9-1 Resolving Credit Problems

OBJECTIVES
- ***Explain how to dispute an error on a credit statement.***
- ***List ways to prevent credit card fraud.***
- ***Describe the purpose of consumer advocacy groups.***
- ***Explain how government consumer protection services help consumers.***
- ***List ways to prevent garnishment and repossession of assets.***

Chapter 9 is about resolving problems with credit. In this chapter, you will learn about ways to avoid credit problems and how to resolve credit problems. You will also learn about bankruptcy and its purposes. You will study credit reporting and related laws. These laws protect both consumers and creditors in credit reporting, billing, collections, and granting or denying credit.

ERRORS AND FRAUD

When buying goods and services, there may be times when you think that you were cheated or that an error has been made. You may be due some type of adjustment to your account or the amount you owe. This remedy for unfair treatment is often called recourse. Your recourse may be returning damaged goods for a credit to your account. The recourse could be having an amount on your account reduced to reflect a correct price. You may get recourse in some other way to compensate you for errors or fraud. To get recourse, you must take action.

DISPUTING CHARGES
When you receive a credit account statement, compare the charges to your receipts. If you find a charge on the statement that you did not make or that is incorrect, take action right away to dispute the charge. Disputing a charge is the process of informing the credit company of the mistake. Disputing charges usually begins with a telephone call or a visit in person to report and discuss the problem. Always follow up with a written letter explaining what happened. When you keep good records, you have documentation that can help support your claim that the bill has an error or a false charge. Always keep receipts, statements, and other credit records you receive. Whenever you talk to a person about a dispute, write down the date, the person's name and title, the phone number, and the details discussed. Then you will have a record of what has happened and the steps you have taken.

A dispute letter should begin with your return address and the date. Read the credit account information to find the proper address to which you should send a dispute letter. Often, the address is not the same one you use for payments. Key the correct address in the letter and on the envelope. Include your credit account number in a subject line in the letter. State the problem with the account clearly. Give all the details needed to make the problem easy to understand. State any earlier steps you have taken related to the problem. For example, describe any phone calls you made regarding the error. State clearly the action you want the company to take, such as removing a charge. Indicate that you are enclosing a copy of the statement that contains the error, and place an enclosure notation at the end of the letter. Continue to communicate with the credit company until the dispute is resolved.

CREDIT CARD FRAUD
You may have improper charges made to your store or credit accounts. When someone intentionally uses your credit account to steal money or goods, this is a crime called credit card fraud. Credit card fraud is a felony (a serious crime). If you are a victim of credit card fraud, notify the creditor as soon as possible. Take steps such as these to help prevent credit card fraud:

- Carry only the cards you need.
- Keep a list of credit card account numbers and phone numbers so you can rapidly report a card that is lost or stolen.
- Verify purchases and account balances when you receive a statement.
- Shred receipts and statements that show your account number when you are finished with them.
- Do not loan your credit card to others.
- Know where your credit cards are at all times.
- Close inactive accounts because they are often targeted by thieves.
- Have mail delivered to a post office box or a secure mailbox.
- Mail bills only from a secure mailbox or a post office.
- Use only secure Web sites, and buy online only from reputable companies you know.
- Do not give out credit card or other private information over the telephone or by e-mail to people who say they are calling from your bank or credit card company.

CONSUMER ADVOCACY GROUPS

Consumer advocacy groups are organizations that promote consumers' rights. They often provide information about laws related to consumer rights. Some groups also seek to have laws passed that will be beneficial to consumers. Some groups focus on a single area, such as food safety. Other groups address a wide range of issues. Several groups deal with consumer issues related to using credit (see a partial list below). You can visit their Web sites to learn about the latest frauds and about how to protect yourself. These Web sites are a good place to do research before you accept some offer that sounds suspicious. Remember, when an offer sounds too good to be true, it probably is. Web sites such as the Fraud Bureau and the Independent Consumer Complaint Network allow users to log complaints about company practices or frauds and read complaints posted by others.

