

FOUR CORNERSTONES OF FINANCIAL LITERACY



Create Savings

Debt Reduction &

Budgeting to

Asset Building

Building a Good

& Financial Institutions

Credit Rating

Consumer Protection

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

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Financial Literacy – Things I Need to Know How to Do

I need to know:

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

PART ONE:

**BUDGETING TO CREATE
SAVINGS**

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

Income Plan

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

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

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

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

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

Sample Paycheck

Employee Name Mary Anderson	Pay Period 11/01/15 – 11/15/15	Minnesota Mining, Inc.
Rate \$9.75	Hours 80	Pay This Period \$780.00
Deductions	Current Amount	Net Pay
Federal Income Tax	57.12-	\$555.79
State Income Tax	22.00-	
Social Security Tax	37.52-	
Medicare Tax	10.20-	
Medical Insurance	42.25-	
Dental Insurance	5.12-	
401K Plan	25.00-	
Flexible Spending Account	25.00-	
Exemptions: 02	Employee Number: 10202	Check Date: 12/02/15

Savings Plan

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

Here are five ways to make savings a habit:

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

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

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

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

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

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

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

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

CASH FLOW CHART: ASSIGNING EACH CHECK FOR WHEN YOU HAVE TO LIVE CHECK-TO-CHECK

List each pay date and which monthly expenses you'll use that check for. You'll need to split up your bills, such housing from one check, car payment and utilities from the other, grocery expenses from each, etc.

Pay Date						
Net Income						
Total Income						
Expenses:						
Total Expenses						
What's Left						

WEEKLY SPENDING TRACKER

Each day for four weeks, write down what you spent money on and how much you spent. Use the spending categories list on the next page to help you categorize your spending. Round up to whole dollar amounts.

[illegible]

CATEGORIES FOR TRACKING IN A SPENDING PLAN

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

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

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

Savings

- Emergency savings

Housing

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

Insurance

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

Children

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

Transportation

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

Personal Care

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

Debts

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

Utilities

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

Food

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

Recreation

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

DEBT TRACKER WORKSHEET

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

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

SPENDING PLAN MONTHLY TRACKER

Use this sheet to add up your four weekly expense trackers and compare what you actually spent in each category with what you had planned to spend this month.

[illegible]

