THE CREDIT HANDBOOK

FROM THE OFFICE OF
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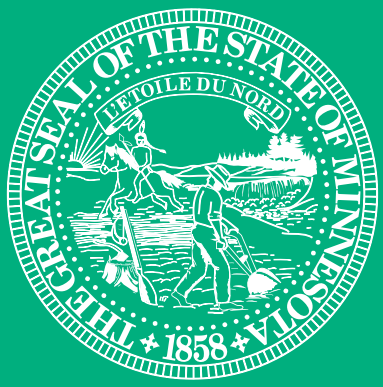

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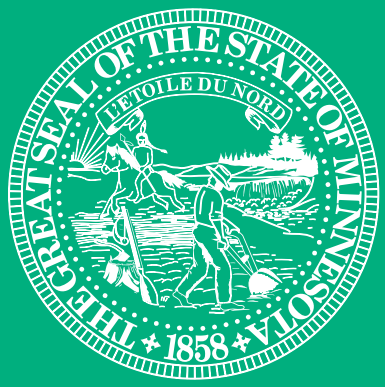

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Introduction

Credit seems to be the American way of life. In early 2012, there were over 2 billion credit cards in use in the United States. **Today, the average consumer has 15 credit obligations** including credit cards (such as department store cards, gas cards, and bank cards) and installment loans (such as mortgage loans, student loans, and auto loans). Credit can be an excellent tool when it's used well. But unfortunately, the road to easy credit contains some potholes.

This handbook is a guide to using credit cards. It will explain why most of us choose to use credit, provide tips to help you choose the right credit for you, detail the fees and terms to know, explain common pitfalls, and clarify your credit rights.

The ABCs of Credit

Credit offers convenience. And, in today's economy, using consumer credit has become a major element of personal money management. Credit cards allow you to buy and use items now but pay for them later. With credit, you can enjoy a purchase while you're paying for it – or you can make a purchase when you lack ready cash. But, like other types of credit, there is usually a charge to borrow money. And, money borrowed is money that must be paid back. You can gain a lot from using credit. You can also lose a lot if you don't handle credit well.

Where Do I Start?

If you don't have a credit history, your first step will be to start building one. Consider applying for a local store's charge card or a small loan at a local lending institution. Ask whether the creditor reports accounts to a credit bureau. If the creditor does, and you pay back your debts on time, you will begin building a good credit history. Be sure to consider how much the card or loan will cost you and look out for hidden fees.

If you don't have a credit history, your first step will be to start building one.

If you are applying for a loan or credit card from a local bank, you may want to sit down with a banker. The banker may know you personally and can better judge your individual situation. Of course, this is less feasible for most people today, since computers have taken over much of the guesswork involved in granting credit.

Choices! Choices!

There are three basic types of credit available. These are:

1. **Revolving credit.** Most major credit cards and some department store cards are revolving credit accounts. You have a credit limit or "line," and your monthly payments are based on how much credit you've used at any time. Most revolving credit is unsecured.
2. **Open 30-day agreements.** Charge cards require you to pay off your balance at the end of each month, or 30-day agreement period. Your balance depends on your ability to pay and your past usage. Interest is only charged on late payments. If you make too many late payments, you may lose the card.
3. **Installment loans.** Mortgage, car, furniture, and personal loans are types of installment loans. You borrow a fixed amount of money and are given a period of time to pay it back, usually in equal monthly payments. Most loans are secured by the property you are purchasing.

The three basic types of credit are revolving credit, open 30-day agreements, and installment loans.

Credit Cards

Many of us enter into our first consumer credit transaction when we open a credit card account. Below is a list of some of the advantages and disadvantages of using credit cards.

The Case for Credit Cards

Today it's hard to live without credit. Reasons people use credit cards include:

1. **It's a safety net.** Having a credit card helps many of us handle emergencies.
2. **It's flexible.** Credit cards may be used almost everywhere in the world, and sometimes seem more welcome than a personal check, or even cash.
3. **It offers protections against theft.** If a card is lost or stolen, federal law limits your liability.
4. **It's leverage.** Chargeback protections are helpful if you are not successful in resolving a complaint about faulty merchandise or poor service. You may be able to tell your credit card issuer that you refuse to pay for a service or product that disappointed you.
5. **It's the way of the world.** Credit cards guarantee reservations for hotels and rental cars and let you purchase items by phone or over the Internet.
6. **It's convenient.** It's easier to carry one or two credit cards than a lot of cash. This is especially true when traveling.

7. **It can help with money management.** You can use your monthly credit card statements to help you budget and track expenses. Also, if you see an item on sale but lack the cash, you can take advantage of a sale price by using credit (this benefit quickly fades if you pay interest or other fees on your credit card debt).
8. **It can help you get more credit. Before granting you more credit, credit issuers like to see that you have managed money well in the past.** If you have, and your credit report reflects that you have, it will be easier to qualify for a loan or a new credit card.

Before granting you more credit, credit issuers like to see that you have managed money well in the past.

There Are Disadvantages, Too

So, what's to dispute? Credit looks easy! Charge it now, pay for it later – and just make one easy payment at the end of the month. But there can be drawbacks to using credit. Some credit card users find they've spent too much money on too many things. Some can't pay all their credit card bills – or can't pay their bills on time. **And, those who have trouble paying back their debts may find they can't borrow money when they want to make a really important purchase – like a house or car.** Other disadvantages to using credit include:

Those who have trouble paying back their debts may find they can't borrow money when they want to make a really important purchase.

1. **It almost always costs money.** Credit card issuers charge many different fees, and interest payments can really increase the true cost of your purchases.
2. **It can seem too easy.** Credit may encourage you to overspend.
3. **It rewards the impulse for instant gratification.** Credit may discourage you from comparison shopping or bargain hunting, or delaying a purchase until your finances improve.
4. **It can ruin your credit score.** Overuse and a bad repayment record can hurt your ability to get credit in the future.
5. **It ties up your future income.** If you have debts to repay, today's income is paying for yesterday's bills.

So, after weighing the advantages and disadvantages to using credit cards, most of us will still choose to keep one or two around. But which credit card is the best? And how do you know what credit is really costing you? Stay tuned. We will explore these issues in the next two chapters.

How to Get Credit

If you're thinking about applying for credit, pick up an application today. Review the application to see what information you'll need to gather. Review your credit report, too. Then, when you're ready to apply for credit, you've already done your homework.

Credit Reports

Simply put, your credit report is a compilation of data gathered by credit reporting agencies about you. The credit reporting agencies sell this information to companies and organizations with a legitimate business need to know how you manage credit.

Your credit report is a compilation of data gathered by credit reporting agencies about you.

As you've seen earlier in this book, it's important to build a good credit history. How you handle credit today will affect your access to credit later. For example, if you have a major credit card and several store cards, you make payments on time, and pay off your bills, your credit report will show that you have been responsible with credit. This will help you when you wish to get a new credit card, finance a car, or purchase a house. A negative credit rating can hurt your ability to get further credit. This is because most creditors rely on your credit history when deciding whether to grant you credit.

What Information Is in a Credit Report?

Your credit report is based on information supplied over time by your creditors. Information in your credit report includes:

- **Identification and Employment Data:** Your name, birth date, address, Social Security number, employer, and spouse's name are routinely listed. The bureau may also provide other information, such as your employment history, home ownership, income, and previous address, if the creditor requests it.
- **Payment History:** Your accounts with different creditors are listed, along with your credit limits, how much of each limit you've used, and how you've repaid your debts. Related items might include collection actions against you.
- **Inquiries:** Credit bureaus maintain a record of all creditors who have requested your credit report within the last six months.
- **Public Records:** Public information that relates to your credit-worthiness, such as bankruptcy filings or tax liens, will be listed.

Information in your credit report includes identification and employment data, payment history, inquiries, and public records.

Creditors use all of this information to judge whether you are likely to be a good credit risk.

It's a good idea to look at your own credit report at least once a year.

If a creditor rejects your application for credit because of your credit report, you may ask the credit bureau for a copy of your credit report. If you request it within 60 days of being turned down, the report is free. See page 54 for more information.

Look at Your Credit Report

It's a good idea to look at your own report at least once a year. This way you'll know what the creditors know about you. Even if you have not been denied credit, it's good to find out what is in your credit file. It is especially good to look at your report if you've never reviewed it or if you are planning a major purchase in the near future. Checking out your credit report in advance could speed the credit-granting process.

Obtaining Your Report

Every year consumers can get a free copy of their credit report from each of the credit agencies—Equifax, TransUnion, and Experian. The credit bureaus have created a centralized website, toll-free telephone number, and mailing address for Minnesota consumers to order their reports. Annual reports may be requested in the following ways:

1) Logging on to: *www.AnnualCreditReport.com*
2) Calling: 877-322-8228
3) Writing: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA., 30348-5281

Be aware that some companies may try to charge you for your free annual credit report by adding on services that you might not need. You are not obligated to buy these services to obtain a copy of your credit report. Although consumers can only receive their credit reports for free once per year, consumers may still request additional reports by mail. Consumers may contact the credit bureaus as follows:

Equifax
P.O. Box 74024
Atlanta, GA 30347
Phone: 800-685-1111
www.equifax.com

Experian
P.O. Box 2002
Allen, TX 75013
Phone: 888-397-3742
www.experian.com

TransUnion
2 Baldwin Place
P.O. Box 1000
Chester, PA 19022
Phone: 800-888-4213
www.transunion.com

You Can Correct Errors in Your Report

Experts estimate that 80% of credit reports contain mistakes, ranging from misspelled names to accounts that the consumer did not open.

Consumers should dispute such errors *in writing* with the company and the credit bureaus. Under the Fair Credit Reporting Act ("FCRA"), credit bureaus must investigate disputes within 60 days and must remove all inaccuracies. If you disagree with the results of the investigation, you may write a brief statement explaining your side of the story. At your request, your note will be included with future credit reports.

If negative information in your report is accurate, only time will erase it. Credit bureaus may report negative information for seven years and bankruptcies for ten years.

Credit Scores

Ever wonder how you really rate with creditors? As you know, creditors want to know whether you will be a good credit risk. To help them figure this out, most creditors use scoring systems they have designed over time. **Your credit score is determined by assigning points to such things as your income, how long you've been in your current job, what your work is, whether you own your home or rent, how much credit you have, and more.** Here's how the system works.

Information about you and how you've used credit in the past (your bill paying history, the types of accounts you have, whether you make late payments, etc.), is collected from your credit application and your credit report. Scoring models may also consider your job or occupation, length of employment, and whether you own your own home. Creditors use a statistical program to compare this information to the credit performance of similar consumers. **A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. The total number of points—the credit score—helps predict how creditworthy you are.**

It boils down to the three "Cs":

1. **Character.** Creditors believe that people with "character" will pay their bills even during difficult times.
2. **Capacity.** Your ability to get credit is based in part on your ability to repay your debts.
3. **Collateral.** These assets reflect how you'll repay debts if your capacity fails. Unlike a mortgage or car loan, credit card debt is unsecured. Your signature is your promise to repay the debt.

Your credit score is determined by assigning points to such things as your income, how long you've been in your current job, what your work is, whether you own your home or rent, how much credit you have, and more.

Different lenders will look at your situation and may score you differently. Therefore, it is smart to apply again if you've been turned down. But here's an important tip: don't apply too many places at once for credit cards. When you apply for credit, this is recorded on your credit report as an "inquiry." Your report lists all the inquiries made by creditors, and too many credit card inquiries at once may cause your credit score to go down. Creditors may think that you could have too many open accounts and become overextended.

How Can I Improve My Score?

You may wonder how you can improve your credit score. Credit models are complex and vary widely, so it is better to look at general action you can take, rather than trying to change your score with one particular creditor. These tips can help improve your score:

To improve your credit score, pay your bills on time, look at outstanding debt, give it time, don't apply for too many credit cards at once, and look at your current accounts.

- **Pay your bills on time.** Payment history is usually a significant factor in your credit score. It will hurt your score if you pay bills late, have had a bill referred to collections, or have declared bankruptcy.
- **Look at your outstanding debt.** Many scoring models look at the amount of debt you have and compare this to your credit limits. If the amount you owe is close to your credit limits, this may hurt your score. Paying down your outstanding balances can help your score. Also, try to avoid new debt.
- **Give it time.** It will help your score if you have a longer track record with credit. Having a fairly new credit history may hurt your score, but this should be offset if you make timely payments and keep low balances.
- **Don't apply for too many credit cards at once.** If you have too many "inquiries" on your credit report, indicating that you have applied for credit with different creditors, this could hurt your score. Remember, not all inquiries are counted. Inquiries by creditors monitoring your account or offering "prescreened" credit cards are not counted. Most credit scores are not affected by multiple inquiries from auto, mortgage, or student loan lenders within a short period of time. These inquiries are usually treated as a single inquiry and will have little impact on your score.
- **Look at your current accounts.** Although a track record is good, having too many credit card accounts can hurt your score. In addition, many credit scoring models look at the types of accounts you have. For example, loans from finance companies may hurt your credit score.

What if I Get Turned Down?

If you are turned down for credit, ask why. The federal Equal Credit Opportunity Act requires that the creditor give you an explanation, though sometimes you have to ask for it. You may find that the creditor believes your salary is too low, your credit score is not high enough, or you haven't been at your current job long enough. Time may resolve these problems, so try again when your situation changes. If you were turned down because of your credit score, ask the creditor how you can best improve your chances if you apply again.

Sometimes you can be denied credit because of information from a credit report. In this case, the federal Fair Credit Reporting Act requires the creditor to tell you which credit bureau supplied the information. You have the right to contact the credit bureau and get a free copy of your credit report within 60 days.

If the creditor says you were turned down because you were too close to your credit limits on your current cards or that you have too many accounts, you may want to reapply after paying down your balances or closing some accounts.

Creditors must tell you within 30 days if your credit application is rejected and must provide a written statement explaining why.

Co-Signers Can Help

If you are a young person applying for credit for the first time, you may be able to get your first credit card by having your parents co-sign for you. You would qualify for the credit card using your parents' income and good repayment history. You can then make purchases with the credit card, and you or your parents are responsible to pay the bills.

