

APRIL 2009
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CONSUMER CONNECTION

⇒ **SPECIAL ISSUE** ⇐



Take Charge
of Your
Credit Card Debt!

BE SMART!
Review your credit report

BE SAFE!
Watch out for scams

BE HEARD!
Talk to your creditors



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The Consumer Connection is produced by the Department of Consumer Affairs' Office of Publications, Design & Editing. If you have any questions or comments, please e-mail us at consumerconnection@dca.ca.gov.

From the Department of Consumer Affairs

Welcome to this special edition of Consumer Connection.

It is estimated that Californians together hold approximately \$135 billion in credit card debt. Many Californians may have been able to handle their credit card debt when the economy was more robust. But in today's economy, it is becoming harder and harder for many Californians to make ends meet. One of the reasons is that so many of us have monthly payments that take a big chunk of our monthly disposable income.

That's why the Department of Consumer Affairs is beginning a new phase of our Take Charge, California! consumer empowerment campaign. Take Charge of Your Credit Card Debt is designed to provide information and resources to Californians struggling with credit card debt.

We are planning to hold phone banks, where consumers can call and get advice from experts on how to manage their credit card debt. We'll also be working with other

government agencies, non-profit organizations and others. And, of course, we will be putting information and resources on our Take Charge, California! Web site at www.TakeChargeCA.ca.gov.

In this special edition of *Consumer Connection* you will find articles on how to manage your credit card debt and how to minimize the amount you pay in credit card fees. You'll also learn a little bit about how credit card companies work, and discover why it's not a good idea to lean on credit cards to help you through bad times. There is also a financial tip sheet included in this issue to use as a quick reference guide.

Even though we are focusing on helping consumers through these tough economic times, we hope that consumers will become more empowered to manage their credit cards even when the economy is rosy. In other words, today's tough economy may be a blessing in disguise if it teaches us valuable lessons about credit, debt, and managing our money.

CALIFORNIA DEPARTMENT OF CONSUMER AFFAIRS



TODAY'S CREDIT CARD:

FINE FOR SHORT TERM CREDIT, BUT RISKY AS A SAFETY NET

Credit card debt is pinching many of us a little harder these days. Revolving debt, mainly from credit cards, is close to a trillion dollars nationwide, according to the Federal Reserve. By some estimates, California households owe more than \$135 billion on their credit cards, with an average balance close to \$10,000. The totals over the last few months have never been higher.

Why? At one time, the credit card was a simple and convenient short-term loan instrument. Based on your income and credit history, you could borrow a certain sum, and as long as you stayed within that limit and paid on time, you paid little or nothing for the loan. At worst, you paid a predictable interest that, along with payments toward principal, would free you from debt in a reasonable time. Those days are gone.

Many consumers do not realize that over the past 25 years credit cards have changed. At one time they generated little or no profit and were a convenience provided to customers by banks or merchants. Today they are the major profit center for a wide range of financial institutions.

Similarly, consumers have little awareness about how credit card laws and regulations have changed, including bankruptcy.

Consumer groups admit that as much as ten percent of credit card debtors have spent money they did not have on what they did not need. However, according to Elizabeth Warren, Chair of Harvard Law School, 90 percent of credit card users get into heavy credit card debt because of the loss of a spouse, loss of a job, a serious illness, or a “perfect storm” of all three. And subprime credit cards, one of the fastest growing segments of the credit industry, have been specifically targeted to families with marginal credit. Subprime cards can push some consumers over the edge into deep debt. New bankruptcy requirements may make it difficult for them to retire that debt. This is all tied

together with a common thread: Many people are looking to plastic to tide them through bad times, something today's credit card was never designed for. This has resulted in long-term financial distress.

To help inform our readers about this complex area of credit, *Consumer Connection* has prepared the “A to Z Guide to Credit Cards,” which is available online. This guide offers definitions, tips, and directions for you, the California consumer, so you can better understand how credit cards work, how to resolve complaints, deal with debt, clean up your credit score, and shop for a credit card that meets your needs.



Are credit card fees
emptying your pockets?





Are credit card fees
emptying your pockets?



Would you be surprised if your bank or credit card company did something like this?