THRIFTINESS TIP SHEET

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

Food

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

Housing

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

Utilities

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

Personal Care

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

Gifts

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

Transportation

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

Healthcare

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

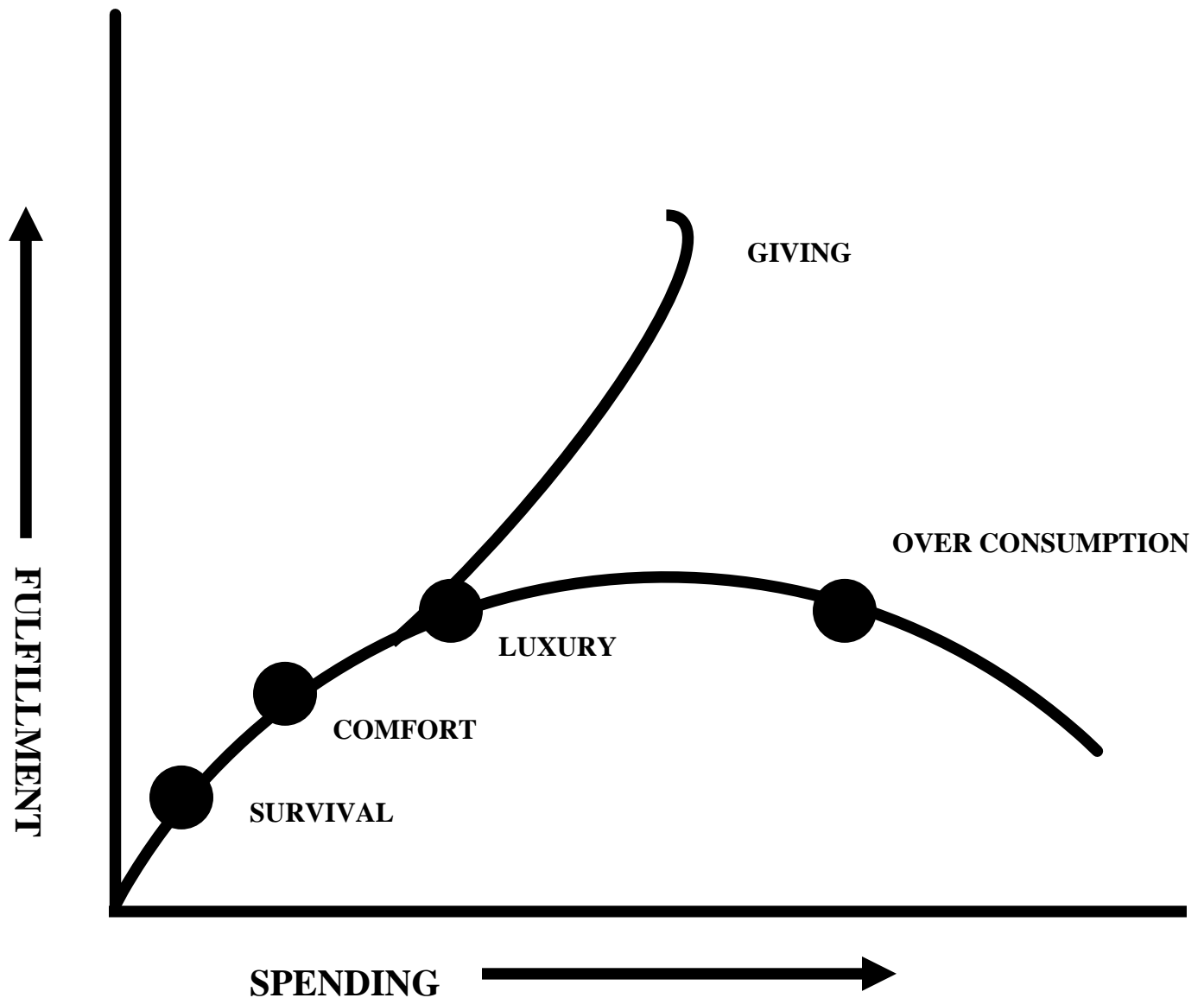
Recreation

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

THE FULFILLMENT CURVE: DOES MORE SPENDING MEAN MORE HAPPINESS?

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

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



TALKING BACK TO ADVERTISING

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

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

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

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

RAISING MONEY–SMART CHILDREN

Learn to Earn Money

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

Learn to Set Goals

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

Learn to Save Money

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

Learn to Enjoy Life without Spending

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

IMPORTANT FINANCIAL RECORDS TO KEEP

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

How to Pay Your Bills on Time

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

What Important Records to Keep

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

THE BASICS OF FILING TAXES

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

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

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

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

Federal Earned Income Tax Credit and Minnesota Working Families Credit

Low-income families with children can get up to \$5657 back from the federal government and \$1600 from Minnesota.

Federal Child Tax Credit and Additional Child Tax Credit

Low-income families can get back up to \$1000 per child. Additional Child Tax Credit is refundable if earned income is at least \$3000.

Federal and Minnesota Child and Dependent Care Credit

Families who pay care costs for kids under age 13 or disabled or dependent adults can get up to \$1000 back from each.

Federal Retirement Savings Tax Credit

Low-income taxpayers can get 50% back (up to \$1000) of their retirement plan contributions.

Federal American Opportunity and Lifetime Learning Credits

Taxpayers can get up to \$2500 per student back on college educational expenses.

Minnesota K–12 Education Credit and Subtraction

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

Minnesota Property Tax Refund

Renters and homeowners can get back up to over \$1500 depending on your income.

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

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

PART TWO:

DEBT REDUCTION AND

ASSET BUILDING

IMPROVING YOUR DEBT-TO-INCOME RATIO

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

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

How Much Debt Is Too Much?

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

Other Warning Signs of Too Much Debt

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

Think like a Credit Lender

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

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

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

PAYING MORE THAN MINIMUMS ON CREDIT CARDS AND LOANS

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

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

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

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

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

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

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

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

PRIORITIZE YOUR DEBTS

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

Secured

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

Priority Unsecured

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

Unsecured

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

Tips for Dealing with Collectors

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

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

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

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

DO NOT send *post-dated* checks nor give your bank account number to creditors to withdraw -- stay in control by sending them a regular payment by check or money order monthly.

DO NOT send payments until you know the balance and account number of the debt you owe -- any third-party debt collector must provide you written verification details of the debt if asked.

DO NOT pay the meanest collector first. Stay in control and pay in order of your priority.