Other people having difficulty getting credit can use a friend or family member as a co-signer as well. This is recommended as a last resort because problems may occur. **The co-signer must promise to pay your debts if you don't.** Even if you make regular payments, your co-signer's personal credit capacity is reduced by the amount of your credit limit. Worse, a creditor has the right to demand payment in full from your co-signer if you become delinquent in your payments. If you use a co-signer, repay your debts promptly and after a short time try again to get credit on your own.

Do You Really Want To Be a Co-signer?

When you are asked to co-sign a loan, consider the worst case scenario —that you will be repaying the debt. Then ask yourself whether you can handle additional debt right now. People who co-sign a loan often regret it later. For example, if your girlfriend or boyfriend asks you to co-sign a

There are many factors you should consider before co-signing a loan.

loan, think twice. The debt could be around longer than the significant other. Also, many grandparents agree to co-sign car loans or student loans for their grandchildren. If the grandchild doesn't pay the debt, the grandparent is stuck with it. Before you co-sign, consider this information:

- **Be sure you can afford to pay the loan.** If you're asked to pay and can't, you could be sued and your credit rating could be damaged.
- **Even if you're not asked to repay the debt, your liability for the loan may keep you from getting other credit.** Creditors will consider the co-signed loan as one of your obligations.
- **Before you pledge property, such as your car or home, to secure the loan, make sure you understand the consequences.** If the borrower defaults, you could lose these items.
- **Ask the lender to calculate the amount of money you might owe.** The lender isn't required to do this but may if asked. You also may be able to negotiate the specific terms of your obligation. For example, you may want to limit your liability to the principal on the loan, and not include late charges, court costs, or attorney's fees. In this case, ask the lender to include a statement in the contract similar to: "The co-signer will be responsible only for the principal balance on this loan at the time of default."
- **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 problem or make back payments without having to repay the entire amount immediately.
- **Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and warranties—if you're co-signing for a purchase.** You may need these documents if there's a dispute between the borrower and the seller. The lender is not required to give you these papers; you may have to get copies from the borrower.

Try a Secured Credit Card

If you don't qualify for a major credit card, and don't want to ask a co-signer for help, consider a secured credit card. These are major bank credit cards tied to a savings account you hold at the same bank. The money in your savings account is your credit limit. The savings account acts as a security deposit for your credit card. Secured credit cards work and look exactly like regular bankcards. One reminder: make sure your lender makes regular reports to a credit bureau, so your secured credit card will help you build a credit history.

The Cost of Credit

With 71 percent of Americans using at least one credit card, it's obvious our society is hooked on credit – but we don't always understand what credit costs us. This chapter will help you learn about credit terms and fees and figure out what type of credit card is best for you. Get out the calculator! We might be doing a little math.

Most Americans carry between five and ten credit cards.

What Will It Cost Me?

The most important consideration when choosing a credit card is the price. Two major items make up the price of a card – one is the annual fee and the other is the interest rate (usually called the "annual percentage rate" or APR). But other fees can add up, too.

Study These Fees

Before selecting a credit card, learn which credit terms and conditions apply. Each affects the overall cost of the credit you will be using. Consider these costs:

Before selecting a credit card, learn which credit terms and conditions apply.

- **Annual Fees:** Many credit issuers charge an annual membership fee. These fees vary quite a bit, ranging from $15 to $75 or more. Remember that not all cards charge an annual fee.
- **Annual Percentage Rate:** The annual percentage rate or APR is disclosed to you when you open the account and is noted on each bill you receive. It is a measure of the cost of credit, expressed as a yearly rate. The card issuer also must disclose the "periodic rate." This tells you how the credit issuer figures the finance charge for each billing period.
- **Transaction Fees and Other Charges:** Credit card issuers charge other fees, too. For example, some card issuers charge a fee when you use the card to obtain a cash advance, when you are late making your payment, or when you go over your credit limit. Others charge a flat monthly fee whether or not you use the card. If you end up paying these fees regularly, you can wipe out any savings you gained from a card with no annual fee or a low interest rate.

To get the lowest price, look at both annual fees and interest rates. Ideally, you will get a card with no annual fee and a low interest rate. More realistically, look for a card with the best combination for you. For example, if you pay your balance off every month, look for a card with no annual fee. If you make full payment within the grace period each month, you will not be charged interest, so you do not need to be as concerned about the APR. If you regularly carry a balance, you

will pay interest and finance charges. In this case you should look for a card with a low interest rate, even if it means paying an annual fee.

A word of warning: most new credit card users plan to always pay off their balance each month, so they don't worry about the APR on their card. Down the road, many of these same people find they don't always pay off their balance in full each month. So, it pays to consider the APR up front, in case you turn into a typical credit card user.

How Is the Finance Charge Figured?

If you usually have an outstanding balance on your card, it is important to understand how your finance charge is computed. The method used can make a difference in how much interest you pay. The three main ways card issuers figure finance charges are:

In 2014, credit card holders who carried a balance carried an average of $15,611.

1. **Average Daily Balance:** The average daily balance method gives you credit for your payment from the day the card issuer receives it. To figure the balance due, the card issuer totals the beginning balance for each day in the billing period and deducts any payments credited to your account that day. New purchases may or may not be added to the balance, depending on the plan. Cash advances are typically added to your balance right away. The resulting daily balances are added up for the billing cycle, and then divided by the number of days in the billing period to arrive at the "average daily balance." This is the most commonly used method.

   If you have an outstanding balance on your credit card, send in your payment as soon as you get your bill.

   If you have an outstanding balance on your credit card, send in your payment as soon as you get your bill. Most issuers use the "average daily balance" method to calculate interest charges. That means additional interest charges accumulate every day your balance goes unpaid. Even if you aren't paying off the balance in full, you will pay less interest for the month—and over the long run.

2. **Adjusted Balance:** This balance is computed by subtracting the payments you made during a billing period from the balance you owed at the end of the previous billing period. New purchases that you made during the billing period are not included. Under this method, you have until the end of the billing cycle to pay part of your balance and you avoid the interest charges on that portion. This is the most advantageous balance method for credit users.

3. **Previous Balance:** This method simply looks at the balance you owed at the end of the previous billing period. Payments or new purchases that you made during the current billing period are not taken into account.

Beware the Minimum Payment Trap

The longer you take to pay off your credit card balance, the more your credit purchases will cost you. If you make only the minimum payments due every month, you may feel as though you're standing in place, or even losing ground. Your balance won't go down much, even if you're not adding any new charges. This is because when you pay just a little toward your credit card debt, most of the payment you make goes toward interest.

Approximately 33% of Americans pay less than the full balance on their cards each month.

Monthly minimum payments are usually very low—most card issuers only ask for 2-4 percent of the outstanding balance. This helps consumers who are in a pinch—for a month or two you can make a very small payment and still be a customer in good standing. **However, if you make it a habit to only pay the minimum due, interest piles on and you will pay a lot more over time.**

Do the Math: Let's say you have a balance of $1,000 on your credit card, and you do not add any new charges. If you pay only the minimum payment of 3 percent each month, it will take you 10 years to pay off the balance. And you will pay almost $800 in finance charges. If your minimum payment is only 2 percent of the outstanding balance, you will be paying off this debt for almost 20 years and will pay interest charges of $1,931.

Grace Period

Also called a "free period," a grace period allows you to avoid finance charges completely by paying your balance in full before the "due date" shown on your bill. If your credit card plan allows a grace period, the card issuer must send you your bill at least 21 days before your payment is due. This is to ensure that you have enough time to make your payment by the due date. The catch is that if you carry an outstanding balance from one month to the next, you lose your grace period. In this case, most cards charge interest immediately on all new purchases that you make.

A grace period allows you to avoid finance charges completely by paying your balance in full before the "due date" shown on your bill.

Remember that you usually forfeit your grace period if you have an outstanding balance from one month to the next. For example, let's say your balance is $500 this month. You are low on funds, so you just pay $200. This means you carry a $300 balance over to next month. By doing this, you really lose twice. You will pay interest on the outstanding balance of $300, and you will pay interest on all new purchases. And you will pay interest every month until your balance is back to zero.

When you have an outstanding balance, the interest you are charged is added to the total amount that you owe the creditor.

Get Interested in Interest

A practice called "compounding of interest" can result in higher than expected interest costs. **When you have an outstanding balance, the interest you are charged is added to the total amount that you owe the creditor.** Last month's interest is included in the balance this month and used to calculate the interest you must pay. This increases the actual rate that you pay.

The difference in interest rates can significantly affect the money you spend on credit in a year, too. For example, let's say you have an outstanding balance of $1,000 on your credit card. The difference between a credit card with an 8 percent interest rate and a card with a 20 percent interest rate is huge. In one year, with compounding 8 percent interest, you would pay about $83 in finance charges. In one year, with compounding 20 percent interest, you would pay about $220 in finance charges.

Do the Math: Credit card companies express interest rates as a monthly charge. Monthly rates are often quoted as 1 percent or 1½ percent. This seems inexpensive, but remember, this is interest only for one month. To find the APR multiply this number by 12. Interest at 1½ percent per month would be 18 percent per year.

Credit card issuers who offer cards with very low interest rates receive a lot of applications. As a result, they turn down many people who want their cards. Generally people who have the best credit ratings can more easily obtain credit cards with advantageous rates.

When Is Simple Interest Not So Simple?

When the lender quotes you a simple interest rate of 6 percent on a $500 loan borrowed for 1 year, the interest rate is calculated using the simple interest rate formula:

I = PRT (where I = interest)
P = principal
R = rate of interest
T = time of loan in years

In this example, the interest is $30: I = $500 x .06 x 1 = $30.

Looks easy, right? But, in reality, using credit is a bit more complicated. In most cases you do not get to use the full $500 for the entire year. Therefore, assume the loan will be paid off in 12 equal monthly installment payments beginning in 30 days. You have full use of the entire $500 for only the first

month. Since the loan is completely paid off at the end of the year you will owe an average balance for the year of approximately $250. A $30 interest charge on an average outstanding balance of $250 is, in reality, costing 12 percent a year. In this case, the effective cost of borrowing (or the APR) is twice as large as the stated interest rate.

Can Interest Rates Jump?

Yes, creditors can change the interest rate on variable-rate cards but must provide you notice of the change. Be vigilant. Watch for interest rate hikes. If you have a card with a high interest rate, restrict new purchases, make it a priority to pay down the debt on that card, and consider moving your unpaid balance to another card with a lower interest rate.

Lost or Stolen Credit Cards

If your credit card is lost or stolen you will be inconvenienced, but federal law caps your financial liability. You do not have to pay for any unauthorized charges that are made after you report your card lost or stolen. If your card is used before you report it lost or stolen, the most you will pay is $50 per account, as long as you report the loss within 60 days.

Extras

"Teasers" and "add-ons" are often offered by credit card companies to entice you to try their card. These gimmicks may include warranty protection, death and disability insurance, free airline insurance, frequent flyer miles, and roadside assistance. Sometimes these extras may really benefit you. Other times you don't get as much value from the so-called benefits as you expect. Remember, the key is to shop for the best card for you.

Credit Insurance

Some creditors require or encourage you to buy credit insurance when you are purchasing an item on credit. Basically, if you die, or for some other reason are unable to continue making your credit payments, the insurance company will pay off the loan or credit card debt. This type of insurance is often overpriced and consumers rarely get value for their money. It is estimated that more than 70 percent of the purchase price goes to commissions for salespeople.

In 2013, credit card issuers fired off more than 3 billion offers—up from 2.7 billion offers in 1995. Eighty-eight percent of consumers admitted to immediately shredding or throwing out these offers.

If you receive a mailing that promises credit card protection, watch out. Most of the promised protections are things you can do for yourself, for free.

Credit Card Protection Membership Probably Not Worth Your Money

If you receive a mailing that promises credit card protection, watch out. The sales pitch probably offers insurance to protect you from fraudulent purchases if your credit cards are lost or stolen. **Most of the promised protections are things you can do for yourself, for free.**

The services these companies offer are either already provided by your credit card companies or mirror protections you have under federal law. Let's look at the fine print:

- **You are promised a free credit report.** Minnesota consumers are eligible to obtain free annual copies of their credit reports. An amendment to the federal Fair Credit Reporting Act (FCRA) requires each of the three national consumer reporting agencies to provide consumers with an annual copy of their credit report for free.

  You can also obtain a free copy of your report if, in the past 60 days, you were denied credit based on information in the report. If this is the case, just contact the credit reporting agency and ask for a copy.

- **You are promised registration for all your credit cards.** You can make a list of your credit cards and their toll-free customer service phone numbers. Then, if a problem occurs, you can quickly call to report lost or stolen credit cards on your own.

- **You are promised protection against fraudulent charges.** Federal law already protects you against unauthorized charges on your credit cards. The law only allows your credit card company to require you to pay for a maximum of $50 per card if you report the loss or theft of a card within 60 days. If you report the card lost or stolen before it is used fraudulently, you are not responsible for any future fraudulent charges.

- **You are promised a 24-hour toll-free hotline.** Your credit card companies already have toll-free hotlines to report loss or theft. In addition, credit card companies say that consumers who lose their cards usually cancel them more quickly than "credit card protection groups."

Be on the Lookout

Companies have started to make aggressive, misleading, and deceptive telemarketing calls to sign people up for optional financial products, in some cases, charging people's credit cards for enrollment even though the consumer did not agree to purchase anything. In other cases, people are

tricked into unknowingly signing up for these products, usually by inducing consumers to say "OK" or "yes" to a benign statement on the phone without understanding they are signing up and then treating that response as authorization to bill their credit cards.

