

FOUR CORNERSTONES OF FINANCIAL LITERACY



Create Savings

Debt Reduction &

Budgeting to

Asset Building

Building a Good

& Financial Institutions

Credit Rating

Consumer Protection

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The curriculum was developed for use by agencies that serve low-income individuals and families, to teach economic empowerment skills and financial knowledge using a learning-circle group method. It is not intended to provide any specific legal, tax, or investment advice for individual situations, but is a road map and resource to help people find their way into financial well-being.

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Financial Literacy – Things I Need to Know How to Do

I need to know:

- how to track where my money goes and make money choices that get me to my goals
- how to make a spending plan that will get my bills paid on time and allow for saving
- how to find thrifty ways to spend my money for my goals, not keep up with neighbors
- how to set aside money for non-monthly expenses and emergencies that come up
- how to teach the children in my life about earning, spending, saving, and giving
- how to make a system to keep my financial papers and records where I can find them
- how to read my paycheck stub and know how many exemptions to claim for taxes
- how to file my taxes and claim tax credits and refunds to build my net worth
- how to create an income plan to manage what I make now and find ways to make extra
- how to make a debt plan to prioritize what I owe and get it paid off faster
- how to keep my savings safe and use basic investment tools to make my savings grow
- how to build wealth and net worth by reducing my debts and building assets
- how to get and understand my credit reports and start to build or re-build good credit
- how to know my insurance coverage (health, home, car) and how to get claims paid
- how to get a free checking and savings account at a bank or credit union and keep it OK
- how to be a safe consumer and where to find free consumer protection and legal help
- how to spot predatory financial practices and how to report fraud or identity theft

PART ONE:

**BUDGETING TO CREATE
SAVINGS**

INCOME AND SAVINGS PLANS: FIRST STEPS TO MAKING A WORKABLE BUDGET

Income Plan

Gross income is the money you earn **before** taxes and deductions. *Net pay* is what you have left **after** taxes and deductions. Net pay also is known as take-home pay. Your gross pay can have any of these things taken out:

- Federal and state income taxes withheld;
- FICA (Social Security and Medicare) taxes withheld;
- Flexible spending accounts (pre-tax deposits used for medical or dependent care costs);
- Medical (and dental/vision/life) insurance premiums you pay;
- Retirement plan (401K, 403B, or profit-sharing) contributions you make;
- Other expenses you pay through employer (uniforms, union dues, meals, parking, bus pass)

Budgets work best on a monthly basis. So here's how to calculate your monthly gross income.

How Paid	Calculation
Works Full-time, Paid Hourly	\$_____/hour x 2080 hours per year = \$____ ÷ 12 = \$____/month
Paid Weekly	\$____/pay period x 52 weeks ÷ 12 = \$____ per month
Paid Every Two Weeks	\$____/pay period x 26 = \$____ ÷ 12 = \$____ per month
Paid Twice/Month	\$____/pay period x 2 = \$____ per month

Be sure to add Social Security or unemployment benefits, child support, bonus, tips, etc, but if this income is not consistent, then it is better to use only your steady income on the income plan.

Sample Paycheck

Employee Name Mary Anderson	Pay Period 11/11/09 – 11/25/09	Minnesota Mining, Inc.
Rate \$9.75	Hours 80	Pay This Period \$780.00
Deductions	Current Amount	Net Pay \$555.79
Federal Income Tax	57.12-	
State Income Tax	22.00-	
Social Security Tax	37.52-	
Medicare Tax	10.20-	
Medical Insurance	42.25-	
Dental Insurance	5.12-	
401K Plan	25.00-	
Flexible Spending Account	25.00-	
Exemptions: 02	Employee Number: 10202	Check Date: 12/02/09

Savings Plan

Pay yourself first. If you put money into savings every month, you will find a way to live on the rest. Start small and increase your deposit, as you feel more confident. Be ready for life's surprises. Budgets work only if you put money away, so you don't have to go into debt.

Here are five ways to make savings a habit:

1. Save all your loose change in a jar and when it's full, deposit it into a savings account.
2. Set up auto-transfer to move money from your checking into savings account monthly.
3. See if your work will directly deposit your paycheck – some to checking, some to savings.
4. Once you pay off a loan, keep paying that amount – to your savings account instead.
5. Put all extra money (bonuses, tax refunds, gift money, rebates) into savings.

There are three layers of savings that you should try to build:

- Layer One – a put-and-take account for periodic expenses (like car repair and holiday gifts)
- Layer Two – an emergency savings account used just for the unexpected or for goals
- Layer Three – retirement savings (in long-term, tax-deferred plans like IRA or 401K)

If You Can't Pay All your Bills this Month, PRIORITIZE.

1. Start with food and medical essentials. Groceries are essentials, but meals out are not. Doctor visits or prescriptions to treat medical problems are priority, but paying old doctor bills are not. (Eventually, you must deal with these, but they are not the top priority).
2. Next, pay your rent or mortgage, and critical utilities. You need to pay heat and electric and water to prevent shut-off, but other utilities like phone, cable, cell phone, Internet, and storage are not. Cancel those and make plans to pay the old bills later.
3. Then pay your essential insurance premiums. Medical insurance and auto liability insurance are essentials. If you own a home, homeowners insurance is essential (renters insurance is not). If you still have a car loan, auto collision/comprehensive insurance is essential (but not if it's a paid-off car).
4. Then pay your secured debts (car loan) so it will not be repossessed. If you have a good payment history, ask the lender if you can skip a month or tack a month onto end of loan.
5. The last priority is unsecured debt (credit cards, medical bills, book clubs, donations). Don't let debt collectors scare you into a bad decision – just make a plan to send them some small payment each month, and do not give them your bank account number or any post-dated checks.
6. Stop making any new debt (no credit cards or loans) and use a cash flow chart to see when money is coming in and what to pay out of each check.

THE PUT-AND-TAKE ACCOUNT: SAVING FOR PERIODIC EXPENSES

Use this chart to save each month to prepare for big expenses that don't come every month.

Expense	Cost/ Year	Amt./ Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Car Insurance twice/year	\$600	\$50	50	100	150	200	250	-300	50	100	150	200	250	-300
Car repairs														
Holiday Gifts														
Vacation														
Property Taxes														

CATEGORIES FOR TRACKING IN A SPENDING PLAN

Use these categories for your tracking sheets. On this list, circle any expenses that do not come up monthly and use the *Put-and-Take Account* to save up for them, i.e. – car repairs. Then put that monthly amount saved on the *Spending Tracker*.

If anything is already taken out of your paycheck, such as health insurance, don't track it here.

Also, use the *Debt Tracker* sheet on the next page to figure your monthly debt payments into spending. Then write those debt payments down on the *Spending Tracker* when you pay them.

Savings

- Emergency savings

Housing

- Rent or mortgage payment
- Property taxes
- Association fees (if town home)
- Homeowners or renters insurance

Insurance

- Health insurance
- Dental insurance
- Life insurance
- Disability insurance

Children

- Child support payments
- Daycare costs
- Kids' sports and activity fees
- Allowances paid to kids
- Diapers or formula

Transportation

- Bus fare or pass
- Gasoline
- Car repair
- Parking costs

Personal Care

- Medical and dental co-payments
- Prescription drug co-payments
- Laundromat and dry cleaning
- Haircuts, grooming
- Toiletries and cleaning supplies
- Clothing/shoes

Debts

- Credit card monthly payments
- Car loan payments
- Student loan payments
- Lines of credit at bank
- Money owed to family/friends

Utilities

- Electricity and gas
- Water/sewer
- Trash
- Local phone
- Cell phone or pager
- Calling card/long distance
- Cable TV or satellite
- Internet access

Food

- Groceries
- Food bought at work
- School lunch fees
- Meals out

Recreation

- Pet care (food, litter, veterinary)
- Giving to charity, religious, or political
- Tobacco or alcohol use
- Tickets to movies, plays, concerts
- Club memberships or organization dues
- Vacation and travel
- Books, newspapers, magazines
- Gambling, bingo, or lottery
- Birthday or holiday gifts

DEBT TRACKER WORKSHEET

Use this sheet to list your debts and organize the payments so you're never late on payments. Include monthly debt payment amounts on spending tracker to account for money spent paying back debt.

Type of Debt	Balance Owed Now	APR Interest Rate	Monthly Due Date	Minimum Payment	Powerpay Strategy: Minimum due plus \$10 extra each time
Mortgage					
Vehicle Loan					
Student Loan					
Personal Loan					
Credit Card					
Credit Card					
Old dental bill					

THRIFTINESS TIP SHEET

Needs are what you **must** have to live; wants are everything else you would **like** to have. Learning to be thrifty means saying yes to only some of your wants, so needs will get met. Here are some money-saving ideas for you to try to reduce expenses.

Food

- Concentrate on nutritious foods. Drink water rather than pop. Have some non-meat meals.
- Cut down on meals away from home. Pack bag lunches for school and work.
- Save leftovers and use them in stews and soups or freeze them for another week.

Housing

- Offer to manage the building or do mowing/shoveling in exchange for reduced rent.
- Move in with relatives for cheap rent to free up money to get out of debt. Offer to cook.
- Rent out extra space to a tenant.

Utilities

- Hang-dry clothes to avoid dryer costs and ironing.
- Turn off the lights when you leave the room. Pull the shades and use fans instead of AC.
- Dress warmly and set the thermostat lower; and turn it down when away or sleeping.
- Before calling long-distance, make a list of what you want to talk about and set a timer.

Personal Care

- Stock up on personal care items when on sale, such as toothpaste and shampoo.
- Give haircuts at home. Switch to hairstyles you can manage yourself.

Gifts

- Consider giving time or coupons for services instead of money and presents.
- Do holiday gift exchanges (each buy for one person) instead of buying for everyone.

Transportation

- Use buses, organize a car pool, or walk or bike for shorter trips.
- Pump your own gas, regular grade, at the gas station with the cheapest price.
- To lower car insurance rates, practice defensive driving and consider higher deductibles.

Healthcare

- Ask doctors to prescribe drugs by generic name. Ask for a 90-day supply, not a 30-day.
- Maximize your wellness by eating well, exercising, and getting enough sleep.
- Look into services at community health clinics for reduced fees on counseling, family planning, immunizations, and basic lab tests.

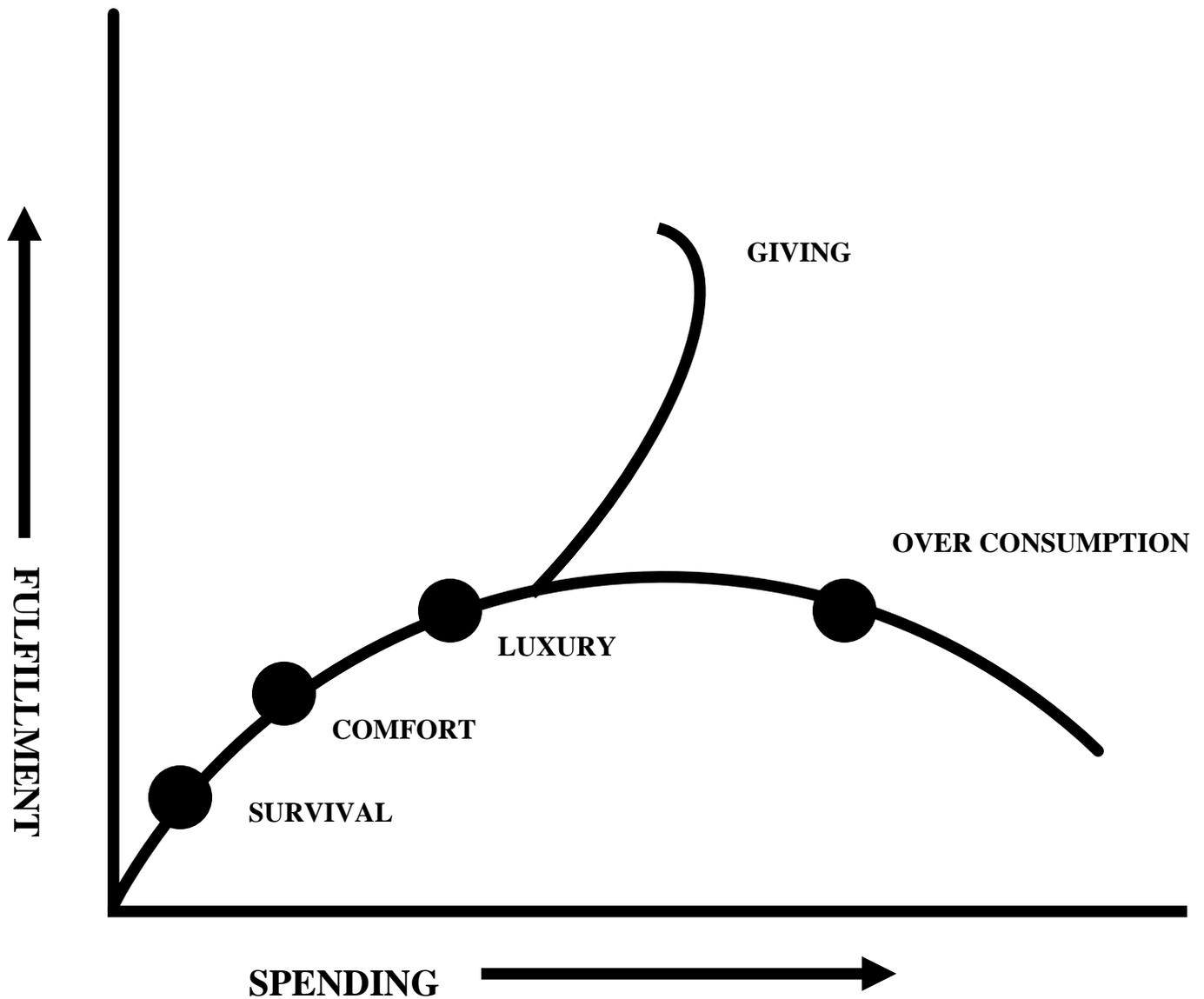
Recreation

- Take advantage of the library for books, movies, music, and free Internet access.
- Develop hobbies that save or even make money: vegetable gardening, repairing, knitting, etc.
- Give up alcohol and tobacco and learn other ways to relax and enjoy life.

THE FULFILLMENT CURVE: DOES MORE SPENDING MEAN MORE HAPPINESS?

Having more money can promote happiness by having more choices and comforts. Looking at the graph below, fulfillment increases as spending increases — at first. Moving from survival to comfort, e.g. from homeless to your own apartment can feel great. Even moving from comfort to luxury, e.g. from meals cooked to meals eaten out, can feel great. At some point though, having more actually can *reduce* happiness, such as having big house with everyone off in his/her own room watching own TV alone, or having so many clothes that there's no room for them in closet.

One way to achieve greater fulfillment is to get off the consumer treadmill and live a simpler lifestyle. Another is to share extra money with others to help them move past just surviving.



TALKING BACK TO ADVERTISING

Advertisers use manipulation to make their products sell. Smart consumers resist the pressure of ads to spend more and buy now. Here are three strategies that you can use to become a smart consumer:

- Don't shop just to fill time. Go to the store with a list and comparison shop for best prices.
- Opt-out of telemarketing/junk mail (more on how, later) and mute those TV commercials.
- Ask yourself before buying, "Is this part of my spending plan or can it wait?"

One of the best ways to raise thrifty kids is to show them how to "talk back" to advertising. Look at some print ads or TV commercials together and show them how advertisers are trying to sell them things besides the product itself.

<p>What product is being sold?</p>	
<p>How have you survived without this product so far? Do you need it now?</p>	
<p>What actual facts does the ad give about the price or quality of the product?</p>	
<p>Does the ad use other needs and feelings to sell the product? (staying young, sex and glamour, fear or loneliness, acceptance by others, etc.)</p>	
<p>Does the ad use music, color, or locations to try to get you to buy the product?</p>	
<p>What questions might you have about the product that the ad tries to hide from you?</p>	

RAISING MONEY – SMART CHILDREN

Learn to Earn Money

- Pay a weekly allowance in return for doing family chores like washing dishes, increase the amount as they get older (e.g.- pay half their age weekly, like age 5 = \$2.50/week).
- Help them become young entrepreneurs, i.e. pet walking, painting, car washing, tutoring.
- Tell teenagers their main job is school, but allow them to get part-time job if good grades.

Learn to Set Goals

- Have them write a wish list and make regular savings deposits toward something they want. Show them how long it will take if they save money every week so they can plan.
- Consider matching their savings, so they are motivated by reaching goal quicker.
- Try to let them learn the good feeling of earning something: kids take better care of things they buy with own money than if it is just given to them.

Learn to Save Money

- Pay allowances in quarters instead of dollars: have them put 25 cents to savings, 25 cents to giving, 50 cents to decide for themselves (spend or save more).
- Once a month go together and deposit their savings money with them. Credit unions and banks have special savings accounts for children which help them save.
- Once a month take the giving money and decide together how you will share it (for example, go buy food for the local food shelf and deliver it together).

Learn to Enjoy Life without Spending

- Limit going to the mall and help them find non-commercial places to be with friends.
- Plan family fun around no-cost activities, such as walks together, picnics, reading books aloud, playing board games, volunteering with seniors or Big Brother/Sister program, building houses with Habitat for Humanity, getting books and movies from the library, gardening, and ushering at plays to get in free.
- Plan family fun around low-cost activities, too, like inviting friends to a potluck party, starting a community garden plot, gym memberships, and reduced fees for camps by mentoring younger kids.

IMPORTANT FINANCIAL RECORDS TO KEEP

When was the last time you couldn't find an important bill or paper you put someplace? Having a system for financial records will save you time, money, and prevent problems. Find one place in your home to keep all financial papers, using boxes, file cabinets, or desk drawers. Try these ideas:

How to Pay Your Bills on Time

- Make a folder for each type of financial paper.
- When a bill comes, leave it out on the desk until it gets paid.
- Once it gets paid, write "paid" on it and put it in the file – you can then throw out last month's bill, but always keep a copy of a bill until you replace it with the newest one.

What Important Records to Keep

- Checking and savings account monthly statements
- Pay stubs (until W-2 at end of year)
- Student loan, car loan, any other loan papers
- Credit card monthly statements
- Legal papers: wills, birth certificates, divorce papers, health care power-of-attorney
- Income tax returns and receipts you use to claim deductions on taxes (keep for 7 years)
- Car information: car insurance policy, repair records, bills, warranties
- Health information: medical and dental insurance policy, vaccination records, bills
- Job papers: resume listing job history, reference letters, and job evaluations
- Homeowner papers: deeds and titles, mortgage or lease, list of belongings
- Social Security and retirement account statements

THE BASICS OF FILING TAXES

If you have earned income, you probably need to file a federal and state income tax return. If you need to file and do not do it, it is a crime. There are penalties charged for this crime.

