BUL 841

Credit Cents

Making Sense of Credit, Debt, and Identity Theft

University of Idaho
College of Agricultural and Life Sciences

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University of Idaho
Extension

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Contents

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Credit: Is It a Tool or a Trap?

Used wisely, credit can be a valuable tool. By helping you accumulate assets, it can contribute to your financial future. Used poorly or abused, credit can be a trap. It can tie up future income and leave you with too many debts.

When you receive credit, you promise to repay the amount you borrowed, plus interest and other finance charges. Interest is the fee you pay for using another's money over time. It's an expense to the borrower but income to the lender. Your finance charges may also cover various debt-related services and insurance.

Types of credit

There are four types of credit:

- **Sales or installment credit** lets you buy goods. Car dealers, department stores, and furniture shops—among others—offer it.
- **Loans** of cash are usually available through a bank, credit union, or finance company. You typically use them to meet unexpected expenses, make major purchases, or pay off other debts.
- **Credit cards** allow you to have goods or services - and even cash—immediately. They're generally offered through banks but are also available from businesses and other types of financial institutions.
- **Service credit** is extended by doctors and utility companies.

Using credit: Advantages & disadvantages

It's important to understand the obligation you accept when you receive credit and take on debt. Knowing how much credit you can afford on a monthly basis and recognizing the "real" cost of buying on time are vital to your financial well-being. Credit is not "free" money. It is a commitment to repay the amount borrowed, plus interest and other fees.

Used appropriately, credit can give you financial advantages. Having and using credit has even become a necessary convenience: if you're going to rent a car or reserve an airline ticket or hotel room, you'll need a credit card.

The advantages of using credit are:

- You can build a solid credit history with the record of payments you create.
- You can get goods and services before you pay for them.
- You can make large purchases without waiting.
- You can meet emergency needs or get emergency cash.
- You don't need to carry large amounts of cash.

But using credit also has disadvantages:

- Credit usually costs money. You'll generally pay extra for the item you're buying because of the interest and finance charges.
- You're spending future income. You're living on money you expect to have down the road.
- If you lose your job or get sick and don't make the future income you expect, your inability to repay your debts will damage your credit rating.
- You may overspend. It's easy to lose track of how much you've spent when the bills don't come for a month.
- You may be tempted to buy on impulse because it doesn't feel like you're spending "real" money.
- You run the risk of ending up in a downward spiral of debt and even in bankruptcy.

Before you decide to use credit, ask yourself:

- Do I really need this item or can it wait until I have saved for it?
- What are the extra costs of buying this item on credit?
- Is having this item now worth those extra costs?
- Can I make the monthly payment as scheduled?
- To use credit now, what will I give up in the future?
- Will I be able to handle an emergency if one comes up?

Remember that when you use credit, you're agreeing to pay back the money you owe, plus finance charges. You're also agreeing to make each of your scheduled payments on time.

Figure out how much you can afford to repay each month. To avoid paying interest and other fees, pay your monthly bills in full. But if that's not possible, try to make more than the minimum payment.

Author: Marsha Lockard, University of Idaho Extension Educator, Owyhee County

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Finding the Right Loan or Credit Card

Whether they're looking for a mortgage, an auto loan, or a credit card, smart consumers comparison shop for credit because it can save them money. Before you open a credit or charge card account or sign a loan agreement, compare offers from several creditors. Become familiar with the terms financial institutions use so you'll know exactly what you're agreeing to.

Types of credit accounts

There are two basic types of credit accounts:

- Closed-end accounts extend you a specified amount of money over a set period of time. The payment period, payment amount, and number of payments remain fixed for the life of the agreement. You can't add more purchases or loans to the original balance. Consumers often use this type of account when buying vehicles, major appliances, and homes as well as for some personal loans.
- Open-end accounts let you make repeated purchases or get cash up to a specified limit through an ongoing agreement with the creditor. Some agreements require that you pay off the full balance each month. Others let you make a minimum monthly payment, adding a finance charge for interest and other fees to your balance. Examples of open-end credit include revolving charge accounts, credit cards, lines of credit, and checking accounts with overdraft protection.

Credit card vocabulary

It's important to become familiar with the terms used by credit card issuers and to always read the fine print before signing up for one:

- **Annual fee:** Most credit cards don't impose annual fees. If you can, avoid those that do.
- **Annual percentage rate or APR** (the percentage you pay, per year, in interest and fees): Look for APRs near or below 12 percent. Beware of deceptively low intro ductory APRs that will increase significantly in a few months.
- **Application fee:** Most credit card issuers don't charge fees to open accounts.
- **Fees for cash advances and balance transfers:** Does the issuer charge fees for these services? How much are they?
- **Fixed vs. variable APR:**An issuer can raise a so-called "fixed" interest rate with as little as 15 days notice to cardholders. Make sure you know if the APR is truly fixed or if—and how often—it can change.
- **Grace period:** How much inter est-free time do you have between the day you make your purchase and the day your payment is due? The best cards offer at least 25 days.
- **Late payment fee:** How much extra must you pay if your pay ment is late? Shop for a fee that's $20 or less.
- **Leniency period:** How much time do you have between the day the payment is due and the day a late fee is assessed? Look for a card that gives you breathing room of three to five days.
- **Minimum payment allowed:** A minimum monthly payment of 2 percent of the balance may sound attractive to you, but beware! As you can see from the chart below, you'll pay more in interest as you take longer to pay off the current balance.
- **Over-the-limit fee:** Is there a fee if you exceed your credit limit?
- **Penalty APR:** Will the APR increase if you're late or miss a payment? Avoid cards that assess penalties. If you must use one that does, select one with a penalty APR of 20 percent or less that's assessed for only a limited period, such as until you make two on-time payments in a row.

Also beware of traps that can drive up the cost of using credit:

- **Hidden transaction fees:** Does the company charge for cash advances, balance transfers, and

How a small payment will cost you money in the long run

Beginning balance	APR	Monthly payment	Months to pay off balance	Total interest paid
$2,000	15.0%	2%	169 (14 yrs)	$2,205.63
$2,000	15.04%	5%	65 (5.5 yrs)	$589.74
$2,000	15.04%	10%	36 (3 yrs)	$269.31

Source: A Road Map to Avoiding Credit Card Hazards, Consumer Federation of America, 2001.

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quasi-cash transactions like lottery ticket purchases?

- **"Bait-and-switch" offers:** If you don't qualify for the company's premium credit card, will you automatically be switched to a lower-grade card that costs more and offers less attractive terms?
- **"Tiered" pricing:** Does the company offer you a range of APRs? This can work against you if the company bases your APR on your credit history and inflates your rate accordingly.

Choosing a credit card

The average household gets eight credit card offers each month. Before you accept an offer, decide how you would use the card and what you would buy with it. Do your homework to make sure you're getting the best deal. Many card offers advertise low introductory rates or other benefits if you accept "before the offer expires." While low introductory rates may sound good, they often increase steeply in three to six months or apply only to the balance you transfer from another card. Regardless of the rate, don't charge too much on your new credit card until you get comfortable with the monthly bill.