Money Saving Tips

Credit is a tool and when it is used wisely it can really benefit you.
To save yourself money, follow these tips:

- Whenever possible, pay your full balance each month. This way you avoid paying finance charges. When you carry a balance forward from month to month, you lose the grace period and all new charges accrue interest right away. Remember that leaving even a small balance can result in large interest payments the next month.
- If you usually pay your balance in full each month, get a card with no annual fee. The interest rate the issuer charges will matter less because you won't usually pay it.
- Make a payment as soon as you can to reduce the interest you owe and to make sure you won't pay a late fee.
- Ask the card issuer if you can get a lower interest rate on your existing card for being a good customer.
- Always try to pay more than the "minimum payment" to reduce your balance faster.
- Read the mail you get from your credit card companies to spot changes in policies.
- Save all receipts and compare them with your credit card statement.
- **If you believe there is an error on your statement, contact your credit card company as soon as you can.**
- Know when your bill usually arrives, and contact the company if it's missing. This helps you flag possible fraud.
- **If your card is lost or stolen, call your credit card company immediately.** The maximum you can be required to pay for unauthorized charges is $50 per card, if you notify the credit card issuers promptly.
- Never give your credit card number to someone you don't know.
- Keep track of the amounts you have charged to avoid a fee for exceeding your credit limit.
- If you have been committing a certain amount of money each month to pay off your credit card debt, don't stop when you get one card paid off. Earmark that same amount of money to another debt, until you are completely paid up.

If you discover an error on your credit card statement, you must notify the creditor in writing within 60 days.

- **If you have outstanding balances on more than one card, pay off the card with the highest interest rate first.** Be sure to stay in good standing by making monthly payments to each of your credit card issuers, but make your largest payment to the card with the highest interest rate. This will help you pay off your debt more quickly.
- If you have an outstanding balance on a card that is charging you a high rate of interest, switch to a card with a lower interest rate and transfer your unpaid balances. First, ask your credit card issuer for a lower interest rate. Let the issuer know you plan to cancel your card if you can't get a lower rate. Many issuers want to keep their current customers, so they will offer you a lower rate automatically for contacting them. If your lender won't cooperate with you, look for a better deal someplace else. Just be sure to read the fine print. For example, stipulations may limit the low interest rate to six months, or may not apply at all to transferred balances.
- Avoid using your credit card for cash advances. A cash advance is really a loan, and usually has a hefty interest charge attached. The rate may even be higher than the interest you pay on purchases. **In addition, you usually don't get a grace period with cash advances, so interest starts accruing immediately.**

You usually don't get a grace period with cash advances, so interest starts accruing immediately.

Is Credit a Trap?

Credit can work for you or against you. It depends how you use it. Let's look at an example. We know the average American family that carries credit card debt owes $15,611. Let's say a family has this debt on one card. The card has an annual percentage rate of 18 percent and requires a minimum payment per month of 4 percent of the outstanding balance. If the family chooses to make just the minimum payment each month, the family will be paying this debt off for 15 years! That's a long time. The double whammy is that the family will pay a lot, too. The total the family will pay is $24,850.98. The additional $9,239.98 is the interest they will pay!

When Credit Goes Bad

One drawback to credit is that because it is readily available, it can be easy to get in over your head. Maybe an event in your life left you short of cash for a time. Or, maybe the debts just piled up, and now you're not sure what to do about them.

When you experience a severe credit problem, the problem can compound itself. For example, if you are unable to pay your debts, debt collectors may start calling, your car may be repossessed, your wages may be garnished, and you may begin to worry about keeping your home.

This chapter will walk you through the various options you have when you need help dealing with debt. However you got to the spot you're in, there is hope and there is help.

Outstanding credit card debt grew from $247 billion in 1991 to $880 billion in 2014.

Are You in a Credit Crisis?

If you answer yes to two or more of these questions, you may need to scale back your use of credit and consider getting some help managing your money.

1. Are you borrowing to pay for items you used to pay for with cash?
2. Is an increasing percentage of your income going to pay off debts?
3. Is your savings cushion inadequate or nonexistent?
4. Can you make only the minimum payments on your revolving charge accounts?
5. Are you at or near the credit limit on your cards?
6. Have circumstances forced you to take out a loan to make payments on a previous loan?
7. Are you unsure about how much you owe?
8. Are your monthly bills more than 20 percent of your take-home pay? (Excluding rent or mortgage payments).
9. If you lost your job, would you be in immediate financial difficulty?

I Can't Pay My Bills

If you are having a hard time making payments to creditors, it is best to deal with the problem head-on.

If you are having a hard time making payments to creditors, it is best to deal with the problem head-on.

1. **Examine your situation.** List all of your debts and your income. See if you can figure out a debt payment plan that will work for you. Remember, you will also need the discipline to follow through with it.
2. **Talk to your creditors.** Don't wait until your payments are late—call right away. Creditors may be willing to work out a revised payment plan with you. But, they cannot help you if you don't contact them. Never

ignore your creditors. If you get mail from a creditor, open it and read it. Ignoring your credit problem for awhile will only make it much worse later.

3. **Get Help.** If you feel you're in over your head, or if you have a lot of different payments to juggle, you may want help. Nonprofit credit counseling services offer low-cost or free counseling. Many of these agencies will help you figure out a debt repayment plan and also work with you on budgeting and other money issues. They will also talk to creditors on your behalf.
4. **Only as a last resort, you may need to consider bankruptcy to help settle your debts.**

Taxes

If you owe money to the government, consider putting this debt toward the top of your list.

If you owe money to the government, consider putting this debt toward the top of your list. Your first choice should be to file your tax returns and pay what you owe. If you cannot pay the full amount, the second best option is to pay as much as you can. If you must take this course, treat the state Department of Revenue and the Internal Revenue Service like any other creditor. Let them know you will be making a partial payment, and tell them when you plan to make payment in full.

If you are unable to pay what you owe, the interest and penalties can really add up. If you file your tax returns but don't pay what you owe, you will be charged a late payment penalty in addition to owing interest. If you don't file at all, you will pay the late payment penalty and a late filing penalty (these penalties are in addition to the interest that will accrue on the amount you owe). If you are unsure whether you owe the government a debt, obtain a copy of your credit report by contacting one of the three national credit bureaus. **While the IRS does not currently report unpaid taxes to the credit bureaus, tax liens do show up on your credit report.**

Student Loans

When you took out your student loan you agreed to be responsible to repay it. You signed a legally binding promissory note and agreed to repay the loan according to its terms. You are responsible for repaying the loan even if you quit school, can't find a job, or didn't like the education you received.

Ask for a Deferment or Forbearance

If you are having trouble paying a student loan, work with your lender before you default. Two options include deferment and forbearance. Deferment is a legal right you have to postpone payment if you meet the criteria for deferment. Examples might include going back to school or the birth of a child. Forbearance is when you ask the lender for a

temporary break in payments or a reduction in payments. The lender may grant your request for a forbearance, but the lender is not obligated to do so. Students usually use forbearance if they don't qualify for a deferment. Either of these options buys you a little time to get back on your feet financially. However, you still owe the money you borrowed, and when the deferment or forbearance ends, you will again be making monthly student loan payments.

Work directly with your school or other lender to request a deferment or forbearance. Remember, you must continue to pay your loans until you receive notice that your request has been approved. If you stop paying when you apply for deferment or forbearance, you may end up in default, and then not qualify for the deferment or forbearance.

Defaulting on a Student Loan

If you default on your loan, the lender may take action to recover the money. The lender may garnish your wages, seize your tax refunds, and deny future requests for federal student aid. In addition, a default will probably be reported to credit bureaus and remain on your credit report for seven years. This will hurt your chances to obtain other credit.

If you default on your student loan, the lender may take action to recover the money.

If you have defaulted on your student loan, consider a couple of options. First, you may try to rehabilitate your loan. If you successfully rehabilitate your loan, the default notation will be removed from your credit report. To rehabilitate a direct loan you will have to make 12 consecutive monthly payments. To rehabilitate a Federal Family Education Loan ("FFEL") you must make 12 payments and your loan must be resold.

Second, you may consider consolidating a defaulted loan. In certain cases this is allowed. Consolidation helps you combine one or more loans into a new loan. To do this you must make a "satisfactory repayment agreement," usually consisting of three consecutive monthly payments, with the prior lender.

Consolidating a loan will result in a credit report bearing the notation that the defaulted loan was "paid in full." This notation will remain on your credit report for seven years and may still raise a red flag with future creditors.

Home Loans

If you fall behind on your mortgage payments, contact your lender right away to avoid foreclosure. Most lenders will work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. Other

lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt. If you and your lender are unable to work out a plan, contact a housing counseling agency for help.

If you need a loan, think twice about using your home as collateral. What you're really doing is putting your home on the line.

Warning: Think Twice About Using Your Home as Collateral. If you need a loan, think twice about using your home as collateral. What you're really doing is putting your home on the line. If you are thinking about refinancing your mortgage loan or getting a second mortgage or a home equity loan, remember that if you can't make the required payments, you could lose your house and the equity you've gained.

Debt Payment Plan

If you feel that you're losing ground and not managing your debts as well as you'd like to, set up a debt payment plan. Completing this plan will take patience. You will have to stick to the plan until your debts are repaid. But remember – paying back a little is better than doing nothing or just worrying about the problem. Paying back a little will give you a sense of control. It will also let you begin to resolve your problem.

Experts say you can afford to spend about 10-20 percent of your net income on debts.

To set up your plan, take these steps:

1. Figure out who you owe and how much you owe.
2. Decide how much you can pay back and when you can pay it back.
3. Set up a plan for repaying your debts.
4. Discuss your plan with your creditors.
5. Implement some tough belt-tightening measures for a time. Stick to your plan to help you control your spending.
6. Occasionally revisit your plan to make sure it is keeping pace with your debts, your daily living expenses, and any pay increases or other new resources.

If you want to attack your debts, there are a few options to increase the money available to repay them.

- First, you may want to examine your daily living expenses and find places you can cut back.
- Second, you may consider selling assets.
- Third, you may wish to get a second job, or have a family member earn additional money that can be used to repay debts.
- Fourth, loan consolidation, home equity loans, or refinancing your home might be options to consider (though the cost of borrowing money this way is generally high, and putting your home on the line is a risky trade-off).

If there is not enough money to repay all of your debts, you'll have to prioritize them. **If you are balancing a car payment, a house payment, and credit card payments, common consensus is to pay the secured debt first. This means your priority will be your house and car payments.** You may also want to stay current on utilities and insurance payments. This is so you will not lose these goods or services. For example, if you are even one day late in making a car payment, the lender who financed your car may repossess it. Most utility service and insurance coverage stops when you stop paying for them. House foreclosures don't move as quickly, but if you get behind in your mortgage payments, you will probably pay penalties and you may lose your house.

If you are balancing a car payment, a house payment, and credit card payments, common consensus is to pay the secured debt first. This means your priority will be your house and car payments.

Talk to Your Creditors

If you don't have the money to cover other debts such as credit card bills and medical bills, inform these creditors of your current situation and your plans to repay the debts. While most creditors will try to work with you, not paying your bills on time can still result in a negative credit rating, garnishment, or bankruptcy.

Contact a Credit Counseling Service

Consumer credit counseling agencies help individuals or families with financial problems. These nonprofit groups help with budgets, money management, and debt repayment plans. Certified counselors will help you examine ways to solve your current financial problems. They will also help educate you so that you can prevent future difficulties. The counselor will review your financial situation and provide possible solutions. The counselor will also help you develop a spending plan that covers both your living expenses and payments to your creditors.

If you have severe debt, the counselor may help you set up a debt management plan. This is a systematic way to pay down your outstanding debt. You pay money to the consumer credit counseling agency and it sends the money to your creditors. Benefits to you include making just one monthly payment, possibly seeing finance charges reduced or waived, and receiving fewer collection calls. You may find credit counseling agencies listed in the phone book. Or, if your employer offers it, contact your employee assistance plan for help. These services are also available through some military bases, universities, credit unions, and housing authorities.

In considering a credit counseling service, get the details about what "counseling" services the company will actually provide. Read the contract carefully before you sign up for a debt management plan offered by such

companies to make sure you understand what is being offered. Sometimes, these companies work with for-profit companies in consolidating your loans. Before you pay or "contribute" to any organization, check it out by contacting the National Foundation for Consumer Credit, the Better Business Bureau, and/or the Attorney General's Office. See page 66 for contact information.

A Note About Debt Settlement Companies

Debt settlement/negotiation companies promise you quick results to get out of debt. They typically tell you to stop paying your bills altogether and instead save the monthly payments you are making in a savings account. Once you have sufficient funds, the company will supposedly contact your creditors to negotiate a lump-sum payoff of your debt. Debt settlement/negotiation companies often promise you that they can cut your bills in half or more.

The Legislature passed a bill in 2009 supported by the Attorney General's Office that brings debt settlement companies under a regulatory framework.

Debt settlement companies were largely unregulated until the Legislature passed a bill in 2009 supported by the Attorney General's Office that brings such companies under a regulatory framework. Under the law, which went into effect on August 1, 2009, debt settlement companies must register with the Department of Commerce. Under the new law debt settlers are prohibited from:

- Telling consumers to stop paying their creditors;
- Advising consumers that entering a debt settlement plan will shield them from interest, fees, collection activity, garnishment, or lawsuits;
- Representing to consumers that entering a debt settlement plan will improve their credit score; or
- Falsely representing that the debt settler can negotiate better settlement terms than a debtor could on his or her own.

Debt Collection

Debt Collectors

Knowing your rights can help you deal with collection agencies. If you owe money to a business, the business may try to collect the money itself, or the business may hire a collection agency. Either way, you have the right not to be harassed or abused. But your rights differ depending upon who is collecting the debt. You have more rights if an outside collection agency has been hired.

A debt collector is a person or company that collects the debts owed to another creditor.

The federal Fair Debt Collection Practices Act and state laws govern the practices of debt collectors. These laws give you protections and set the following rules for collectors:

- Collectors may only call between the hours of 8 a.m. and 9 p.m.
- Collectors may not call you at work if your employer disapproves of the calls and notifies the collector to stop calling.
- Collectors may not make false statements, use unfair practices, or harass you.
- Collectors must stop contacting you if you ask in writing.
- Collectors may not accept cash from you without giving you a receipt.
- Collectors must give you the full name of their agency.
- Collectors may not threaten you with legal action they do not intend to take.
- Collectors cannot contact your neighbors or any other third party except to locate you. (The collector cannot reveal to the other person that the collector is trying to collect a debt.)
- Collectors cannot use postcards or envelopes which obviously come from a collection agency.
- Collectors cannot garnish your wages or seize your property unless they have filed a legal action against you.

