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the CREDIT issue

MONEY MATTERS

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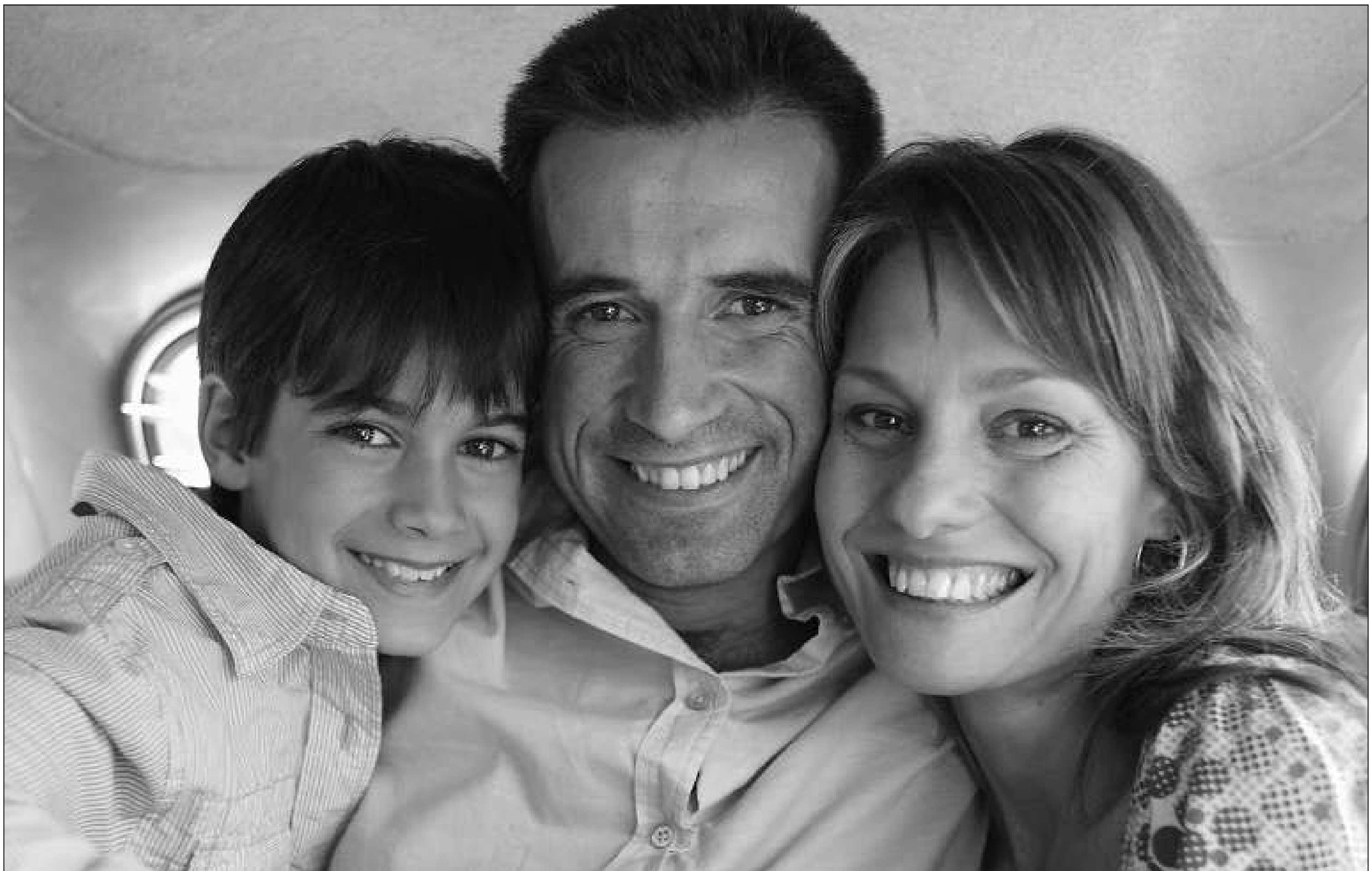

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Things that make you go hmmm....

The 4 Cs Of Credit
Character | Capacity | Capital | Collateral

Your First Credit Card
Does receiving one of these in the mail mean that you are qualified
Read on and find out the truth..

The Pros & Cons of Credit
How can something so liberating keep you chained down for years?

THE CREDIT ISSUE

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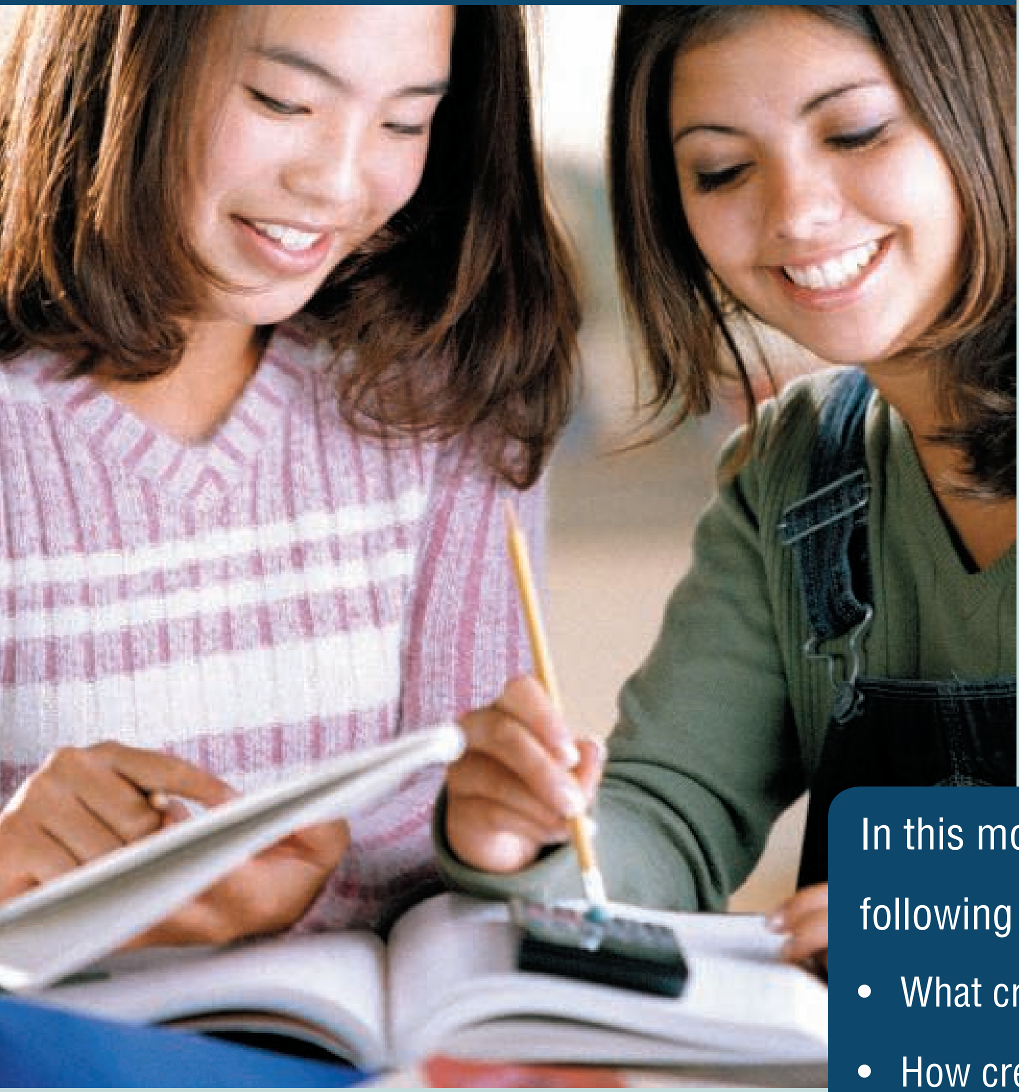
INTRODUCTION



Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. The idea of incurring financial responsibility to own goods before they are paid for has been a convenience both for creditors and the debtors since the earliest commerce took place. Charging a fee for the temporary use of money to purchase goods is known as credit. The widespread use of credit became popular in the early 1920s, but the first plastic credit card, as we know it today, was issued in 1951 by Diners Club.

Credit cards give buyers the freedom to purchase necessary or desirable items or services and pay for them later. They give merchants a tool to help the sales of their products. Credit is vital to our economy, but in this module we will become familiar with how the misuse of credit can cause problems.

Debt itself is neither good nor bad; it is merely a financial tool. Like any tool, when it's used properly, it can be powerful, but when it's abused, it can be destructive.

In this module, we will explore the following issues in regard to credit:

- What credit is and how it can be used.
- How credit worthiness is measured and recorded.
- How to use credit responsibly.
- How to avoid the pitfalls of credit overuse.
- How to protect your credit and personal financial information.
- How to manage debt.

TERMS TO LEARN

Annual Percentage Rate (APR)

A yearly rate of interest that includes fees and costs paid to acquire a loan. Lenders are required by law to disclose the APR.

Balance Transfer

The process of moving an unpaid credit card debt from one issuer to another. Card issuers sometimes offer teaser rates to encourage balance transfers. Card issuers may charge balance transfer fees to discourage balances being paid off by a transfer to another company.

Billing Cycle

The number of days between statement dates.

Billing Statement

The monthly bill sent by a credit card issuer to the customer. It gives a summary of activity on an account, including balance, purchases, payments, credits, and financial charges. Important changes to a credit card account are often included in small-print fliers sent with the statement.

Capacity

A borrower's ability to make a monthly loan payment.

Capital

The assets a borrower owns, minus liabilities. It is wealth in the form of money or property that can often be used to produce more wealth.

Cardholder Agreement

A written statement that provides the terms and conditions of a credit card account. The cardholder agreement is required by Federal Reserve regulations. It must include the Annual Percentage Rate, the monthly minimum payment formula, annual fee if applicable, and the cardholder's rights in billing disputes.

Cash Advance Fees

A charge the bank issues for using credit cards to obtain cash. This fee can be stated in terms of a flat per transaction fee or a percentage of the amount of the cash advance. For an example, the fee may be expressed as follows: 2%/$10. This means that the cash advance fee will be 2 percent of the cash advance amount or $10, whichever is greater.

Credit Card
A plastic card with a coded magnetic strip. When signed, the card entitles its bearer to a revolving line of credit, with a credit limit and interest rate set by the card issuer and determined in part by the borrower's income and credit report.

Credit Limit
The maximum amount of money that a consumer can borrow from the credit card company. It is based on the credit history, amount of existing debt, and use/type of debt.

Credit Rating
A measurement of the creditworthiness of an individual. Credit ratings are calculated from financial history and current assets and liabilities, which tell a lender the ability of the individual to repay a loan. A poor credit rating indicates a high risk of defaulting on a loan, which leads to higher interest rates.

Credit Score
A number representing the likelihood that a prospective borrower will fail to repay a loan, or other credit, over a specific period of time. It is based on information from an individual's credit report and is used to determine whether to extend credit to a borrower and, if so, how much, at what interest rate, and for what time period.

Debtor
An individual or institution that owes an obligation to another party. If the debt is in the form of a loan from a financial institution, the debtor is referred to as a borrower. If the debt is in the form of securities, such as bonds, the debtor is referred to as an issuer.

FICO (Fair Isaac Corporation)
The FICO score was created by Fair Isaac Corporation. FICO scores are developed using complex statistical models that associate certain borrower traits with the likelihood of repayment. There are two major credit reporting agencies in the United States that use FICO scores:

Equifax - www.equifax.com
888-766-0008

TransUnion - www.transunion.com
800-680-7289

Experian - www.experian.com
As of February 14, 2008, Experian, another major credit bureau company, no longer offers FICO scores. This means that consumers can only learn their score when they apply for a loan through a company that looks at Experian's score.

Finance Charge
The charge composed of interest costs and other fees for using a credit card.

Identity Theft
The use of a victim's personal information, such as name, Social Security number, credit card number, or other identifying information, without permission, to commit fraud or other crimes.

Interest Rate
The cost of borrowing money over a period of time.

Lender
Someone who lends money or gives credit in business matters.

Minimum Payment
The minimum amount a cardholder may pay to keep an account from going into default. Some credit card issuers will set a high minimum if they are uncertain of the cardholder's ability to pay. Most card issuers require a minimum payment of two to four percent of the outstanding balance.

Periodic Rate
The interest rate described in relation to a specific amount of time. The monthly periodic rate, for example, is the cost of credit per month; the daily periodic rate is the cost of credit per day.

Preapproved
An offer for a preapproved credit card means that a potential customer has passed a preliminary credit information screening. A credit card company can turn down the customer it invited if it doesn't like the applicant's credit rating.

Prime Rate
The prime rate is the interest rate charged by the federal government to major banks and other lending institutions.

