

# Your Family's Money II:

## Managing Debt and Credit

A Handbook for Connecticut Families



**CAHS**

**Connecticut Association for Human Services**

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The Connecticut Association for Human Services (CAHS) works to end poverty and to engage, equip and empower all families in Connecticut to build a secure future.

We wish to thank New Alliance Foundation for providing the funds to update and publish this guide.



**NewAlliance Foundation**

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A Handbook for Connecticut Families

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Connecticut Association for Human Services, Inc.

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## Foreword

***Your Family's Money II: Managing Debt and Credit***, is the second book in a series of handbooks devoted to Family Economic Security. This handbook focuses on debt management, credit, and protecting yourself financially. Consumers identified these as key issues in focus groups CAHS conducted with the first edition of ***Your Family's Money: Simple Ways to Build a Better Future***.

CAHS publishes other guides, including ***Your Client's Money: Practical Tools to Promote Family Economic Success*** and ***Building Assets & Financial Security: Mapping Opportunities (individual guides for Hartford, Bridgeport, New Haven, Waterbury, and the remainder of the state)***.

CAHS would like to thank New Alliance Foundation for its commitment to Connecticut's families and for its support in the updating of this handbook.

Additional copies of this handbook and of the first edition of ***Your Family's Money*** are available by contacting CAHS at (860) 951-2212 or [info@cahs.org](mailto:info@cahs.org).

# Your Family's Money II: Managing Debt and Credit

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# Debt Management

It is important to make sure you do not build up too much debt.

You can be in control of your money instead of your money controlling you!

Make sure to choose carefully when picking options to help you get out of debt.





# Money Management Tips

## **Develop a budget.**

To develop a budget, keep track of what you spend on a day-to-day basis. After doing this for a couple weeks, you will be able to see how you spend your money. Develop a realistic spending plan and try to follow it as closely as possible. This will help you to spend your money only on purchases you really need. Don't let yourself spend more than you earn. See sample budget on the next page.

## **Know what you spend on monthly living expenses.**

Save for monthly expenses, such as food, car, phone and heating payments. For other purchases, give yourself a spending limit for each week. Stick to it and then you won't find yourself without money at the end of the month.

## **What are good ways to spend less?**

- ↳ Only bring small amounts of cash with you so you won't spend it.
- ↳ Use a grocery shopping list and coupons and don't shop when you're hungry.
- ↳ Sign up for direct deposit into a checking account so you don't carry your money.
- ↳ Don't buy things on your credit card that you don't need.
- ↳ Take your lunch to work.
- ↳ Before you buy something, shop around for the best price.
- ↳ Don't buy things you don't need just because they're on sale.
- ↳ Make a chart for paying your bills so you'll be on time and won't have late charges.

## **Know the difference between what you want and what you need.**

Spend your money on things you need, such as food and medicine. Only if you have money left after paying for what you need should you spend money on what you want.

## **Pay your bills on time.**

If you pay your bills late, you will hurt your **credit score** (a number that rates your credit history and is used to help lenders determine whether you are a risky borrower). If you cannot pay bills on time, contact your creditors and explain your situation. **Never** borrow from one creditor to pay another **creditor** (any person or business to whom you owe money).

## **Use credit wisely.**

Just because you have a credit card with a \$2,000 credit line does not mean you should spend \$2,000. Only charge items that you know you can afford. If you do not have the money to pay for the item when you buy it, rethink buying it. When you get your credit card bill, pay more than the monthly minimum payment. The more you pay off, the less you pay in interest. This will also help you maintain a good credit score.

# Sample Budget

Change this form to make it fit your needs.

Monthly Income How much money comes in	
Your Pay (after taxes)	\$
Other Family Member's Pay (after taxes)	\$
Child Support , Alimony, or Other Payments	\$
All Other Kinds of Income	\$
<b>Total Monthly Income</b>	\$

Monthly Expenses What is spent	
Rent or Mortgage	\$
Utilities: (Gas, Oil Water, Electricity)	\$
All Telephones: House & Cell	\$
Cable TV & Internet	\$
Food	\$
Loans	\$
Rent-to-Own	\$
Home Maintenance	\$
Clothing	\$
Child Care	\$
Medical/Dental	\$
Insurance (car, life, home, renter)	\$
Transportation (bus, car loan, gas, taxi, car repair, parking)	\$
Laundry & Dry Cleaning	\$
Property tax	\$
Church, other donations & Gifts	\$
Pet Food & Care	\$
Restaurant & Take-Out Meals (coffee, too)	\$
Credit Card Debt	\$
Recreation (vacations, health or sports clubs)	\$
Entertainment (CDs, movies, video rental, lottery tickets, etc.)	\$
Personal items (smoking)	\$
Other	\$
<b>Total Monthly Expenses</b>	\$

**Total Monthly Income** \$ \_\_\_\_\_

**Subtract your Total Monthly Expenses** \$ \_\_\_\_\_

**Equals What's Left for Savings** \$ \_\_\_\_\_

# What You Should Know About Interest

Interest is the price that you pay to use money owned by someone else, such as a bank, credit card company, or mortgage company. To pay back the money you borrowed, you have to pay the amount you originally were given, plus the interest. Lenders require that you pay interest because it covers the costs of inflation, rising prices, the cost of doing business, the chance that you won't be able to repay the loan, and provides the lender a profit.