HOW TO HANDLE UNSECURED DEBTS LIKE MEDICAL BILLS

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

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

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

Sample Letter

Creditor Name
Creditor Address

Date

Dear _____:

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

Your Signature
Your Typed Name

The Special Case of Bounced Checks

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

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

HOW TO HANDLE CREDIT CARD DEBTS

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

What Does a CCCS Do?

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

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

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

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

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

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

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

HOW TO HANDLE STUDENT LOAN DEBTS

There are many types of student loans: direct loans, Perkins loans, Stafford loans, PLUS loans -- backed by the federal government so that they can be offered to students at low interest rates. There are also private student loans that have higher interest, more trapping features, and often require co-signers. Usually, you need to start repaying your loans six months after you stop going to college. Here are some special rules remember about student loans.

Do Not Default on Your Loans

- If you don't pay, the loans will go into default and then special collectors can add giant fees and garnish your paycheck and intercept your tax refunds.
- If your loans are in default, call the servicer to find out how to rehabilitate them, and for federal loans, consider a William Ford Consolidation of your loans to bring them out of default, sometimes with reduced payment size.
- Explore income-based repayment options for federal loans. These limit your monthly payment size based on your income, and can sometimes be paired with loan forgiveness. Get specifics on all programs at www.studentloanborrowerassistance.org

Deferment May Be an Option

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

Forbearance May Be an Option

- You can ask your lender to put repayment on hold if you have a period of unemployment or unexpected emergency expenses. The loans will still grow with interest, and there are time limits on how long. Again, be sure to complete all forms on time and keep a copy.

Forgiveness of Loans May Be an Option

- A federal student loan can sometimes be cancelled, if you become permanently disabled
- A federal student loan can also be cancelled if you work in certain nonprofit settings like medical, law enforcement, military, Peace Corps and VISTA, and some early education or K-12 teaching jobs. See a list of which jobs qualify, at US Dept of Education website.

HOW TO HANDLE INCOME TAX DEBTS

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

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

Send a payment plan with a first monthly check.

The IRS and MN Dept of Revenue would like the debt paid within a year, but most reasonable payment plans are accepted. For example, if you owed \$1000 and sent \$50 per month, the debt would be paid in less than two years. Generally, \$25 per month is the minimum payment allowed. Whenever possible, pay more when you can, but do not over-promise and then fall off the plan. Be sure to keep up with payments, and claim your tax credits to help reduce the debt.

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

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

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

If you owe taxes and are unable to pay, the IRS' Taxpayer Advocate Service may be able to help. They can determine if you qualify for an *Offer in Compromise*, where your tax debt can be reduced or cancelled. State departments of revenue also have advocate services at no cost. Avoid tax debt "settlement" services that advertise heavily on TV and radio.

The three situations that fit this program are:

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

DESPERATE MEASURES: SHUFFLING DEBT AND GOING BANKRUPT

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

Settlements: Shuffling Debt in Hopes of Paying Less

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

- If you pay them a big lump sum, you may not have enough to keep other bills current.
- It's bad advice to "stop talking to or paying your creditors" and often accelerates legal action.
- Unless well-documented in advance, you may get stuck with the entire debt anyway.
- Collectors must report the account as bad credit, listing "settled for less than full balance."
- Collectors may issue a 1099 form, meaning you now owe taxes on what was forgiven.

Home Equity Loans: Shuffling Unsecured Debt into Secured Debt

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

- Your equity will be less, so if you have an emergency roof or sewer repair, it's not available.
- Unsecured debt could be discharged in a bankruptcy, but now it is secured so cannot be.
- Home equity loan often is a band-aid over a continued shortfall, so more new debts are taken out.

Retirement Plan Loans and Withdrawals: Robbing your Future Self

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

- Loans will lower your net pay, since they are repaid from every paycheck.
- If you ever leave the job or are laid off, the whole loan becomes due immediately.
- Withdrawals are taxed 20% or more PLUS 10% penalty, so taking \$1000 may only get you \$700
- If that money was left invested in retirement accounts, that \$1000 could *double* every 10 years

Bankruptcy: Like a Farmer Burning His Entire Crop Field

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

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

THE IMPORTANCE OF ASSETS

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

Financial assets include:

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

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

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

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

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

[The *average* savings rate returned to 5% after the Great Recession, but almost half of all Americans do not have emergency savings for even one month's living expenses]

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

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

To figure out your net worth, add up all your assets. Then add up all the debt you owe, and subtract your total debt from your total assets. For example, if you have a mortgage for \$100,000 but the house is now worth \$150,000, you have \$50,000 in equity, or net worth of \$50,000. To show an opposite example, if you are "upside down" on a car loan, you may owe \$10,000 on a car that is only worth \$7000 if you sold it. That would be *negative* equity, or \$3000 in the hole. Building wealth and financial stability cannot be income alone. Since income can be lost with job loss, reduced hours, or a move, you'll want to build financial assets of saving and investing.