Revolving Credit
A credit line that can be used up to a certain limit or paid down over time.

Secured Credit Card
A credit card that a cardholder secures with a savings deposit to ensure payment of the outstanding balance if the cardholder defaults on payments. It is used by people new to credit or trying to rebuild poor credit ratings.

Teaser Rate
Often called the introductory rate, it is the below-market interest rate offered to entice customers to switch credit cards or lenders. It usually applies only to the balance transferred and normally lasts for only a few months.

Unsecured Credit Card
A credit card that does not require a bank deposit. It usually comes with fewer restrictions and better terms.

Variable Interest Rate
An interest rate that moves up and down periodically, based on changes to the prime rate.

PRINCIPLES OF CREDIT

When it comes to Credit...

- There are 576.4 million credit cards and 507 million debit cards in ciculation in the United States.
- The average number of credit cards per cardholder is 3.5.
- At least 84% of students possess at least one credit card.
- A typical college student carries an average of $3,173 balance on their credit card.
- A typical household carries an average of $16,007 in credit card debt.
- Consumer debt in the United States stands at roughly $2.46 trillion.
- The current US credit card default rate is 11.37%.
- College seniors graduated with an average credit card debt of more than $4,100, up from $2,900 amost four years ago.
- College students use credit cards to pay for an estimated $2,200 in direct education exprenses (this includes books, tuition, fees, etc.). 41% of cardholders from the ages of 18 to 29 made only the minimum required payment on a credit card in some of the past 12 months.

Note - accurate as of 2009-10

Credit is a term used to describe a situation in which goods, services, or monies are received in exchange for a promise to pay a definite sum of money at a future date.

The 4 Cs of Credit

1. CHARACTER
2. CAPACITY
3. CAPITAL
4. COLLATERAL

1. Character

Character, also known as creditworthiness, is demonstrated by a consumer's history of making timely payments toward a debt.

- Has the individual used credit in a responsible manner before?
- Does the individual pay bills on time?
- Can the individual provide character references?
- How long has the individual lived at the present address?
- How long has the individual been at their present job?

2. Capacity

Capacity is how much debt a borrower can comfortably handle. Income streams are analyzed along with any legal obligations which could interfere with repayment.

- Does the loan applicant have a steady job?
- What is the applicant's total income?
- How many other loan payments does the applicant have?
- What are current living expenses?
- What are the applicant's current debts?
- How much is the applicant paying toward debt?
- How many dependents does the applicant have?

3. Capital

Capital is the total amount of the current available assets of the borrower, such as real estate, savings, or investments, which could be used to repay debt if income should be unavailable.

Does the applicant have a savings account sufficient to cover several months of expenses?

4. Collateral

Collateral is the assets you pledge as security for a debt. This includes items that lenders will obtain ownership of and use to pay off the debt.

For example, when you ask a lender for a home mortgage, you use the value of the property as a guarantee that the lender will get its money back. If payments are not made, the lender can claim the collateral as payment for the debt.

TWO TYPES OF CREDIT

REVOLVING CREDIT

Credit extended in advance of a transaction so that the borrower does not need to reapply each time credit is desired. Credit cards are a good example of revolving credit. As the principal is repaid, it can be used again and again until the expiration date (if there is one).

INSTALLMENT CREDIT

A type of credit with a fixed number of payments. With installment credit, the borrower must repay the amount owed in a specific number of equal payments, usually monthly.

2 TYPES OF INTEREST

VARIABLE RATE

Variable interest rates offered by credit card companies are based on a specific index, usually the prime rate. Banks usually apply a minimum interest rate on the credit card to guarantee their profits if interest rates fall. As rates go up, the banks do not set maximum limits and may take advantage of the increasing rates. Be sure to read your cardholder agreement carefully for details.

FIXED RATE

There are some credit cards that offer fixed interest rates after an introductory period. This rate will not fluctuate with the prime rate, but credit card companies can change a “fixed” rate by sending written notice to cardholders 30 days prior to an increase.

TWO TYPES OF CREDIT CARDS

UNSECURED CREDIT CARDS

Most credit card offers are for unsecured credit cards. Unsecured credit cards are usually offered to individuals with established credit history. These cards do not require a bank deposit and usually come with fewer restrictions, lower interest rates, and no annual fees. The amount of credit available and interest rate usually depend on the applicant's credit rating.

SECURED CREDIT CARDS

A secured credit card can be an effective way to build or reestablish credit history. Secured credit cards require a cash collateral deposit, which can range from a few hundred to several thousand dollars. The available credit limit becomes the amount deposited. The individual may be able to add to the deposit to increase available credit. Sometimes banks will reward individuals with a good payment history by adding to the credit limit without requesting additional deposits.

OBTAINING SECURED CREDIT CARDS

Check with your bank or search the internet for a list of secured credit card issuers. If you are a member of a credit union, ask about a secured credit card there. About half of the nation's credit unions charge secured credit cards to their members and may charge lower interest rates and waive annual fees.

Many banks offer unsecured credit cards with lower limits and higher interest rates instead of issuing secured credit cards. Still, secured credit cards are sometimes the only option for people just starting out or rebuilding their credit after a major life event, such as divorce, job loss, bankruptcy, or serious illness. Some issuers only give secured credit cards to people who are new to credit, not those trying to rebuild their credit.

Charges with Secured Credit Cards

It pays to shop around; look for a card that doesn't charge an application or processing fee.

If there is a processing fee, confirm the fee is refundable if the application is declined. Secured credit cards typically charge an annual fee and higher interest rates than unsecured credit cards. Fees vary dramatically between companies, so read the fine print.

Without researching costs and fees, you may find that the entire limit on your secured credit card is consumed with fees before you make your first purchase.

CONCERNS

Before applying for a secured credit card, be sure to gather information on important items such as interest rates, fees, and the required deposit. You should also get answers to the following questions:

<u>How long will it take to qualify for an unsecured card?</u>

The goal is to eventually switch from a secured credit card to an unsecured credit card because it will result in lower interest fees. The secured credit card issuers want to keep customers, so most will eventually qualify the cardholder for an unsecured credit card after a period of time, usually 6 to 12 months. Make sure to confirm the time frame with the banking institution before the credit card is issued.

<u>How much interest will my deposit earn, and what kind of account does the deposit have to be in?</u>

In general, interest paid on deposits made to secure a credit card should receive the same interest paid as any savings account with the bank. Deposit options usually include savings accounts, money market funds, or certificates of deposit.

