Jerry McMillan Sr.

Do You Want to Know

- How to stop burning your money.
- How to build your credit.
- How to save money.

Are you drowning in credit card debt? Are you barely able to make the minimum payments on maxed out cards? Are you ready to take charge of your financial life? Then Jerry McMillan's new book, *Bad Credit Burns Money*, is the answer for you!

Mr. McMillan will clearly and comprehensively explain to you how your credit score is calculated, how to fix bad credit, and even how to avoid identity theft. He'll tell you what the credit industry doesn't want you to know, and help you regain control of your financial life. Don't miss this highly readable, entertaining — yes, I said entertaining — guide to getting out of debt. You can't afford not to read *Bad Credit Burns Money*!

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BAD CREDIT BURNS MONEY • JERRY McMILLAN, SR.

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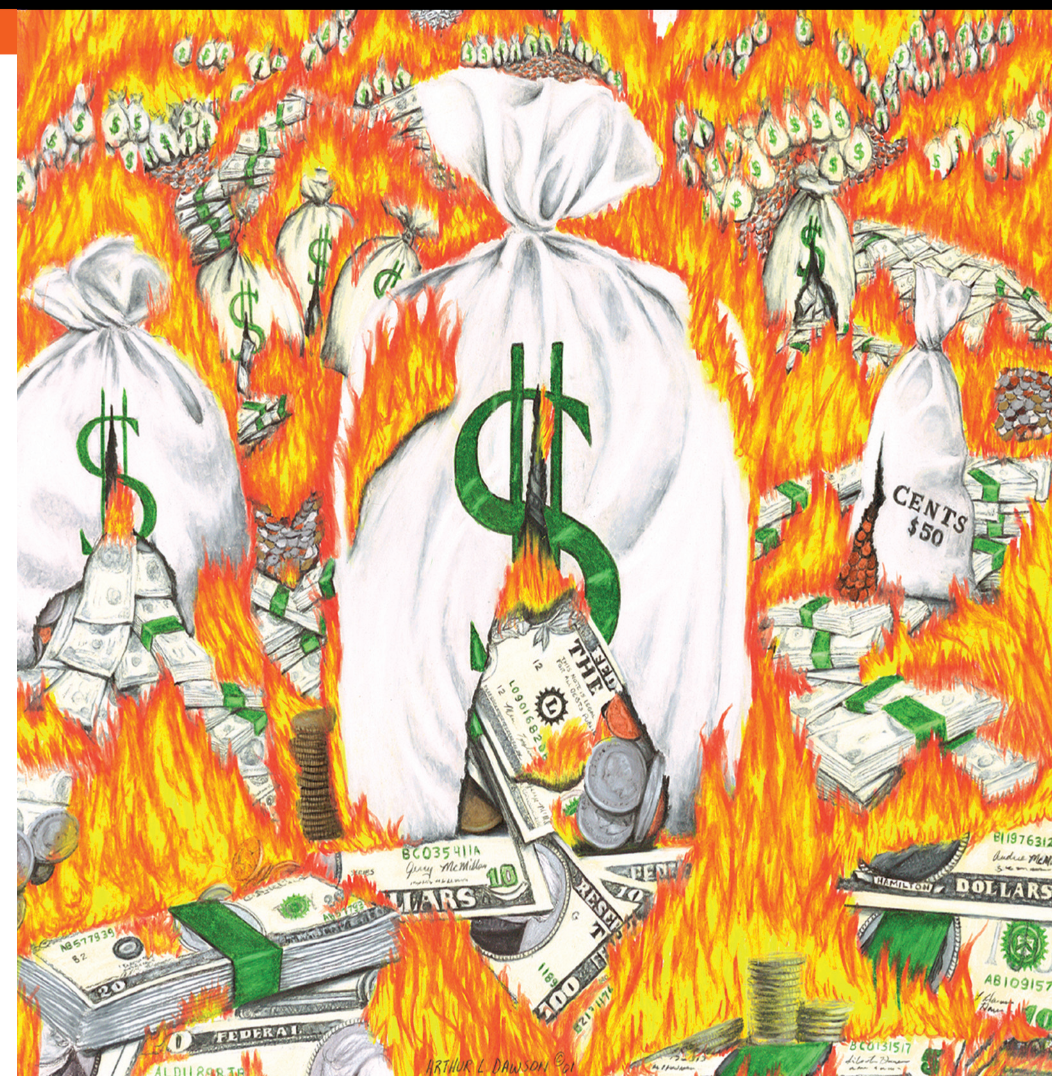
By Jerry McMillan Sr.



BAD CREDIT BURNS MONEY!

(IS YOUR FINANCIAL FUTURE GOING UP IN SMOKE?)

A Layman's Guide to Getting Out -- and Staying Out -- of Debt

Jerry L. McMillan, Sr.

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This book, as my work in general is dedicated to my family: my wife Audrey and my children, Ariane, Bridgette and Jerry, Jr.

May it serve as a memorial tribute to Cozell and Maggie McMillan, who gave me a chance in life and to Lucille Brown Woodard, who gave me life itself.

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Introduction: You Are What You Charge

Credit is surely the straw that stirs the complex brew known as the American economy. Particularly in these boom times of soaring economic health and wealth, we here in the U.S. feel no need to suppress our taste for spiffy electronic gadgets, gas-guzzling sports utility vehicles, increasingly spacious homes and more and better toys than the family living next door.

Yes indeed, we Americans are a materialistic bunch, seeing the accruing of loot as very much our birthright. And in a country that has long grappled with its own national debt, we are wholly convinced that going into financial arrears ourselves is merely part of the deal. If we get in too far over our head, there's always bankruptcy, right? Sign a few papers and presto, the debt is erased like magic. You've got to love a country that provides its citizens such a tidy escape hatch.

It is this very mindset, unfortunately, that soils countless reputations and ruins millions of lives in the United States every single year. Consumers gleefully pursue the good life and irresponsibly overextend themselves. After all, plastic money doesn't feel real, right? It's not green. It has no ink. It's just a bunch of dumb little numbers. So you max out the cards, fork over the minimum payment each month and plummet deeper and deeper into the financial hole while taking an enormous annual hit in interest fees.

Sound familiar? It sure does to me. As a credit and finance professional, I encounter this scenario every day. I am also perplexed that at a time when our economy is so spectacularly robust, job openings exceed the number of workers available to fill them and the good times roll on and on, personal bankruptcies are at an all-time high. Equally troubling is the fact that more Americans than ever find themselves drowning in a sea of unmanageable debt.

How could this be happening? Well, on a certain level, it's pretty simple to figure out. We earn more money than ever before and enjoy a greater amount of free time during which to spend it, but there has been no real commensurate increase in financial savvy and budgeting know-how. And when folks establish a larger income, it frees them psychologically to ring up a proportionally higher credit tab than they otherwise would, as opposed to using the increase to eliminate debt.

Banks are naturally only too happy to oblige this urge to splurge by flooding your mailbox with pre-approved credit card applications, including gold and platinum card forms with credit limits up to $20,000, $25,000 and up. It's overwhelmingly tempting, particularly when the bills mount and you find yourself forced to borrow from Peter to pay Paul. By that point, a consumer is sprinting so frantically on the debt treadmill that it seems impossible to halt the monetary plunge and get it all under control.

But take it from me: not only is it possible to repair bad and even horrendous credit, it may not be nearly as painful as you think. I'll tell you how to do it in this book. So hang on. Help will soon be on the way, as long as you follow the path toward helping yourself.

Let me take a moment right here, though, to clear up a possible misconception. The aim of this book is not to dissuade anyone from establishing and carrying a significant credit portfolio. For one thing, it's pretty much impossible to avoid it once hitting adulthood. Teenagers and young adults have in fact come to view acquiring credit cards as an emblem of maturity. Certain purchases, such as those over the Internet, are difficult if not impossible without one. Ours has become a society of numbers, more so today than at any time in American history.

But again, just as building credit is as much a necessity as getting dressed for work, responsible credit can make life more comfortable and considerably more convenient. Credit enables us to pool the promise of our future earnings to make an acquisition today. It may be a car, a home in the 'burbs, a college tuition or something as basic and everyday as groceries. Paying cash has grown so passe as to establish that person as downright eccentric (maybe even someone you'd want to stay away from). Everyone seems to be paying by credit card or check card, which carries the advantage of creating a more permanent record of the transaction.

Every time we use a credit card and pay a given bill on time, it identifies us as dependable, trustworthy consumers and thus good credit risks. Carrying a high credit score is right up there with having low cholesterol and good personal hygiene on the scale of human importance. And unlike even low cholesterol and regular bathing, a positive credit report will open the door to purchasing power wider than will anything short of a successful appearance on national TV with Regis Philbin. Every credit purchase and payment forms a blueprint of our financial worthiness. The amount of credit we are able to score and accrue is itself a measure of our merit – possibly even more so than our net worth.