HOME OWNERSHIP AS AN ASSET

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

Advantages of Homeownership

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

Disadvantages of Homeownership

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

HIGHER EDUCATION AS AN ASSET

Investing in yourself is always a good idea. You can get a very high rate of return by qualifying for a better job when you get a degree or training through higher education. The amount you can expect to earn often depends on your education. The chart that follows is based on 2013 data from the US Dept of Labor.

Education Level	Median Weekly Earnings
9 th to 12 th grade but not diploma	\$472/week
High school diploma or GED	\$651/week
Associate’s degree (2-year college)	\$777/week
Bachelor’s degree (4-year college)	\$1108/week
Master’s degree (graduate school)	\$1329/week

You can really pump up your earning power with more education, which can lead to a path to other assets. For example, in order to achieve your dream of owning a home, you may need to go back to school to increase your earnings. *The key is to get a degree without taking on much debt.*

SPECIAL SAVINGS PLANS: If you put money into a **529 plan**, it will grow faster because it is tax-deferred; when you take the money out for higher education costs, it is not taxed. You can join any state’s 529 plan, and some states (not MN) add a match on some contributions. Find plans at www.savingforcollege.com what you put in. Another option is an **ESA** (Education Savings Account) at banks and credit unions, to save tax-deferred up to \$2000 per year.

KEEPING A PAID-OFF CAR AS AN ASSET

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

The Secret to Keeping a Used Car Running is Preventative Maintenance

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

Every 3000 miles

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

Every 30,000 miles

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

Every 60,000 miles

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

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

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

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

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

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

RETIREMENT PLANS AS AN ASSET

Social Security

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

Pensions

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

Employer Plans: 401K and 403B and now “myRA”

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

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

Spend it now	Put it into a 401K
<ul style="list-style-type: none">• Take the \$100• Minus taxes (\$30)• You now have \$70	<ul style="list-style-type: none">• Put the \$100 into a 401K• No taxes, so all \$100 invested• Your \$100 invested can double and double again

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

If there is no workplace plan, employees can access a “myRA” savings plan if there employer has direct deposit. This is a federal plan made safe and easy: <https://myra.gov>

Individual Retirement Accounts (IRA and ROTH IRA AND SIMPLE)

Anyone can open one of these at a bank or brokerage. You put money in and it grows tax-free until you start to take it at retirement (after 59 ½). With a regular IRA, you can deduct your contribution from your taxable income. With a Roth IRA, there is no tax break now, but all withdrawals are tax-free. Also, you can take out your contributions without penalty, anytime. *Self-employed* people can contribute to a SIMPLE (savings incentive match plans for employers) retirement account, which functions under most of the same rules as an IRA.

SAVINGS AND INVESTMENT AS AN ASSET

How Investments Grow to Become More

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

There are many ways to invest money, and all of them involve the **risk-return tradeoff**. With investments that have more risk, you will often get paid a higher rate of growth and interest. The investments at the top of this list are the safest and as you go down the list, you take on more risk but are likely to get a higher return. These returns below represent recent averages.

Investment Type	Risk-Return Tradeoff
Savings account	government insured, pay about 1% APY or less
Certificates of Deposit	government insured, pay about 1-3% APY
U.S. Treasury Bonds	government insured, pay about 1-3% APY
Corporate Bonds	not insured, pay about 3-5% APY
Individual Stocks	not insured, can grow lots or lose lots
Stock Market Mutual Funds	not insured, can average 10% growth if buy and hold

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

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

- Stocks have market risk because each company can go down in value or go out of business. Owning an index mutual fund of all stocks reduces the risk through diversification
- Savings accounts have inflation risk because prices may rise faster than the interest rate paid.
- Bonds have interest rate risk because the value of your bond decreases if interest rates rise.
- Certificates of Deposit (CD) have liquidity risk because taking your money before the term is up will incur a penalty.
- Keeping your money under the mattress is the worst risk of all – getting stolen or destroyed.