<u>Do you report to all major credit bureaus?</u>

The main reason for having a secured credit card is to build a good credit history. If the issuer does not report information to the credit bureaus, the borrower loses this major benefit.

Receiving mailers offering unsecured credit cards after making several months of payments on time is a good indication that the bank is reporting information. If you need to obtain a secured credit card to build credit history, research all available options before accepting any offers.

FINANCE CHARGES

If you carry an unpaid balance on your credit card, a finance charge will be assessed to your account based on the amount owed and the interest rate on your credit card. The higher your interest rate, the more you will pay in finance charges. If you plan on charging more than you can pay off each month, make sure that when calculating the total cost of the purchase, you factor in the additional amount in finance charges that you will pay over time. You can avoid finance charges on purchases by paying your balance in full each month before the payment due date.

Interest rates on credit cards are usually based on a specific index, such as the prime rate. The prime rate is regularly adjusted based on economic factors, so it fluctuates over time.

Many credit card companies promote lower fixed introductory rates, known as teaser rates, to attract new customers, but after the introductory period ends the annual percentage rate (APR) on the card could be as high as 21% or more. Additionally, teaser rates may only apply to balance transfers and not to new purchases. Be sure to read the cardholder agreement carefully for details.

CASH ADVANCES

A cash advance is an option that allows cardholders to borrow money against their credit balances. In most circumstances, the amount of money available for cash advance is a percentage of the overall credit limit. The credit card statement will provide both credit limit and cash advance limit amounts.

Which type of credit card is best for you?

If you have outstanding balances from month to month, the type of card and its interest rate may have tremendous consequences. A low introductory rate offered by a certain bank may help you make your decision. In any case, it is best to assess your situation and read the cardholder agreement thoroughly before making any decisions.

Receiving cash can be as simple as using an ATM machine. There is usually a fee associated with a cash advance. The cash advance fee may be deducted from the advance itself, or it may be an added charge on your statement. Read the cardholder agreement to find out how cash advances are handled. A cash advance will be added to the existing balance on the credit card.

In most cases, interest rates on cash advances are greater than interest rates on regular purchases and there is often no grace period. As a result, using the cash advance option may be expensive. Keep track of cash advances and ATM usage, and pay the bill in full each month to avoid finance charges and additional fees.

OBTAINING YOUR FIRST CREDIT CARD

There are many banks that specialize in extending Visa and MasterCard credit cards to applicants who are just establishing a credit history. It may be beneficial to establish a relationship with the bank first (checking or savings account).

You might even consider taking out a small loan, placing the funds in your savings account, and making timely payments to develop a positive credit history.

Start by applying for only one credit card. Because credit applications appear on you credit report, multiple rejections may create the illusion of you being too eager for credit. If the first application is not approved, there are some additional steps you can try.

Apply to a department store or oil company credit card and build a credit history using these cards. These cards are easier to obtain than Visa or MasterCard charge cards. Establishing a good payment history with these types of credit cards will help you qualify for the major credit cards.

A second approach is to get a secured credit card. With a secured credit card, a deposit is placed with the credit card company, and they provide a credit card. The credit limit is typically equal to the deposit. As previously discussed, be careful which secured card you choose. Some of these cards carry extremely high fees and may result in the deposit being spent on fees.

It's critical that you stay current on all of your bills. Late payments, missed payments, or other payment problems will undo all your efforts to build a good credit history.

CREDIT

PROS

- Convenience
- No cash to carry
- Purchase tracking & accuracy
- Purchasing power
- Online & phone purchases
- Debt consolidation

CONS

- Finance charges
- Annual fees
- Late payment fees
- Tendency to overspend
- Risk of fraud, loss of privacy, identity theft

Credit cards can be a lifesaver, they can also come with a high cost. Credit card debt can rack up quickly, a $10 pizza can become a $100 pizza if you make only minimum payments and stretch it out as long as allowed.

The most important consideration when buying on credit or taking out a loan is whether the debt incurred is good debt or bad debt.

Good debt is an investment that will grow in value or generate long-term income. Bad debt is debt incurred to purchase things that quickly lose their value and do not generate long-term income. Bad debt also carries a high interest rate, like credit card debt.

The general rule to avoid bad debt is: If you can't afford it and you don't need it, don't buy it.

SPEND.
SMART.

UNDERSTANDING YOUR CREDIT CARD BILLING STATEMENT

The information provided on a monthly credit card billing statement may vary among credit card providers, but you should look for the following on your statement.

Account Number
The number that uniquely identifies the individual account.

Account Status Section
Summarizes account information as of the statement date.

Account Summary Section
Totals purchases, cash advances, payments, credits, and finance charges.

Activity Since Last Statement
List of each purchase (by merchant and location), cash advance, payment, or credit on the account since the previous statement, up to the statement date.

Amount
The dollar amount of the individual purchase or payment.

Amount Over Credit Line
The dollar amount charged by the cardholder above the total credit line.

Annual Percentage Rate (APR)
Amount of interest charged on the balance.

Available Cash Limit
The maximum amount remaining for cash advances.

Available Credit Line
The maximum amount remaining for future purchases.

Balance Subject to Finance Charge
Purchase and cash advance balance to which finance charges are applied.

Cash Advance Limit
The total amount the cardholder can receive in cash advances from this credit card account.

Finance Charges
The cost of credit, including interest, service charges, and transaction fees. This charge is calculated on your balance using different methods.

Minimum Amount Due
The least amount that should be paid by the payment due date.

New Balance
The current balance owed, calculated by totaling the previous balance, + purchases & advances, - payments and credits, + finance charges.

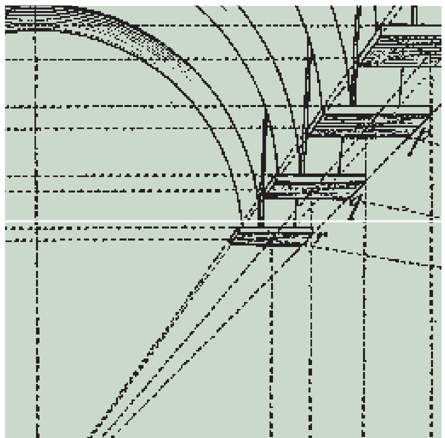
Nominal APR
Annual percentage rate that corresponds to the periodic rate.

Past Due
Amount remaining due from the previous statement.

Payment Due Date
You must pay at least the minimum payment on or before this date.