The credit card comparison chart at right will help you choose the best card for your money and for your individual needs. Examine costs and terms, and think about your typical bill-paying behavior. Do you pay your outstanding balance in full each month? Or do you usually carry over a balance and run the risk of paying interest on your interest? Matching the credit card plan to your needs could save you money.

Paying on closed-end credit

If you're paying on closed-end credit, consider the time period for repaying the debt. How long you take to repay a car or home loan is an important decision. As you can see from the chart above, the more time it takes, the more it will cost you. If you borrow $4,000 at an APR of 12 percent for two years, your total interest cost will be $519. If you repay the same amount, at the same interest rate, over four years, your total cost for using this credit will jump to $1,056! Of course, your monthly payments will be lower over four years—$105 instead of $188—but you'll need to decide if the lower monthly payment is worth the extra interest. Try to make the largest payment you can for the least amount of time.

Although using credit is convenient, be sure you understand what you're agreeing to and how much it will cost you in the end. Saving for purchases is the least costly option, but if you decide to use credit, shop around, find the best terms available, and be familiar with your financial picture (see Credit Cents no. 6, *How Much Debt Is Too Much?*) Never spend more than you can repay.

How paying off a loan quickly will save you money in the long run

Loan amount	Interest rate	Time	Monthly payment	Interest paid	Total cost
$4,000	12%	2 years	$188	$519	$4,519
$4,000	12%	4 years	$105	$1,056	$5,056

Source: A Road Map to Avoiding Credit Card Hazards, Consumer Federation of America, 2001.

Author: Marsha Lockard, University of Idaho Extension Educator, Owyhee County

Comparing credit card offers

	Credit card #1	Credit card #2	Credit card #3
Name of issuer			
Annual fee			
Annual percentage rate (APR)			
Application fee			
Cash-advance fee			
Other transaction fees			
Fixed vs. variable APR			
Grace period			
Leniency period			
Late payment fee			
Minimum payment allowed			
Over-the-limit fee			
Penalty APR			
Benefits (points earned etc.)			
Credit limit			

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Building and Repairing Credit History

Building a positive credit history is important because lenders will use it to decide whether they'll lend you money. Your credit history tells them if you have paid your bills, managed your money responsibly, and can be trusted with more credit. It also tells them if you've had to pay late-payment fees or have ever defaulted on a loan. By informing landlords, lenders, employers, insurance providers, and others how well you handle credit, your credit history directly affects the success of your future loan applications.

Building a credit history

If you have recently entered the work force or are new to the country, you may not have a credit history. If you're a married woman whose credit has only been in your husband's name, a first step to establishing your own credit can be to put a utility bill in your own name or apply for your own credit card.

Today, it's relatively easy to build a credit history. After all, credit card issuers are flooding the mails with offers. But it can take two years to build enough credit history to qualify for a car loan and three to five years for a home mortgage.

Here's how to begin building a positive credit history:

- Pay all of your bills on time or early. Even your payments for rent and utilities are reflected in your credit records.
- Maintain a checking account without bouncing checks.
- Start small by applying at a local bank, credit union, or retail store for a credit card. Because lenders may deny your application if you ask for several new accounts at once, open just one account at a time.
- Apply for a secured credit card that lets you borrow up to the amount you've deposited in a savings account. After you pay off that card, apply for a small loan. Repaying one debt isn't enough; paying off a series of debts builds a favorable credit history.
- Avoid changing jobs or moving frequently. Lenders consider you stable if you work at the same job or have the same address for at least five years.
- Review your credit report at least once a year to see if it accurately reflects your payment history.
- If you expect to be late with your payments, make arrangements with your creditors as soon as possible. Try to negotiate with creditors before they turn your accounts over to collection agencies. Collection activities stay on your credit history for seven years.

Rebuilding credit

Rebuilding your credit involves the same process as building it from scratch. You must prove to lenders that you are responsible with money, that you won't borrow more than you can repay, and that you'll repay every loan on time or early. It's harder to overcome a poor credit history than to build a good one in the first place, so consider the following steps as well:

- Work hard to decrease debt and increase income. That makes you a better credit risk.
- Don't spend more than you make. Lenders look favorably on those who show they can live within their means.
- Limit how often you apply for credit so lenders don't request your credit report too many times.
- Should you be denied credit, you must be told why if you ask. If a lender denied you credit because you have too many credit cards, consider closing the ones you aren't using. Be sure to request a free copy of your credit report; you're entitled to one if you're turned down for credit. Check it carefully, and make sure any errors are corrected. (See Credit Cents no. 4: *Credit Reports 101*.)
- Remember that bankruptcy is a last resort rather than an easy way out. It's reported to potential lenders for 7 to 10 years.

Author: Barbara D. Petty, University of Idaho Extension Educator, Bonneville County

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Credit Reports 101

A credit report (see sample, page 2) is a record of your financial activity. Your past and current lenders keep credit reporting agencies informed of your borrowing history and habits. The agencies share this information with future lenders who want to know whether you're a good credit risk.

Credit report contents

Although each agency uses a different format, all reports include:

- **Identifying information**. Your identifying information includes your name, address, Social Security number, and date of birth. It also includes your employment history. Working at the same job for several years indicates to lenders that you are stable. Check your identifying information for accuracy. If just one digit of your Social Security number is wrong, some information in your report may not be about you.
- **Public record and collection agency account information**. Your credit report includes bankruptcies, foreclosures, lawsuits, wage garnishments, liens, judgments, and collection-agency actions. A bankruptcy will remain on your report for up to 10 years and unpaid tax liens for up to 15. Other public records will stay for seven years. Your installment loans (those with fixed payments and ending dates) and revolving credit (usually credit cards) also become part of your public record if a collection agency has taken action on them.
- **Inquiries**. When you apply for a loan or credit, you voluntarily give the lender permission to see your credit report. Your lenders' inquiries are noted on your report. If you apply for several credit cards at once and lenders see several inquiries, they may suspect you're overextending yourself. Some inquiries aren't from lenders at all. Instead, they may be from prospective employers, landlords, or utility companies. If you ask, the agency must tell you who has inquired about your credit for the past year—or two years if the inquiries were about work.
- **Trade lines**. Your accounts are described by type and the date you opened them. In addition, your payment history is recorded and your credit limits compared with your balances. "R" stands for revolving (open-end accounts). "I" stands for installment (closed-end accounts). "J" indicates that the account is a joint one for which someone else is also responsible. Credit reporting agencies compare your credit card limits with your actual borrowing. It's better to have fewer rather than more credit cards and not to borrow to your maximum limits.