STRATEGIES TO KEEP RISKS LOW AND RETURNS HIGH

Diversification

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

Keep Costs Low

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

Start Early and Keep Going

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

Buy and Hold, Rather than Chase Hot Investments

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

Take Some Risks for Growth

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

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

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

PART THREE:

**BUILDING A GOOD
CREDIT RATING**

THE FAIR CREDIT REPORTING ACT

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

YOUR RIGHTS UNDER THE FCRA

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

You can obtain a free copy of your credit report once each year and also under these conditions: if you have proof of being turned down for credit in the past 60 days, or you are unemployed and looking for work, or you have filed a report of stolen identity or credit fraud. Credit *score* is not free, but there are free credit score estimators and a Credit Score Disclosure Notice law.

You have the right to an accurate file.

If there is an error in your credit report, you have the right to ask the bureau to investigate and remove incorrect information. If the information is in dispute and cannot be removed, you have the right to add a “line of explanation” next to the item on your report. Negative information must be removed after seven years, and bankruptcies are listed for ten years, but positive information can be listed forever. Do not try to “wait out” paying on debts, however, since debt collectors have successfully been able to re-sell and then re-list debts over and over.

You have the right to privacy.

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

HOW TO READ A CREDIT REPORT

Your credit report will have four main sections:

Personal Identification Information

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

Public Record Information

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

Credit Account Information

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

Inquiries Made to Your File

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

HOW TO FIX ERRORS ON YOUR CREDIT REPORT

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

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

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

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

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

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

Sample Dispute Items

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

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

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

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

GET YOUR **FREE CREDIT REPORT** ONCE/YEAR ONLINE AT WWW.ANNUALCREDITREPORT.COM. OR BY PRINTING AND MAILING THE FORM AT THAT SITE. BUT YOU CAN USE THE FORM BELOW TO GET A COPY OF YOUR REPORT UNDER THE OTHER CIRCUMSTANCES LISTED IN FCRA.

CREDIT **SCORES** ARE NOT FREE BUT IF YOU RECEIVE A "CREDIT SCORE DISCLOSURE NOTICE" FROM A CREDITOR, IT ALLOWS YOU TO GET THAT SCORE FOR FREE (THESE NOTICES ARE REQUIRED BY LAW TO BE SENT TO ANYONE TURNED DOWN FOR CREDIT, OR FOR THE BEST RATE AVAILABLE, DUE TO THEIR CREDIT SCORE)

CREDIT REPORT REQUEST FORM

Use these addresses.

Please print or type neatly.

To: _____

Please forward a copy of my individual credit file.

EQUIFAX

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

Date: _____

Daytime/message phone: _____

Full Name: _____

Mailing Address: _____

City, State, Zip: _____

Previous address (if moved in past 2 years): _____

Your social security number: _____

Your date of birth: _____

Your signature: _____

EXPERIAN

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

TRANSUNION

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

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

List other FCRA reason for free credit report: _____

HOW TO IMPROVE YOUR CREDIT SCORE

In addition to the three national credit bureaus, there are credit-scoring companies. Fair, Isaac makes the FICO score, which is by far the most widely tested and used by creditors. There are other scoring systems, and many “free” score offers are these less used alternative systems. You can purchase your FICO score or learn more with free scoring estimators at www.myfico.com.

Scores can range from 300 to 850. The higher the score, the better the credit rating. Generally, any score above 700 indicates a good credit risk, and below 650 is a problem.

Remember, you can work to improve your score, no matter where it is right now.

Reasons Your Score May Be Lowered

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

FICO Has Disclosed the General Structure of How Their Model Scores

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

30% = amounts owed (how much owed, in relation to credit limit, ie, how “maxed out”)

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

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

10% = types of credit used (healthy mix of loans, bankcards, store cards, not sub-prime)

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

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

PART FOUR:

CONSUMER PROTECTION

AND FINANCIAL

INSTITUTIONS

HOW TO SUCCEED WITH BANKS AND CREDIT UNIONS

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

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

Banks are corporations that offer a wider range of services at generally higher fees. Checking and savings accounts are federally insured by FDIC, but investment services are not.

