Financial Wellness Workshop: Debt & Credit

HERA

housing and
economic
rights advocates

Agenda

1. Overview of Debt Issues
2. Overview of Credit Reporting
3. Identity Theft Issues and Process
4. Questions

What Is Debt?

Credit and Debt Defined

- Money you borrow on the condition that you pay it back, usually with extra charges like interest. Credit is the $ you receive. Debt is the $ you owe in return.

"Good" Debt vs. "Bad" Debt

Credit or debt can be helpful if it puts in you a better financial position in the present or future. Bad debt can end up costing you much more than you receive in credit.
Questions to ask yourself:

- Will taking out this debt help me to be in a better financial position in the future?
- Can I afford to pay it back?
- How much will this credit cost me?

Secured vs. Unsecured Debt

Secured Debt: This debt has an asset (i.e. car, house) attached to it. If you do not pay back your debt, the lender can take the secured asset as payment for the debt.

- Examples: mortgages, auto loans, pawn loans

Unsecured Debt: This debt does not have an asset attached to it. These loans, if you do not repay them, go into collections.

- Examples: credit cards, department store charge cards…

Reliance on Credit Card Debt—*Beware*

Many people rely on credit cards to get by because they can:

- Be a convenient form of borrowing
- Provide a revolving line of credit
- Require only a minimum payment each month

Beware! It may cost you more than you realize!

Example:

Amount of Monthly Payment	Time Needed to Pay Off Credit Card Balance of $6,081	Interest to be Repaid Over Life of the Debt	Total Owed (including interest)
Minimum payment only	Approx. 14 years	$4,064	$10,145
Double the minimum payment	Approx. 5.5 years	$1,509	$7,590
Minimum payment + $100	Approx 3.5 years	$1,409	$7,490

Avoid High-Cost Debt by Shopping Around for Affordable Alternatives

Shopping for Loans/Credit

ANNUAL PERCENTAGE RATE The cost of your credit at a yearly rate	**FINANCE CHARGE** The dollar amount the credit will cost you	AMOUNT FINANCED The amount of credit provided to you or on your behalf	TOTAL OF PAYMENTS The amount you will have paid after you have made all payments as scheduled
A %	**$ B**	$ C	$ D

Affordable Alternatives

MAF

Lending Circles

Credit Union



Personal Installment Loans—terms vary dramatically, mostly by seller

Two general flavors



Seller: Banks, credit unions

Sample Loan Terms: $2,500 personal loan paid over 12 months

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
7.99 %	**$ 109**	$ 2,500	$ 2,609

Monthly payment is $217

Lower interest rate

Lower total payment



Seller: Check cashing stores (like Check 'n Go, Ace Express); and online lenders

Sample Loan Terms: $2,500 personal loan paid over 24 months

Longer payment term

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
100 %	**$ 3,358**	$ 2,500	$ 5,858

Monthly payment is $244

$27 more per month; $3,249 more total

Debt Collection: Generally, Consumer Debt Follows a Basic Pattern



- Borrower is late on a payment

- Lender reports the debt as a loss for accounting purposes after 120 to 180 days, depending on type of debt.
- Borrower still owes (is "liable" for) debt.

- Original creditor sells your loan to a debt buyer for much less than the debt balance.
- Debt buyer attempts to collect on debt.

- Owner of debt sues you (could be original creditor or debt buyer)

Statute of Limitations
- 4 years for written Contracts

- Liens and Garnishment
- Being "Judgment Proof"
- Claim of Exemption
- Homestead Exemption

Dealing with a Debt Collector – Be Careful

- **DON'T GIVE OUT SENSITIVE INFORMATION**
  - You do not need to speak with debt collectors. Ask them to send an explanation of the debt in writing before you agree to speak with them.
  - Don't give out information like your Social Security or bank account numbers!
  - If you feel threatened or bullied, hang up.
- **KEEP GOOD RECORDS**
  - Save everything debt collectors send.
  - Keep copies of anything you send to them.
  - Write down dates, times, and notes for every call.
- **GET LEGAL ADVICE IMMEDIATELY IF YOU ARE SUED ON A DEBT**
  - If you are served with a lawsuit, and you do not respond within 30 days, the debt collector can get a default judgment against you.