Payments & Credits
Total amount of payments received and credits issued by the credit card issuer towards purchases and cash advances since the previous statement, up to the statement date.

Periodic Rate
The interest rate applied to your balance to calculate the finance charge. For example, the monthly periodic rate for a card with an 18% APR is 1.5% (18% divided by 12 months). The daily periodic rate for the same 18% APR is 0.04932% (18% divided by 365 days).



Post Date
The date the credit card issuer records the individual transaction.

Previous Balance
The amount you owed at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included.

Purchases & Advances
Total amount of purchases and cash advance charges by the cardholder since the previous statement, up to the statement date.

Purch/Adv Minimum Due
The minimum payment due for the purchases and cash advances combined.

Rate Summary Section
Overview of interest rates applied to the account and the balances to which finance charges are applied.

Reference Number
The number assigned to the individual transaction by the credit card issuer.

Sale Date
The actual date that the individual transaction between the cardholder and the merchant occurred.

Statement Date
The date on which the statement information was compiled. All the transactions listed occurred between the previous statement date and the current statement date.

Total Credit Line
Total dollar amount of credit issued to the cardholder for purchases and cash advances on the account.

Transactions Section
List of each purchase, cash advance, payment, or credit on the account since the previous statement, up to the statement date.

SAMPLE CREDIT CARD STATEMENT

1 YOUR FIRST BANK

John Doe
123 Fourth St
Anywhere, USA

Account Number	Statement Date	Payment Due Date
xxxx-xxxx-xxxx-4321	2/15/2007	3/1/2007

Account Status

Total Credit Line	Available Credit Line	Cash Advance Limit	Available Cash Limit	New Balance
$1,500	$660	$500	$500	$840

Amount Over Credit Line	Past Due	Purch/Adv Minimum Due	Minimum Amount Due
$0.00	$0.00	$20.00	$20.00

Transactions

Sale Date	Post Date	Reference Number	Activity Since Last Statement	Amount
	1/15		Payment - Thank You	$375.80
12/29	12/31	483JE684KG74	Home Depot, Anytown USA	$112.54
1/10	1/12	34F958843E45	Restaurant, Anytown USA	$45.87
1/12	1/14	29SLK57N8V1	Shirts, Anytown USA	$32.58
1/18	1/19	874S5837J87E	Appliance Warehouse, Anytown, USA	$585.54
1/20	1/21	491L6781W86	Exxon, Anytown, USA	$34.86
2/9	2/9	37S74816L87	Shots 'N Brauts, Bar Grill, Anytown, USA	$28.74

Account Summary

	Previous Balance	(+) Purchases & Advances	(-) Payments & Credits	(=) Finance Charges	(=) New Balance
Purchases	$375.80	$840.13	$375.80	$0.00	$840.13
Advances	$0.00	$0.00	$0.00	$0.00	$0.00
Total	$375.80	$840.13	$375.80	$0.00	$840.13

Rate Summary

	Balance Subject to Finance Charge	Periodic Rate	Nominal APR	Annual Percentage Rate
Purchases	$0.00	0.049970%	18.24%	18.24%
Advances	$0.00	0.063670%	23.24%	23.24%

Please make checks payable to Your First Bank. Send to Box 1234, Anytown, USA

PREAPPROVED CREDIT OFFERS

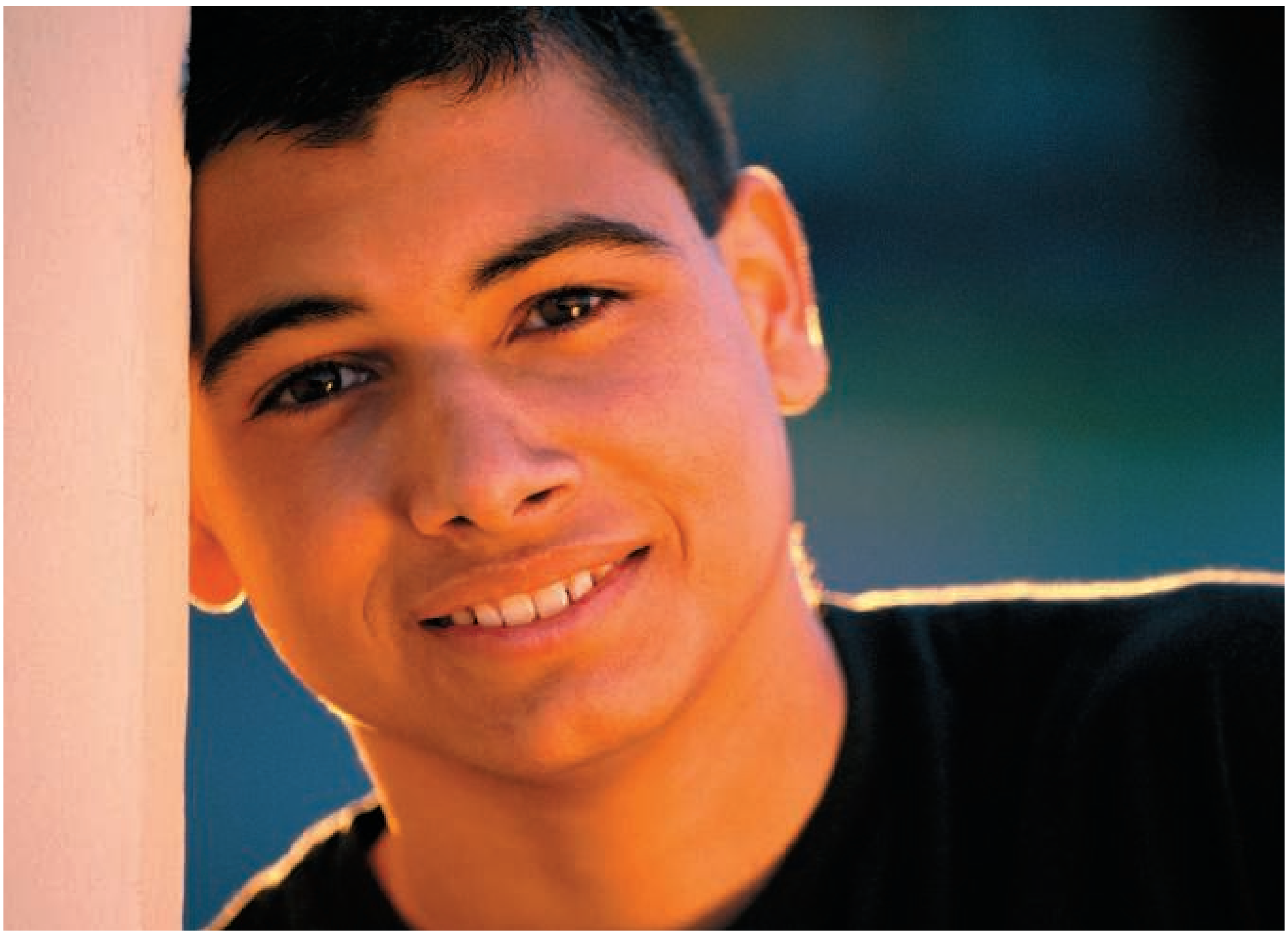
Unsolicited preapproved credit offers can arrive in the mail daily, especially if you currently have credit or even a magazine subscription. These offers indicate that you have passed a prescreening by the issuer. It does not mean that you will receive the credit card. It only means that you can apply; the issuer still has the option of rejecting your application. In some cases, these offers can lead to identity theft, and your credit can be exploited.