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

Benefits of Having a Checking Account at Credit Union or Bank

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

Tips to Keep a Checking Account in Good Shape

- Use direct deposit of your paycheck for safety and immediate access to your money.
- Record in your check register every deposit, check, electronic transfer, or ATM withdrawal.
- Keep your pin number private; report stolen or lost checks or ATM/debit card right away.
- Order your checks through mail order services, not from the bank, to save money.
- With online or smart phone banking, use extra security such as strong passwords, firewalls.
- Shop credit unions and banks to find accounts with no monthly fees and free ATM use.

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

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

THREE LAWS PROTECTING YOU WITH FINANCIAL INSTITUTIONS

Truth in Lending Act

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

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

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

Electronic Funds Transfer Act

This law regulates electronic banking transactions with the following rules:

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

Equal Credit Opportunity Act

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

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

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

USING A CHECKING ACCOUNT REGISTER

A check register is an important tool for keeping track of how much is in your checking account. Write down every time you write a check, bill-pay or electronically transfer, debit card use, or cash withdrawal. Subtract those from the balance in your account. Same for deposits: write them down, and then *add* those to the balance. You can avoid those nasty fees for bounced checks.

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

Balancing Your Account with Your Bank Statement

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

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

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

INSURANCE AS A TOOL FOR RISK MANAGEMENT

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

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

By having insurance, you transfer the risk of loss to the insurance company, in exchange for a premium that you pay the company. If that risk occurs, the company pays for some or all of it. It can afford to do so because it pools the premiums from many, many policyholders and then pays claims from this pool of money. Insurance can provide peace of mind from life's hazards.

How to Make Good Decisions about Insurance Coverage

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

Be Sure You Understand the Language of Insurance

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

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

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

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

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

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

Insurance Most People Need

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

Insurance Most DO NOT Need

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

HEALTH INSURANCE

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

- **Co-pay** is the amount that you must pay for each doctor visit or prescription.
- **Formulary** is a list of what prescription drugs are covered by the policy.
- **Prior-authorization** means no coverage unless you call first to get approval for the service.
- **Indemnity plan** is a policy where you choose which doctors you go to (more expensive).
- **PPO** is a policy where you pay less co-pay if using the insurance company's list of doctors
- **HMO** is a policy where you must go to their network of doctors

There are three ways that Americans get health insurance:

1. Through Being Employed

Many employers provide a health insurance plan and pay a part of the premium, so it does not cost employees as much. If you leave the job, you may be able to keep coverage through a law called COBRA, but most people cannot afford to pay the whole premium themselves. One of the best parts of employer plans is *open enrollment*, where the insurance company must accept you if you (and family members, if you have that benefit) are an employee.

2. Through State and Federal Programs

Medicare is a federal health insurance available to people at age 65 (or if on SSDI disability). MA, or Medical Assistance, is health insurance available to very low-income Minnesotans. Minnesota Care is a state health insurance available to working families with premiums based on ability to pay.

3. Through Private Policies You Buy through Affordable Care Act

Minnesota has a health insurance exchange as a marketplace for health insurance policies. Certified *navigators* are a free resource to coach on best options to find free or subsidized policies. MNsure navigators are available at www.mnsure.org or 1-855-366-7873.

Two Important Tips:

Take time to read your insurance policies. Knowing your coverage can help you make choices.

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

AUTO INSURANCE

Minnesota is a “**no-fault**” state for car insurance. This means that if there is an accident, each driver’s policy covers his/her own car and passengers, regardless of who caused the accident. That way, claims can be settled quickly without long lawsuits. However, if you are reckless, the insurance company might pay the claim and then sue you, e.g. if you were driving 90 mph. Minnesota requires all licensed vehicles to have liability, PIP, and UIM protection. Collision and comprehensive coverage are optional unless there is a loan on the vehicle -- lenders require collision and comprehensive coverage until the loan is paid off – and if you are found without it, they will charge you an expensive *forced* insurance policy.

Liability coverage pays for injuries and damage to property in an accident.

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

Uninsured/underinsured motorist protection covers your losses if you’re in an accident with someone who does not have insurance. (your insurer will cover you, then sue that person)

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

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

Steps to Take if You Are Involved in a Car Accident

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

Two Tips About the Car Insurance Industry

1. Drive Safe and Sober

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

2. Limit Your Claims to Major Ones

Pay for small things like dents or broken headlights out-of-pocket. The insurance industry keeps a database of all claims made and if you make too many claims, they will drop your policy and other companies may not insure you. Your CLUE report is free under FCRA too.