Even if you do not owe taxes, you may qualify for refunds through tax credits if you file. You need to file last year's tax return by April 15th of this year. If you are going to get a refund, file earlier so you get your money back sooner.

If you are an employee, you will get a W-2 form showing how much you made last year. If you were an independent contractor, you will get a 1099 form. You will need these forms to file your taxes. If you were self-employed in your own business, you may need to file tax forms quarterly, paying estimated amounts of tax four times a year.

When you file, you can claim **tax deductions** – a deduction subtracted from your taxable income. You can also claim **tax credits** – a credit subtracted directly from the taxes you owe. You should be honest with your taxes, but do claim every deduction and credit you are entitled to. The following are some important credits to look into when you file your taxes.

Federal Earned Income Tax Credit and Minnesota Working Families Credit

Low-income families with children can get up to \$4800 back from the federal government and \$1500 from Minnesota.

Federal Child Tax Credit

Low-income families can get back up to \$1000 per child.

Federal and Minnesota Child and Dependent Care Credit

Families who pay childcare costs for kids or dependent adults can get up to \$1000 back from each.

Federal Retirement Savings Tax Credit

Taxpayers can receive up to \$1000 back for contributing to their retirement plans.

Federal Hope Scholarship and Lifetime Learning Credits

Taxpayers can get up to \$2000 back on college educational expenses.

Minnesota K-12 Education Credit and Subtraction

Low-income families can get back up to \$1000 per child for some school expenses.

Minnesota Property Tax Refund

Renters and homeowners can get back up to over \$1300 depending on your income.

You will need to read more to see if these apply to you, but be sure to ask about them.

“Taxes are the price we pay for a civilized society.” – from a sign outside IRS headquarters.
Remember that taxes pay for the services people need, like roads, and police and parks.

PART TWO:

DEBT REDUCTION AND

ASSET BUILDING

IMPROVING YOUR DEBT-TO-INCOME RATIO

Your debt-to-income ratio is the percentage of your take-home pay that is tied up in debt payments. Housing costs like rent or mortgage are not included; this ratio looks at *consumer* debts, including credit cards, car loans, student loans, personal loans. Most Americans have a debt rate of around 12 percent, although the goal should be to get it down to zero and live debt-free.

Divide your monthly debt payment by your monthly net pay. For example, if you made \$900 net income and had \$100 of debt payment, that makes a 12% rate ($100 \div 900 = .12$, which is 12%). Or if your monthly net pay was \$1600 but you had \$400 per month of loan payments, that would be a 25% rate ($\$400 \div \$1600 = .25$, or 25%).

How Much Debt Is Too Much?

- 10 percent (congratulations, you are like 85% of all American families, in control)
- 15 percent (you are on the edge, try to pay that down so you're not overextended)
- 20 percent and above (red alert, you need to make big changes to get back in balance)

Other Warning Signs of Too Much Debt

- Making late payments and getting late fees or bounced checks
- Being maxed-out or over the credit limits
- Paying only the minimum due or needing to time the payment to mail at the last minute
- Paying one creditor by taking out more debt with another

Think like a Credit Lender

Mary earns \$1500 a month. She pays \$150 per month to credit cards, plus \$150 per month to her student loan. Calculate Kelly's debt-to-income ratio:

$$\begin{aligned} \text{Total monthly debt payment} &= && \$300 \\ \text{Total monthly net income} &= && \$1500 \\ \text{Debt-to-Income ratio} &= && \$300 \div \$1500 = 20\% \end{aligned}$$

Based on her ratio, do you think a bank or credit union would approve her for a car loan?

PAYING MORE THAN MINIMUMS ON CREDIT CARDS AND LOANS

Why Does It Take So Long to Pay Down My Credit Card Balances?

Annual fees, late fees, over-limit fees, and high interest rates all lead to slow repayment on credit cards and loans. Creditors typically ask for only a 2% monthly payment (2% of the balance owed), and fees and interest eat up that small payment.

Let's suppose you have a \$1000 balance on a credit card charging 18% interest. You just received your monthly bill and the minimum due is \$20. You'd think that after you paid your \$20, your new balance would be \$980 (1000 minus 20), but you'd be wrong.

That 18% interest rate per year means 1.5% interest per month. So the interest charged each month is 1.5% of \$1000, or \$15. That means when you sent in the \$20, \$15 went to interest and only \$5 paid down the balance. You still owe \$995. It will take you 93 months (almost 8 years) at that rate. And that assumes you never miss a payment – if you do, the interest rate can jump to a *default rate* of 27% and late fees of \$30 added each month.

But if you pay **more than minimums**, you can pay the debt off a lot faster. If they ask for \$20, send \$30. That way \$15 of each payment pays down the debt, not just \$5. Then the debt is paid off in less than four years, and a lot less paid. Check out the chart below.

How Many Monthly Payments Will It Take to Get Debt-Free?

If you have \$1000 in debt, try to pay 3% (or \$30) each month – look across the 3% row on the chart – if you're paying 18% interest, it's 47 months to pay off your debt. It gets even faster if you can pay 5% or 10%. But remember **ANYTHING** above the minimum will help.

		Annual Interest Rate (APR)		
		8%	12%	18%
Monthly Payment % of Balance Paid	2%	61	70	93
	3%	38	41	47
	5%	21	23	24
	10%	10	11	11

PRIORITIZE YOUR DEBTS

Dealing with your debts can feel like dental office visits – not a lot of fun, but if you do it, you can keep your teeth. There are three types of debts: pay the most important ones first.

Secured

Secured debt is backed by things you own, i.e. mortgage or car loan. If you do not pay as agreed to, creditors can take back the property, i.e. *repossess* the car or *foreclose* on the house, and sell it at auction, and even sue you for any loan amount left over after the sale.

Priority Unsecured

Priority unsecured debt is backed by the government, i.e. student loans, state and federal income taxes and property taxes, and child support owed. If you do not pay as agreed, creditors can add interest and penalties, garnish your wages (take up to 25% of your paycheck), and get judgments against your bank account (take any money in the account).

Unsecured

Unsecured debt has only your contract backing it. This includes credit cards, personal loans and lines of credit, medical bills, and bounced checks. Creditors will often add interest and fees, make collection calls, and they can go to court to ask for a garnishment or judgment as a last resort.

Tips for Dealing with Collectors

DO send written payment plans, along with a monthly check or money order for an amount you can keep up with, and never miss a payment.

DO keep records of creditor contacts: copies of signed and dated letters and payments sent, and phone logs with date and time, who you spoke to, and what was said.

DO open the mail and respond to any court papers. Some will ask you to respond in writing within 20 days (do it and keep a copy). Some will ask you to appear in court (do it and bring papers showing your payment plan has already started). If you do not do what is asked, you will lose by default and may have legal costs added to your debt.

DO NOT argue with collectors: after you've sent a payment plan, just answer the phone, say "I've sent a payment plan and that's the best I can do" and hang up.

DO NOT send post-date checks nor give your bank account number to creditors.

DO NOT send payments until you know the balance and account number of the debt you owe.

DO NOT pay the meanest collector first. Pay in order of priority.

HOW TO HANDLE UNSECURED DEBTS LIKE MEDICAL BILLS

Unlike credit cards, most medical and dental bills and old utility bills do not charge interest. On the phone, collectors may say they will refuse a payment plan, but the truth is that in most cases, if you send it, they will take it (no judge wants to garnish you if you are already paying).

Write your payment plan letter using the sample letter below. Keep a signed, dated copy for your records, and if you ever get summoned to court, show it to the judge. If the debt collection is already at a law office, send it certified mail, return receipt at the post office, so you can be sure you also have proof they received the letter. Write your debt account number on the check.

How much is enough to pay each month? Think like a judge. If the debt is only \$100, then \$10 per month will get it done in 10 months. If the debt is \$1000, then you'd better raise the payment to \$25, which will get it done in 40 months. Send an amount that will get it paid in less than four years and most judges will see that as reasonable (\$10/month on \$1000 is 100 months, and 17 years is not reasonable).

Sample Letter

Date

Creditor Name
Creditor Address

Dear _____:

I am writing to you about my account # _____ on which I owe \$ _____. I intend to pay the whole debt, but cannot pay it all at one time. I can pay \$_____ each month. I have enclosed a check for this amount. You can contact me at the address listed above, if need be. Thank you for your understanding and I intend to pay faithfully until the debt is paid in full.

Your Signature
Your Typed Name

The Special Case of Bounced Checks

When you write a check and there is not enough money in your account to pay for it, the bank will reject it and you will owe a fee, either to the bank or to the business you wrote the check to, or both. That situation is called an *overdraft* or bounced check or NSF (non-sufficient funds).

In Minnesota, the law allows creditors to charge you a \$30 fee right away (so if you bounce a check for \$5.20, you now owe \$35.20). Check collection companies do not allow payment plans, so save up and pay the full amount (amount of the check plus \$30). Some collectors try to bluff extra "civil penalties up to \$100" from you. But unless they can provide a court order showing that a judge gave that penalty, all you owe is the check plus \$30. Demand proof of any extra fee; pay what you owe and in writing ask for which court, which case number and date ordered fees.

HOW TO HANDLE CREDIT CARD DEBTS

Ideally, you will be paying your credit card bills on time each month, and paying more than minimums so you can become debt-free. But if you are late, you may find yourself buried in late fees, over-limit fees, and a default interest rate that jumps to more than 25%. That can mean a debt that grows by more than \$100 each month! Do NOT try to ignore this in the hopes it will go away. Instead, consult a reputable consumer credit counseling service (CCCS) agency for help.

What Does a CCCS Do?

A debt management plan (DMP) at a CCCS is a consolidation program to get you back on track. You agree to cut up your cards and pay all your credit card debt through one monthly payment sent to the agency. In return, most creditors will lower the interest rates, stop late and over-limit fees, and return to reporting you as having a good credit status.

You may still keep a debit card (the card attached to your checking account) and use it, but no new credit cards. The first rule of getting out of holes: stop digging! Debt management plans are written to help you get accounts paid off in five years or less. Of course you must pay on time, and there is a small fee for the program, but it is always less than all those late fees. Most agencies offer free budget counseling to help you stick with a plan. That free counseling is paid for by “fair share” creditor donations to the agency.

A debt management plan does not erase your past late payments nor any fees charged to date. But it does include the premise that creditors agree to stop any future fees and to report the accounts as “re-aged” or on time, and generally lowers the interest rates to the point where pay off within five years is possible. For many people, it is a chance to get back on track.

How Can I Tell Which CCCS Agency Is Safe and Which Is a Rip-off?

The National Foundation for Credit Counseling (NFCC) is a network of CCCS agencies, which holds to the highest standards. Member agencies must have certified credit counselors, offer low fees, work with all credit card debts, offer a wide range of financial counseling help (not just debt only), and staff must be non-commissioned (meaning they do not profit from writing you a DMP contract).

To find a safe member agency, contact the NFCC at 1-800-388-2227 or online at www.nfcc.org.

Often debt agencies that advertise on TV, radio, and the Internet often are not NFCC members. Many have been sued for fraud and exploitation of clients by charging high fees, not paying creditors as agreed, and trying to “bait and switch” customers into expensive consolidation loans. So be careful in choosing which agency to help you with a debt management plan.

HOW TO HANDLE STUDENT LOAN DEBTS

There are many types of student loans: direct loans, Perkins loans, Stafford loans, Sallie Mae, or Great Lakes Higher Education loans, all of which are backed by the federal government so that they can be offered to students at low interest rates. Usually, you start repaying your loans six months after you stop going to college. Here are some special rules remember about student loans.

Do Not Default on Your Loans

- If you don't pay, the loans will go into default and then special collectors can add giant fees and garnish your paycheck and intercept your tax refunds.
- If your loans are in default, get them fixed right away by calling the US Department of Education at 1-800-872-5327 to apply for a William D. Ford Consolidation of your loans. Then after three months of payment, you are out of default and back on the path of good credit. Sometimes reduced payment size also can be set up.

Deferment May Be an Option

- If you are returning to school, you can put your student loans into deferment, which means that they will still grow with interest, but no payment is needed until you stop school. But it is not automatic, so call the lender and be sure to complete all the forms on time, and keep a copy.

Forbearance May Be an Option

- You can ask your lender to put a loan on hold if you have a period of unemployment or unexpected emergency expenses. The loans will still grow with interest, so do not do this for a long period. Again, be sure to complete all forms on time and keep a copy.

Forgiveness of Loans May Be an Option

- A federal student loan can sometimes be cancelled, if you become permanently disabled or if you work full-time in certain professions like medical, law enforcement, Peace Corps and VISTA, and some early education or K-12 teaching jobs. You can call the U.S. Department of Education to find out if you qualify.

HOW TO HANDLE INCOME TAX DEBTS

It is important to file your taxes even if you are going to owe money.

If you don't file, the government will charge extra penalties. They will charge you interest on any tax owed if not paid by the April 15th filing deadline, but the rates are not as high as many other debts you might have.

Send a payment plan with a first monthly check.

The IRS and Minnesota Department of Revenue would like the debt paid within a year, but most reasonable payment plans are accepted. For example, if you owed \$1000 and sent \$50 per month, the debt would be paid in less than two years. Generally, \$25 per month is the minimum payment allowed. Whenever possible, pay more when you can. Be sure to keep up with payments, and try to pay it off in less than three years.

There are consequences for not paying the state and federal government.

If you do not pay your taxes, the IRS and the Minnesota Department of Revenue can impose a wide range of penalties, including garnishing your wages, intercepting your tax refunds, and seizing and selling your property. They also can collect for other government debts, such as an unpaid county medical center bill, overpayment of benefits paid to you in the past like unemployment or welfare, back-owed child support, or defaulted student loans.

There is a resource within the IRS called the Taxpayer Advocate Service.

If you owe taxes and are unable to pay, the IRS' Taxpayer Advocate Service may be able to help. They can determine if you qualify for an *Offer in Compromise*, where your tax debt can be reduced or cancelled. The three situations that fit this program are:

- **Doubt as to Liability** – you must show good reason you don't owe that amount;
- **Doubt as to Collectibility** – you must demonstrate you have no assets or income to pay, ever;
- **Effective Tax Administration** – you must admit you owe it and could pay it, but show exceptional circumstances where full payment would cause an exceptional economic hardship.

DESPERATE MEASURES: SHUFFLING DEBT AND GOING BANKRUPT

The right tool can help you get the job done, but the wrong tool can be a disaster. For example, a hammer is perfect to drive a nail, but don't try to trim your fingernails with it. This page describes four financial tools that should be used **ONLY AS A LAST RESORT**. Do not use them unless you have absolutely no other choice.

Settlements: Shuffling Debt in Hopes of Paying Less

Debt collectors often offer *settlements*, which means they will consider an account paid off in return for a big lump-sum payment, usually half of what is owed. Watch out for the following:

- If you pay them a big lump sum, you may not have enough to keep other bills current.
- Unless well-documented in advance, you may get stuck with the rest of the debt anyway.
- Collectors may still report the account as bad credit, "settled for less than full balance."
- Collectors may issue a 1099 form, meaning you now owe taxes on what was forgiven.

Home Equity Loans: Shuffling Unsecured Debt into Secured Debt

Mortgage lenders try to sell you on paying off bills by taking a home equity loan from the value of your house, since interest rates may be less. Watch out for:

- Your equity will be less, so if you have an emergency roof or sewer repair, it's not available.
- Unsecured debt could be discharged in a bankruptcy, but now it is secured so cannot be.
- Being bailed out by home equity loan fuels bad habits, so more new debts are taken out.

Retirement Plan Loans and Withdrawals: Robbing your Future Self

People can take loans from their 401K plans, and emergency withdrawals from 401Ks and IRAs, but you will rob your future and create other problems. Be aware that:

- Loans will lower your net pay, since they are repaid from every paycheck.
- If you ever leave the job or are laid off, the whole loan becomes due immediately.
- Withdrawals are taxed 20% or more PLUS 10% penalty, so taking \$1000 may only get you \$600
- If that money was left alone in retirement investments, every \$1000 could double every 10 years

Bankruptcy: Like a Farmer Burning His Entire Crop Field

Bankruptcy is a court proceeding where you may file Chapter 7, which erases all unsecured debts, or Chapter 13, which is a court-run payment plan to pay back some debt but erase the rest. You get to keep some assets, but the court will sell other things to pay the debts. You may file bankruptcy once every seven years. Bankruptcy cannot include taxes, student loans, or child support. It is complicated, so if you do file, find a bankruptcy attorney you trust for legal advice. Be aware that:

- Bankruptcy costs about \$1000 in court and legal fees and is on your credit record for ten years.
- Car insurance companies check credit and your rates usually rise after a bankruptcy.
- Employers may check credit and not hire you for a job due to a bankruptcy.
- Landlords may check credit and not rent to you due to a bankruptcy.
- Being bailed out by filing bankruptcy may leave overspending habits intact, so new debts are taken out and you get behind again.

THE IMPORTANCE OF ASSETS

An asset is something you own that has lasting or even growing value. Assets are different from income. You could have a great income, but it could disappear if you are laid off, fired, or unable to work. Assets have lasting or growing value. **Assets are how you get wealth.**

Financial assets include:

- Savings, like bank accounts and U.S. savings bonds;
- Real estate, like house and land;
- Investments, like stocks, bonds, and mutual funds;
- Retirement funds, like 401Ks, IRAs, and Social Security;
- Valuable possessions, like art, jewelry, and paid-off vehicles.

The opposite of assets is liabilities (debts). Liabilities include: home mortgages, car loans, student loans, personal loans and lines of credit, and credit card debt. **Liabilities make you poorer.**

ASSETS ARE WHAT YOU OWN BUT LIABILITIES ARE WHAT YOU OWE.

America has become a nation of debtors, saving less and spending more, always getting deeper into debt. More than a million people go bankrupt every year and suffer the consequences. Here is an amazing fact about our country's saving rate:

% of Income Put Into Savings	8.3%	9.6%	7.3%	-0.4%
For What Year	1970	1980	1990	2000

What the heck happened? There was explosive growth in Americans taking on credit card debts and home equity loans, and now our savings rate is less than our debting rate. The only way out of this trap is to make a new habit to spend less and save more. That way we build assets. If you pay yourself first, and pay down your debts, you will be on the road to wealth. Instead of paying interest to some bank, save up and buy assets so the bank pays you the interest!