Interest is based on percents per year. For example, if you borrow \$1,000 for one year, and the simple rate is 10%, you have to repay the original \$1,000, plus \$100 in interest. It is important to compare the interest rates before you take out a loan or apply for a credit card.

The Actual Rate is the portion of the annual interest rate you pay each month on your loan. Note: The Actual Rate is generally only one of the costs of your loan; there may be others (see Annual Percentage Rate below).

The Annual Percentage Rate is the annual cost of the loan, which includes the interest paid on the loan, PLUS other costs, such as pre-paid interest, mortgage insurance, points and closing costs. Remember that the APR is usually higher than the stated Actual Rate.

Simple interest is the interest computed only on the amount you borrow. It is generally not the total interest owed on the loan. For example, the simple interest on a \$100 loan at a 10% interest rate over three years is \$30.

Compound interest is a larger amount than simple interest. Compound interest is interest on the principal, plus on the interest that builds up over time.



	Simple Interest	Compound Interest
Loan	\$100	\$100
What you owe after year 1	\$110 (\$100 plus 10% of \$100)	\$110 (\$100 plus 10% of \$100)
What you owe after year 2	\$120 (\$110 plus 10% of \$100)	\$121 (\$110 plus 10% of 110)
What you owe after year 3	\$130 (\$110 plus 10% of \$100)	\$133.10 (\$121 plus 10% of \$121)

# Managing Your Debt: What You Need to Know

**Credit Counseling** is when a credit counselor advises you on how to manage your debt. You can receive information on how to make payments and stay on a budget until your debt is paid off. Some credit counselors will charge you a fee for services – make sure the fee is worth the cost!

After a credit counselor has reviewed your financial information, the counselor may tell you about a **Debt Management Plan**. When you enroll in a debt management plan, you write a monthly check to the credit-counseling agency and the agency pays your creditors. A debt management plan may or may not be the best decision for you. A good credit counselor will help you determine if you should go with a debt management plan.

With **Debt Consolidation**, you combine all your debt into a single loan. Instead of paying 20 different creditors who are charging different rates at different times of the month, you take out one big loan and pay off all those accounts with a single payment each month. **Be sure** that the costs of the new loan will be less than what you are already paying the different creditors!

**Debt Negotiation and Debt Settlement** are very different from credit counseling, debt consolidation, and debt management plans. Both options can be **very risky** and may hurt your credit report.

With **Debt Negotiation**, companies can claim to reduce your debt by 50%, or claim they can remove any negative information from your credit report after you complete their program. The truth is most companies charge you many fees for their services and they can't reduce what you owe.

With **Debt Settlement**, a company accepts your monthly payments and puts them into an account to build up enough money to settle your debt. You will pay fees for this service; in the meantime, you are not paying any money to your creditors. This is not a wise choice because your credit rating can get destroyed during this process. This can hurt your chances of getting a loan and owning assets such as a house or car.

Before you do business with any company, check it out with these agencies:

**Attorney General**

55 Elm Street  
Hartford, CT  
(860) 808-5318  
[www.ct.gov/ag](http://www.ct.gov/ag)

**Connecticut Department of  
Consumer Protection**

165 Capitol Avenue  
Hartford, CT 06106  
800-842-2649  
(860) 713-6300  
[www.ct.gov/dcp/site/](http://www.ct.gov/dcp/site/)

**Better Business Bureau**

94 South Turnpike Road  
Wallingford, CT 06492  
(203) 269-2700  
[www.connecticut.bbb.org](http://www.connecticut.bbb.org)

# Credit Counseling Services

Consider talking with a credit counseling organization that is licensed by the State of Connecticut and approved by the Better Business Bureau. **The Department of Banking licenses “debt adjuster” nonprofit agencies.**

**Consumer Credit Counseling Service of Southern New England, Inc.**, has offices in East Hartford, Milford, and North Franklin, Connecticut. Call for an appointment: 1-866-889-9347.

Consumer Credit Counseling Service of Southern New England is listed by the Better Business Bureau. You can speak to a credit counselor for free. For more in-depth services, you may be charged a fee. The counselor will go through your financial history and debt situation, help you set up a budget, and provide you with the best options to reduce your debt.

**Important Tip:** Some financial experts say that your monthly consumer debt payments should not exceed 12% of your monthly take-home pay.



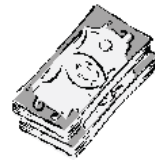
**Questions to ask before choosing a credit counseling company or debt management plan (DMP):** For a full set of questions and more information go to the Federal Trade Commission website at [www.ftc.gov/bcp/online/pubs/credit/fiscal.htm](http://www.ftc.gov/bcp/online/pubs/credit/fiscal.htm).\*

- ⊗ Is the agency licensed to offer services in Connecticut?
- ⊗ What are the qualifications of the credit counselors?
- ⊗ What services are offered? Look for a variety of services including financial education classes and budget counseling.
- ⊗ Are educational materials available for free?
- ⊗ What are your fees? Are there set-up and/or monthly fees? What happens if you can't afford to pay fees or make contributions? Get price quotes for services in writing.
- ⊗ Will there be a formal written agreement or contract with the agency?
- ⊗ Does the organization guarantee that your personal information will be kept confidential?
- ⊗ How is the amount of the payment determined? How will the agency make sure that creditors are paid on time and in the correct billing cycle?
- ⊗ Can the organization lower or eliminate current interest rates and finance charges, or waive late fees?
- ⊗ What debts are not included in the DMP? This is important because you are responsible for paying these debts on your own.