SCAM ALERT: DEBT SETTLEMENT COMPANIES

They claim they can negotiate with your creditors to reduce the amount you owe. Dealing with them can be risky, and have been found to be ineffective in reducing debt. And you may wind up owing more.

Dealing with a Debt Collector – Know Your Rights

- **STOPPING COLLECTION CALLS AND NOTICES**
  - A debt collector must stop all communication with you, except through a lawsuit, on a debt if you tell them to stop contacting you.
  - You can also tell the debt collector how they can and can't contact you.
  - Make sure your requests are in writing!

- **THINGS DEBT COLLECTORS CANNOT DO OR SAY**
  - Calling before 8 a.m. or after 9 p.m.
  - Harass
  - Threaten
  - Contact your boss, friends and neighbors about the debt
  - Lie
  - Demand more than you owe
  - Add unauthorized fees

Dealing with a Debt Collector – Debt Validation

- **MAKE SURE THAT…**
  - The person contacting you has the legal right to collect the debt.
  - All agreements to pay or settle old debts are in writing.
  - The debt is not past the statute of limitations or otherwise uncollectable before you make any payments.

- **ASK THE DEBT COLLECTOR…**
  - The name and address of the original creditor and the original account number.
  - The date that the account was first opened.
  - The date of the last recorded payment on the account.
  - The date that the debt was sold and the amount of the debt at that time.
  - The name, address, and phone number of the debt collector.
  - The amount of the debt, including an explanation of fees such as interest or collection costs.
  - To send you documents showing that the debt collector has the right to collect the debt.

<u>All in writing!</u>

Dealing with a Debt Collector – What If The Debt Isn't Mine?!

- **DISPUTE THE CLAIM!**
  - Send a letter to the debt collector (see sample below)
  - You may lose the ability to dispute the claim if you wait until after a court issues a judgment.

[Your name]
[Your return address] [Date]

[Debt collector name] [Debt collector address]
Re: [Account number for the debt, if you have it]

Dear [Debt collector name],

I am responding to your contact about collecting a debt. You contacted me by [***phone/mail***], on [***date***] and identified the debt as [***any information they gave you about the debt***]. I do not have any responsibility for the debt you're trying to collect.

If you have good reason to believe that I am responsible for this debt, mail me the documents that make you believe that. Stop all other communication with me and with this address, and record that I dispute having any obligation for this debt. If you stop your collection of this debt, and forward or return it to another company, please indicate to them that it is disputed. If you report it to a credit bureau (or have already done so), also report that the debt is disputed.

Thank you for your cooperation. Sincerely,

[Your name]

SOME DEBTS HAVE SPECIAL TYPES OF RELIEF

Medical Debt

- Discounted Payment Plans
- Charity Care



Student Loans

- Rehabilitation and Consolidation
- Income Based Repayment Plans
- Loan Forgiveness Programs
- Statutory Discharges

Mortgages

- Modifications
- Refinancing
- Local Reinstatement Assistance Programs

WHAT IF I HAVE A COURT JUDGMENT AGAINST ME?

Creditors cannot take money or property away from you unless they have successfully sued you in court and received a judgment against you.

Even if there is a judgment against you, some income and assets are protected from collections.

- **Wage Garnishment** – No more than 25% of your wages can be garnished each pay period.

Exceptions:

Exemption 1: If you are very low income or a part-time wage earner, 100% of your wages may be protected.

Exemption 2: If all your wages are needed to support yourself or your dependents, you wages should be exempt from collections.

COVID-19 Exemption: COVID-19 stimulus payments (federal, state, local) are exempted, with some exceptions, by state law from garnishment

- **Bank Account Levy –** Creditors can levy your bank account but there are exceptions:

Exemption 1: Creditors cannot take money out of your bank account if the source of that money is protected by law. For example, most public benefits and social security are protected from collections.

