

Consumer Alert

Providing consumers with knowledge to make informed choices and decisions.



Make sure you don't lose an ARM over adjustable rate mortgages

If you are considering an adjustable rate mortgage (ARM) make sure it doesn't end up costing you an ARM and a leg. There are important differences to consider when choosing between an ARM and a fixed rate mortgage (FRM).



An ARM is a mortgage offered at an initial low interest rate for an agreed-upon number of years followed by adjustment intervals during which the interest rate can fluctuate. These intervals are described as 3/1, 5/1, 10/1, etc., with the first number designating the number of years the interest rate is locked at the start of the mortgage, and the second number indicating the number of times the interest rate can be adjusted. In a 3/1 ARM, for example, the initial rate is locked in for three years and afterwards can be adjusted once a year for the remainder of the loan.

There are benefits to an ARM, such as lower initial payments that can aid the borrower in securing a larger loan, but the

downside is larger payments down the road that the consumer may be unequipped to handle. These larger payments could cause consumers to fall behind in their payments and even result in losing their home to the lender.

What to consider when choosing an ARM:

- How long do you plan on keeping the house? If you only plan to live there for a few years and then sell the house, it may make sense to use an ARM because higher payments down the road would not be of much concern.
- Do you expect an increase in income before the end of the fixed rate period? An increase in income by the end of the fixed rate period would allow you to absorb higher payments.

Questions to ask the lender:

- Can you convert an ARM into a fixed rate mortgage down the road? Some lenders will convert ARM into FRM.
- What is the overall cap? An overall cap places a limit on how much the interest rate can increase over the life of a loan and has been required by law since 1997.
- Are there rate cap limits on how much interest you can be charged? Some lenders incorporate periodic caps that place a limit on the amount your interest rate can increase from one adjustment period to the next.

Deceased Do-Not-Contact list aids loved ones

The Deceased Do-Not-Contact List (DDNC) helps consumers avoid solicitations to family members who have passed away. The service is similar to the Federal Trade Commission's (FTC) "Do-Not-Call Registry" (DNC) and both work to prevent telephone solicitation.

HOW TO REGISTER:

- For the DMA's Deceased Do-Not-Contact List register online at <https://preference.the-dma.org/cgi/ddnc.php>.
- For the FTC's Do-Not-Call Registry, consumers may register online at <https://www.donotcall.gov/default.aspx> or by phone at 1-888-382-1222.

Got Questions???

Ask Consumer Affairs

Think you have been a victim of a scam or just need general information about fraud protection? Then log on to Ask Consumer Affairs, an interactive forum that provides you with great consumer information. Visit the SCDCA website at www.sconsumer.gov and click on LIVE HELP. A communication specialist is there to assist you with any questions you may have. Or you can always reach us by phone at 803.734.4200 or toll free in S.C. at 1.800.922.1594.



Don't be fooled by these back to school scams!

A new school year is in full swing but so are scammers. The South Carolina Department of Consumer Affairs is warning all consumers to be aware of the following back-to-school scams:

• **Scholarship Services:** Be suspicious of services offering to complete the application forms, guaranteeing financial aid or requesting financial information to confirm a scholarship. Legitimate scholarships require the applicant to complete all paperwork and never require bank account or credit card information. Legitimate scholarship services provide scholarship information for free but do not determine which students are awarded scholarships.

• **Identity Theft:** Students should be especially hesitant to hand out personal information, like social security numbers, credit card numbers and copies of birth certificates, even if requested by a sport's team, doctor's office or school organization. Organizations should explain the information's purpose and use.

• **Modeling and Talent Pitches** – Don't be fooled. Illegitimate agencies promise fame and fortune but require large fees for portfolios before skipping town.

• **Music and Book Clubs:** These scammers may send and request payment for merchandise you did not order. If you did not order, do not pay. Keep the merchandise or send it back.

• **Cell Phone Plans:** Beware of "no contract" or "no obligation" sale offers. If they seem too good to be true, they probably are. These plans often contain hidden fees or fail to give you as much "bang for your buck."

• **Credit Card Offers:** Companies will often attract you with low interest rates on a new credit card. These rates often skyrocket shortly after you sign the contract.

Protect yourself:

- Make sure the information you request is not FREE before paying for a service.
- Do NOT send out personal or identity information via e-mail.
- Do NOT use your social security number as your driver's license number.
- Do NOT carry your social security number in your purse or wallet.
- Do NOT pay for a service or product or service you have not received

Stop Insurance Fraud Essay Competition

The South Carolina Department of Consumer Affairs is holding an essay competition for middle school (7th – 8th grade) and high school (9th–12th grade) students on the dangers of insurance fraud.

This year's theme is "What is Bodily Injury Fraud and Who Really Gets Hurt?" The student's essays should highlight why consumers should be concerned about insurance fraud and how it impacts everyone.

The essays should be handwritten, 500-700 words, and submitted to their guidance counselor or principal.

The top essayists in each category will receive a monetary award and a savings bond.



A-Look-Ahead

Many consumers age 62 or older are finding themselves "house-rich and cash-poor," meaning their mortgages are paid off, but they are living on a fixed or limited income. In response, reverse mortgages are becoming increasingly popular alternatives for senior citizens who want their "home equity to work for them."

With a "regular" mortgage you make monthly payments to the lender, but with a reverse mortgage you receive money from the lender and generally do not have to repay it as long as you live in your house. The trade off, however, is the lender holds some of your home's equity.

These types of home loans could result in many unexpected risks for consumers. In the next issue of Consumer Alert we will delve into the pros and cons of reverse mortgages.

For brochures you might find helpful on topics such as Reverse Mortgages, Adjustable Rate Mortgages, Home Equity Loans, and Second Mortgage Financing, contact SCDCA at 803.734.4190 or 1.800.922.1594. Or you can visit our website at www.sconsumer.gov.

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About the South Carolina Department of Consumer Affairs:
 Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement, and education. For more information on the SCDCA, visit www.sconsumer.gov.