\* The following questions were taken from the Federal Trade Commission's Website, found at [www.ftc.gov](http://www.ftc.gov).



## Loans



If you decide that a loan is right for you, make sure you know the answer to these questions.

- ✓ What are the monthly payments? Ask yourself if you can afford them.
- ✓ What is the **Annual Percentage Rate (APR)** on the loan? You can use the APR to compare one loan with the other.
- ✓ Will the interest rate change during the life of the loan? If so, when, how often, and by how much?
- ✓ Is there a balloon payment (a large payment) at the end of the loan term?
- ✓ How many years will you have to repay the loan?
- ✓ Are the application fees refundable if you don't get the loan?
- ✓ How much will the broker be paid? Lenders and brokers may charge fees that you must pay at the closing or add on to the cost of the loan or both.
- ✓ Is **credit insurance** required as a condition of the loan? If it isn't and a charge is included in your loan, ask for the charge to be taken out.

If you decide to take out a **variable rate loan**, make sure you understand that the interest rate can change over time. It can go down, but it also can go up dramatically. Do not take out an **interest-only loan**. You end up paying only the interest on the loan.

### Subprime Loan

A subprime loan is a loan that has a higher interest rate than prime rate loans. Subprime loans are intended for individuals who have been denied for prime loans. Because of their high interest rate, subprime loans build up debt quickly. Subprime loans could be a good idea if they are just to pay off other debts, such as credit cards, which have a larger interest rate.



## Protect Your Money

- ✓ Keep careful records of what you've paid on the loan, including billing statements and cancelled checks.
- ✓ Read all items carefully. If you need an explanation of any terms or conditions, talk to someone you can trust.
- ✓ Sign a document only after you have read it. Make sure that the document has no blank spaces that can be filled in after you sign.
- ✓ Don't let anyone pressure you into signing anything.

# Co-Signing a Loan: Know the Risks

If a friend or relative wants you to co-sign a loan that they are taking out for themselves, what do you do? Know the risks before you decide. Co-signing a loan may cause you more problems than you think.

When you co-sign a loan, the entire debt is **your** responsibility. If the borrower does not pay back the loan, collectors can **come after you**. The loan you co-sign can show up on your credit report and may prevent you from getting credit. If you don't pay the loan, you can be sued.

If you decide to co-sign a loan:

- ✘ Make sure you could pay the entire loan back if you had to.
- ✘ Ask the lender to agree in writing to notify you if the borrower misses a payment. That will give you time to deal with the issue or make back payments without having to pay the full amount right away.
- ✘ Get copies of all the important papers, such as the loan contract and the **Truth-in-Lending Disclosure** statement and **warranties**. The lender does not have to give you these papers, so you may have to get the papers from the borrower.
- ✘ Ask the lender to calculate the amount you may owe. The lender does not have to do this, but may if you ask.



# Paying for Your Education

If you decide that college is right for you, fill out a Free Application for Federal Student Aid (FAFSA) form from the US Dept. of Education and see what you are eligible for. FAFSA is a federal form you must fill out to qualify for most student financial aid. You can get the FAFSA form on-line at [www.fafsa.ed.gov](http://www.fafsa.ed.gov) or call Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). You may be eligible for grants and scholarships (money you do not have to repay) and loans. Grants are based on financial need.

## Education Loans

You are eligible for two types of loans under the Federal Stafford Loan Program:



**Interest Subsidized Loan:** This is a loan where the government pays the interest on your loan until 6 months **after** you leave school. You do not need to make payments until that time.



**Unsubsidized Loan:** With unsubsidized loans you are responsible for the interest on the loan and it adds up while you are in school. You do not need to make payments until 6 months after you graduate.

If you accept the loans offered, you have to complete Entrance Loan Counseling to receive your loans. This counseling program will provide you with information about your rights and responsibilities as a borrower.

Options to repay your loans:



**Standard Repayment** - same monthly payment for 10 years



**Graduated Repayment** - reduced payment for the first 2-4 years and increased payments for the remaining 6-8 years



**Income-Sensitive Repayment** - repayment based on your income level



**Extended Repayment** – beyond 10 years for balances above \$30,000

Remember: You are responsible to repay your loans even if you don't graduate. You can ask for a **deferment** (allows you to put off paying the loan) if you are struggling and can't make the payments. A deferment is only a temporary extension, and if you do not begin to make payments fairly soon, it will look bad on your credit report. Also, if you don't pay, the federal government can withhold your income tax refund or social security payments.