Of course, the flip side to this credit equation is a grim one: he (or she) who secures the highest amount of credit too often morphs into the most debt-riddled guy on your block. The rationale follows a disturbingly plain formula: if it is there, they will charge.

Here’s the equation: availability + opportunity x overindulgence = debt. You would grow rich betting on this scenario occurring a majority of the time.

It’s a fact: millions of Americans have a tiger by the tail. They know it, too, but have no idea what to do about it. The tiger is debt, most of it amassed via the easy availability of charge cards and the lack of self-control that drives the indebtedness epidemic that weighs down the lives of so many unwitting consumers. And tragically, a substantial number of those Americans trapped in the tentacles of debt are those with the fewest options.

Credit debt destroys marriages. It silently, relentlessly and insidiously closes doors of opportunity that the debtors never knew existed. It creates stress that ages its victims and – in time – may even kill them. From my experience, debt can be as destructive a force in the lives of families as drug or alcohol addiction. It has quickly grown to become, in short, the Grim Reaper of the new millennium.

I have witnessed the evolution of the American credit industry over the last 20 years, observing it not only with a measure of awe but considerable alarm as well. I’ve seen too many good and reasonably intelligent people accumulate debt at an astonishing rate. Not all of the consequences of this sorrowful spending spree are yet apparent.

In my experience, it is clearly the lack of knowledge (read: monetary ignorance) that has fueled the accelerating scourge of credit/debt overload and leads so many people into a world of personal and financial pain. These are the individuals who have never heard anyone utter the terms “interest rate,” “revolving credit” or “quagmire of debt.” They comprehend nothing apart from their capacity to charge up a storm and worry about paying it all off later, if ever.

To these unenlightened denizens, credit cards represent something akin to free money. Mathematics whizzes, these are not. And the deeper the financial hole they dig for themselves, the more disillusioned they become with the whole mess. For all that these people can conceive, credit debt is the equivalent of a student loan that's come due – and a burden that they never anticipated having to actually attempt to honor.

Robert and Linda Mitchell, a young couple in their late 20's who recently came to me for a home loan, were in desperate need of a real house. They had a growing family that included an infant and a four-year-old, but the Mitchells found themselves crammed into a postage-stamp apartment without a back door and no yard for the kids.

This is the kind of situation I see on a daily basis. It's an unfortunate fact that lenders are forced to turn down fully 75% of the people who seek to apply for home loans. It's based on a scoring formula of credit worthiness based loosely on one's life experiences, which I will explain in greater detail shortly. But as it happens, the Mitchells found themselves in a particularly difficult predicament. Robert had been out of the military for a little more than a year. His wife Linda had recently been promoted from a teacher's assistant to a full-time teaching position that included a healthy bump in salary. They were nice, hard-working people putting in a real effort to get ahead.

The problem was that the Mitchell's had dreadful credit. They had a $10,000 outstanding balance from defaulting on a car loan as well as numerous late payments on existing loans – all within the past year. Several other of their debts were in collections. As earnest and sincere as these people were, I figured that I couldn't have gotten them a home loan if I had pulled a gun on the lending officer myself. As desperate as the Mitchells were for a starter house, my hands were tied. And it was all because this couple neglected to take seriously the importance of a clean credit slate.

I make every effort to secure credit funding for everyone who comes in to see me. But for some reason, the Mitchells inspired me to really put myself out and go the extra mile despite the odds that were stacked against them. Something about this family in particular moved me. So I used all of my knowledge and every trick in my arsenal to boost their chances. I cautioned them that we were likely to hear lots of bad news and rejection before anyone offered to finance their home loan. So it was hardly a shock when our initial submissions were indeed denied.

Before long, the Mitchells had become discouraged by the process and the turn-downs, which to a young couple feels as if their very character and sense of merit are being spurned. Linda and Robert grew particularly disheartened when we had to apply to extend the initial 45-day financing period. I tried to assure them that given their credit history and situation, nothing out of the ordinary was happening, and the continual loan denials should not be construed as an indication that they wouldn't eventually find a lender.

And that's just what happened. It took several weeks, but the Mitchells got their loan approval thanks to our enhanced perseverance and never-say-die attitude. It looked as if their story would have an unlikely happy ending. But when I went to process the final papers before calling them, I saw that the couple had committed (with interest, over time) $25,000 on a fancy Mercury Mountaineer SUV. They would be making $500 monthly payments on their snazzy new vehicle. I had cautioned the Mitchells that their income-to-debt ratio was already marginal. They had barely qualified for the approval before. But there was no way the loan would go through now. And it didn't.

The moral of this story is that keeping the faith and thinking positive all factor in to credit procurement. The Mitchells had grown disenchanted as the rejects piled up and assumed they wouldn't qualify for that home loan. So as a consolation to themselves, they went out and blew 25 grand on a fancy new set of wheels. Because they didn't stick it out, they weren't going to be moving out of that cramped apartment and into a new home for quite a while, if at all. But at least they had a nice car to drive them to and from their undersized abode.

I'm sorry to say that this is a picture I see far too often. Too many people pile new debt onto the debt they are already having difficulty paying off. It is a product of skewed priorities and budget immaturity. Credit abusers want what they want when they want it. Logic and self-control don't factor into the mix.

Certainly, for the Mitchells, borrowing for luxuries (which I certainly considered their flashy new SUV to be) flew directly counter to what should have been a greater responsibility to both their own futures and those of their two small kids. Their inability to delay gratification for a new vehicle long enough to secure a much-needed home is maddeningly typical of the sort of flawed judgement that shatters even the best intentions. The five-year life of the couple's SUV car loan promised to generate a period of major strain on both the Mitchells and their marriage. Each dent that surfaced on that car stood to symbolize a new one on their relationship.

It always somehow surprises me that so many Americans need help in understanding the case and effect relationship between how their past credit habits stand to impact their present lives. You would figure that something so important, so intrinsic to our daily survival as the use and abuse of credit might be addressed and studied as part of our basic understanding in being grown-ups. But like marriage and parenthood, credit management is one of those areas of existence that falls through the educational cracks. The result is a populace ill-equipped to comprehend the stakes and understand the system.

Even something so critical as distinguishing the monetary differential between various interest rates is more often than not misinterpreted or just plain not understood, period. We are a culture that can recite calorie counts like so many mantras. But try to explain the payment difference between a revolving credit paid at a 5% or 10% rate of interest and you will be met with the blankest of stares. The same people who think nothing of driving 10 miles out of their way to save a nickel on a gallon of gas don't even bother to do the math on an area of finance that can mean the saving or wasting of several thousand dollars.

Here is how a typical credit interest table looks (just so you won't have to do the math yourself):

COST OF CREDIT ($10,000 PAID OVER FIVE YEARS)

INTEREST RATE	TOTAL PAYMENTS
0%	$10,000
5%	$11,333
10%	$12,748
15%	$14,273
18%	$15,236

22% **$16,571**

Yes, despite the fact we live in a society so deeply entwined with credit and debt, my experience is that even many of the best and brightest amongt us just don't get it at all. And here's the proof: On college campuses around the country each fall, a circus-like atmosphere takes hold during registration. Returning students busily renew friendships and build up their excitement for the coming school term. At the same time, a huge group of incoming freshmen invade the colleges. These are young people, generally 17 or 18 years old and away from home for the first time in their lives. As such, these kids will be making a series of independent decisions they have never before been obliged to face. And with those decisions come both responsibility and temptation.

During registration, these freshmen will descend on booths offering an endless array of freebies: drink coolers, T-shirts, Frisbees, pens, food vouchers, you name it. There is only a single catch to landing all of these free goodies. They must fill out a credit card application.

And so it begins.

Indeed, you might figure that college kids might have a tough time landing aq credit card with even a $300 or $400 limit, given their lack of credit history and well-documented penchant for irresponsibility. But in fact the opposite happens to be true. Students in college who apply for credit are approved in alarming numbers, and few are able to resist the lure of having a genuine piece of plastic money minted with their own name. The banks know this, of course, and it's important that they be able to attract potential lifetime customers at such a tender age.

The shame is that far too many of these students overindulge with the card and wind up getting themselves in heavy debt before their financial lives have even had a chance to begin. There is nothing sadder than having a college kid leverage his or her future at the expense of their dreams. In extreme cases (and there are many), students are forced to drop out of college to work off that new credit card debt burden.

Of course, the college types could simply follow the example of their elders and simply pay off the card minimums each month. However, the "convenience" of making that minimum payment as a matter of routine is a deceiving little piece of business. Most credit cards now require only a minimum payment of 2% of the outstanding balance. If the interest rate being charged is 18%, the monthly addition to the outstanding balance is 1 ½%. As a result, your minimum payment erodes the full balance by a sum of one half of one percent, or 0.5%, each month. At this rate, it would take you 200 months – or 16 years, 8 months – to repay the balance. And this assumed no new charges or growth in the outstanding during that time.