Consumers can now opt out for a period of five years or permanently from receiving unsolicited credit card offers.

This procedure can be done over the phone by calling 1-888-5-OPT-OUT (888-567-8688) or by going to the opt-out website: www.optoutprescreen.com

Do not throw these preapproved offers away without removing your personal information. That information could provide identity thieves with all they need to open an account in your name without your knowledge.

Always shred personal information to protect your identity and credit.



ASKING FOR A REDUCED INTEREST RATE

A five-minute phone call to the credit card issuer could save hundreds, even thousands, of dollars in interest charges. Why are card issuers so willing to cut interest rates for so many of their customers? Competition in the credit card industry is fierce. Credit card companies want to hang on to good customers.

Be persistent and keep the request simple. Ask the representative what he or she can do to help. If the card company won't budge, it's time to start looking for a better deal.

Not everyone who asks is going to get a lower interest rate, but established customers may have a better chance than newer customers. Newer customers with higher balances or those who have not paid their bills may have a tougher time getting their interest rates reduced. Regardless of how you feel about making the call, it is worth asking. Remember: If you don't ask the answer is no.

The following sample script may help when speaking to a representative regarding credit card rates:

Hi, my name is [your name]. I have received several offers in the mail from other credit card companies with lower APRs. Are you willing to match these lower interest rates? As a long-time customer, what can I do to get my interest rates lowered?

BUILDING A SOLID CREDIT HISTORY

Your credit history will eventually affect your credit score and credit rating. Once you obtain a credit card, start by purchasing a few things and paying off the card every month. Doing so will give you an excellent credit rating.

Monitoring your credit report is one of your most important financial tasks. These days, a good credit report is just as important when applying for a job as it is when applying for a loan. It is not difficult to establish credit, but it can be difficult to keep it in check if you are not vigilant and maintain your credit. To achieve a good credit rating, an individual should:

- Keep good records of checking and savings accounts; make sure to balance them monthly.
- Avoid bouncing checks.
- Pay bills before the due date.
- Limit the number of open accounts.
- Avoid running credit card balancees up to the maximum credit limit.

It is better to have two cards with a $5,000 limit than 10 cards with a $1000 limit. The credit score and rating are influenced by the amount of credit and history of making timely payments on outstanding balances.

JAY NOVACEK & ASSOCIATES

Identity Theft Risk Management

- Education
- Training
- Documentation
- Monitoring
- Restoration

"Identity Theft can destroy the most carefully executed financial plan!"

Jay Novacek & Associates provides services and solutions that help reduce company and employee risk from the devastating crime of Identity Theft.

Jay Novacek & Associates
2901 Cityplace West Blvd. Suite 701
Dallas, TX 75204 (214) 520-8801
www.jaynovacek.net

PRINCIPLES OF CREDIT SAFETY

Stolen Credit Card(s)

If someone steals your credit cards and goes on a buying spree, odds are that it will not cost you anything. Federal law limits liability to $50. While most card companies will say that it can cost $50, that fee is rarely applied. If fraud is suspected, the credit card company may require a signed statement under oath that you did not make the purchase(s) in question.

Many card companies now offer some form of fraud protection, but be sure it is a genuine guarantee before accepting it. There are a lot of phony companies making fraudulent offers of insurance against someone else using the cards when in fact the cards are already protected.

It is vitally important to keep accurate records of all accounts. This would include lists or copies of all credit card and account information. To guard against identity theft, report stolen or missing cards to the credit card company as soon as possible, but at least within 24 hours. Doing so will increase the chances of avoiding liability for fraudulent purchases. Many companies have toll-free numbers and 24-hour service to deal with such emergencies.

The wisest practice is to get on the phone as soon as the card is missing or the minute a bill comes in with charges that you did not make. Follow up that call with a letter confirming the facts of the loss or the unauthorized charges on the statement. Make note of the date, time, and person to whom you reported the card lost or stolen. You should also notify the three credit reporting agencies, so they can flag your reports.

Make sure to read all of the fine print when acquiring a card, so you understand what responsibilities and liabilities you (the cardholder) have in cases of fraudulent activity.

Common Credit Card Scams

A thief goes through trash to find discarded receipts or statements and then uses the account numbers illegally. A dishonest clerk makes an extra imprint from an individual's credit card and uses it to make personal charges.

A person responds to a mailing asking to call a long distance number for a free trip or bargain-priced travel package. The individual is told he or she must join a travel club first and is asked for a credit card account number to bill. In many cases, charges the individual did not make are added to the bill, and he or she never gets the trip.

Scam artists raid mailboxes and steal renewal credit cards and bills to obtain credit card numbers. Be aware of when cards and bills are due to arrive. If the bills are late or do not arrive, contact the credit card company.

REPORTING CREDIT THEFT OR FRAUD

If you suspect identity theft, call the Identity Theft Hotline toll-free:
1-877-IDTHEFT (438-4338)

You may also file a complaint online at: www.ftc.org
Report fraudulent activity to credit reporting agencies:

Equifax	www.equifax.com	888-766-0008
Experian	www.experian.com	888-397-3742
Trans Union	www.transunion.com	800-680-7289

Negative-Option Plan

This is a charge from a suspect company that is shown as a monthly fee on the credit card statement. With a negative-option plan, consumers are automatically charged for services or products they did not approve until they take action to actually refuse the service. Often, the fees charged before you cancel the service are not refundable.