Exemption 2**:** Wages in your bank account should be exempt so long as they are needed to support yourself and your dependents.

In order to take advantage of the above protections, you need to file a **Claim of Exemption!** You only have 10 days to file this exemption after you receive notice to prevent your income or assets from being taken, although you can also file the claim after the garnishment or levy has begun.

Your credit report is a indicator of your financial wellness

What is a credit report?

A credit report is a report that collects information about your bill paying history, public record information, and a record of your applications for credit. Your credit reports shows information about how you have used credit, such as how much credit you have, how much of your available credit you are using, whether you have made your payments on time, and whether anyone has sent a delinquent (late) debt you owe to a debt collector.

Types of Information in a Credit Report

1	**Identifying Information**	Names, addresses, phone numbers, previous employers
2	**Public Records**	Public records data of a financial nature, e.g., bankruptcies, judgments, including evictions, federal and state tax liens. Some credit reports contain arrests and convictions
3	**Accounts in Collection**	Any accounts with a collection agency
4	**Credit Accounts**	Accounts you've had with creditors and bill paying history
5	**Inquiries**	When you apply for credit and a lender reviews your credit report, it is listed as an "inquiry" on your report

Note: A credit report isn't the same as your "credit score." Your credit report is used to create your "credit score."

CREDIT REPORTING

Why credit reports matter

- **Loans** (mortgage, auto, etc.) and **Credit Cards**

  Banks and other lenders use credit reports to decide ***if they will give you a loan*** and to determine what ***interest rate*** to give you

- **Housing/Rent**

  A landlord may use your credit report to decide ***if they will rent an apartment to you*** (also applies to public housing)

- **Insurance**

  An insurance company may use your report to determine ***whether to give you insurance*** coverage and the ***rates*** you will pay

- **Employment** (*in some cases*)

  Employers can use credit reports ***in limited cases***. Cal Labor Code 1024.5.

A good credit report can save you money and open opportunities; a bad credit report can cost you more money and close opportunities

What gets reported on your credit report?

Reported

- Credit cards
- Mortgage loans
- Student loans
- Auto loans
- Collections
- Debt judgments
- Personal loans (sometimes)

Not Reported

- *Utility bill payments
- *Rent payments
- Checking or Savings card payments
- Prepaid cards