Debt collectors must stop contacting you if you ask them to stop in writing.

Within five days of the collector's first call or letter to you, the collector must send you written notice. This notice details the amount of your debt, the name of the company you owe, and that the agency will assume the information they have is correct unless you disagree within 30 days.

If you disagree with the collection agency, you must send the agency a letter within 30 days. If you send a letter, the agency must stop trying to collect the debt until it sends you proof that you owe the debt.

You have the right to stop all collection attempts, at home or at work. Inform the collection agency in writing that you no longer wish to be contacted. Once you do that, the agency can only contact you to tell you that it is discontinuing its collection efforts, or that it is going to take some other action, such as suing you, to recover the debt.

If you are the victim of illegal collection agency tactics, you can sue the collection agency to recover actual damages plus punitive damages. You may also recover attorney's fees if you are successful in your suit against the collection agency (see page 57 for more information).

The Minnesota Department of Commerce licenses and regulates collection agencies in the state of Minnesota. If you are interested in information on a collection agency or want to make a complaint against one, you may contact the Minnesota Department of Commerce as follows:

Minnesota Department of Commerce
85 East Seventh Place, Suite 500
St. Paul, MN 55101
651-296-2488
www.mn.gov/commerce

Answering a Lawsuit

Start of a Lawsuit

To start a lawsuit against you, a person or company must serve a Summons and Complaint on you either: (a) by delivering it to you personally or leaving it at your home; or (b) by mail, if you agree in writing to accept "service" of the Summons and Complaint by mail and sign a form that so indicates. The person or company starting the lawsuit is known as the "Plaintiff." The person being sued is known as the "Defendant." The Summons informs you that you must provide a formal, written legal "answer" to the Complaint within 20 days after you receive the legal documents.

It is very important that you do not ignore a Summons and Complaint served on you. If you do not "answer" you will be in "default," and a "default judgment" can be entered against you.

The Summons and Complaint served on you may not include a court file number. They are, however, the legal documents that begin the lawsuit. **It is very important that you do not ignore the documents, or you will be in "default."** No court hearing is required for a default judgment to be entered against you if you do not properly respond to the Complaint. You will not be notified if a default judgment is entered against you. In fact, you may not be aware that you have "defaulted" until you discover that your bank accounts or wages have been garnished.

You should promptly consult a lawyer if you receive a Summons and Complaint claiming you owe money. If you cannot identify an attorney to advise you, the Minnesota State Bar Association's Attorney Referral Service is available on the Internet at *www.mnfindalawyer.com*.

Answering a Complaint

The "Answer" is the formal legal name for your response to the Complaint. **The Answer must meet certain requirements of the Minnesota Rules of Civil Procedure. Contacting the Plaintiff or its attorney by telephone or written correspondence is not "answering" the Complaint.** Though the Plaintiff may encourage you to call if you have questions regarding a bill or dispute, doing so is not a formal "Answer." Some court clerks have form "Answers" which may be of assistance to you. You must serve a copy of your Answer on the Plaintiff's attorney by mail, fax, or hand delivery, and complete an Affidavit of Service that explains who was served, how, and on what date. The Affidavit of Service form must be signed in front of a notary public or a court clerk. If you want a judge to hear the dispute, you should file the original Answer and Affidavit of Service with the court in the county in which you are being sued after you have served your Answer on the Plaintiff's attorney. You will be required to pay a court filing fee. (If you meet certain financial guidelines, however, you may not be required to pay the court filing fee. You may obtain more information regarding a waiver of the fee by contacting the clerk of court.)

Failure to Answer

If you do not "answer" the Complaint, the Plaintiff may get a "default" judgment entered against you requiring you to pay money. **By getting a default judgment, the Plaintiff may be able to initiate a separate garnishment action against you.** Garnishment is a way the Plaintiff can take money out of your bank account or paycheck in order to collect the money you owe pursuant to the default judgment.

By getting a default judgment, the Plaintiff may be able to initiate a separate garnishment action against you.

Motion to Vacate

If judgment is already entered by the time you "answer," you may be able to request that the judgment be "vacated" or canceled. You must make the request to the court in which the judgment was ordered. The most common reasons for requesting that a judgment be vacated are if you believe the judgment was entered due to: (1) mistake, inadvertence, surprise, or excusable neglect; or (2) fraud, misrepresentation, or other misconduct of an adverse party. Examples may include that you thought you "answered" by phone call or letter or you were not properly served with a Summons and Complaint. Other reasons to "vacate" exist, but you may wish

to consult with an attorney to pursue those options. **In any event, if you decide to request that a judgment be vacated, you should do so as soon as possible after you become aware of the judgment.** You may want to contact the clerk of court to ask whether the clerk has a form for you to make your request.

Garnishment

Garnishment is a process a creditor may use to recover money you owe by collecting it from a third party such as your employer or your bank. If a creditor attempts to garnish your wages or bank account, it is helpful to know how the garnishment process works and which assets are exempt.

Garnishment can only take place after a civil lawsuit has been brought against you.

When Can Garnishment Take Place?

Garnishment can only take place after a civil lawsuit has been brought against you. A lawsuit is brought when the plaintiff—the person to whom you owe money—serves a copy of a "complaint" on you. The plaintiff's "complaint" is his or her claim that you owe money.

Typically, garnishment occurs after the plaintiff in the lawsuit wins a court judgment against you requiring you to pay some amount of money. By winning a judgment, the plaintiff becomes a "judgment creditor," and can then initiate a separate garnishment lawsuit against you.

However, garnishment can also take place *before* the plaintiff has won a court judgment against you. **Garnishment can occur before judgment if you do not respond to ("answer") the plaintiff's "complaint" within 20 days after it was served on you.** This means it is very important that you not simply ignore legal documents you receive. If you do not respond to the plaintiff's lawsuit, then you are considered to be in "default." If you are in "default," the plaintiff only needs to wait another 20 days (for a total of 40 days from the time the lawsuit was started) before garnishing the amount he or she says you owe. Because of this, you should promptly consult a lawyer if you receive a legal document called a "complaint" claiming you owe money.

Finally, in rare circumstances, garnishment can take place before judgment if it appears that you intend to delay or defraud your creditors by removing, converting, or selling your property to avoid paying the debt. The creditor in this instance must obtain a "prejudgment garnishment order," typically after a court hearing on the matter.

How Is Garnishment Started?

To begin garnishment, a creditor sends a "garnishment summons" to the "garnishee"—typically your employer or bank—and a worksheet for the garnishee to list and report your earnings or assets. The garnishment summons will include your name, address, the amount of money you owe, and the date of the court judgment against you or the date you were in default.

Within five days of sending the garnishment summons to your employer or bank, the creditor must mail a copy of it to you at your last known address, along with a sworn statement called an "affidavit of service" showing proof that you were served with a "complaint" alleging that you owe the money.

How Can I Claim My Money Is Exempt from Garnishment?

You have the right to claim that certain earnings or assets are "exempt" from garnishment (your creditor cannot take them) by completing a "garnishment exemption notice." The following is a description of exempt wages and funds.

You have the right to claim that certain earnings or assets are "exempt" from garnishment.

Exempt Wages

If the creditor is trying to take money from your paycheck, you should receive notice before your wages are garnished or taken. **Generally, creditors cannot garnish more than 25% of your net wages, or any of your net wages if they are less than $290 per week.** If you have received public assistance based on need, then creditors cannot take any of your wages for six months after you received the assistance, if you timely fill out the proper paperwork. To claim that wages cannot be taken (i.e., are "exempt"), you must promptly return to the creditor's attorney the "Debtor's Exemption Claim Notice" that came with the "Garnishment Exemption Notice and Notice of Intent to Garnish Earnings." Calling the creditor is not sufficient. If the creditor's attorney does not receive this exemption notice within ten days, the creditor can seek to garnish your wages. If the creditor does not agree that your wages are exempt, it can still seek to garnish your wages, and you will have to ask the court to find your wages cannot be taken.

Exempt Bank Funds

If the creditor is trying to take money from your bank account, the bank will "freeze" enough money in your account to pay off your debt to the creditor. You will not receive notice of the bank garnishment until after your funds are already frozen. You will not have access to your funds while they are frozen. Your checks may "bounce," and you may incur overdraft charges during this time. You may want to contact your bank immediately.

To claim that funds in your bank account cannot be taken you must sign and return within 14 days to the bank (and the creditor's attorney) the "Exemption Notice" and the last 60 days of statements for that bank account.

If you deposit qualified public assistance checks (or wages if you are on or have received public assistance within the last six months or if your paycheck is already being garnished at 25%) in a bank account, the creditor cannot garnish your account for 60 days, if you timely fill out the proper paperwork. **To claim that funds in your bank account cannot be taken (i.e., are "exempt") you must sign and return within 14 days to the bank (and the creditor's attorney) the "Exemption Notice" (the form your bank sent to you when it received a Garnishment Summons from the creditor) and the last 60 days of statements for that bank account.** Calling the creditor is not sufficient. You may want to include copies of documents (i.e. benefit letters, etc.) to show why your funds are exempt. If you don't claim an exemption within 14 days from the date the bank mailed the exemption notice to you, the bank may turn over your frozen funds to the creditor.

If you do claim an exemption in a timely manner, the bank will "unfreeze" your funds and release them to you in seven days unless the creditor "objects" to your "exemption claim." If the creditor "objects," it must send you a written objection to your exemption claim, along with a form called "A Request for Hearing and Notice of Hearing." If the creditor sends you this form, you must fill out and file with the court the "Request for Hearing" form within ten days of receiving the objection, or the bank can release your money to the creditor. You must then attend the court hearing and show the judge why you believe your funds are exempt. You can ask the judge to order the creditor to pay you $100 if you believe the creditor did not have good cause to object to your "exemption claim."

How Does Garnishment Work?

If you can't claim that your wages or bank funds are exempt, the creditor can take all of your bank funds or a portion of your earnings in order to satisfy your debt. **In wage garnishment, your employer will withhold a portion of each paycheck—typically 25% of your weekly net income—for all paydays that fall within 70 days after your employer received a garnishment summons from the creditor.** You are entitled to be paid either 75% of your net (or disposable) wages or 40 times the federal minimum wage, whichever is more. (Net wages includes your regular pay, sick pay and overtime, minus the withholdings required by law.)

Here's how to calculate the amount of your paycheck protected from garnishment:

1. **Calculate your disposable earnings.** Your disposable earnings include your regular pay, sick pay, and overtime, minus all deductions including federal and state taxes, social security taxes, and any other deductions required by law.
2. **Determine what portion of your earnings will be protected.** If you earn only the federal minimum wage, all of your earnings are protected from garnishment. If you earn more than the minimum wage, the protected amount may be calculated in one of two ways, whichever is higher:
   - **Method One:** 75% of your weekly disposable income, which is calculated as .75 x your weekly, after-taxes earnings.
   - **Method Two:** A week's wages at the federal minimum hourly wage, which is figured by multiplying 40 hours by the current federal minimum wage per hour. The federal minimum wage for most Minnesota employees is $7.25 an hour. In the following examples, we will be using the federal minimum wage.

If you earn more than the minimum wage, the protected amount may be calculated in one of two ways, whichever is higher.

Here are a few examples of how this works:

1. **Your disposable income in a week is $180.** None of this may be garnished because it is less than the minimum wage ($290).
2. **Your disposable income in a week is $300.** This would leave $10 available to be garnished. You would have $75 available for garnishment using method one ($300 x .75 = $225 exemption, so $300 - $225 = $75 available for garnishment). Using method two you would only have $10 available for garnishment ($300 - $290 exemption = $10). Remember that you get to use the number that is in your best interest.
3. **Your disposable income in a week is $350.** This would leave $60 available for garnishment. In this example, method two would be in your favor, making $60 available for garnishment. Method one results in $87.50 available for garnishment, so you will be garnished the lower amount.

Once the appropriate amount has been calculated and withheld by your employer or bank, your creditor typically obtains a "writ of execution" (for a fee chargeable to you). **A writ of execution is a court order that authorizes your employer or bank to release your garnished wages or frozen bank assets to your creditor.** One writ of execution can release garnished funds over a number of pay periods. Without a writ of execution, the creditor must obtain your written authorization to release the

garnished money. You may refuse to authorize the release, or you may agree to it in order to avoid paying the fee for a writ of execution.

Can I Be Fired for Being Garnished?

State law prohibits an employer from firing a debtor because of garnishments, regardless of the number of times they occur.

How Can I Avoid Garnishment?

The best way to avoid garnishment is by paying your bills on time. **Do not ignore letters from collection agencies, even if you dispute a debt. If you are unable to pay on time, contact your creditors right away to work out a revised or reduced payment schedule.** They might be willing to accept a payment plan, or even willing to settle for a lesser amount. If you reach a settlement, be sure to get it in writing and signed by both parties. While creditors are not obligated to agree to such a schedule, they may be willing to work with you, since collection and garnishment efforts can be costly. If you are sued over a debt you did not pay, be sure to take steps quickly to defend the lawsuit by initially answering the creditor's complaint against you. Consider seeking help from an attorney in these circumstances.

Vehicle Repossession

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. **Your car can be repossessed when you're just one day late in making a payment.**

Your car can be repossessed when you're just one day late in making a payment.

If a creditor threatens repossession, try to negotiate with the creditor. Repossession is an expensive option, so the creditor may be willing to work out a payment plan with you. You may also want to talk to an attorney. Or, you may want to consider turning the vehicle over to the creditor. This might save you money in the long run. The creditor will have fewer costs, because less will be spent getting the car back (either way, the creditor will probably try to pass these costs on to you). The creditor will also be able to re-sell the vehicle more quickly.

When you refuse to give up the vehicle, the creditor may take you to court to try to get it back. If you lose in court, the legal costs may be passed on to you.

