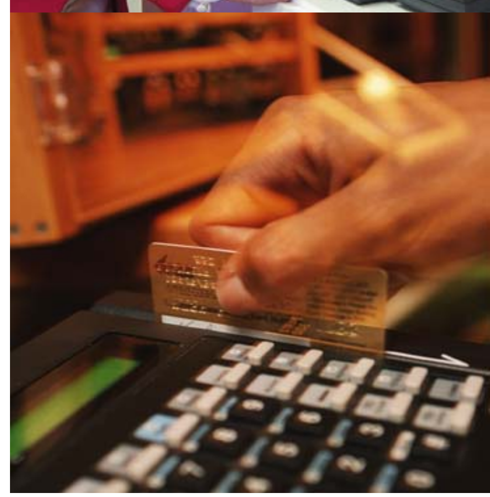
CREDIT MANGEMENT



CREDIT MANAGEMENT

Top **Introduction**

- In 1990, the average debt carried by Americans on their credit cards was $2,985, by 2002, that debt load had risen to $8,940.

- Nearly half of all credit card holders—43%—make only the minimum required monthly payments at least part of the time.

- For example, on a $5000 charge at 18%, if you make the 2% minimum monthly payment, it will take you 46 years to pay of this charge, and you will have paid $13,931 in interest! However, if you could double that payment to $200, it will only take 2.6 years to pay off the card and you will pay only $1,195 in interest. That's a savings of over $12,700!

Purpose and Agenda

The purpose of this program is to provide some basic information on credit: wise and unwise uses of credit, establishing and maintaining a good credit rating, when and how to borrow money, and how to manage your debts properly. It will provide the information necessary to enable you to establish and maintain a good credit rating, avoid excessive debt, and make wise use of credit as a consumer. Specific topics:

- Wise and unwise uses of credit
- Establishing a credit history
- Shopping for credit
- Choosing and using credit cards
- Warning signs of too much credit
- Credit reporting agencies and understanding your credit record
- Consumer Credit Protection Laws
- Dealing with creditors
- Debt recovery programs
- Sources of help

Top **Introduction to Credit**

Introduction

Credit – the ability to buy something today and pay for it later-depends on the belief that borrowers will pay their debts. Using credit means taking out a loan or using a credit card to make a purchase. Is it necessary? Yes. How many of us could ever afford a home if we had to save up all that money to pay for it in cash? Our entire economic system is largely based on credit. There is money to be made from it; interest on consumer purchases brings over $100 billion into the economy every year. In fact, the nation's three largest credit card issuers (Citibank, MBNA and Banc One). Posted profits of $1.4 billion in the first three months of 2003, a 19% increase over 2002. The credit card industry is on track to earn $14 billion in 2003.

Wise uses of credit
The best use of credit is to purchase assets—things that will grow or increase in value over time, like your own business or buying a home or a rental property. Credit is also useful for convenience— avoiding having to carry large sums of cash or as a management tool. Wise use of credit virtually always falls into one of these two categories— assets or convenience.

- **Sales.** Extra 10% off offers and special sales make credit a convenience.

- **Emergencies.** Another convenience use of credit is during emergency situations. You may not have time to get cash.

- **Education.** A school loan for further education is really purchasing a future asset.

- **Big Ticket items.** Sometimes use of credit for major consumer goods cannot be avoided; few of us can purchase our first car without a loan. This too, is an acceptable use of credit.

Unwise Uses of Credit: Credit becomes more dangerous when used to purchase consumables. Furniture, clothing, sporting equipment, meals out, and vacations, lose much or all of their value immediately after purchase. Credit is often used for non-financial reasons.

- **Impulse Buying:** Easy access to credit often leads to a "buy now, pay later" mentality. Impulse buying can occur when we are bored, nervous, sad, angry, or happy. During these times consumers will often charge items they would never buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay about 1/3 more than they would if they first compared prices at other locations where the same item might be on sale.