Information In Your Credit Report Gets Translated Into a Credit Score



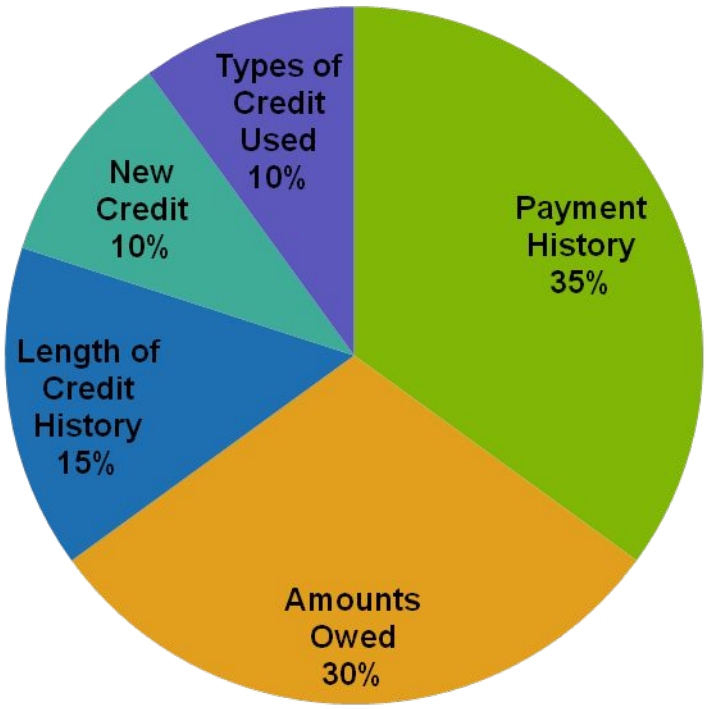
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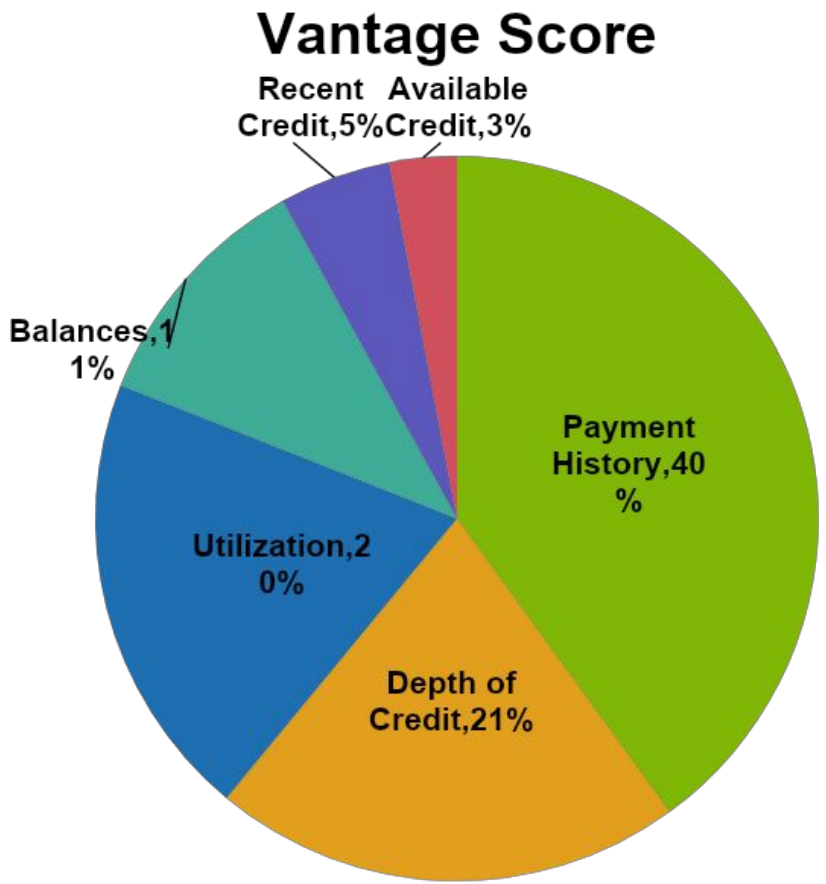
Credit Score

760 - 850	Excellent
700 - 759	Very Good
660 - 669	Good
620 - 659	Fair
580 - 619	Poor
500 - 579	Very Poor

Credit scores will vary depending on WHO is pulling your credit report, and WHAT program/algorithm they use

A Credit Score Summarizes What's In Your Credit Report





Credit scores vary depending on what scoring model is used. If you apply for a loan or credit and are given codes explaining your score, you can find code explanations at www. reasoncode.org

You Have Rights and Protections Related to Your Credit Report

1. Right to Access Your Credit Report for FREE

- The **Fair Credit Reporting Act (FCRA)** requires each of the nationwide credit reporting companies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months.
- You can access your free credit report: Online at https://www.annualcreditreport.com, by phone at (877) 322-8228 and by mail (Go to https://www.annualcreditreport.com to print the form)

2. Right to Have Errors Corrected

- Under the **Fair Credit Reporting Act (FCRA)**, if you dispute information on a credit report, a credit reporting agency has a duty to conduct a **reasonable reinvestigation** to determine whether the disputed information is inaccurate and record the current status of the disputed information. 15 U.S.C. § 1681i(a)(1)(A)
- A credit reporting agency only has an obligation to modify or delete a tradeline as appropriate if it is found to be **inaccurate** or **incomplete** or **cannot be verified**. 15 U.S.C. § 1681i(a)(5)(A)(i)

3. Special Rights for Identity Theft Victims: If you are the victim of identity theft, you have additional rights under federal and state law.

