yourself wavering, take a look at your progress. For instance, if you find yourself discouraged after 3 months of savings, take a look at all you've achieved – in that time you've saved $375, more than one-third of what you'll need. Even though you have a ways to go, you *have* achieved something already. Periodically acknowledging your progress will help keep you moving forward.

Be Prepared for the Unexpected

One of the few constants in life is change. Such unpredictability invariably leads to the development of additional goals. That's why it's important to revisit your objectives regularly. Not only can you review your progress, you can examine the appropriateness of your goal to your changing circumstances.

Also, remember that life happens. Things may come along that temporarily prevent you from reaching your goals, but it's important to get right back on track as soon as you can. By developing a solid Spending Plan, establishing an Emergency Fund, and remaining committed to your goals, you can live a happy and rewarding life, despite the roadblocks.

Regaining Financial Control

Some of you may be in good shape after you construct your Spending Plan and may have no problems meeting your financial obligations. However, others may find that their plan has some flaws – particularly if you were already behind on your bill payments before you created your plan. In that case, you'll have to work a little harder to gain control of your situation.

Perhaps one of the most frustrating aspects of regaining control of your finances is dealing with bill collectors. These individuals have a notorious reputation; deceptive and abusive practices are not beneath them. The good news is that these can be avoided. People often fail to realize that if they keep an open line of communication with a creditor they've fallen behind with, they may be able to avoid seeing the account go to a collection agency. Most creditors do not wish to write an account off as bad debt, but they often have no choice when consumers avoid communicating with them.

When you realize that you will not be able to make any of your bill payments, the first thing you should do is call your creditor. Avoiding the situation will only make things worse, as your account will only fall further into delinquency. Creating a dialogue with your creditor allows you to work with them to develop a plan to take care of your arrearage and avoid the stress of collections.

In the development of a strategy to repay outstanding amounts, you must remain realistic about your financial situation. You'll want to establish arrangements that you can maintain, and must not make any promises you cannot keep. If you can afford $20 each month,

tell your creditor that. If you make a promise to pay $100 and only send the $20, you are jeopardizing the ability of the creditor to work with you. In time, the account will only go to collections because you didn't maintain the agreement.

If you fail to contact the creditor, they will contact you. Generally, you will receive correspondence from them within the first few weeks of your missed payment, although some creditors will contact you much sooner. At first, these letters will be polite, offering a reminder that your payment has not been made; however, over time, these letters will increase in their intensity. This of course depends on the type of creditor you are dealing with. Smaller companies may be aggressive from the beginning, while others are conscious that you may be a customer again in the future and won't want to tarnish their reputation with you. In any case, the first thing you should do when faced with these correspondences is contact your creditor immediately. Let's face it, individuals don't make late payments because they have too much money. They're typically in a financial bind of one sort or another. By communicating your situation honestly to your creditor, you may be able to keep the account with them until you're back on your feet. Even if you can't afford to send them a great deal of money, call them to inform them of the challenges you're facing.

Prioritizing Bill Payments

When developing a plan to deal with outstanding obligations, you must prioritize your bills relative to their importance in your life. It is perhaps human nature to want to pay the creditors who are applying the most pressure, but this may not be in your best interest. Of

course, all of your creditors will want to receive payment, but you must take care of your needs first before you can satisfy theirs.

Secured Debt vs. Unsecured Debt

A general rule to follow is to assign the highest priority to bill payments that are secured, and a lesser priority to those that are unsecured. Secured debts are debts with collateral that may be seized for non-payment. Typical secured debts include mortgages, car loans, and loans secured by household items. Should you fail to make payments on your secured debts, the creditor has the right to take the collateral to satisfy the remainder of the loan.

Unsecured debts include items such as credit cards, legal, and medical bills. It is important to realize that non-payment of any of your obligations can have an effect on your credit profile, but you can only do so much when trying to regain control of your finances. You can worry about reestablishing your credit rating after you've stabilized your overall financial situation.

Developing Your Repayment Plan

Understanding the importance of satisfying your secured debt is important, but there are many more necessities to take into consideration; after all, making your boat payment is one thing, putting food on the table is another matter all together. Regardless of the severity of your financial setback, you must look at your life essentials as high priority bills. You must also

remain conscious of the need to periodically reevaluate the amount of money you're paying for these essentials.

Often, individuals faced with a financial crisis fail to make adjustments to their spending habits. If you've lost your employment, do you need to continue spending $125 every month for cable? Better yet, should you continue to eat out? The answer is no; however, people can live in denial about the challenges they face. First and foremost, "belt tightening" is in order to help you navigate the time ahead.

Payment Priority

Your mortgage should get first priority because a delinquency here can result in multiple problems down the road. Not only would you risk losing your home, you would seriously jeopardize your credit rating. If you rent, you may get a bit more leeway from landlords, but you should still give precedence to this payment. If you're a homeowner, be aware that foreclosure proceedings can start after as few as two missed mortgage payments.

Utility companies may offer budget plans, installment programs or other accommodations. If you need to, contact the Salvation Army, the United Way and other social service agencies for help with food and clothing. Lower-income women who are pregnant, nursing, or those with children under age five may qualify for WIC, a Department of Agriculture nutrition program that provides things such as milk, cereal, cheese, and other food items. Auto finance companies and credit unions may allow hardship cases to defer a payment on an auto

loan or lease. Interest will continue to accrue, however, and some lenders may charge an extra fee for this option.

Savings

As mentioned earlier, savings is perhaps the most important aspect of your Spending Plan. All of Cambridge's counselors have heard accounts of how difficult it is to save money. Each person's rationale differs, but the most common argument I've heard is, "I don't make enough money to save." Understandably, each of us has different circumstances. Some of us earn modest livings, support families, manage high levels of debt, and possess little in the way of financial sophistication. However, our experience has shown that there is almost always room for savings. There are mountains, some in the distance, and others right in front of us, that must be conquered. And I learned well before my career as an educator that Mt. Financial is the first summit *I* had to conquer.

First, let's dispel the myth that only people who earn high incomes can save. In a report on wealth and savings, researchers Steven F. Venti and David A. Wise found that some high-income people wind up with little wealth, and some low-income people accumulate a great amount. It is not the income level, or circumstance, that makes the difference, but how much people *chose* to save. Sure, higher earnings lead to a greater potential for savings, but the real key is lifestyle. Trust me, I've gone through the pain of worrying about how I will pay an electric bill, or deciding how I can afford to get my brakes repaired. I've experienced the agony of realizing I was unprepared to meet my obligations because of my financial situation. My obstacles were the same as the ones many of you face now – I earned next to nothing, I had no

savings, and the stress of dealing with my obligations left me feeling hopeless. However, my experiences lead me to an obvious conclusion -- it is better to *live* without, than *be* without. I decided that even though I made minimum wage, a portion of that had to go to savings. That meant I had to make some very different choices in the way I spent my earnings.

Much has changed in my life, but one thing has remained the same – I am frugal, and I'm not alone. Over the last few years, I've read countless stories of people who achieved extraordinary savings while earning modest incomes. There is the story of the retired social worker who bequeathed $1.3 million to charities in her community. She drove a run-down car, lived in the same house for 40 years, yet she had the financial wherewithal to travel throughout Europe and build impressive wealth from a seemingly unrewarding income. Then there is the farmer who appeared to live in the squalor of a mobile home surrounded by rusting farm equipment who willed $2 million to his church. And finally, I read about a teacher earning a mere $28,000 a year who, upon his death, donated $2.1 million to his *alma mater* for the establishment of scholarships to benefit African-American children. The common thread in these stories is the belief that money is merely a means to an end. Instead of allowing money to control their lives, these individuals controlled their finances. They could have looked at money as a fleeting resource, but they didn't. These individuals understood that their time, effort, and capacity could accomplish much more.

You can build wealth, just like these average folks, by taking command of *your* earnings. Each week, pay yourself first – *you* worked hard, and *you* deserve it! As I've mentioned, it's best to commit 10% of your earning to savings, but start out with a smaller percentage if that's more

comfortable. The point is, save something. If we look at where our money is going right now, each of us can probably identify 5% to 10% that can be redistributed to savings.

Building Wealth

When we talk about savings, we're really talking about building wealth. You can still choose to sock your money away under a mattress, but that does little to make your money grow. There is a logic in business that the value of a dollar today is greater than its value tomorrow. Why? Well, the purchasing power of the dollar decreases over time. This is attributed to inflation. Essentially, inflation occurs when the prices of goods and services rise. Historically, inflation has grown at a rate of roughly 3% each year. Let's look at an example. Say you bought a soda today for $1. Next year that soda may cost you $1.03. In ten years that soda might cost you $1.30. This will hurt you if you aren't getting a greater return on the money you have in the bank. If you were earning 2% interest, your money would be growing at a rate 1% behind inflation. If you saved the dollar for soda and were earning 2% interest on it, next year that dollar would be worth $1.02; in ten years that dollar would be worth $1.20.

Growing Your Money

Let's take a look at some of the basic concepts of wealth building.

COMPOUND INTEREST

Compound interest is a powerful tool you can use to make your money grow. It involves earning interest on interest you've already received. Let's say you put $1,000 in a savings account that pays 5% interest. At the end of the year, you'll have received $50 in interest. Now

you have $1,050. ($1,000 x 5% = $50). In the second year, you will earn 5% on $1050, or $52.50. Notice that your money grew faster. You made $50 in the first year, and $52.50 in the second. This is how compounding works. The longer the money stays in the savings account, the faster it will continue to grow, so it's a good idea to start a savings plan as soon as you can.

THE RULE OF 72

Let's assume for a moment that you had an "extra" $1,000 and decided to put it into an interest-bearing account. Even if you never made another deposit, in a certain amount of time that money would double. That's the beauty of compound interest. By using something called the Rule of 72, we can see how long it will take to double your money. All you have to do is divide 72 by the interest rate the account was paying. Sounds simple, so let's try it out. If you had an account that pays 4% interest on your money, the math would be as follows: 72÷4 = 18. It would take you 18 years to double your money. Not bad, but you can do better!

RISK AND RETURN

There are many ways to save money and build wealth, some of them riskier than others. The more risk, the more potential you have to build wealth. As an example, let's compare two ways to make your money grow: a savings account and a stock. A savings account has very little risk; the money you put into it is insured by the FDIC and there is very little chance of losing it. On this type of account you would probably earn about 1.5% interest. Stocks, on the other hand, are *very* risky. There are many factors that can cause you to lose your money. Because of the high risk, over time you might be able to earn an average of between 10% and 11% in interest.