- **Spending for Status:** Many people feel they need to spend to impress others. Advertising appeals to these emotions. Ads in the media for credit cards often portray the person using the card as having great power or status. The message they are sending is that if you use their card, you will be able to do great things, have more fun, attract others, and be more successful.

- **Retaliatory Spending:** In a family where there is not a clear spending plan in place that partners agree on, each party has a common tendency to spend on themselves first. After all, they work hard, so why shouldn't they treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves in order to "even the score" with the other.

- **Spending to Feel Good**: This feeling can become addictive; like other addictive behaviors, the good feelings are only temporary; the debt "hangover" can last a long time.

- Individuals should always decide before charging any purchase if they are buying an item because they really need it, or because they are under stress and want to feel better.

- **Everyday Living Expenses:** Meeting everyday living expenses is perhaps the most dangerous use of credit. If you don't have the money to pay for it today, what makes you think that you will be able to pay for it next month?

- **Possible Negative Effects**. If you are unable to keep up with your monthly payments creditors can take legal measures to get the money you owe them, and/or take back the items. Creditors will normally start by sending you letters requesting payment. They can also send a Letter of Indebtedness to your command notifying them of your failure to pay and asking them to get involved. Further action such as garnishment, repossession and foreclosure are common legal remedies. Most contracts also say that you must continue to pay even though you no longer have the item! The law does limit the amount that can be taken/ garnished from your paycheck to 25% of your disposable income per pay period. However, money you owe the Government and court-ordered family support is not limited.

Top

Is This You?

How you respond to these statements is an indication of how you handle credit. None of these are considered wise uses of credit.

- I have 7-9 credit cards
- I rarely pay off my balance every month
- I have no idea where all of my cards are right now
- I have not seen my credit record in 5 years

What's In Your Pocket?

How many credit cards do you have? The average American carries 7-9 credit cards. Are you one of them? Do you use them all? Most financial planners recommend carrying one major bank card used for most credit purchases, possibly a gas card (particularly if it offers a rebate), and a third card which you use only for emergencies (one with no annual fee). Looking at your current situation, would you recommend taking on more or less credit?

- Take a look at your credit cards, or think of the loans you have for the other items represented in your pocket/wallet/purse. Do you know the interest rate attached to each of those items?

- Credit cards can range from low introductory 2.9% rates to 25.99% or higher.

- The average rate in April 2003 was 13.75%.

- Mortgages have hit historic lows of 4.5% on an adjustable rate mortgage or 5.75% on 30 year fixed.

What is your rate?

- What about your car loan?

- Did you get 0% financing or something higher?

- New car loans averaged 5.5% in April 2003.

  What do lenders consider when determining your interest rate?

  How did you get your credit cards?

  Did you ask for them?

  Did you receive a pre-approved offer in the mail, or did they come from your bank/credit union when you opened your account?

  Are there any things that show's you are building wealth, adding to savings or investments?

If you would like to learn more about how to get ahead financially consider attending a saving and investing or Retirement Planning Seminar at the command or the FFSC.

Top

Establishing a Credit History/Qualifying for Credit

Establishing a Credit History

- Now that we have established some guidelines for using credit wisely, let's explore how we go about getting a loan. Normally a consumer has to have some kind of established credit history. Start building your creditworthiness early, that way when you need credit you'll be able to get it. Lenders look for evidence of financial responsibility and stability. You achieve that in several steps.

  - By properly maintaining a checking and savings account at a financial institution, you will by looked upon favorably by creditors.

  - Paying existing bills (such as rent and utilities) on time.

- Virtually anyone can get a loan at a military affiliated credit union by making what is called a "share secured loan." As an example, say you want a $600 TV. Instead of buying it outright, you take out a loan and pledge to pay back $50 per month, with $600 of savings as collateral. The credit union will "freeze" that amount in your savings account until you start making payments; the more you pay off, the more access to your savings you get back. Since the credit union knows it will get the money, the rate on the loan is normally very low, usually only slightly more than the interest rate they are giving you on your savings. Admittedly, you are paying to borrow your own money, but only a small amount and for a short time. In return, after a year, you have four benefits:

  1. You own the TV, free and clear.

  2. You have $600 in savings free to use as you wish (perhaps as an emergency fund!).

  3. You have a habit of paying $50 per month that you can now use to continue to build up more savings, start an investment program, or other worthwhile purpose.