- > Raised your interest rate, then applied the higher rate to your old charges.
- > Gave you just a couple of weeks to make a payment, then charged you a fee as high as \$30 for being just one day late.
- > Charged a penalty fee for going over your credit limit, then charged interest on the penalty fee.
- > Charged you a higher rate if you were late paying some other credit card.

You might be surprised to hear about these tactics, but you shouldn't be. Such practices are common for some credit card companies. In most cases, the fees were even explained in the fine print disclosure materials given to cardholders. Do cardholders read and understand those statements? Maybe not.

In the fall of 2006, the General Accounting Office (the investigative arm of Congress) issued a 114-page report that detailed the difficulties consumers have with disclosure statements from banks. The report, *Credit Cards: Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers*, (www.gao.gov/new.items/d06929.pdf) concluded that most people did not understand penalty rate increases, default interest rates, how late payments are calculated, and other related matters. The result is that, for some consumers, interest charges and credit card fees mount so quickly that a cardholder is unable to pay off the debt for years.

In January 2007, the Senate Banking Committee, led by Senator Chris Dodd of Connecticut, began hearings on credit card fees. “Caveat emptor’ or ‘buyer beware’ should not be used to defend the myriad of confusing, misleading and in some cases predatory practices which have become standard operating procedure for some in the credit card industry,” Dodd said at the time.

In spring of last year, Dodd introduced reform legislation called the Credit Card Accountability, Responsibility and Disclosure Act (the Credit CARD Act) that targeted the most abusive practices. The bill

is backed by several leading consumer groups including Consumers Union, the Consumer Federation of America, and Consumer Action. Earlier in 2008, Congresswoman Carolyn Maloney of New York offered a package of similar bills called the Cardholder’s Bill of Rights.

Federal regulatory agencies have tackled the issue, too. The Federal Reserve Board, the Office of Thrift Supervision, and National Credit Union Administration have issued a joint proposed rule that would define certain practices (including many of those mentioned at the beginning of this article) as unfair or deceptive. “The proposed rules are intended to establish a new baseline for fairness in how credit card plans operate,” said Federal Reserve Chairman Ben Bernanke. “Consumers relying on credit cards should be better able to predict how their decisions and actions will affect their costs. At present, this is not always the case.”

It’s not just credit cards that have the extra fees. In 2006, consumers paid more than \$36 billion in various fees associated with checking and savings accounts at depository institutions—banks, thrifts, and credit unions, according to a 2008 GAO report on bank fees.



Here are some examples of bank transaction fees:

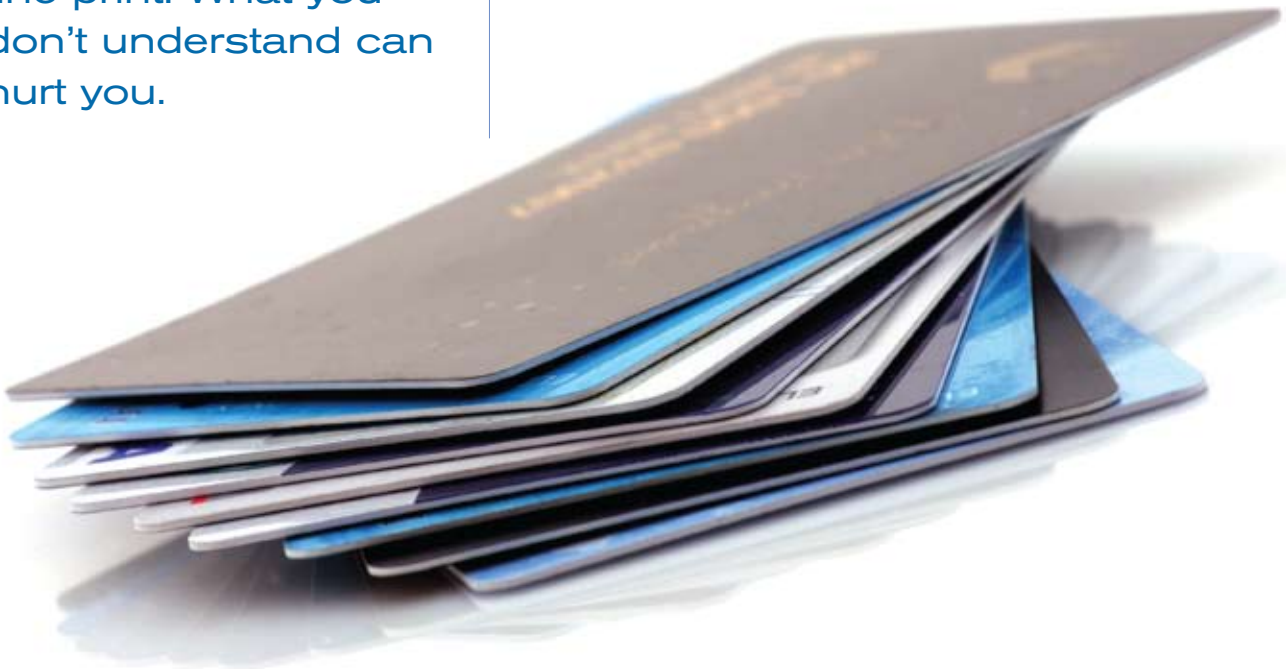
- > Account maintenance fee
- > ATM balance inquiry fee
- > ATM card replacement fee
- > ATM denied transaction fee
- > ATM fee
- > Cashier's check fee
- > Check enclosure fee
- > Check imaging fee
- > Check printing fee
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- > Low balance fee
- > Money order fee
- > Notary fee
- > Overdraft fee
- > Pay-by-phone fee
- > Per transaction fee
- > Return of deposited item fee
- > Safe deposit box fee
- > Stop-payment fee
- > Telephone payment
- > Teller fee
- > Wire transfer fee