Your right to know

You have the right to know what's in your credit report and who supplied the information. You also have the responsibility to make sure the information is correct. Mistakes occur on credit reports when information is incomplete or is actually about someone else. Sometimes a clerk errs in entering a name or address from a hand-written form or applies payments to the wrong account. To minimize the chance of errors, always use the same name on financial paperwork. Don't use Susan Jones one time and Sue Jones another.

You can request copies of your report from these major agencies:

Experian (formerly TRW): (888) 397-3742, www.experian.com
Equifax: (800) 685-1111, www.equifax.com
TransUnion: (800) 888-4213, www.transunion.com

If you think there is an error in your credit report, notify the agency in writing. The agency must investigate the items in question and report back to you in writing. Expect any action to take about 30 days.

The Fair and Accurate Credit Transaction Act of 2003, or FACTA, offers some protection to consumers when it comes to credit reports, credit scores, and credit histories. Not only does FACTA entitle you to one free copy of your credit report each year but, for a fee, it lets you see your credit score. Under FACTA, mortgage lenders must show you the score they used in reviewing your application. Merchants must also give you a chance to dispute negative information before it becomes part of your credit history.

Author: Barbara D. Petty, University of Idaho Extension Educator, Bonneville County

Further reading

My FICO. Fair Isaac Corporation. http://www.myfico.com/myFICO/CreditCentral/YourCreditReport.asp

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What Does Your Credit Score Say About You?

In our grandparents' era, Americans who wanted to borrow money paid a visit to their banker. Often, the banker already knew much about the family's financial history and money-management practices—what they owned, what they owed, and whether they paid their bills on time. From that knowledge, the banker would decide either to make or deny the loan. Today, most lenders don't know their customers personally. Instead, they use a credit score determined by a mathematical formula to decide who is a good credit risk and who is not.

Your credit score is a figure—usually between 300 and 850—that reflects your credit history. It indicates whether you're a good candidate for a loan. Lenders also use your score to determine the interest rate and terms of your loan.

Most people score in the 600s and 700s. If you score in the 400s and 500s, you'll be charged a higher interest rate and will need a larger down payment than someone with a higher credit score. If you're planning to make a large purchase on credit, check your credit score 6 to 12 months in advance so you can take steps to raise your score.

The FICO score

Several different companies calculate credit scores and supply them to creditors. The Fair Isaac Corporation developed the commonly used FICO score. A FICO score covers many kinds of accounts, including credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans.

Consumers have been allowed to view their own scores since 2001. However, you won't have a FICO score unless one or more of your accounts is at least six months old and includes updated information from a lender.

How the scoring works

To determine your score, the FICO system uses your credit history in five major areas: payment history, amount owed, length of credit history, new credit, and types of credit in use.

- **Payment history**. Your payment history has the largest impact on your FICO score: 35 percent is determined by your credit account payments. If you pay your bills on time and don't miss payments, your score will be higher. Recent payment activity counts more than payment history of years ago: a 90-day late payment that you made in the last 30 days affects your score more than a 120-day late payment you made five years ago. The score reflects how late the payment was, how recently it occurred, how much you owed, and how many payments were late.

  If you resume on-time payments after a string of late payments, your score will tick upward. Reports of bankruptcies, foreclosures, lawsuits, wage garnishments, liens, and judgments will hurt your credit score. Bankruptcies will even stay on your credit report for 7 to 10 years.
- **Amount owed**. The amount you owe determines 30 percent of your credit score. Even if you pay off your credit card bills every month, the balance of your last statement may be included in your credit report, which influences your credit score. Your score is reduced if you "max out" or carry large unpaid balances on several credit cards. That makes you look overextended. Carrying a small balance and paying it off shows that you can manage credit responsibly.

  You can increase your score by getting credit only when you need it and by staying under your credit limits. It's better to pay off debt than to transfer balances from one card to another. Closing unused credit card accounts won't raise your credit score. Neither will opening several new accounts to try to increase your available credit.
- **Length of credit history**. The length of time you have built a credit history contributes 15 percent of your credit score. The longer you have used credit, the higher your score. The score takes into account the age of your oldest account and an average age of all your accounts. If you have just opened several accounts, the average age will go down, which will lower your credit score.
- **New credit**. Think again before you apply for that credit card giving you 10 percent off any purchases you make that day. Ten percent of your credit score is based on recent requests for credit. The number and type of new accounts will influence your credit score, as will the date you opened them. If you suddenly apply for several credit cards, lenders may think you

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have overextended yourself and be reluctant to give you more credit.

- **Types of credit in use**. The types of lenders you do business with determine the last 10 percent of your credit score. Your score will be higher if your borrowing is from a cross-section of reputable lenders, but don't open accounts just to achieve variety.

Your score won't be affected if you ask for your own credit report. Nor will it be damaged if firms ask about you before offering you credit you didn't apply for. But if you apply for several loans or credit cards at once, leading to numerous inquiries from lenders, your credit score can indeed suffer. An exception is shopping around for the best loan when you're buying a car or home; the inquiries these lenders make within a two-week period are counted as one.

As you can tell, your credit score uses a wide range of information about you. However, it doesn't include your race, color, religion, national origin, gender, marital status, age, salary, where you live, or current interest rates you're paying.

You can receive your credit score by contacting any of the major credit reporting agencies:

Experian (formerly TRW): (888) 397-3742, www.experian.com

Equifax: (800) 685-1111, www.equifax.com

TransUnion: (800) 888-4213, www.transunion.com

Author: Barbara D. Petty, University of Idaho Extension Educator, Bonneville County

Further Readings

Understanding Your Credit Score. Fair Isaac Corporation. http://www.myfico.com.

Credit Reports. J. McKenna and C. Makela. Colorado State University Cooperative Extension. http://www.ext.colostate.edu/PUBS/CONSUMER/09141.html.

How Much Debt Is Too Much?

We have all asked ourselves "Can I really afford this?" before making a major purchase. How we answer that question can have far-reaching impacts. An unaffordable cash purchase can wreck a budget for months. An unwise credit purchase, however, can have devastating effects for many years.

Credit and charge accounts

Before you hand the next sales clerk your credit or charge card, make sure your future income will cover your bills. Your monthly payments for debts—other than mortgages—should be less than 15 to 20 percent of the pay you actually take home, after taxes. Another common guideline: Limit your credit payments to a third of what's left after you've paid your basic living expenses. The worksheet below will help you.

Housing

It's equally important to keep your payments for housing and vehicles in line. Our dream home and a luxury vehicle would be nice, but could we really afford to repay those debts? To decide how much to spend on a home, refer again to the worksheet. This time, from your monthly take-home pay, subtract all of your basic living expenses except what you currently spend for housing. The dollar figure you get is what's available for your mortgage and the extra costs of maintaining a home.

Several rules of thumb can keep you from becoming "house poor." Don't get weighed down with housing costs that tie up too much of your income:

- Your total monthly cost for housing (mortgage, taxes, utilities, maintenance, and insurance) shouldn't exceed one-quarter to one-third of your monthly take-home pay.