  4. You have a successfully repaid loan as part of your credit history. Be certain that the information will be reported to the credit-reporting agency.

- A signature loan (unsecured) is normally difficult to get for someone with a limited credit history. Another option may be to have a relative co-sign a loan for you.

- If you already have a good credit history, be very careful of co-signing a loan for a friend or a relative. Statistically, more than half of these types of loans end with the cosigner paying back part, most, or all of the money owed!

- A charge card from a local retailer or gas company is often the easiest type of credit card to get. Start small, with one card. Make small purchases and pay off in full at the end of the month. Be careful to avoid overspending, as interest rate charges for these cards are normally high.

- Finally, after establishing a good credit history with other loans, a consumer will eventually qualify for a Visa or MasterCard from a major bank. However, there are over 6,000 different banks issuing these cards. So consumers must be aware that terms and rates will vary considerably, from so-called "secured" cards, which often require cash deposit and have low credit limits and high rates, to the so-called "premium" cards (often called gold or platinum) targeted at consumers with the best credit ratings

Top

Credit Scoring

Lenders today use one of two ways to evaluate credit applications. Some lenders will look at each application individually, using guidelines that may take into account the applicant's income, credit history, and other individual circumstances, i.e., they use their own judgment for each application. More commonly, particularly when it comes to credit cards, evaluation is based on credit scoring. Lenders identify a number of factors that relate to credit-worthiness and assign point values to each factor. Factors may include employment (skilled, unskilled, clerical, managerial, etc.); length of time at current job, homeowner or renter status, and number of credit cards and other loans, and payment history.

Credit scoring can be fairly simple or very complex. In a highly automated system, a data-entry person will enter information from an application and credit file into the computer; sometimes information is fed directly from the credit bureau into the computer via a modem. Computer determines credit scores and, if the applicant does not qualify, the computer generates a denial letter. The whole process is automatic and the score is usually not passed on to the applicant.

Qualifying for Credit

Three C's of credit: What lenders are really looking for is the answer to these questions:

- ***Character:*** Do you have a history of repaying loans on time? Credit references that appear on credit reports are used. These include bankcards (the single best reference), travel and entertainment cards, department store cards, mortgages, and auto loans. Stability (length of time on the job and in a location), age, and checking and savings account records are also taken into account.

- ***Capacity:*** How likely is it you can repay the loan on time? Income, how much potential credit you hold (number of cards, number of inquiries), and total debt levels is considered.

- ***Collateral:*** What, if any, additional security is there to ensure the loan will be repaid? Collateral is normally required for any large loan, such as for a home or a car. This is also known as capital.

Credit worthiness
Your reputation for financial responsibility determines how much you will pay for a loan. If you are a high credit risk, you may still be granted credit, but at a less favorable interest rate. Also, you may find you have to borrow from alternative financial resources, such as finance companies, which typically charge higher rates because they are willing to accept riskier customers.

Shopping for Credit

- ***Comparison-shopping:*** Since most states have no laws regulating the amount you can be charged for a loan (i.e. usury law), it is important to shop carefully. Comparison-shopping for the money you borrow is every bit as important as comparison-shopping for your purchase. Most types of credit are installment loans, in which the loan is paid in equal payments, usually paid monthly.

- ***Secured loans:*** Some loans are secured loans. A secured loan is backed-up by collateral which can be taken in case you fail to pay. A car loan is a secured loan. These loans are easier to get because the lender is confident about getting their money.

- ***Unsecured loan:*** A loan made solely on your signature and promise to pay is an unsecured loan.