Net Worth: How Much You Own Minus How Much You Owe

To figure out your net worth, add up all your assets. Then add up all the debt you owe, and subtract your total debt from your total assets. For example, if you have a mortgage for \$100,000 but the house is now worth \$150,000, you have \$50,000 in equity, or net worth of \$50,000. To show an opposite example, if you are “upside down” on a car loan, you may owe \$10,000 on a car that is only worth \$7000 if you sold it. That would be *negative* equity, or \$3000 in the hole.

HOME OWNERSHIP AS AN ASSET

Owning a home can be a way to build wealth, because in general, home values increase, so it becomes worth more than you paid for it. The equity you own in a home is value of the home minus the mortgage loan. Each monthly mortgage payment you make builds a little bit more equity for you. However, homeownership is a big commitment, so think long and hard about all the aspects that follow.

Advantages of Homeownership

- Feeling a sense of ownership (security and stability in where you live)
- Stable housing costs (same payment every month, unlike rent that goes up)
- Increased net worth (houses increase in value and when you sell, you make a profit)
- Tax benefits (homeowners can deduct the interest paid on a mortgage from their taxes)

Disadvantages of Homeownership

- Increased financial responsibility (you pay utilities, insurance, property taxes, appliances)
- Commitment to neighborhood (need to stay put long enough for value to grow)
- Increased time commitment (you do the yard work, home repairs, emergencies)

HIGHER EDUCATION AS AN ASSET

Investing in yourself is always a good idea. You can get a very high rate of return by qualifying for a better job when you get a degree or training through higher education. The amount you can expect to earn often depends on your education. The chart that follows is based on 2002 data from the US Census Bureau.

Education Level	Average Annual Salary
9 th to 12 th grade but not diploma	\$17,282/year
High school diploma or GED	\$22,078/year
Associate's degree (2-year college)	\$29,033/year
Bachelor's degree (4-year college)	\$36,526/year
Master's degree (graduate school)	\$41,303/year

You can really pump up your earning power with more education, which can lead to a path to other assets. For example, in order to achieve your dream of owning a home, you may need to go back to school to increase your earnings.

SPECIAL SAVINGS PLANS: If you put money into a **529 plan**, it will grow faster because it is tax-deferred, and when you take the money out for higher education costs, it is not taxed. The plan for Minnesota is at www.mnsaves.org and offers a state match on some of what you put in. An **ESA** (Education Savings Account) also lets you save tax-deferred up to \$2000 per year.

KEEPING A PAID-OFF CAR AS AN ASSET

Except for buses and bicycles, there's nothing thriftier than keeping a car going after it's been paid for. Almost any car can be nursed along to 200,000 miles without danger. And even putting in a new engine is cheaper than buying a new car. Remember, it's an asset once it's paid off.

The Secret to Keeping a Used Car Running is Preventative Maintenance

Doing regular maintenance prevents costly emergency repairs. Check your owner's manual for the specifics for your car, but here are some must-do basics for most cars.

Every 3000 miles

- Change the oil and oil filter and lubricate the chassis;
- Check all fluid levels and inspect the lights;
- Rotate the tires every other oil change.

Every 30,000 miles

- Replace the fuel filter and spark plugs;
- Change the transmission fluid and change the radiator coolant;
- Adjust the valves and get a tune up to check timing;
- Check the tires and replace when there is little tread left.

Every 60,000 miles

- Repeat the 30,000 mile list;
- Replace the timing belt (\$500 to replace, \$2500 if it breaks first);
- Check brake system and replace brake fluid.

The Secret to Not Giving in to That New-Car-Smell Urge

A typical new car costs more than \$20,000 and the loan can be more than \$300/month. Compare that to keeping a used car going. Repairs on old cars average \$600/year (only \$50 per month). If you think you cannot afford the \$600/year for repairs, you definitely cannot afford \$3600/year (\$300 x 12 monthly payments). To cure the urge, try paying that \$300/month *to yourself* for three months into savings, and see how you do. If you do that for even just two more years, you will be able to flat-out BUY a great used car for \$7200 (\$300 x 24 months, paid to savings).

How to Replace Your Old Car with a Newer Used Car When Needed

You can find out the value of your old car on www.kbb.com or www.edmunds.com or by looking at the Kelly Blue Book at your library. Then place an ad and sell it. You'll get more than if you trade it in. Be sure to transfer the car title to the new owner after the sale.

Before selling, go get a newer used car. Test drive it, bring along a friend who asks lots of questions about the car, and line up a mechanic who will inspect it if you pay them \$50. If it needs repair, ask the dealer to fix it before buying. Check the VIN number through a service called Carfax (www.carfax.com) to see the vehicle's history and be sure it was not in major floods or crashes. Consumer Reports magazine has a special used car buying guide at libraries, which can tell you about reliability of various makes and models of cars.

RETIREMENT PLANS AS AN ASSET

Social Security

You pay into social security through your paycheck (FICA) and employers match this amount. The more years you work, the higher benefit you get when you retire – but you must work at least 40 credits (10 years of full-time work) in order to qualify when you retire. The medical insurance provided along with Social Security is Medicare, and there are also benefits paid for survivors (if you died) or disability (if you are unable to work).

Pensions

Some employers have a pension plan that will pay you a monthly amount when you retire. Most require you to be *vested*, which means you must work a certain number of years before you qualify for any benefit.

401K and 403B Plans

Some employers offer retirement plans that employees can contribute to directly. These are tax-deferred, meaning that there are no taxes on what you put in, only when you start to take out at retirement, which is usually anytime after age 59 ½. Typically there is a penalty if you withdraw before that time. Many employers offer a match for what you put in, so it can grow quickly.

These plans are a fantastic investment, since they are lower your taxes and grow fast. Compare:

Spend it now	Put it into a 401K
<ul style="list-style-type: none">• Take the \$100• Minus taxes (\$30)• You now have \$70	<ul style="list-style-type: none">• Put the \$100 into a 401K• No taxes, so all \$100 invested• You have: \$200 in five years, and \$1600 in twenty years

And that's even without a match. If your employer gives you 50 cents match on each dollar put in, you've made a 50% gain. **Do the math.** If you had kept the \$100, you would have only actually gotten \$70 after taxes. But if you invest it in a 401K, you keep all \$100 plus with a match you now have \$150, more than twice as much as the \$70. And, it will grow and grow over the years.

Individual Retirement Accounts (IRA and ROTH IRA)

Anyone can open one of these at a bank or brokerage. You put money in and it grows tax-free until you start to take it at retirement (after 59 ½). With a regular IRA, you can deduct your contribution for your taxable income. With a Roth IRA, there is no deduction now, but when you take the money out, it is tax-free.

Simple Accounts (Savings Incentive Match Plans for Employees)

Self-employed people can contribute to this kind of retirement account, which functions under most of the same rules as an IRA.

SAVINGS AND INVESTMENT AS AN ASSET

How Investments Grow to Become More

The Rule of 72 can show you how long it will take to double your money in an investment. Divide the number 72 by the annual rate of return for your investment. That is how many years it will take to double your money. For example, if you invest in a savings bond paying 3% interest, it will double in value in 24 years ($72 \div 3 = 24$). That's why you can buy a savings bond for \$25 and cash it out in 24 years for \$50. With mutual funds invested in stocks, you can double your money in 6 years ($72 \div 12 = 6$). That's because individual stocks go way up and down, but the overall stock market has averaged 12% growth per year over the long haul.

There are many ways to invest money, and all of them involve the **risk-return tradeoff**. You will get paid a higher rate of growth and interest in return for taking more risks. The investments at the top of that list are the safest and as you go down the list, you take on more risk but are likely to get a higher return.

Investment Type	Risk-Return Tradeoff
Savings account	government insured, pay about 1% APY
Money market account	not government insured, pay about 1.5% APY
Savings Bond (EE or I)	government insured, pay about 3-4% APY
Certificates of Deposit	government insured, pay about 2-4% APY
U.S. Treasury Bonds	government insured, pay about 3-5% APY
Corporate Bonds	not insured, pay about 3-6% APY
Stocks	not insured, can grow lots or lose lots
Mutual Funds	not insured, can average 12% growth if buy and hold

The four types of risk that you will need to choose from are:

Market Risk	the chance that the stocks or bonds you invest in will decline in value
Inflation Risk	the chance your savings will not keep up with rising costs of living
Interest Rate Risk	is the chance that your savings will lose value if interest rates rise
Liquidity Risk	the chance that you will need your money before it is available

- Stocks have market risk because the companies can go down in value or go out of business.
- Savings accounts have inflation risk because prices may rise faster than the interest rate paid.
- Bonds have interest rate risk because the value of your bond decreases if interest rates rise.
- Certificates of Deposit (CD) have liquidity risk because if you take your money before the term is up, you will have to pay a penalty. Savings bonds also pay only if you lock in the money.
- Keeping your money under the mattress is the worst risk of all – getting stolen or destroyed.

STRATEGIES TO KEEP RISKS LOW AND RETURNS HIGH

Diversification

If you put all your eggs into one basket, they could all get broken. One way to diversify is to buy some of each type of investment. Another is to buy mutual funds, which pool the money of many investors to buy a lot of different stocks. Buying a single stock is like betting on *one* horse to win a race. Buying a stock mutual fund is like betting on *every* horse in the race.

Keep Costs Low

If you do invest in mutual funds, consider buying *no-load* funds, so there is no sales charge. That was all your money goes to buying shares. Also, consider *index* funds. They buy and hold a big share of the market, so yearly costs are very low. Some investment firms will let you buy mutual funds with as little as \$25/month and only \$10/year cost to keep the account open. By keeping costs low, more of your money goes toward owning more assets, less toward fees.

Start Early and Keep Going

Compound interest is a great fact of investing. You not only earn interest on your savings but also interest on your interest (like a snowball rolling downhill, getting bigger all the way). So the more time you keep your savings working for you, the faster they grow. For example, if you started at age 30 investing \$300 per month into mutual funds that earned 7% per year, you would have \$540,316 by the time you retire at age 65. But if you waited until age 45, and then even put twice as much in (\$600 per month), at the same 7% rate, you would only have \$312,556 by age 65. Slow and steady wins the race for long-term investing.

Buy and Hold, Rather than Chase Hot Investments

People often make mistakes based on greed and fear. They chase the hot new stock they heard about (greed), and they dump good stocks that have a down year (fear). Use your head and know that there are ups and downs. If you hold a mix of quality mutual funds, bonds, and savings, you'll do fine over the long haul. Don't waste a lot of money on transaction fees by selling and buying in a panic. Investing should be as boring as watching grass grow.

Take Some Risks for Growth

You need to honor **both** goals – safety and growth. If you keep all your money in the mattress or low-interest savings, it will not grow enough to keep up with inflation. So put some into completely safe investments like savings and some into faster growing like mutual funds.

The table below shows the difference having a higher rate of growth can make.

Value of a \$10,000 Investment Growing			
Interest Rate	In 5 Years	In 10 Years	In 25 Years
3%	\$11,593	\$13,439	\$20,938
5%	\$12,763	\$16,289	\$33,864
10%	\$16,105	\$25,937	\$108,347

PART THREE:
BUILDING A GOOD
CREDIT RATING

THE FAIR CREDIT REPORTING ACT

There are three national credit bureaus that keep credit reports on consumers – Experian, Transunion, and Equifax (also known as CSC). They are private companies, but all are regulated by a federal law, call the Fair Credit Reporting Act (FCRA).

YOUR RIGHTS UNDER THE FCRA

You have the right to see everything that is in your credit report.

You can obtain a free copy of your credit report once each year and also under these conditions: if you have proof of being turned down for credit in the past 60 days, or you are unemployed and looking for work, or you have filed a report of stolen identity or credit fraud. You can also buy a copy of the report for \$3 per bureau at any time. Credit score is not free and is bought separately.

You have the right to an accurate file.

If there is an error in your credit report, you have the right to ask the bureau to investigate and remove incorrect information. If the information is in dispute and cannot be removed, you have the right to add a “line of explanation” next to the item on your report. Most negative information must be removed after seven years (bankruptcies are listed for ten years), but positive information can be listed forever.

You have the right to privacy.

No one can receive a copy of your credit report without your signed approval.

HOW TO READ A CREDIT REPORT

Your credit report will have four main sections:

Personal Identification Information

This includes your name, address, birth date, social security number, addresses, and jobs.

Public Record Information

This details court records, such as any judgments, garnishments, bankruptcies, or tax liens.

Credit Account Information

This section will list each account that you currently have or had in the past, who the creditors are, how much is owed still, and the payment history (the most recent 24 months is the most important). Often it will rate the account on a scale from 1 (good) to 9 (bad). 1 = paid on time, 2 = 30 days late, 3 = 90 days late, 5 = deep into collections, and 9 = charged-off. Charged-off is when creditors list you as permanent bad debt, but you still owe it.

Inquiries Made to Your File

This section lists who has seen your file in the past 12 months. It will lower your rating if you apply too many times for credit, but you looking at your own credit will never lower your score. Promotional inquiries (where businesses pay the bureau to look at hundreds of files to see if they want to make you offers) and account reviews by creditors you already have do not lower your score either – only when *you* apply for credit too many times.

HOW TO FIX ERRORS ON YOUR CREDIT REPORT

To correct your report, you must do it in writing: a short, clear letter to the credit bureau that issued the report. While the three bureaus share some information between each other, you must fix each report to be sure. Your letter should include details about the items you want corrected, listing both what is not correct and what the correct information is. You will need to include full name, date of birth, social security number, address, phone, and signature. Keep a copy.

Once the bureau receives your written request, the FCRA says it must contact the creditor that listed the information within 30 days and verify it. Allow up to 6 weeks for a response.

If you don't hear back after 6 weeks, send a second request letter along with a copy of the first signed, dated letter, and this time send it certified mail, return receipt, for proof they got it. Remind them that the FCRA requires them to respond within a reasonable time period.

If the bureau agrees with you that the information was incorrect, they will remove or update the file and send you a letter that they have done this.

If the bureau says that the creditor still insists the information is correct, they will send you a letter saying this. You then can write them further, this time sending proof if you have it, and ask the bureau to provide the name and address and phone for the creditor listing the information so you can check on what the dispute is.

If the creditor insists the information is correct, the bureau must list it, but you still have one more tool. Write the bureau to ask that they include a line of explanation from you (a brief statement of your side of the story) next to the account information.

Sample Dispute Items

- “The account status for this creditor is incorrect because _____. The correct status is _____.”
- “The following accounts were closed by me and should say, “closed by consumer.”
- “The following accounts were paid in full and show a zero balance.”
- “The following accounts were never mine and should be removed.”

Sample Lines of Explanation (Keep it Brief – under 100 words)

- “I was involved in a car accident in 1999 and sent to the hospital. The medical bills were sent to my insurance company, but did not get paid. The hospital sent my account to collections even though I set up a payment plan and now have paid the bills in full.”
- “I am disputing the debt listed by West Phone Company. My local phone account was paid each month but these are long-distance charges from a company I never signed up for service with and I do not owe them.”

WARNING: DO NOT USE CREDIT “REPAIR” SERVICES – these services will charge you and cannot do anything that you cannot do yourself for free; many have been sued for fraud because they use techniques like file segregation and mass dispute to cheat the FCRA system.

FREE CREDIT REPORT IS NOW AVAILABLE ONCE A YEAR BY CALLING 1-877-322-8228 OR ONLINE AT WWW.ANNUALCREDITREPORT.COM. BUT YOU CAN USE THE FORM BELOW AT ANY TIME TO REQUEST A COPY OF YOUR REPORT FOR \$3 FROM ANY OF THE THREE BUREAUS.

CREDIT REPORT REQUEST FORM

Use these addresses.
Please print or type neatly.

EQUIFAX
PO Box 105851
Atlanta, GA 30348
1-800-685-1111
www.equifax.com

EXPERIAN
PO Box 2002
Allen, TX 75013
1-866-200-6020
www.experian.com

TRANSUNION
PO Box 1000
Chester, PA 19022
1-800-916-8800
www.transunion.com

To: _____

Please forward a copy of my **individual** credit file.

Please forward a copy of our **joint** credit file

A check or money order for \$ is enclosed for cost.

Date: _____

Daytime/message phone: _____

Full Name: _____

Mailing Address: _____

City, State, Zip: _____

Previous addresses (past 2 years): _____

Your social security number: _____

Your date of birth: _____

Your signature: _____

(If joint file) Spouse's full name: _____

Spouse's social security number: _____

Spouse's date of birth: _____

Spouse's signature: _____

Enclose a photocopy of driver's license or utility bill showing current address for proof.

If requesting a free copy because you were denied credit within the past 60 days, list the name of the creditor who denied you _____ and send a copy of the denial letter.

HOW TO IMPROVE YOUR CREDIT SCORE

In addition to the three national credit bureaus, there are credit-scoring companies. Fair, Isaac makes the FICO score, which is by far the most widely tested and used by creditors. You can purchase your score or learn more with scoring simulators at www.myfico.com. Scores can range from 300 to 850. The higher the score, the better the credit rating. Generally, any score above 700 indicates a good credit risk, and below 650 is a problem. **Remember, you can work to improve your score, no matter how low it is right now.**

Reasons Your Score May Be Lowered

- Derogatory public record (court record) or collections;
- Delinquent payment on accounts;
- Number of accounts with delinquency;
- Time since delinquency paid up is too short;
- Proportion of balances to credit limits is too high (maxed-out);
- Too many new accounts or accounts are too new to rate;
- Too many accounts from sub-prime lenders (like finance companies);
- Too many inquiries in the last twelve months;
- Length of positive credit history is too short, or no recent balances.

FICO Has Disclosed the General Structure of How Their Model Scores

35% = payment history (have you paid on time, especially over past two years)

30% = amounts owed (how much owed total, and how much in relation to credit limits)

15% = length of credit history (how long you've had accounts, how long since used)

10% = new credit (how many new accounts and how many new inquiries)

10% = types of credit used (healthy mix of loans, bankcards, store cards, no sub-prime)

Things You Can Do to Build Good Credit to Boost Your Score

- Pay your bills consistently and on time.
- Check your credit report and write the bureaus to remove any errors.
- Pay down your debt load by paying more than minimums and not maxing-out limit.
- Avoid lots of inquiries. If you are turned down for credit, fix the problem before applying again.

PART FOUR:
CONSUMER PROTECTION
AND FINANCIAL
INSTITUTIONS

HOW TO SUCCEED WITH BANKS AND CREDIT UNIONS

Keeping a checking and savings account at a financial institution offers you lots of benefits.

Credit Unions are nonprofit and generally have lower costs and pay you higher interest rates on your savings. Some are only open to specific groups, but *community* credit unions are open to anyone living in the area. All checking, savings, and CD accounts are federally insured.

Banks are corporations that offer a wider range of services at generally higher fees. Checking and savings accounts are insured, but money market funds or investment services are not.