For the student who quickly runs up a $15,000 balance by using the credit card for tuition and living expenses and takes on a $300 minimum monthly payment as a result, this is a quick ticket to manning the drive-thru line at Burger King (not that there's anything wrong with working at Burger King, so long as the job isn't in lieu of college).

No one should be startled by this kind of sobering scenario. Most college grads and non-grads alike have similar stories of their own. Thinking back to when I was 17, it would have been a total disaster were I to have had such ready access to revolving credit. I was entirely devoid of the requisite and necessary understanding to even do an effective job balancing my checkbook, let alone the balance sheet implications of mounting revolving debt.

As we sit a quarter-century past my 17th birthday, I don't believe that most 17-year-olds have managed to harness a great deal more preparation or discipline. What has changed significantly over the past 25 years, however, is the far greater access to hefty lines of credit that today's college-age teenager enjoys. Teens managing credit cards remain an oxymoron, the ultimate oil-and-water mixture. Students with bloated credit limits are overpoweringly likely to abuse it and crash head-on into a brick wall of credit debt.

It goes without saying that the difference between starting one's adult life free of debt and being saddled with a lingering monthly nut is as vast as the qualitative gulf that separates, say, "The Discovery Channel" and "The Jerry Springer Show." A recent college grad who already owes tens of thousands of dollars in student loans and then has to make payments on two or three maxed-out credit cards as well as a new car strides into The Real World saddled with an 0-and-2 count. It's possible that this 22-year-old will be mired so deeply in a debt-servicing hole that it will take 20 or 30 years to find a way out.

Now consider the considerably less pressurized plight of a student graduating college debt-free. The quality of life contrast is enormous. For example, let's say that one student graduates to a relatively small $200 monthly debt, while the debtless grad is able to sock away $200 each month in savings. That savings, invested at a rate of return of 8% compounded annually, will grow up a cool $110,000 after 20 years. It surely beats of lifetime spent playing a stressed-out game of catch-up.

But whether you be a student or working stiff, young or old, rich or drowning in debt, it is decidedly difficult to pick the brain of a consumer credit expert. The problem is that there aren't very many of them, just as there are few generalists. Those who impart the most knowledge tend to specialize in a single area of expertise. Be careful in whom you place your credit trust, however. Many of those casting themselves as experts on radio and television, and who claim to speak authoritatively on credit, aren't actually authorities at all. More often than not, they are simply salespeople who want you to buy whatever it is they are peddling. They aren't real credit experts; they just play them on TV.

So where should Joe and Jane Consumer turn to find trustworthy and accurate information? It may take some looking around. With the exception of the glitz and glamour that accompany any rapid accruing of Wall Street fortunes in the dot.com universe, money and finance remain unpopular topics for the masses. It ranks somewhere below storm news and above Middle East conflict on the information food chain. There are no Elian Gonzales tales in the world of finance.

Yet even those who find talk of NASDAQ fluctuations and the value of Bill Gates' portfolio to be the height of tedium have to acknowledge just how radically their own personal relationship with money has evolved over the past two decades or so. As recently as the 1980s, ATMs were still a rarity. The Internet remained mostly on the horizon. If you needed cash, you probably wrote a check to your local supermarket for "$40 over." Check cards didn't become popular until the latter half of the 1990s.

It’s difficult for most to remember this far back into the past now, but there was a time not all that long ago in America when credit cards were not inextricably linked to our daily financial plans and purchases. That was true as recently as the 1960s, truth be told. Of course, this was also the era when the country remained largely innocent and rural, you didn’t need to lock your door at night and the kids could play outside after dark without fear of being abducted. People had block parties, took evening strolls and considered their lives complete after buying a chocolate malted at the corner drugstore. People often cashed their paychecks and drove around town to pay their bills in cash.

That world surely seems today as if it existed on a different planet. It was a time before credit card debt, when you owed on your house and your car but wouldn’t dream of going into arrears in a rising a sea of plastic. A married couple needed to look no further than their local bank or savings & loan to sew up funding for a home mortgage. And they were probably on a first name basis with the loan officer before ever setting foot in the institution. The credit record for this husband and wife was maintained locally (no credit bureau necessary), and personal references from friends and family actually made a difference in the process, which the loan officer didn’t control (we do realize that there were certain segments of the population that did not get to participate in this process).

Once this mom n’ pop bank mortgage loan was extended, the lending institution held the note until it was paid in full. The bank had a realistic, optimistic goal back then that every debtor would meet each payment on time and honor the loan fully until every last cent was paid off. These were the days when loan applications were evaluated using the Three C’s: character, capacity and collateral. A credit industry myth persists to this day that these intangibles remain the backbone of the lending business. To be sure, they still play a part, but not a major one. It simply isn't possible in a credit world that has grown decreasingly personal and slavishly formula-driven. Individual judgement enters the loan equation with mounting rarity.

(Some would argue that there exists a fourth "C" in evaluating the fitness of a loan candidate: color. But that leads into a whole host of sensitive issues that will be addressed in a bit more depth in a later chapter. Briefly, credible research studies have documented the quantitative and cumulative financial impact of institutionalized racism in lending and government as it impacts disenfranchised segments of our communities. See "Black Wealth, White Wealth" for the most detailed examination of the issue.)

As a credit professional, I have observed numerous personal tragedies (yes, tragedies). I have seen with disturbing frequency how the unwise use of money and credit have served to destroy the hopes and future plans of too many dedicated, hard-working consumers. In most cases, the primary culprit has been simple ignorance of the facts and the consequences, as I stressed earlier. Some people, of course, are destined to suffer heavy debt and its attendant crushing burden no matter how much knowledge and savvy they bring to the table. These are the folks who can't moderate their buying impulses. They just have to have everything they want, and right this minute. Their addiction to instant gratification renders them incapable of exercising the restraint necessary to hold their credit (and other) purchases in check.

My experience has taught me that most people have the good judgement and will power to deny the whims of their inner shop-a-holic every once in a while. What they lack are the essential credit management skills that would serve to bolster their reasoning ability. Most parents don't teach credit wisdom, either by direct instruction or by example. Few schools offer courses in it. The result is a largely irresponsible, credit-foolish society that has jettisoned "A penny saved is a penny earned" in favor of "I spend, therefore I am."

From analyzing sizeable numbers of borrowers and would-be borrowers in the credit card business, I was able to identify clusters of individuals who – by their nature – required more credit direction than others. That group includes young credit consumers new to the game, those who are less educated, the less affluent classes and those who grew up poor and have taken to borrowing simply to meet their everyday financial needs (and find themselves mired in a frustrating Catch-22. In short, credit ignorance weighs disproportionately on those who are most vulnerable and least able to absorb the heavy blows struck by escalating debt.

I'm referring here to disillusioned ethnic minorities and women of all races and groups, who likely were products of less educated households and diminished socio-economic strata that gave sparse attention any vital training and information surrounding the credit issue. It is precisely these consumers who are most likely to plunge into certain consumer credit traps, armed as they are with so little advance knowledge and preparation.

Yes, I would like to sell you this book (perhaps I already have) and make a nice royalty from it. But I am sincere when I emphasize that monetary gain is not the primary objective that drives me in my professional life. In speaking to various gatherings and seminars, my fundamental focus is on education. I figure that when most people have a chance to arm themselves with the ncessary credit/debt knowledge, they will start making the right decisions for themselves, for their families and for their financial future.

There is nothing inherently evil about debt itself. Conscientiously and responsibly acquired, debt (and the goods, serves and lifestyle improvements it brings to your life) can mean a richer existence. Credit, and the debt that goes with it, is an invaluable tool we are fortunate to possess in such sheer abundance. But like everything else, moderation and sensibility are the keys to making credit and debt work either for you or against you. Use credit/debt wisely and it extends your earnings and buying power. Abuse it and you will likely soon discover the true meaning of the word “misery.”

I like to think that, through my words in “Bad Credit Burns Money”, I might be able to influence consumers to take what I’ve learned and use it to seize control of their personal finances. I aim to help people move from impotent victims to empowered commanders of their economic fate. The benefits achieved from righting a sinking credit ship are nothing short of enormous. As I have observed, a substantial degree of the anxiety faced each day by the average American family can be ascribed to the debt load being carried. How dissimilar, and how much calmer and less stressful, would our lives be if we were to take debt off the table? Sadly, a significant number of consumers will never know.

But take it from me. Everything is better and more positive when you live a life free of the strangulating vise that is debt. It’s easier to breathe. The food tastes better. Laughter comes more naturally. Spouses relate on a deeper and less pressurized level when they are able to slay the debt monster by either eliminating it or keeping it at a level that’s easily manageable. Think about it: mastering our degree of debt is one of the few important areas of life that is entirely within our control. Our gender, our skin color, our earliest class level and the country into which we were born are things over which we have no say. But our credit identity and debt carriage are ours to utilize and steer as we see fit.