Decision making process: Use the standard decision making process when preparing to take out a loan, just as you would for any other major decision in life:

1. Define the need
2. Search for alternatives
3. Obtain information
4. Compare the alternatives
5. Make the choice
6. Review and evaluate the decision

The Cost of Credit: Try to get pre-approved by arranging financing for large items before you go shopping. This will help you get a firm fix on what you can afford to pay. Compare options from different lenders to get the best deal. The cost of credit is determined by a number of factors, such as:

1. Where to borrow
2. How much you borrow
3. How long you take to repay
4. How is the interest calculated
5. Your credit worthiness

Where to borrow:
Where you borrow will definitely affect your cost.

- **Credit Union** – Owned by members, loans to members only, normally offer the most attractive rates.

- **Commercial Banks** – Offer a wide variety of products, average rates, for lower risk people.

- **Savings and Loan Associations** – Focus on mortgages, often offer other services, similar to banks.

- **Consumer Finance Companies** – Accept higher credit risks, rates often high.

- **Retail Merchants** – In-store loans and credit cards, often have promotional introductory rates that rise rapidly after 90 to180 days. Rates are often unattractive.

Whether you are buying a car, a TV, or anything else, normally the most expensive place to finance any consumer purchase is the place you are buying it. You pay for the convenience.

How much to borrow: How much you borrow has a big impact on total cost. A down payment can often result insubstantial savings.

How long to borrow: Borrowing for a longer period lowers your monthly payment but results in higher cost. Note the difference between these otherwise identical one, three and five year loans. Would you still buy that same item if the price listed had been $2000 higher?

Monthly payment: Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible. This slide illustrates the difference it makes to pay more than the minimum. It also shows the impact of making a constant payment versus using only a percentage of the remaining balance due.

Calculating loan interest: Interest on loans can be calculated in a number of different ways:

Simple interest: The finance charge is computed by applying a percentage rate to the balance outstanding during each payment period. This is the most attractive method. As you make payments, the interest charged decreases along with the loan balance due. Credit unions always charge simple interest; banks normally do also. Ask for it!

Add-on interest: The finance charge is calculated on the amount financed, and then added on to it. The sum total has to be repaid. No matter how many payments you have made, the interest charged will always stay the same.

The Rule of 78's is particularly unattractive. This is a form of add-on interest where a greater portion of the interest is collected in the early months, before any of the principal. Prepayment of these loans will penalize the consumer. Read all financing contracts carefully before signing!

- Example: $1000 at 12% for 1 year. Using simple interest you will pay $66 in interest. Using add-on interest you will pay $120 in interest.

- **Debt-to-income ratio.** You can avoid trouble by knowing your safe credit limit. Determine whether you need to borrow at all, and if so, how much? Are you going into debt to purchase an asset, or really just spending on consumables?

Calculate your consumer debt-to-income ratio: This is an important step in evaluating your personal financial situation. Any lender will want to know this figure before they decide whether or not to give you a loan.

Determine your net monthly income. This is not just your take-home pay times two. It is everything you make in one month minus only what is being withheld for taxes.

List each of your consumer debt payments: car payments, credit cards, and any other installment loans. Do not include rent or mortgage, as they would give a different debt-to-income ratio, a much higher one. Including them is useful when considering or qualifying for a home mortgage.

Total all monthly payments and divide by net monthly income. The result is your debt-to-income ratio.

Top Choosing and Using Credit Cards

Choosing credit cards:

Questions to ask.

- **Is there an annual fee, and if so, how much?** Can it be waived?
- **What is the interest rate on any balances?** If there is a low, introductory rate, how long is it good for? What rate will be charged after the introductory period?
- **What is the grace period on purchases** — the time you have to pay before any interest is charged? There are cards with a zero grace period.
- **What are the terms for a cash advance?** Most cards charge a higher interest rate for cash advances and the interest starts to accrue immediately.
- **What additional fees apply, such as; late payment, over credit limit, cash advances, and others?** Are there other hidden charges, such as a rise in the interest rate in the event of a late payment?