Check Cashing Services and Finance Companies are corporations that charge very high fees and don't offer checking or savings accounts. They are non-depository and are not federally insured. They often charge a fee of 2-3% of paychecks and 9-20% of personal checks just to cash them. Finance companies charge very high interest rates for loans, often over 20% APR.

Benefits of Having a Checking Account at Credit Union or Bank

- **Convenience** (free checking, free ATMs, checks and debit card universally accepted)
- **Safety** (not carry cash, federally insured to \$250,000, low liability if checks/card stolen)
- **Cost** (much lower fees than check cashing services, much cheaper than money orders)
- **Good credit** (builds relationship to get car and home loans, seen as sign of responsibility)

Tips to Keep a Checking Account in Good Shape

- Use direct deposit of your paycheck for safety and immediate access to your money.
- Write down in your check register every time you write a check or use the ATM machine.
- Keep your pin number private, and report stolen or lost checks or ATM card right away.
- Order your checks through mail order services, not from the bank, to save money.
- Don't use online bill paying, overdraft protection or other banks' ATM machines unless free.
- Shop several credit unions and banks for no monthly fees and free ATM use.

Ways to Re-open the Door if You've Had an Account Closed

- You must pay the balance owed on any account that was closed for being overdrawn.
- Offer to direct-deposit your paycheck into the account.
- Ask to open a savings account first to prove when you're ready for checking.
- Ask a friend or family member to open a joint checking account with you. If you are denied an account, you are entitled to a free copy of check verification company report. Get one and see if there are any errors on it, and make sure it gets listed as zero balance once all repaid.

THREE LAWS PROTECTING YOU WITH FINANCIAL INSTITUTIONS

Truth in Lending Act

This law requires creditors to give you basic information, in writing, about the costs of credit, before you sign anything. They must disclose:

- The amount of the loan financed;
- The total number of payments and amounts needed to repay the loan;
- The interest charged in annual percentage rate (APR);
- Any fees you would pay, including annual fees, points, and transaction charges;
- Other loan terms such as due date, grace periods, late fees, and pre-payment penalties.

In addition, it limits a credit card holder's liability to \$50 for unauthorized use of the card.

Electronic Funds Transfer Act

This law regulates electronic banking transactions with the following rules:

- You are entitled to a written receipt when using an ATM machine for deposits or withdrawals.
- Financial institutions must correct any errors if you notify them within 60 days of the statement date.
- If you report a lost debit card or unauthorized use of your card within two days, your liability is limited to \$50 maximum.
- If you report a lost debit card or unauthorized use after two days but before 60 days, the most you could be liable for is \$500. *After 60 days*, you could lose everything you have in your account.

Equal Credit Opportunity Act

This law prohibits certain types of discrimination by lenders in deciding to whom to grant credit. It applies to banks, credit unions, finance companies, retail stores, and credit card companies. Creditors *can* look at your credit history, income, and factors directly related to credit risk. Creditors *cannot* consider these factors when deciding rates or whether to offer credit:

- Race or national origin;
- Religion;
- Sex;
- Age;
- Marital Status.

In addition, if your credit application was rejected, creditors must provide you a written reason within 30 days of the application.

USING A CHECKING ACCOUNT REGISTER

A check register is an important tool for keeping track of how much is in your checking account. Write down every time you write a check or make an ATM withdrawal. Then, subtract that from the balance in your account. Same for deposits: write them down, and then *add* those to the balance. You can avoid those nasty \$30 fees for bounced checks.

Check #	Date	Transaction	Payment (-)	Deposit (+)	Balance

Balancing Your Account with Your Bank Statement

Use your monthly statement from your bank or credit union to reconcile your checking register. You find the differences and make sure the financial institution did not make any mistakes.

STEP ONE – Go through your statement and put a check mark in your register next to every deposit and withdrawal listed on the statement. Be sure to list any automatic transfers you have. Put a little circle next to any transactions that are not listed on the statement.

STEP TWO – Take the new balance listed on the statement and subtract all the withdrawals that are not checked in your register. Then add all the deposits that are not checked in your register. Now the balance you get should agree with the balance in your check register.

INSURANCE AS A TOOL FOR RISK MANAGEMENT

Insurance is a good way to protect yourself and your financial assets from losses. There are three types of loss that every person could face:

- **Personal loss** – illness, injury, or even death (and income loss caused by these events);
- **Property loss** – things you own being stolen or destroyed by people or acts of nature;
- **Liability loss** - being sued for damage to others' property, or their injury or death.

By having insurance, you transfer the risk of loss to the insurance company, in exchange for a premium that you pay the company. If that risk occurs, the company pays for it. The reason it can afford to do that is because it pools the premiums from many, many policyholders and then pays claims from this pool of money. Insurance can provide peace of mind.

How to Make Good Decisions about Insurance Coverage

- Don't buy insurance from door-to-door or telephone sales people.
- Talk to independent insurance agents who sell insurance from many companies, not just one, so you can shop around for the best price.
- Use a periodic savings account to save up for lump-sum premiums (cheaper rates than monthly).
- Before you buy insurance, call the state insurance department to make sure the insurance company is licensed and covered by the state's guaranty fund, which pays claims if companies go out of business (MN Department of Commerce 800-657-3602 or 651-296-2488 in metro area).
- Never sign blank insurance claim forms, and keep a copy of whatever forms you send in.
- Take higher deductibles to reduce premiums; insure yourself against *disaster*, not inconvenience.
- Lead your life like a preferred risk group (safe driving, eating well, exercising – live in the slow lane).

Be Sure You Understand the Language of Insurance

Policy = the written document stating what is covered and for how long and what exceptions

Premium = the payment you must make to maintain the coverage (never be late)

Deductible = the amount you must pay yourself before the company begins to pay a claim

Claim = the form you file with your insurance agent to have them pay for something covered

Term = the time period that the policy is in effect for

Appeal = the form you file when a claim has been denied, asking the company to look again

Insurance Most People Need

- Health Insurance
- Car Insurance
- Homeowner's Insurance
- Disability Insurance
- Life Insurance
(if you have dependents)

Insurance Most DO NOT Need

- Pet Health Insurance
- Airplane Travel Insurance
- Private Mortgage Insurance
(if 20% equity)
- Credit Card Insurance

HEALTH INSURANCE

Here are some important terms to know about your health insurance policy:

- **Co-pay** is the amount that you must pay for each doctor visit or prescription.
- **Formulary** is a list of what prescription drugs are covered by the policy.
- **Pre-existing condition** means no coverage for certain illnesses you had before the policy.
- **Prior-authorization** means no coverage unless you call first to get approval for the service.
- **Indemnity plan** is a policy where you choose which doctors you go to (more expensive).
- **PPO** is a policy where you pay less co-pay if using their list of doctors, but you can go outside the network
- **HMO** is a policy where you must go to their network of doctors (least expensive).

There are three ways that Americans get health insurance:

1. Through Being Employed

Many employers provide a health insurance plan and pay a part of the premium, so it does not cost employees as much. If you leave the job, you may be able to keep coverage through a law called COBRA, but most people cannot afford to pay the whole premium themselves. One of the best parts of employer plans is *open enrollment*, where the insurance company must accept you if you are an employee, even if you have pre-existing conditions or were turned down in the past.

2. Through State and Federal Programs

Medicare is a federal health insurance available to people receiving social security (either retired or disability) benefits. MA, or Medical Assistance, is a state health insurance available to very low-income Minnesotans. Minnesota Care is a state health insurance available to working families with premiums based on ability to pay. Minnesota also has a *catastrophic* health plan to cover people who are unable to get any private health insurance due to serious illnesses. Contact the state insurance commissioner for information on these plans.

3. Through Private Policies You Buy

Many people cannot afford to buy their own coverage, so their best answer is to get a job – any job – with health insurance benefits. If you do shop for a policy on your own, buy *major medical* coverage with high deductibles, so the premiums can be lower. You'll have to pay for your own check-ups and prescriptions, but you will be safe from giant hospital bills taking your assets.

An Important Tip

Be sure the insurance company pays your bills. If they do not, you are stuck. When you get a bill from the clinic or hospital, call their billing department to see if the claim was filed *and* paid by insurance. If not, call your insurance company to follow-up. If it is a covered service, it should be paid. If necessary, write an *appeal* letter explaining the situation and get their denial in writing to see if you can win.

AUTO INSURANCE

Minnesota is a “**no-fault**” state for car insurance. This means that if there is an accident, each driver’s policy covers his/her own car and passengers, regardless of who caused the accident. That way, claims can be settled quickly without long lawsuits. However, if you are reckless, the insurance company might pay the claim and then sue you, e.g. if you were driving 90 mph.

Liability coverage pays for injuries to you and damage to others’ property in an accident. The minimum required in Minnesota is \$100,000 maximum for each person injured, \$300,000 total for all injured, and \$50,000 for property damage (*others’* property, not damage to your own car).

Comprehensive coverage pays for damage to your car other than from collisions. Usually you are covered for theft, fire, storms, floods, falling objects, and collisions with animals.

Collision coverage pays for damage to your car in an accident. It is the most expensive coverage; so many people drop this part once the car gets down to a low value.

Personal injury protection covers medical payments and lost income from an accident.

Uninsured/underinsured motorist protection covers you if you’re in an accident with someone without insurance.

Bodily injury covers you for liability for injury or death of any person in an accident.

Steps to Take if You Are Involved in a Car Accident

- Don’t leave the scene. Call law enforcement and file a report of what happened.
- Take careful note of: the time of accident, the license plate and insurance info of other driver, the street and city, weather and road conditions, and how accident happened.
- Call your agent or insurance company rep to file a claim. Keep copies of your paperwork.

Two Tips About the Car Insurance Industry

1. Drive Safe and Sober

Let others use your car only if they do the same. With a single drunk driving conviction, you can expect your car insurance rates to increase \$1000 more per year.

2. Limit Your Claims to Major Ones

Pay for small things like dents or broken headlights out-of-pocket. The insurance industry keeps a database of all claims made (CLUE) and if you make too many claims, they will drop your policy and no other company will insure you.

HOMEOWNERS' INSURANCE

Having a house may be the largest investment you'll ever make, so protect it. Homeowners' policies protect against:

- The home itself;
- Personal property inside the home, if stolen or destroyed;
- Personal liability for damage that you, your family, or pets do to others on your property.

A typical policy is called HO-3 and it provides coverage for eleven types of losses – fire, lightning, smoke, vandalism, theft, windstorms, electrical problems, snow, ice, etc. as well as for personal liability up to \$100,000. The kinds of losses **not** covered are damages caused by: flood, earthquake, war, nuclear accident, or negligence by homeowner (like setting fires).

Home Insurance Coverage Tips

- Create an inventory list of your possessions and include photos or videotape, in case you need proof.
- Opt for *guaranteed replacement cost* coverage so insurance will pay the full cost to completely rebuild your home, if needed, and will pay for replacement of lost possessions, not just their original cost.
- Consider buying an umbrella policy (extra liability coverage up to one million dollars) so if you are sued for an injury that occurred on your property you will have enough coverage.
- Put smoke detectors on every floor and deadbolts on every door to protect your home.

Renters and Condominium Insurance

Apartments and condo associations usually carry insurance coverage for the building, but not for your personal property. If you have valuables, you may want to consider buying this coverage.

LIFE INSURANCE

Life insurance pays a cash benefit when you die, to help cover your family's financial needs. Having money during this stressful time can help three ways:

- To pay for final medical costs, funeral costs, and estate taxes due
- To provide income for family readjustment like a move or finding a job
- To pay for ongoing expenses while the family makes plans to deal with loss of income

The Basic Choice: Term Life or Permanent Life Insurance

Term life provides coverage for a period of time, i.e. 5 years, 20 years, etc. and pays a benefit only if you die during that time period. Most policies can be renewed for another term, but the premiums will increase each time and you may have to prove yourself “insurable” again with a medical exam. Generally, the cost of term life is very low and this allows you to buy a higher level of coverage, for example, when you have young children as dependents. Some employers offer a life insurance policy on the employee as a job benefit, and during open enrollment at large companies, the insurer must accept you without a medical exam.

Permanent life is structured as a lifetime policy with guaranteed renewal, as long as you pay the premiums, which are higher than with term life. Different types of policies include: whole life, variable life, and universal life. All offer cash value. The higher premium you pay covers term life costs, some of which is invested so you can tap into it in the future in one of three ways:

1. You could cancel the policy and cash out the equity. It usually takes many years to build any equity.
2. You could stop paying the premiums and use this value to pay for continued coverage.
3. You could take a loan from the value and pay it back.

Permanent life is much more expensive than term life but has these extra features.

DISABILITY INSURANCE

Long-term disability insurance offers protection from loss of income if you become unable to work. There is a government program through Social Security Disability, but payments are generally low and it may take years to get approved, so many people want additional coverage. Here's what to look for in a long-term disability policy:

- Fixed premiums and benefits (aim for 70% replacement of income)
- Guaranteed renewal without yearly medical exam, and cannot be cancelled for filing a claim
- Pays at least partial benefits if disability leaves you able to work less than full-time or no longer in your field of occupation
- Provides benefits for disabilities caused by either accidents or illnesses
- Pays up to age 65 when you can start collecting Social Security retirement benefits
- Elimination period (time after becoming disabled where they don't pay yet) of six months only, since many employers provide six months of short-term disability coverage already

PREDATORY FINANCIAL SCAMS AIMED AT HOMEOWNERS

A home is often someone's largest asset. The equity in that house can be a target for predatory lenders who try to find ways to get at that money. The following is a list of scams to be wary of.

Equity stripping is when lenders talk you into refinancing or taking a home equity loan to get cash out of the value built up. They may charge high fees and your monthly payment may rise and become unaffordable. More importantly, you need to keep your equity as an asset. When you sell your home, the equity can help you make a big down payment on the next home, or you can use the equity for roof repairs or furnace replacement without taking out debt.

Balloon payments are when lenders offer homeowners refinancing to lower monthly payments, sometimes by allowing you to pay only the interest on your mortgage, which is never a good idea. They structure the loan to require a big lump-sum payment in the future, called a balloon. If you cannot pay it, you will face foreclosure and loss of the home.

Loan flipping is when lenders offer to refinance you again and again to get cash out, all the while charging you high fees each time you refinance. They also may build in a prepayment penalty you must pay extra fees every time they refinance you. While you get some cash, you also are stuck with a longer mortgage again and a lot less equity.

High-cost home improvement loans are when contractors offer to remodel or re-roof your home and trick you into signing a contract you don't understand or with blanks. You may then face very high interest rates, points, and fees for the home equity loan. If the work is done poorly, you may have no rights since the contractor was paid already.

Packing of fees is when lenders add fees for unneeded extra services at the closing where you sign the loan papers, hoping you don't notice. Those services include memberships in auto clubs, credit insurance policies, unrealistic fees for writing the loan, e.g. \$150 for a credit report. If you object, they may try to pressure you that unless you sign, they would have to rewrite the loan papers and then might not offer it at all.

Mortgage servicing abuses are when lenders raise your monthly payment, saying you paid late even when you know you paid on time, or that you did not have home insurance so they add their own expensive policy, or they add legal fees or account review fees. The idea is to confuse you into just paying the extra charges by giving you a run-around when you inquire.

Deed-surrender scams are when lenders find out you are behind on your mortgage and offer to help you avoid foreclosure if you turn your property deed over to them. They buy out the house and you become a temporary renter, with the promise to get you back into a new refinanced loan. But it never comes through, since they now own the home and can evict you.

Tips to Prevent Problems

Don't sign anything with blanks or anything you don't understand. Trustworthy lenders will give you the papers to read a day *before* the closing. Never turn your deed over to anyone. Avoid "easy money" and keep the equity in your home as an asset. If you do refinance, shop around.

PREDATORY FINANCIAL SCAMS AIMED AT CONSUMERS

The famous circus tycoon, P.T. Barnum said, “There’s a sucker born every minute.” It is true that it is easy to trick people out of money, so learn to avoid these scams, and warn your friends.

Work-at-home schemes advertise that you can make lots of money at home through envelope stuffing, medical billing, health product sales, craft work, and so on. They get you to send money for “start-up information,” and you are given lists of people to contact, but no real training to succeed. Or they try to sell you supplies and you’re stuck if the business never gets going. Honest work-at-home companies will send you information in writing and answer all your questions about your pay and costs before you send any money.

Get-rich-quick schemes offer investments that imply very high returns, but are really fraud. “Pump and dump” advertising posts thousands of calls, faxes, and email messages to get you to buy, and then after the price rises from all the buying, insiders sell all their shares before the stock crashes again. Stocks, oil wells, coins, gems, overseas markets, you name it, they’ll promote it to you. *Affinity fraud* uses marketing through religious or cultural groups to build trust. Often if are swindled once, you’ll be put on a “sucker” mailing list for other predators to use. Honest investment offers give you time to review written materials and ask questions.

State lotteries are like sweepstakes offers and gambling – the chances of winning are unbelievably low. They have small payouts that trick people into believing lottery tickets offer a reasonable chance of winning the big prizes. Families spend an average of \$400 per year, which could be put into proven investments and really grow. If you want to help the state, donate a quarter and keep your dollar, since most of the money raised from ticket sales is spent on ads, administration, and payouts to keep the lottery going.

Phone and mail offers that tell you have won a free prize, a vacation, or access to credit are usually not legitimate. At the end of the sales pitch, they ask you to send money or provide your checking account numbers for them, only later to learn that the offer is not what it sounded like. Unlike a check, an automatic debit does not require your signature. Your financial safety lies in guarding that account information. Real offers let you review written material and ask questions.

Phone fraud takes many shapes. *Slamming* is when companies switch your local or long distance service without your permission, for higher rates. *Cramming* is when companies add charges for services you never signed up for. *Pay-for-call fraud* ads ask you to call a 900-number for information, but that number is usually an overseas toll call with big charges. Don’t respond to ads or messages asking you to make calls you don’t know about, and don’t wait on hold.

Car repair fraud is when you are charged for work not done or parts not actually replaced, or unnecessary work done on your car. Use word-of-mouth from friends to find a trustworthy repair shop. When you take the car for repairs, describe what is happening and ask them to look it over and give you a *written estimate* before making any repairs. Do not sign a blank repair order. Keep copies of all paperwork, in case the car has the same problems to fix again.

Income tax scams offer special refunds or tell you how to avoid paying taxes, in exchange for you sending them money. There are *no special deals* and you may get set up for tax penalties. There are many good books at the library or free IRS material telling you how to claim all the credits you legally can get. If someone does your taxes for you, be sure to look over the return before you sign it, and be sure he/she signs it, too.