If your car is repossessed, you will probably have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car. The creditor must conduct a sale designed to get a fair price for the car. If the creditor gets less for the car than you owe on it, you may be asked to make up the difference. The creditor may sue you to recover the difference.

Creditors who are pursuing repossession do have to follow a few rules. **For example, the car may be towed from in front of your house, but the creditor may not break into your garage to get your car.** Also, if a creditor loaned you money to buy a car, then the creditor can only repossess the car. The creditor cannot keep other items that might be in the car when it is repossessed.

Other property that you are paying for over time can also be repossessed if you miss payments or only make partial payments. The creditor's right to repossess an item will depend on what your contract says. **If you have filed bankruptcy and are within the "automatic stay," the creditor cannot repossess anything without permission from the bankruptcy court.**

Creditors can repossess your car from in front of your house, but they can't break into your garage to get your car.

Considering Bankruptcy

In 2014, there were 909,812 personal bankruptcy filings—down from the 1.4 million filed in 2010. A Harvard University study found that medical debt causes over 50 percent of the bankruptcies in America, with most of the bankruptcies filed by people who were part of the middle class at the onset of their illness.

Bankruptcy is designed for people caught in severe financial circumstances. If you have excessive debt, bankruptcy is a federal court process designed to help you eliminate your debts or repay them under the protection of the bankruptcy court. Most bankruptcy petitions are voluntary. The definition of a debtor who may file bankruptcy can be found in the Bankruptcy Code. **Deciding whether to file bankruptcy is a complicated question. You may need to consult with an attorney, financial advisor, or credit counselor to determine if you want to file bankruptcy.**

You may need to consider bankruptcy if most of these statements apply to you:

- Attempts to control your spending have failed, even after visiting a credit counselor or trying to stick to a debt consolidation plan.
- You are unable to meet debt obligations on your current income.
- Your attempts to work with creditors to set up a debt repayment plan have not worked.
- Your ratio of debt to annual income is 40-50 percent, or more.

If you are considering filing bankruptcy, beware of fly-by-night bankruptcy filers.

If you are considering filing bankruptcy, beware of fly-by-night bankruptcy filers. These people will take your money in exchange for filing a form petition, but they cannot offer sound legal advice.

What Is an Automatic Stay?

Keep in mind that bankruptcy can be the means to a specific end. This is because after you file for bankruptcy, you have the protection of an "automatic stay." The automatic stay can, for example, immediately stop a foreclosure, an eviction, or wage garnishment. It can also stop debt collection, harassment, and disconnection of utilities. The automatic stay can also prevent you from losing your driver's license because of liability for damages, unless the suspension has already occurred.

The automatic stay may provide a powerful reason for filing for bankruptcy. In most of the situations listed above, the automatic stay can buy you a few days or weeks in which to figure out your next move. If your primary motivation in filing bankruptcy is to gain the benefits of the automatic stay, you don't need to file all of your papers at once. You just need to file the three-page petition, a signature declaration, and a listing of your creditors. In addition, within 180 days prior to filing, you will have to visit an approved credit counseling agency for advice and budget analysis. You will have to file a certification of such counseling when you file your petition. You have 15 days in which to file the rest of your papers. If you don't, your case will be dismissed.

The automatic stay may be a powerful reason for filing for bankruptcy. In most situations the automatic stay can buy you a few days or weeks in which to figure out your next move.

Once you file, a creditor cannot take further action against you unless the creditor has permission from the bankruptcy court. The creditor will ask the bankruptcy court to remove (or "lift") the automatic stay if it is not serving its intended purpose. For example, if you file bankruptcy to stop a foreclosure, but you have no equity in the house and no income with which to make mortgage payments, the creditor is likely to ask the court for permission to proceed with the foreclosure. In a case like this, permission will probably be granted.

Different Types of Bankruptcy

For individuals, there are two main types of bankruptcy cases. **Most individual debtors file for Chapter 7, which can also be described as "straight" bankruptcy or "liquidation."** Under this plan all non-exempt assets are converted to cash (liquidated), and secured creditors may have the item they financed turned over to them (such as a house or car), unless the debtor reaffirms the debt with the court's approval prior to obtaining a discharge. **Chapter 13, also called "reorganization," is an option for people with regular income and debts that are less than the limits allowed by law.** When you complete a Chapter 13 plan, you have the satisfaction of keeping your assets, paying your creditors, and discharging your debts.

Most individual debtors file for Chapter 7, which can also be described as "straight" bankruptcy or "liquidation." Chapter 13, also called "reorganization," is an option for people with regular income and debts that are less than the limits allowed by law.

Bankruptcy is a serious step. If you choose to file Chapter 7 or Chapter 13, you will probably need to hire an attorney. Be sure to find an attorney who has experience handling the type of bankruptcy case you plan to file. The following overview of Chapter 7 and Chapter 13 will give you some idea of what's involved.

Chapter 7

Under Chapter 7 bankruptcy, you ask the bankruptcy court to discharge the debts you owe. People with no steady income and few assets most often use Chapter 7. It eliminates most debts but also requires immediate liquidation of some assets. Co-signers to your debts can be required to make good on the contracts they have entered into with you. In most cases, if you file Chapter 7, you are allowed to keep a small equity in your home, an inexpensive car, and limited personal property. **A person may obtain a bankruptcy discharge only once every eight years.** Therefore, you should carefully consider your need for a bankruptcy discharge and your timing.

What Property Will I Give Up if I File Chapter 7?

In Chapter 7, exemptions place some property outside the reach of your creditors.

The following property will probably be considered non-exempt and subject to liquidation in order to pay your debts:

- Equity in a house, above a certain dollar limit.
- Luxury items such as fur coats and jewelry.
- A second house such as a cabin or time-share.

What Property Will I Get to Keep if I File Chapter 7?

If you file Chapter 7, you can claim either state exemptions or federal exemptions. Exemptions place some property outside the reach of your creditors. But exemptions may not be applied to secured property to defeat a security interest. For example, a homestead exemption would only apply to the amount of equity you have in the home, not to the amount you still owe on your mortgage.

Both Minnesota and federal exemptions include motor vehicles, your homestead, basic personal property, and tools of your trade. Minnesota law provides exemptions in more categories and provides a more generous exemption for your homestead. The federal exemptions provide a little cushion you can use if you do not need the homestead exemption. Your attorney should help you determine which exemptions are best for your situation. You must claim either Minnesota or federal exemptions, you cannot mix and match. Exemptions generally include:

- **Equity in your home.** This may be capped at a certain dollar limit.
- **Personal property.** You generally can keep most personal property including items such as furniture, appliances, and clothing.
- **Motor vehicles.** You can generally keep a motor vehicle worth a certain amount.
- **Insurance.** Usually you can keep the cash value of your policies.

- **Retirement plans.** Pensions which qualify under the Employee Retirement Income Security Act ("ERISA") are fully protected in bankruptcy.
- **Public benefits.** Payments from welfare, Social Security, and unemployment insurance are protected.
- **Tools of the trade.** You will probably be able to keep the tools you use for your job, up to a certain dollar limit.
- **Wages.** You can generally protect most of your earned but unpaid wages.

How Does Chapter 7 Work?

The nuts and bolts of Chapter 7 are that it moves fairly quickly, is relatively inexpensive, and doesn't take too much of your time. Generally your debts will be discharged approximately four to six months after the date the bankruptcy petition is filed. You will need to pay a filing fee, which does not include attorney's fees. And, usually you will just make one trip to the courthouse. **If you wish to file a Chapter 7 bankruptcy petition, you will have to pass a "means test" to determine whether you have the means to pay back portions of your debt.** Depending on your income and the amount of debt you owe, you may have to file a Chapter 13 petition instead.

If you wish to file a Chapter 7 bankruptcy petition, you will have to pass a "means test" to determine whether you have the means to pay back portions of your debt.

The steps in a Chapter 7 case usually go like this:

1. First, within 180 days prior to filing a petition, you will have to visit an approved credit counseling agency for advice and budget analysis, unless certain exigent circumstances exist. Your attorney can help you find an approved credit counseling agency and determine if you have exigent circumstances present to exempt you from this requirement.
2. Next, you or your attorney will file your petition and other forms with the Clerk of the United States Bankruptcy Court in your area. You must list all of your debts and creditors. You must also detail the property you own, your income, money owed you, insurance policies owned, current monthly living expenses, property you are claiming as exempt, as well as money that may be inherited within six months. You must also list property you owned, sold, or gave away and money you spent during the last two years.
3. **Once your attorney files your bankruptcy petition, the automatic stay goes into effect. This stops your creditors from trying to collect what you owe them.** The automatic stay stops wage garnishment, lawsuits, and other negative action. (See page 36 for more information on the automatic stay.) You may reaffirm certain

debts with the court's approval if you desire to keep the collateral (such as a car). One way to keep your car, for example, is to reaffirm the debt and continue to make payments.

4. After the bankruptcy petition is filed, a trustee will be appointed by the court. The trustee's primary duty is to the creditors. This means the trustee will be interested in what you own and what exemptions you are claiming. The more the trustee recovers for creditors, the more the trustee is paid.
5. The trustee will review your file and hold a hearing called the "creditors' meeting." At the meeting the trustee will ask you questions. You must attend this meeting, but creditors rarely do. These meetings generally last about five minutes.
6. After this meeting, the court-appointed trustee takes control of your property that is to be sold and delivers property to the secured creditors, if appropriate. Once property is sold and administrative costs are paid, the remaining cash is paid proportionately to all creditors.
7. The bankruptcy court later holds a hearing to inform you whether your debts have been discharged or not. Debts may not be discharged if someone objected, or if the debts are nondischargeable.
8. Prior to receiving a discharge, you must complete an instructional course concerning personal financial management.

Chapter 7 bankruptcy filers must undergo financial counseling before filing as well as after filing in order for any debts to be discharged.

When Is Chapter 7 a Bad Idea?

If you are judgment or garnishment proof (meaning you have absolutely no non-exempt assets to protect), bankruptcy may be a waste of time and attorney's fees. If this is your situation, you may want to talk to an attorney or credit counselor to use other options to stop harassing phone calls and similar practices. Other reasons Chapter 7 bankruptcy may not be the right step for you include:

- You cannot file for Chapter 7 bankruptcy more often than every eight years.
- You have a co-signer on a loan, and you do not want to stick the co-signer with your debt.
- You will not be able to discharge enough of your debts. For example, debts you will still owe after filing for Chapter 7 include: back child support and alimony obligations, most student loans, and income taxes less than three years past due.
- You will have to give up more property than you would like to. For example, if you are filing bankruptcy to help you keep your home, this will better be accomplished by filing for Chapter 13. If you are behind

on your mortgage, a Chapter 7 case will not help you catch up on the mortgage payments, so a Chapter 7 bankruptcy would not help you keep your home. However, in a Chapter 13 case you can pay your mortgage arrears in the Chapter 13 plan, in an attempt to keep your home.

- You defrauded your creditors. If you've recently taken a lavish vacation or bought luxury items, all the while intending to file bankruptcy, bankruptcy may not help you. Creditors may object to discharging these debts, and a court would probably agree.

Chapter 13

Chapter 13 reorganizes your debt rather than liquidates your assets. When you file under Chapter 13, a debt repayment plan is designed to pay off as much of your debt as possible, usually within three or five years. When you file Chapter 13, you agree to pay approximately 25 percent of your income to the court. A bankruptcy trustee will supervise the plan, handle your money, and distribute it to pay off the debts covered by your plan of reorganization.

Chapter 13 is also called personal reorganization because it is most often used by people with regular incomes and less than $383,175 in unsecured debt and less than $1,149,525 in secured debt. These limits are valid as of January 2015, but federal law changes these limits periodically. (Examples of unsecured debt include credit and charge card purchases, medical and dental bills, rent, and loans from family or friends. Secured debts are home mortgage loans and vehicle loans.) The actual amount of money paid to creditors depends on the amount you owe, your salary, and the payback time frame. Depending on your income level, Chapter 13 payment plans may be proposed for 36 months, but most often plans are for 60 months. The maximum time allowed is five years.

When Should I Consider Chapter 13?

The bottom line on Chapter 13 is that it takes longer, requires discipline, and costs you more. First, your plan may be approved in four to six months. Second, for the three or five years specified in your plan, you will pay a good portion of your income to the court to pay off your debts. In fact, only about 35 percent of the people who file Chapter 13 complete their plans. Third, Chapter 13 costs more than filing Chapter 7 because administrative costs can add up. You will pay a filing fee and other costs, including court costs, attorney's fees, and the trustee's fees for paying off the debts.

Filing for Chapter 13 takes longer, requires discipline, and will cost you more than a Chapter 7 filing.

However, despite these drawbacks, there are some good reasons people choose Chapter 13 over Chapter 7. Reasons include:

- You do not lose your assets.
- It looks better on your credit report than Chapter 7. This is because it shows you tried to pay off the debt instead of simply discharging it in Chapter 7.
- There is an expanded list of debts that may be dischargeable in Chapter 13 that are not in Chapter 7.
- If you are behind in mortgage or car payments, Chapter 13 allows you to make up missed payments, reinstate the original agreement, and keep your home or car.
- You want to pay off your debts, but you need the protection of the bankruptcy court to do so.
- You need help repaying your debts now but would like to reserve the option of filing Chapter 7 later.
- You are not eligible for a Chapter 7 discharge because you received one within the last eight years. However, you cannot receive a Chapter 13 discharge if you received a Chapter 7 or 11 discharge in within the last four years or a Chapter 13 discharge within the last two years.
- You have a co-signer on a loan and you do not want the creditor to go after the co-signer.
- It may be easier to work with tax debts in Chapter 13 than in Chapter 7.

How Does Chapter 13 Work?

To file under Chapter 13, you will need to contact an attorney who has experience in filing Chapter 13 bankruptcies. You can expect the process to work like this:

To file under Chapter 13, you will need to contact an attorney who has experience in filing Chapter 13 bankruptcies.