4. Reporting of Negative Information: Negative information generally can be reported for 7 years (Bankruptcy can be reported up to 10 years)

5. Right to Dispute Unauthorized Use: right to bring civil action against anyone who improperly obtains access to a file, knowingly or willfully misuses file data, or fails to correct inaccurate file data. Cal. Civ. Code § 1785.19.

You Can Take Steps to Improve Your Credit Report and Credit Score

Strategies That Will Help

- ✔ Review your credit report for accuracy, **dispute errors**
- ✔ Use safe credit-building products like **affordable loans**
- ✔ **Pay bills on-time**
- ✔ Keep amount of credit that you use less than 30% of limit
- ✔ Resolve student loan debt
- ✔ Develop plan to take care of outstanding judgments and liens
- ✔ Diversify credit sources
- ✔ Get on payment plan for **medical debt**—ensure provider is not reporting balance as outstanding, or request **charity care** if eligible
- ✔ Asking for a "good will" deletion for an unusual late payment
- ✔ Negotiate with collection agency to "not report" in exchange for payment
- ✔ Paying down old debt or debt in collections

Watch out for SCAMS!!!

- x DO NOT pay for credit repair services that promise to
  - x Delete negative history even if it's accurate
  - x Raise your credit score by a specific number of points
- x DO NOT enroll in credit building products that are
  - x Expensive
  - x Make you buy things you don't need
  - x Encourage you to keep a balance every month

To Dispute Errors on a Credit Report, Tell the CRA and Furnisher

Steps to dispute an error on your credit report

Step 1

Tell the credit reporting agency ("CRA"), in writing, what information you think is inaccurate.

- Best to dispute in letter sent by certified mail, return receipt requested.
- Include copies (NOT originals) of documents that support your position.
- Identify the information that is wrong, explain why it is wrong, and include documents that show why it is wrong.
- CRAs generally must respond in 30 days (unless "frivolous"). This can be extended up to 45 days.

Step 2

Tell the information provider ("furnisher") (that is, the person, company, or organization that provides information about you to a credit reporting company), in writing, that you dispute an item in your credit report.

- If the provider continues to report the item you disputed to a credit reporting company, it must let the credit reporting company know about your dispute.
- If you are correct — that is, if the information you dispute is found to be inaccurate or incomplete — the information provider must tell the credit reporting company to update or delete the item.

Note

During COVID-19, the U.S. Consumer Financial Protection Bureau is giving credit reporting agencies flexibility on the timelines for investigating disputes

Source: Federal Trade Commission website <https://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>

You Can Use This Sample Letter from the FTC to Dispute an Error

[Your Name]
[Your Address]
[Your City, State, Zip Code]
[Date]

Complaint Department
[Company Name]
[Street Address]
[City, State, Zip Code]

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item **[identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.]** is **[inaccurate or incomplete]** because**[describe what is inaccurate or incomplete and why]**. I am requesting that the item be removed **[or request another specific change]** to correct the information.

Enclosed are copies of **[use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents]** supporting my position. Please reinvestigate this**[these]** matter**[s]** and **[delete or correct]** the disputed item**[s]** as soon as possible.

Sincerely,

Your name

Enclosures: **[List what you are enclosing.]**

Source: Federal Trade Commission website <https://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>

What is Identity Theft?

Basically, someone uses your personal information, pretends to be you, and spends a lot of money – all in your name.



Examples

- Someone uses your personal information (Social Security number, Medicare number, credit card, bank account…)
- They run up bills in your name – charging on your existing credit cards, using your debit card
- They get credit in your name – getting new credit cards, buying a car – even buying a house!
- They get medical care in your name – filing against Medicare with your name and Medicare number
- They could file taxes in your name, using your Social Security number

FTC: Signs Someone Has Stolen Your ID

What to Review

- Read your statements
- Read your explanations of health benefits
- Watch your bills
- Check your credit report!