Indeed, once you know how to play the credit game – and trust me, a game is precisely what it is – it's easy to exploit the system so it works in your favor. For instance, consider this: If a 24-year-old saves $2,000 each year until the age of 30 while another begins saving $2,000 annually at age 30 and keeps it up every year for 35 years, at age 65 both of them will have exactly the same amount. That's the power that comes from saving early in one's adult life, via compounded interest. Negative compounding works equally effectively, only in reverse. If you start out your grown-up life hauling around debt, the vital portion of your income that should be put into savings goes instead to pay interest fees. That contradictory debt impact compounds repeatedly until many people are forced to surrender into a bankruptcy or some similar debt-erasing, credit-killing proposition.

The financial realities of building a nest egg and harvesting mounds of debt are analogous to the properties of time itself. You can either make it all work for you or – unguided – it will surely work against you. That's the simple, and hard, truth of the matter.

This brings us to the reason why I was inspired to write this book. It is to convince you of the utter urgency in making simple and sound decisions early on in your credit life. It is to foster an understanding that it pays to delay many acquisitions to a time when you can better afford them. And it is to persuade you to tuck away even a small amount of money into savings, not so much for a rainy day but to build the kind of positive habit that will pay off throughout your lifetime. Following these suggestions will do nothing less than change the course of your life. That isn't hyperbole. That's fact.

In the chapters that follow, I have laid out – in as clear and concise a fashion as I know how – the kind of knowledge building blocks that will acquaint you with a smart new way of handling money, credit and debt. This newfound financial enlightenment probably won't buy you happiness or love, but it will surely help build an enhanced appreciation for the value of money both paper and plastic.

Even if you find yourself long adrift on a murky, debt-riddled sea, it's never too late to start repairing your credit and altering those long-ingrained negative spending and money management habits. As surely as Oprah Winfrey will never need to worry about where her next meal's coming from, your debt will continue to compound and amass with each passing day, week, month and year. So while you can't go back and reclaim any lost financial opportunities, you can still reverse field and sprint down the road toward monetary stability and psychological contentment equipped with a new attitude.

If you're ready to change your life, let's roll.

Bad Credit Burns Money!

Chapter 1: Playing the Numbers Game

Back in the mid 1960s, there was a popular song entitled “Secret Agent Man.” This tune’s chorus went like so: “Secret agent man…Secret agent man…Hey, givin’ you a number…And takin’ away your name.”

Well, this same dynamic can easily be applied to the world of credit. Your credit worthiness isn’t about names or personalities or belief systems. It is strictly a game of numbers. In matters of credit, your character is reduced to a series of numbers that determine everything about your financial past, present and – ultimately – future. These numbers are all-powerful and absolute as they define where you fit into America’s credit culture. It’s all spelled out in black and white. There are no shades of gray, no maybes when it comes to the credit industry.

The numbers I’m talking about here are the ones found on your credit report. Compiled by one of several credit bureaus and based on a strict formula, your report lists a credit score that assesses whether a potential borrower or credit card applicant is a good credit risk, a bad risk, or something in the middle. When it comes to mortgage and auto loans, your credit report is primarily responsible for whether or not you receive a loan as well as what your interest rate will be.

In other words, there are few documents that stand to have a greater bearing on your fiscal life and financial security than does your credit report. So I’m often astonished to find how little consumers know about this all-important information. Few people comprehend how to read and analyze their own credit report, how the figures are gathered, the factors that go into ascertaining the score or even why this little piece of paper with numbers all over it matters so much. In my experience, only roughly 1 in 3 potential borrowers are even aware there is such a thing as a credit score – kind of frightening, really.

Being ignorant of what your credit report says about you and your level of credit risk is very much like approaching your future with blinders firmly attached. This chapter is designed to help you remove those blinders – and replace them with the kind of knowledge that's essential to mastering the credit process.

On that note, let's get started. We've got a lot of ground here to cover.

What goes into gathering your credit report?

There are more than 1,000 local and regional credit bureaus throughout the United States that profit from collecting, packaging and selling to would-be lenders information about the financial affairs of consumers (like you). Three major bureaus loom largest over the credit industry: Trans Union, Equifax and Experian (formerly TRW). These agencies maintain centralized databases containing the credit records of more than 170 million American consumers, generating in excess of 500 million credit reports each year.

These primary credit bureaus are essentially credit history clearinghouses. They likely know more about you, your spending habits and how you pay your bills than does your own mother (or even your spouse). They compile these bits and pieces of information that scrutinize, dissect and assess every area of your money management skills and personal history and ultimately assign you a credit risk quotient and score.

What's in your credit report? What does it tell potential lenders?

A consumer's personal credit file contains a bulging cache of information both personal and financial. A standard report is broken down into four distinct areas. They include:

1. **Personal/Identifying Information –** These are basic details about the individual consumer that assures the potential lender they are reviewing the proper report. It lists your name, address, every previous residence address over the previous 5 to 10 years, your social security number, date of birth, your spouse's name and social security number, the names and addresses of your present and previous employers and (on occasion) your annual income.
2. **Account Details –** This section includes an overview of your credit account activity. For each line of credit, there is a report listing the date the account was opened, the year and month it was last updated, the credit limit on each account, the highest previous balance, the current balance, payment history, the type of credit involved – such as revolving credit involving bank cards or installment credit for mortgages, car loans and loans from finance companies – and any negative actions taken against the account, if any. Basically, anything you have ever done involving credit is going to be catalogued here, or at least the activity in the past seven to ten years.

3. **Inquiries –** This is a list of every request for credit initiated by you, generally within the past 24 months. Consumer relations, promotional and account monitoring inquiries are not made visible to any potential lender.
4. **Public Records and Collections –** In this fourth and final area can be found information on any judgements, liens, bankruptcies and collection items as gleaned from the public record. Anything detailed here would likely prove most damaging to your credit reputation and any future applications for credit lines. In particular, potential lenders don't tend to look favorably on filings of bankruptcy and bills that have been passed to collection agencies. They can ruin an otherwise clean credit file in a hurry.

What all of this credit report data tells potential lenders, of course, is everything. It helps evaluate for any would-be lender a clear picture of risk. But it is the composite formed by the entire file of details, rather than any single item or occurrence, which determines your borrowing capability and fate with the lending community. How high your credit account balances are, and your ability to pay your bank card and other credit bills on time, are key factors from a loan officer's point of view in determining your fitness to handle another debt.

But here's one other very important factor to keep in mind: Your most recent credit history is what matters most. I'm basically talking about the last two years. Your credit and payment behavior during the past 24 months is the closest indicator a lender has in determining your risk as a borrower (particularly on a home or auto loan). You could have had awful problems, including some collections and some 60-day late payments. Yet as long as that stuff is way deep in the past, and you've exhibited a consistent, if gradual, trend toward improvement, there's a good chance I could get you a loan without the most severe down payment or interest rate.

So take that as your cue that no matter how horrible your credit file may look, it's never too late to start turning things around. Each month in which you show signs of on-time payments and responsibility in paying down your debts brings you a step closer to the kind of good credit you need to survive and thrive financially.

How is your credit score calculated?

Common sense should tell you that if you keep a good handle on the monthly credit payments and keep your outstanding debt at a manageable level, your credit score is going to be sufficiently high to brand you a solid risk. Your borrowing power will be substantial. If, on the other hand, you have bills that get turned over for collection and are forced to pay over-limit and past-due late fees on bank card accounts consistently, your score can't help but plummet.

This sounds unbelievably simple, doesn't it? But you would be stunned to find how often consumers are puzzled by the idea that playing fast and loose with their credit lives would cause their credit file to suffer. While the credit scoring models utilize very sophisticated statistical methods, the basic logic is very straight forward. So just in case there is any confusion here, let's review what makes credit scores travel up or down.

--Payment History: A credit report strewn with past-due payments is going to get hit with a plunging overall score. If you are consistently 30 days late, this is not quite as bad as being 90 days late in paying the bills. No big surprise there. This is not rocket science, folks.

--Outstanding Debt: Please, do not interpret this phrase incorrectly. It does not mean that being in debt is an outstanding thing. It instead surrounds where you stand as far as your number of current consumer loans and open charge accounts as well as the present balances on each. It's not that possible lenders are nosy. They simply have an interest in knowing the volume of credit you're currently juggling as well as the amount on your credit line that's been used. If you have a dozen different monthly credit payments, this is a possible negative. A few open accounts consistently under control is generally a positive.

--Credit History: If you have successfully managed your credit affairs and paid the monthly bills on time for several years, that sort of established behavior will jack up that credit score. On the flip side, if you're saddled with a relatively short credit history, that is not as strong, but better than the presence of late payments or defaults.