HOMEOWNERS' INSURANCE

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

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

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

Home Insurance Coverage Tips

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

Renters and Condominium Insurance

Apartments and condo associations usually carry insurance coverage for the building, but not for your personal property. This type of insurance is often inexpensive and if you have valuables or would have a burden replacing household goods, you may want to consider buying this coverage.

LIFE INSURANCE

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

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

The Basic Choice: Term Life or Permanent Life Insurance

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

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

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

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

DISABILITY INSURANCE

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

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

PREDATORY FINANCIAL SCAMS AIMED AT HOMEOWNERS

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

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

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

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

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

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

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

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

Tips to Prevent Problems

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

PREDATORY FINANCIAL SCAMS AIMED AT CONSUMERS

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

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

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

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

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

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

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

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

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

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

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

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

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

Some Consumer Laws Protecting You Against Fraud

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

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

The CFPB tracks consumer complaints, so tell them if you encounter fraud, 1-855-411-2372.

HOW TO PREVENT IDENTITY THEFT

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

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

Take These Steps to Reduce the Odds of Identity Theft

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

Take These Steps if You Are a Victim of Identity Theft

- Call ID Theft Clearinghouse, 1-877-438-4338, to report identity theft and help them catch it.
- Best option: MN has a *credit freeze* law which is stronger protection – file a police report, then contact bureaus to lock your credit report – open to all, and free to victims of ID theft
- Call the fraud departments of all three credit bureaus to ask that a *fraud alert* be put on your credit file. Equifax 1-800-525-6285, Experian 1-888-397-3742, Transunion 1-800-680-7289
- Close all your current bank and credit card accounts and open ones with new numbers. Use new passwords and PIN numbers and make them strong passwords.
- If any checks or debit or credit cards have been stolen or accessed, call the bank or company to report it and file an *affidavit of theft* (keep a copy for proof). Then use that to write dispute letters for charges that come up on your accounts that are not yours.
- Check your credit reports at least once a year to continue to dispute off any fraudulent use.

CONSUMER PROTECTION TOOLS

Learn to Write a Good Complaint Letter

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

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

Media Programs

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

Small Claims Court

Small claims court, or conciliation court, is used for simple disputes up to a limit of \$15,000. It is quick, informal (no lawyer needed), and inexpensive (approximately \$50 to file). Ask the small claims court clerk for material to help you prepare, and you can observe a case in court before yours to see how it works. The judge's decision is binding, and if you win your case, you are likely to get paid or can return to ask for help enforcing the judgment.

Free or Low-cost Legal Help

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

Federal Trade Commission and Consumer Financial Protection Bureau

These are the federal watchdogs to protect consumers. Report all fraud to them so they can stop it. They offer free consumer information at www.ftc.gov or www.consumerfinance.gov

Minnesota Attorney General's Office

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

SOCIAL CAPITAL: KNOWING WHERE TO GO FOR HELP

Agency/Organization	Services	Contact Information
Minnesota Attorney General	Consumer protection hotline	1-800-657-3787 or (651) 296-3353 www.ag.mn.state.us
Federal Trade Commission	Consumer protection information	1-877-382-4357 www.ftc.gov
Minnesota Commerce Department	Information and guidance about banking and insurance	1-800-657-3602 or (651) 296-2488 http://mn.gov/commerce
US Department of Education	Student loan consolidation	1-800-872-5327 www.ed.gov
Internal Revenue Service	Tax information, forms, and taxpayer advocacy	1-800-829-1040 www.irs.gov
Minnesota Department of Revenue	Tax information and forms	(651) 296-3781 www.taxes.state.mn.us
Free Tax Preparation Sites	Free tax prep and filing for individual under \$30,000 or family under \$45,000 or self-employed taxpayer under \$50,000 income limit	651-297-3724 or 1-800-657-3989 www.taxes.state.mn.us/taxes/vita/free_tax_prep.shtml
National Foundation for Credit Counseling	To find a certified CCCS agency for budgeting or debt management plans	1-800-388-2227 www.nfcc.org
Minnesota Home Ownership Center	Statewide referrals to free HUD-approved foreclosure prevention counseling	(866-462-6466) www.hocmn.org
Consumer Financial Protection Bureau	CFPB regulates financial products and accepts complaints on its national consumer hotline	1-855-411-2370 www.consumerfinance.gov