For example: if you take home $2,000 each month, your housing cost shouldn't exceed $500 ($2,000 x 0.25) to $660 ($2,000 x 0.33).

- The sales price of your house shouldn't be more than 2 to 2½ times your before-tax annual income.

For example: if you take home $30,000 a year before taxes, the cost of your house shouldn't exceed $60,000 ($30,000 x 2) to $75,000 ($30,000 x 2.5).

If you have a large down-payment, it is best to use the first rule when estimating how much you can spend on housing.

Lenders use two other rules of thumb to estimate the maximum housing payment you can afford and to decide how much they will lend you. Be sure the amount you qualify for fits into your personal budget. Too often, lenders are willing to loan you more money than you can comfortably afford to pay back.

How to calculate what you can afford in monthly credit payments

1.	**Monthly take-home pay:**	$__________
2a.	**Basic living expenses:**	$__________
	Mortgage/rent	$__________
	Transportation/vehicle	$__________
	Utilities	$__________
	Food	$__________
	Clothing	$__________
	Medical expenses	$__________
	Savings	$__________
	Other	$__________
2b.	**Total basic living expenses**: (Add all items in 2a.)	$__________
3.	**Subtract line 2b from line 1:**	$__________
4.	**Divide line 3 by 3**. This is the dollar amount you can safely spend on monthly credit payments.	$__________

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- **Front-end ratio:** The cost of your house payment, including real estate taxes and home owner's insurance, shouldn't exceed 25 to 31 percent of your before-tax annual income.

> Using this method and an average of 28 percent, a couple that makes $43,000 might qualify for a mortgage of about $12,040 ($43,000 x 0.28) per year or $1,003 per month.

- **Back-end ratio:** Your total monthly debt payments—mortgage, real estate taxes, insurance, auto loans, and all other debts—shouldn't exceed 33 to 41 percent of your before-tax monthly income.

> Using this method and an average of 37 percent, the same couple might qualify for any loan that doesn't push their total monthly debt payments over $1,325 (their monthly income of $3,583 x 0.37).

Vehicles and other major purchases

A general guideline when buying a vehicle is that you shouldn't spend more than 15 percent of your before-tax annual income for transportation. This includes your vehicle payment, insurance, gasoline, and maintenance. A down payment can help you lower the cost of your loan, so consider saving before you purchase a vehicle.

It's important to understand your income and expenses before committing future earnings to repaying debt. Remember that it's not enough to simply cover today's costs. To tide yourself over an illness or job loss, you'll also need emergency savings. Experts suggest setting aside enough money to last two to three months.

Make sure you don't get in over your head. Before taking on debt, always plan carefully. Know how much debt is too much.

Author: Marsha Lockard, University of Idaho Extension Educator, Owyhee County

A sample credit report.

Source: Visa U.S.A., Inc. 2000. Practical Money Skills for Life Curriculum, Lesson 7. San Fransisco, CA.

Your Credit Report

Please address all future correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name
123 Current Address
City, State 00000

Social Security #: 123-45-6789
Date of Birth: April 10th, 1960

Previous Address(es)
456 Former Rd. Atlanta, GA 30000
P.O. Box XXXX Savannah, GA 40000

Last Reported Employment:
Engineer, Highway Planning

PUBLIC RECORD INFORMATION

Lien Filed 03/00; Fulton CTY; Case or Other ID Number-32114; Amount-$26,667 Class-State; Released 07/00; Verified 07/00

Bankruptcy Filed 12/99; Northern District Ct; Case or Other ID Number-673HC12; Liabilities-$15,787; Personal; Individual; Discharged; Assets-$780

Satisfied Judgement Filed 07/01; Fulton CTY; Case or Other ID Number-898872; Defendant-Consumer; Amount-$8,984; Plaintiff-ABC Real Estate; Satisfied 03/02; Verified 05/02

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
Collection Reported 05/03; Assigned 09/00 to Pro Coll (800)XXX-XXXX Client-ABC Hospital; Amount-$978; Unpaid; Balance $978; Date of Last Activity 09/00; Individual Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

								ITEMS AS OF DATE REPORTED			
COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HIGH CREDIT	TERMS	BALANCE	PAST DUE	STATUS	DATE REPORTED
Department St.	32514	J	10/93	36	9/04	$950	X	$0	X	R1	10/04
Bank	1004735	A	11/93	24	3/04	$750	X	$0	X	I1	4/04
Oil Company	541125	A	6/93	12	3/04	$500	X	$0	X	O1	4/04
Auto Finance	529778	I	5/92	48	12/03	$1100	$50	$300	$200	I5	4/04

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/04 - I2; 02/04 - I3; 03/04 - I4

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/04	Equifax-Disclosure	08/27/04	Department Store
07/29/04	PRM Bankcard	07/03/04	AM Bankcard
04/10/04	AR Department Store	12/31/03	Equifax - Disclosure ACIS 123456789

Reading a credit report.

Source: Visa U.S.A., Inc. 2000. Practical Money Skills for Life Curriculum, Lesson 7. San Fransisco, CA.

The credit report status column uses these "type of account" codes:

- O Open (entire balance due each month)
- R Revolving (payment amount variable)
- I Installment (fixed number of payments)

The status column uses these "timeliness of payment" codes:

- 0 Approved not used; too new to rate
- 1 Paid as agreed
- 2 30+ days past due
- 3 60+ days past due
- 4 90+ days past due
- 5 Pays or paid 120+ days past the due date; or collection account
- 6 Making regular payments under wage earner plan or similar arrangement
- 7 Repossession
- 8 Charged off to bad debt

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Getting Out of Debt

Even responsible credit users can get overextended. They can get sick, divorced, or lose their jobs and fall behind in their payments. What should you do if you realize you have a debt problem?

The first step is to stop using credit. Don't take on new debts or charge any new items. Paying off debt is hard enough; don't add to what you owe! Leave your credit cards at home.

Know what you owe

The next step is to figure out how much you owe. List who you owe and how much you owe them. Fill out the getting out of debt worksheet, page 3, supplying the following information about each of your debts:

- Name of creditor (a company or person to whom you owe money), their address, and phone number
- Your account number
- Annual percentage rate (APR)
- Minimum monthly payment
- Number of months or payments remaining on the loan
- Total balance owed (amount of debt remaining)
- Payment due date
- Amount last paid
- Date last paid
- Total amount already paid
- Whether this debt is secured by a home, vehicle, land, or other property. In other words, can a creditor seize that property (also called "collateral") if you stop making payments on the debt?

Reduce your expenses or increase your income

The third step is to decide how much you can pay back. Use the income and expenses worksheet on page 2 to compare your monthly income with your monthly expenses. Examine ways to reduce your flexible expenses—the ones that vary each month—and shave your spending down to the bare-bones level. You may need to get a second job so that your income will cover both your current expenses and your debt repayment.