Money saving tips:

One easy way to save money is to call your existing credit card company, tell them you plan to switch to a lower interest rate card, and ask what they can do for you. In many cases they will lower your interest rate to keep you as a customer. This is often effective if you have been a client with an account in good standing for a year or more, carry a balance, and are being charged over 14%.

- If you pay off your balance each month, get an account with a low or no annual fee. If you carry a balance, look for low APR and low or no fees.
- Avoid high priced add-ons such as; credit life, credit disability, or credit unemployment insurance.

Top Methods of calculating Credit Card Interest

The method used can make a big difference in the cost of credit. There are four different methods commonly used for calculating credit card interest:

- **Average daily balance, excluding new purchases:** Determined by adding the outstanding balance, excluding new purchases, and deducting payments and credits, for each day in the billing cycle, and then dividing the number of days in the cycle. This is the most advantageous and cheapest to the customer.

- **Two cycle average daily balance, excluding new purchases:** The average of the sum of the average daily balances for two billing cycles, the current one and the preceding one.

- **Average daily balance, including new purchases:** Calculated by adding the outstanding balance, including new purchases, and deducting payments and credits, for each day in the billing cycle, and then dividing by the number of days in the billing cycle.

Using credit cards:

- ***Convenience:*** Credit cards can be a big benefit, due to their convenience. They can even save money, as the best use of a credit card may be to offer not to use it! As merchants must pay a small percentage to the credit card company (often 3%) when you use your card, some merchants will give a slight additional discount on a purchase if you offer to pay cash rather than use a credit card. Try asking for a 3% discount for cash!

- ***Emergencies:*** A credit card can be very valuable in an emergency. You must have one in order to rent a car, for example.

- ***Problems:*** Credit cards can become a problem. Normally the worst use of a credit card is for a cash advance. Not only can this be a symptom of bigger problems, but remember that the interest rate clock starts ticking the moment the cash comes out of the ATM and the rate charged on cash advances is very high, higher than your normal APR. There are virtually no cards that offer any grace period on cash advances. Also avoid the use of the convenience checks sent to you. They often carry a higher percentage rate. As soon as you notice a missing card, call to report it, and follow-up in writing. This will limit your exposure to fraudulent charges. Many companies will even waive the $50 limit as long as you report the unauthorized charges immediately.

Debit Cards

A debit card is like a check. Some debit cards require a personal identification number. Others simply require a customer's signature. A PIN-based direct debit card removes a purchase price from your checking account almost immediately. A signature-based or deferred debit card has a Visa or MasterCard logo. These cards are accepted anywhere Visa and MasterCard are accepted, you sign a sales slip and you're done. The purchase amount will be removed from your bank account in two or three days. Some banks offer both types of debit cards. Other banks place both kinds of debit functions on the same card. When you swipe your card through at the checkout line, you'll be asked if you want to pay by debit or credit. If you hit "debit," you'll need to input your PIN number. If you hit "credit," you'll need to sign the sales slip. Some consumer experts urge people to choose PIN-based, direct debit cards only. With a PIN-based debit card you have to know the PIN number to make a purchase. With a signature-based debit card, anyone could pick up the card and use it.

- ***Fees:*** Some banks charge debit card customers monthly fees. Other banks charge fees on each debit card transaction. Service members abroad should note that some banks have started charging fees (2 % fees for each debit card and credit card purchase) when customers use debit cards outside the United States. Some even offer 1% cash back for credit style purchases.

- ***Federal safeguards:*** You do have some federal protections if a thief gets hold of your debit card and goes shopping. But you must act fast. Under the Electronic Fund Transfer Act, your liability is capped at $50 if you notify your bank within two days of finding out your debit card is missing. Wait more than two days and you could lose as much as $500.

- ***Returns:*** Many merchants treat a debit card purchase as they would a personal check or cash, so you may have a trouble getting a refund on merchandise purchased with a debit card or get stuck with several hundred dollars in store credit instead of a refund. When you make a purchase with a credit card you have the option of withholding payment if you are unsatisfied with the quality of an item. This federal law does not apply to debit card purchases. So you're stuck trying to resolve the dispute with a merchant on your own.