By using the Rule of 72, let's see how long it would take to double $1,000 in a savings account versus investing in a stock. In a savings account you would earn 1.5% interest, so you would do the math as follows: 72÷1.5 = 48 years. Investing in a stock, you would earn about 11% interest, so: 72÷11 = 6.5 years. As you can see, more risk definitely equals more return.

DIVERSIFY

Putting all your eggs in one basket is not a good idea. With the high risk of investments, you really don't want to put all your cash into the stock market. Why? Well, the market is volatile and no stock is a sure thing. If you put all your money there and lose it, you might be ruined. By spreading your money out between both low- and high-risk items, you avoid losing everything if your investment goes bad.

Ways to Make Your Money Grow

There are a lot of ways to make your money grow. The following are a few of the more popular options.

BONDS

When you buy a bond, you are lending money to a corporation or government. In return for loaning them money, you get a specified interest rate which, depending on the type of bond, is paid either at specific periods during the life of the bond or when the bond matures. These are generally long-term investments.

MUTUAL FUNDS

A mutual fund is an investment corporation that pools together investors' money to purchase stocks and bonds. The advantage offered by this type of investment is that it is

diverse and not dependent on the performance of a single stock or bond. The mutual fund itself does the diversifying for you for much less of an investment than if you were buying each stock individually. A mutual fund is managed full-time by a Fund Manager who decides which stocks to buy and sell every day. The manager's job is to maximize the return from your investment while maintaining the appropriate risk level.

STOCKS

By purchasing shares of a stock, you become part owner of the company. This does not mean you can walk in and use the executive washroom, though. If the company does well over time, the value of the stock should go up. If you sell the stock, you make a profit. Some companies pay their shareholders' dividends, which are percentages of their earnings. Stocks are definitely a long-term investment.

Walk Before You Run

When you're entering the world of savings, you want to start off with the more common vehicles until you become a seasoned saver. Lots of things can happen, and you don't want to tie up cash you may need in an emergency. As we've explained, some savings vehicles penalize you for early withdrawals, and others are more appropriate for long-term goals. In essence, this is what's referred to as liquidity, or how much can you get your hands on in a crisis. A savings account is more liquid than a stock because you can generally get your deposits on demand. With a stock, you would have to sell your shares, and more importantly, sacrifice future earning potential. Once you've saved up a good financial cushion, then and only then,

consider moving into more aggressive savings vehicles. Then, if something comes up (the car needs a new transmission, your stove stops working, etc.), you'll have easy access to your cash.

Credit Reports

Your credit report is reviewed by lenders to assess your creditworthiness. Are you a good candidate for a loan? Based upon the review of your reports, a potential lender will determine if they want to extend financing to you, and, if so, at what interest rate. Over the last decade, usage of credit reports has expanded dramatically. These days, it is not uncommon for your report to be reviewed when you apply for a job, for an apartment, and even for an insurance policy. With so much riding on your reports, it's important that you know how to read them, that you understand the signals your reports might be sending, and that you are aware of the process for fixing mistakes when they appear.

The Fair and Accurate Credit Transactions Act (FACT Act) allows you to receive one free credit report each year from each of the three major credit bureaus - TransUnion, Experian and Equifax. With so many important aspects of your life relying upon the accuracy of your credit report, is important to review your reports annually. Credit reporting agencies are required to furnish accurate information regarding your profile; however, that does not necessarily mean your reports are correct. The accuracy of the items reported by these agencies is reliant upon their subscribers - credit card companies, lending institutions and even the court system. Should one of these subscribers provide information that is incorrect, it will not be detected by the credit reporting agency. Do you owe Sears $120.00 or $1,200.00? The credit bureau doesn't know. They can only add what Sears may tell them to your report. It's up to you to find the mistake, document that you're correct (if possible), and request that the error be fixed.

Reviewing Reports

With the increased importance of our credit profiles, it is necessary to review these reports periodically to ensure accuracy. As mentioned, the FACT Act allows you to receive copies of your credit reports for free at least once during each 12-month period. Cambridge highly recommends that you take advantage of this provision, as it has been reported that close to 85% of all credit reports in America contain errors.

To receive a copy of each of your reports, go to www.annualcreditreport.com and complete the required information. You'll be asked a number of questions to verify your identity, including information about accounts you may have had in the past, so it might be a good idea to gather up some old creditor statements before you go online. After you've satisfied the website that it's really you requesting your reports, you'll be granted access to them for as much as a month. You might want to print all three immediately, however, to have working copies you can mark up as you review each entry. If you haven't seen your reports in more than a year, be sure that you order each of your three reports, since the information on file can vary from one reporting agency to another. Generally, subscribers report information to only one or two of the agencies, but rarely to all three. This causes the information in your reports to vary greatly. If you don't have access to the Internet, you can also request your reports by phone by calling the Annual Credit Report Request Service at 1-877-322-8228. You'll still need to complete a verification process to receive your reports, so please allow a few minutes.

If ordering a copy of your reports via telephone, you'll need to provide the following information:

- Name
- Current mailing address
- Social Security Number
- Date of birth

Once you have ordered your reports, it should take approximately 10 to 15 days to receive them in the mail. You can also print out an order form from annualcreditreport.com and order your reports through the mail. It may only take 15 days to receive your reports this way, but, if there are problems verifying your identity, the process can drag on much longer. That's why we recommend using the Internet or your phone.

Performing a Credit Check-up

When you receive your reports, you should examine them in their entirety, not just those items you suspect may be in error. Study each entry carefully to ensure its accuracy. For example, does the item indicate the correct account status? Is the date, amount, and account number correct? In addition, you want to be on the lookout for accounts that may not belong to you. You should also look closely for unauthorized inquiries, incorrect mailing addresses and Social Security numbers, as these may indicate that you have been a victim of identity theft.

Disputing Inaccurate and Incomplete Information

If you find errors or discover that you're a victim of identity theft, there are steps you can take. According to the Fair Credit Reporting Act (FCRA), both the credit reporting agency and the information provider (the person, creditor or organization that provided information about you to the credit reporting agency) are responsible for correcting inaccurate or incomplete information in your report.

When disputing errors in your credit report, you should follow the instructions indicated on the dispute form that accompanies your report. You may also write directly to the credit reporting agency regarding the entries you feel are being reported inaccurately. Try not to dispute more than four to six items in a single letter. If you need to dispute more than four items, mail a separate letter thirty days later (after the first letter was sent), listing the additional items.

Your dispute should be in writing and contain: (1) your complete name and address; (2) a clear identification of each item in dispute; (3) an explanation as to why you dispute the information, and (4) a request that an investigation be initiated. *Be sure to include copies (NOT originals) of documents that support your claim.* You may wish to enclose a copy of your report with the items in question notated. Send your letter by certified mail, return receipt requested, so you have proof that your claim was received. Also, keep copies of your dispute letter and enclosures for your records.

By law, the credit reporting agency must investigate each item, usually within 30 days. During their investigation the agency must communicate with the information provider (the merchant, lender, utility, municipality, etc.) regarding the item in question to determine

whether or not the dispute is valid. The information provider must conduct a review of the claim and report its findings to the appropriate credit reporting agency, and to other credit bureaus to which it provides information. If the information provider finds that the disputed information is inaccurate, it must then notify all three credit-reporting agencies so your report can be updated.

If the investigation does not resolve the dispute, you have the right to add a 100-word statement to your file, which will be included in your reports for the next two years. At the conclusion of the investigation, the agency must provide you with a written account of the outcome. If the investigation results in any change, the agencies are also required to provide you with an updated copy of your report. You should receive the updated version within 45-60 days from the date you mailed your dispute letter.

Additional Dispute Measures

The Fair and Accurate Credit Transactions Act (FACTA) of 2003 significantly updates the Fair Credit Reporting Act with additional dispute provisions. One such provision allows consumers, in certain circumstances, to dispute inaccurate information *directly with the subscriber.* Upon receiving notice of the consumer's dispute, the subscriber must review the claim and suspend any negative reporting while their investigation is pending.

Should the dispute arise from a credit report that was provided for free by a credit reporting agency, the agency would have 45 days to conduct an investigation of the item(s) in question. All other disputes must be completed within 30 days as originally outlined in the FCRA.

Missing Accounts

Your credit file may not contain all of your credit accounts. Most national department stores and major credit card accounts are included in your file, but not all. Some creditors, including gasoline card companies, local banks, credit unions, travel and entertainment merchants, may not report to the credit reporting agencies. They are not obligated to do so, and this can be a source of confusion and frustration for many consumers.

If you have these types of accounts, and they are in good standing, you may request that the credit reporting agencies add this information to your profile. Although they are not required to do so, many agencies will add verifiable accounts, for a fee. However, if these creditors do not generally report your activity, the added items will not be updated in your file in the future. You'll have to pay each time to have additional positive information of this type added to your report. If you're trying to build your creditworthiness, this may be worth the cost.

Targeting Accounts that Harm Your Profile

Once you've conducted a thorough review of your credit reports and have taken any appropriate actions necessary, you can begin to focus on the accounts that are causing the most harm to your profile. You will want to focus on the accounts that are behind, most notably those that occurred within the last 12 months or so, since recent payment history carries more weight than what happened several years ago. You can use several of the strategies noted in this guide when working with creditors regarding these accounts. Once you address these accounts, you can move on to older accounts. Furthermore, making on-time payments is a

great start toward improving your profile. The longer you pay your bills on time, the better your profile will be, in most cases.

At the same time, you should make arrangements to pay off any accounts that may be in collections. Be aware that paying off a collection account will not immediately remove it from your credit report - it could take years for such a notation to disappear entirely - however, *unpaid* collection accounts are far worse than those you have managed to pay off. Therefore, paying off these accounts will generally place them in better standing. While the accounts will remain on your report for several years, they will at least indicate that your obligations have been satisfied.

Not Knowing Is Not the Best Policy

Many consumers resist viewing their credit reports for fear of what they might contain. There is simply too much riding on your credit to turn a blind eye to them. It's important to realize that, if your credit is poor, it won't *necessarily* remain that way forever. Your current credit profile is simply a snapshot of a particular point in time. The sooner you adopt healthy credit practices, the sooner your credit will begin to improve.

You may take some comfort in the fact that information can only be reported for a certain amount of time. Negative credit notations generally appear on your reports for seven years, and then they must be removed. (This doesn't mean that, once the debt has dropped off your report that you don't owe it anymore. Your credit report has no bearing on the statute of limitations in your state, which determines which debts you still owe.) Bankruptcy notations are treated differently. They stay on your report for ten years. In the meantime, it's *your*

responsibility to make sure that every new addition to your report shows evidence of better payment patterns.