# Grants and College Savings Programs






## Federal Pell Grants

Unlike loans, grants do not have to be repaid. Pell grants are given to students who demonstrate financial need, are enrolled in postsecondary education (does not need to be college; vocational schools and trade school qualify), and are U.S. citizens with a valid Social Security number. To apply for a Pell Grant all you need to do is fill out the FAFSA form.

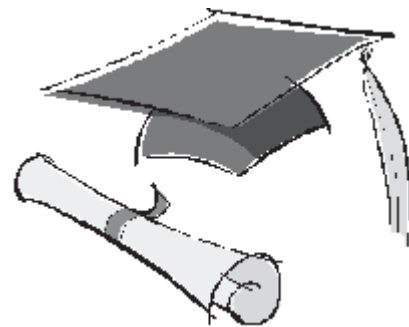
## College Savings - The Connecticut Higher Education Trust Program (CHET)

With the CHET program you can open a savings account for your education or for the education of your children. Your money is placed in an account that is free from federal income tax, has a low minimum contribution (\$25 per investment option, or \$15 per investment option if you are using payroll deduction), and there are no sales charges or application fees.

The program is flexible:

-  You can choose any college.
-  Anyone can open an account.
-  There are no income limits.
-  There is no limit on your contributions to the account.
-  If whomever you were saving for decides not to go to college, you can transfer the funds into an account for someone else.

To learn more about the CHET program, you can call 1-888-799-CHET or go on-line at: [www.aboutchet.com](http://www.aboutchet.com).





## Home Equity Loan vs. Home Equity Line of Credit

Remember, your home is not a credit card!

Before choosing a loan, it is important to consider how you will pay back the money you borrow. You do not want to risk losing your home if you cannot pay back the loan in time.

Home Equity Loan	Home Equity Line of Credit
It is a way of borrowing against the value of your home.	It is putting your house down as collateral (your house is used as security for the equity line of credit).
Usually used when you need an exact amount of money. For example: you need to fix your roof and you know it is going to cost \$6,000.	Usually used for major items such as education, home improvements, or medical bills, but not for day-to-day expenses.
It has a fixed amount that must be paid back in full within a certain amount of time.	It is usually a variable rate (the interest rate can change up or down) and you are approved for a specific amount. You can borrow up to that amount at any time (see below).

Many lenders set the credit limit on a home equity line of credit by taking a percentage, usually 75% of the home's appraised value, and subtracting it from the balance owed on the existing mortgage. In deciding your actual credit limit, the lender will look at your income, debts, and your credit history.

### What should you look for when shopping for a plan?

Read the credit agreement carefully and look at the terms and conditions of many plans, including the annual percentage rate (APR). You may be charged an application fee, closing costs, and a fee for property appraisal. Remember that with a Home Equity Line of Credit, the APR is a variable rate, which means it can change – it can go up or down.

# Bankruptcy

Bankruptcy is a legal process that helps a person get a fresh financial start. Proceedings are handled in federal court. The decision to file for bankruptcy is very serious and should not be taken lightly. Consider the benefits and consequences of bankruptcy before you decide. Get legal representation before proceeding.

## Benefits

- ↳ Creditors can't file any lawsuits against you.
- ↳ Creditors must stop trying to collect money on your unpaid bills.
- ↳ Creditors must accept the amount that the court decides you need to pay.
- ↳ Bankruptcy may protect your assets.



## Consequences

- ↳ Bankruptcy can show up on your credit report for 10 years.
- ↳ It may be difficult or impossible to get a loan or credit card during those 10 years.
- ↳ If you file for Chapter 7 bankruptcy (liquidation) vs. Chapter 13 bankruptcy (reorganization), you cannot refile for 6 years.
- ↳ You may have to sell some of your property to pay your debt.
- ↳ Bankruptcy won't reduce the amount of child support and taxes you owe.

## How to file for bankruptcy

The first step is to file a petition and schedules ( a list of assets and outstanding debt) at the clerk's office of the federal bankruptcy court (either Bridgeport, Hartford, or New Haven). The forms are available at the clerk's office or on-line at: <http://www.ctb.uscourts.gov/>. There is a Frequently Asked Questions (FAQ) section on this website, which may be helpful to you.

You must bring with you information on your creditors, source of your household income, a list of all personal property, and a list of your living expenses. You will need to include the following documents (bring copies – not originals!): deeds, mortgages, contracts on your home and mortgage statements, any papers relating to past bankruptcies, tax returns for the past two years, any legal papers you may have (summons, complaints and notices), and all bills you owe (credit card bills, medical bills, student loan papers, statements and passbooks for savings and checking accounts, any documents relating to outstanding debt).

## Bankruptcy Court Locations:

915 Lafayette Boulevard  
Bridgeport, CT 06604  
(203) 579-5808

450 Main Street  
Hartford, CT 06103  
(860) 240-3675

157 Church Street  
New Haven, CT 06510  
(203) 773-2009

# Credit and Credit Repair

It is important to build and keep good credit.

Credit cards and debit cards are not the same! Make sure you know the difference.

Before spending your money, do your research and know the risks.