Here are some tips from various consumer sources on how to avoid the penalty fees that really hit you where it hurts – your credit score and your pocketbook.

- > Never make a credit card payment late.
- > Never bounce a check.
- > Never go over your credit card limit.
- > Never take a cash advance on your credit card.
- > Never use “convenience checks” sent out by your credit card company.

PAST DUE

No matter how painful it is, read the bank's fine print. What you don't understand can hurt you.



MANAGE YOUR CREDIT CARD DEBT WISELY

DON'T LET A STRUGGLING ECONOMY TAKE YOUR FINANCES HOSTAGE



For many individuals and families in today's economy, consumer credit card debt has become an increasingly burdensome drain on their resources. And no wonder. Credit card debt nationwide more than quadrupled from 1989 to 2006, rising from \$211 billion to \$876 billion. Californians' share is well over \$100 billion.

Carrying a huge credit card debt can squeeze family finances even in good economic times. But in tough economic times like these, it can make the situation downright desperate.

With some hard work and perseverance, however, it is possible to get a grip on credit card debt and improve your overall financial health. The key is to find expert help and invest the time to make a plan and then stick with that plan. Over time, not only will be managing your credit card debt, but you'll be taking steps to eliminate it.

Most consumer debt reduction experts agree that there are some essential elements to a credit card debt reduction plan:

ONLY SPEND WHAT YOU HAVE. This may sound basic, but it's probably the most important step. If you live within your means and don't spend money you don't have, you will avoid credit card debt. It's that simple. When you're about to pay for something with a credit card ask yourself if the money would be better spent by paying off your debt. If you find it too easy to take out your credit card to pay for something you otherwise couldn't afford, put it in a drawer and don't carry it with you. That way you'll have to make a conscious decision about whether or not to use it, and it will still be there for emergencies.

MAKE YOUR PAYMENTS ON TIME AND PAY MORE THAN JUST THE MINIMUM AMOUNT DUE. Credit card companies make a sizable amount of their money from charging late fees to consumers to pay late, and by charging interest on large outstanding balances. If you pay just the minimum amount due, you're paying mostly interest. By reducing the principal – the amount you've actually spent – you can reduce your monthly credit card bill over time and save yourself money. Whenever you can, pay your credit card bill in full – you'll avoid interest payments.

LOOK FOR THE RIGHT CREDIT CARD FOR YOUR SITUATION. It's a good idea to take a look at your credit card situation every six months or so and to look for cards that have

lower interest rates. When you're doing that, don't assume your current credit card issuer is unwilling to lower your interest rate. Ask them. Let them be the ones to tell you no.