When to use a debit card:

Debit cards are a great way to pay for everyday items such as gas or groceries.

- Don't use a debit card to pay for big-ticket items or expensive services.

- Don't use to order merchandise from the Internet or a catalog.

- **STARCARD:** The STARCARD is a credit card that can be utilized at all military exchanges. This is a regular credit card and the government does not run the program. This card allows you to make purchases and defer payment over time just like any other credit card. The application process and screening is similar to other credit cards and finance charges will be assessed if the bill is not paid in full each month. The interest rate is a variable one, which means it, will change with changes in overall interest rates. These debts are considered debts owed to the government. This means it is easy for them to reach into your paycheck to get the money you owe. There is also a uniform purchase plan available under the STARCARD. Under this plan you can purchase uniforms and uniform related items, pay for them over time and no interest will be charged.

Government Credit Cards

Government credit cards may be issued to service members on an as needed basis as determined by the command. If you are issued a Government Card it is important to remember that this is not for you to use for your personal expenses, only for command approved and authorized expenses. In most cases you are supposed to get prior approval for purchases and they will be directly billed to the government. ***You need to be very clear on this point.*** For those issued travel cards, you may charge expenses for official trips and be reimbursed for approved expenses by your command. You must then pay the bill. The government isn't held liable when service members fail to pay overdue debt. There have been many instances of abuse by service members getting cash advances or making unapproved charges. These cards are ultimately your responsibility and failure to pay will be reflected on your credit report and cause you problems at the command. Bank of America says the percentage of delinquent accounts is significantly higher for military cards than comparable corporate charge cards. In fact, federal law now requires the Department of Defense to establish guidelines and procedures for disciplinary actions to be taken for improper, fraudulent or abusive use of official government charge cards.

Top

Warning Signs of Too Much Credit

Credit cards make spending easy and may encourage you to spend more than you can repay.

Warning signs of too much credit include:

- Not being able to pay off most credit cards each month, being able to afford only the minimum monthly payments on credit cards.

- Finding that more income each month is being committed to debt repayments.

- Falling behind on payments and receiving late notices.

- Having no money after paying bills and needing to take cash advance to buy groceries or meet other regular monthly expenses.

Other indicators: Other general indicators of difficulties that can be caused by or lead to credit problems include:

- Less than one month's take home pay in savings.

- Dependent on spouse's job or part time job to make ends meet every month. Many couples depend on two incomes periodically. However, with no cushion, what happens when it's time to move?

- Debt-to-income ratio of over 20%.

- At or near credit limits on credit cards most of the time

.

Critical point: Things are reaching the critical stage when an individual or family is:

- Rotating bills, paying some this month, some next month.
- Borrowing or getting cash advances to make payments– using credit to pay credit.
- Being denied additional credit due to problems on credit reports.
- Hiding bills, or being dishonest with family members about debts.
- Relying on a debt consolidation loan to reduce payments enough to meet monthly living expenses.

Top Credit Reporting Agencies & Your Credit Record

Credit Reporting Agencies

- The industry is dominated by three companies: Equifax, Experian, and Trans Union. These three companies maintain independent databases and compete with one another to sell information to lenders, insurance companies, and employers. For the most part, they don't share information with each other and so may not have identical information about an individual. If you have moved a lot, your information may be incomplete and you should request a copy from all three bureaus. Your credit report is a summary of your history of payments and the current status of open accounts.

- It is important to review your credit report periodically (every 2-3 years) to verify that the information is correct and complete. Mistakes are not uncommon, and if undetected, could ruin your chances of getting a loan. In fact, one in five reports has an error that could lead to denial. The major credit bureaus have toll-free numbers where consumers can request a copy of their credit report.