# Credit Cards – The "Fine Print"

**Choosing Credit Cards.** It is important to shop around and find one that works best for you. If you plan on paying off your bill in full every month then a card with no annual fee and a longer grace period may be best for you. If you plan on letting some of your balance carry over from month to month then a card with a low APR (annual percentage rate) may be best for you. "Teaser rates" are when a low APR only last for a short introductory period. Many credit cards offer teaser rates for new customers. When looking for a credit card be sure to check the "on going APR" (the rate you will be charged after the teaser rate runs out).

## Beware of these three traps:

- 1) Your credit card bill arrives in the mail within two weeks of the payment due date. Open your bill immediately and pay immediately. A late payment can cost as much as \$30 and push your interest rate up. Credit card companies do not like to waive late fees.
- 2) If you are often late paying your card, credit card companies will charge you a penalty fee, and will likely increase your interest rate.
- 3) Credit card companies sometimes give offers that allow you to write a check against your credit. If you use the check, interest begins to build up immediately – there is no grace period. Or they give you an offer to transfer balances. Read the fine print! Don't sign up for something you don't understand or haven't read. These offers may end up raising your interest rate and costing you far more!

**What you don't know can cost you!** Are credit card companies sending you lots of offers for cards? Do they say you are pre-approved for a high credit line and all you have to do is mail in the reply form? These offers are often very bad deals. Having more than two credit cards can hurt your credit score. You can opt out of these pre-approved offers by calling 1-888-567-8688, and tell them you are opting out – you don't want the offers.

## Are you in credit card trouble?

- ☛ Are you only paying the monthly minimum payment?
- ☛ Are you close to your credit card limit?
- ☛ Do you have too many credit cards?
- ☛ Are your credit card bills constantly going up, and up, and up?
- ☛ Are you late in making credit card payments?
- ☛ Are you using the card for food and gas, but can't meet payments?
- ☛ Have you taken out the maximum cash advance on a card?
- ☛ Are you using one credit card to pay another?
- ☛ Are you using credit cards because you don't have any money?
- ☛ Are you late on making other payments, such as the rent, mortgage, or car payment?



# Credit Cards and Balance Transfers

You get a credit card in the mail that says you're pre-approved for a 0% introductory rate. You may be thinking it would be a good time to transfer your debt from another credit card to this low-interest credit card. Paying a 0% introductory rate on a credit card can be a great deal, but you need to be very careful.



**Keep these questions in mind when thinking about transferring your balance.**

## **Does either company charge a fee for moving the balance?**

The new card company may charge you a fee. Your old company may also charge you a fee for the transfer, closing the account, or to manage any money you left behind if you didn't transfer your total balance. Some card companies limit how much you can transfer or how many times you can transfer a balance. Be clear just how long the whole process will take and when you will stop paying on the old card and start paying on the new one. You don't want to find you are paying for a balance in two places at the same time.

## **What fees and rates does the new company charge new customers for new purchases?**

There may be a different rate for purchases you make with your new card than the rate on the transferred balance.

## **When can the new company change the introductory rate it gives you for your balance transfer?**

Make sure you know when your new card company can change the transfer rate. Sometimes a late payment will end your deal and cause your rate to increase. Know when the credit card company can do this.

If you are sure you can pay your balance off while you have that low interest rate, it may be a good deal. If you are not sure, **think again**. You may find that if you haven't paid off enough of the transferred balance you actually may get a worse deal.



# Debit Cards: Not Just Another Credit Card



Debit cards are linked to your checking or savings account. When you use a debit card, money is taken immediately from your account. This is different from a credit card, which allows you to buy things now and pay later. Remember:

**Credit Cards: You Buy Now, You Pay Later**  
**Debit Cards: You Buy Now, You Pay Now**

	The Good Side	The Bad Side
<b>Credit Cards</b>	<ul style="list-style-type: none"> <li>You can buy needed items now.</li> <li>You have a record of what you buy.</li> <li>You don't have to carry cash.</li> <li>If something goes wrong with a purchase, it is easier to get your money back.</li> <li>You don't have to show an ID, unlike when you write a check.</li> </ul>	<ul style="list-style-type: none"> <li>It is easy to lose track of how much you spend.</li> <li>If you can't pay the full amount at the end of the month, you will be charged interest and finance charges.</li> <li>You are in danger of buying more than you can afford to pay.</li> </ul>
<b>Debit Cards</b>	<ul style="list-style-type: none"> <li>You will spend only what you can afford.</li> <li>You don't have to carry cash or a checkbook.</li> </ul>	<ul style="list-style-type: none"> <li>You need to have the money in your account when you buy something or you will be charged a fee.</li> <li>No purchase protection.</li> <li>It is easy to forget to write down your purchases.</li> </ul>

Be careful of hidden costs. Some transactions require you to use a PIN with your debit card, such as withdrawals from ATMs. If you use your card as a debit, many banks charge you a **transaction fee** for using a PIN when making a purchase. There is also a **surcharge fee** to use your debit card at an ATM that is not your bank.

When you use your debit card at a store, you can treat the purchase as a "credit" or "debit." If you treat the purchase as a credit, then you do not need to use your PIN, and usually no fee is charged for using your debit card. If you don't have enough money in your account, you may be able to still buy the item, but then you will be charged an **overdraft fee**. It's very important to keep track of how much money is in your account so this does not happen.