Beware of no- or low-interest credit card offers. Most usually change their rates after short time, so read the fine print carefully. If you use no- or low-interest rate cards to get a break on paying interest for a while, have a strategy for what to do when the low "teaser" rate is up.

Also, if you've reached the limit on your credit card, it is often a good idea to ask for a higher limit. If you've maxed out, credit bureaus and creditors see you as less appealing than someone who has room on their credit cards. Remember, though, not to put any more on your credit card. The additional dollar limit should be for show, not for actual use.

REVIEW YOUR STATEMENTS EACH MONTH. Make sure that what has been charged to your credit card was charged by you. Reviewing your statements will also show you how much you're spending, and where. Evaluate your credit card spending each month so you can see what expenditures were necessary and what weren't. This will help you develop better spending habits.

DON'T BE AFRAID TO ADDRESS PROBLEMS. If you have questions about your bill or don't understand all the charges, contact your credit card company right away. The longer you wait, the harder it will be for you to get your money back. Also, if you think you're going to have problems making your credit card payment, it's best to contact your credit card company immediately. They will often be willing to be more flexible with a consumer who asks for help than with a consumer who does nothing.

STAY WITH IT. GETTING OUT OF DEBT CAN TAKE A VERY LONG TIME. Take it one day at a time. Whenever you are about to buy something, ask yourself if the money should go to pay off your debt instead. By sticking with your plan, your financial situation will improve from month to month. It may seem like progress is slow at first, but you will eventually become debt free.

Remember, credit can be a great tool but it all depends on whether you use it wisely or not. Make the most of you credit and take charge today!



Dealing with the dark side of debt collections

People lose their jobs, marriages break up, people get sick. If any of these have happened to you, your bills may be piling up, and your credit may be sinking.

And just when things are getting really bad, debt collectors start calling.

You may be tempted to dodge their calls and ignore their letters, but that won't help much. In fact, it's exactly the wrong thing to do. If you ignore debt collectors' demands for payment, you may end up with a court judgment against you. With a court judgment against you, a debt collector could go after your wages (even for a future job) and other property you own, now, or in the future. You don't want that.

Even so, that doesn't mean you should pay a bill you don't owe or allow yourself to be harassed by debt collectors. You have rights.

A Legal Guide from the Department of Consumer Affairs (DCA) has information about how to respond to a debt collector. The guide, *What to do if You Receive a Demand for Payment from a Creditor or a Debt Collection Agency*, is available online at www.dca.ca.gov/publications/legal_guides/index.shtml. Call 800.952.5210 to have printed copies mailed to you.

Remember: A debt collection agency collects debts originally owed to other businesses and creditors. In most instances, collection agencies handle unpaid credit card or medical bills. These debts are considered "unsecured" because they are not tied to consumer goods such as a house or car.

Here are a few tips on dealing with debt collectors:

- If you don't owe the money, say so. You may have been the victim of identity theft or forgery. Provide details and proof.
- If you paid the bill before it went to a collection agency, provide cancelled checks or receipts.
- If you owe the money, arrange to pay it if you can. Don't promise to pay if you can't. Debt collectors keep track of such "broken promises." Ask if the collector will accept a lower amount to settle the bill. This approach often works, but get the agreement in writing.

California law prohibits deceptive, dishonest, unfair, and unreasonable debt collection practices, and regulates communications by collectors. For details on what debt collectors can and can't do, see the DCA Legal Guide *Summary of the Fair Debt Collection Practices Statutes*. The guide is available online at www.dca.ca.gov/publications/legal_guides/index.shtml. Call 800.952.5210 to have printed copies mailed to you.

Credit repair scams

You've seen the ads in magazines, on daytime TV, or even in signs posted at grocery stores and apartment complex laundry rooms.

"Credit problems? No problem!"

"We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!"

"We can erase your bad credit — 100% guaranteed."

Is it possible? The U.S. Federal Trade Commission (FTC) says such statements are likely signs of a scam. Indeed, attorneys at the nation's consumer protection agency say they've never seen a legitimate credit repair operation making those claims.

Legitimate, professional credit counseling may be able to help you rebuild your credit and reduce your debt, but the FTC reminds consumers that no one can legally remove accurate, negative information from your credit report. In most cases, negative information will remain on your credit report for seven years.