You may already know that the information in your credit report is used in determining your credit score. Credit reports and scores are very time-sensitive items. Your score from three months ago is probably not the same score a lender would get from the credit reporting agencies today. If you do have negative notations on your report, even before the seven years have passed, *if* you've re-dedicated yourself to meeting your obligations on time, your credit score should begin to reflect these efforts. If you can be patient and make the necessary adjustments, it is possible to improve your credit score and your overall credit profile. The bottom line is, it's up to you to improve your credit performance from this day forward.

Managing Credit Responsibly

You may find the following strategies helpful when attempting to improve your credit profile.

- Keep your account balances as low as possible on your credit card accounts.
  - High outstanding debt can have a negative effect on your score.
- Pay off debt rather than move it around.
  - The best way to improve your score in this area is by paying down your revolving credit accounts. In fact, owing the same amount but having fewer open accounts may actually result in a lower score.
- Don't close unused or old credit cards as a short-term strategy to raise your score.

  - Shutting down credit accounts lowers the total amount of credit available to you, and it also gives additional weight to any balances you do have when it comes to calculating your credit score.
  - Closing your oldest accounts can actually shorten the length of your reported credit history and make you seem less creditworthy.
- Don’t open a number of new credit cards that you don’t need.
  - This approach could backfire and actually lower your score.
- Don’t open a series of new accounts in a short period of time.
  - If you’ve only been managing credit for a little while, don’t open a lot of new accounts too rapidly.
  - New accounts will lower your average account age, which will have a negative effect on your score, especially if you don’t have a lot of other credit information.
- Re-establish your credit history if you have had problems in the past.
  - Opening new accounts responsibly and paying them off on time will help raise your score in the long term.
- Add positive information whenever possible to show stability in your credit profile.
  - If you have extremely poor credit or have even filed for bankruptcy, don't let your credit status go dormant.
  - The faster you begin to re-establish positive credit, the faster you'll improve your credit profile. One way to achieve this is to get a secured credit card.
- It’s okay to have credit cards, but you must manage them responsibly!

- In general, having credit cards and installment loans (and making timely payments) will raise your score.
- Someone with no credit cards, for example, tends to be a higher risk than someone who has managed credit cards responsibly.

Improving your credit profile takes time. Unfortunately, negative items tend to affect your credit score much more quickly than positive items. Late payments can negatively affect your score in just a few months, whereas paying bills on time may take 6 to 12 months to generate a significant improvement in your score. The best course of action is to adopt healthy credit habits and maintain them.

Identity Theft

Identity theft occurs when someone steals another individual's personal information to obtain credit, secure loans or mortgages, establish utility accounts, and so on. Identity theft has become increasingly common over the past several years, costing both the lending community and consumers billions of dollars.

How ID Thieves Get Your Information

ID thieves utilize a variety of methods to gain access to your data. Obviously, they may steal your wallet or purse, which most likely contains a lot of information about you. Identity thieves may steal records or information from your place of employment, or they may steal your mail, including bank and credit card statements, credit card offers, new checks, and tax information. Another less glamorous technique is to rummage through your trash, the trash of businesses, or public trash dumps - a practice known as "dumpster diving." If thieves are computer savvy, they may "hack" into your information on public or private databases. They may even steal your credit or debit card numbers at an ATM by capturing the information in a data storage device, a practice known as "skimming."

In some instances, thieves can simply purchase your information. Pretexting is the practice of getting your personal information under false pretenses, which is against the law. Pretexters use a variety of tactics to get your personal information. For example, a pretexter may call, claim they are from a survey firm, and ask you a few questions. When the pretexter has the information they want, they can use it to secure your Social Security number, bank and

credit card account numbers, information in your credit report, and the existence and size of your savings and investment portfolios. This information will then be sold to ID thieves.

How Your Information May Be Misused

Once identity thieves have your personal information, they use it in a variety of ways such as:

- Changing the billing address on your credit card accounts.
    - The imposter then runs up charges on your account.
    - Because your bills are being sent to a different address, it may be some time before you realize there's a problem.
- Opening new credit accounts in your name.
    - When they use the credit cards and don't pay the bills, the delinquent accounts are reported on your credit report.
- Establishing utility accounts in your name.
- Opening a bank account in your name and writing bad checks on that account.
- Obtaining identification such as a driver's license, issued with their picture, in your name.
- Applying for a job or filing fraudulent tax returns in your name.
- Giving your name to the police during an arrest.
    - If they don't show up for their court date, a warrant for arrest is issued in your name.

Signs That You May Be a Victim

If an identity thief is opening credit accounts in your name, these accounts are likely to show up on your credit report. *To find out, order copies of each of your credit reports.*

Stay alert for other signs of identity theft, like:

- Failing to receive bills or other mail. Follow up with your creditors if your bills don't arrive on time.
- Receiving credit cards that you didn't apply for.
- Being denied credit, or being offered less favorable credit terms, like a high interest rate, for no apparent reason.
- Receiving calls or letters from debt collectors or businesses about merchandise or services you didn't buy.

To Prevent Identity Theft

While you can't entirely control whether you'll become a victim of this type of fraud, there are steps you can take to minimize your risk. First and foremost, it is extremely important to review your credit report once a year for accuracy (see the Credit Reporting section of this guide for more information). Once you get your reports, review them carefully. Look for inquiries from companies you haven't contacted, accounts you didn't open, and debts that you're not familiar with. You should also ensure that the personal information appearing on the reports is accurate.

- Guard your Social Security number.

  - It is the key to your credit report and banking accounts and is the prime target of criminals.
  - Do not print your Social Security number on your checks.
- Monitor and safeguard the information on your credit report.
  - It contains your Social Security Number, present and prior employers, and a listing of all account numbers - including those that have been closed.
- Shred your receipts, credit card offers, bank statements, returned checks, and other forms of sensitive information before throwing them away.
- Remove your name from the marketing lists of the three credit reporting bureaus to reduce the number of pre-approved credit offers you receive.
- Place the contents of your wallet on a photocopy machine.
  - Copy both sides of your license and credit cards so you have all the account numbers, expiration dates and phone numbers if your wallet or purse is stolen.
- Do not carry extra credit cards, your Social Security card, birth certificate or passport with you unless absolutely necessary.
- When you order new checks, do not have them sent to your home. Pick them up at the bank.
  - If stolen, your checks can be altered and cashed by identity thieves.
- Never give out personal information over the phone. Identity thieves may call, posing as banks or government agencies.
- Check with your employer, landlord, and others with access to your personal data to be sure that they are keeping your records safe.

- Follow your billing cycles closely.
    - A missing credit card bill could mean an identity thief has changed your billing address to his own.
- When creating passwords & PINs, use a random mix of letters and numbers.
    - Do not use information that may be easily discovered by identity thieves.

If You Are a Victim of Identity Theft

The Fair and Accurate Credit Transactions Act (FACTA) of 2003 significantly updates the Fair Credit Reporting Act (FCRA), which was originally passed in 1970. Under the new Act you now have the right to request that a fraud alert be placed on your credit report for 90 days if you suspect you're a victim of identity theft. An extended fraud alert may be placed for a period of seven years, if you provide an "identity theft report," which could include a Federal Trade Commission ID theft affidavit if one were filed with a law enforcement agency. If you go as far as filing a report with the authorities, you can also request copies of relevant records from any creditor, listing the fraudulent charges made by the ID thief. The creditor may take up to 30 days to provide the information.

Users of reports and scores are required by law to honor fraud alerts. They cannot issue a new credit line, an extension of credit or credit card, nor can they respond to a request for an increased credit limit on an existing account, unless reasonable verification steps been taken. Also, if you contact a national credit reporting agency to request a fraud alert, the agency must inform other agencies regarding the suspected fraud. All consumers who place an alert are

eligible to receive a free credit report. Persons who place an extended fraud alert may receive two free reports in the first year.

Your first step should be to contact the bank, creditor or lender associated with the account that has been used fraudulently. Work with these institutions to lock the account and investigate the damages.

Contact the credit reporting bureaus

- Equifax: to report fraud, call: 800-525-6285 or write: P.O. Box 740241, Atlanta, GA 30374-0241
- Experian: to report fraud, call: 888-EXPERIAN (397-3742) or write: P.O. Box 9532, Allen TX 75013
- TransUnion: to report fraud, call: 800-680-7289 or write: Fraud Victim Assistance Division, P.O. Box 6790, Fullerton, CA 92834
- You can also call the FTC's Identity Theft Hotline toll-free at 1-877-IDTHEFT (438-4338).

If your identity theft case is serious, you may want to file a police report to document the identity theft. You may need a copy of the report to submit to the credit reporting agencies or financial institutions as proof of the crime.

Credit Scores

Lenders routinely analyze a variety of information, including credit reports, to help them decide whether or not their applicants are good lending candidates - essentially how likely they are to repay a loan and whether the lender could expect payments on time. To aid in their review of credit, many institutions view what is called a credit score. The most popular and trusted score is called the Fair Isaac or FICO Score.

The FICO Scoring System

The credit scoring formula developed by the Fair Isaac Corporation allows the information within your credit report to be distilled into a three-digit number ranging between 300 and 850. The higher the score, the more creditworthy you're considered. The credit reporting agencies now use their own proprietary formulas, based on the FICO model, to generate their own scores. Each agency has its own name for the score that is produced by their organization.

- Equifax produces the "Beacon Score."
- Experian's score is called the "Experian/Fair Isaac Risk Model Score."
- TransUnion uses the Fair Isaac model to produce its own "Empirica Score."

If the information were identical at all three credit reporting agencies, scores from all three would be within a few points of each other. As we've already discussed, however, the way lenders and other businesses report information to the credit reporting agencies

sometimes results in different information on each of the reports. To further complicate matters, the reporting agencies may also report the same information in different ways, resulting in slight fluctuations in each of the scores.

The Elements of Your FICO Score

According to Fair Isaac, the breakdown of your FICO score is as follows:

- 35% of the score is determined by payment histories on your credit accounts, with recent history weighted a bit more heavily than the more distant past;
- 30% is based upon the amount of debt you have outstanding with all creditors;
- 15% is produced on the basis of how long you've been a credit user;
- 10% is comprised of very recent history;
- 10% is calculated from the mix of credit you hold, including installment loans (like car loans), leases, mortgages, credit cards, etc.

What is a "Good" or "Bad" FICO Score?

While each creditor uses its own criteria to assess credit risk, the following list illustrates the *general* ranges of credit scores and the grades assigned to each.

- 720 and above: A+ Credit
- 700 – 719: A Credit
- 675 – 699: A- Credit
- 620 – 674: B Credit
- 560 – 619: C Credit

- 500 – 559: C- Credit
- 499 and below: D Credit

Raising Your Credit Score

It's important to realize that if a credit score is low, it won't necessarily stay like that forever. As we've mentioned earlier, when someone reviews your credit, they are simply glimpsing a moment in time. Your credit score is a "snapshot" of your credit history. It changes as new information is added to your credit history, and it can improve if you manage your credit responsibly.