- Better Business Bureau: Promotes responsible business practices
- Consumer Action: Promotes consumers' rights and advocates for consumers in the media and before lawmakers (a nonprofit organization)
- Consumer Federation of America: Advocates for consumers through legislation
- Consumers Union: Publishes Consumer Reports, an independent, nonprofit testing and information organization that
- provides advice about products and services
- National Consumers League: Sponsors the National Fraud Information Center and addresses a wide range of issues
- Public Citizen: Addresses issues such as the right of consumers to seek redress in the courts; clean and safe energy sources; and strong health, safety, and environmental protections

GOVERNMENT CONSUMER PROTECTION SERVICES

Numerous federal and state agencies assist consumers. These agencies regulate trade, investigate crimes, and enforce laws. They test drugs, food, and other products for safety and to see if they live up to their claims.

FEDERAL AGENCIES

There are many agencies that protect and help consumers.

- The U.S. Consumer Product Safety Commission (CPSC) is one such agency. The CPSC is charged with protecting the public from unreasonable risk of death or injury from thousands of consumer products. The agency issues consumer recalls or alerts for products that are considered unsafe.
- The U.S. Food and Drug Administration (FDA) is one of the nation's oldest health agencies. It is a science-based law enforcement agency. Its mission is to protect public health and safety related to certain areas. The FDA ensures that foods, cosmetics, and medicines are safe. It investigates complaints, tests products, and allows safe products in the marketplace. The FDA also removes products that are not safe.
- The Federal Trade Commission (FTC) deals with issues that affect the U.S. economy. One of its goals is to keep a competitive marketplace for businesses and consumers. The Bureau of Consumer Protection is a part of the FTC. This bureau seeks to protect consumers against unfair, deceptive, or fraudulent practices. The FTC also provides consumer education. It publishes tips for avoiding scams and rip-offs and provides a place to file complaints online.
- The Federal Bureau of Investigation (FBI) is a part of the U.S. Department of Justice. The FBI investigates fraud and other crimes. It also publishes information on issues such as identity theft. The FBI's Web site lists current scams and tells you how to avoid them. Consumers can file a complaint online at several government sites.

STATE AGENCIES

State governments also have consumer protection services. Consumers can read the latest information about products and crimes, file reports, and ask questions. Many counties and cities provide consumer alerts and support as well. District attorneys' offices and nonprofit groups serve as places to get information. City and county government offices and local offices of consumer groups can be found using the Internet and the telephone book.

CREDIT DELINQUENCY

Delinquency means the failure to do what your duty or the law requires. When the term is used with regard to credit, delinquency means an overdue debt. A credit contract requires that you make payments on time. When you do not make payments on time, your account is in delinquency. As soon as you find you are unable to make payments as agreed, contact your creditors and explain the situation. Many creditors are willing to work with you so that you can pay your account. They will often reduce or postpone payments, reduce interest, or make special arrangements so you can avoid penalties for late payment.

COLLECTION AGENCIES

If payments on your credit account are overdue, your account may be turned over to a collection agency. Collection agencies legally have the right to represent the creditor to collect the amount due. If you do not pay your debt, they may file a lawsuit to get a judgment against you. A judgment is a ruling of a court of law. The judgment may give the collection agency the legal right to take assets away or to garnish your wages. This is a situation you want to avoid. A judgment is likely to have a bad effect on your credit rating. You may have to pay certain fees to the collection agency, as well as the debt amount owed.