Thieves and scams are not the only things to watch for. Watching for errors on your credit record like an incorrect address, name misspellings, etc., is very important. Such human errors can confuse someone else's information with yours and affect your credit rating and score. You can get a free copy of your credit report from each credit bureau once a year. You can get all three reports at once or get them one at a time, spaced out over the year. For more information, visit: www.annualcreditreport.com.

Ask the credit bureaus to flag your file with a fraud alert, and include a statement that creditors should get your permission before opening new accounts in your name. At the same time, ask the credit bureaus for copies of your current credit report. Credit bureaus must make a free copy of the report available if there is inaccurate information due to fraud. You can also request a copy of your credit report if you have been denied credit. Review the reports carefully to make sure no fraudulent accounts have been opened in your name or unauthorized charges made to existing accounts.

PRINCIPLES OF CREDIT DISPUTE

Disputing Credit Card Purchases

Credit card purchases are protected under the Fair Credit Billing Act. This law gives a consumer the right to withhold payment on poor quality or damaged merchandise purchased with a credit card. Under the law, the card holder needs to make a real effort to resolve the dispute with the merchant before he or she can ask the issuer to stop a credit card payment. There are a few other “hoops” to consider as well.

The sale must be for more than $50 and must have taken place in the consumer’s home state or within 100 miles of the home address. Few issuers enforce the $50 or 100-mile rule on purchases, but all are free to do so. There’s a chance that the consumer will be able to dispute credit card charges on inferior merchandise purchased outside their home state, over the internet, or by mail, fax, or telephone.

Because card companies are eager to hang on to their customers, especially good ones, they’ll often go above and beyond what’s required of them by law when a customer is unhappy with a card purchase. For example, the issuing company may give the customer the benefit of the doubt and credit the customer’s account temporarily for the amount of the disputed purchase.

Some card companies may be less generous when a big-ticket item is in dispute, or if the purchase was made while traveling overseas. It all depends on the card company and how much they value their customers. The card company can stick to the limits spelled out in the Fair Credit Billing Act whenever they want to.

Steps to Resolving A Dispute

First, try to resolve the problem with the business where you made the purchase. Give the merchant a chance to fix it; sometimes they will. Use common sense and be courteous; these traits can often get the problem solved early.

Keep a record of each conversation with dates, times, and names. If the merchant won’t budge, put the complaint in writing. Outline the dispute in a short, detailed letter to the merchant and send it as certified mail, return receipt requested. Make copies of the complaint letter sent to the merchant. Keep a copy for your records.

Next, contact the credit card company and alert them of the disputed purchase amount.

To be protected under the Fair Credit Billing Act, this needs to be done in writing within 60 days after the bill with the disputed charge was sent. In the letter, include the credit card account number, the closing date of the bill on which the disputed charge appears, a description of the disputed item, and why payment is being withheld. Enclosed a copy of the complaint letter to the merchant and any other documentation you have that supports your position.

Send the letter by certified mail, return receipt requested, to the credit card company at the address for billing inquiries, not to the address for payments. The issuer will then contact the merchant. Two things can happen. If the credit cart company does not side with you, you will have to pay for the disputed item. If the card company sides with you, you won't have to pay a penny.

Note:

Once a bill is disputed, the finance charge is suspended for the duration of the dispute. If the bill is determined to be correct and returned to the customer for payment, it again begins to accrue daily finance charges but only from the time the dispute was found to be invalid. Other purchases will be charged interest. During a dispute, make regularly scheduled payments for those purchases; include a short letter explaining that it is for payment for all but the disputed item. If you are going to dispute a bill, move quickly. You will want to inform the card issuer of the disputed charge before it's due for payment because payment can't be withheld once the bill is paid.

PRINCIPLES OF DEBT MANAGEMENT

DEBT FAQs

WHAT IS DEBT?

Debt is money you owe; an obligation. Unsecured debts are not secured by collateral. They are debts such as credit cards, personal loans, lines of credit, department store cards, and medical bills. Mortgages and car loans are considered secured because the lender has collateral (your house or car) that can be repossessed if the debt is not paid.

WHAT IS DEBT MANAGEMENT?

Debt management is the practice of using debt wisely and keeping it under control. How do you know you are having trouble handling debt? Some signs of debt management problems can be identified if you answer yes to any of the following questions.
Do you...

- Pay only monthly minimums or miss payments on charge accounts?
- Consolidate debts by borrowing from a high-interest lender?
- Depend on overtime or moonlighting to cover monthly bills?
- Find it impossible to save money or frequently withdraw money from your savings to cover payments?
- Have too many bills to pay each month?
- Panic when faced with unexpected expense, such as car repairs?
- Hope that checks you have written don't clear the bank before payday? Borrow from friends and/or relatives to cover basic expenses?

IF YOU ANSWERED YES, YOU MAY NEED A DEBT MANAGEMENT PROGRAM

WHAT HAPPENS IF I DON'T PAY MY DEBTS?

You have to understand that there are consequences if you do not pay your debts. Listed below are common consequences of nonpayment:

- Your credit with the lender may be suspended or canceled.
- Your delinquency may be reported to one or more credit bureaus, negatively affecting your credit rating.
- All or a portion of the remaining debt may be written off (forgiven) by the lender and then reported to the IRS as income received by you.
- Your morgage may be foreclosed and property sold to clear the debt. If a deficiency in funds results, you can be held liable to pay the difference.
- The lender may repossess and sell your collateral (car, truck, machinery, etc.) to satisfy the debt. If proceeds are insufficient, you may be held liable for the deficiency.
- You may be evicted from a rented house for the nonpayment of rent. Any deposit will be lost to pay the debt owed.
- The lender may sue and win legal judgment against you ordering you to pay the debt. Non payment may result in further legal problems.
- If sued by the lender, you may contest the suit, lose the suit, and be charged with paying the debt plus the court costs and attorney fees.
- If the lender wins a suit, the court may permit the lender to garnish wages, seize assets, or place a lien on your property. You may be forced into bankruptcy and then required to relinquish cherished possessions to satisfy the claims of the lenders.

HOW LONG WILL IT TAKE TO SETTLE MY DEBT?

The time required to settle all your debts depends upon your specific financial situation. You should strive to settle all debts (no matter how large) in no more than 3-5 years.

ARE CREDIT CARD MINIMUM PAYMENTS RISING?

Many major banks increased minimum monthly payments on credit card accounts over the last few years. Minimum payments used to be typically 2% of your balance and now can be as high as 4%. This is a good move in the sense that you debts will be paid off earlier, but you must ensure you are always aware of the minimum payment to make sure you can always pay the minimum.