Members of the National Foundation for Credit Counseling, most of which are known as Consumer Credit Counseling Service, sponsor a Web site to help consumers find a trained, certified counselor. Visit www.DebtAdvice.org or call 800.388.2227.

Other resources

For more information see DCA Legal Guide *Credit Repair Services*. Find it online at www.dca.ca.gov/publications/legal_guides/index.shtml. Call 800.952.5210 to have a printed copy mailed to you.

The Federal Trade Commission has a variety of consumer publications on debt relief and credit counseling. Find the brochures online at www.ftc.gov/bcp/menus/consumer/credit/debt.shtm or call 877.FTC.HELP (877.382.4357).

The California Assoc. of Collectors, Inc., offers tips and solutions about collections online at www.calcollectors.net.

Remember: A debt collection agency collects debts originally owed to other businesses and creditors. In most instances, collection agencies handle unpaid credit card or medical bills. These debts are considered "unsecured" because they are not tied to consumer goods such as a house or car.



CONSUMER SCAM ALERT:

Security Code Phishers

Cons who are fishing (phishing) for your ID or credit card information have been calling consumers and posing as bank or credit card representatives for some time. Lately, according to the U.S. Federal Trade Commission, these criminals have been upgrading their ploys to increase the consumer's confidence that the call is genuine. They use the information they have, your credit card number and address, to get what they do not have, the security code on the back of your credit card.

Here's how the scam works:

The scammer calls claiming to be from the security and fraud department of Visa or MasterCard and gives you a bogus badge number while notifying you that your account has been flagged for suspicious activity.

He or she already has your credit card number and might mention a number of items which you deny purchasing. He or she then promises to credit your account, and asks you to confirm possession of the card by reading the three-digit security code on the back of the credit card. Once the scammer has your three-digit code, he or she can begin making purchases on your card without your knowledge.

The Security and Fraud Departments of Visa and MasterCard report they receive complaints about this scam every day. They remind consumers that they would never ask for the code number off your credit card because they already have it.

In addition, calls about suspicious activity on your card would likely come from the financial institution that issued the card, not Visa or MasterCard.



Everyday financial facts to educate, empower, and amuse

This edition: Plastic rap

Remember the old adage it takes money to make money? How about this one: It doesn't take money to spend money. If that makes sense to you, then you're a card-carrying member of the worldwide community of credit. But how much do you really know about the credit cards in your wallet? Life takes Visa. It pays to Discover. Is that about it?

What about that booklet with the really tiny printing that came with your credit card. Ever read it? Here's part of what you missed:

Each daily balance of Credit Purchases is determined by adding to the outstanding unpaid balance of Credit Purchases at the beginning of the billing cycle any new Credit Purchases posted to your account, and subtracting any payments as received and credits as posted to your account, but excluding any unpaid Finance Charges.

Got it? We thought so. Here, from various sources—and in regular words—are some things you absolutely should know about credit cards. See how many you can answer correctly.

1. What is a teaser rate?

- a.) A credit card's temporary (really, really temporary!) low interest rate just to get you to sign up.
- b.) The amount of sweet talk you hear at a party.
- c.) The loan rate the car dealer offers.

2. What is a grace period?

- a.) The window of time you have to pay off your balance before getting hit with a finance charge.
- b.) The amount of time you can drive when your car's gas gauge reads "E."
- c.) The length of time you can wear new shoes and still return them to the store.

3. What is a credit card's minimum monthly payment?

- a.) The amount you owe each month.
- b.) The tiny amount the bank wants you to pay each month so that you won't pay off the bill for 30 years—if ever.
- c.) The amount you must pay each month to avoid late fees.

4. What is a credit card limit?

- a.) The amount of time you're allotted when you talk to the bank about your card.
- b.) The highest balance you can have without triggering more bank fees.
- c.) The amount you can spend on holiday gifts.

5. What is a deadbeat, according to a credit card company?

- a.) The co-worker who steals your lunch from the office refrigerator.
- b.) The consumer who ducks credit card interest fees by paying the bill in full each month.
- c.) The jerk who dents your car in the parking lot and splits.

Find more information about credit cards in the A to Z Guide to Credit Cards, online at

www.dca.ca.gov/publications/consumer.shtml.