GARNISHMENT

Garnishment is a proceeding in which a creditor may legally take possession of money or goods held by a third party in payment of a borrower's debt. For example, a creditor may take money from a worker's pay each month to pay a debt the worker owes. The money is paid directly from the employer to the creditor. Because the creditor has a legal garnishment order, the employer cooperates. Garnishment is one way creditors enforce judgments to receive payment for a debt. To prevent garnishment, follow these steps:

- Make payments on time as stated in the loan agreement.
- If you cannot pay, contact your creditor immediately to arrange a payment plan.
- Be up-front and truthful about your situation.
- Keep good records so you can defend your actions.
- Ask to negotiate claims to avoid having your account turned over to a collection agency.
- Respond to all legal documents; stay current in paying claims.

REPOSSESSION AND FORECLOSURE

A loan that has collateral pledged for repayment is called a secured loan or debt. If the borrower does not make payments as agreed on a secured loan, the property used as collateral can be taken away to pay the debt. Repossession is the process of taking an asset used for collateral, such as a car, and selling it to pay a debt. Having an item repossessed hurts the borrower's credit rating.

Foreclosure is a legal proceeding a creditor can use when a borrower does not make mortgage payments. The creditor may be able to force a sale of the property. Money from the sale is used to pay the mortgage. Debtors may lose the money they have paid so far as mortgage payments. They also may have to pay foreclosure costs. Foreclosure costs can include attorneys' fees, court costs, and interest charges. Foreclosure also hurts one's credit history.

The best way to avoid repossession or foreclosure is to be very careful when buying. Know what you can afford in a monthly payment. Do not take out a loan unless you are reasonably sure you can make the payments. If you find you cannot make payments as agreed, talk to the lender immediately. Work out an alternate arrangement, give back the asset, or find another way to resolve the problem.

9-2 Bankruptcy

OBJECTIVES

- ***Explain the purposes of bankruptcy.***
- ***List strategies to help avoid bankruptcy.***
- ***Describe Chapter 7 Liquidation bankruptcy.***
- ***Describe Chapter 13 Wage Earner Plan bankruptcy.***
- ***Explain bankruptcy exemptions and how they affect consumers.***

AVOIDING BANKRUPTCY

Credit that is used wisely can be a valuable tool in reaching financial goals. When credit is not used wisely, however, the consumer may build debt to the point where it can never be repaid. Bankruptcy is a legal procedure to relieve a person who cannot pay his or her debts of those debts. The person may be relieved of (not have to pay) most debts or may be allowed to repay some debts over a set period of time. This depends on the type of bankruptcy granted. Bankruptcy must be granted by a federal court. The person may have to surrender assets to be sold to help pay debts. In a voluntary bankruptcy, the individual asks the court to declare bankruptcy. Creditors or lenders can also ask the court to declare bankruptcy for a debtor. This situation is called involuntary bankruptcy.

Some common reasons why debtors cannot pay their bills and seek bankruptcy are listed below:

- Excessive medical bills (even with insurance coverage)
- Small business failure (half of all small businesses fail each year)
- Overspending and unwise use of credit
- Losing employment and being overextended
- Having no savings when unexpected events (losses) occur

Consumers should try to avoid bankruptcy, if possible. Bankruptcy damages a person's credit rating. It stays on the credit record for 10 years. It prevents the consumer from getting low interest rates on credit accounts or loans. Bankruptcy can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. The consumer may be left with very little property. Thus, it pays to try to find other ways to solve debt problems rather than seeking bankruptcy. Credit counseling, debt management, and debt consolidation are three strategies consumers may be able to use to avoid bankruptcy.

CREDIT COUNSELING

Credit counseling is available through nonprofit groups and other organizations. They work with debtors to arrange a payment plan for debts. They also provide lifestyle counseling to help people avoid credit problems in the future. Sometimes, these counselors are able to negotiate lower interest rates with creditors so that debt can be paid off sooner. This type of service allows people to pay their debts and get back on track with financial plans. Debtors must get credit counseling from a government-approved organization within 6 months before filing for any bankruptcy relief. You can find an approved credit counseling agency in your area on the U.S. Trustee Program Web site.