--Credit Inquiries: Anyone seeking multiple new credit lines over a brief period of elapsed time (say, 6 months or 12 months) raises a red flag of need that's reflected in the credit file. This is particularly true if you're still new to the credit game. Numerous inquiries are seen as a potential precursor to a rapid accumulation in debt. In addition, a sharp spike in your inquiry level means you are aggressively seeking new credit, which is seen as a problem if you've been routinely turned down in the recent past and the lender sees an attempt to raise your credit ante still further.

--Types of Credit: An overabundance of credit card accounts or the listing of a personal finance company loan – which may indicate your having been turned down for lower-interest forms of credit – are likely to stain your overall credit report. A healthy mix of credit debt that includes credit cards and a mortgage loan is often seen as an indicator of greater financial stability and, thus, diminished risk to the lender.

Additionally, lenders use their own scoring system to gauge your credit worthiness, ascribing specific point values to each area of measure. They add points if you're in a professional career like medicine or law, less if you happen to be an unskilled manual laborer, boost your score if you have been in the same job for more than five years or if it's six months or less. Fewer bank cards cause your score to escalate, while having several may lop off points.

How do you tell a good credit score from a lousy one?

Here is a good rule of thumb to follow: high is good, low is bad. Very high is very good. Very low is very bad. The higher the score, the less perceived risk there is of your defaulting and not staying current on all card bills from the perspective of a lending agency.

An especially high credit score would be in the 700 and above range, with 600 to 699 being somewhere in the middle and anything under 550 likely representing a higher risk consumer with a more checkered credit history. A higher score indicates a significant likelihood that there have been few credit management issues in both the recent and distant past.

When I speak to my clients seeking loans, I calculate their attractiveness as potential borrowers based on a continuum scale of 0-to-800. Anything 700 and above represents exceptionally good credit. On my scale, I use 620 as kind of a symbolic magic breaking point for those seeking a mortgage loan. Not that it's impossible for you to get a loan with a score lower than 620. It's just that you'll generally need to pay a higher interest rate as well as mortgage insurance after you're approved.

While a favorable credit score is said to represent "only one factor" that a lender uses to evaluate your mortgage loan application and base his or her final decision, it indicates more or less the majority basis for approval or rejection. While at one time lenders were said to utilize the "Three C's" method of credit determination (standing for Character, Capacity and Collateral), these days the process is more often summed up by the "Single C" criterion: Cash, or the consistent ability to raise sufficient cash money each month to pay off one's debt(s) – especially your loan. This "C" is usually expressed as a debt ratio (your monthly payment obligations divided by your monthly income).

What can you do to find out if the information used to compute your credit score is accurate?

The best way to keep tabs on possible erroneous information lagging in your credit file is to request copies of your credit report on a fairly regular basis. Any erroneous information must be rectified promptly by the reporting credit bureau, by law. Any inaccuracies need to be addressed quickly and taken seriously (no matter how minor), since any blight in your credit file could prove the determining factor in a loan application's getting rejected.

You will want to request separate copies of your credit report from each of the three biggest bureaus, since they all keep their own credit file records. Obtaining a credit report usually requires a modest fee. But if you are denied credit due to an item in your credit file, the Fair Credit Reporting Act entitles you to a free copy of your report within two months of that turndown from the bureau that supplied the information.

Here is information on how to contact the Big Three credit bureaus and procure a copy of your credit report:

By Mail: Send check or money order for $8.00 per report, or a copy of a credit denial letter sent to you during the past 60 days, to:

Equifax	**Trans Union**	**Experian**
P.O. Box 740256	**760 Sproul Road**	**P.O. Box 2104**
Atlanta, GA 30374	**P.O. Box 403**	**Allen, TX 75013**
1.800.685.1111	**Springfield, PA 19064**	**1.888.397.3742**
1.404.612.3150-FAX	**1.800.916.8800**	**E-Mail:** www.experian.com
E-Mail: www.equifax.com	**E-Mail:** www.transunion.com	

The Internet is now the quickest and simplest way to go in securing your credit report with a minimum of hassle. One of the better credit report furnishing sites is www.qspace.com. For $7.95, you can access a major credit bureau database, type in your pertinent personal details and download your full report in less than a minute. For a mere $29.95, Qspace will ship you by mail a custom three-bureau merged credit report and analysis that combines the comprehensive credit information supplied by Experian, Trans Union and Equifax. Qspace notes on its site that the merged report is the data “that mortgage lenders use when financing or refinancing a home, as do auto dealers” when checking into a customer’s credit status.

Ironically, of course, those purchasing their credit reports online will need to use a credit card to procure a document that will detail how they are fixed on their…credit cards. But forget about that. In order to keep tabs on your credit report and monitor your record to make sure there are no inaccuracies in it, I recommend requesting and viewing it at least twice each year. The hassle you save may be your own, as I have discovered from personal experience.

A TICKET TO TROUBLE

There was this one story, in my experience, involving a fellow I’ll call Jerry. Okay, what the heck – it was me. I admit it. This was a case where I had a parking ticket on my credit report being listed as unpaid and sent to a collection agency. In and of itself, this is not a unique and rare occurrence – except that in this case, the unpaid ticket originated in Rochester, New York.

What made this especially puzzling is that I have never been to Rochester, New York. Ever.

But the parking ticket was listed with my correct license plate number. This led me to briefly guess that perhaps my car had once traveled to Rochester without me. Again, I figured this possibility a remote one.

Needless to say, I refused to pay the ticket for this phantom violation. I did, however, undergo the wonderful experience of explaining to a collection agency that I had never been to Rochester and that in fact I was working in Florida on the

day and time this ticket was issued. Furthermore, I told the agency, I did not owe a penny on this ticket and had no intention of paying the ticket. The collection agency duly noted that this ticket was recorded in error and reported it as such.

All was now fine. That should have been the end of the story. It wasn't.

Two years later, as I was applying for a loan, the false Rochester delinquency again reared its ugly head. There I was, dealing with the collection agency one more time and going through the whole drill. Now, it might have been easier to just pay the 50 bucks and not have to resume my bureaucratic combat over the collection report for the umpteenth time. And there were times when it seemed painfully obvious that the inconvenience was worth well over $50.

The lesson here is to check your credit report often. If I had done that – and retained the documentation from the first go-around on the issue – I could have saved myself a lot of torture and hassle later on. I finally got smart and kept all of the paperwork after that second incident. It came in handy when the same error returned for a third time on my credit report. The problem was no less irritating, but it saved a lot of time and effort.

So do yourself a big favor. Whenever spotting an inconsistency or outright error on your credit report, save all of the paperwork. And request a copy of your credit report often enough to catch prospective mistakes before they catch you.

Who is permitted to view your credit report?

Not all that many people, luckily. Under terms of the Fair Credit Reporting Act, a consumer reporting agency may furnish and amend a credit analysis for the consumer only under the following conditions:

--In response to a court order or a Federal Grand Just subpoena.

--In accordance with a consumer's written instruction.

--When dealing with a person whom the reporting bureau has reason to believe intends to use the report in connection with the extension of credit, or the review or collection of an account.

--If a person intends to use the report for insurance underwriting.

--If a person intends to use the report for determining the eligibility for a government license or benefit where that agency is required to consider that consumer's financial status.

--If a person has a legitimate business need for the report in connection with a business transaction involving the consumer.

Anyone who otherwise accesses your credit report without permission is guilty of a federal offense punishable by fines and up to a year in jail. So please, don't get any ideas.

What can you do to improve a low credit score and poor report?

Basically, you can get your act together. I find that this is often the best solution. It really is just that simple, all sarcasm aside. But it does take work. I think Nike says it best in their advertising: "Just do it." No more excuses.

The bottom line is that you don't turn around a negative credit situation overnight. It's all about not giving up and taking that first step. Start off by vowing to pay all of your bills on time. No more delinquencies! Make that your mantra. If you slip up, one late payment won't kill you. Just make sure to keep it to a minimum and you can turn things around and send your credit score creeping up. Just like you established a pattern of lateness and overindulgence, you can start a new habit of diligence and restraint. It's all merely a matter of re-training your brain and transforming self-defeating credit behavior into self-confident responsibility. That's the kind of stuff that lenders pay attention to. They respond to signs of sincere effort to change your ways.

On the other hand, if you have a bankruptcy or a car or home repossession on your record, there is no miracle elixir that will wipe your credit worthiness slate instantly clean. Patience is the greatest virtue here. Regardless of how ugly your credit report might look, becoming a mature and accountable credit consumer will leave you feeling better about yourself.

I can't stress enough, though, how vital it is to expend the energy to pay every bill on time and put a lid on your debt. Keeping the amount you owe under control is really the most important element in turning around a damaged credit reputation. Stop overextending. Start limiting your spending. And bring more of a balance to your overall credit picture. That doesn't mean 15 credit cards and one auto loan. It means a mix of bank cards, and maybe an auto loan and a mortgage. A stable credit load paints you as a solid risk – presuming that every form of credit you possess isn't stretched to its limit.