## Protect Your Credit and Debit Cards

- Never write your PIN on your debit card. Memorize your PIN.
- Keep your PIN to yourself. Do not share your PIN number with anyone else.
- Sign your card as soon as you get it.
- Don't lend your card to anyone.
- Report lost or stolen cards right away.
- Protect your account summary, and shred any that you throw away.
- Don't use your debit card for internet or over-the-phone purchases.
- Don't sign a blank charge or debit slip. Draw a line through blank spaces above the total so the amount can't be changed.

## Use Your Card Responsibly

- Know your current account balance. Don't forget about checks that have not yet cleared your account.
- Record your transactions as soon as possible. Remember to include any debit card fees that may apply.
- Always take sales receipts and store them safely in one place in case you need them later.

# Credit Repair

**Remember! There is NO quick fix for credit problems!** If you are told that someone can fix your credit if you just pay them \$50 or \$1,000, **don't believe it!** Only time and hard work can repair your credit.

A credit-reporting company keeps your credit history. Credit-reporting companies hold most information for 7 years, 10 years if you've had a bankruptcy. The 3 biggest credit-reporting companies are:

## **Equifax**

P.O. Box 740241  
Atlanta, GA 30374  
www.equifax.com  
(800) 685-1111

## **Experian**

P.O. Box 2002  
Allen, TX 75013  
www.experian.com  
(888) 397-3742

## **Trans Union**

P.O. Box 2000  
Chester, PA 19022  
www.tuc.com  
(800) 888-4213

## **You can get a free credit report**

You can get 1 free credit report each year from each of the 3 credit reporting companies listed above. To get the report for free, go to [www.annualcreditreport.com](http://www.annualcreditreport.com). You also can get a free credit report if you :

- 1) are unemployed and will be applying for a job in the next 60 days,
- 2) receive public welfare assistance,
- 3) have reason to believe that you a victim of fraud, and
- 4) have been denied credit. If you have been turned down for credit, you **MUST** be given the name of the credit-reporting company.

## **What if the credit report says some things that are wrong?**

The credit reporting company will tell you to send a letter to them telling them which items you think are wrong. **NEVER** send original papers, always send copies and keep a copy of the letter you write. It takes about 30 days for the company to check into your letter. If anything is wrong, the credit-reporting company **MUST** correct your credit report and tell all other companies and you can ask them to tell anyone who has asked for your report in the last six months about the changes.

# Protect Yourself

You can minimize the chances that you will become a victim of identity theft.

Take the time to compare offers and research contractors when making home improvements.

Learn tips on how to protect yourself from fraud.



# Identity Theft

## What is Identity Theft?

**Identity Theft** is when someone uses your personal information such as your name, address, Social Security number, bank, or credit card account number without your knowledge to purchase goods and services.

## How can someone steal your identity?



- They can go through your trash and get your personal information. Make sure you shred all your important papers before you throw them out.
- They can steal your wallet or purse that has your ID, credit card, and bankcards.
- They can steal your mail or they can complete a change of address form so that your mail goes to their house.
- They can steal personal information from your home.
- They can pretend to be a business person and trick you into giving them your personal information.

## Has someone stolen your identity? What should you look for?



- Check your bank statements and credit card statements each month. Look for things you didn't buy or withdrawals you didn't make. Call your bank or credit card company if you notice an error.
- If you are not getting your bills or other mail that may mean that your address has been changed. Check with the post office to make sure it has your correct address.
- If you are denied credit for no reason, you may be a victim of identity theft.
- If you begin to receive calls or letters from debt collectors or businesses about things that you did not buy, you may be a victim of identity theft.

# What to Do if You Are a Victim of Identity Theft



1. Contact your credit card companies, phone and utility companies, and banks to close any accounts that have been tampered with.
2. Call all three credit reporting companies to place a fraud alert on your credit report and follow up in writing. This will stop the thief from obtaining more credit in your name.
3. Review your credit reports on a yearly basis to make sure that no one has opened any account or obtained loans under your name.
4. Consider direct deposit for checks that come at the same time every week. Direct deposit helps to prevent someone from stealing your money.
5. File a report with the local police department.
6. File a complaint with the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)) for investigations. Take these following steps:
  - ↳ Follow up in writing with everyone you speak to over the phone.
  - ↳ Use certified mail with a return receipt.
  - ↳ Keep copies of all the forms you send.
  - ↳ Keep **originals** of police reports, and letters to and from creditors. Share only **copies**.
  - ↳ Set up a filing system to keep your records organized.
  - ↳ Keep all files even if you think the case is closed.





## Home Improvement

When you need to fix up your home and it is a job too big for you to do yourself, think about hiring a contractor. Make sure that you choose a contractor who is honest and will get the job done the way you want it.

### Tips for finding a contractor:

- ✘ Do your research. Know how much you can afford and what you want done.
- ✘ Contact the State Attorney General Consumer Service Division [www.ct.gov/ag](http://www.ct.gov/ag) or (860) 808-5318 and the Better Business Bureau [www.connecticut.bbb.org](http://www.connecticut.bbb.org) or (203) 269-2700 to gather information on contractors you are considering.
- ✘ Ask your friends who used this person and if they liked their work.
- ✘ Compare bids and services and **get bids in writing**.