1. First, within 180 days prior to filing a petition, you will have to visit an approved credit counseling agency for advice and budget analysis, unless certain exigent circumstances exist. Your attorney can help you find an approved credit counseling agency and determine if you have exigent circumstances present to exempt you from this requirement.
2. Your attorney will file your bankruptcy petition with the federal bankruptcy court in your area. To do this properly, you will need to compile the following information:
    - A list of all of your creditors and the amounts you owe.
    - The source of your income and how often you get paid.
    - A list of your property.
    - A detailed listing of your monthly living expenses.

3. You will either file a plan of repayment with your petition, or within 15 days of filing the petition. This plan must provide for full payment of all priority claims. If the plan classifies claims, it must provide the same treatment for each class of creditors. The plan also details the amount of your future income that you will deposit with the trustee to repay your debts.
4. When you file for bankruptcy, the automatic stay goes into effect. This stops creditors from trying to collect the debts you owe. See page 36 for more information.
5. When you file, a trustee is appointed to administer your case. The trustee will collect the money you pay in under your plan and disburse the money to your creditors.
6. Within 30 days of filing your plan, you must begin making payments to the trustee. This is true even if the court has not yet confirmed your plan.
7. A "341 meeting" of creditors is held within 20 to 40 days after your petition is filed. You must attend this meeting. Creditors may attend and ask questions about your financial affairs. The trustee will attend the meeting and question you.
8. Unsecured creditors who have claims against you must file their claims with the court within 90 days after the first date set for the meeting of creditors. If an unsecured creditor fails to file, they may not do so later.
9. At a confirmation hearing, the bankruptcy judge will determine if your plan is feasible and meets the standards for confirmation. Creditors do not vote on the plan, but they may object to the plan. Creditors most frequently object if they will receive less under your Chapter 13 plan than if you filed Chapter 7 and liquidated all of your assets. If your plan is not confirmed, the money you have already paid will revert to you. As the debtor, you have the right to dismiss your case or convert it from Chapter 13 to Chapter 7.
10. Once the court confirms your plan, it is your responsibility to make the plan succeed. You will continue making payments under your plan for the three or five year period specified in your plan. A confirmed plan may be modified if your financial situation changes. If you stop making payments and the Chapter 13 gets dismissed, your debts are not discharged and your creditors can resume collection.
11. You are entitled to a discharge when you successfully complete an instructional course concerning personal financial management and your plan payments.

When filing for Chapter 13, you will file a plan of repayment either at the time of filing or within 15 days.

Once the court confirms your repayment plan, it is your responsibility to make the plan succeed.

What Debts Cannot Be Discharged in Bankruptcy?

The following debts cannot be discharged in either a Chapter 7 or a Chapter 13 bankruptcy case. If you file Chapter 7, you will still owe these debts after your case is over. If you file Chapter 13, these debts will either be paid in full during your plan, or the balance will remain at the end of your case.

Even if you file for bankruptcy, you still have to pay child support and alimony.

Nondischargeable debts include:

- Child support or alimony.
- Unlisted debts, unless the creditor had knowledge of your bankruptcy filing.
- Recent income tax debt and other tax debt.
- Fines imposed for violating the law.
- Student loans, unless you can show that it will cause a hardship for you to repay them.
- Debts you owe under a divorce decree or settlement.

In a Chapter 7 case a creditor may object, and a judge may agree, to these additional debts being discharged:

- Money or items received by fraud or false pretenses.
- Debts incurred by embezzlement, fraud, or larceny.
- Certain credit purchases made within 90 days or cash advances made within 70 days of filing.
- Willful or malicious injury to another person or person's property.

Credit purchases made within 90 days or cash advances made within 70 days of filing might not be discharged.

In a Chapter 13 case a creditor may object, and a judge may agree, to these additional debts being discharged:

- Money or items received by fraud or false pretenses.
- Debts incurred by embezzlement, fraud, or larceny.
- Certain credit purchases made within 90 days or cash advances made within 70 days of filing.

In a Chapter 13 case, you will not be able to obtain the discharge of restitution or damages awarded in a civil action for willful or malicious injury to a person.

For More Information

The Bankruptcy Code is federal law and is found at United States Code Title 11. There is no such thing as state bankruptcy law. A case is venued according to the home address of the debtor. Minnesota has one bankruptcy district with divisions in Minneapolis, St. Paul, Fergus Falls, and Duluth.

Other Issues

Electronic Banking

Electronic banking, also known as electronic funds transfer ("EFT"), is the use of electronic means to transfer funds directly from one account to another, rather than by check or cash. EFT is commonly used to deposit paychecks directly into workers' accounts, withdraw money from an ATM, pay certain bills on a regular schedule, and to buy items with a check card.

Debit and ATM cards are not credit cards, because you are not borrowing money when you use them. These cards allow you easy access to your own money. **Because they are not credit cards, debit and ATM cards do not help build your credit rating. What they do offer is convenience.**

Because they are not credit cards, debit and ATM cards do not help build your credit rating.

ATM Cards

ATM cards, or Automatic Teller Machine cards, are used at ATMs to withdraw cash from your bank account. You type a password (a Personal Identification Number or PIN) into the ATM to verify your identity and activate the card.

Debit Cards or Check Cards

"Check card" is another name for debit cards. A debit card can be used at the point of purchase to transfer money from your account to the store's account. In 2012, debit cards were the most commonly used non-cash form of payment. Consumers made $47 billion debit card transactions in 2012. These cards are used instead of cash, personal checks, or credit cards. Sometimes your ATM card and your check card are the same. They are convenient, but keep these drawbacks in mind:

- You have less bargaining power with a check card than with a credit card. With a credit card you have the right to refuse to pay for a purchase if you are not satisfied with it. With a check card you have already paid for the item, so you have less bargaining power.
- A thief with your check card and PIN can take all the money in your account. The thief can even make point-of-sale purchases with your card.
- Your liability is limited to $50 if you report the check card lost or stolen within two days. **If you do not report the card lost or stolen within two days, your liability can jump to $500.** After 60 days, you can be responsible for the entire amount (Visa and MasterCard have voluntarily capped the liability of check card holders at $50, but this protection is not written into law).

If you do not report lost or stolen cards within two days, your liability can jump to $500.

- You may wish to enter check card transactions into your checkbook ledger, like you would record checks you write. If you sign up for online access to your bank account you can review your check card transactions before—or even instead of—receiving monthly statements.

Fighting Credit Card Fraud

If you are the victim of credit card fraud you will spend a lot of time undoing the damage. To help prevent it from happening to you, the Federal Trade Commission recommends these tips:

Reviewing your credit report every four months is a good way to check for unauthorized uses of your financial information.

Do:

- Sign your cards as soon as they arrive.
- Keep (in a secure place) a record of your account numbers, their expiration dates, and the phone number and address of each company.
- Keep an eye on your card during the transaction, and get it back as quickly as possible. Make sure you get your own card back.
- Void incorrect receipts, destroy carbons, and save receipts to compare with billing statements.
- Open bills promptly and reconcile accounts monthly, just as you would do with your checking account.
- Report any questionable charges promptly, and in writing, to the card issuer.
- Notify card companies in advance of a change in address.

Don't:

- Lend your card(s) to anyone.
- Leave cards or receipts lying around.
- Sign a blank receipt. When you sign a receipt, draw a line through any blank spaces above the total.
- Write your account number on a postcard or the outside of an envelope.
- Give out your account number over the phone unless you're calling a company you know is reputable. If you have questions about a company, check it out with your local consumer protection office or Better Business Bureau.

Stop Identity Thieves in Their Tracks

There were nearly 14 million identity theft victims in 2014. The amount of fraud related to identity theft is estimated to cost Americans tens of billions of dollars every year.

Identity theft is a growing concern for citizens across Minnesota and the rest of the country. A few vital bits of personal data are a gold mine for

information crooks looking to steal your identity. **An impostor using personal information like your address, birth date, and Social Security number can acquire phony credit cards, siphon money from your checking or savings accounts, get a mortgage, and even give you a criminal record.**

Maybe the identity theft is first noticed when you don't receive your monthly credit card statement. Or, you receive your bill and it contains charges from places you have never been. Either way, you may be the latest victim of a crime that can wreak havoc on your personal finances.

Worse, you may not even be aware your identity has been stolen until something goes wrong. Over the last decade, the explosion of information available to businesses and companies about individuals is staggering. In addition, creditors are often willing to give consumers access to thousands of dollars of credit quickly and with little information.

Minnesota Security Freeze Law

A Minnesota law helps citizens protect themselves from new account fraud. **If you believe that your financial information has been stolen, you may wish to "freeze" your credit report so that the thieves cannot obtain a credit card or loan in your name.** The law empowers any consumer to freeze his or her credit report by simply contacting a consumer reporting agency and requesting a credit report freeze. A credit report freeze will deny identity thieves access to the consumer's credit history and prevent them from obtaining new credit cards or loans under the consumer's name.

Any Minnesotan can impose such a freeze on his or her personal credit report for any reason. Victims of identity theft can have their credit reports frozen without charge. Non-victims can proactively freeze their credit report for a $5 fee. When a credit reporting agency receives a freeze request, it must place the freeze within three days of the request, and provide a unique PIN to the consumer within 10 days of the request.

When your credit file is frozen, you cannot be approved for new credit. In order for you to obtain new credit, you must use your PIN and contact the credit reporting agencies to thaw your file. While credit reporting agencies are to thaw credit reports in an expedited manner, thawing your file may take up to three business days. Be sure to plan ahead and temporarily thaw your credit file before applying for credit.

An impostor using your personal information can acquire phony credit cards, siphon money from your checking or savings accounts, get a mortgage, and even give you a criminal record.

If you believe that your financial information has been stolen, you may wish to "freeze" your credit report.

After freezing your credit report you can use your PIN to temporarily lift the freeze if you wish to make a purchase requiring access to your account.

The consumer may then use the PIN to temporarily lift or "thaw" his or her report for a specific period of time or for a specific creditor. For example, suppose that you are looking to purchase a new car. If you know that you want to buy the car from Dealership XYZ, you may contact the credit reporting agencies and allow that specific dealership to access your credit report. Or you may request that your credit report be accessible to any creditor for a specific period of time, such as 30 days, to give you time to shop at several dealerships. After the specified time, your credit report will automatically refreeze.

Be sure to keep the PIN in a safe place. If you forget your PIN, you can get a second one for free, but will have to pay $5 for a third one. Like placing the freeze, victims of identity theft can thaw their credit reports without charge, while non-victims may be charged a $5 fee.

Because different credit issuers may use different credit reporting agencies, you will need to freeze your credit report with each of the three major credit reporting agencies. Each of the three credit reporting agencies has its own process for taking credit freeze requests. If you are a victim of identity theft, you will need to provide the credit reporting agencies with a copy of either the police report or case number documenting the theft to avoid the $5 fee.

For instructions on how to request a credit freeze, consumers may contact the credit reporting agencies as follows:

Experian	**Equifax**	**TransUnion**
Security Freeze	**Security Freeze**	**Security Freeze**
P.O. Box 9554,	P.O. Box 105788,	P.O. Box 6790, Fullerton,
Allen, TX 75013	Atlanta, GA 30348	CA 92834
972-390-4172	800-685-1111	888-909-8872
www.experian.com/freeze	*www.freeze.equifax.com*	*www.transunion.com/securityfreeze*

Credit reporting freezes are one defense in the fight against identity theft. As this crime continues its climb to the top of law enforcement charts, you can be proactive in protecting yourself from its expensive, time-consuming consequences by freezing your credit report.

Make Yourself Less Vulnerable to Identity Theft

While there is no guaranteed way to stop a thief, there are ways to become a less attractive target:

- **Keep and carry as few credit cards as possible.** After completing a credit card transaction, make sure that the card you get back is your own. Cancel all credit accounts you don't use and when you open a new credit account, ask that a password is used before any changes or inquiries can be made.

- **Review statements.** Carefully review all bank and credit card statements, canceled checks, and phone and utility bills. Report any discrepancies. If statements don't arrive on time, contact the post office and the creditor to ensure your mail is not being diverted.

  With respect to accounts that have been opened fraudulently or tampered with, contact the creditor and ask to speak with someone in their fraud department. Be sure to follow up in writing, file a police report, and keep copies of all documents for your records.

- **Guard your information.** Your checks should not have your driver's license number or phone number preprinted on them. **Never put your Social Security number on a check.** Don't let a merchant write a credit card number on your check. Shred all personal documents before you discard them so a thief who picks through your garbage will come up empty. If you have reason to think someone else is using your Social Security number, call the Social Security Administration to verify the accuracy of your account.

- **Use your telephone with caution. Avoid giving out your credit card number or other personal information over the telephone unless you have a trusted business relationship with the company.** Do not provide personal information over unencrypted wireless communications such as cordless or cellular telephones.

- **Check your credit report.** You are entitled to a free copy of your credit report once each year from each of the three credit bureaus. Free annual reports may be requested in the following ways:
  1) Logging on to: *www.AnnualCreditReport.com*
  2) Calling: 877-322-8228
  3) Writing: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA, 30348

To prevent identity theft, carefully review all bank and credit card statements.

Avoid giving out your credit card number or other personal information over the telephone unless you have a trusted business relationship with the company.

The credit bureaus sell some of your information to companies so they can solicit you. To remove your name from the generated lists, you should call the "Opt Out" hotline for the three major credit bureaus.

- **Make sure the report is accurate and includes only those activities you have authorized.** If there has been fraud on your account, tell each credit bureau to flag your file with a fraud alert including a statement that creditors should contact you for permission before they open new accounts in your name.
- **Stop pre-approved credit card offers.** In addition to maintaining your credit report, the three major credit bureaus sell to companies lists of individuals who meet a certain credit criteria. To remove your name from the generated lists, you should call the "Opt Out" hotline for the three major credit bureaus Equifax, Experian, and Trans Union at: 1-888-5OPT-OUT (888-567-8688) or "Opt Out" online at *www.optoutprescreen.com*.
- **Be vigilant.** These steps to protect your personal information will make it more difficult for someone to steal your good name, but be vigilant because, as technology makes the transfer of information easier, crooks will try to find ways around today's safeguards.