DEBT MANAGEMENT

A debt management service works with you and your creditors to create a workable plan for paying off debt. Debt management begins with a careful look at each credit balance. Its interest rate, minimum payments, and how soon it will be paid off are considered. This service often involves turning over your checking account and your bills to the debt manager. It also requires that you have sufficient income to be able to pay the outstanding debt. There is usually a fee or a commission charged for this service. You give up your credit cards and live on an allowance. At the end of the agreed-on period of time (usually 3 to 5 years), your debt has been repaid. With education in how to prevent credit problems from happening again, you then have a fresh start. Some debt management services that claim to be nonprofit charge unreasonably high fees. Many reputable services are accredited through the Association of Independent Consumer Credit Counseling Agencies or the National Foundation for Credit Counseling. Check with these organizations for information about a debt management company you are considering using.

DEBT CONSOLIDATION

Debt consolidation is the process of getting one loan to pay all your debts. Then a single monthly payment is made to repay that loan. The single payment is usually much less than the minimum payments on a number of loans or debts. Consolidation loans are available through banks and other financial institutions. There are finance companies that specialize in loans to pay off credit card debt. Many debt consolidation loans require collateral to secure the loan. If you are making payments on a house, this would be in the form of a second mortgage. An equity loan, or second mortgage, is secured by the value of your home. For example, if your house is valued at $150,000 and your mortgage is $120,000, then you have equity of $30,000. This amount could be borrowed to pay off high-interest credit cards and accounts. The interest rate is generally much lower, and the debtor can afford the payments.

PURPOSES AND TYPES OF BANKRUPTCY

There are two purposes of bankruptcy law. One purpose is to give a debtor a fresh start. A fresh start is needed when bills are so high that they could never be repaid. The second purpose is to ensure fair treatment for creditors. Bankruptcy laws are there to help people in hopeless situations get back on their feet. Bankruptcy was never intended to be used for reckless spending and avoiding responsibility. There are different types of bankruptcy. For example, Chapter 7 Liquidation and Chapter 13 Wage Earner Plan are for individuals. Chapter 11 is for businesses. Bankruptcy immediately stops all collections. This stay is automatic. When a debtor files for bankruptcy, all accounts and contracts are frozen. That means no further action, including lawsuits, can be taken.

CHAPTER 7

Also known as straight bankruptcy, Chapter 7 Liquidation is used when an individual seeks to have her or his debts discharged. A discharge is a court order that pardons the debtor from having to pay debts. Chapter 7 bankruptcy is also called liquidation.

The debtor's assets are sold (liquidated), and the money is used to repay as much of the debt as possible. Then all remaining debts (with a few exceptions) are discharged. Most debts can be discharged. This includes credit card balances, bank loans, medical bills, and court judgments. There are some types of debt, however, that are not discharged by bankruptcy, such as tax debt, student loans, government fines for criminal charges, child support, and spousal support. Before filing a Chapter 7 bankruptcy case, the debtor must get credit counseling and satisfy a means test. This test requires the debtor to confirm that his or her income does not exceed a certain amount. The amount varies by state.

Under Chapter 7, many debtors do not lose all of their property. This is because there are exemptions. An exemption is property that a debtor does not have to give up to pay off creditors. For example, there is a homestead (housing) exemption that allows the debtor to keep $15,000 worth of equity in a home. If the debtor's equity is that amount or less, the debtor can keep the home. Examples of other federal bankruptcy exemptions are listed below (this is not a complete list; amounts are adjusted periodically):

- Motor vehicle $ 2,400
- Household goods ($400 limit for a single item) $8,000
- Jewelry $1,000
- Tools (for debtor's trade) $1,500
- Personal injury compensation payments $15,000
- Other property $800
- Public assistance
- Social Security benefits
- Veterans' benefits

CHAPTER 13

Another form of bankruptcy for individuals is the Chapter 13 Wage Earner Plan. This type of bankruptcy is for debtors who have a good source of steady income. It is designed mostly for homeowners and working people. The debtor selects exemptions just as in Chapter 7. Rather than liquidate assets, debtors follow a plan to pay back as much debt as they can over a 3- to 5-year time period. After that time period, their debts are discharged. Chapter 13 forces creditors to stop interest and late penalties. While a Chapter 13 plan is in effect, creditors cannot start or continue collection efforts. They must accept what the bankruptcy court decides will be their settlement. In some cases, creditors who have made unsecured loans receive no more than 10 to 30 percent of the amount owed to them.