Credit records

- Your credit report will contain personal and employment information, credit history (so-called trade lines), public records (such as bankruptcy or judgments), and inquiries. Information remains on a credit report for 7 years, judgments for 10 years. Chapter 7 and Chapter 13 bankruptcies stay on forever, but are only reported for 10 years. History and inquiries stay on for 2 years. Every individual has their own credit file, although information on any joint accounts will normally appear on the credit reports of each of the joint account holders. A current or potential business relationship is required to access the report.

- Consumers who find information they disagree with have several avenues to correct an error. According to the Fair Credit Reporting Act, when a consumer disputes an entry, the credit bureau must first request confirmation from the business that originally made the entry; if unable to get confirmation, the information is to be removed. If the information is confirmed, however, it becomes impossible to remove; there are no quick "fixes" available for a bad credit record. The consumer also has a right to enter a statement explaining the entry, up to 100 words. All three credit bureaus charge for a copy of a credit report, unless you have been turned down in the last 30 days. A business normally is not permitted, by terms of their contract with the credit bureaus, to show you a copy of your credit report, but they must tell you which bureau they work with and you have the right to request a free copy from that credit reporting agency. Even though you may owe no money (a zero balance), having too many open accounts is a strike against you. Credit lenders view any open account as a potential for debt that will then impact your ability to repay their loan. Be sure to close all old accounts and cards you no longer use. Write the creditor and ask them to close the account and report it to the credit bureau. You must make requests in writing and ask them to note that it was closed by customer request. You may also place a fraud alert on your report. This will state that you have been a victim of fraud and request that the lender get verbal confirmation from you prior to approving any additional credit.

Top Consumer Credit Protection Laws

There are a number of important laws that have been enacted for your protection. Let's discuss a few of the more significant areas covered by these laws. It is important to note that there are a number of protections in place for you. If you believe you may have some protection, please see your CFS or FFSC for a more through explanation of the provisions contained in these Acts.

- **Truth-In-Lending Act:** This act requires lenders to give you a written disclosure on the cost of credit and terms of repayment prior to the transaction. Lenders must disclose the cost of any loan, the annual percentage rate of interest and the total finance charge in dollars.

- **Fair Credit Billing Act:** This act protects consumers from billing errors and allows you to dispute charges. You must make disputes in writing within 60 days. This act does apply to credit card purchases made overseas.

- **Fair Credit Reporting Act:** This act provides for your right to know what is on your credit record and provides for the dispute and deletion of inaccurate or outdated information.

- **Fair Debt Collection Practices Act:** This act determines the means by which debt collectors can contact you. You are protected from unfair practices from third party debt collectors. They cannot be abusive, harass you, tell anyone else about your debt, or threaten you. You can write to debt collectors and tell them to stop contacting you. You can also sue them for breaking this law.

- **Equal Credit Opportunity Act:** This act provides for granting of credit regardless of race, gender, marital status, age, religion, color, or national origin.

- **Fair Credit and Charge Card Disclosure Act:** This act requires that credit card solicitations inform you of their total cost. This includes; APR, grace period, annual fee, finance charge, other fees, and the method for calculating the balance.

- **State Protection:** It is important to note that Federal laws do not regulate the amount of interest lenders may charge you! Some states do have usury laws, most of which limit interest rates to a 30% maximum, but many have no such protection.

Top

Dealing With Creditors

Despite all your efforts, you may find yourself in credit trouble. Act quickly to avoid loss of credit, repossessions, and bankruptcy. Paying your bills is your first priority. The creditor wants you to be able to make payments, so as long as you are honest and follow through, there would be no reason to start collections.

Things to do:

- Stay in contact with your creditors - let them know if there is a problem. If a friend owed you money and was avoiding you or not returning phone calls, you would think he or she was trying to "stiff " you. Businesses are the same way. Just talk to them.

- Be honest.

- Approach them with a plan. Be careful of promising more than you can deliver.

- Change your behavior. If you find that you have dug yourself into a hole, what is the first thing you should do? Drop the shovel and stop digging!

Awareness if vital

- ***Credit clinics/Credit Repair Services:*** Many of these charge up-front fees promising to "clean up your credit report" fast and get you out of debt. They cannot do anything, you cannot do for yourself.