Advance refund loans from tax prep agencies are legal, but a bad idea since are high cost and of little benefit. If you file early, you can expect to get your refund back within weeks, without losing any to loan fees. If something was filed wrong so you did not qualify for a refund, you won't be stuck with loans.

Payday loans have very high fees (15% per two-week period = 390% APR) and count on you to fail in two weeks, so that you will have to roll the loan over again and again. A loan for \$100 can become a balance due of \$200 in only three rollovers. If you have a payday loan, get in gear with selling personal property, working three jobs, whatever it takes to get out quick.

Title loans are finance company loans at very high APR, but secured by your car title. Like payday loans, they grow quickly and if you cannot pay, your car will be repossessed and sold. For example, if you got a loan for \$500 at 20% monthly interest, next month you'd owe \$600. If you couldn't pay it in full, they would offer to roll it over – and after a year, you'd owe \$1200 for that loan; and still the car is at risk of repossession if you don't keep paying.

Pawnshops will loan you money if you leave personal property as security, i.e. jewelry. The rate of interest is often 25% monthly (300% APR) and they will sell your goods if not paid.

Rent-to-own stores will rent furniture and electronics for low monthly payments but high APR. If you make all the payments, you will own the item. But by the time you finish your payments, you'll have paid a much higher price (up to 10 times more) for it. And if you miss payment, it's repossessed and you get nothing.

Some Consumer Laws Protecting You Against Fraud

Fair Credit Billing Act gives you rights to tell your credit card company to cancel any unauthorized charges, or to withhold payment if goods were not delivered or as promised. Be sure to request it in writing (keep a copy), within 60 days of receiving your bill. Send it to "billing inquiries" address.

FTC Cooling Off Rule allows you to cancel any door-to-door sales, if you sign and date a cancellation form given by salesperson and mail it so it is post-marked within three business days of your purchase.

The FTC tracks consumer complaints, so tell them if you encounter fraud, 1-877-382-4357.

HOW TO PREVENT IDENTITY THEFT

Criminals try to steal your identity information — credit card and bank account numbers, driver’s license numbers, date of birth, social security numbers, and passwords or PIN numbers, — so they can pretend to be you and do financial fraud, and stick you with the bills.

Prevention is everything here. It is better to shut the barn door now than to chase after the horse. To be successful, you must protect your private identity and restrict the flow of information.

Take These Steps to Reduce the Odds of Identity Theft

- Remove you name from all three credit bureau mailing lists by calling to opt-out at 1-888-567-8688 or online at www.optoutprescreen.com – choose “forever” removal option
- Remove your name from many direct mail marketers’ lists by registering with Direct Marketing Association online form at www.dmchoice.org
- Remove yourself from most telemarketers by registering your phone number with the Do Not Call Registry at 1-888-382-1222 or at www.donotcall.gov. – must be renewed every 5 years
- Charities and businesses you have existing relationship with can solicit you by phone or mail, but when they call, ask them to put you on their own internal “do not call” list
- When online, never send identity info unless the site is *secure* with an encryption program so no one can intercept your info. If secure, the web site address will start https, not just regular http. Type in the web address yourself, do not ever just click on a link sent in an email
- Buy a shredder to destroy all papers with identity info or account numbers, before throwing out.
- Do not routinely write your driver’s license number or credit card account number on checks you write. If required by a merchant, you can write it in at the time.

Take These Steps if You Are a Victim of Identity Theft

- Call the fraud departments of all three credit bureaus to ask that a *fraud alert* be put on your credit file. Equifax 1-800-525-6285, Experian 1-888-397-3742, Transunion 1-800-680-7289.
- 36 states, including Minnesota have *credit freeze* laws which are stronger protection – get info from your state attorney general office about how to lock your credit report if needed
- Close all your current bank and credit card accounts and open ones with new numbers. Use new passwords and PIN numbers.
- If any checks or debit or credit cards have been stolen or accessed, call the bank or company to report it and file an *affidavit of theft* (keep a copy for proof). Then use that to write dispute letters for charges that come up on your accounts that are not yours.
- Call ID Theft Clearinghouse, 1-877-438-4338, to report identity theft and help them catch it.
- Check your own credit records at least once a year to continue to dispute off any fraudulent use.

CONSUMER PROTECTION TOOLS

Learn to Write a Good Complaint Letter

As a consumer, you have the right to good service and kept promises. First, try talking to the business manager or owner, but if needed, send a complaint letter and keep a copy. An effective letter will have four parts:

1. Tell them what happened (dates, what product or account, where, who).
2. Tell them what the problem is and give a brief history of the problem (send copies, not originals).
3. Ask for specific action (what you want to happen: refund, repair, etc.).
4. Allow a timeline for a response and how you can be reached.

Media Programs

Local newspapers and TV stations are looking for stories and often have consumer action hotlines. Call and ask if they will help you resolve your complaint with a business.

Small Claims Court

Small claims court, or conciliation court, is used for simple disputes up to a limit of \$7500. It is quick, informal (no lawyer needed), and inexpensive (approximately \$50 to file). Ask the small claims court clerk for material to help you prepare, and you can observe a case in court before yours to see how it works. The judge's decision is binding, and if you win your case, you are likely to get paid or can return to ask for help enforcing the judgment.

Free or Low-cost Legal Help

There is a wealth of free legal information and referrals to legal aid or *pro bono* (volunteer) lawyers at www.lawhelpmn.org, which is run by the Minnesota Legal Services Coalition. You can also use the Minnesota State Bar Association website www.mnfindalawyer.com for referrals to lawyers that offer free consultations but then charge for any further services .

Federal Trade Commission

This is the federal watchdog to protect consumers. Report all fraud to them so they can stop it nationwide. They offer free consumer information about scams at www.ftc.gov.

Minnesota Attorney General's Office

This is the state watchdog to protect consumers. Report all fraud to them so they can stop it statewide. They have a free consumer help hotline at 1-800-657-3787 or (651) 296-3353 (metro).

SOCIAL CAPITAL: KNOWING WHERE TO GO FOR HELP

Agency/Organization	Services	Contact Information
Minnesota Attorney General	Consumer protection hotline	1-800-657-3787or (651) 296-3353 www.ag.mn.state.us
Federal Trade Commission	Consumer protection information	1-877-382-4357 www.ftc.gov
Minnesota Commerce Department	Information and guidance about banking and insurance	1-800-657-3602 (651) 296-2488
US Department of Education	Student loan consolidation	1-800-872-5327 www.ed.gov
Internal Revenue Service	Tax information, forms, and taxpayer advocacy	1-800-829-1040 www.irs.gov
Minnesota Department of Revenue	Tax information and forms	(651) 296-3781 www.taxes.state.mn.us
Free Tax Preparation Sites	Free tax prep and filing for individual under \$30,000 or family under \$45,000 or self-employed taxpayer under \$50,000 income limit	651-297-3724 or 1-800-657-3989 www.taxes.state.mn.us/taxes/vita/free_tax_prep.shtml
National Foundation for Credit Counseling	To find a certified CCCS agency for budgeting or debt consolidation	1-800-388-2227 www.nfcc.org
Minnesota Home Ownership Center	Statewide referrals to free HUD-approved foreclosure prevention counseling	(866-462-6466) www.hocmn.org
Dollar Stretcher	Free online thrifty living tip newsletter	www.stretcher.com

**ADDITIONAL TOPICS
FOR
FINANCIAL COACHING**

ADDITIONAL TOPICS FOR FINANCIAL COACHING

Budgeting to Create Savings

- Finding Money In the Budget Without Feeling Deprived
- Cars, Trucks, and SUVs: Preventing them from busting the budget
- Health Care Costs: Preventing them from busting the budget
- Marketing and Ads: Preventing them from busting the budget
- Special Issues of Budgeting for College-Age Young Adults
- Managing Rising Energy Costs Within a Budget
- Grocery Costs: Preventing them from busting the budget

Debt Reduction & Asset Building

- The New Bankruptcy Law: What do debtors do now?
- Upside-Down Car Loans and Leases: How to stop the madness
- Immunity from Debt Collection: An option in cases of benefit income
- Zombie Debts: How to deal with “charge-offs” on credit reports
- U.S. Government Savings Bonds: Safe and secure investments
- Dollar Cost Averaging to Reduce Risk and Boost Investment Returns

Building a Good Credit Rating

- Alternative Credit Reporting and the New FICO Expansion Score
- Free Annual Credit Reports Now Under New Federal Law
- Credit “Repair” or Debt “Settlement” Services Can Wreck Your Credit
- Tenant Reports and Checking Account Verification Reports
- Credit Card Tricks to Avoid

Consumer Protection & Financial Institutions

- New Banking Tricks: Check 21 and bounce protection
- New Insurance Tricks: Dropping You for Claims and Selling Fear
- New Subprime and Predatory Lending Tricks to Avoid
- New Consumer Fraud and Scams to Avoid
- Phishing for Information: Beware of this new type of identity theft
- Debit Cards vs. Credit Cards: What is the difference?
- Home Repair Scams: How to avoid them
- Payday Loans: Quicksand for the poor and how to break the cycle

Finding Money in the Budget to Save Without Feeling Deprived

One of the best ways to start a savings account is to reduce spending in one or two areas and put that money into savings. Little decisions can add up to big savings if you make them a habit.

Dieting often fails because dieters experience a sense of deprivation: they cut back on food for a while but then all that pent-up deprivation comes back in a big binge. The same dynamics are true for spending: if you try to just cut out something, you may end up feeling deprived to the point of impulse buying on something else. Try *reducing* it or *doing it cheaper* instead.

LUNCHES AT WORK: It's easy to spend \$5 a day on lunches bought, but don't just skip lunch or you may end up snacking at vending machines or on the way home because you're hungry. Try to buy groceries and bring simple but tasty lunches from home most days but still eat out once per week. In one year, you can put that \$1040 into a savings account (\$5 per day saved x 4 days per week = \$20 per week x 52 weeks).

GAMBLING AND LOTTERY: It's easy to spend \$20 going to a casino or bingo once a month or buying lottery tickets (10 tickets every payday = \$20 per month). The games are fixed to pay small prizes but the odds of a big prize are incredibly low. But low-income families especially play these games because it feels like buying *hope* and *entertainment*. Doing it cheaper could mean signing up for sweepstakes where there is no cost to enter or organizing a fantasy football league with friends where the prize is hosting a potluck where everyone else brings the food. In one year, you can put that \$240 into a savings account (\$20 per month saved x 12 months).

LUXURY UTILITIES: It's easy to spend \$20 extra on your local phone service. Unlimited basic local phone service averages \$25 per month (\$15 plus fees and taxes), but many people pay \$50 because they add features like call waiting, caller ID, star 69, etc. Reducing back to regular phone service would let you put \$300 into savings in a year (\$25 less per month x 12 months). If you can cut out cable TV and use rabbit-ears (*doing it cheaper*), that could mean \$840 into savings each year (\$70 per month x 12 months).

CHRISTMAS AND BIRTHDAY GIFTS: It's easy to spend \$500 or more on holiday and birthday gifts because it seems like everyone is doing it. *Reducing* would mean finding ways to be generous but give fewer gifts or gifts that cost less. Try to give coupons for new experiences (like taking them camping or showing them a special fishing spot) or favorite things they like (such as a favorite meal you cook or a neck massage) or something personal from your hobbies (write them a story or a song or paint a picture or give plant cuttings). That's \$500 saved, but all the spirit of giving is there.

COST-CUTTING IN GENERAL: Barter or *trade* to get services you need (like volunteering at camp so your children go free, or doing the laundry for someone who knows how to cut your hair). Share items among neighbors and *borrow* rather than buy them (like garden tools and ladders in exchange for watching their kids one day). *Plan ahead* (like going to the grocery store with a list instead of impulse buying, or shopping for clothes at the end of each season).

Cars, Trucks, SUVs: Preventing them from busting the budget

Buying a used vehicle and keeping it for years after it's paid off is a great help to budgeting. The price of new cars has steadily climbed and new vehicles lose much of their value in the first year. Used cars can be bought from car dealers or directly from previous owners at much cheaper cost.

Here are the three steps to finding a less-expensive but still reliable used vehicle:

DO SOME RESEARCH BEFORE YOU SHOP TO FIND THE RIGHT CAR FOR YOU

Remember to focus on needs more than wants: reliable transportation is a need, but a particular style or color is a want. Safety features like seat belts, air bags, and good tires are needs, but air conditioning, power windows, and CD players are wants. Make your own list and then go to the library to look at Consumer Reports used car buying guide to see what vehicles have a good record of low repair rates. The website www.edmunds.com offers pricing on used car models.

DECIDE HOW MUCH YOU CAN AFFORD & GET FINANCING BEFORE LOOKING

Go to the credit union or bank where you have a checking or savings account and ask them to pre-approve you for a loan for a used car of a certain value. As a rule, financing through the dealer means you'll buy more car than you need and pay more for the loan. If you have credit report problems, try to fix those before applying for loans. Save up for a downpayment of at least 10% of the cost so that you do not become "upside-down" with a loan for more than the vehicle is worth. Try to get a shorter-term loan like 3-years instead of 6-years so you pay less interest. Be sure that you are putting \$50 per month (\$600 per year) aside into savings for maintenance costs.

SHOPPING WISELY FOR A USED VEHICLE

Inspect the vehicle in the daylight and bring a flashlight to look around underneath and in the engine compartment. Bring a friend along who may notice things and help ask questions.

Get behind the wheel and check all of the lights and controls. Take your time doing a test drive: see that the shifting is smooth and the steering is straight and that the brakes are even. Drive carefully but try accelerating and braking, shifting and turning both in town and on the highway.

Ask the dealer to run a vehicle history report using the car's 17-digit VIN (vehicle identification number) or pay for one yourself through a service like Carfax (www.carfax.com) to be sure the vehicle was not in any crashes or floods. Call the NHTSA free hotline to find out if that year and model of car had any safety recalls by the government (800-424-9393).

Look over the title papers and be sure it is actually in the name of the dealer or seller, with no outstanding debts or liens on the vehicle. If you do buy the car, get the title signed over when you buy, not later, and go right over to the Department of Motor Vehicles and register it.

Get any warranty agreements in writing. If you accept a car "as is," there is no warranty. Read over any papers before you sign and get a copy of anything you sign for your records.

Health Care Costs: Preventing them from busting the budget

Paying for medical and dental services and prescription drugs can wipe out a monthly budget. There are two steps to controlling costs in this area of your budget: getting creative about ways to get services paid for, and getting creative about how you use health care services.

WAYS TO USE HEALTH AND DENTAL SERVICES FOR LESS COST

Best way: getting health and dental insurance coverage means you will only be charged a co-pay (after a yearly deductible is paid, or in many cases, no co-pay for preventative services). Some people get a part-time second job at an employer offering health insurance benefits for part-time workers. Others get insurance through state programs (e.g.- MN Care) or VA clinics (if veteran).

County health departments may offer vaccinations and some children's healthcare free.

Some dental clinics offer free or reduced services once a year or if they are part of a training program at a college or university.

Health Savings Accounts (HSAs) are available with some insurance companies: you pay only for a high-deductible major medical policy and then put money into a special savings account (up to \$2600 per year for individuals or \$5150 for family). The premium is low since you will pay the cost of the care up to the deductible, but the policy prevents large bills from wiping away your assets. The savings earns interest and can be rolled over each year, so it is there when you need it. The money you put in is tax-deductible.

If you have no dental insurance, ask the office staff for prices on each service. Getting a cleaning may be all you need. If they require an examination, you can refuse x-rays or fluoride treatment. Follow suggestions for self-care like flossing: prevention is much less expensive than treatment.

For prescription drugs, ask your doctor to help you switch to the cheaper generic instead of the brand name drug. Ask the doctor for free samples. Ask the doctor for a 90-day supply of ongoing medication since some insurance companies only charge the same co-pay for 90 and 30-day supplies. Comparison-shop several drug stores and mail-order pharmacies for discounts (such as AARP 800-456-2279 or Medi-Mail 800-331-1458).

Make safety and health-promotion a part of your daily life. Wear seatbelts and drive carefully. Learn to cook quick, nutritious meals and lunches to pack. Get enough sleep and some daily form of exercise. Buy smoke and carbon monoxide detectors. Stop smoking and reduce drinking. Take advantage of free, fun activities to do with friends and family which reduce stress.

Marketing and Ads: Preventing them from busting the budget

Living within your means today is countercultural. Americans are bombarded with advertising to make us buy things and think that consumer products make up our identity. The marketing industry has learned to make people yearn for material solutions to solve their problems of life meaning and loneliness, but buying things does not fill you. Overconsuming is “soul famine.”

To become successful asset-builders instead of debt-makers, low-income families need to get off the marketing merry-go-round by using a three-step approach of rejecting the marketing values:

STEP ONE: OPTING-OUT OF DAILY SATURATION BY MARKETERS

Use the remote control to mute commercials on TV, or videotape shows and fast-forward through the commercials. If telemarketers call, don't listen, just tell them you want to be removed from their call list, and hang up. Use free computer software to prevent pop-up ads, send spam email to a junk folder, and clean out any marketing spyware put on your computer.

Remove your name from all three credit bureau mailing lists by calling 1-888-567-8688.

Remove your name from telemarketer lists by registering your phone number with the national Do Not Call Registry at 1-888-382-1222 or at www.donotcall.gov.

Remove your name from many direct mail marketers' lists by writing to Direct Marketing Association, Mail Preference Service, PO Box 9008, Farmingdale, NY 11735-9008.

STEP TWO: MAKE DECISIONS TO CHALLENGE MARKETING VALUES

<u>Traditional USA values</u>	<u>Marketing values</u>	<u>Non-consumer action</u>
Environmental stewardship	Disposable, planned obsolete	Buy quality and keep it
Thrift and humility	Luxuries deemed necessities	Buy less, do more together
Artistry and craftsmanship	Plastic, bought not homemade	Learn to make, fix things
Generosity and equality	Spending spree, all for me	Giving money, volunteering

STEP THREE: TAKE PRIDE IN DISCOVERING THRIFT AS A LIFESTYLE

Learn a new sport or organize a for-fun league rather than be a ticket-purchasing sports fan. Try walking or bicycling to the store or a friend's house. Get books from the library to develop new skills like gardening, woodworking, playing guitar, sewing, painting watercolors. Host potlucks to bring people together without having the cost of big parties. Volunteer as an usher or ticket-taker at festivals or plays to get free admission. Pack up your food for a picnic. Live more with less.