We know that credit scores are made up of five parts. Let's see what you can do within each of these parts to improve your overall score.

PAYMENT HISTORY

- Pay your bills on time. Delinquent payments and collections can have a significant negative impact on your score.
- If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your score.
- Be aware that paying off a collection account will not remove it from your credit report. It will stay on your report for seven years.

AMOUNTS OWED

- Keep balances low on credit cards. Using a high percentage of your available credit will negatively affect your score.

- Pay off debt rather than move it around. The best way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Don't open a number of new credit cards that you don't need. This approach could backfire and actually lower your score.

LENGTH OF CREDIT HISTORY

- If you have only been managing credit for a short time, don't open a lot of new accounts too rapidly. New accounts will lower your average account age, which will have a greater effect on your score than if you don't have a lot of other credit information.

NEW CREDIT

- Re-establish your credit history if you have had problems in the past. Opening new accounts responsibly and paying them off on time will raise your score in the long term.

TYPES OF CREDIT USED

- Apply for and open new credit accounts only as needed.
- It's okay to have credit cards, but you must manage them responsibly! In general, having credit cards and installment loans (and making timely payments) will raise your score. Someone with no credit cards, for example, tends to be a higher risk than someone who has managed credit cards responsibly.

FICO '08

Most of the changes within FICO '08 are designed to more accurately depict the current credit climate. As a result, the new scoring model forgives *occasional* slip-ups; however, repeat offenders will be more adversely affected. For instance, accounts forwarded to collections that total less than $100 will matter less in the calculation of scores. Obviously, you want to avoid having any of your accounts sent to a collection agency; however, with the current state of the economy, this provision is a step in the right direction.

The FICO model has been redesigned to take a more comprehensive overview of your profile. For example, if you have just one account that goes to collections, it should count less if everything else looks good. The new formula also favors a mix of healthy accounts, such as credit cards, car loans, personal and student loans, so maintaining a diverse credit portfolio should help an individual increase his or her score.

There are, however, two changes that will *bring down* an individual's score. Both stem from an industry-wide effort to control risk, which, in this case, has to do with the amount of credit you're *not* using. These days, more lenders are closing cards that aren't being used. Keeping a card open represents a cost to the lender, since they still send out statements every month, but it also represents *risk*, since the cardholder could suddenly start borrowing against their limit as times get tight. Closing the card will negatively impact your score, so you may want to contact your lender to discuss their policy.

The other change under FICO 08 is more troubling. A credit card company can also manage risk by lowering the credit limits of its clients. Let's say you had a credit limit of $5,000 dollars and a balance of $1,000 – you're using 20% of your available credit. But if your lender

reduces your credit limit to $2,500, *without making another charge*, you'd suddenly be using 40% of your available credit, and your credit score would come down. It's recommended that you use no more than 25% of your credit limit at any time, which could help you avoid being perceived as a risky client by your lenders. If your lender reduces your credit limit, you can call them to ask for an explanation and contest their decision.

Free Credit Scores

How many of us know our credit score? Sure, we hear a lot about its importance, but very few of us regularly check this all-important number. Due to provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act, when a credit score is used to establish, or modify your credit terms on credit cards, auto loans and student loans, lenders will be required to share the score used to evaluate your financing request in situations where you are negatively affected. Essentially, those of us who are denied credit, or adversely approved, will receive a notice from the lender detailing the score used in their decision. Furthermore, if your score is used to reevaluate your current credit accounts and the review results in an unfavorable adjustment (that is, a higher interest rate or decreased credit limit), you would receive a similar notice.

What's really helpful is the additional information lenders will be required to disclose when a credit review results in the provision of a credit score. According to the legislation, lenders will also be required to furnish the range of possible scores under the model used to generate the score, the date the score was obtained, and the name of the consumer reporting agency. Now, the really good part is that lenders will also provide up to four key factors that

hurt the credit score or up to five factors if the number of inquiries made into the consumer's credit report is a key factor. These factors are helpful as they detail areas of concern within your profile. Knowing where to focus your efforts allows you to formulate a plan to get your credit back into shape.

As mentioned earlier, your credit score is an important factor in understanding your creditworthiness; however, a thorough review of your credit reports are key to understanding your overall profile. Although the new law provides free access to the score associated with an adverse action, you still have two other scores that are not reviewed. You'll recall that there are three credit reporting agencies, so the score provided to you is only one piece of the puzzle. You may purchase your other credit scores; however, taking a look at your credit reports may actually be more helpful. Your score distills the information contained into these reports into a three digit number - generally between 300 and 850, the higher the better. So, your score simply provides a snapshot of your standing. The information you really need to focus on is contained in your reports, and thankfully you can receive copies of your credit reports for free by visiting www.annualcreditreport.com.

Credit Cards

To people who can control their spending, credit and charge cards are nothing more than innocent pieces of plastic. But to those consumers who have difficulty managing their finances, the improper use of credit can have a devastating impact on their lives. Some of the most sensational or unusual of these life stories make it into the mainstream media every week, and their cumulative effect may cause you to avoid using credit cards altogether. It's vital to remember, however, that establishing a positive credit history is integral to your future financial success.

While homeownership and retirement may seem far off, the financial decisions you're making today are shaping the way you'll achieve both. This is because the way you use credit every day determines the interest rates you'll be charged for the privilege of borrowing money in the future. That's why it's important to learn how to use credit wisely. If you're able to manage your finances responsibly, those little pieces of plastic can be used to your advantage.

Types of Cards

Credit Card

By definition, a credit card is considered a loan, so to obtain one you must complete an application to a lender. It's important that you fill out the application honestly and accurately. Don't overstate your income or any other detail in an effort to impress the bank. Such deliberate misstatements can be used against you in a legal action. The lender will evaluate your credit history, income and other factors to decide whether or not they wish to extend

credit to you. If you meet their criteria, you'll be required to sign a contract. *It is extremely important that you read and understand the terms of the contract!*

The lender will designate a credit limit for your charges and the interest rate that you'll be assessed. Your credit limit is simply the amount of money you'll have available on a credit card charge. A credit card is considered a revolving account, and your limit will fluctuate based on the balance you carry. For instance, if your credit limit is $3000 and you have an outstanding balance of $500, you'll have $2500 available for charges. Interest is the fee a lender charges for the privilege of borrowing money. If you have good credit, you will earn a lower interest rate; if you have bad credit, you will be charged a higher rate to offset the risk you represent.

Once these terms have been established, the lender will mail your credit card to you. Each month, you'll be sent a statement indicating the purchases made with your card and the total amount owed on the account. You have the option of paying the balance in full, *which is recommended*, or of paying a specified minimum portion of the balance. Credit card issuers usually waive interest charges if the balance is paid in full each month, but typically will charge full interest on the entire outstanding balance from the date of each purchase if the total balance isn't paid.

Debit Cards

Debit cards are offered by banks and are typically linked to your checking account. As you use the card, the monies are debited, or withdrawn, from the account associated with the card. Debit cards typically display either the Visa or MasterCard logo, which allows you to use their payment networks for transactions. You may also purchase pre-paid debit cards from a

variety of institutions. This type of debit card is not attached to an account, and the balance loaded on the card functions as your spending limit.

Charge Cards

Charge cards, often also referred to as travel and entertainment cards, are similar to credit cards, but with two important differences. First, there is no credit limit, you can charge to your heart's content. This could present problems as a consequence of the second difference - the balance on a charge card is usually required to be paid in full *each month*. Certain charge cards may allow you to extend repayment, but usually at excessive interest rates.

Not all credit cards are created equal. Each issuer has its own terms and conditions governing the use of their cards. As with any loan product, you should carefully read the conditions of your agreement. If you are unclear about any of the provisions, call the issuer and ask questions. If they can't answer your questions to your satisfaction, move on to another lender that can.

Credit Card Fees

For quite some time, credit cards have been known for the high interest rates they charge. In fact, the average credit card interest rate has been between 15%-19% since 1992. These high interest rates, combined with low minimum payment requirements, have propelled the credit card industry to tremendous growth and profit.

In an effort to offset losses due to federal regulations, the credit card industry has been increasing both the dollar amount and the number of fees that are charged to consumers.

These fees have had a big impact on the bottom line. According to some estimates, 37% of credit card issuer profits are from fees, with 27% derived from late and over-limit fees.

LATE FEES

A late fee is charged any time a payment arrives after its due date. Some consumers are under the impression that if a payment is postmarked before the due date, no late fee will be charged. This is not true. If a credit card payment is just one day late, a late fee can be added to the balance of the account.

OVER-LIMIT FEES

Fees for exceeding the spending limit on your credit card are called over-limit fees. The spending limit on a credit card may be exceeded when the cardholder spends more than allowed, or when finance charges and fees assessed on the account push the balance over its limit. If you occasionally exceed your card's limit, consider placing over-limit protection on the card. This will bar any charge that may cause you to exceed the card's current limit, sparing you the fee.

BALANCE TRANSFER FEES

The credit card industry began making credit cards widely available in the 1990's, giving consumers an opportunity to shop around for the best cards. As the market became more and more competitive, credit card issuers made it easy to transfer a balance from one card to another, hoping to lure competitors' cardholders to their own cards. This created a bit of a problem for issuers. Cardholders began to catch on and started transferring their balances before their low introductory interest rates expired. The result was that credit card issuers did not make a lot of money on their balance transfer offers. The fees charged were typically a

percentage of the amount transferred, up to $50.00. These days, the cost of the balance transfer is often much higher, typically 3% of the amount transferred.

ANNUAL FEE

An annual fee is a once-per-year assessment for the "privilege" of using a particular issuer's credit card. Sometimes called a "Membership Fee," annual fees can cost anywhere from $25 to more than $100.

INTEREST RATE PENALTIES

Credit card companies also attach an interest rate penalty for those consumers who pay late or carry a heavy debt load. Sixty-nine percent of the issuers polled by an independent survey group, Consumer Action, state that they will raise interest rates when a customer pays late.

The New World of Credit

The Credit Card Accountability Responsibility and Disclosure Act of 2009 was designed to address arbitrary credit rate increases and excessive fees within the credit card industry. The legislation includes several important consumer protection provisions. The most significant provision of the law limits when credit card issuers can increase interest rates on existing card balances, commonly referred to as retroactive rate increases. There are, however, instances when retroactive rate hikes will still be permissible. These involve consumers who have received an introductory rate that is expiring, when the interest rate is tied to a variable index, or when the cardholder's payment is more than 60 days late.