Warning Signs

- You see withdrawals from your bank account that you can't explain.
- You don't get your bills or other mail.
- Merchants refuse your checks.
- Debt collectors call you about debts that aren't yours.
- Medical providers bill you for services you didn't use.
- Health plan rejects medical claim b/c records show you've reached benefits limit.
- Health plan won't cover you b/c medical records show condition you don't have.
- IRS notifies you that more than one tax return was filed in your name, or that you have income from an employer you don't work for.
- Notice of data breach at a company where you do business or have an account.

ID Theft Red Flags on Your Credit Report

- Lots of unknown names, addresses, or contact information
- Line items/credit accounts that you did not open
- Accounts in collection for debts you did not incur
- Unknown “hard inquiries” from creditors that you did not approach



Preventing Identity Theft

Protect your personal information

- Lock up your financial records
- Limit what you carry
- Shred what you don't need
- Don't share personal information



Protect your computer and mobile devices

- Antivirus software and firewalls
- Don't open files or links from strangers
- Wipe old computers clean
- Use safe wi-fi, passwords and encrypt data

Stay Vigilant

- Collect mail every day
- Pay attention to billing cycles
- Review credit card and bank account statements

Compare credit card and bank service policies regarding identity theft protection

If You Are the Victim of Identity Theft, Follow These 3 Steps

Step 1

Place a fraud alert with the credit reporting agencies

Step 2

Get your free credit reports

Step 3

Create an Identity Theft Report

- Create FTC Identity Theft Affidavit
- File a police report

Always save copies of letters and requests and record dates

STEP ONE: Fraud Alerts

Place a fraud alert with the credit reporting agencies

- Report that you are an identity theft victim
- Ask the company to put a fraud alert on your credit file
- Confirm that the company you call will contact the other 2 companies
- Initial fraud alert stays on your report for 90 days

Source: Federal Trade Commission website <http://www.consumer.ftc.gov/articles/0277-create-identity-theft-report>

STEP TWO: Free Credit Reports

Get your free credit reports

- Explain to the 3 national credit reporting agencies that you placed an initial fraud alert
- Order your free copy of your credit report
- Ask each company to show only the last 4 digits of your Social Security number on your report

STEP THREE: Create an Identity Theft Report

Submit a report about the theft to the FTC (https://www.identitytheft.gov/).

Print a copy of the report, called an Identity Theft Affidavit

- File a police report about the identity theft, and get a copy of the police report or the report number
- Bring your FTC Identity Theft Affidavit when you file a police report
- Your FTC Identity Theft Affidavit and your police report make an Identity Theft Report
- Send copies to any accounts or collection agencies seeking payment for fraudulent charges and consider canceling any compromised bank, credit card, or other accounts