NEW BANKRUPTCY LEGISLATION

The Bankruptcy Abuse Prevention and Consumer Protection Act was approved by Congress in April 2005 and signed by President George W. Bush. Most parts of the law apply to cases filed on or after October 17, 2005. The law seeks to make it more difficult for consumers to erase all debt by requiring more people to file under Chapter 13 rather than under Chapter 7 bankruptcy. Some debtors who want to file under Chapter 7 must first complete a means test. This test is to see whether they have enough disposable income to repay debts under a Chapter 13 plan. The test compares the debtor's gross income to the median income in the state. Debtors who earn less than the median income in their state typically qualify for Chapter 7 bankruptcy. Other debtors may or may not qualify depending on other factors. Debtors who do not qualify for Chapter 7 bankruptcy may file for Chapter 13 bankruptcy. They will be required to repay some or all of their unsecured debt. The court can also convert a Chapter 7 case to a Chapter 13 case or dismiss the case (not allow bankruptcy). The new law requires most debtors to receive credit counseling at least 6 months before filing for bankruptcy. Debtors may also have to take a class on debt management techniques.

9-3 Consumer Protection and Laws

OBJECTIVES

- ***Explain the purpose of a credit report and credit score.***
- ***Explain consumer rights related to denied credit.***
- ***State the purposes of several consumer protection laws.***
- ***Explain the process of alternate dispute resolution.***
- ***Describe the process of resolution through filing a lawsuit.***
- ***List credit scams and ways to protect yourself from them.***

CREDIT REPORTS AND SCORES

Every person who has a Social Security number also has a credit file. Data in your credit file are shared with interested parties in a credit report. The purpose of a credit report is to give lenders and others information about your credit history and current status. A credit report contains a listing of your current credit accounts and their balances. Accounts you have had in the past may also be listed. If you have defaulted on a loan or made late payments, that is reported. The report contains personal data such as your address, phone number, Social Security number, and date of birth. It may include where you work and how much you earn.

The three major credit bureaus are Equifax, TransUnion, and Experian. Each of these bureaus collects and analyzes data about you and assigns a number called a credit score. The purpose of a credit score is to rate whether you are a good or poor credit risk. Example credit scores are shown to the right. The higher the score, the lower the risk. Many lenders use these scores provided by credit bureaus. Some lenders compute their own scores. There is no single cutoff score used by all lenders. The scores shown are examples only. Consumers can get their credit scores from the credit bureaus, usually for a charge. Newly passed laws allow you to view your credit reports once a year free. However, the score itself will probably cost you $30 or more.

Credit Score	Description
Up to 499	Unacceptable. Debtor has no credit established or has a previous bankruptcy or current delinquencies. (Credit requests would be denied.)
500–599	Poor. Risk is high. Debtor is improving but had too much credit or too many collections in the past. (Credit requests are denied or carry very high interest rates to cover high risk.)
600–699	Fair. Medium risk. Debtor has too much credit and too many payments but is not currently delinquent or in collection; credit history is not perfect. (Credit requests are granted with medium interest rates and lower limits.)
700–749	Good. Lower risk. Debtor has a fair load of debt not exceeding recommended levels; payment record is good. (Credit requests are granted with low interest rates and good limits.)
749–799	Very good. Low risk. Debtor can take on more debt without a problem; payment history is very good. (Credit requests are granted with low interest rates and high limits.)
800+	Excellent. Risk is minimal. Debtor has very little debt and usually pays off balances in full each month. (Credit requests are granted with lowest rates and highest limits.)