Special Issues of Budgeting for College-Age Young Adults

Young people ages 18-25 are in the stage of life where they are trying out all aspects of the world of money. Experience is a good teacher but it is better to have a plan than only to learn from mistakes. **Top five tips to becoming a master of your money:**

KEEP YOUR LIFESTYLE COSTS LOW: Get a bicycle and a lock and learn to do simple maintenance to keep it going. Get a bus card for times when weather stops you from walking or biking. Move into an apartment near school or work with roommates to share costs. Before you sign a lease, talk over what bills you will split (food? cable TV?) as well as ground rules on paying rent, quiet hours, and moving out, then write it down and all sign copies. Learn to cook at home and bring food with you to school or work. Find free on-campus (or community) activities to have fun without spending. Find used furniture at thrift stores. Use email instead of long-distance calling. Buy groceries at a supermarket instead of the corner store.

TRACK YOUR MONEY AND MAKE IT HARDER TO SPEND: For one month, write down every time you spend money, how much and for what, and see if there are costly habits you can cut out (e.g.- if you smoke a \$3 pack of cigarettes a day from age 18 to 65, you'll burn up over \$50,000). Try not to carry cash and not to use a debit card: having a checking account and writing down the balance when you spend money can keep you from spending money you don't have or from over drafting your account.

KEEP FRIENDS AND MONEY SEPARATE: Getting into a hassle about money can destroy friendships. Make a decision that you will not borrow money from friends and won't lend money to them either. Then if your buddy asks to borrow, just tell them "Sorry, but I can't. I made a promise not to lend anyone money." This puts your friendship on equal ground, the same way you should not lend your driver's license or credit card to anyone else. Also be willing to avoid peer pressure to spend and say "No, I can't afford to do that." Become known as a person who likes to have fun and knows a lot of free or low-cost things to do or events to go to.

BUILD A GOOD CREDIT RECORD FOR FREE: Apply for a credit card at a bank or store and be sure to get one with no annual fee and a 20 to 30-day grace period. Then use it once a month and pay the bill in full (no balance means no interest paid). The creditor will report to the credit bureau that you pay your bills on time. Always pay your rent on time for a good landlord reference, and put all roommates' names on the utilities accounts and see they are paid on time.

LEARN ABOUT SAVINGS AND INVESTING: Time is on your side as a young person. Start with a savings account at a credit union or bank that has no monthly fee and pays some interest on what you save. Try to set aside a few hundred dollars for an emergency fund so you won't have to ask your parents to bail you out. Read up on investing and learn about certificates of deposit, savings bonds, and mutual funds. If you invested \$60 a month (that's \$2 per day, about the cost of pop and a snack), just for one year, invested it in a mutual fund that earned a 10% rate of return, you would have \$720 the first year, and it double in less than 10 years to over \$1500.

Managing Rising Energy Costs Within a Budget

The cost of basic utilities such as water, electricity, and heating continue to rise, which poses problems for those with a strict budget or a fixed income. Here are some tips on how to control energy costs:

- Turn down the thermostat to 65° when you are home and 55° when you are away or at night when asleep. This can cut your heating bill by almost 25% and costs nothing. Install a programmable thermostat to preset the times of day to lower the heat, so it becomes an easier habit to keep.
- Warm yourself up by wearing more clothes like sweaters and slippers. Stop drafts by pushing throw rugs up against door jams and by sealing windows with inexpensive rope caulk (\$1 per window) or plastic (\$2 per window).
- Turn down your hot water heater setting to 120° and install a low-flow showerhead (uses 2 gallons per minute instead of 6 gallons, costs about \$20). Do the dishes by hand or run the dishwasher only when it is completely full.
- Keep your furnace running efficiently. For forced air systems, replace the filter (\$10) at least twice a year, and partially close off vents in unused rooms so heat is directed where you are. For radiator systems, get a radiator key (50 cents at a hardware store) and read your manual or ask a service person how to let air out and add water into the system.
- Call your utility company to see if there are special programs such as no-interest loans or grants to replace an older furnace or water heater with a high-efficiency one.
- Turn off the lights when you leave the room and use compact fluorescent bulbs (\$2) which fit in normal light or lamp sockets.
- Set up clothesline (\$2) or drying racks to let laundry air-dry instead of using the dryer. This saves energy and adds much-needed moisture in the air of your house during the dry winter months.
- In the summer, close the shades to reflect heat away during the day and use window fans instead of air conditioning.
- Call your utility company to sign up for the budget plan where costs are estimated and averaged out for the year, instead of big bills during the heating season. While this will not reduce the cost, it helps you plan for the cost without falling behind each winter.
- If you are living on fixed or reduced income, you may qualify for an Energy Assistance grant to pay some of your heating or electric bill or furnace improvement. Call the statewide referral line at 1-800-657-3805 to find the agency nearest you for information. Or you can look up providers on the [Department of Commerce](#) website.
- Use foam wrap to insulate hot water pipes and wrap the water heater tank with an insulating blanket. Leave areas near the top and bottom open so it can draw properly.
- Call your utility company to get a low-cost energy audit: a specialist will walk through your house, look at current insulation and identify areas which are energy leaks.

Grocery Costs: Preventing Them from Busting the Budget

Buying groceries to prepare meals at home and lunches to bring to school or work is almost always cheaper than eating out, and usually better for you. Marketers spend a lot of energy to get consumers to spend more on groceries, but there are 10 Tips anyone can learn to spend less:

1. In order to avoid impulse buying, shop with a list and buy only what is on the list. Make it a game to see how quickly you can get out of the store with all the things you need. It is OK to go in and get the coupon or sale items at one store without buying all your groceries.
2. Don't shop when hungry. Bring snack food in the car for yourself and the kids to eat before going in. Show kids how to comparison-shop ("Look at this, we can get two of these for the price of one of those kind.") and how to read the per-unit pricing tags on the shelves.
3. Plant a garden for recreation plus harvest. Grapes, raspberries, tomatoes, and many vegetables taste unbelievably better than store-bought and surplus can easily be frozen or canned for winter. People in apartments without yards can join or start community garden plots almost for free.
4. Get to know grocery store tricks: shop mostly on the perimeter of the store where the produce, meat, and dairy are, instead of inside aisles where the prepared foods and junk foods are. Check out store brands on upper or lower shelves rather than national brands paid to be put at eye level.
5. Learn to cook things from "scratch" instead of packaged mix: pancakes, pizza, tomato sauce, soups, quick breads. The public library is free and has lots of cookbooks to show you how. Learn to use meat as an ingredient rather than a main dish, and ten new ways to make rice interesting. Cooking big on one day a week and freezing the meals will make workday meals easy.
6. If you like to entertain, host a potluck where guests bring food to share, or a dinner exchange where each person takes a turn preparing meal for the group. Plan simple inexpensive party meals like chili and cornbread, spaghetti and salad, and seasonal items, like apple crisp.
7. Make a grocery *price book*: visit four stores, one each week for a month, with a list of things you regularly buy, and write down the price at each store. With this comparison, you will be able to spot a real sale from a fake sale, and see which stores are cheapest for which food items.
8. When you spot a real sale, stock up on the item (buy enough for 6-12 months) and ask if you can buy a case at the sale price. You will never again have to "run to the store" for dinner.
9. To get money to jump-start the stocking-up, do a "cheap-week" meal plan (e.g.- rice and beans, pasta, macaroni and cheese) and use the extra money saved for the first stocking-up sale items.
10. To find cheaper organic or specialty foods, buy them at the farmers' market or ethnic stores where they are available in bulk, or start a food buying club to buy in bulk from wholesalers (e.g.- you can't use a case of cereal, but split between 4 families it's a reasonable amount. Cereal is cheap when bought by the case).

The New Bankruptcy Law: What do debtors do now?

A new law, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), became effective in October 2005. Many of the features are similar to the old law:

- There are still two types of consumer bankruptcy: Chapter 7 (“straight” bankruptcy aimed at discharging debts) and Chapter 13 (“wage-earner plan” creating monthly payments through the court for 3-5 years).
- There are still two main goals of filing: discharge of debts and automatic stay of all collection activity by creditors (once filed, the court notifies all creditors to stop any further calls or legal actions such as repossession).
- Consumers still need to hire a bankruptcy attorney: while it is legal to file your own bankruptcy petition (filing *pro se*), it is very risky because the court may throw out your petition if filed incorrectly.

Here are two important changes under the new law:

MEANS TEST:

Under the old law, the only type of challenge to a Chapter 7 filing was “substantial abuse” (filing to discharge debt when they could in fact repay it) – and only the judge or trustee could challenge. Now there is a second type of challenge for “general abuse” which can be brought by creditors if the filer has the ability to pay at least some of the debt. This is done with a means test to calculate whether the debtor could pay back at least 25% of the unsecured debt over five years. This is important because many Chapter 7 filers may be forced into Chapter 13 – so instead of discharge of debts, they would have a court-run repayment plan. And well over half of Chapter 13 filers fail to keep their plan, so their bankruptcy is dismissed and creditors can renew legal pursuit. However, if the debtor’s income is at or below the state median income, the means test does not apply. In Minnesota, single filers below \$40,650 or families of 4 persons with income below \$73,498 are exempt from means test presumption of abuse.

PRE-FILING COUNSELING AND PRE-DISCHARGE EDUCATION:

A new feature of BAPCPA is the requirement that, before debtors can file for bankruptcy, they must complete a session of **credit counseling** at a program approved by the court trustees. The session must include an overview of the bankruptcy process, alternatives to bankruptcy, consequences of bankruptcy, and a personalized budget analysis. Similarly, after they file but before the debt can be discharged, debtors must complete a **financial education** course. The course must cover rebuilding finances after bankruptcy, understanding and using credit, and following a budget. There is a fee for both services, but providers must agree to waive the fee if debtor is unable to pay it. A list of approved providers for Credit Counseling and Debtor Financial Education is available at www.usdoj.gov/ust/eo/bapcpa/index.htm .

OTHER CHANGES:

- Fees have increased since attorneys have greater liability and more paperwork.
- Debtors cannot file another Chapter 7 bankruptcy until 8 years after any prior Chapter 7 filing.
- There is much greater complexity in terms of exemptions, automatic stays, child support, multiple filings, and nondischargeability of debts incurred immediately before filing bankruptcy.

As before, debtors considering bankruptcy should seek a free consultation with bankruptcy attorneys to get information on timing, options, consequences, and alternatives specific to their financial situation. There is also good consumer information at www.lawhelpmn.org.

Upside-Down Car Loans and Leases: How to stop the madness

For major purchases like a vehicle, most people need to take a loan or lease since they do not have the cash to pay the full cost right now. Car dealers use financing to encourage people to buy new cars and more expensive cars since it seems affordable when broken into monthly payments over many years or with gimmicks like zero interest financing for a time.

Loans are based on the original value of the vehicle, but all cars, trucks, and SUVs *depreciate* (lose some of their value) the minute you drive off the lot and as you add mileage. It is possible then for you to owe more on the loan than the vehicle is worth.

Leases are also based on the original value of the vehicle and if you choose to convert the lease into a purchase, you often will pay more than what the vehicle is worth by that time. If the car is in an accident, insurance often will pay you less for the car than what is owed. If you do damage or go over the mileage limit, there are big penalties which you have to pay at the end of the lease. When you owe more on a vehicle than what it is worth, that is being *upside-down* on the loan.

EXAMPLE: If you bought a 2004 Ford Taurus worth \$22,000 and put \$2000 down but financed \$20,000 on a six-year, zero-interest loan, you would not be able to sell the car while the loan was still owed. After two years, the car would be considered three years old in model years and only worth \$8140, but you would still owe \$13,333. The only way you could sell the car is if you got \$8000 in the sale and paid the dealer the remaining \$5000 out of your own pocket.

EXAMPLE: If you bought a 2005 GMC Yukon worth \$25,000 and financed \$23,000 on a 5% interest loan through your bank, your monthly payments might be \$400. If you were not able to keep up with these payments, the bank might repossess the truck, sell it at auction for the value (under \$20,000 only a year later) and sue you for the *deficiency balance* of \$3000 or more. If you talked to the dealer to trade in for a cheaper vehicle, you would be taking on an upside-down loan again, this time from the start because the \$3000 deficiency is added to any new loan.

HOW TO PREVENT TROUBLE:

Buy less vehicle than you can afford. Save up and make a downpayment of more than 10% so you can take a smaller loan, and take it for a shorter period of time so it will get paid off. Even with a shorter loan (2-3 years), your total monthly car costs (loan plus insurance) should be less than 20% of your monthly net pay. Keep your car once it's paid off, and pay yourself the payment each month so that you can buy a good reliable used car for cash (no loan) when you need to replace this one.

In general, leasing is a wolf in sheep's clothing: the lower monthly payment allows you to drive more car than you can afford – but you will never own the vehicle, you are only renting it, and there are many traps in car leases where you could end up owing more at the end. If you do sign a vehicle lease, you need to buy *gap insurance*, which will reimburse you for the difference between your regular insurance coverage and what you owe.

If you cannot afford the vehicle, it is better to voluntarily repossess it and make payments on the deficiency balance than to sign up for more madness with a new upside-down loan rolled in.

Immunity from Debt Collection: An option in cases of benefit income

When you owe money on a bill or a debt, creditors have the right to pursue you for payment. At first, they will contact you by letter or phone to seek payment. When it is the creditor themselves contacting you, that is called *first-party* collections, and there is no limit to how often they may call you. Later in the process, the creditor may hire an outside collector to increase the contacts. Outside collection agencies are called *third-party* collections, and they are regulated by the Fair Debt Collection Practices Act: they must not call you before 8 am or after 9 pm and you can stop collectors from any further calls by sending them a letter telling them to stop contacting you.

JUDGMENT AND GARNISHMENT

If you don't pay a bill, creditors can go to civil court and ask a judge to order a judgment and/or a garnishment. They will either send a letter from an attorney demanding a written reply within 20 days or they will send a copy of a summons to attend a scheduled court hearing. If you do not reply in writing within the time limit (or if you do not attend the court hearing), the creditor will win a *default judgment* and be able to use the power of the court to seize money from you. Once obtained, a judgment is good for 10 years and may be enforced at any time during those 10 years.

Generally, creditors cannot garnish more than 25% of your net wages, and if there are multiple garnishments, each one must wait in turn. But creditors who win a judgment may take all of the money in your bank or credit union accounts up to the amount owed.

CLAIMING AN EXEMPTION

Creditors cannot garnish any of your wages for up to 6 months after you have received public assistance based on need. This includes MFIP, Medical Assistance (MA), Emergency Assistance (EA), Social Security benefits, unemployment insurance, food stamps, or energy assistance. If you deposit your public assistance in a bank account, creditors cannot take money from that account for 60 days after the deposit. But remember: public assistance benefits keep their exempt character for only 60 days after deposit in a bank account and exempt wages keep their exempt character for only 20 days after deposit in a bank account.

Creditors can't take your home, car, or furniture unless the debt is a loan secured to those items.

To claim an exemption listed above, you will need to promptly return paperwork sent. Creditors must send you a "Garnishment Exemption Notice" at least 10 days before wage garnishment begins. Banks must send you, before releasing any funds, an "Exemption Notice" which you can sign and return within 14 days to both the bank and the creditor's attorney, in order to claim the funds in your account as exempt.

Debts owed to the government, such as defaulted student loans, income taxes, and child support, have a lot more power to garnish wages (even exempt benefit checks), take money from bank accounts, or even seize property. Treat those as priority debts to pay.

If your only income is government benefits (such as SSDI or MFIP), then you are "*judgment-proof*" if you complete and return the forms on time. But you will need to monitor your accounts to see that only government checks are deposited, and live on a cash-only basis for other income.

Zombie Debts: How to deal with “charge-offs” on credit reports

When you are past due on a bill or credit account, creditors can give financial consequences (like fees and higher rates of interest) and credit report consequences (like listing the account as late or delinquent). After a period of delinquency, creditors may *charge-off* the account, which means they declare it a loss in their accounting. A charge-off is very negative on credit reports.

CREDIT REPORT ISSUES

A charge-off rating will remain on your credit report for seven years from the date of the missed payment that led to the charge-off. The best practice is to resolve the problem by paying the account anyway. Then you can write the credit bureaus to show the account as “paid in full, balance zero.” This does not erase the charge-off status but makes it much less damaging.

It is a mistake to wait for seven years for the charge-off to be removed. The original lender will often sell those old debts to a collection agency that will work very hard to collect the debt. The collector who buys the account may be able to list it again with the credit bureaus: so if you had waited six years and then the debt was sold, instead of dropping off your credit report, it is now on with the same bad rating for another seven years. A debt can be resold many times.

Your best option is to pay the debt and then list the account as paid in full. If debt repayment is impossible in your situation, consult a bankruptcy attorney to see if Chapter 7 bankruptcy could clear the debts – though this is extremely negative on credit reports, it will eliminate the liability and will be removed from the credit record after ten years, compared to the many years that charged-off accounts could be sold and resold. Settlements are a bad option because you pay back part of the debt but still get a very negative rating (“settled for less than full amount”).

DEBT LIABILITY ISSUES

Sometimes old debts will stop all contact and disappear from credit reports for years, but then may reappear with a new collector demanding payment. Most states have a statute of limitations that limits the amount of time that a creditor can sue for an old debt. In Minnesota, that is six years from the last payment made, and after that, a collector may not pursue a judgment or a garnishment. However, there are special rules that allow the statute of limitations timeline to be reset, and debt purchasing companies know these tricks. For example, if they can get you to make even the smallest payment, it can reset the liability in some cases. Other collectors offer new low-rate credit cards and then tack old charged-off debts onto the balance and insist it was in the fine print of the contract.

In general, do not talk to collectors on the phone about old debts. If they attempt any legal action, they would have to notify you in writing. If the statute of limitations has passed on a debt, you do not owe the money. Write them a letter stating that the debt is more than six years old, that you therefore do not owe it, and not to contact you about the debt again.

Keep an eye on your credit report. You may be able to dispute an account that reappears as new debt if it has been off your record for years. Write the credit bureaus and the collector demanding that the collector produce a copy of the original documents proving the debt. Most collectors do not have this paperwork and cannot keep reporting the account without proof that you owe it.

U.S. Government Savings Bonds: Safe and secure investments

All investments are involved in the risk-return tradeoff. In general, the safer the investment, the less you get in return. For example, if you lock your money into a 5-year certificate of deposit (CD) at a credit union or bank, you will earn a higher rate of interest than if you can only lock your money in for a 2-year CD. If you withdraw your money before the CD term is over, you will pay a penalty fee, but the longer term offers a higher rate of return. Another example of risk-return tradeoff is that stocks can earn a big rate of growth but can lose some or all of their value.

Making good investment decisions depends upon:

- LIQUIDITY (will you need this money for emergencies or can you lock it in for a period)
- NEED FOR GROWTH (how fast you need the money to grow to meet your goal)
- YOUR RISK PROFILE (how much risk you can take before you lose sleep or panic)
- TIME HORIZON (how long you can leave the money invested before you will need it)
- DIVERSIFICATION (spreading out the risk among different types of investments)

U.S. savings bonds offer a good compromise of complete safety and higher interest earned.