Even if an individual’s payment is 60 days or more past due, they can expect an interest rate increase, but the new Act doesn’t allow the consumer to be penalized for an inordinate amount of time. Credit card issuers must now restore an individual's original interest rate after a late payment, providing that he or she has made on-time payments during the six-month period following the increase. Should the individual get back on track for six consecutive months, the interest rate must be reduced to the previous level.

Creditors are also required to provide an explanation as to how making only minimum payments will increase the amount of time needed to pay off your debt. Understandably, the economic circumstances in our country have made things difficult for many cardholders, and making minimum payments can be a very tempting option. However, doing so can cost you thousands of additional dollars in interest if making minimum payments becomes a habit. In the same spirit of such disclosures, credit card companies must now provide you with 45 days’ advance notice of significant changes in the terms and conditions of your agreement. Such changes include options related to proposed interest rate increases and any fees that may be assessed. You’ll have the option of rejecting such increases, closing your account, and paying off the balance at your old rate. Unfortunately, given the loss of the open line of credit and the detrimental effect that closing your account might have on your credit score, this is not such a great option, but it’s better than nothing.

Over-limit fees are being overhauled as well. Consumers must be given the option to opt in to over-limit fees. By agreeing to incur over-limit fees, an individual ensures that the transaction will go through when a charge exceeds the card’s credit limit, and that they will be assessed a fee for the convenience. Should an individual opt out of over-limit fees, transactions

exceeding the credit limit will be rejected and no fees will be assessed. There are many more changes than I can list here; therefore, I encourage you to conduct some research on the Internet for the complete list of provisions included in the CARD Act of 2009.

Weighing Credit Card Offers

Before taking on any new credit cards, it's important to review your budget to ensure you can comfortably accommodate the obligation. As recommended earlier in this guide, it's best to repay your credit cards in full, but at the very least you should be able to meet the monthly minimum obligation and a healthy amount above and beyond. Therefore, take some time to analyze your spending to see if a new card will adversely impact your financial situation. If you find that you can manage the new obligation, take time to understand the terms offered to you. The Federal Reserve has a great website, Credit Cards, which will help you understand credit card offers so that you can compare apples to apples. The Fed's interactive site helps you weigh considerations such as interest rates, annual fees, rewards and other features.

Next, don't make rash decisions about credit offers. Although you may not have received offers for the past several years, don't let the perks make you overlook the potential cost of credit. Remember, credit card companies are in the business of making money, and nothing is ever free. Twenty-thousand travel miles may seem like a huge bonus, but if you're being charged an extra 5% to get those miles you are indeed paying for it. It's best to compare the offers you're receiving with those being offered online. Bankrate.com and CreditCards.com have wonderful comparison tools that help you determine the best card for your situation. You

can search for cards based on a host of criteria, such as low interest rates, balance transfer costs, rewards, cash back, and frequent flyer miles.

Finally, remember that you should always review your credit profile prior to opening any new accounts. An astounding 85% of consumer credit reports contain some type of error, and you'll pay if those mistakes have increased the amount of risk you seem to represent. Credit report errors can not only disqualify you for financing, but also cost you higher interest rates. Therefore, request copies of your reports from annualcreditreport.com and review them carefully for mistakes before you consider any new financial obligations, credit cards or otherwise.

Banking

Banks are depository institutions that provide products to protect and grow your earnings, as well as a system to easily transfer money from one person or business to another. In this sense, banks are critical to the economy because their function is to put their accountholder's money to use by lending it out to others who can use it to buy homes, businesses, etc. As a depositor, you probably run very little risk of losing your money, regardless of the bank's economic function. Due to reserve requirements, or cash the bank must keep on hand, as well as federal insurance protections, banks are among the safest financial institutions.

Banks are also very convenient, since the products and services they offer generally make it easy to manage your finances. As technology has advanced, these institutions have become a one-stop shop for your transactions. Many banks allow your employer to directly deposit your paycheck into your account, provide online bill-paying services to satisfy your obligations, and a host of financial products to meet your financial needs.

Let's review some of the more common products and services offered by banking institutions.

Checking Accounts

A checking account is a valuable tool to use in your day-to-day financial operations, but failing to keep track of your transactions can lead to some big headaches. This type of account allows you to deposit funds and withdraw the available money on demand, typically by writing

a check. A check is a document instructing a bank to pay money from a checking account to a specific person or establishment. There are several different types of accounts available to consumers. The following is merely a sample:

BASIC CHECKING ACCOUNTS

This type of account is for people who use a checking account for little more than paying bills and daily expenses, and who do not maintain a high balance. Some basic checking accounts require direct deposit or a low minimum balance to avoid fees.

Because banks have different types of basic accounts, you should get answers to the following questions:

- Do they require direct deposit or a minimum balance?
- Do they charge a monthly fee for services?
- Do they charge a fee for each check you write over a certain limit?

INTEREST-BEARING ACCOUNTS

This type of account pays interest on the money you have in it. It usually requires a minimum balance to open, with an even higher balance to maintain in order to avoid fees. Interest is paid monthly, at the end of your statement cycle. Be aware that the fees for falling below the minimum balance may be more than any interest you might earn.

JOINT CHECKING ACCOUNTS

This account is owned by two or more people, usually sharing a household and expenses. Each co-owner has equal access to the account.

EXPRESS ACCOUNTS

These accounts are designed for people who prefer to bank by ATM, telephone, or personal computer. Because you won't spend much time working with bank employees, express accounts usually offer the following:

- Unlimited check writing
- Low minimum balance requirements
- Low or no monthly fees

When you do visit a bank branch, you can expect to pay a fee to talk to a teller on either a per-visit or monthly basis.

LIFELINE ACCOUNTS

Lifeline checking accounts are designed for low-income bank customers. Lifeline accounts often include the following features:

- Low minimum deposit and balance requirements
- Low monthly fees, ranging from $0 to $3, depending on the bank
- Limits on the number of checks per month that you can write

"NO-FRILLS" CHECKING ACCOUNTS

Many banks offer special checking deals if you are 55 or older, or are a student. The benefits may include:

- Free personal checks
- Free cashier's or travelers checks
- Wider ATM use

Credit Unions

An alternative to using a for-profit bank is to become a member of a not-for-profit credit union. There are more than 7000 credit unions in the United States, with just over 90 million members. There are plenty of reasons to consider using a credit union. Typically, you'll receive higher interest rates on savings accounts and certificates of deposits. You may also receive more favorable terms on home and auto loans, and even credit cards. Credit unions have an ATM network larger than America's biggest bank, and some will even rebate any ATM fees you're charged if you go outside their network. To find a credit union near you, visit the Credit Union National Association's Website at www.creditunion.coop.

payment a collector will receive, and so on. There are some details that should not be shared, such as the name of your current employer, your income, or even the amount owed. (That is information the collector should already have.)

It is critically important that you avoid making any repayment arrangements that cannot be maintained. Even if your budget indicates that you have absolutely no money available, you should still expect that the collector will still try to elicit payments from you. They will suggest borrowing from family, selling assets, or maybe even paying with another credit card. If you can send money, stick to the plan. If you can only afford $50 a month - that is that. While it is not going to please the bill collector, in time it will satisfy the outstanding obligation.

Another important aspect to consider is the number of collectors you have to deal with. If you're behind on multiple accounts you'll need to divide your available funds among all of the obligations and avoid making promises to the collector who calls the most or screams the loudest. Too often, people try to satisfy one collector, but leave nothing for the others. Remember, each bill collectors is worried about their account, not your overall financial situation. Even though you're only able to give smaller amounts, something is better than nothing.

Beyond Collections

For a variety of reasons, you may be unable to come to an agreement with your bill collectors. If the bill collector feels as though they've exhausted all their options, they may file a lawsuit. This is quite serious, and you might consider hiring legal counsel, particularly if the debt in question is substantial.

Typically, a collector will file a petition with the debtor's local county court stating their claim that collection efforts have been unsuccessful. Once filed, the collection agency's lawyer will have the debtor served with a copy of the petition, as well as a summons. The summons will contain all of the necessary information to comply with the suit. The debtor will be named as the defendant, the collection agency as the plaintiff, the reason for the suit, and the date both parties must appear in court. *Do not ignore the court date!* If you fail to appear, the collection agency will most likely be awarded victory. (We will discuss some of the ramifications of losing such cases later in this chapter.) Once served with a summons, the defendant is required to provide an answer to the complaint. The summons will inform the defendant as to the period of time available to file an answer – typically a month, sometimes shorter. It is important to file an answer within the allotted time. If you fail to do so, the creditor may file for, and receive a default judgment. When submitting an answer, it is helpful to provide your most current spending plan to show the court, and the collector, the feasibility of repayment. This can help you negotiate a settlement, or structure a comfortable repayment plan.

Judgments

A judgment is a finding though the courts that your debt is valid, and allows the collector to employ more aggressive tactics to be paid. Judgments are very serious, and permit collectors to *legally* take a debtor's property, and even their wages. The judgment itself can remain in place indefinitely until the debts are repaid; depending upon the state you live in.

Judgment Enforcement

Typically, a creditor will enforce a judgment in three ways – liens, levees or wage attachments. A lien on property means that before a sale or refinancing can take place, the creditor must first be satisfied. Liens will allow the collector to become a partial titleholder of property - a home, car or other business asset. Certain items may be exempt from this method of collection; however, property exemptions vary by state. Now, the collector who has secured the lien does not have to wait for the debtor to sell the property to collect their funds, they may execute the lien, which means force the sale of the property. In this scenario, local law enforcement will size the property through court order and offer it up for auction. Levees work in a similar fashion to liens – law enforcement will seize property and offer it for auction, if applicable. The distinction is that a levy can be executed against any property that holds value – including bank accounts. Finally, a collector can attempt to secure a wage attachment. In this scenario, the collector would garnish the debtor's wages until the debt is satisfied. The debtor's employer would be directed to deduct a portion of their net wages (after taxes and deductions) from each pay period and send it directly to the collector. Depending upon the state in which you live, the percentage available for garnishment can vary, and be very high – as much as 50% in cases involving support orders and taxes.

Recommendations

The legal process can be complicated, so it's recommended that you conduct an overview of the collection laws in your state. In addition, we strongly recommend that you speak with an attorney to get a better understanding of your rights and liabilities.