For more information about privacy and identity theft, request a free copy of the publication *Guarding Your Privacy: Tips to Prevent Identity Theft* published by the Minnesota Attorney General's Office.

The Rent-to-Own Trap

Rent-to-own stores often target low-income consumers who do not have credit cards. These stores charge the equivalent of 100% to 125% average annual interest rates. Rent-to-own businesses offer items such as televisions, washers and dryers, refrigerators, couches, and more. They set up short-term rental-purchase agreements. No down payment or credit check is usually required. The renter pays over time to "rent" an item. If the renter makes all the required payments, the renter then owns the item. **The catch is, the renter usually makes payments that add up to much more than the cost of the item, or the cost of the item bought through a traditional credit card.** Rent-to-own deals should be avoided when other options are available. Minnesota law caps most consumer rent-to-own interest rates at 8%, but some businesses take advantage of consumers who aren't aware of the law.

Look Out for These Scams

Avoid these common scams that prey on people in financial difficulty.

Advance fee loan scams may sound appealing, because ads promise that companies can deliver loans no matter what your credit situation. Often you are asked to make some type of up-front payment. This is illegal. Usually you'll lose your money and never see a loan.

Businesses and some nonprofit organizations that offer debt counseling and reorganization plans may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing either to explain high costs or to mention that you're signing over your home as collateral. Other businesses advertising debt reorganization may not explain that they are really pushing Chapter 13 bankruptcy, an option that may not be right for you.

Companies offering "credit repair" promise to clean up your credit history. These con artists can't deliver or may charge you to do what you could do for yourself for free. They may also advise you to do something illegal. No matter which approach they take, they are likely to disappear with your money, leaving you worse off than when you started.

You may be the target of another credit repair scheme, often called "file segregation." You are promised a chance to hide unfavorable credit information and establish a new credit identity. The scheme is illegal.

Usually when you pay money to the crooks running these offers you will be directed to apply for an Employer Identification Number ("EIN") from the Internal Revenue Service ("IRS"). These numbers are typically used by businesses to report financial information to the IRS and Social Security.

After you receive your EIN, you are told to use it in place of your Social Security number when you apply for credit. If you defraud the government this way, you could face fines or even prison.

Many credit repair companies promise to clean up your credit history, but they often can't deliver or may charge you to do what you could do yourself for free.

Credit Laws and Your Credit Rights

Credit laws help reduce the problems and confusion people have when they use credit. Together, a number of laws set a standard for how you should be treated in your financial dealings. For example, you cannot be turned down for a credit card because you are a single woman; your credit won't disappear just because you've turned 65; you have protections from abusive debt collection practices; your risk is limited if your credit card is lost or stolen; and much more. It is important to know your rights, so that you can use them to your advantage.

Truth in Lending Act

The federal Truth in Lending Act requires creditors to give you certain basic information about the cost of credit.

The federal Truth in Lending Act requires creditors to give you certain basic information about the cost of credit. The Act requires open-end creditors to tell you the terms of the credit they are offering, so you can shop for the best deal. The following information must be disclosed in writing:

- The amount financed.
- The total number of payments and their amounts.
- A description of any security held by the creditor.
- The Annual Percentage Rate (APR).
- The finance charge (creditors must also tell you the method they use to figure the finance charge).
- Other fees you'll pay including annual membership fees, transaction charges, and points.
- Other loan terms and conditions such as the payment due date, grace periods, late payment, and prepayment penalties.

In addition, the Act does the following:

- Regulates advertising of credit terms.
- Prohibits credit card issuers from sending unrequested cards.
- Limits a cardholder's liability to $50 for unauthorized uses of their card.
- Requires a written itemization of the amount borrowed and all charges not included as part of the finance charge.

Fair Credit Billing Act

This federal law sets up procedures to promptly correct billing mistakes, to withhold payments for defective goods, and protect you from credit card fraud. Specifically, the act protects you from the following types of errors:

- Charges not made or authorized by you.
- Charges listing the wrong price, description, or date.
- Failure to credit your account for items you did not accept or which were not delivered as promised.
- Accounting errors.
- Failure to credit payments on returned items.
- Charges for which you have requested an explanation or written proof of purchase.
- Bills that are not mailed or are sent to another address (provided you gave at least a 20-day notice if your address changed).

In addition, the Fair Credit Billing Act sets the procedures to follow if you have a billing dispute. Periodically, creditors must send you a copy of the procedures. These include:

- **If you find a billing error, you have 60 days to notify the creditor in writing.**
- Your letter must be acknowledged within 30 days of receipt, unless the problem is resolved within that period.
- **The creditor must correct the mistake or explain why the bill is correct within two billing cycles or 90 days.**
- If you do not accept the creditor's explanation, you have 10 days to inform the creditor that you still refuse to pay the disputed amount.
- Legally, at this point, the creditor may begin collection procedures. However, any reports to a credit reporting agency must include a note that your refusal to pay was due to a billing dispute.
- A creditor may not threaten your credit rating during the billing dispute. Once you have notified the creditor, the business must not give information to credit bureaus that would damage your credit record.
- You have the right to withhold payment on any damaged or poor quality goods or services purchased with a credit card, as long as you make a serious attempt to resolve the problem with the merchant.

Federal law sets up procedures to promptly correct billing mistakes, to withhold payments for defective goods, and protect you from credit card fraud.

Fair Credit Reporting Act

This federal law sets up procedures to correct information in your credit report. It gives you the following rights:

- You have the right to obtain a free copy of your credit report from each of the three national consumer reporting agencies once per year. The copy you receive must contain all the information in your report at that time.
- You have the right to know who has received your report in the last year, and two years for employment purposes.
- **If you are denied credit because of information in your credit report, the creditor must tell you the name and address of the credit reporting agency used.**
- You have the right to a free copy of your credit report when your application for credit is denied due to information in the credit report. Your request for a free report must be made within 60 days of receiving the denial notice.
- **If you contest the accuracy or completeness of your credit report, you should file a dispute with the credit reporting agency and with the creditor that provided the information. Both the credit bureau and the company providing the data are required to reinvestigate your complaint.**
- You have a right to add a brief explanation to your credit report if the dispute is not resolved to your satisfaction.
- Outdated information may not be reported. In most cases, information will drop off after seven years. Bankruptcy stays on your credit report for ten years.

If you are denied credit because of information in your credit report, the creditor must tell you the name and address of the credit reporting agency used.

Electronic Funds Transfer Act

The federal Electronic Funds Transfer Act of 1978, along with the Federal Reserve Board's Regulation "E," provide guidelines for electronic banking. Together, these regulations provide the following protections:

- A valid EFT card can be sent to you only if you request it.
- Unsolicited cards can be issued only if the card cannot be used until it is validated.
- The financial institution must tell you your rights by providing a written disclosure statement, including the procedures to use to correct errors in your statements.
- **You are entitled to a written receipt when making deposits or withdrawals from an ATM or using a card to make a purchase.** The receipt must include the amount, the date, and the type of transfer.

- Statements must confirm the amount of all transfers, the dates and types of transfers, the types of accounts used, and the address and phone number to use to make inquiries about the statement.

You have 60 days from the date a problem or error appears on your written receipt or statement to notify your financial institution. If you miss the 60-day period, you may have little recourse.

If you report an ATM or EFT card missing before it is used without your permission, the card issuer cannot hold you responsible for any unauthorized withdrawals. If unauthorized use occurs before you report the card lost, the amount for which you can be held responsible depends upon how quickly you report the loss.

- If you report the loss within two days, the most you can be charged is $50.
- If you report the loss after two days, but before 60 days, the most you could lose is $500 (Visa and MasterCard have agreed to cap losses at $50, even if reported after the two-day time frame. However, this protection is not written into law).
- **If you do not report the loss within 60 days, you risk losing all the money in your account plus any unused portion of your line of credit.**

Equal Credit Opportunity Act

The Equal Credit Opportunity Act, another federal law, prohibits discrimination in granting credit. Creditors may not consider the following factors when deciding whether to grant credit: sex, marital status, race, color, religion, national origin, age, or income from public assistance. Creditors may not discriminate against you because you have used your legal rights, such as contacting a creditor about a billing error. The Equal Credit Opportunity Act applies to companies that regularly extend credit including banks, credit unions, finance companies, retail and department stores, and credit card companies. Specifically, the Equal Credit Opportunity Act requires that:

The Equal Credit Opportunity Act, another federal law, prohibits discrimination in granting credit.

Creditors must not:

- Ask your sex.
- Ask your marital status.
- Ask you to choose a courtesy title (Mr., Ms., Mrs.).
- Ask for information about your spouse or former spouse unless:
    - You live in a community property state.
    - Your income comes from alimony or your spouse's support.

- Your spouse will also use the account.
- Require your spouse's signature.
- Require you to reapply for credit if there is a change in your marital status.

In addition:

- Creditors must let you know within 30 days if your credit application was rejected.
- **Creditors must provide a written statement explaining why your application was rejected.**
- Creditors are required to report information to the credit bureaus in the names of both spouses if you have a joint account.
- You have the right to have reliable public assistance considered in the same manner as other income.

Creditors may develop their own criteria to judge potential customers as good credit risks. Items that a creditor may legally ask you about include:

- Your income, savings, and investments.
- Your occupation and how long you've been with your present employer.
- How long you have lived at your present address.
- Whether you own or rent your home.

Consumer Leasing Act

The Consumer Leasing Act requires the disclosure of important lease terms and costs so that you can compare one lease with another or compare the cost of buying with cash to buying on credit. This federal law applies to personal property leased by a consumer for more than four months. It covers cars, furniture, appliances, and other personal property.

The Consumer Leasing Act requires the disclosure of important lease terms and costs so that you can compare one lease with another or compare the cost of buying with cash to buying on credit.

The Consumer Leasing Act does not cover:

- Daily or month-to-month car rentals.
- Leases for apartments or houses.
- Property leased to companies for business use.

The law requires a written contract with the following costs and terms stated:

- Total price of the item.
- Amount of any down payment, such as a security deposit.
- Total number of payments.
- Amount of payments.
- Due date for payments.

- Amount of license, registration, taxes, maintenance, or other fees.
- Cost of late payment or default penalties.
- Type of insurance required.
- Type of warranty.
- Person or department responsible for maintenance and service.
- Procedure and penalty to cancel contract.
- Purchase option cost.
- Wear and tear standards.

Fair Debt Collection Practices Act

This law was established to ensure that consumers are treated fairly by debt collectors. All kinds of personal and household debts are covered in the law, including automobile loans, medical expenses, credit card debts, and more. However, the law does not apply to businesses collecting their own debts. The Act, which is discussed on page 27, provides the following protections:

- It prohibits debt collectors from using abusive, deceptive, and unfair practices such as:
  - Using abusive language or making threats.
  - Using the telephone to annoy you.
  - Contacting you at inconvenient times or places.
  - Misrepresenting themselves to you.
  - Threatening a lawsuit or other action that the creditor does not intend to take.
  - Collecting more from you than you owe.
- It establishes the procedure for debt collection:
  - First, within five days after the debt collector's initial contact with you, the debt collector must send you a statement of the amount you owe the creditor, and what action you can take if you dispute owing the money.
  - Second, if you send a letter within 30 days disputing that you owe the money, then the debt collector cannot make further collection efforts until you receive proof of the debt.
  - Third, the debt collector cannot collect for any debt that cannot be verified.
- It limits debt collector contact with third parties (except to locate you).
- It requires that if you owe several debts, the money you provide must be applied as you wish.
- It restricts debt collectors from trying to collect any debt in dispute.

The Fair Debt Collection Practices Act forbids debt collectors from abusive, deceptive, and unfair practices.

Debt collectors generate more complaints to the Federal Trade Commission than any other industry.

You can gain a lot from using credit. You can also lose a lot if you don't handle credit well.

Resources

Top Ten Credit Tips

1. **Remember that credit cards are just like a loan** – you have to repay what you borrow.
2. **Pay your bills on time.** This will help your credit rating, and eliminate costly late fees.
3. **Pay your bills in full if possible.** This will eliminate finance charges.
4. **Always pay more than the minimum payment.** If you don't, it will take forever to get caught up on your bills, and you will pay a lot of money in finance charges.
5. **Reduce your reliance on credit.** When you do use credit, keep track of how much you spend. Remember that impulse purchases add up fast.
6. **Save your receipts.** Then you can compare your receipts to your monthly bill and promptly report any problems.
7. **Never lend your credit card or debit card to anyone.** Don't share your PIN either. You could just be setting yourself up for fraud.
8. **Set a budget and stick to it so you don't end up owing more than you can afford.** This could damage your credit rating. A negative credit rating can make it harder to finance a car, rent an apartment, buy a house, or even get a job.
9. **Check out your credit report at least once a year.** Make sure it accurately reflects your financial situation, and check for potential fraud.
10. **If you are overwhelmed by credit debt, seek help.** Don't delay. Facing up to your financial problems will help you begin solving them.

Glossary of Terms

Advance-Fee Loan Scam:
In this scam, con artists promise loans in exchange for up-front payment.

Adversary Proceeding:
A lawsuit arising or related to a bankruptcy case that is begun by filing a complaint with the court.

Annual Fee:
A flat, yearly charge imposed by credit card companies, similar to a membership charge.

Annual Percentage Rate:
The measure of the cost of credit, expressed as a yearly rate.

Asset:
Property that can be used to repay debt, such as a car or home.

Automated Teller Machine (ATM):
Electronic terminals that consumers can use to make deposits, withdraw money, and conduct other financial transactions.

Automatic Stay:
An injunction that automatically stops lawsuits, foreclosure, garnishments, and all collection activity against the debtor the moment a bankruptcy petition is filed.

Bankruptcy:
A legal procedure in federal court for dealing with the debt problems of individuals and businesses.

Bankruptcy Code:
The formal name for Title 11 of the United States Code, (11 U.S.C. 101-1330), the bankruptcy law.