Always save copies of letters and requests and record dates

Extended Fraud Alert

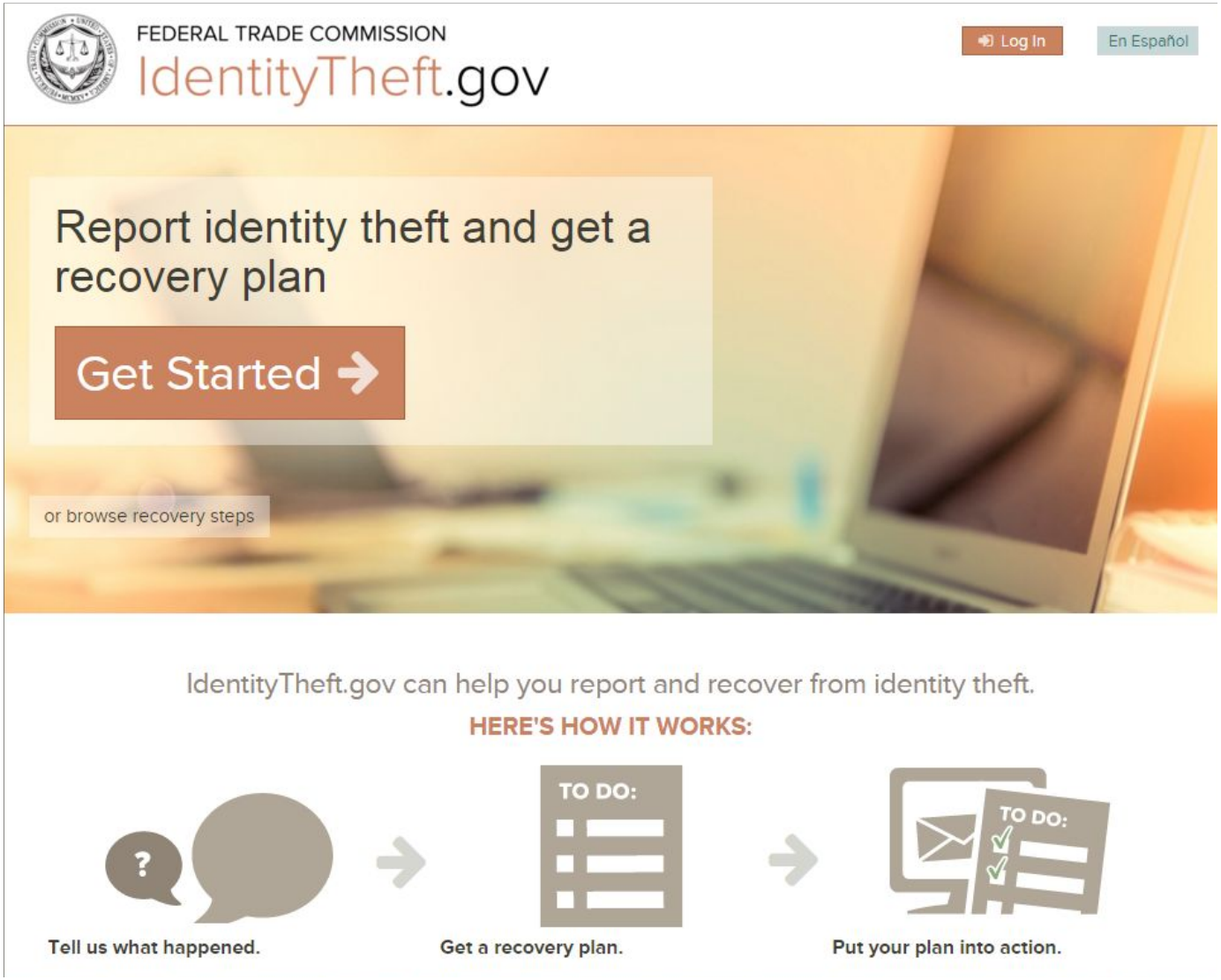
- Seven-year fraud alert on your credit report

- Makes it more difficult for an identity thief to open new accounts in the victim's name because potential creditors have to contact the victim by phone, in person, or by another means indicated by the victim before extending new credit, raising credit limits, or issuing additional cards.

- Requirements for placing an extended fraud alert differ slightly for each company. One requirement common to all companies is that the victim must provide an Identity Theft Report with his or her request for the extended fraud alert.

A print-out of a Complaint filed with the FTC will suffice for obtaining an extended fraud alert!

New Identity Theft Website: IdentityTheft.gov



Questions???

Feel free to ask any questions that are not personal and confidential.

HERA Provides An Array of Legal-Financial Counseling Services

HERA's Services

Debt Collection	• Student loan • Auto loan • Medical debt • High cost loans (auto-title, payday, check cashing) • Home Owners Association (HOA)
Credit Reporting	• Identity theft • Accessing credit report • Denial of credit or loan because of credit report • Errors on credit report
Financial Products Recommendations	• Affordable small dollar loans • Credit building products
Mortgages	• Foreclosure prevention and mortgage servicing issues
Tenants	• Pre-eviction concerns, including harassment, fair housing, habitability problems, landlord/tenant disputes, and credit and debt concerns when seeking housing.
Veterans & Servicemembers	• Enforcing special protections and assisting with special resources for veterans and service members
Estate Planning	• Simple wills, trusts, health directives, and power of attorney

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