Homeownership

For many of us, the American Dream has always meant a home of our own, but the country's recent economic difficulty has caused many people to question homeownership. A decade ago no one could have imagined that properties would decline in value to the extent that they did between 2008 and 2011. Most of what happened over those years was artificial. For example, with the introduction of several exotic mortgage products, a lot of people purchased homes they would never be able to otherwise afford. At the same time, because the prices of homes were growing at an extraordinary rate, people jumped into the housing market looking to make a quick profit, or simply to buy a home before prices got too high. Unfortunately, the housing bubble had to burst, and with it went the dreams of many would-be homeowners. In the immediate aftermath, most areas of the country experienced rapid increases in the number of foreclosures and unprecedented losses in property values. The decision to purchase a home is serious. If you're a typical consumer, it's the largest purchase you'll make in your life, and there are a lot of things you'll need to consider before signing on the bottom line.

First among your considerations should be affordability. This goes beyond making the monthly payment. When you own your home there's no landlord to call if something goes wrong. Maintenance and repairs are solely your responsibility. For example, it costs between $8000 and $20,000 to replace a roof. If you're a new homeowner, you'll have little or no equity to draw upon for financing. What if you're overextended on your credit cards? How would you afford the expense? You would have to rely on savings.

When you start thinking about homeownership, you should also be thinking about becoming a disciplined saver. Things happen, and you have to be prepared. Not only are you going to be faced with maintenance and repair costs, you also have to the plan for the unexpected. As we've seen with our most recent economy, the labor market has changed. Long-term unemployment is at historic levels, and salaries are growing at a weak rate. You can't rely on large raises to help with future costs, nor can you expect to be scooped up if you lose your job. Therefore, you'll also have to plan for a larger emergency fund. (As mentioned in the spending plan section, it's recommended that you have 8 to 10 months' worth of expenses in your emergency fund.) Not only will your fund have to include mortgage payments, you'll have to set aside a regular amount for potential home repairs.

Despite our current economic downturn - as bad as it has been - there is still confidence that most homes that have experienced a decline in value will eventually recover the ground they've lost, and in some markets, that's already happening. It's important to remember, then, that keeping a "long-term" investment perspective when it comes to our home is critical. Buying a home should *not* be thought of as a short-cut to wealth.

There are a number of benefits to homeownership you may not have considered. For example, homeownership increases an individual's self-esteem and confidence. National surveys have indicated that homeowners are generally more satisfied with their lives, and have increased feelings of freedom, security, empowerment and independence. Homeownership creates a positive and stable environment in which to raise a family. The ability to create a nurturing and encouraging atmosphere is an important consideration for all parents, and, for many, that's something they feel they can accomplish more easily in a home of their own.

Homeownership is also important to the vitality of neighborhoods *and* to the nation's economic stability. Owning a home gives you a financial stake in your community – if the neighborhood prospers, your home value will increase – but it goes deeper than that. There is a sense of *pride* in having something to call your own, and that pride often motivates people to work together to create a better living environment for everyone within the community. This results in stronger and safer neighborhoods, since homeowners are more likely to be involved in community organizations and other activities.

Communities also benefit from increased tax revenues and a greater level of investment by businesses. Higher municipal income means better local services, a win-win situation for residents, and more business investment leads to an increase in the variety of goods and services available within the neighborhood, not to mention the enhanced job market.

Finally, homeownership is important for the economy. Our pursuit of the American Dream creates jobs in construction, which has a true trickle-down effect on the financial health of retail entities that serve the community.

It's understandable that many of you might be nervous about purchasing a home - the recent housing market slump has had devastating consequences for many homeowners, but it has also created a number of opportunities. There is a tremendous amount of housing inventory right now, and some fantastic deals you can take advantage of, *if* you're properly prepared. One of the best ways to learn what you need to know about buying a home is by contacting a certified housing counseling agency. A HUD-approved housing counselor can show you the potential benefits of buying a home, helping you recognize any barriers that might exist, *and* show you how to determine how much home you can safely afford. Best of all, your

counselor will also educate you on ways to evaluate and understand the overall mortgage lending process, which is often a mystery to many first-time homebuyers.

Working with a certified housing counselor provides potential homebuyers with the tools and resources they need to become homeowners. Many housing counseling agencies offer a variety of programs, covering everything involved in the process of purchasing a home, including methods to strengthen your credit, finding the right mortgage, home inspections, and even foreclosure prevention. In order to provide a complete range of home-buying services, reputable housing counseling agencies work diligently with local banks, mortgage companies, attorneys, real estate firms, and other government agencies, all in an effort to give you the most current information available. Before you enter into one of the biggest purchases of your life, you might want to set aside a few hours of your time to talk to a certified housing counselor, you'll be glad you did. To locate a housing counseling agency in your neighborhood, please check your Yellow Pages, or simply Google "housing counseling" and your ZIP code.

Buying vs. Renting

When it comes to homeownership, we often find ourselves asking, "Is now a good time to buy?" Perhaps the better question would be, "Is now a good time for ***me*** to buy?" Although interest rates are at historic lows and home values have receded to their 'pre-boom' levels, this doesn't mean that homeownership is for everyone. There are many factors that must be weighed, so it's important to maintain a broad view of how being a homeowner will affect your life. So what is it: rent or buy? In order to accurately answer that question we first have to answer some specific questions about our own circumstances.

One of the first questions prospective homeowners should ask themselves is how long they will be in the home. A recent analysis by Barry Ritholtz of www.ritholtz.com examined the short-term costs associated with buying versus renting. His findings may make you rethink your homeownership goals. Using sources such as Kiplinger and the New York Times, Mr. Ritholtz evaluated the costs associated with buying and renting over the first five years of occupancy. The comparison was based on a home valued at $223,000 and a rental unit costing $1,500 a month. In the scenario, the homeowner made a 10% down payment and mortgaged $200,700. The analysis examines the purchase or rental costs, the yearly costs, lost opportunity costs, and selling or leaving your rental costs on a cumulative basis for the first five years.

Initially, renting is far cheaper than homeownership. The purchase costs versus the initial rental costs paint a stark contrast. The down payment and closing costs totaled $31,220, while the rental deposit is just $1,500. The yearly costs are where things get interesting. Homeowners have a host of costs associated with ownership. Included among these are the mortgage payments, principle and interest costs, property taxes, utilities, renovation and maintenance, and homeowners insurance. The price tag after five years - $181,110. Renters over the same period would pay $95,564 in rent, and $1,261 for renters insurance.

The analysis also examines the lost opportunity costs associated with each housing option. If you were to invest a dollar, it would grow over time. A dollar that is paid out loses the opportunity to grow, so the amount it could have grown had it been used to create wealth is a lost opportunity cost. For the homeownership option, the lost opportunity costs are $12,201, while the option of renting represents a loss of $6,880 over five years.

Looking at this example, the option of homeownership is not the best option if you were to remain in the home for less than five years. However, if you were going to remain in the house for five or more years, homeownership would be the better option. The comparison concludes with a six-year total for each option. Considering all the factors discussed, the six-year totals for renting would be $103,706; however, for homeownership the total is nearly as much: $102,060.

The comparison is not perfect. Critics have noted that some items often associated with homeownership were left out of the comparison. For instance, one commenter pointed out that some important homeownership costs were omitted. Among those items was a new roof every 15 to 20 years, new paint every 8 to 12 years, a new furnace, and other expenses in the years beyond those reviewed in the comparison. Also absent were the tax benefits of homeownership, which are a great relief to many homeowners each spring.

The comparison ***is*** useful in planning your short-term needs, however. One of the best ways to help determine whether homeownership is right for you is to sit with a counselor from a HUD-approved housing counseling agency such as Cambridge Credit Counseling. To find an agency near you, please visit HUD.gov.

Renters Insurance

If you're among the 35 million Americans who occupy rental units in the United States, perhaps the most important type of insurance to consider is renters insurance. Although such insurance is not mandatory, it can come in very handy. Renters insurance can help protect your personal belongings against fire, theft and vandalism. This type of insurance can also help

protect you in case of a liability lawsuit, which could stem from someone injuring themselves in your apartment or rented house. Many renters mistakenly believe that their landlord's insurance will cover any losses they suffer; however, this is not the case. Landlords typically carry insurance on the property itself; therefore, the contents of your household are unprotected.

Do you need renters insurance? A simple exercise can help you find your answer. First, take a look around your living space and think about what it would cost to replace the items you own. Make a list of all your belongings - furniture, electronics, clothing and anything else of value to you. Now, start assigning prices to each of these items. Granted, it may be difficult to assign costs to everything you own, but it's okay to guess. When you're done assigning prices, add everything up. Do you have enough money available to replace these items if there were a fire? Many of you may not, and even if you have money available, think about the other costs that will be associated with such a disaster. Not only would you have to replace your belongings, you'll need temporary housing and, eventually, a new place to live. Needless to say, an insurance policy that covers all these items could not only save you money, but also give you peace of mind.

There are some things you want to keep in mind when considering rental insurance policies. First, the amount of coverage you need will be a major factor in the price of the policy. Think carefully about the amount of coverage you purchase, since buying too much insurance can be costly. You can go back to our previous exercise to determine the dollar amount you actually need. Another factor you'll have to consider is the deductible you'll be paying. A deductible is the amount of money you must pay before the insurance company's coverage

begins. If you choose a higher deductible you can reduce the monthly cost of your policy. You'll also need to decide what type of reimbursement you're seeking. Actual Cash Value reimbursement will provide you with the cash value of your items at the time of loss, while Replacement Cost will provide you reimbursement to receive comparable replacements. For instance, if you have a three-year-old computer estimated at $300 in value at the time of the loss, you would receive $300 if you had an Actual Cash Value policy. However, if you opted for the Replacement Cost option, your insurance company would reimburse you with the funds to buy a comparable computer system. While the Replacement Cost option is a little more expensive, it may actually be the better value.

How much does rental insurance cost? Well, I'm happy to say it costs a lot less than you might think. The average policies cost anywhere between $10 and $25 a month. Even though this is really inexpensive, I recommend you compare prices and shop around. If you already have insurance policies through a company, contact them first to see if they offer multiple policy discounts. Also, be sure to ask about any discounts you may qualify for, such as maintaining working smoke detectors in your home, installing dead-bolt locks, or additional discounts if you're retired. Finally, to save even more on renters insurance, pay your premium in one payment, which will save you on monthly installment fees.

How Much Home Can You Afford?

Homeownership has long been the focus of the American Dream. The housing boom at the turn of the century gave many individuals the opportunity to achieve this dream; unfortunately, a combination of exotic mortgage products and an unprepared public led to one

of the largest housing crises in decades. Therefore, in order to avoid a repeat of history, it is very important for consumers to develop an understanding of exactly how much home they can afford. This knowledge will help people secure mortgages that are appropriate for their situation and within their means to maintain.