Make a debt repayment plan

Next, use the information in the getting out of debt worksheet to develop a debt repayment plan. There are a number of ways to get out of debt. Consider each method and decide which one(s) you'll use.

- **Importance method**. Pay the debts that will keep your family safe and your credit rating intact—for example, your rent/mortgage, food, and utilities. If you're making payments on a house, vehicles, furniture, or appliances, don't risk losing that property by getting behind on your scheduled payments. Until you can pay more, just make the minimum payments on your other debts and credit cards. That will keep you in good standing with all of your creditors and won't damage your credit rating.
- **High interest rate method**. Check your monthly statements for interest or annual percentage rates and pay off the debt with the highest rate first. Pay as much as you can on that debt each month until it's paid off. Meanwhile, make minimum payments on your other debts. Then apply the payments you were making on the highest-rate debt to the next highest-rate debt, and so on.
- **Low balance method**. Pay off the bills with the lowest balances first. For example, if you have only four payments left on your car or washing machine loans, pay those bills first. Then use the money you put toward those payments and pay off the debt with the next- lowest balance.
- **Debt consolidation method**. You may be able to get a single loan that pays off your other debts. The monthly payment on this "consolidation" loan will usually be lower than the total amount you're now paying on your other debts, because consolidation loans are spread out over a longer period of time. However, debt consolidation may cost you more in the long run because you'll likely pay more interest.

Negotiate with your creditors

Contact your creditors as soon as you recognize you're overextended. Before talking with them, use the information from the getting out of debt worksheet and the income and expenses worksheet to decide how much you can pay each one. Explain your situation and try to

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work out a modified payment plan. Most creditors will work with you if they believe you're acting in good faith and the situation is temporary. Some may reduce your payments to a more manageable level. Make the lower payments on time. Don't put off negotiating with your creditors until your accounts have been turned over to a debt collection agency. At that point, creditors will be less likely to work with you.

Get help when you really need it

If you're unable to develop your own debt repayment plan, you can get counseling in debt management from family support centers (for Armed Services personnel) as well as from some credit unions and churches.

A credit counseling agency can work out a formal debt repayment plan with your creditors. It will make up a regular, timely repayment schedule and ask you to deposit money with it each month. It will then use your deposits to pay your creditors according to this schedule. Completing a program like this may take 48 months or more. You may have to agree to stop using or applying for more credit while you're a program participant. Before working with a credit counseling agency, read Credit Cents no. 8, *Where to Go for Credit and Debt Help*. When all else fails, bankruptcy may be your only option. Because it stays on your credit record for up to 10 years, bankruptcy is a last resort.

Author: Marilyn C. Bischoff, Extension Family Economics Specialist, UI School of Family and Consumer Sciences

Further reading

Money Troubles: Legal Strategies to Cope with Your Debts, 9th edition. 2003. By R. Leonard. NOLO Press, Berkeley, CA.

Prioritizing Debts: Which Bills Do I Pay First. 2003. Northwest Justice Project. http://www.nwjustice.org/docs/0110.htm

Income and Expenses Worksheet

Month of _______________

My income

Wages	$
Tips/commissions	$
Child support/alimony	$
Public assistance (TANF)	$
Social Security/pensions	$
Unemployment disability	$
Veteran's benefits	$
Interest/dividends	$
Other income	$
Total income	**$**

My expenses

Fixed expenses

Rent/Mortgage	$
Vehicle payment	$
Utilities - Electricity, water, gas, oil, garbage	$
Savings	$
Insurance - Health, vehicle, property, life	$
Other loan payments	$
Other	$
Total fixed expenses	**$**

Flexible expenses

Food	$
Clothing	$
Health/Medical	$
Vehicle - Gas/oil/maintenance	$
Phone/Cell	$
Household	$
Child care/Elder care	$
Personal expenses	$
Education	$
Entertainment/Recreation	$
Cable/Internet	$
Other	$
Total flexible expenses	**$**

My income left after expenses

Total income	$
Minus fixed expenses	$
Remainder	$
Minus flexible expenses	$
Remainder	**$**

Credit Cents

Getting Out of Debt Worksheet

Creditor's Name Address Phone Number	Account number	Annual percentage rate (APR)	Minimum monthly payment	Number of months or payments remaining	Total amount remaining (balance)	Payment due date	Amount last paid	Date last paid	Total amount paid	Secured debt?*

*Is the debt secured by such collateral as your home, vehicle, land, or other property?

Credit cents

Where to Go for Credit and Debt Help

Can't pay your bills on time? Can't arrange a debt repayment plan with the people you owe money? Can't get bill collectors to stop hounding you? If you answered "yes" to any of these questions, consider contacting a credit counseling agency.

Credit counseling agencies work with you to solve your money problems. Organizations that offer credit counseling can be private, not-for-profit, or public. You can get credit counseling in person, on the Internet, or by telephone. If possible, choose a credit counseling service that provides in-person counseling. It should offer educational programs, money management advice, and help with budget development.

The first counseling session with a reputable service should last about an hour. The counselor should discuss your entire financial situation, help you develop a personalized plan to solve your money problems, and provide follow-up counseling.

How a credit counseling agency can help

A credit counseling agency can negotiate with your creditors to repay your debts with a debt repayment plan. Under the plan, creditors often agree to reduce payments, lower or drop interest and finance charges, and forgive late and over-the-limit fees. After starting the plan, you'll deposit money with the credit counseling agency each month. The agency will pay your bills according to a schedule it has developed with you and your creditors. You'll likely pay a small fee for this service.

You may be required to stop applying for or using credit while you're participating in the debt repayment plan. A typical plan takes 24 to 48 months to complete. Ask your counselor to estimate how long yours will take.

Although nearly all lenders view bankruptcy negatively, only some will regard your participation in a debt repayment plan that way. Others believe that it makes you a better credit risk.

Choose the right service to work with

There are many good credit counseling firms. Some are members of the National Foundation for Consumer Credit (NFCC). They usually have "consumer credit counseling service" in their name. To find an office near you, contact the NFCC at 1-800-388-2227 or at www.nfcc.org.

Beware of companies that offer quick and easy solutions to your debt problems. Unfortunately, there is no quick fix. Some credit counseling organizations are downright dishonest. They may claim to be non-profit, but they're not. They'll ask you to sign up for a debt repayment plan right away, without offering educational programs or credit counseling. They won't try to understand your financial situation. They'll charge high hidden fees or urge you to make "voluntary contributions." A few credit counseling firms have taken clients' money and not paid the clients' creditors.

You can avoid phony credit counseling agencies. Check on a credit counseling business before you agree to use its services. Call your state's attorney general or department of finance to find out if the business is licensed in your state. Ask the attorney general—or your local Better Business Bureau—if complaints have been filed against it. Consider working only with credit counseling agencies with no complaints or only a few resolved complaints.