Follow these suggestions to improve your credit score:

- Pay all debts on or before the due dates.
- Pay more than minimum payments.
- Keep your debt as low as possible.
- Do not charge more than 50 percent of the credit line available to you.
- Pay off credit card balances when possible.
- Have a good job with solid income.
- Stay in the same job for several years.
- Own your house rather than rent.
- Check your credit report regularly to be sure it contains correct information.

CONSUMER RIGHTS

A number of laws protect consumers from unfair credit practices. These laws help consumers as well as outline their responsibilities. The laws cover topics such as credit reports, reasons a person may or may not be denied credit, and ways disputes can be resolved.

WHEN YOU ARE DENIED CREDIT

If you are denied credit, it may be because there is inaccurate information in your credit file. The Fair Credit Reporting Act gives you the right to know what is in your credit file. You can also find out who has seen your file. You may see your file at no charge within 30 days of a credit denial. You have the right to have inaccurate data investigated, corrected, and deleted from your file. The three national credit bureaus are required to furnish a new report. If information is correct, you can write your own statement giving your side of the issue. This statement must be added to the file and made available to lenders and others who see your credit report.

REVIEWING YOUR CREDIT REPORT

Consumers have the right to see one free copy of their credit reports annually (AnnualCreditReport.com). Consumers should check their credit files regularly to be sure there are no errors. When an error is discovered, it can be corrected before it results in denial of credit. Checking the report often can also help protect against credit card fraud.

BEING FULLY INFORMED

The Consumer Protection Act of 1968 is also known as the Truth-in-Lending Act. This act requires that consumers be fully informed about the cost of credit. Before a credit agreement is signed, a lot of information must be given, in writing:

- Cash price of the item being purchased
- Down payment or trade-in price
- Amount financed
- Any service fees or other costs being added to the price
- Finance charges
- Annual percentage rate
- Deferred payment price
- Amounts and dates of payments
- Description of the item being purchased
- Method of computing finance charge in case of early payoff

Truth-in-Lending limits a person's liability to $50 after a credit card is lost or stolen. There is no liability when a card is reported lost before its illegal use. The law requires that consumers be given a grace period of 3 days to change their minds about a credit contract in which their home is used for security. During those 3 days, consumers can change their minds and cancel a credit sale.

RESOLVING ERRORS

The Fair Credit Billing Act protects consumers who have billing disputes. The law applies to open-end credit, such as store or credit card accounts. It does not apply to installment loans. A consumer has 60 days from the day the bill is received to file a dispute. Then, the creditor has 30 days to respond to the complaint. Within 90 days after receiving your complaint, the creditor must either correct the error or show why the bill is correct. This law helps consumers resolve errors on their accounts in a timely manner. When an amount is in dispute, the creditor cannot charge interest on that amount. The creditor also cannot try to collect that amount. All credit card companies must have credit policies. They must tell their customers how to report errors.

DISCRIMINATION

The Equal Credit Opportunity Act protects consumers from discrimination in the granting or denying of credit. The act makes it illegal to discriminate on the basis of these factors:

- Gender
- Marital status
- Religion
- National origin
- Race
- Color
- Age
- Public assistance

DEBT COLLECTIONS

The Fair Debt Collection Practices Act protects consumers from abusive practices related to collecting debt. For example, threats and intimidation are not allowed. Debtors cannot be called at certain places, such as at work. The time of day is also important. Collection calls may not be made after 9 p.m. Collectors cannot call repeatedly throughout the day. Also, debt collectors must be sure the bill is accurate and allow the consumer to dispute it. Any disputed amounts must be resolved before they can be collected.