U.S. government savings bonds are safe and secure investments because they are guaranteed by the U.S. government, which never goes out of business. Bonds are registered and the Treasury can replace them if they are lost or stolen. You can buy them at banks or credit unions or online at www.treasurydirect.gov. They can be redeemed anytime after 12 months and can be held for up to 30 years. The interest you earn from savings bonds is exempt from all state and local taxes and federal income taxes are deferred until you redeem the bonds. If you use the savings bonds to pay for higher education expenses, then the interest is excluded from federal taxes as well.

There are two types of savings bonds: Series EE bonds (which are guaranteed to double in 20 years) and Series I bonds (which pay interest plus a bonus to adjust for inflation).

SERIES I BONDS

Sold at face value
(pay \$50 for a \$50 bond)

Pays fixed rate of interest plus an inflation adjustment set each May 1st and Nov 1st

Can be redeemed any time after 12 months

Buy as much as \$30,000 per year

Available in denominations of \$50 \$75 \$100
\$200 \$500 \$1000 \$5000 \$10,000

Rate as of March 2005: 3.67%
(1% fixed rate plus 2.67% adjusted rate)

SERIES EE BONDS

Sold at half of their face value
(pay \$25 for a \$50 bond)

Pays fixed rate of interest set adjusted each May 1st and Nov 1st, guaranteed to reach face value in 20 years

Can be redeemed any time after 12 months

Buy as much as \$30,000 per year

Available in denominations of \$50 \$75 \$100
\$200 \$500 \$1000 \$5000 \$10,000

Rate as of March 2005: 3.25%

Dollar Cost Averaging to reduce risk and boost investment returns

Prices in the financial markets go up and down as investors buy or sell different stocks, bonds, or mutual funds. The ideal situation is to buy at a low price and later sell when the price has risen. If you *buy and hold* as a strategy, that means you hang on to your investment through the highs and lows and sell only when you are ready.

Unfortunately, investors often give in to emotions and make poor investment decisions under the influence of greed and fear. With greed, they chase “hot” stocks or funds which have gone up in value, and by the time they buy, the price has risen so high that they pay top dollar for something that is likely to pull back down. With fear, they sell too quickly in response to problems, and by the time they sell, the price has already gone down, so they sell for a loss. Buying at high prices and selling at low ones can wreak havoc on your rate of return. The best way to invest is like in the fable of the tortoise and the hare: slow and steady wins the race.

Dollar Cost Averaging is a method of purchasing shares of stock or mutual funds at regular time intervals with a fixed amount of money, for example, putting \$50 from each paycheck into your 401K. This system will guard you by averaging out the price you have paid.

Here’s an example of how it works: if you decided to invest your \$1200 tax refund in a no-load mutual fund, you could put all \$1200 in today and buy shares at today’s price (\$10 per share = 120 shares of the fund). But a way to reduce the risk of buying high, and to boost your profit, would be to dollar cost average that \$1200 instead by investing \$100 every month for a year.

Month	Share Price	Shares bought with \$100
1	\$10	10
2	\$9	11.1
3	\$8	12.5
4	\$7	14.3
5	\$8	12.5
6	\$9	11.1
7	\$6	16.7
8	\$8	12.5
9	\$7	14.3
10	\$6	16.7
11	\$5	20
12	\$5	20

As you can see, dollar cost averaging means you are buying more shares when the price is low and fewer shares when the price is high. After one year, you have bought 171.7 shares, not 120.

Diversified stock mutual funds (like no-load index funds) have consistently risen over time if you average the highs and lows. In this case, as the market goes back up and the price rises to \$10 per share, look what happens:

- If you had invested all at once, you’d have bought at \$10 and just broken even now, no gain.
- With dollar cost averaging, your 171.7 shares are worth \$1717, a \$517 profit on your \$1200.

Alternative credit reporting and the new FICO expansion score

Credit reports from the three major credit bureaus – Experian, Equifax, and Transunion – contain current and past information on your credit accounts. This includes most loans and credit cards from banks, credit unions, finance companies, and stores. If you have never been granted credit, such as a credit card, store account, car loan or mortgage, you may not have a credit history.

Having no credit history creates the same negative consequences as having a bad credit history because you are unknown and lenders worry that you will not repay any money they loan you. You might be an excellent bill-payer, but if you have not used credit, there may be no record to prove that you are a good payer. Having no credit history means lenders may turn down your loan application or charge a much higher rate of interest, utility companies may charge you a higher deposit for service, car insurance companies may rate you a higher risk and charge you more for coverage. Without a loan, most people cannot afford large purchases like a home.

FICO (Fair Isaac Corporation) is a nationwide credit scoring system used by many lenders to check credit risk. Your credit history is given a score from 300 to 850, the more points, the better score. If you have no credit bureau history, your FICO score would be “unrated” (like a zero).

FICO has estimated that as many as 50 million people (one-fourth of all adults in the U.S.) have either no credit file or too thin a file to rate. This often includes recent immigrants (whose good payment histories from their home countries do not transfer to U.S. credit bureaus), widows or new divorcees (who may not have credit in their own name), college students and young adults (who may not have established credit yet), and people whose cultures distrust large financial institutions like banks (who therefore have been “off the map” of credit bureaus).

Alternative credit reporting is a strategy to assemble your own record of proof that you are a good credit risk. Keep copies of paid bills and cancelled checks showing that you have paid monthly bills (like rent and utilities) on time. Ask your landlord and each utility company to send you a letter stating that you have paid on time for the past year with no late payment. Open a savings account at a credit union or bank and keep the monthly statements to show a year of regular deposits and increasing balance. You will still need to establish a positive credit record with the three national bureaus, but this alternative record can strengthen your application if your credit history is new.

The **FICO Expansion Score** is a new system starting in 2005, designed to help people with little or no credit history to gain access to credit by drawing from non-traditional credit data such as deposit records in savings accounts, payday loan companies, rent-to-own stores, store payment plans, and so on. Like the traditional FICO score, the expansion score will range from 300 to 850 and there will be a list of reasons provided for the score. Consumers who want to use this service can access their expansion score online at www.myfico.com or by calling 1-866-838-3427.

Warning: Building an alternative record of good credit, and using the FICO expansion score, is not a solution for people who already have full credit records, but bad ones filled with collection and charge-off accounts. Fixing those credit problems (paying off old debts) and rebuilding good new credit (with a secured credit card used perfectly) is the answer for those situations.

Free Annual Credit Reports now under new federal law

There is a new federal law called the Fair and Accurate Credit Transactions Act (FACTA) which gives consumers extra rights in addition to the Fair Credit Reporting Act. Consumers are eligible for a free copy of their credit report from each of the three national credit bureaus – Experian, Equifax, and Transunion – once every 12 months. This law was created to give consumers a free way to check reports for any inaccuracies or fraud or identity theft.

The law will be rolled out to different regions so that everyone is eligible by September 1, 2005, but Minnesota residents are eligible beginning March 1, 2005.

You can call toll-free (1-877-322-8228) or go online (www.annualcreditreport.com) or write (Annual Credit Reporting Service, PO Box 105281, Atlanta, GA 30348-5281) to get your report. You will need to provide your full name, Social Security number, date of birth, and current address (and if you have moved in the past two years, a previous address). To maintain the security of your file, each bureau may ask you some information that only you would know, such as the amount of your monthly car payment. Your report should be mailed to you within 15 days of the receipt of your request.

DO NOT be fooled by other websites or emails you might get, offering a “free credit report.” These are always from businesses trying to sell you products like “credit monitoring” or are scams trying to steal pieces of your identity information. Especially do not ever reply to any email or click on any link in the message, and do not give out personal information over the phone, even if the caller or sender claims to be from the credit bureaus. If the credit bureaus need to get in contact with you, they will send you something in writing by U.S. mail.

You can order all three bureau reports at once or just one. If you are about to apply for important credit like a mortgage or car loan, you may want to get all three at once. Otherwise, the best option would be to get Experian now, then in four months get Equifax, then in four more months get Transunion (then four more months would make a year so you can start the cycle again).

In addition to this annual free report, you still retain all the rights you had under the Fair Credit Reporting Act. If you are denied credit or insurance or employment based on your credit record, the lender must tell you so in writing and then you can send a copy of the denial letter to the credit bureau to get a free copy of your report. You are also entitled to one free report if you are a victim of identity theft and have filed an affidavit of theft. In that case, it is recommended that you send a copy of the affidavit to the bureaus and also request that a “fraud alert” be placed on your file so no new credit can be approved without first contacting you to be sure it is legitimate. You may also buy a copy of your credit report at any time. If you send a request by mail, enclose a check or money order for \$3 for each bureau report. Write to each bureau directly for these.

Remember: keeping track of the accuracy of your credit report is a free way to save money. For example, if you applied for a \$150,000 30-year mortgage loan, and had a credit score of 600, your monthly payment would be \$1157. But if you reviewed your credit report and took steps to raise your score to 700, then your monthly payment on the same loan would be only \$881 since the lender could offer you a better interest rate based on a better score.

Credit “Repair” or Debt “Settlement” Services Can Wreck Your Credit

BEWARE OF CREDIT REPAIR SERVICES

Credit repair services make claims that they can help you achieve “instant credit improvement” or “walk away from a bad credit history with a new identity” using some secret method they will teach you for a fee. There is no secret method, only the rights you have under the Fair Credit Reporting Act (FCRA), and anything they charge you to do, you can do for free yourself.

One tactic that is used by credit repair services is to manipulate a clause in the FCRA that allows you to write a letter of dispute to have the credit bureaus remove any inaccurate information. The repair services have you flood the credit bureaus with “mass disputes” challenging every single negative thing on your report, whether true or not. Their hope is to clog the system and frustrate the bureaus into losing information. Most likely, you will get your report labeled “fraud” for this.

Another tactic is “file segregation” where repair services pitch the idea of a new identity so you can leave your negative credit history behind. They suggest you misspell your name or apply to the IRS for an EIN (employer identification number) and use that instead of your Social Security number. This is completely illegal: EINs are only used by businesses to report to the IRS, and it is a federal crime to make any false statements on a loan or credit application or to misrepresent your Social Security number. Remember, you are the one liable, in addition to paying high fees to these credit repair agencies that use your signature on contracts to hide their shady coaching.

There is a legitimate service called “rapid credit rescoring” which is used by mortgage brokers to quickly fix errors on credit reports so applicants can qualify for a better loan. The key is that this service is not available to consumers, only to brokers, so those marketing to you are likely fraud.

BEWARE OF DEBT SETTLEMENT SERVICES

Debt settlement services also call themselves debt relief, debt workout, debt cancellation, and debt negotiation. They are not the same as real Debt Management Plans offered by Consumer Credit Counseling Service (CCCS) agencies which are members of the NFCC. Legitimate DMP services are constructed so creditors are paid in full and reflect on-time monthly payments which are the heart of a good credit rating.

Debt settlement companies claim that they will negotiate with creditors to get your debts paid off for a fraction of what you owe. Usually they will tell you to stop paying creditors, to escrow the money (saving up a lump sum to use in a debt payoff), and they will charge you fees and make big promises flanked by contracts which pay their fees first and leave you liable with creditors.

There are four negative outcomes that can occur with settlements:

- Creditors may pursue legal action more quickly in response to you stopping paying the debts.
- Many settlements are tricky and go awry and you end up owing the whole amount anyway.
- Creditors often report your account as “settled for less than full amount,” a terrible credit rating.
- Creditors may issue you a 1099 tax form listing the forgiven amount as income so you owe taxes.

If the account has not been charged-off, your best option is a CCCS DMP. If it is charged-off, pay the account in full by sending monthly payments, then write the bureaus to show paid in full.

Tenant Reports and Checking Account Verification Reports

In addition to credit reports held by the three major credit bureaus, other companies maintain databases of information that reflect other aspects of your life: your housing rental history (including whether you have ever been evicted) and your banking history (including whether you have bounced checks or had a checking account closed due to mismanaging money).

Under the new federal law, the Fair and Accurate Credit Transactions Act (FACTA), consumers are entitled to one free report every 12 months from any companies which provide information which is used to determine someone's eligibility for credit, insurance, or employment. This means that in addition to credit reports, consumers are entitled to a free copy of their files held by tenant-screening companies and by checking-verification companies.

TENANT REPORTS

Landlords can use information in tenant reports to make decisions about rental applications, the size of security deposits, and increases in rent. There are many local tenant-screening services and in most cases, the first time you will discover them is if you are denied rental housing. If the landlord denies your application based on your tenant report, he/she must give you the name, address, and phone number of the screening service who prepared the report.

If you had negative action (denied a rental or increased deposit or rent charges) due to negative information on your tenant report, you are entitled to a free copy if you write to request it within 60 days of the action. You may also request this report once a year free under FACTA.

If the report contains inaccurate information, you can write the screening service to dispute it and they must reinvestigate. If the information cannot be verified, it must be deleted from the file. If the reinvestigation does not resolve the dispute, you may write a "line of explanation" (under 100 words, keep it simple) that will be included in the report.

CHECKING ACCOUNT VERIFICATION REPORTS

Banks and credit unions use information in checking-verification reports to make decisions about opening a checking or savings account. There are several checking-verification services but the largest one is Chex Systems, which uses the SCAN (Shared Check Authorization Network) database of financial institutions and retailers who report about checking. If the bank or credit union denies your application for an account based on your checking-verification report, they must give you the name, address, and phone number of the checking-verification service who prepared the report. You are then entitled to a free copy if you write to them to request it within 60 days of being denied an account.

You may also request this report free once a year under FACTA. Contact Chex Systems online at www.consumerdebit.com or by calling 1-800-428-9623 or sending letters to Chex Systems, attn: Consumer Relations, 7805 Hudson Road, Suite 100, Woodbury, MN 55125.

The same rules apply for correcting inaccurate information. Once you have paid off any overdrafts or closed accounts and related fees, be sure those items are listed as "zero balance" on the report. And the item must be deleted from the file five years after being paid off.

Credit Card Tricks to Avoid Falling For

Credit cards can be a tool for building a good credit record and for access to purchases and assets you might not be able to afford with cash on hand today. But unless you know the rules, it can be like playing a card game where the deck is stacked against you.

THREE NEW CREDIT CARD TRICKS TO BEWARE OF:

RETROACTIVE INTEREST:

Zero-percent financing or “no interest for a year” offers tempt consumers to buy more than they would spend otherwise, but come with hefty penalties if you don’t pay off the full balance before the special rate expires. After the special rate period, creditors add an average of 25% APR back in, all the way back to the date of purchase. For example:

John bought \$1000 of furniture on a 0% for 12 months deal. He started to pay \$100 on the account each month but he could not keep up. After the 12 months were over, he had paid \$800 of the \$1000 back, but the creditor charged him 25% retroactive interest so his \$1000 furniture cost him \$250 in back interest as well as the high APR on the balance.

CONVENIENCE CHECKS:

Credit card companies mail out preprinted convenience checks that offer you \$500 or \$1000 on great-sounding terms like “zero interest for a year” or “2.99% APR until paid off,” hoping you will spend the check without reading the fine print on the agreement. There often are special fees, no grace period, and rules about payments. For example:

Kim thought she found a bargain when she used the convenience check her credit card company sent, with fixed 2.99% APR to pay for \$1000 car repair she needed. When she got the next monthly card statement, she saw her balance had risen \$1000 as expected, but she also saw \$40 charged (4% transaction fee for using the check) plus noticed that all her payment was now being applied to the low APR check debt and none would go to the high APR card debt until the check was paid off. That \$1000 cost \$2000 in the end.

BALANCE TRANSFERS:

Credit card companies compete with each other through special offers to get consumers to move their debt onto a new card at a lower interest rate. Like convenience checks, balance transfer offers have a lot of tricks in the fine print. For example:

Joan got an offer in the mail for “1.9% APR until the debt is paid” balance transfer. She sent in her information and applied for the card, but instead got the transfer onto a card at 16.9% APR. The fine print showed that “pre-approved” still allowed the creditor to give her a card with a substitute, higher rate if her credit score did not merit the low rate.

Usually, the only way to benefit with transfers is if you already have a great credit record, find a transfer with no transaction fees and permanent low APR, never charge more since new purchases have high APR, and finally, if you can now resist using the old card again.

New Banking Tricks: Check 21 and bounce protection

CHECK 21 MAKES IT EASIER TO BOUNCE

Check 21, also called the Check Clearing for the 21st Century Act, just changed the rules how financial institutions clear checks. In the past, it would take a check several days to clear since banks had to send checks to each other by mail before they would be paid. Now banks are allowed to take a computer snapshot of the front and back of the check, and send the image electronically so that it is paid almost immediately. The law still allows banks to take several days to process *deposits*, though. What this means is the chance for many more overdrafts. For example:

Susan sent a check to her son Sam who is in college in another state. The money is taken right away from her account, but he does not gain access to the money until five business days after he deposits her check in his account. If he uses his ATM card or writes checks before that five days is up, he will exceed his balance and get a \$30 overdraft fee.

In addition, Check 21 no longer requires banks to return cancelled paper checks. Instead, they use a new tool called a “substitute check” which is a paper copy that is a legal representation of the original. Unfortunately, many banks are not sending those out to consumers, only ordinary check images which have no legal status as proof. So be sure your bank or credit union sends the substitute checks with your monthly statement, not just check imaging ones. If they charge you for this, choose another bank or credit union.

BOUNCE PROTECTION SERVICES ARE A BAD DEAL

Bounce protection or “overdraft privilege” programs are offers where banks will cover checks that would otherwise bounce, but will charge fees to do so. Each time a person overdrafts the account, they are charged a \$20-\$35 fee and the overdraft must be paid back within a few days or a daily fee (\$2-\$5 per day) is added. This makes the actual rate of interest on these programs enormous: someone who pays a \$20 fee for a \$100 overdraft that is outstanding for two weeks will pay the equivalent of an APR of 520 percent interest. Many banks trick consumers into thinking they have more money by including the overdraft line in the balance shown at ATM machines. For example:

Scott checked his account balance using his bank’s ATM and when it showed \$237, he felt safe making a \$50 cash withdrawal and using his debit card at a grocery for \$30. Three days later, he got a notice of overdraft from the bank, charging him \$60 for two overdrafts since the \$237 balance had really meant \$37 balance and \$200 overdraft protection program limit. He could not get the balance paid off until his next paycheck came in two weeks, so starting three days after the overdraft, the bank started charging him \$5 per day also. This mistake ended up costing him \$110 (\$60 plus ten days of \$5).