It's really one of those essential things that come with maturity. Lenders don't want to see you paying the monthly minimums on maxed-out credit cards. They hope instead to find real principal reduction. It's necessary to pay down as much of that debt nut every month as is fiscally possible. Believe me, it winds up being well worth any sacrifice.

It pays to remember that a credit score is really nothing more than a figure that calculates predicted behavior and the likelihood of behavior modification. Upping your score is really mostly just a matter of modifying your pattern of credit conduct and showing that you can handle your finances reliably and honorably.

And once again, don't forget that your credit worthiness index is greatly weighted in favor of what you did last week, last month and last year, over four or five years ago. That's ancient history. A lender wants to know where you stand over the past several months and couple of years, because that indicates to him or her your most likely payment behavior on a loan. So don't use a soiled credit past as an excuse to continue any reckless and self-defeating ways, because yesterday is done and gone. Today is essentially what really counts.

What impact does your credit score have on the mortgage/car loan process?

Say what you will about how lenders don't rely solely on computer calculations and go to great lengths to consider the human element in judging whether to approve or deny a loan. It sounds good and all. But no home loan officer or car dealership credit manager is going to go against what the numbers are telling him or her no matter how sweet, or sincere, or gracious, or funny you might be. The days of loan decisions being influenced by human contact are largely a thing of the past. Follow the numbers and you'll never go wrong today.

This means essentially that your credit report needs to have the goods if you expect to get the goods. Lenders are not in a position to base their conclusions on gut instinct and blind faith. Were that the case, they wouldn't survive long in the loan business. In order to play it smart, they need to have a reasonable certainty that the funds they're entrusting to you will be coming back. These people are in the business of making money themselves – not losing it – and handing out cash to questionable credit risks won't earn them many Employee of the Month awards. It might, however, land them in the unemployment line.

You can reasonably calculate how this game will turn out for you if you apply for a mortgage loan despite holding a credit report that resembles a Stephen King novel. Even if somehow you should get approved for the loan with a history of bankruptcy and unpaid collection accounts and a handful of 60-day and 90-day late payments on bills – and I have been able to work miracles for these type of applicants in many cases – the end result is a mixed blessing. Your meager credit score and increased perception of risk would result in your paying such a sky-high interest rate that it would likely shove you deeper into a financial pit.

This is not, however, true in every case. There are ways to tweak and massage your credit history that can grant you a partial, or full, credit reputation makeover. It's all a matter of restructuring the way your credit history is displayed. If this sounds vague and spurious, believe me, it honestly is not. It's simply the art of knowing how to work the angles and turn the game in your favor while still playing by the rules. In this book, I'll teach you how to master that presentation aspect of your credit standing. Look for more on this in Chapter 2.

Always remember that your mortgage broker is rooting for you to get that loan – really and truly.

This may be difficult to believe for people who have recently gone through the home/mortgage loan application process. It can be tedious, frustrating, humbling, debasing, aggravating and just plain upsetting.

Enduring the loan inquiry is a process not unlike courtroom cross-examination – with you on the witness stand. Every monetary negotiation, every bounced check, every late payment, every credit application and indeed every purchase (both significant and trifling) that has been recorded over at least the past 10 years is analyzed, scrutinized and dissected. Very little is off-limits, even in your personal life. That includes expenses from divorce, medical treatment, and it seems even how much you spend on friends at Christmas. The whole thing can leave you feeling entirely violated and drained.

Yet somehow, thousands and thousands of regular folks just like yourself wind up qualifying for loans well into six figures from banks and federal lending agencies. It really isn’t all that difficult to qualify if you pay your bills promptly and are careful not to overextend. The system really does work in your favor. It is designed to discriminate only in terms of benefiting borrowers who stand the best chance of repaying the loan.

By dint of the Equal Credit Opportunity Act, creditors are not permitted to show bias against consumers on the basis of race, color, religion or national origin, or because their income is based on public assistance, part-time work, alimony or child-support. Of course, there remains significant debate as to whether these rules are quietly broken, particularly as it applies to ethnic minority applicants. But proving this type of discriminatory conduct is problematic at best.

In any event – and in spite of the celebrated obstacles both real and imagined – would-be lenders are hoping that your loan will go through. They simply must cover all of their bases. Even in cases where they are not held to answer financially on a loan default, they remain accountable in terms of professional obligation. Too many write-offs are bad for business; ergo, they need to balance their own bottom line. That means doling out loaned funds only to the choicest risks.

Those with good credit are not only courted openly and afforded the lowest down payments and interest terms; they are forced to endure far less hassle in the process. But if you're a top loan candidate, lenders want you – and they want you badly. During the approval stages, the borrower's gain is the lender's gain. They merely play hardball as a necessary evil to weeding out any inferior candidates who may have slipped through the cracks.

Any consumer enmeshed in the oft-grueling loan application system should take none of the indignities of the process personally. It's all merely about business, ladies and gentlemen. A positive end result is what finally counts.

Beware of the Five D's of Credit Irresponsibility.

I'm going to close out this opening chapter with what will hopefully serve as a cautionary precursor to all that will follow in the book. There may be a bit of redundancy here, so bear with me. I have found that repetition is essential to instilling the kind of mindset that leads to a heightened credit conscientiousness.

Sometimes, the most effective means of fostering that awareness is through a series of terms that all begin with the same letter. This sounds glib, I know, but there is some truth to it. It's these kinds of alliterative truths that stick in the brain.

And so, here are the…

Five D's of Credit Irresponsibility

1. **Delinquency:** This is the first step down the slippery slope of credit calamity. It begins with a few late monthly payments, snowballing into unpaid bills that get sent to collection. It leads quickly to…
2. **Disorganization:** There are too many credit cards, too many loans, too many bills and too little income to keep up with it all. The sense of chaos overwhelms the consumer and straightaway breeds…
3. **Debt:** The financial obligations mount. Hopelessness rolls into despair. New lines of credit are sought in a fruitless quest to pay Paul with Peter's money – all of it borrowed. The red ink collects until the anxiety is quelled by…
4. **Denial:** Self-delusion downplays the credit crisis as minor, convincing the consumer that this mountain of debt is temporary and easily fixable. Still more credit is sought and utilized, carrying straight into…
5. **Disaster:** The reality sets in. The bills aren't going away. The credit gravy train has ground to a halt. Some grim options are weighed: reduced payoffs to creditors, the relinquishing of property, bankruptcy.

Don't get yourself caught up in this cycle of misery. The repercussions of this kind of behavior continue to be felt for years, dragging your reputation through the muck without letup.

In order to steer clear of this sort of fiscal and emotional nightmare, it pays to heed the…

Three Rules of Effective Credit Management

--Rule #1: Pay sensibly on your bills now or pay through the nose later.

Bad credit always catches up to you sooner or later. You don't think it will. But it does. Trust me on this. There is absolutely no substitute for staying current on bills and holding as clean a credit file as possible. The benefits are enormous. In essence, we're talking about the difference between having the clout to call your own shots or having them called for you.

--Rule #2: If you're not sure that you can afford it, you probably can't.

Anytime you have to think about a purchase or any kind of loan in terms of, "Will I be able to pay this off?", run like the wind in the other direction. The temptation for instant gratification is always going to be there, so it's crucial to be able to train that part of your brain to embrace reasonable limits. This isn't a matter of willpower so much as *won't* power. The "stop" mechanism must be kept in good working order.

--Rule #3: Credit isn't a birthright but a privilege that can be irreparably damaged and/or taken away if abused. So don't blow it!

Running amok with your credit life is the same as driving a car recklessly and expecting to retain your driver's license. Sooner or later, the privilege is going to be revoked. Lacking the permission to drive or to utilize credit both carry severe consequences. The good news is that losing both benefits is so wholly avoidable. It's all a matter of staying in your own lane, keeping both eyes peeled in front of you, never exceeding the posted limit – and refraining from driving on an empty tank.

Follow these simple rules of the credit road and you'll be well on your way to a smooth ride that bypasses the potholes of debt in no time.

Bad Credit Burns Money!

Chapter 2: Where Do You Stand?

Okay, so now that you hopefully have a slightly better understanding of the way the credit reporting game is played, it's time to get a little more personal and find out where you stand in the grand credit scheme. Because if you're reading this book – and, from all indications, you are – you probably have either some problems with your credit or a need for answers surrounding your own credit situation (or both).

If you're an average consumer, you have no doubt had a brush or two with the indignity that accompanies bad credit or, at least, credit carelessness. Maybe you slipped up and went over your limit on a credit card – and found out about it while you were out on a hot date and the waiter at the restaurant returned to your table with a frown and quietly noted, "I'm sorry sir, but your card has been declined." If it were really a worst-case scenario, this would be a French restaurant and the waiter might ask rhetorically, "Perhaps the mademoiselle can put this on her card?"