GETTING RECOURSE

A consumer may have trouble settling a dispute with a creditor. Rather than give up, the consumer can seek alternate dispute resolution. If that method does not settle the dispute, the consumer might file a lawsuit. Alternate Dispute Resolution Alternate dispute resolution (ADR) is a method of settling a dispute using a neutral third person. ADR is much less expensive than going to court. It is usually much faster also.

Negotiation occurs when two people get together, with or without a neutral third party, to come to an agreement. Both people talk about their point of view and how they want to see the issue resolved. They listen to each other and come to some type of agreement. The agreement usually involves both sides giving something and getting something in return.

Mediation, the next level of resolution, involves using a neutral third party to guide the process. The mediator talks to both parties and hears both sides of the issue. The mediator may allow the parties to talk to each other. The mediator then makes a proposed settlement.

Arbitration is the highest level of resolution. A third party, called an arbitrator, listens to both parties and then makes a decision. The decision may be binding on both sides. Arbitration may take several months. Both sides present their case formally, and rules of law are followed. The arbitrator is a professional who knows the law and is able to understand the issues.

FILING A LAWSUIT

When attempts to resolve a dispute have failed, a consumer may decide to file a lawsuit. Filing a complaint in small claims court is a simple and quick method of resolving a matter involving a small amount (usually less than $5,000). The plaintiff files a document called a complaint. The complaint is served on the defendant. The two parties appear before a judge, whose decision is final. This process usually takes from a few weeks to 2 months. Attorneys do not participate in small claims court.
For larger dollar amounts, regular trial courts settle disputes. Attorneys represent each side. The first step is hiring an attorney to represent you. The attorney tries to negotiate a settlement for you. If that fails, a lawsuit is filed. The case goes to trial, and the judge or jury makes a decision (called the verdict). If you win the lawsuit, you get a judgment against the defendant. This process often takes many months. It may also cost hundreds or thousands of dollars in attorneys' fees.

In a class action lawsuit, a group of people file a claim together. One attorney or law firm represents all the plaintiffs. Any judgment is then split among the plaintiffs, who may also share attorneys' fees.

CREDIT SCAMS AND RELATED CRIMES

A scam is a fake offer, sale, or other gimmick that will cost you money if you agree to it. Every year, millions of American consumers lose money in scams. The scam may allow thieves to access their bank or credit accounts or to steal from them in other ways. For example, a disreputable lender may offer a loan to a borrower who has a poor credit history and no assets to use as collateral. All the borrower has to do is a pay a large, up-front loan application fee. The loan is then denied, and the application fee is not returned.

A common scam is carried out by thieves from foreign countries. They ask you to transfer money through your bank account and keep a portion of the money for your fee. They send you a check, which you deposit. The check appears to be good. You wire the money to an address provided. However, the original check is later found to be worthless. You lose the money you wired to the thief, and you may have to pay a fee to the bank for depositing a bad check.

Credit repair scams are also common. The company claims to be able to replace your poor credit history with a good one. No one can "fix" bad credit. The services provided (for a fee) by such companies are nothing more than what you can do for yourself. They cannot take true information from your file. They cannot change your credit rating. Any advice they give is available to you free of charge from various government and nonprofit agencies.

New scams are being developed daily. When in doubt, do not agree! Ask questions and research offers and companies to avoid being caught in a scam.

IDENTITY THEFT

Identity theft occurs when someone uses your personal information without your permission to commit fraud or other crimes. According to the U.S. government, identity theft is one of the fastest-growing crimes in America. When a thief has your Social Security number, it can be used to get other personal data. The data may be used to apply for credit in your name. The credit card or loan is used to buy goods, but the credit bills are not paid. The account may have false address information, so the bills do not come to you. For this reason, you may not find out for some time that you are a victim of identity theft.

Identity thieves may also open a bank account in your name and then write bad checks against the account. They may open service accounts in your name, such as for telephone or cable TV service, and not pay the bills. They may even take a job and file tax returns using your name and personal data.

