credit card debt were for things you enjoyed almost a quarter of a century ago . . . but you are still paying for them!) High loan-to-value loans can be very expensive. Interest rates are high, as are "points" and loan charges, and tax deductibility is limited.

Perhaps even worse, you could be trapped by a high-LTV loan. It is very difficult to get out of a high-LTV home equity loan, for several reasons: Refinancing to a lower rate is hard, since responsible lenders require equity; you can't count on selling the house privately to pay it off, since no buyer wants to pay more than fair market value; and, even if you win the lottery and just want to pay it off, many high-LTV loans try to impose steep prepayment penalties. Even bankruptcy may not be much help if the worst happens. Besides, you're putting your home at risk of foreclosure if you continue to have financial trouble.

Search for a better way. If you are having trouble with existing bills, visit with a good credit counsellor for help in getting your debt under control. A counsellor may be able to help you negotiate with your existing creditors and help you work out a budget. Don't "bet the roof" on more debt to get you out of financial problems!

For more information, or to file a complaint, contact the Consumer Protection Division, Hoover Building, Des Moines, Iowa 50319. Phone 515-281-5926.

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