Call the credit counseling agency and ask for information about its services. A reputable agency will readily send you free information, no questions asked. If it resists, go elsewhere for help. Once you've received the information, call back and ask a representative the following questions:

- **What services do you offer?** Look for an agency that offers a variety of services, including budget counseling and savings and debt management classes. Avoid organizations that push debt repayment or debt management plans as your only option before they spend time carefully analyzing your financial situation.
- **Do you provide educational materials? If yes, will you send them to me or can I access them on the Internet? Are they free?** Avoid organizations that charge for information.
- **In addition to helping me solve my immediate problem, will you help me develop a spending and saving plan to avoid problems in the future?** The answer should be yes.
- **What are your fees? Do you charge set-up and/or monthly fees?** Get a specific price quote in writing. Many reputable agencies charge set-up fees up to $50

and monthly fees from $25 to $50. Avoid organizations that demand a large initial "voluntary contribution."

- **What if I can't afford to pay your fees or make contributions?** If an organization won't help you because you can't afford to pay, look elsewhere.
- **Will I have a written agreement with you?** Make sure all verbal promises are written. Read and understand the agreement before signing.
- **What are your counselors' qualifications? Are they accredited or certified by an outside organization? If not, how are they trained?** The organization should provide a certified credit counselor with a professional background in money management and in the wise use of credit. Certified credit counselors pass a comprehensive counselor certification program that is administered by a third party. They must meet high quality standards.
- **What assurance do I have that my address, phone number, and financial information will be kept confidential?** The business should provide you with a copy of its privacy policy.
- **How do you determine the amount of my debt payment? What happens if the amount is more than I can afford?** If you can't realistically afford a debt repayment plan, don't sign up for it.
- **How do you make sure all of my creditors will be paid by their due dates and in the correct billing cycle?** Sign up for a plan that pays your creditors before their due dates and within the correct billing cycle.
- **How often can I get status reports on my accounts? Can I access my accounts online or by phone?** Make sure the agency is willing to give you regular, detailed written statements.
- **Can you persuade my creditors to lower or eliminate interest and finance charges or to forgive late fees?** The agency should let you know whether it has negotiated successfully with your creditors in the past.
- **What if I can't maintain the agreed-upon plan?** Be committed to completing a debt repayment plan. None of the fees you've paid will be refunded. Some creditors will be less likely to work with you in the future if you fail to complete your plan.
- **What debts will be excluded from the debt repayment plan?** You'll have to pay these debts on your own.

It may seem like a lot of work to interview potential credit counseling services. The best ones help people who are behind on their debts get back on their feet. Fly-by-night outfits can disappear with your money and further damage your credit rating.

When you work with a credit counseling agency, you trust your credit record and your personal information to it. You want to be sure you're in good hands.

Author: Marilyn C. Bischoff, Extension Family Economics Specialist, UI School of Family and Consumer Sciences

Credit cents

Guarding Against Identity Theft

Identity theft is the fastest-growing white collar crime in the United States. A survey by the Federal Trade Commission (FTC) found that an estimated 27 million Americans have become victims of identity theft in the past five years. A staggering 10 million thefts occurred in the past year. In the United States an identity is stolen every 22 seconds. The top 10 locations in terms of numbers of victims are Washington D.C., California, Arizona, Nevada, Texas, Florida, New York, Washington, Maryland, and Oregon.

Identity theft occurs when someone uses your personal information, such as your name, social security number (SSN), credit card number, or other identifying information, without your permission, to commit fraud or other crimes.

How identities are stolen

According to the Privacy Rights Clearinghouse, thieves obtain your SSN, driver's license, credit card numbers, and other pieces of identification in a variety of ways, including these:

- "Dumpster diving" in trash bins for unshredded credit card and loan applications and documents containing SSNs and account numbers.
- Stealing mail from unlocked mailboxes to obtain newly issued credit cards, bank and credit card statements, pre-approved credit offers, investment reports, insurance statements, benefits documents, or tax information.
- Accessing your credit report fraudulently, by posing as an employer, loan officer, or landlord, for example.
- Obtaining names and SSNs from personnel or customer files in the workplace.
- "Shoulder surfing" at ATM machines and phone booths in order to capture PIN numbers.
- Finding identifying information on Internet sources, via public records sites, and through fee-based information broker sites.

While there is no way to ensure that you will never become a victim of identity theft, you can take steps to lower your risk. Exercise caution and guard your personal information by following these guidelines:

Protect your information

- Minimize the amount of information that a thief can steal. Don't carry more credit cards than you need. Don't carry social security cards, birth certificates, or passports.
- Don't carry items with your SSN on them, such as insurance and Medicare cards, unless you need them that day.
- Never give out your SSN, credit card number, or other personal information over the phone, mail, or Internet unless you initiated the contact and you have a trusted business relationship.
- Place passwords (PINS) on your bank, credit card, and phone accounts. Do not use passwords that are easily identified such as birth date, phone number, maiden name, or the last four digits of your social security number.
- Make a list of the contents of your wallet. Also make photocopies of the fronts and backs of all your credit and debit cards. This will give you the account numbers and phone numbers to call if it becomes necessary to cancel your cards. Keep the copies and list in a safe place.

Protect your mail

- Pay attention to your mail, especially billing cycles. Contact creditors immediately if your bills arrive late. A missing bill could mean an identity thief has taken over your credit accounts and changed the billing address.
- Deposit outgoing mail in post office collections boxes or at your local post office. Use a locking mailbox for your home delivery and do not allow mail to pile up.
- To prevent thieves from retrieving personal information from your trash, shred or burn all correspondence that contains personal information about you and your family. Shred information you plan to discard such as your charge receipts, credit applications, insurance forms, bank statements, expired credit cards, and preapproved credit offers.

Practice computer safety

- On the Internet, look for Internet addresses that begin https rather than http. The "s" indicates a secure connection. A small padlock symbol should appear in the bottom right corner of your screen, indicating it is safe to transmit your credit card number or other personal data.
- Regularly update your virus protection software and use a firewall. Avoid opening files sent to you by strangers, clicking on hyperlinks, or downloading programs from people or companies you do not currently do business with or recognize.