THREE STEPS YOU CAN TAKE TO AVOID FEES

- Enter every transaction (checks, ATM or debit use) in your checkbook register and keep track of the balance. Don’t write a check or use the card unless the money is there.
- Ask at your job to sign up for direct deposit of your paycheck so you can access it faster.
- Keep a cushion of \$100 in your checking so you can be your own free bounce protection.

New Insurance Tricks: Dropping you for claims and selling fear

Homeowner insurance companies have paid out lots of money in recent years for claims about wildfires in the west, hurricanes on the coast, floods and mold problems in the Midwest. They are cutting their losses and if you appear “high-risk” to them, they may cancel your policy when it is time to renew. While it is your right to file a claim, you may face higher cost or cancellation.

Ernesto and Juanita felt so unlucky to have three losses in three years. First came the hail storm that required roof repairs. Next year, a lightning strike required chimney flue repairs, and the following winter, a pipe leading to the washer froze and burst. They were shocked to receive a letter canceling their policy due to too many claims since each of the claims was completely on the level. The only new policy they could get was from a company with high-risk rates.

Refrain from filing small claims. Insure for the catastrophe, not for the nuisance, and raise your deductible to \$1000 so your rates are lower even if you have to pay small losses yourself.

The insurance industry keeps a database called CLUE (Comprehensive Loss Underwriting Exchange). Under the new law, FACTA, you are entitled to a free copy of your CLUE report if you call 1-866-312-8076 or online at www.choicetrust.com. You are then allowed to write them to correct any inaccurate information on your report.

Ask your agent about discounts for installing smoke alarms, deadbolt locks, or security systems. There are many good tips about insurance at www.iii.org, the Insurance Information Institute.

SELLING FEAR: NEW TYPES OF INSURANCE YOU DO NOT NEED

Insurance is to cover catastrophic losses that you could not cover yourself. You need health insurance, term life insurance, disability insurance, homeowners and auto insurance. Here is a list of other types of insurance that most people do not need and is not worth the cost:

Flight Insurance is specialty life insurance that pays a benefit if you die or are injured in a plane crash. Plane travel is unbelievably safer than car travel, so just stick with your term life policy.

Credit Insurance is insurance that will pay your monthly credit card or loan payment if you die or lose your job or are unable to work due to disability. Instead, keep your term life policy to pay off debts if you die, and most disability policies cover expenses including loan payments. You can self-insure for periods of unemployment by funding a savings account for emergencies.

Identity-theft insurance covers the cost of repairing your credit if this crime happens to you. You can do this yourself for free by looking over monthly bank and credit statements and once a year your credit reports. The ID Theft Clearinghouse 1-877-438-4338 offers free help to victims.

Credit card loss protection pays losses if your card is stolen and the thief goes on a spending spree. Federal law already limits your losses to \$50 maximum, so just keep a record of your credit card numbers and report lost cards as soon as possible. Many times the companies are so glad you helped them stop further losses that they will not even charge the \$50 allowed.

New Subprime and Predatory Lending Tricks to Avoid

Subprime lenders offer loans to borrowers with poor credit records who cannot get approved for prime loans at good interest rates. Loans are classified as A, B, C, and D: A loans are prime, but B, C and D are subprime loans offered to borrowers with the worst credit histories.

Predatory lenders offer unsuitable loans designed to exploit vulnerable and unsophisticated borrowers. A loan is likely predatory if it has one or more of the following features:

- 1) Charges more in interest and fees than is required to cover the risk of poor credit
- 2) Contains conditions that trap borrowers and lead to increased indebtedness
- 3) Does not take into account the borrower's ability to repay the loan
- 4) Violates fair lending laws by targeting women, elderly, and minorities for subprime loans

STATED-INCOME LOANS AS PREDATORY LENDING

An important part of the process to get pre-qualified for a mortgage loan is to provide proof of income enough to show that you can afford the loan. As a general rule, your total monthly housing payment (mortgage plus property taxes and insurance) should not be more than 30% of your monthly net (take-home) income. Stated-income loans were designed for self-employed people who own a business. These loans, also called “no-documentation” loans, allow borrowers to get a mortgage with none of the usual proof of income (W-2 forms from jobs) nor proof of assets (bank statements showing deposits), and are now being used to get anyone into a mortgage as long as they are willing to pay high interest and fees in return.

John worked full-time but could not afford the house he wanted. A mortgage broker offered him a stated-income mortgage at high adjustable rate. Within four months of moving in, John had gotten behind on the mortgage and within a year had lost the home to foreclosure. The only winner in this story was the broker who made lots of money in fees for writing the loan.

INTEREST-ONLY MORTGAGES AS PREDATORY LENDING

An important part of homeownership is being able to build equity: as you pay down the loan, you gain a share in the home and after the loan is paid off (usually 30 years), you own the home. Interest-only mortgages are aggressively marketed as ways to “cut your payment in half” or “take your equity to pay off other debt,” but it sets you up for failure. By structuring the loan so that your monthly payment only covers the interest, you are like a renter and you never build ownership in your home. Worse yet, the loans later convert into adjustable-rate mortgages at much higher payments since all the years of no payment on principal now balloon into needing to pay extra toward principal. Many homeowners then go into default on the loans.

When Gertrude retired at 65 and was living on less income, she only had five years left on the mortgage but had trouble making the payments. A broker called and helped refinance her home into an interest-only mortgage with payments of only \$400 instead of her current \$650 each month. The loan used a popular 3/1 format with 3 years of interest-only payments followed by one 27-year loan at adjustable rates that could increase every 6 months for the 27 years. Three years later, when her payment jumped to \$770, she had to sell the home and get an apartment.

New Consumer Fraud and Scams to Avoid

Many Americans are victims of financial crimes known as consumer fraud or scams. We live in an information age where the phone, the internet, and mailing lists bring us into range of fraud perpetrators, and it is hard to know who to trust, but there are some resources to reduce risk.

FRAUDULENT BUSINESS PROPOSALS: SOUNDS TOO GOOD TO BE TRUE

Fund transfer scams are one common form of fraud. It starts when you receive official-looking letters or faxes or emails offering to transfer large sums of money into your personal bank account in return for help. The criminals obtain names of potential victims from newspapers, phone directories, and commercial sources and send out thousands of mailings all at once. Many of these have originated overseas in countries like Nigeria and it is amazing how many believe it:

Dear Sir:

We want to transfer to overseas \$126,000,000 (One hundred and twenty six million US dollars) from a bank in Africa. I want to ask you to quietly look for a reliable and honest person who will be capable and fit to provide an existing bank account or set up a new bank account to receive this money. I am the Auditor General of a bank in Africa and have discovered a floating fund from a voided contract that has been sitting in old files since 1990. If I do not remit this money out urgently, it will be forfeited for nothing, but the funds can only be transferred to those with a valid foreign passport. You are the first and only person that I am contacting for this business so please reply urgently. Send your private telephone and fax number including the full details of the account to be used for the deposit. When the transfer of money to your account is completed, you will be given 35% of the total amount, 60% will be for me, and 5% for transfer expenses. Call or fax me using these numbers. I am revealing this to you with a belief in God that you will never let me down in this business. Please reply urgently. Best regards.

This type of scam is called Advance Fee Fraud because they always offer “get rich quick” schemes to lure you into the deal, then they will get you to agree to giving them your bank account numbers or pay them up-front fees. They will take your money and disappear.

CHARITY SCAMS: REACH OUT AND CHEAT SOMEONE

Fraudsters take advantage of people’s good hearts and the compassionate emotions that make them want to help those less fortunate. When there are natural or other disasters, charity scams come out in droves, claiming they are helping the victims of disaster. They set up tables at busy malls, knock door-to-door, telemarket by phone, and send letters and emails to mailing lists.

George and Helen felt terrible watching TV reports about the tsunami devastation and wished they could help. A young woman came to their door with a clipboard, asking for donations for tsunami relief. They asked her for some literature but she explained that they were a grassroots organization, Help Out, which put all its funding into helping victims, none into advertising. George wrote a check for \$200 to the group but privately worried if it was legitimate. Later he read about the scam and was sickened to learn that he was now likely to be a name on a “sucker list” sold within the charity fraud business community.

If you want to make a donation for a particular need, contact the well-known charities yourself. If someone calls or comes to your door, ask how you can send a donation directly. You can look up reports on charities at www.give.org, a website of the National Charities Information Bureau.

Phishing for Information: Beware of this new type of identity theft

Identity theft occurs when criminals try to get personal information about you so they can pretend to be you and do financial fraud, opening accounts and debts in your name. They are especially interested in things used to prove identity such as social security numbers, dates of birth, credit card and bank account numbers, driver's license numbers, addresses and phone numbers, passwords for online accounts, and PIN numbers used at cash machines.

“Phishing” occurs when criminals send emails impersonating financial institutions, businesses, internet service providers, or government agencies, asking that consumers “verify” their personal information. The scam works because it implies that the information would be used to prevent theft and because it is official-looking and threatens that the information must be given. Phishing scam emails often copy the logo and name of the company they are pretending to be, and set up hidden email re-direction so that when you click on a “reply” link, it goes to a different address than what the link says. Here is a sample phishing email:

From: fraudalert123@countybank.com

Subject: Important Fraud Alert from Countybank

Dear Countybank customer,

Recently there have been a large number of identity theft attempts targeting our customers. In order to safeguard your account, we require that you confirm your banking details. This process is mandatory, and if not completed within the nearest time, your account may be subject to temporary suspension. To securely confirm your Countybank account details, click on this link: <https://web.ru-us.countybank.com/signin>

Thank you for your prompt attention to this matter.

Countybank Identity Theft Solutions

STEPS TO PREVENT LOSS OF IDENTITY INFORMATION THRU PHISHING

Do not trust email requests or pop-up online requests to verify personal or account information. Companies you do business with already know your account number and related information and will contact you by US mail or phone in a true emergency. If you call them, use a trusted number like the customer service line listed on your monthly statement or phone book, not in their email.

Don't click on links or reply buttons in emails since these often redirect you to fraud sites. In the example shown above, the “ru” in the email means Russia, not Countybank. True link addresses can be invisible and disguised even if they look official.

Use common-sense safety tips: Do not write down your PIN numbers and passwords. Do not use a public computer or wireless site for financial transactions. Do not download attachments from unknown email sources. Use strong passwords combining letters and numbers, not your birthday or dog's name. Monitor your banking and credit statements each month: if there are signs of identity theft, both call and write the company to dispute charges, and file an affidavit of theft

Debit Cards vs. Credit Cards: What is the Difference?

The financial world has hundreds of millions of plastic cards. The advantage for consumers is the convenience and safety of not having to carry cash. The advantage for the financial industry is encouraging people to spend more than they would than if they only used cash.

Debit cards are attached to a savings or checking account at a bank or credit union. Like ATM cards, they can be used to withdraw cash at ATM machines; but because they have a 16-digit credit card number, they can also be used for purchases. The credit limit is the amount of the available balance in the account, and the amount charged is withdrawn right away from your account. *Payroll cards* are debit cards distributed by some employers who transfer your net pay onto the card rather than give you a check. They can then be used for purchases or cash withdrawals. There is often a transaction fee charged every time the card is used.

Credit cards come in two forms: *store cards* (which can only be used for purchases at that store chain) and *bank cards* (which can be used for purchases almost everywhere and for cash). Examples of bank cards are Visa, MasterCard, American Express, and Discover. Confusingly, some stores offer both types of cards (e.g.- you can have a Target card or a Target Visa; likewise, you can have a Sears card or a Sears MasterCard). The credit limit is a preset dollar amount, and you are required only to make a monthly minimum payment on the balance, although interest is charged on any balance carried over to next month.

SO WHICH IS THE BEST KIND OF CARD TO HAVE?

Credit cards have three important advantages:

1) Credit cards can help build a positive credit record because they report credit use and payment history to the three national credit bureaus. FICO credit scores are greatly boosted by good use of a credit card, meaning you pay on time and keep your credit use under 50% of the limit. It is possible to get a bank card with no annual fee and a grace period, so that there is absolutely no cost to you if you pay the balance in full every month. Even people with poor credit can often get a *secured credit card* (a bank card attached to a savings deposit account) to rebuild their credit. Debit cards and payroll cards do not report monthly to the credit bureaus, so they do not help build credit.

2) Credit card users are protected under the federal Truth in Lending Act that limits liability to \$50 maximum if your card is lost, stolen, or used without your authorization. Debit cards, though, are protected under the Electronic Funds Transfer Act that limits liability to \$50 *only if* you report the card missing within two days. If it is reported after two days, you are liable for up to \$500, and if it is reported after 60 days, you are liable for everything charged.

3) Credit cards require only a minimum payment on the balance each month (usually 2%, or \$20 on every \$1000) so you can truly use them for emergency needs like car repairs or funeral travel. Debit cards, however, immediately withdraw all the money charged from your bank account, and can lead to a cascade of bounced checks if there are not enough funds. It is a common practice for hotels and car rentals to “freeze” a block of money in your checking account starting when the reservation is made, so with a debit card it is necessary to have a large account balance ready.

Home Repair Scams: How to Avoid Them

Here is how the classic home improvement scam works: A contractor calls or knocks on your door and offers to install a new roof, remodel a kitchen, or add a bath with a “special offer” for new customers available right now. Although you are not sure you can afford it, he says it is no problem to arrange the financing through a lender he knows. “Just sign and we’ll start,” he says.

Three Ways to Identify a Scam:

1. They came to you, you did not seek them out and know nothing about their reputation.
2. They begin work right away and there are lots of papers to sign in a hurry.
3. The work is never completed or is not done right, but the contractor is paid and gone.

STEPS TO TAKE TO AVOID TROUBLE:

1. Shop around to find a good contractor by asking people you respect for a recommendation – neighbors, co-workers, your banker or real estate agent. Call the contractors and ask questions, especially how long they have been in business (five years or more is a good sign).
2. Ask for names of three past customers you could call to ask about their work. Talk with those customers to ask if the job was completed on time, were there any extra costs, how satisfied were they with the project, and if they would they use that contractor again.
3. Always get a written estimate or bid, listing the quality of materials they will use. Get three estimates from different contractors and compare – remember, the cheapest may not be the best quality – ask them why they can do the job cheaper than others.
4. Ask to see proof of a contractor’s license with the state - Contact the Minnesota Dept of Commerce to determine if they are registered: [online](#) or by calling (651) 296-2488 or (800) 657-3602. Ask for proof of an insurance certificate. Contractors should carry personal liability, worker’s compensation, and property damage coverage. Otherwise you could be liable for injuries or damage that occur during the project.
5. Ask if the project will require a building permit. Most states and cities require one even for small home improvements. Be suspicious if the contractor asks you to get the permit, since it could mean they are unlicensed.
6. Agree before you sign any contract about when payment is due. It is customary for contractors to ask for a deposit at the beginning, but usually no more than one-third. Final payment should not be made until the work is completed to the homeowner’s satisfaction. If they hire any subcontractors, ask for proof that each subcontractor has been fully paid before making your final payment. Otherwise the subcontractor can put a lien on your home for unpaid work done.
7. Never sign any contract with blanks. Either fill them in or draw a line through them so that no new terms can be added after you have signed. Always use the true date when you sign. Keep a copy of the contract for your records. Do not sign a contract if you feel rushed or pressured.
8. Do not allow the contractor to arrange the financing. Shop two or three banks or credit unions to get the best loan after you obtain the estimates. That puts you in charge of payment.

Payday Loans: Quicksand for the poor and how to break the cycle

Payday loans are short-term unsecured loans offered both at check-cashing stores and on the internet. Typically the balance is due in two weeks (next payday) or in a month. Low-income consumers turn to payday loans to deal with emergencies (ex: car repair, funeral costs) since many times they are unbanked or lack the proof of income or credit rating needed to get a loan from mainstream lenders.

Local payday lenders typically require consumers to secure the loan with a post-dated check. Online lenders may ask for faxes of voided checks or bank account numbers for withdrawals. Loan amounts vary but \$500 is typical, and most common interest rate is \$25 on every \$100 lent – which is equivalent to a 650% APR if it is a two-week loan. Due to the high fees and short repayment period, consumers using payday loans often find themselves unable to repay the loans on the due date, and feel forced to increase their debt by renewing the loan or taking out additional loans to pay off current ones.

Practical Options to Ending the Cycle of Payday Loans:

1. Increase income to allow payment on all loans and full payment on at least one loan each month. Cut spending to the bone but do NOT stop paying priority expenses such as rent, utilities, insurance coverage, and medical care, as getting behind on those areas just creates new crisis. Find funds to pay off payday loans in full: sell assets, ask for help from your social network (extended family, friends, church), use tax refunds, or work extra jobs until debts are paid.
2. Seek consultation with a bankruptcy attorney about the possibility to discharge the debt. This option is only practical if there is a substantial amount of other unsecured debt worth filing.
3. Convert the payday loans into overdrafts and offer a repayment plan to repay original debt. The steps below describe a process which could transform the ever-renewing payday loan cycle into a workable payment situation, if the full amount owed is repaid within a reasonable period.
 - Stop writing ANY checks. Once all outstanding checks clear, stop depositing money in that account.
 - Open up a savings account at a separate bank to use for banking needs going forward. Deposit income into that account and use money orders to pay for your priority expenses. Do not link it to old checking account.
 - Go in person to your bank and explain that you are trapped with a payday lender and that you are going to have the postdated check sent through but that you do not want them to pay the check on your behalf.
 - Write a letter (send by certified mail, keep a copy) to the payday lender stating that you will not be renewing the loan and that you want the check sent your bank on the date the loan would renew.

- Keep track of your account and as soon as the check is presented at your bank once, close the checking account. Pay any fees this generates at your bank. Closing all accounts at that bank is vital, otherwise payday lenders continue to present the checks or electronically debit the account, resulting in more fees.
- You now owe the payday lenders the amount of the check plus a \$30 fee (in Minnesota, other state laws vary). As you no longer owe a “loan” but now a NSF check, the lender cannot charge you further interest.
- Write a letter (send by certified mail, keep a copy) to payday lender indicating your intent to pay the debt owed in full over a short period of time (2-4 months is generally considered reasonable), and include your first payment in the form of a money order. With honest communication to the lender, and faithful monthly money order payments, most lenders appear to accept having the debt paid off in payments.

IMPORTANT NOTE: It is our understanding that handling payday loans as described above would not constitute check fraud, as the original check is pledged as collateral on a loan. It can constitute criminal fraud to take out loans if you know you cannot or do not intend to repay. If a consumer intended to repay the loan, however, and found they were unable to, the options above provide a reasonable way to arrange repayment of the debt in full without the trap of ever-renewing payday loans at excessive interest rates.