Answers: 1.) a) 2.) a) 3.) a, b, c 4.) b) 5.) b



TAKE CHARGE OF YOUR CREDIT CARD DEBT!

HERE ARE SOME TIPS.

Never Make a Payment Late.

Even if you can afford to pay only the minimum amount due, pay it on time. Late fees hurt more than your bank account; your credit score may be lowered, too.

Know the APR.

The annual percentage rate is the interest rate you are charged each month for any balance you have on your credit card. Shop around for a card with a reasonable rate.

Don't Go Over the Limit.

Penalty fees can be high for spending over your credit limit, and your interest rate may go up.

Negotiate Rates and Fees. Ask the credit card company for a lower interest rate or to have penalty fees waived. If you haven't been able to make payments, ask to set up an affordable payment plan.

Beware of Paying for Credit "Repair."

"Credit repair" companies cannot clean up negative information on your credit report. They may simply vanish with your money. You can call a credit reporting agency to dispute mistakes on your report.

Take Charge of Your Finances.

Learn about financial planning for your future, budgeting, and building wealth at the U.S. government Web site: www.mymoney.gov.

Consider a Debt Management Plan.

Debt Management Plans can help by consolidating your debt into one monthly payment. To find a reputable company, go to www.corp.ca.gov. Find a low-cost credit counselor at www.nfcc.org or call (800) 388-2227.

Get Your Credit Score Free.

Your credit score can determine whether a bank will loan you money and at what interest rate. By law, you are entitled to receive a free copy of your credit score every year from each of the three credit reporting bureaus. Order at www.annualcreditreport.com, or call (877) 322-8228 toll-free to have it mailed.

For consumer information and assistance, go to www.takechargeca.ca.gov or call DCA's Consumer Information Center at (800) 952-5210.

DEVELOP A HOUSEHOLD BUDGET TO GET A GRIP ON YOUR FINANCES

If you've never really kept track of your expenses each week or each month, learning where your money goes can be eye-opening. But it can also be the first step in gaining control of your finances. A budget helps you find ways to save money and to avoid or reduce unnecessary expenditures, leaving you more money at the end of the month. Here are some common steps you can take to create - and stick to - a budget.

Step 1 - Track Your Expenses

Save all your receipts and write down everything you spent money on, even the smallest purchases, for a month or so. Note which expenses are necessary, such as rent or mortgage, utilities, insurance, car payments, credit card payments, etc. Also note which are optional, such as entertainment, fast food, and the like. Writing down where the money is going can give you important insights into your spending habits, and where you might be able to realize some easy savings.

Step 2 - Know Your Income

Start by figuring out how much money you have coming in every month, after taxes. Are you expecting overtime or bonus payments, or any layoff days? Consider those numbers, too.

Step 3 - Divide Your Monthly Expenditures

One way to categorize your expenditures is to divide them into "Necessary," "Occasional Needs," and "Optional." Necessary expenses are things such as rent or mortgage payments, utilities, groceries, car payments, and auto insurance. Occasional needs may be clothing, school supplies, parking, dry cleaning, and the like. Optional expenditures include restaurant meals, movies, CDs, and other things you can do without.

Step 4 - Begin Doing the Math

Add up the numbers in the "Necessary" column and then subtract that from your monthly income. Don't forget to account for expenses due every six months (like car insurance) or taxes.

Next, add up the column of "Occasional Needs" and make your best guess as to how much you will need to spend each month. Subtract that total from the amount left after you subtracted "Necessary" expenditures.

Now you have the amount that you can spend on "Optional" items. However, putting some of that money into savings is a very good habit to get into. That way, after a while, you'll have money set aside for emergencies or unforeseen circumstances. Another good trick is to give yourself a weekly allowance of cash and not spend any more than your allowance.

Step 5 - Review Frequently

As you budget every month, you may notice recurring expenses that are unnecessary. Weed them out. Be ruthless. For example, if you stop and get a cup of coffee every morning, consider going once a week instead. Save money on gasoline by taking public transportation or carpooling to work.

Step 6 - Reward Yourself Once in a While

Remember to reward yourself once in a while as you see your finances improve. This will help you remember why you're budgeting in the first place.





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