One reason this crime is on the rise is because identity can be stolen without any contact with the thief. It can happen even if the victim does not make a purchase or do anything risky. Simple acts, such as giving personal information to an employer, can expose you to identity theft. Your information may be stolen from your employer's records. Your data can also be stolen from your mail, such as credit card statements. If you find that your identity has been stolen, or if you lose items that show your personal data, take the following steps quickly:

- Close credit and bank accounts. Open new accounts with new passwords and credit alerts.
- Have a fraud alert placed on your credit reports. This can help stop someone from opening a credit account in your name.
- Contact the government agencies that issued your identification documents, such as a driver's license. Follow the agency's procedure to get a replacement document, if needed. Ask the agency to place an alert in your file so that another person cannot get an identification document in your name.

PHISHING

Phishing is a common Internet scam. The thieves use e-mail messages and Web sites designed to look like the sites of real companies. They appear to be real businesses, banks, and government agencies. Consumers are deceived into giving account information and personal data, such as user names and passwords. The phishers then use that information to steal money from accounts and for identity theft. If you think that a message regarding your bank account or other financial matters may be real, contact the bank or other business by phone. Ask if there is a problem with your account. Do not reply to the e-mail message or go to the link provided.

FOCUS ON: Being A Cosigner

A cosigner is a person who guarantees the debt of another person. In many cases, a person who does not have credit established will have a hard time getting a loan. The lender needs some assurance that the debt will be paid. A cosigner is a person with good credit or assets that can be used as collateral. The cosigner vouches for the person who needs credit. The cosigner must repay the loan if the debtor does not repay the loan as agreed. The cosigner's credit rating will also be affected by a delinquency. On credit reports, cosigning for a loan has the same effect as taking out a loan yourself. In other words, creditors will count it as existing debt to the cosigner. Before you cosign for a loan, be sure to understand your position. Be prepared to repay the debt at any point in time. Some cosigners find it a good idea to make one payment in advance. This helps avoid having a late payment if the borrower does not pay on time.

Chapter Summary

- ***Errors in your credit accounts and in your credit report can be corrected.***
- ***Mistakes or false charges to a credit account should be disputed in writing.***
- ***To avoid credit card fraud, the consumer must take precautions, such as shredding receipts and checking bills.***
- ***Consumer advocacy groups and governmental agencies provide information and help for consumers who are victims of crime.***
- ***Credit delinquencies can have serious outcomes. Your account may be turned over to a collection agency. Your earnings may be garnished.***
- ***Items bought on credit, such as a car, may be repossessed. If you do not make mortgage payments, the creditor may be able to foreclose on the property.***
- ***Bankruptcy is a legal procedure to relieve a person who cannot pay his or her debts of those debts. The person may be relieved of most debts or may be allowed to repay some debts over a set period of time. Bankruptcy should be used only as a last resort.***
- ***Credit counseling, debt management, and debt consolidation are ways of avoiding bankruptcy.***
- ***Chapter 7 Liquidation is also known as straight bankruptcy; the debtor gives up property and has many debts discharged.***
- ***Chapter 13 Wage Earner Plan is bankruptcy for people who have a regular source of income. They pay off debts for 3 to 5 years, and some remaining debts are discharged.***
- ***Credit reports are maintained for all people using credit. Consumers have the right to view and challenge items in a credit report.***
- ***Truth-in-Lending is a law requiring full disclosure of all costs of credit.***
- ***The law requires that consumers be given a grace period of 3 days to change their minds about a credit contract in which their home is used for security.***
- ***Errors in credit accounts must be investigated and adjusted; time limits are imposed by the Fair Credit Billing Act.***
- ***Discrimination is not allowed in the granting or denial of credit.***
- ***Alternate dispute resolution and lawsuits are ways for consumers to get recourse in credit disputes.***
- ***Every year, millions of American consumers lose money in scams related to credit or identity theft. Consumers should ask questions and research offers and companies to avoid being caught in a scam.***