Guard your accounts

- Never fax your credit card numbers. You do not know who has access to that information and it is probably not secure.
- When having new checks printed, use your initials for your first name. With your initials on your check instead of your first name, a thief will not know how to sign your checks. A check arriving at your bank improperly signed should raise "red flags."
- If you have a post office box use that address on your checks rather than your physical address. If you need a phone number on your checks, use your office number. When paying bills with a personal check never put your full account number in the memo line. Use only the last four digits of your account number.
- Inquire about security measures at your workplace, doctor's office, or any place that gathers your personal information. When asked to give personal information find out why it is needed, how it will be used, and how it will be protected.
- If you are in the military and deployed, place an "active duty alert" in your credit file. The alert requires creditors to verify your identity before granting credit in your name.
- Reduce the amount of personal information about you that is "out there." Remove your name from the marketing lists of major credit bureaus, opt out of the sale or sharing of your information when you are offered the chance, and sign up for the Federal Trade Commission's National Do Not Call Registry. To opt out of receiving pre-approved credit offers, contact 1-888-567-8688.
- Order a copy of your credit report from each of the three major credit reporting agencies and check for errors. To obtain a free copy of your credit report log on to www.annualcreditreport.com or call toll free to 1-877-322-8228.
- If you find errors on your credit report or suspect identity theft, contact each of the credit reporting agencies, immediately.
  Equifax—1-800-525-6285
  Experian—1-888-397-3742
  TransUnion—1-800-680-7289

There is no guarantee that you will avoid identity theft, but by taking these steps you can help to minimize your risk. Think about taking care of your identity on a regular basis just as you take care of your health; an ounce of prevention can be worth a hundred pounds of cure!

To learn what to do if your identity is stolen read "When Identity Thieves Strike" in Bulletin 841, *Credit Cents*, from University of Idaho Extension.

Author: Marsha Lockard, University of Idaho Extension Educator, Owyhee County

When Identity Thieves Strike

A vigorous economy is leading to increased consumer spending across the country, but it has also heightened the potential for identity theft. How can you tell if you have become a victim of the fastest growing crime in America? What steps should you take to stop the thief and clear your good name?

Four out of five victims of identity theft have no idea how the thief obtained their information. Some victims don't realize for months or even years that a theft occured. Consumers who monitor their accounts can help reduce the damage by acting quickly.

How to spot identity theft

Think about taking care of your identity on a regular basis just as you take care of your health. Here are some of the signs that may indicate your identity has been stolen:

- You receive calls or letters from creditors or collection agencies demanding payment for items you never bought or for accounts you never opened.
- Your credit report contains information about accounts that you have no knowledge of and did not open.
- You receive credit cards you did not apply for.
- You are denied credit or offered less-favorable credit terms, such as high interest rates, for no apparent reason.
- You notice unauthorized withdrawals from your bank accounts.
- Unknown charges appear on your credit card or charge account statements.
- Your wallet, purse, or cell phone is lost or stolen.
- You receive calls from creditors, or potential creditors, about new accounts, a large volume of credit card activity, or wire transfers.
- Credit card or charge account bills do not arrive on time as regularly scheduled.
- Replacement credit cards have not arrived prior to the expiration date of old cards.

What to do if you're a victim

If you are a victim of identity theft, take action immediately. Keep a written record with the details of your conversations and copies of all correspondence.

Download the victim's affidavit form from the Federal Trade Commission website at www.consumer.gov/idtheft/pdf/affidavit.pdf. You can use the completed form to help report the crime. It is accepted by all three credit bureaus and over 25 major creditors, eliminating the need to file separate handwritten forms with many different companies.

Follow the four steps listed below to stop the thief and to help clear your name and your credit record:

1. **Place a fraud alert on your credit file and review your credit reports to help determine the extent of the fraud.** Fraud alerts will prevent the thief from opening any more accounts in your name. Contact the toll-free fraud number of any one of the three nationwide consumer reporting companies to place an alert. The company is required to contact the other two, which will then place an alert on their versions of your report.

   Also request a free copy of your credit report from each of the credit reporting agencies and review them carefully. Add a "victim's statement" to your credit file that describes what happened and requests that creditors contact you before opening any new accounts. Review your report monthly to make sure corrections are made to your credit history.

   Equifax
   www.equifax.com
   1-800-525-6285
   P.O. Box 740241, Atlanta, GA 30374-0241

   Experian
   www.experian.com
   1-888-EXPERIAN (397-3742)
   P. O. Box 9532, Allen, TX 75013

   TransUnion
   www.transunion.com
   1-800-680-7289
   Fraud Victim Assistance Divisions, P.O. Box 6790, Fullerton, CA 92834-6790

2. **Close all accounts that you know, or suspect, have been tampered with or opened fraudulently.** Call and speak with someone in the security or fraud department of each company, and then follow up in writing including a copy of the victim's affidavit form.

   Request new account numbers and change your passwords. Do not use passwords that are easily identified with you, such as your phone number, mother's maiden name, birth date, or last four digits of your social security number.

   Have the closed account flagged in your credit report with the words "closed at customer's request."

   If the stolen information includes your driver's license or other government-issued identification, contact the agencies that issued the documents and follow their procedures to cancel a document and get a replacement. Ask the agency to "flag" your file to keep anyone else from getting a license or another identification document in your name.

3. **File a report with your local police department or the police department in the community where the identity theft took place.** Get a copy of the police report in case your bank, credit card company, or other financial institution needs proof of the crime. Maintain a paper trail, be sure to log all calls (date, time, name of company, and person talked to), keep a record of all actions you take, and make copies of your correspondence to document your efforts to correct credit problems.

4. **File a complaint with the Federal Trade Commission.** By sharing your identity theft complaint with the FTC, you will provide important information that can help law enforcement officials across the nation track down identity thieves and stop them. You can file the complaint online at www.consumer.gov/idtheft or by phone at 1-877-IDTHEFT (438-4338), or by mail at

   Identity Theft Clearinghouse
   Federal Trade Commission
   600 Pennsylvania Avenue NW
   Washington, DC 20580

Once you have taken these precautions, watch for signs that your information is being misused. For example, you may not get certain bills or other mail on time. Follow up with creditors if your bills do not arrive on time. Continue to read your financial account statements promptly and carefully and to monitor online accounts. Check your credit reports every few months in the first year after the theft and once a year afterwards.

Cleaning up your credit file will take a great deal of time and persistence. According to the Privacy Rights Clearinghouse, the average identity theft victim will spend about 600 hours recovering losses and cleaning up their credit history and about $1,400 for photocopying, postage, phone calls, and other expenses.

Identity theft is a serious and growing crime. Take an active role in monitoring your accounts and protecting your personal information. Do not become one of the millions of Americans who have fallen victim to identity thieves.

To learn more about protecting your accounts read "Guarding Against Identity Theft" in Bulletin 841, *Credit Cents*, from University of Idaho Extension.

Author: Marsha Lockard, University of Idaho Extension Educator, Owyhee County

Credit Cents Terms

Annual percentage rate (APR). A yearly rate of interest based on average compound interest and including fees and other costs paid to get credit. It is calculated in a standard way and must be disclosed by lenders so that borrowers can compare rates.

Average daily balance. A method used to determine finance charges. It's calculated by adding together the outstanding balance on each day in the billing period, then dividing that total by the number of days in the billing period. The calculation includes new purchases and payments.

Balance transfer. The process of moving an unpaid credit card debt from one issuer to another. Card issuers sometimes offer teaser rates to encourage balance transfers to come in and charge balance-transfer fees to discourage them from going out.