Bankruptcy Estate:
All legal or equitable interests of the debtor at the time of the bankruptcy filing. (The estate includes all property in which the debtor has an interest, even if it is owned or held by another person.)

Bankruptcy Petition:
A formal request for the protection of the federal bankruptcy laws. (There is an official form for bankruptcy petitions.)

More information on bankruptcy can be found in the chapter "Considering Bankruptcy" beginning on page 36.

Bankruptcy Trustee:

An individual appointed in all Chapter 7 and 13 cases to represent the interests of the bankruptcy estate and the debtor's creditors.

Chapter 7:

The chapter of the Bankruptcy Code that provides for liquidation of a debtor's assets. The proceeds are distributed to creditors.

Chapter 13:

Also called personal reorganization, this type of bankruptcy allows a debtor to keep property and pay debts over three or five years.

Claim:

A creditor's assertion of a right to payment from a debtor or the debtor's property.

Collateral:

Property offered to support a loan and subject to seizure if you default on the loan.

Complaint:

The first document in a lawsuit that notifies the court and the defendant of the grounds claimed by the plaintiff for an award of money or other relief against the defendant.

Confirmation:

Approval of a plan of reorganization by a bankruptcy judge.

Co-Signer:

A person who signs a loan or credit contract with someone else, thereby assuming equal responsibility for the loan or agreement.

Credit:

The right granted by a creditor to pay in the future in order to buy or borrow in the present.

Credit Bureau:

An agency that keeps your credit record. The credit bureau creates credit reports about you.

Credit Card:

A card used over and over to borrow money or buy goods or services on credit.

Contact information for the three major credit bureaus can be found on page 68.

Credit History:

The record of how you have used credit over time. This is usually reported by credit bureaus in the form of a credit report.

Credit Repair:

A scam in which con artists promise to "fix" your credit report.

Credit Report:

Information provided by a credit bureau to someone with a legitimate business need. The report details how you have borrowed and repaid debts.

Credit Scoring System:

A statistical system used to rate credit applicants according to characteristics relevant to creditworthiness.

Creditor:

A person or business owed money by a debtor.

Creditworthiness:

Past and future ability to repay debts.

Debit Card:

A plastic card that consumers use to make purchases, access cash, or make other types of electronic funds transfers.

Debtor:

Formally, a person who has filed a petition for relief under the Bankruptcy Code. Informally, anyone who owes money.

Default:

Failure to repay a loan or otherwise meet a credit obligation.

Defendant:

An individual against whom a lawsuit is filed.

Deferment:

A legal right to postpone payment on a student loan.

Discharge:

A release of a debtor from personal liability for certain dischargeable debts.

Dischargeable Debt:

A debt for which the Bankruptcy Code allows the debtor's personal liability to be discharged.

More information on credit reports and scores can be found in the chapter "How to Get Credit" beginning on page 7.

Disclosures:

Information that must be given to consumers about their financial dealings.

Electronic Funds Transfer Systems:

Technology used to transfer funds electronically, rather than by cash or check.

Equity:

The value of a debtor's interest in property that remains after liens and other creditors' interests are considered. (For example, if you have a home valued at $100,000 and you have a $60,000 mortgage on the home, you have $40,000 in equity.)

Exempt:

Property that a debtor may prevent creditors from using to pay debts.

Exempt Property:

Property that a debtor is allowed to keep, free from the claims of creditors who do not hold a security interest in it.

Exemption:

Property that state law or the Bankruptcy Code permits a debtor to keep from creditors.

Finance Charge:

The dollar amount you pay to use credit. This includes interest costs and all charges associated with the transaction.

Forbearance:

Asking the lender for a temporary break or reduction in student loan payments.

Garnishee:

The third party, often an employer or a bank, that holds your assets.

Garnishment:

Takes place when a creditor wins a judgment against you in court and then tries to collect it by taking money out of your bank account or paycheck.

Grace Period:

The number of days you have before a credit card company starts charging you interest on new purchases. Not all credit cards have grace periods. Also called a free period.

More information on Garnishment can be found in the chapter "Debt Collection" beginning on page 27.

Joint Account:

A credit account held by two or more people so that all can use the account and all assume responsibility to repay the debt.

Joint Petition:

One bankruptcy petition filed by a husband and wife together.

Late Payment:

A payment made after the due date. Additional penalties may be assessed.

Lessee:

A person who signs a lease to get temporary use of property.

Lessor:

A company that provides temporary use of property, usually in exchange for periodic payment.

Lien:

A claim against a property designed to secure payment of a debt or performance of an obligation.

Liquidated Claim:

A creditor's claim for a fixed amount of money.

Liquidation:

A sale of a debtor's property with the proceeds to be used for the benefit of creditors.

See page 38 for more on Chapter 7, which can also be described as "straight" bankruptcy or "liquidation."

Motion to Lift the Automatic Stay:

In bankruptcy proceedings, a request by a creditor to allow the creditor to take action against a debtor that would otherwise be prohibited by the automatic stay.

No-Asset Case:

A Chapter 7 bankruptcy case where there are no assets available to satisfy any portion of the creditor's claims.

Nondischargeable Debt:

A debt that cannot be discharged in bankruptcy.

Objection to Discharge:

A trustee's or creditor's objection to a debtor receiving any discharge in bankruptcy.

Objection to Discharge of a Particular Debt:

A creditor's objection to the debtor being released from personal liability for a particular debt.

Objection to Exemptions:

A trustee's or creditor's objection to a debtor's attempt to claim certain property as exempt.

Open-end Credit:

A line of credit that may be used over and over again, including credit cards, overdraft credit accounts, and home equity lines of credit.

Overdraft Checking:

A line of credit that allows you to write checks or withdraw funds for more than your actual balance, with an interest charge applying to the overdraft.

Periodic Rate:

The interest rate the card issuer applies to your outstanding account balance to figure the finance charge for each billing cycle.

Personal Identification Number (PIN):

A numeric password that you use to activate your ATM or debit card.

Plaintiff:

A person that files a formal complaint with the court.

Plan:

A debtor's detailed description of how the debtor proposes to pay creditors' claims over a fixed period of time.

Point-of-Sale ("POS"):

The point at which a consumer makes a payment to a merchant, usually by having money taken electronically from their accounts and deposited in the merchant's account.

Priority:

The Bankruptcy Code's identification and ranking of some unsecured claims. This determines the order in which certain unsecured claims that are considered priority claims are paid if there is not enough money to pay them all in full. Some examples of priority claims that may be ranked by the Bankruptcy Code are attorney's fees, accountant's fees, child support, and some tax debts.

More information on credit card rates and fees can be found in the chapter "The Cost of Credit" beginning on page 13.

Reaffirmation Agreement:

An agreement by a debtor who has gone through Chapter 7 to continue paying dischargeable debt after the bankruptcy, usually to keep the collateral or property that would otherwise be repossessed.

Replevin:

This is a court action allowing a sheriff to conduct a repossession with a court order.

Schedules:

Lists submitted by the debtor in a bankruptcy case along with the petition showing the debtor's assets, liabilities, and other financial information.

Secured Debt:

Debt backed by a mortgage, lien, or other agreement. A debt for which the creditor has the right to pursue specific property upon default.

Security:

Property pledged to a creditor in case a consumer defaults on a loan.

Statement of Intention:

A declaration made by a Chapter 7 debtor detailing how the person intends to deal with consumer debts that are secured by property of the estate.

341 Meeting:

A meeting of creditors at which the debtor is questioned under oath by creditors, a trustee, examiner, or the United States trustee about the debtor's financial affairs.

Transaction Fee:

Some credit card issuers charge a fee for a cash advance, a late payment, or going over your credit limit.

Transfer:

Any means by which a debtor disposes of the debtor's property.

Undersecured Claim:

A debt secured by property that is worth less than the amount of the debt.

More information on repossessions can be found on page 34.

United States Trustee:

An officer of the federal Justice Department responsible for supervising the administration of bankruptcy cases, estates, and trusts, monitoring plans and disclosure statements, monitoring creditors' committees, monitoring fee applications, and other duties.

Unlawful Detainer Action:

A lawsuit brought by a landlord to evict a tenant from rental property.

Unliquidated Claim:

A claim for which a specific value has not been determined.

Unscheduled Debt:

A debt that should have been listed by a debtor in the schedules filed with the court, but was not.

Unsecured Claim:

A claim or debt for which a creditor holds no special assurance of payment. A debt for which credit was extended based solely upon the creditor's assessment of the debtor's future ability to pay.

Voluntary Transfer:

A transfer of a debtor's property with the debtor's consent.

Consumer Agencies

You may contact the agencies and organizations listed here for additional assistance.

Minnesota Attorney General's Office - Consumer Protection
445 Minnesota Street, Suite 1400
St. Paul, MN 55101
651-296-3353
800-657-3787
TTY: 651-297-7206
TTY: 800-366-4812
www.ag.state.mn.us
(for help with consumer questions or to file a consumer complaint)

Better Business Bureau
2706 Gannon Road
St. Paul, MN 55116
651-699-1111
800-646-6222
www.bbb.org
(for help with consumer questions, to file a complaint, or to check the complaint data about a company)

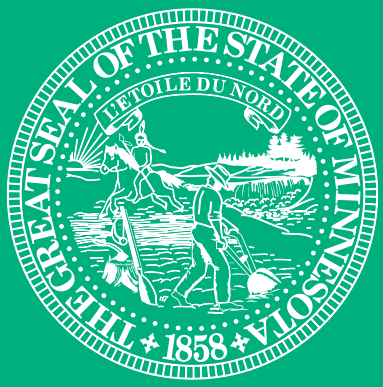
Minnesota Department of Commerce Division of Financial Examinations
85 East Seventh Place, Suite 500
St. Paul, MN 55101
651-296-2135
www.commerce.state.mn.us
(to file a complaint about a state chartered bank or other state chartered financial institution)

Minnesota State Bar Association
800-292-4152
www.mnfindalawyer.com
(for attorney referrals statewide)

Dakota County
952-431-3200
Hennepin County
612-752-6666
Ramsey County
651-224-1775
(for attorney referrals in the above counties)

Federal Citizen Information Center
Dept. WWW
Pueblo, CO 81009
1-800-FED-INFO (800-333-4636)
www.publications.usa.gov
(to review and order hundreds of federal government publications)

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue NW
Washington, DC 20580
1-877-FTC-HELP (877-382-4357)
www.consumer.ftc.gov
(for help with entities regulated by the FTC, such as finance companies, stores, auto dealers, mortgage companies, and credit bureaus)



National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314-3428
703-518-6330
www.ncua.gov
(for help with federally chartered credit unions)

National Foundation for Consumer Credit
800-388-2227
www.nfcc.org
(for help with money management, budgeting, and debt counseling)

Contact the Annual Credit Report Request Service to order your free annual credit report from each of the three credit reporting agencies.

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
877-322-8228
www.AnnualCreditReport.com

Equifax
P.O. Box 74024
Atlanta, GA 30347
Phone: 800-685-1111
www.equifax.com

Experian
P.O. Box 2002
Allen, TX 75013
Phone: 888-397-3742
www.experian.com

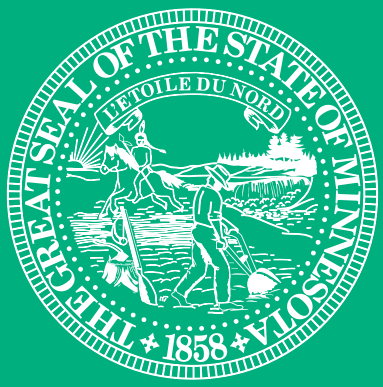
TransUnion
2 Baldwin Place
P.O. Box 1000
Chester, PA 19022
Phone: 800-888-4213
www.transunion.com

Consumer.gov
www.consumer.gov
(for consumer information from many federal government agencies)

Board of Governors of the Federal Reserve System
Division of Consumer and Community Affairs
90 Hennepin Avenue
P.O. Box 291
Minneapolis, MN 55480
888-851-1920
www.federalreserve.gov
(investigates consumer complaints against Minnesota chartered banks that are members of the Federal Reserve System)

Comptroller of the Currency Customer Assistance Unit
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743
www.occ.treas.gov
(for help with banks it has the authority to regulate, such as banks with "national" in the name or N.A. after the name)

Federal Deposit Insurance Corporation
Compliance and Consumer Affairs
FDIC Consumer Response Center
1100 Walnut Street, Box #11
Kansas City, MO 64106
1-877-ASK-FDIC (877-275-3342)
www.fdic.gov/consumers
(for help with banks it has the authority to regulate, such as state chartered banks that are not members of the Federal Reserve System)



Consumer Questions or Complaints

The Minnesota Attorney General's Office answers questions regarding numerous consumer issues. The Attorney General's Office also provides assistance in resolving disputes between Minnesota consumers and businesses and uses information from consumers to enforce the state's civil laws. We welcome your calls!

If you have a consumer complaint, you may contact the Attorney General's Office in writing:

Minnesota Attorney General's Office
445 Minnesota Street, Suite 1400
St. Paul, MN 55101

You can also receive direct assistance from a consumer specialist by calling:

651-296-3353 or 800-657-3787
TTY: 651-297-7206 or TTY: 800-366-4812
(TTY numbers are for callers using teletypewriter devices.)

Additional Publications

Additional consumer publications are available from the Attorney General's Office. Contact us to receive copies or preview the publications on our website at *www.ag.state.mn.us*.

- Car Handbook
- Home Building and Remodeling
- Conciliation Court
- Credit Handbook
- Guarding Your Privacy: Tips to Prevent Identity Theft
- Home Buyer's Handbook
- Home Seller's Handbook
- Landlords and Tenants: Rights and Responsibilities
- Managing Your Health Care
- Manufactured Home Parks Handbook
- Minnesota's Car Laws
- Phone Handbook
- Probate and Planning: A Guide to Planning for the Future
- Seniors' Legal Rights
- Veterans and Service Members
- Other Consumer Bulletins

MINNESOTA ATTORNEY GENERAL'S OFFICE
445 Minnesota Street, Suite 1400, St. Paul, MN 55101
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www.ag.state.mn.us