When determining the amount of mortgage payment you can reasonably sustain, it's advisable to look at it from two perspectives. First, it's important to understand how much of a mortgage you will qualify for. This is dependent on two specific ratios which we will discuss in a few moments. Second, and perhaps more important, you have to determine how much home you really need. Lenders will qualify you according to current underwriting procedures, not necessarily what you can afford. Therefore, the burden falls on you to understand exactly the type of mortgage payment you can sustain. For instance, when determining affordability, lenders typically base their calculations on your gross monthly income. As you know, your gross income represents earnings before taxes and other deductions are taken out. For example, if you were to earn $50,000 a year, your gross income each month would be around $4,100. However, depending upon your tax bracket, your net income would be very different. In this scenario, your tax obligation would be approximately $8,600 annually, which would make your monthly net income $3,376. That's a big difference.

Furthermore, there are other aspects of affordability that are not taken into consideration. Do you pay for childcare? Do you pay child support? If you have any obligations that are not considered debts, yet you have to pay each month, this can dramatically change your ability to maintain a mortgage payment. Therefore, creating a realistic budget is the very first step in understanding what you can afford. When determining affordability, it is highly

recommended that you contact a HUD- certified housing counseling agency, such as Cambridge Credit Counseling, to participate in pre-purchase counseling. This process will not only help prepare you for the purchase of a home, your counselor will also discuss other expenses you'll likely incur, some of which may further challenge your ability to maintain your mortgage payment.

So, how do lenders determine how much of a mortgage you can bear? There are two calculations employed by lenders to determine mortgage sustainability. The first calculation is that of *a borrower's housing ratio*. The housing ratio is the percentage of your gross monthly income that can be used to make monthly house payments. This would include principal, interest, taxes and insurance. Our previous example yielded a gross monthly income of $4100, so let's base our calculation on that. In that situation you would take the gross monthly income and multiply it by the recommended 28% of income which should be used for such an expense. Different loan programs may allow for different housing ratios; however, we'll focus on the more traditional approach. So, we take our $4100, multiply it by 28%, and come up with $1,148 - the monthly mortgage payment the lender believes you can sustain.

Lenders also take a second look by adding any other household debt - credit card debt, car loans, college loans, and so on, into their determination. After the debt is added, the optimal debt-to-income ratio for sustainability is 36%. Again, there are different loan programs that can accommodate higher ratios, but we are focusing on broadly accepted practices. Okay, now we take the gross monthly income, $4100, multiply it by 36%, and come up with $1476. This figure represents the maximum recommended amount to be used for combined debt repayment, including your mortgage.

It is important to note that mortgage brokers and lenders use your gross income as a basis of affordability, but there can be a huge disparity between your gross and your net income. Your net income is the amount of money left over after these taxes and deductions have been taken out. For example, if your gross income is $1300, but you then have your medical, dental, taxes, and so on taken out, you'll probably net somewhere around $950. That's a huge difference. Basing a mortgage upon money that never reaches your pocket is simply not practical. A good rule of thumb to go by when deciding how much home you can afford is to take your gross income and multiply it by 2 1/2 to 3 times. For instance, if you were to make $50,000 a year, in theory you should be able to afford a mortgage anywhere between $125,000 and $150,000. Again, this is only a guide to give you a ballpark number. You'll still need to develop a spending plan to determine exactly how much you can afford to pay each month.

In some instances, the lender’s calculations may indicate that an individual is “mortgage ready” and on their way to homeownership. Just as easily, however, these numbers can also indicate that you might not be ready to own a home – at least not yet. Although the bank believes you can sustain a payment, we’ve seen that this is not always the case. Therefore, it is important for you to establish a workable budget, a realistic plan for homeownership, and take some time to speak with a housing counselor to make sure you're on the right path.

How Housing Counselors Help First-Time Homebuyers

A recent homeownership study revealed that individuals shopping for cars spend an average of eight hours researching different makes and models to find one that's just right for their needs. Unfortunately, homeowners were spending an average of just five hours finding a

house that's right for them. Considering that a home is probably the biggest expense you will ever take on in your life, it stands to reason that you should commit more time and energy to understanding the homeownership process.

When faced with any questions regarding homeownership, the very first place you should contact is a HUD-approved housing counseling agency. Cambridge Credit Counseling is an agency that helps people throughout Massachusetts and Connecticut with a variety of homeownership needs. If you're outside of these states, you can look in your Yellow Pages to locate a housing counselor close to you. Talking to a housing counselor is probably the most important step that you can take in the homeownership process. Not only will these individuals help you develop a budget, they can also give you valuable advice on how to address credit issues and ultimately help you devise a plan to secure a mortgage that works for your situation.

Avoiding Mortgage Modification Scams

Since the Great Recession began in 2007, nearly 6 million families have faced foreclosure proceedings. In an effort to stem that tide, many independent mortgage servicers and the federal government have developed a variety of loan modification programs. A loan modification may involve a reduction in a homeowner's interest rate, an extension of loan terms, a different type of loan, or any combination of these remedies. Understandably, many people facing foreclosure eagerly seek the relief these programs can provide, especially if it means they can avoid losing their home. Unfortunately, the marketplace is ripe with scam artists poised to take advantage of vulnerable, and often desperate, homeowners. If you're worried about foreclosure, or are interested in modifying the terms of your existing mortgage, there are safe and reliable agencies that can help you understand your options.

Foreclosure prevention counseling is available free of charge through local organizations approved by the U.S. Department of Housing and Urban Development, or "HUD," which has reviewed and approved hundreds of housing counseling agencies across the country. HUD-approved agencies are not permitted to charge consumers for their foreclosure prevention services, but rest assured, this is not a case of "you get what you pay for." The preparation and training to become certified as a Foreclosure Default Counselor is a rigorous process. Those counselors who pass their certification exams aren't sales people – they're obligated to provide you with unbiased assistance and advice. They cannot and will not recommend a particular

lender or force you to choose one option over another. They're available to help you *understand* those options. *You* make the decisions.

So, what do you need to be on the lookout for? *Guarantees*, for one thing. A reputable counselor won't guarantee that they can stop the foreclosure process, regardless of your circumstances. Working with a legitimate counselor can certainly increase your chances of keeping your home, but be wary of *anyone* who guarantees results.

One of the more popular scams these days is the *Rent-to-Own* or *Lease-back* scheme, in which homeowners are convinced to sign over ownership of their property, at which point they'll be allowed to remain as a renter at a more comfortable rate. When their finances improve, according to this popular fraud, they'll be able to buy back their home. As you might suspect, the scam artist has no intention of allowing the homeowner to re-purchase the property. Typically, after a few months of lower monthly payments, the new "landlord" raises the rent, knowing that the tenant won't be able to afford the higher payments. After the tenant misses several of the inflated payments, they'll be evicted, and the scam artist will legally own the property.

Some other scammers claim to be affiliates of, or approved by, the U.S. government. To make their ruse seem legitimate, these folks use well-crafted websites and marketing materials containing terms such as "federal," "TARP," or other recognizable phrases and acronyms associated with actual government programs. Typically, these scammers will ask for large up-front fees to help the homeowner avoid foreclosure, relying on the fact that desperate people rarely pause to read the fine print in a service contract. Sadly, of course, these companies provide no real service, leaving desperate homeowners at the mercy of their loan servicer. If

you suspect that you're the victim of one of these schemes, you should immediately contact the office of the attorney general in your state.

If you're facing foreclosure, there *are* a few steps you can take to protect yourself from loan modification scams. First, contact your lender or servicer when you fall behind on your payments. You'll want to communicate with their loss mitigation department to identify any specific alternatives to foreclosure that they might offer. Also, be sure to make all of your mortgage payments directly to your lender or servicer. Finally, when considering loan modification alternatives, you *have* to know what you're signing. If you find the agreement too complex, contact a HUD-approved housing counselor or attorney to review the forms with you. Although you don't *need* a third party to work with your lender, the assistance of a HUD-approved counselor can be very helpful. The circumstances surrounding foreclosure are particularly stressful, and having a skilled representative on your side can be comforting. To learn more about mortgage modification programs, go to makinghomeaffordable.gov or call a HUD-approved housing agency. You can find a list of approved housing counseling agencies in each state on HUD's website, www.hud.gov.

Student Loans

For many people, the cost of their student loans exceeds everything but their house payment or rent. Thankfully, there are several loan repayment options available to help make things a little easier. According to the New York Times, the cost of higher education has increased by a staggering 439% since the 1980's, nearly doubling the average student loan debt to $24,000. With the current job market and economic conditions, students with loans may face feelings of anxiety and stress while trying to figure out how to pay off the significant debt they owe.

When starting your post-graduate life, it's important to understand the financial impact of your choices. High levels of debt have already forced many people to default on their loan payments (currently, 7% of loan recipients), and that can spell disaster for one's overall financial profile. In order to avoid defaulting on your loans, it's important to understand the different options for repayment, especially before the payments start. Upon graduating, you'll enter a six-month grace period before your student loan payments are due. Of course, you can make payments during that time frame. Before any payments are made, however, it's important to research the different types of plans offered through your loan provider to determine which will best suit your needs. Two helpful online resources explaining the different plans available are www.direct.ed.gov and www.finaid.org. Let's focus for a moment on the four most popular plans.

Repayment Options

STANDARD REPAYMENT

Under this plan you will pay a fixed monthly amount for a loan term of up to 10 years. Depending on the amount of the loan, the loan term may be shorter than 10 years. There is a $50 minimum monthly payment.

EXTENDED REPAYMENT

This plan is like standard repayment, but allows a loan term of 12 to 30 years, depending on the total amount borrowed. Stretching out the payments over a longer term reduces the size of each payment, but increases the total amount repaid over the lifetime of the loan.

GRADUATED REPAYMENT

Unlike the standard and extended repayment plans, this plan starts off with lower payments, which gradually increase every two years. The loan term is 12 to 30 years, depending on the total amount borrowed. The monthly payment can be no less than 50% and no more than 150% of the monthly payment under the standard repayment plan. The monthly payment must be at least the interest that accrues, and must also be at least $25.

INCOME-BASED REPAYMENT

Income-based repayment allows borrowers with federal student loans to have their monthly payments adjusted to a reasonable amount, based on their family size and income. The student's monthly payments can be capped at 15 percent of their discretionary income. After 25 years of qualifying payments, the remaining debt, including interest, is forgiven.

In October 2011, President Obama announced that the cap will be lowered to 10% for 2012 graduates, and debt will then be forgiven after 20 years.

Loan Consolidation

This is a process that can result in lower monthly payments or better interest rates, but there are a number of factors that need to be considered. One of the advantages of loan consolidation is that it can be done even if you're in default, and it may help you get out. You may want to consider consolidating if:

- You can't afford the payments on your federal loans, don't qualify for a postponement, and aren't eligible for a low-income plan.
- You qualify for a low-income plan, but are so destitute you can't afford even those low payments.
- You can afford substantial monthly payments, but want to refinance at a lower rate.
- You are already in default, but can afford low monthly payments.
- You don't qualify for loan cancellation.