Borrower. A borrower is a person who either applies for, or receives a mortgage or loan. A borrower must have the intent and ability to repay the loan in full plus interest.

Cash-advance fee. A charge for using credit cards to obtain cash. This fee is often expressed as both a percentage and a flat dollar amount. For example, "2%/$10" means that consumers will either pay 2 percent of the amount of cash they withdraw or $10, whichever is greater. Generally, there's no grace period for a cash advance: interest is charged from the moment the cash is withdrawn.

Collateral. Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default, also called **security.**

Credit card. Any card that may be used repeatedly to borrow money or buy products and services on credit. Issued by banks, savings and loans, retail stores, and other businesses.

Credit rating. A published ranking, based on detailed financial analysis by a credit bureau, of one's financial history, specifically as it relates to one's ability to meet debt obligations. The highest rating is usually AAA, and the lowest is D. Lenders use this information to decide whether to approve a loan.

Credit risk. The probability that a borrower will repay a debt. People who are good credit risks—based on their credit histories, credit reports, and credit scores—are more likely to repay their debts than people who are bad credit risks.

Creditor. A person or business to whom a debtor owes money.

Debtor. A person who owes money to others.

Default. Failure to meet financial obligations. People who don't make payments on a loan have "defaulted" on that agreement.

Equity. The value of property beyond the total amount owed on it.

Finance charge. The total dollar amount a consumer pays to use credit, including interest costs, service charges, and insurance.

Firewall. A system designed to prevent unauthorized access to or from a private computer network. Firewalls can be implemented in both hardware and software, or a combination of both. Firewalls are frequently used to prevent unauthorized Internet users from accessing private networks connected to the Internet, especially intranets. All messages entering or leaving the intranet pass through the firewall, which examines each message and blocks those that do not meet the specified security criteria.

Fixed expenses. An expense that cannot be adjusted or eliminated, such as a monthly car payment, opposite of **flexible expense**.

Fixed interest rate. A rate that stays the same for the life of the loan.

Flexible expense. An expense that can be adjusted or eliminated, such as for luxury items such as clothes or CDs, opposite of a **fixed expense**.

Foreclosure. The legal process by which a homeowner who defaults on a mortgage loses his or her interest in the property. This usually involves a forced sale of the property at public auction, with the sale's proceeds applied to the mortgage debt.

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Garnish. To withhold money from a person's paycheck to make sure he or she meets a financial obligation. Child support payments are often collected through garnishment.

Grace period. The interest-free time a credit card issuer allows between the transaction date and the billing date. The standard grace period is usually between 20 and 30 days. People who carry a balance on their credit cards have no grace period.

Lender. A private, public, or institutional entity that makes funds available to others to borrow.

Lien. The legal right of a creditor to hold a debtor's property or sell it to repay a debt. For example, a financial institution that lends money for a car holds a lien on the car's title until the car is completely paid for.

Minimum payment. The minimum amount a credit cardholder can pay to keep the account from going into default. Some card issuers will set a high minimum if they're uncertain of the cardholder's ability to pay. Most card issuers require a minimum payment of 2 percent of the outstanding balance.

Over-the-limit fee. A fee charged when consumers exceed the credit limit on their credit cards.

Pharming. A tactic by which criminals "hijack" whole domains to their own sites and gather the personal and financial data of users who believe they're communicating through their customary service provider. Pharming focuses on particular web domains that are frequented by mass amounts of accountholders and is rapidly becoming the most advanced and undetectable scam technique to date.

Phishing. The act of sending an e-mail to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft. The e-mail directs the user to visit a web site where they are asked to update personal information that the legitimate organization already has on file, such as passwords and credit card, social security, and bank account numbers. The web site, however, is bogus and set up only to steal the user's information.

Pre-approved. Credit card issuers often offer "pre-approved" credit cards to potential customers who have passed a quick credit-information screening. The company doesn't actually have to issue the card if it doesn't like what it later learns about the applicant's credit rating.

Pretexting. Pretexting is the practice of obtaining your personal information under false pretenses. Pretexters sell your information to people who may use it to get credit in your name, steal your assets, or investigate or sue you. Pretexting is against the law. Pretexting is usually done over the phone, where the caller poses as a legitimate agency in an attempt to get your personal information and account numbers.

Secured credit card. A credit card that a cardholder must secure with a savings deposit so that the card issuer is guaranteed payment. Generally, the amount the cardholder can charge is limited by the amount he or she deposits in the savings account.

Secured debt. Debt that's based on a creditor's right to seize specific property if a debtor defaults. Car loans and home mortgages are examples. If a borrower stops making payments on a car or house, the lender can repossess the vehicle or foreclose on the home.

Skimming. Skimming is a high tech method by which thieves capture your personal or account information from your credit card, driver's license, or even passport. An electronic device used to capture this information is called a "skimmer," and can be purchased online for under $50. Your card is swiped through the skimmer and the information contained in the magnetic strip on the card is then read into and stored on the device or an attached computer. Skimmers have been found illegally attached to ATM machines and have been used by some restaurant employees to steal credit card information.

Spam. The word "spam" as applied to e-mail means unsolicited bulk e-mail ("UBE"). Unsolicited means that the recipient has not granted verifiable permission for the message to be sent. Bulk means that the message is sent as part of a larger collection of messages, all having identical content.

Spyware. Spyware is any technology that aids in gathering information about a person or organization without their knowledge. On the Internet (where it is sometimes called a spybot or tracking software), spyware is programming that is put in someone's computer to secretly gather information about the user and relay it to advertisers or other interested parties. Spyware can get in a computer as a software virus or as the result of installing a new program. Once installed, the spyware monitors user activity on the Internet and transmits that information in the background to someone else. Spyware can also gather information about e-mail addresses and even passwords and credit card numbers.

Strong password. A password that is difficult to detect by both humans and computer programs, effectively protecting data from unauthorized access. A strong password consists of at least six characters (and the more characters, the stronger the password) that are a combination of letters, numbers and symbols (@, #, $, %, etc.) if allowed. Passwords are typically case sensitive, so a strong password contains letters in both upper and lower case.

Tangible personal property. Property that can be felt or touched, such as furniture and cars.

Teaser or introductory rate. A below-market interest rate offered to entice customers to switch credit cards or lenders.

Transaction fee. An additional fee a credit cardholder must pay for transactions other than purchases, such as cash advances. This fee is usually a percentage of the transaction, although a minimum fee may apply.

Unencumbered property. Property that is not burdened with liens or other legal claims against it.

Unsecured debt. Debt that isn't guaranteed by the pledge of specific property. Interest rates for unsecured debts, such as credit card bills, are usually higher than interest rates for secured debts like home mortgages and car loans.

Variable (adjustable) interest rate. An interest rate that can change. How often it changes depends upon the terms of the credit and should be stated in the documents the creditor provides.