### Protect yourself against home improvement scams:

- ✘ Avoid unlicensed contractors.
- ✘ Do not use contractors who say they will arrange loans for you to pay for the work.
- ✘ If a deal sounds too good to be true, it probably is.
- ✘ If it is a good deal today, it will be a good deal tomorrow. Take your time and think it over. Don't be rushed into a decision.
- ✘ Before signing a contract, make sure all papers are fully completed, dated, and there are no blank spaces that can be filled in after you sign.
- ✘ Get a written contract with the contractor's signature that explains the costs, a detailed description of the work and materials, estimated start and completion dates, and contractor's name, address, and phone number.
- ✘ Get at least 3 written estimates from different contractors.



# Homeowners Beware

If You Own a Home Be Aware of these Scams:

**The Balloon Payment** - If you are behind on mortgage payments, a lender may offer to lower your monthly payments. The lender asks you to repay only the interest each month but at the end of the loan term, the entire amount you borrowed is due in one lump sum called a balloon payment. If you cannot pay the balloon payment, the lender can take your house.

**Loan Flipping** - A lender calls to talk about loan refinancing and claims it's time the equity in your home started "working" for you. You agree to refinance your loan, but the lender charges you high points and fees each time you refinance. If you get in over your head, your interest rate may increase and if you can't pay, you could lose your home.

**Credit Insurance Packing** - You've just agreed to a mortgage on terms you think you can afford. At closing, the lender gives you papers to sign that include charges for credit insurance or other "benefits" that you did not ask for and do not want or need.

**Mortgage Servicing Abuses** - After you get a mortgage, you receive a letter from your lender saying that your monthly payments will be higher than you expected. Other charges that you don't understand are added to the amount you owe. This increases your monthly payments or the amount you owe at the end of the loan term.

**Signing Over Your Deed** - You are having trouble paying your mortgage and another "lender" contacts you with an offer to help you find new financing. The lender asks you to deed your property to him/her and says it is temporary and it is to prevent foreclosure. The promised refinancing never comes through and once the lender has the deed to your property, the house belongs to the lender, and you lose your house.

**What to Do if You Think You Have Fallen for a Scam** - If you think your lender has broken the law, you can call the lender or the lender's company and register a complaint. You should also contact a lawyer, the Connecticut Attorney General's Office (860-808-5318), the Connecticut Department of Consumer Protection (1-800-842-2649), or the Federal Trade Commission (1-877-FTC-HELP). People 65 years of age and older can call the Consumer Law Project for Elders (1-800-296-1467) (a project of Connecticut Legal Services).



# Fraud

Fraud occurs when people try to get your money by giving you false or misleading information. This can happen in many different ways. It can happen over the phone, through the mail, in person at your front door, or even on the internet.



## Phone

- Telemarketers may call you and promise you prizes, but only if you give them your credit card number. If you have really won a prize there is no reason you need to give them your credit card number.
- Never give anyone your credit card number over the phone unless you made the call to place an order.
- You may get a call from someone asking for a donation to a charity. Ask the caller to mail you information about the charity. After receiving the information in the mail, then you can decide if you want to contribute to the charity. Do not make a donation to an unknown charity without checking the Better Business Bureau ([www.connecticut.bbb.org](http://www.connecticut.bbb.org)).

## Door



- Funeral chasers visit a family claiming that the deceased made a down payment on merchandise that is scheduled to be delivered, but there is a balance. Ask for an order signed by the deceased.



## Internet

- If you are looking for a job on-line, be careful of the information you give.
- You should **never** give your Social Security number or your bank information for a job on-line. Check the company's contact information and website to make sure it is real.



## Glossary of Terms

**Actual Rate:** A portion of the annual interest rate you pay each month on your loan. Note: The Actual Rate is generally only one of the costs of your loan; there may be others (see Annual Percentage Rate).

**Annual Fee:** The amount of money you need to pay each year to keep some credit cards. Some credit cards charge you a **once-a-year fee** (usually \$25 to \$75) just to have the card. This cost needs to be included in the overall price of the card when you compare offers.

**Annual Percentage Rate (APR):** Annual cost of the loan, which includes the interest paid on the loan, **PLUS** other fees and costs paid to obtain the loan, such as pre-paid interest, mortgage insurance, points and closing costs. Remember that the APR is usually higher than the stated Actual Rate. Be sure to read what the APR will be **AFTER** you receive the credit card. You might send in a reply for a credit card, but be given a card at a higher APR so check the rate **before you activate the new card**. If it's not what you want – send it back and cancel the account. If the card is offering an introductory rate, be sure to check how many months the rate lasts and check what the APR will be after the introductory period. Some credit cards charge a very low rate for the first 6 months. Companies assume that you won't notice the new rate when it goes into effect, hoping that you'll continue to use your card frequently regardless of the higher APR.

**Bankruptcy:** A legal process that gives you a level of protection from creditors and collection agencies during the time you address your debt situation.