There are some restrictions.

- Private loans usually can't be consolidated. Check with your servicer.
- Although you can consolidate jointly, both spouses must agree to pay in divorce (You may lose benefits if you consolidate jointly.)

Cancelling Student Loans

If you qualify for loan cancellation, this may be the best option, since the loan is gone and you can be reimbursed for any garnished payments.

The criteria-

- School Closure - The school closed before, during, or immediately after you attended.
- False Certification - If the school didn't certify your credentials before admitting you or admitted you to a program for which you were unqualified for future licensure.
- Your signature was forged on the loan papers.
- Unpaid Refunds - If the school failed to pay you a refund you were owed, you can cancel all or a portion of a loan. Some states also reimburse students in this circumstance.
- Permanent Disability - If you weren't permanently disabled at the time you got the loan, this may be an option. You may request cancellation if your condition is indefinite or will result in your death. Even if you had the condition when you got the loan, if you can prove substantial deterioration you may be able to cancel your loans. Documentation is crucial. As of July 2002, you won't be granted a full discharge immediately, even if you can prove the disability. Instead you'll be granted a "conditional disability discharge," which will suspend payments for 3 years, starting on the day your disability began. At this point they'll check your earnings to see if you made more than 100% of the poverty income for a family of two. If you equaled or exceeded the amount, you won't receive a discharge.
- Participation in a specific volunteer program, teaching program, or military service - You may be able to cancel, or may only be able to suspend your payments temporarily. The list of approved programs and services that may qualify you for cancellation is growing, but fairly long periods of service are generally required before cancellation would be considered.

Postponing Student Loan Payments

These occur in 2 different forms: *deferments* and *forbearances*. Both must be requested from the loan servicer, which will provide details about duration and any other program requirements.

DEFERMENTS

A breather. You still have to pay back the loan, but payments cease for a while. No interest accrues during this period. The most common deferments are granted if you are:

- Enrolled in school at least half-time
- Unemployed but looking for work
- Suffering an economic hardship
- A parent with young children

FORBEARANCE

A postponement or temporary reduction in payments. A forbearance may even be granted while the loan is in default. Please note that *interest continues to accrue during a period of forbearance.*

Considering Bankruptcy

In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act was enacted to curb perceived abuses of the bankruptcy system. At that time, many people were afraid that the new legislation would limit their ability to seek bankruptcy relief, and 2 million Americans rushed to file before the new law went into effect that fall. Afterward, it looked as though the volume of filings would remain low for a while, but the recent downturn in the economy has filings on the rise once again.

Why do we think this might be the case? Let's look at some statistics for a moment. 600,000 Americans filed for bankruptcy protection in 2006, and in 2008 the number of filings rose to more than *one million*. In the first quarter of 2009, there was a 38% increase in filings compared to a year earlier, leading some bankruptcy experts to believe that as many as 1.6 million Americans could seek bankruptcy relief in 2009. The numbers could surpass 2005's if bankruptcy judges are granted the authority to change the terms of the first mortgage to reflect current market rates.

There are a number of events that commonly lead to bankruptcy, including a reduction in income or job loss, a divorce, or a personal business failure; therefore, it should come as no surprise that filings are growing at such a rapid pace. However, is it the right option for you? Experts agree that bankruptcy should be considered as an absolute last resort, although some would recommend avoiding it altogether. The reality is that bankruptcy exists to help you in difficult financial times. We would simply advise that you consider *all* possible remedies. If you sense that your finances are becoming a problem, your first call should probably be to a

non-profit credit counseling service to speak with a certified counselor. Ask for a comprehensive review of your situation to help you determine the best course of action. They might be able to suggest some less painful alternatives.

If you're considering bankruptcy, you should also consult with an attorney who specializes in this practice. The 2005 changes to the bankruptcy code require attorneys representing bankruptcy filers to conduct a thorough investigation of their clients' finances, and they can be held liable for inaccuracies. As you might imagine, this has also caused some attorneys to raise their fees. Don't let this deter you. Bankruptcy can be a complicated process, and having a professional guide working on your behalf is advised.

While bankruptcy is a viable option to alleviate the burdens of debt, it's a measure that should be carefully considered, since it may have a long-lasting effect on your life. Depending upon the chapter you file, the notation will remain on your credit report, and may affect your credit score, for some time. Chapter 7, or liquidation, remains on your credit report for 10 years and Chapter 13, or restructuring, will be reported for 7 years.

Resources

Addiction

Debtors Anonymous
A support group for those recovering from compulsive spending.
781-453-2743
www.debtorsanonymous.org

Alcoholics Anonymous
An international organization dedicated to helping people deal with alcohol addiction.
Look in your Yellow Pages to find a chapter near you.
www.alcoholics-anonymous.org

Narcotics Anonymous
Assists people coping with drug addictions.
818-773-9999 Extension 771.
www.na.org

Gamblers Anonymous
Helps people coping with gambling problems.
Look in your yellow pages to find a chapter near you or call the International Service Office at (213) 386-8789 for more information or a referral.
www.gamblersanonymous.org

Government Agencies & Websites

Medicare
The federal health insurance program for people 65 years of age or older, certain younger people with disabilities, and people with End-Stage Renal Disease (permanent kidney failure with dialysis or a transplant, sometimes called ESRD).
800-633-4227
www.medicare.gov

Medicaid
A joint federal and state program that helps with medical costs for individuals with low incomes and limited resources.
800-633-4227
www.hcfa.gov

U.S. Department of Housing & Urban Development (HUD)
An organization that helps to increase homeownership, support community development, and increase equal access to affordable housing.
www.hud.gov

Social Security Administration
Information regarding Social Security Disability Insurance and Supplemental Security Income.
800-772-1213
www.ssa.gov

Unemployment Benefits
Helps consumers better understand unemployment benefits and eligibility restrictions.
877-US-2JOBS
www.workforcesecurity.doleta.gov

Federal Office of Child Support Enforcement
Access to State Child Support information and agencies through the country.
800-222-4738
www.acf.hhs.gov

Supplemental Nutrition Assistance Program (SNAP)
Access information regarding food assistance programs.
800-221-5689
www.fns.usda.gov/snap

Low Income Energy Assistance Program
State energy assistance applications.
866-674-6327
www.ncat.org/liheap/profiles/energyhelp

Additional Benefits
General website for a variety of government benefits.
800-FED-INFO (800-333-4636)
www.benefits.gov

Student Loans

American Student Assistance
Nonprofit organization that delivers quality delinquency prevention services.
800-343-8883
www.asa.org

Federal Student Loans
Offering a variety of information regarding Student Loans including picking an appropriate school, Student Aid, and repayment options.
800-848-0979
www.ed.gov/students

Credit

Annualcreditreport.com
National Service that provides all consumers with one free credit report per year.
877-322-8228
www.annualcreditreport.com

Trans Union
An agency that maintains credit reports on how consumers manage their credit obligations. You may order a copy of your report for review.
800-888-4213
www.tuc.com

Equifax
An agency that maintains credit reports on how consumers manage their credit obligations. You may order a copy of your report for review.
800-685-1111
www.equifax.com

Experian
An agency that maintains credit reports on how consumers manage their credit obligations. You may order a copy of your report for review.
888-397-3742
www.experian.com

FAIR Isaac
A source for understanding FICO scores. Contains tips on improving your score.
www.myfico.com

Mortgages and Loans
HSH Associates
Publisher of consumer loan information.
www.hsh.com

Fannie Mae
Provides financial products and services that make it possible for low-, moderate-, and middle-income families to buy homes of their own.
www.fanniemae.com

Freddie Mac
An organization that works to stabilize the nation's mortgage markets and expand opportunities for homeownership and affordable rental housing.
www.freddiemac.com

OptOutPrescreen.com
Remove your name from lists for pre-approved offers of credit or insurance.
888-567-8688
www.optoutprescreen.com

Financial Websites & Blogs

Bankrate.com
Provides tools and information to help consumers make informed financial decisions.
www.Bankrate.com

CardWeb.com
An online publisher of information pertaining to all types of credit cards.
www.Cardweb.com

The Dollar Stretcher
Thousands of articles on money-saving concepts.
www.stretcher.com

360 Degrees of Financial Literacy
Free program of the nation's Certified Public Accountants to help Americans understand their personal finances through every stage of life.
www.360financialliteracy.org

MyMoney.gov
Website brought to Americans by 22 Federal entities that work on improving financial literacy and education. Central place for unbiased, reliable information and materials on financial topics of interest.
www.mymoney.gov

Ask Liz Weston
Award-winning, nationally-syndicated personal finance columnist who can make the most complex money topics understandable to the average reader.
www.asklizweston.com

The Simple Dollar
The Simple Dollar is a blog for those of us who need both cents and sense: people fighting debt and bad spending habits while building a financially secure future and still affording a latte or two.
www.thesimpledollar.com

SpendOnLife
Provides up-to-date, accurate information and advice about credit reports and scoring.
www.spendonlife.com

The Consumerist
Empowers consumers by informing and entertaining them about the top consumer issues of the day.
www.consumerist.com

Wise Bread
Community of bloggers helping people live large on a small budget.
www.wisebread.com

Get Rich Slowly
Recently named a best blog of 2011 by *Time* magazine and most inspiring money blog by *Money* magazine — devoted to sensible personal finance.
www.getrichslowly.org

Legal Aid

Law Help.org
State guide of free legal aid programs and answers to questions about legal rights.
www.lawhelp.org

Senior Citizens

AARP
Organization dedicated to helping seniors live more productive lives.
888-687-2277
www.aarp.org

Benefits Checkup
Helps seniors identify benefits that could save money and cover the costs of everyday expenses.
202-479-1200
www.benefitscheckup.org

Grandfamilies

National Association of Child Care Resource & Referral Agencies (NACCRRA)
Works with more than 600 state and local Child Care Resource and Referral agencies to ensure families in every local community have access to quality, affordable child care.
www.naccrra.org

Grandparents Raising Grandchildren
If you take care of grandchildren, find grandparent programs in your state and get information about benefits, assistance, and more.
www.usa.gov/Topics/Grandparents

AARP Foundation GrandCare Support Locator
Connects grandparents with national, state and local groups, programs, resources and services that support grandparents or other relative caregivers as well as grandparents facing visitation issues.
www.giclocalsupport.org

Grandparents as Parents
Providing programs and services for grandparents and other relatives raising at-risk children.
www.grandparentsasparents.org