Ouch.

Hopefully, your situation isn't quite *that* embarrassing. Perhaps there are a few 30-day late payments and a single 60-day delinquency on your credit report, and the consequences become clear when you're negotiating to buy a car and the interest rate the dealer is offering isn't quite as low as you had hoped.

The vast majority of us have stuff like this on our record. It brands you neither a reckless consumer nor a terrible credit risk; it simply makes you human. I've been there myself, and I should know better since I deal with the credit industry for my livelihood. Perfection in your credit life isn't realistic or expected, but it *should* nonetheless be the goal. It's what you've got to shoot for. Because your credit reputation is far too vital to approach it with a blasé' or unmotivated attitude. It's the kind of thinking that can get you into trouble—fast.

I'm figuring the odds are good that if you're reading this book, you feel as if you have either average, below average or dreadful credit. You probably want to qualify for a loan on a home or a car or, at worst, additional revolving credit bank cards. And even if you have already ordered and scanned your credit report lately, there is a better than average chance you're trying to uncover that hugely important little number known as your credit score.

You almost certainly noticed that this elusive credit score was nowhere to be found on your credit report. This is *not* an oversight. This happens to be classified information that is available to a potential lender – but not to you. That's right. You are not permitted to lay eyes on your very own credit score, a figure that is a key make-or-break element in gauging your loan qualifications.

How is it possible that you wouldn't be allowed to see your own credit score?

This is an awfully good question, one that has shrouded the issue of credit scoring and access in a good deal of controversy. Up until April of 2000, in fact, the Internet lender E-LOAN (www.e-loan.com) was purposely lifting the veil of secrecy from the credit score mystery by offering instant delivery of a borrower's score within seconds of an inquiry. And anyone over the age of 18 who requested it online would receive it, based on the standard FICO formula. Not only would E-LOAN supply your score, it would also interpret it, provide information on how the credit score was arrived at and even offer generic advice on how to repair it – all for free.

The CEO of E-LOAN, a fellow named Chris Larson, was the pied piper of credit score access, repeating like a mantra his belief that consumers "have a right to own and be educated about their data."

Unfortunately, the firm that created the industry's credit bureau risk scoring standard, Fair, Isaac & Co. (hence the acronym FICO), disagreed and struck back. The company put the squeeze on E-LOAN by ordering the Big Three credit bureaus (Equifax, Experian and Trans Union) to stop sharing their information with any company intending to pass along credit score data to their customers. E-LOAN had been getting its FICO scores from Equifax. But following the Fair, Isaac & Co. pronouncement, Equifax stopped sending scores to CreditinfoNet, E-LOAN's third party provider of the scoring info in cyberspace.

That action at least temporarily disrupted E-LOAN's ability to supply credit scores back in early April '00. Cyberspace has continued to beat the credit scoring drum, however. Elaborate Web sites with names like www.creditscoring.com, www.knowyourscore.com and www.consumeraid.org/scoring.htm have picked up the ball, fighting to expose the credit score issue as a government conspiracy/cover-up akin to Watergate.

While that argument may be a bit alarmist, it would certainly serve the interests of consumers to allow for open dissemination of the specific scoring formula availability of individual figures to the consumer being scored. But as it stands now, for the most part, credit score accessibility is a one-way street.

For the foreseeable future, most lenders and credit bureaus regard credit scores as proprietary information. It can seem more than slightly ludicrous. The people who know your credit score can include not only the bureaus and the credit scoring data processors but the bank, check verification clerks, job recruiters, mortgage loan officers, bill collectors and companies sending you invitations for those "pre-approved" credit cards. In short, everyone is in on it – except you.

So what's the big deal? What are the people guarding the credit scoring formula so worried about?

Here are some theories for why credit score data remains largely elusive to the people it could help (or hurt) the most: namely, you.

1. **Fair, Isaac and the major credit reporting bureaus are worried that people who discover their credit score will take the number and seek ways to raise it. This is particularly true for someone who has, say, a score of 610 and understands that the cutoff in qualifying for a lower rate is 620. Lenders and bureaus, however, would reason that the purpose of a credit score is to serve as a predictor of future behavior and credit performance, not to help earn you a better shake on interest.**
2. **There is worry that the free release of everyone's credit score could expose the practice as the basis for discriminatory lending, as some borrowers and consumer watchdog groups have charged. While Fair, Isaac and the bureaus vehemently deny it, factors such as age, occupation, ethnicity, area of**

residence and educational level have almost certainly been unlawfully applied at times to the scoring method.

3. **FICO scores are not static like an SAT test but can change often for reasons that might appear unclear. So the bureaus in particular fear that releasing numbers which could prove to be obsolete with a month or two would be seen as irresponsible and confusing.**
4. **The credit community fears that credit score disclosure without proper and sound explanation/guidance would do the consumer more harm than good, and there is no guarantee that would occur.**
5. **Being secretive is a lot more fun than being forthright.**

All of these postulations no doubt hold some merit (a few more than others). But it's difficult to imagine any of them overriding your right to know your own credit business. Unfortunately, in all likelihood, the scores will remain chiefly a function of the loan application and tallying process and not a caution flag designed to alter consumer credit conduct.

How absolute are credit scores in determining a loan applicant's credit worthiness?

That really depends upon whom you ask. But at its core, credit scoring is really nothing more than a mathematical formula designed to predict the future: whether or not you will live up to the obligations you incur today. It is constructed to be nothing if not entirely objective. And the scores essentially scrutinize three factors: severity, recency and frequency.

Fair, Isaac & Co., the San Rafael. CA-based company that began marketing its various specialized credit scoring models in the 1980s, has always maintained that credit bureau scores should not be used as the sole determining factor in deciding whether to make a loan – and that those who set credit policy should continue to establish the guidelines. Fair, Isaac also claims to only evaluate the information contained on the credit report itself.

So why the huge fuss, then? Well, for one, your credit score may vary from bureau to bureau. Experian will have a different score on you than will Trans Union, which sports a different figure than Equifax. That's enough to drive you crazy. There is likewise the fact that stories abound regarding the near-direct use of these scoring numbers in judging any application for credit. In my experience, your credit score is factored to determine the amount of your down payment required on a mortgage loan and the level of interest rate.

The good news is that if you sport a healthy credit score, the time has never been better to qualify for a low-interest, low-down payment loan. And it's never been easier to get that loan. It used to be that getting a home loan required massive blood, sweat and tears in every case and rarely took shorter than a month or six weeks to finalize. But with the 1990s, that all changed. Now, you see unsolicited, pre-approved, $75,000 and $100,000 equity lines arriving in the mail daily. And the requirement to fork over 20% down or more on a home is by no means automatic any longer.

Indeed, a typical down payment is now 3% to 10% of a home's total value, with 8% to 10% interest. And approvals can come in 10 days, 5 days or even as few as two days – not in every case, certainly, but in enough of them to lessen the anxiety of the process substantially from what it once was. One mortgage broker I know tells me that a significant percentage of loans his company approved are given the thumbs-up within four to six hours!

What's your score?

This is the credit risk equivalent of, "What's your sign?" Except that unlike your astrological sign, your credit score almost single-handedly determines where you reside in the grand credit scheme, But since your overall score tends to vary from credit bureau to credit bureau, and given that there is no single "passing grade," the issue is largely out of the consumer's hands.

However, there is a fairly standard criterion that you can use to determine your standing inside the credit scoring framework. As I wrote in the last chapter, the basic credit building blocks that determine the score are payment history, where you stand vis-à-vis your credit limit, your total outstanding debt, any prior experience with loans and the number of applications you have submitted of late for new lines of credit. It's not meant to damage your credit reputation per se, designed merely as a means of calculating who is likely to pay or not pay.

Credit score disclosure isn't always such a terrific idea.

There was this one couple I had heard about from a fellow broker. Let's call them the Millers. When this broker spoke to them, they were both pretty confident that their credit score would be pretty sterling. "After all," the husband boasted,

"we've never missed a mortgage payment, we've never been late on anything. We've got a perfect record."

Sure enough, when the broker pulled the Millers' FICO credit bureau scores electronically from the credit bureaus, they both had good scores – beyond 700 points. But neither of them managed to hit 720, which was the cutoff figure for the lowest interest rate refinancing available. He told them their score as a courtesy and provided them copies of their reports.

The problem was that since they were determined to get that 720, the couple decided to "fix" the credit profiles to raise the scores. They paid off the low balances on several high-limit credit cards. Then they canceled those cards along with a pair of others, shifting thousands of dollars in balances onto just three cards. This broker assured the Millers that this strategy would boost their FICO scores significantly.

Two months later, the couple reapplied for the same low rate. The broker pulled their scores again. To everyone's shock, the Millers were 20 to 30 points **lower*****. They didn't get the loan. The moral of this little tale is this: know what you're doing before you start tampering with a perfectly solid credit record. Lenders know all of the tricks of the trade and are apt to respond negatively to any attempts to subvert the system.***

Don't get me wrong. The system can be influenced. But you can't make it obvious that that's what you're trying to do.