**Collateral:** An asset, such as a home, put up to secure a loan.

**Compound Interest:** Interest on the principal, plus on the interest that builds up over time.

**Credit Insurance:** Insurance issued to cover the payment of a loan, installment purchase, or other obligation if the borrower dies or defaults.

**Co-Signer:** An individual who agrees to be responsible for another person's debt.

**Credit Reporting Company:** A company that keeps information and records about a consumer's credit history and rating score.

**Credit Report:** Information that a credit reporting company keeps on file and can report to others.

**Credit Score:** A number that rates a person's credit history, which helps a lender evaluate if it's worth giving the loan.

**Creditor:** A person or business who loans money.

**Debtor:** A person who owes money to another person or entity

**Debt Consolidation:** Combines all of your debt into a single loan.

**Debt Management Plan:** Provides a strategy to manage your budget and pay off your debt.

**Debt Negotiation:** A service provided by a company for a fee. The company claims it can settle your debt situation with creditors.

**Debt Settlement:** A fee-for-service provided by a company. You deposit money each month into an account set up by the company, which is held until there is enough money to pay creditors.

**Default:** A penalty that occurs when you have failed to make monthly mortgage or loan payments. Default may also occur when you fail to keep other legal agreements in the mortgage or loan. This can lead to foreclosure of the loan.

**Deferment:** A process that allows you to put off paying a loan for a set period of time.

**Equity:** The value of your property minus debt owed and other financial burdens.

**Grace Period:** The period of time an individual has to make a payment with out penalty.

**Identity Theft:** Robbery of your personal information used to purchase goods and services without your knowledge.

**Late Payment Fee** – This is the price for paying your bill late. Not only will you get charged a high price (usually \$25 to \$35) each time you are late, but the company will likely also raise your APR if you are late.

**Minimum Payment Due:** The minimum amount the credit card company requires you to pay each month. When you only pay the minimum payment, most of the money goes to pay off interest, **NOT** the principal.

**Mortgage:** A loan to purchase property, which gives the creditor/lender a security interest in the property. If you default (cannot pay) on the loans, the creditor/lender can foreclose on the property.

**Over-the-Credit-Limit Fee:** This is the price for letting your balance go over your credit card limit. You will get charged a high fee (usually \$25 to \$35) each time you go over the limit and the company will likely also raise your APR. Don't assume that the credit card company will reject a purchase that brings your balance a little over the limit. Credit card companies make a lot of money by approving purchases and then charging fees and raising rates.

**Penalty Rate:** This is the APR charged if you make late payments or go over the credit limit on your account.

**Secured Creditor:** A creditor that has taken collateral for a loan.

**Simple interest:** Interest computed only on the amount you borrow.

**Truth-In-Lending Disclosure:** Requires the lender to give you all information about the cost of the credit so that you understand the full cost of your loan and allows you to compare those costs with those of other loan programs or lenders.

**Unsecured Creditor:** A creditor **has not** taken collateral for a loan.

**Unsecured Debt:** There is no collateral tied to the loan.

**Variable Rate:** An interest rate on a loan that can change – it can go up or down.

**Warranty:** A written statement of the integrity of a product and of the maker's responsibility for the repair or replacement of defective parts.

# State and National Resources

## **Connecticut Legal Assistance Statewide Legal Services of Connecticut**

425 Main Street  
Middletown, CT 06457

(860) 344-0380  
1-800-453-3320, toll-free

Statewide Legal Services of Connecticut (SLS) is a private, nonprofit corporation that helps low-income people to understand their civil (non-criminal) legal problems. SLS is available by phone to low-income people throughout Connecticut and serves as the entry point to legal services offered at different offices across Connecticut. SLS may provide advice over the phone, mail information, or refer you to a legal services office or private attorney at no cost to you.

## **The Consumer Law Project for Elders** (a project of Connecticut of Legal Services)

1-800-296-1467

Provides free legal assistance throughout the state of Connecticut to people 60 and older who have consumer questions or problems. Additionally, legal service offices provide services in different regions:

### **Greater Hartford Legal Aid, Inc.**

999 Asylum Avenue  
Hartford, CT 06105-2465

[www.ghla.org](http://www.ghla.org)  
(860) 541-5000

### **New Haven Legal Assistance Association**

426 State Street  
New Haven, CT 06510-2018

[www.nhlegal.org](http://www.nhlegal.org)  
(203) 946-4811

### **Credit Counseling:**

Consumer Credit Counseling Service of Southern New England

[www.creditcounseling.org](http://www.creditcounseling.org)  
1-800-208-2227

225 Pitkin Street Suite 300  
East Hartford, CT 06108

61 Cherry Street, 2<sup>nd</sup> Floor  
Milford, CT 06460

627 Route 32  
North Franklin, CT 06254

### **Consumer Protection:**

Attorney General  
Department of Consumer Protection  
Better Business Bureau

(860) 808-5318  
(860) 713-6300  
(203) 269-2700

[www.sss.ct.gov/ag](http://www.sss.ct.gov/ag)  
[www.ct.gov/dcp/site](http://www.ct.gov/dcp/site)  
[www.connecticut.bbb.org](http://www.connecticut.bbb.org)