HOW CAN I PAY OFF MY DEBT?

To overcome a debt problem, you will need a plan of action. Here are the basic planning steps:

- Make an honest self-appraisal.
- Decide to make a change.
- Determine your goals.
- Pay yourself first.

As you work through these steps, you may often need the help of a financial counselor or mentor. Do not be afraid to ask for help. As you work through your plan, there are two important rules to remember:

- Stick to the plan.
- Do not acquire more debt.

Debt Reduction Methods

What is a spending plan, and what is its purpose?

A spending plan, also known as a budget, is an itemized summary that identifies what money comes into the household and what money is paid out and to whom. A spending plan identifies the current fiancil situation, evaluates the way money is managed, tracks spending and savings habits, provides the ability to be prepared for emergenvies, and creates opportunities to realize goals.

Budgeting is the foundation of every financial plan. A budget is an outline of future income and expenditures that can be used as a guideline for spending and saving. A good budget can help keep your spending on track and even uncover some hidden cash flow problems that might free up even more money to put toward you other financial goals. Budgets can also allow you to save each month by reducing wasteful and impulsive purchases.

The process for preparing a monthly budget includes:

- Listings all sources of monthly income
- Listing all required, fixed expenses, like rent/mortgage, utilities, phone
- Listing other possible and variable expenses

Here is a simple plan you can follow as you budget your expenses:

1. Total your earnings.
   Calculate how much money you expect to make this month after deductions. Only include income sources that you know you can depend on.
   Earnings:__________________
2. Assess your monthly expenses.
   Make a list of all your regular monthly expenses, including any money that you spend on fun things like eating out, entertainment or hobbies.
   Monthly Expenses: __________
3. Subtract Monthly Expenses from Earnings.
   Calculate how much money you expect to make this month after deductions. Only include income sources that you know you can depend on.
   Remaining Money: __________
4. Pay Yourself First.
   The money remaining after covering all of your anticipated expenses can be used to build up your savings and investments.
   Savings: __________________
5. Subtract Extra Expenses.
   Review your plans for the upcoming month, and make a note of any extra expenses that you are likely to incur. This includes gifts, trips, parties, extra meals out, rentals and other miscellaneous puchases. Subtract your extra expenses from the figure recorded in the previous step.
   Remaining Money: __________

Debt Reduction Calculators

There are many tools available which calculate exactly how long it will take to pay off existing debt(s). The Debt Terminator, available online from First Command Educational Foundation, is a free debt reduction calculator that does not require a log-in or ask for any personal information.

Based on the amount of debt you currently have and the order you choose to pay off the debt (i.e. highest balance first, highest interest first, lowest balance first), the Debt Terminator will calculate the exact date of payoff and the total amount of interest paid.

The Debt Terminator will also illustrate how quickly you can reduce your debt by adding additional money to your monthly payments.

Note - spending plan and debt reduction calculators are available free of charge at www.fcef.com.

Remember: If your budget comes out in the negative, go over your monthly expenses again, and look for places to make cuts.

	_______________'S Budget	
Estimated Income		
Paycheck (after taxes)		$________
Interest Earned from other Accounts		$________
	Total Estimated Income:	$________
Estimated Expenses		
Mortgage/Rent		$________
Car Payment		$________
Groceries		$________
Gasoline		$________
Utilities		$________
Books, Emergency Repairs, etc.		$________
Car Insurance		$________
Credit Card Payment		$________
Tuition/Student Loan Payments		$________
(Pay Yourself First)	**Savings Amount:**	$________
	Total Expenses:	$________
	Total Income	$________
(minus)	Total Expenses	$________
	Miscellaneous/Extra Expenses (entertainment, eating out, shopping, etc.)	$________

DEBT CONSOLIDATION LOAN

A debt consolidation loan is designed to take all or most of your debt and combine it into a single new loan. How does it work?

A consolidation loan is presumed to have a lower interest rate than the existing debts. The lower rate and the single payment make consolidation loans appealing. They result in lower overall payments and less interest paid on the loan. Banks and credit unions typically have lower interest rates than credit cards – sometimes much lower. It may, therefore, be a good option to get a new loan from a bank or credit union, pay off the credit cards and save.

The challenge with consolidation loans is that they require a change in behavior and a commitment. Success assumes that you will make the payments on the new loan, put the difference in payments into a savings account, and refrain from running up new debt.

CREDIT COUNSELING

A nonprofit credit counseling service can assist in providing workable solutions for financial problems. The service offers confidential and professional debt counseling to consumers throughout the United States.

The staff consists of professional counselors who focus on helping people with current financial difficulties and identifying potential problems. Most often, the program serves as an alternative to bankruptcy. Under these programs, the customer usually agrees to turn his or her paycheck over to the credit counselors, who then ensure that the payments are made on schedule. This action also shows a “good faith” effort to creditors because the debtor has taken proactive steps to ensure that the debt is repaid.

Note: There are several companies that claim to offer credit counseling services but actually do nothing more than collect fees from debtors in exchange for negotiating an easy monthly-payment debt reduction plan. These companies are usually associated with other companies that offer debt consolidation loans with other loans and do not provide any counseling services at all. Be sure the counseling service you choose is legitimate.

Many people find out by experience that a poor credit past may result in businesses choosing not to do business with you in the present. Among those are property management/leasing companies, cell phone companies, and auto retailers. You may try to forget about your poor credit behavior of the past, but until you take care of it you may be doomed to repeat the past.

CONCLUSION

Today, more than ever, businesses and retail stores make it more convenient for consumers to rely on credit cards, rather than checks or cash. Can you think of the last time you did not pay for your gas at the pump with your debit or credit card? If you have ever made a purchase on the internet, you know the importance of owning a credit card. Credit cards allow us the freedom to make large purchases without carrying lots of cash.

Credit cards protect the quality of purchases by offering the option to refuse payment to merchants if the product or service is damaged or substandard.

With convenience and satisfaction guaranteed, it's no surprise that the usage of credit cards has increased over the years. As is often the case, too much of a good thing is not a good thing. Keep credit card balances under control, and try not to change anything you will not be able to pay off in full when the bill arrives.

On outstanding balances, pay more than the minimum payment, and keep tabs on your interest rates. Smart usage of credit cards will allow you the freedom to make those desired purchases, be debt free, or keep debt at a manageable level. Most important, you will be able to establish a great credit history.