- ***Debt consolidation loans:*** These are at best a temporary fix. Debt consolidation loans are not always bad. However, they will not work without also changing behavior. A recent study by American Express indicated that 78% of all consumers that take out bill consolidation loans have a higher debt-to-income ratio 18 months later than when they first took out the loan.

- ***Bankruptcy:*** This has always been the last resort option for protection from bill collectors, lawsuits and foreclosures but legislation reforms are making it much harder to use this option to get a fresh start. Bankruptcy does not allow you to walk away from problems. It may severely impact on your ability to get credit in the future, in addition to potentially negative career implications.

There are two kinds of personal bankruptcy:

- ***Chapter 7:*** Straight bankruptcy is used when there is little chance of repaying debts. Your assets are sold and partial repayment made, many debts are erased, but not all!

- ***Chapter 13:*** This plan forces debtors to live on a government-prescribed allowance and repay lenders under a court-supervised plan. If you can't keep up, the court can dismiss the case and leave you open to collections and garnishments all over again. This could continue until you are forced to file under Chapter 7.

Top

Debt Recovery

If you find yourself teetering on the brink of financial destruction, all is not lost. There are options for you.

- **Take Charge Yourself.** Develop a workable budget and a spending plan. Do what is necessary to establish a positive monthly cash flow. Prioritize debts. Major items like your mortgage and car payment should normally be top priority.

- **Use a power payment plan.** After budgeting to get a positive cash flow, ensure minimum payments are made on all monthly bills. Then apply all remaining available funds to whichever debt has the smallest balance. Usually, that debt is paid off fairly quickly. At that point, you no longer have to make the minimum payment on that bill; add the money left over to your positive cash flow and apply the new, higher amount to whichever loan has the second smallest balance. Often, all but the one or two largest loans can be paid off in a few months. This is like getting a mini-bill consolidation loan, without any extra fees. The psychological effect can be very motivating. Meet with your CFS to utilize a computerized Power Payment Plan, which will allow you to determine the effect different payment amounts have on your overall payoff schedule.

- **Seek help.** If these steps prove unsuccessful, seek help from a professional financial counselor. You may want to consider a credit-counseling agency, which can administer a debt management program. These agencies aim to help people pull themselves out of debt by using an approved debt-repayment plan. This is a plan developed for you that is personalized to your repayment capabilities. It is a creditor - approved arrangement that allows you to repay unsecured debt at reduced interest rates. You must agree to take on no new debt

and to make one monthly payment to the agency, which they in turn send to your creditors. In 2000, over 3 million borrowers sought the assistance of credit counselors and debt-repayment plans recouped $2.5 billion that might have ended up lost to bankruptcy.

Top

Sources of Help

You have a variety of resources at your disposal. For further information and assistance, your first stop should be the Command Financial Specialist or your Fleet and Family Support Center. Navy Legal Services can provide assistance in a dispute over a bill or contract. They strongly encourage service members to come in with a copy of the contract before signing it when making any major purchase. Your local Defense Credit Unions often have financial counselors available who provide a range of services to members, up to and including full-scale debt management programs. Consumer Credit Counseling Agencies also provide low or no cost financial counseling and debt management.

Summary

A valuable tool: Credit is something we will use throughout our lifetime, and can be a valuable tool. However, it can also be a source of long lasting difficulty; the availability and over-extension of credit has contributed significantly to the rise in personal bankruptcy rates in the past twenty years. Consumer's load or revolving debt topped $680 billion in 2001, a tenfold increase over the past 20 years.

Questions to ask before using credit:

- Will your budget be able to handle the increased payment months or years down the road?
- What will the extra payment do to your debt-to-income ratio?
- Have you shopped carefully for credit; are you getting the best rate?
- What will you have to show for all that money after the loan is repaid?

Credit isn't a right, it's a privilege. Wise use of credit is a key element in achieving financial independence; misuse is a ticket to financial ruin. If you abuse it, you will lose it. It is your decision.

Top