If you have few delinquencies, no collection items or bankruptcies on your record in the past couple of years and have remained current with your credit card, retail and auto loan payments in your recent past, the odds are pretty good that you'll score in the upper 600s or low 700s on the FICO credit scoring scale. And this would position you strongly to get a low-interest, low-down home loan or any other credit line benefits that are offered to those with essentially clean credit slates. But even a single significant slip-up or transgression can cause your score to plummet drastically, even if it doesn't seem to you a significant smudge.

Consider the following generic scoring sample supplied by Fair, Isaac that shows the company's new concern over the consumer's perception of both the company and the increasingly sensitive issue of how it tabulates your score.

CONSUMER A SCORE: 706

	Credit Card	Credit Card	Retailer	Retailer	Auto Loan
CREDIT LIMIT	**$5,000**	**$3,000**	**$300**	**$1,000**	**$8,000**
BALANCE	**$1,500**	**$0**	**$0**	**$0**	**$2,000**
RATING	**Current**	**Current**	**Current**	**Current**	**Current**
HISTORICAL DELINQUENCY		**120-Day Late, 4 Years Ago**			

(***Note: The credit cards are both 11 years old; retail cards are each 8 years old; auto loan is four years old. Recent credit inquiries: none. Public record/collection items: One collection item, four years ago, for $500.)***

CONSUMER B SCORE: 585

	Credit Card	Credit Card	Retailer	Retailer
CREDIT LIMIT	**$3,000**	**$1,500**	**$750**	**$500**
BALANCE	**$2,700**	**$1,600**	**$300**	**$450**
RATING	**30 Days Late**	**Current**	**Current**	**Current**
HISTORICAL DELINQUENCY				

(Note: One retail card is two years old; all other credit line accounts have been opened in the past year. Public credit inquiries: Five within the past 18 months, including three in the last six months. Public record/collection items: None.)

Now this is pretty interesting stuff. Allow me to point out a few key elements of the contrast in the scores and the credit habits of these two extremely different consumers, which speaks to everything I've been yammering about to this point.

Consumer A seems to have run into some credit problems four years ago but has kept his record clean since. He's been paying down his auto loan, is current on his credit debt and isn't even close to pushing his credit lines to the max. He's had his lines in place for a good long time – 11 years for the credit cards, 8 years for the department store or gas cards. And even though a four-month-late credit payment that went to collection has to be examined, it obviously didn't hurt him because it occurred so far in the past and he had so firmly re-established his credit rep in the months and years since. As I said, today matters much more than the distant past in assessing credit risk.

Now let's check out Consumer B. This person has never actually experienced anything close to a credit crisis but is behaving as if the problems will start to arise in the very near future. This person's troubling picture shows escalating money issues that have caused him or her to three of the four credit and retail cards either close to or over the credit limit. This is in addition to actively seeking additional credit – a clear red flag indicating the future propensity to need to borrow from Peter to pay Paul. And there's already a late payment on a fairly new card.

So while it might look at first glance that Consumer B is a better risk than Consumer A, precisely the opposite is actually true. Consumer A has overcome credit problems and balanced things in a responsible manner that indicates real stability. Consumer B, probably much younger and certainly far less responsible, is an accident (or series of accidents) waiting to happen. That powderkeg is about to blow, and any mortgage broker or lender could read the warning signs in Braille. Consumer A consequently, and quite correctly, was granted a score of 706 to Consumer B's comparatively paltry 585.

Where does your score rank you on the credit sturdiness scale?

The range of credit scores used for mortgage lending range from zero to 900, but no one gets a 900. Even if you slip into the 800s, you are a rare credit bird whom should be recruited to teach the consumer world your secrets (unless it involves breaking the rules; then, you should teach *me*). If you manage to score 700 points or better, you're still in the minority of great credit risks.

It is in the 600s, however, where most of us fall. All other factors being equal, a 640 score is an acceptable figure in working to obtain a loan with attractive terms. You could even drop down to a 620 and potentially obtain a pretty good loan so long as your credit report isn't loaded down with all sorts of derogatory items. Anything below a 620 will present some significant challenges to procure the loan. But those hurdles can be overcome. Just ask me. I've managed to do it for clients many times. That's when I really have to earn my money.

The credit score numbers are an uncannily accurate indicator of if you'll get a loan, how much it will cost you in down payment and interest and the amount of time it will require to get you approved. The higher the score, obviously, the easier and faster the process and the less money you'll need to shell out over and above the principal in paying off any loan.

Now, let me supply you with a few names that you could come to know and love while working the loan application/approval system.

Fannie Mae: The name sounds like a chorus line dancer in the 1920s. But for loan applicants, Fannie can prove to be a godsend. What Fannie Mae does is purchase single family home loans from mortgage bankers, savings & loan associations, commercial banks, credit unions, state and local finance agencies and other financial institutions. It's a private, shareholder-owned company whose mission is to make available a steady stream of mortgage funds for lending to America's homebuyers. Fannie Mae doesn't lend directly to consumers but purchases loans from lenders whose borrowing clients meet certain credit criteria.

The traditional Fannie Mae buying base is for bank loans. Today it buys loans from all sources that meet its criteria, helping gain approvals for a significantly larger and more diverse segment of the consumer pool than would banks alone. Its book of business presently exceeds a whopping 12 million active mortgages in the United States, making it the nation's largest provider of funds for home mortgages. Fannie Mae is also the country's third largest corporation in terms of assets.

Freddie Mac: The Freddie Mac Foundation operates similarly to Fannie Mae with a major difference: it was originally chartered to buy home loans primarily from savings & loan associations rather than traditional banks. Freddie also mirrors Fannie in buying mortgages after the financial institution has already approved the loan, purchasing the funding according to a strict level of criteria.

Chili Mac: I'm only kidding. This isn't a homebuyer resource; it's lunch. I just wanted to see if you were paying attention.

Fleetwood Mac: **Not a mortgage buyer but a classic rock 'n' roll band. But its name continues to carry a certain home loan cache'.**

I apologize for the momentary digression there, folks. I just figured we could all use a little break for a couple of minutes. Now we can move on feeling refreshed. So let's get right to it, shall we?

What can Fannie and Freddie do for you?

Thought you'd never ask. It turns out that both Fannie Mae and Freddie Mac can make your seeking of a mortgage loan a thrilling and wonderfully satisfying experience – that is, if your credit report is clean enough, and your credit score high enough, to qualify. Even with fairly solid credit, approval is hardly automatic.

The qualifying standard for Fannie Mae and Freddie Mac as I've experienced it is roughly like this: The low cutoff credit score for both is 620. It's what I call the magic breaking point. If you have a score of 620, I'll more than likely be able to land you a loan with a reasonable down payment and a competitive interest rate.

But these are really just guidelines. There are no absolutes with Fannie Mae and Freddie Mac, and as a lender, I am at their mercy in the same way a borrower would be. Fannie in particular is really the 800-pound gorilla of the mortgage industry. It sets the rules as it sees fit, sometimes seemingly arbitrarily, but I can assure you that the models that automate the process are built based on analysis of real experience, however conservative. It will buy your loan from the bank if the numbers fit the criteria. With the right risk factors, the standards are seem a bit eased and the formula works in your favor; alternately, with another, more risky set of factors, the guidelines seem toughened and you lose. Some of it is a matter of just plain luck.

As I have learned time and again in the credit business, the only true absolute is that there are no real absolutes. You have to be prepared for every scenario, both positive and negative, and guard against letting things rattle you.

What's the story with automated underwriting?

It sounds kind of complicated and intimidating, but automated underwriting is really just a computer software program that uses a loan applicant's information to do a quick evaluation of his or her credit risk quotient. It uses a statistical model to weigh the potential borrower's pertinent data and come up with a near instantaneous approval/rejection recommendation to the lender, as well as advice on which areas of the application could be helped by further detail.

The program is valuable in helping save everyone time, since it can analyze figures and probabilities in seconds that might require several hours of research time for a lender. Underwriting is far from being conclusive, and it's not designed to be. But I can get a reasonably accurate read on how things are going to turn out for the credit seeker even as he or she sits in my office. It's just another resource I can pull out of my broker bag of tricks.

If you carry around a tainted credit score and a messy report – and Fannie Mae and Freddie Mac are now out of your league– do you still have a realistic shot at having a loan approved at all?

Absolutely. You have to understand that even the biggest loser in the universe, a guy with a bankruptcy and a foreclosure over the past 18 months and 20 late payments and at least one bill heading to collection every single month – and whose idea of daring sport is to see how many late payment and over-limit fees he can accrue in a given year on his 29 credit cards – can convince someone to give him a loan. The terms would be frightening. We're talking maybe 30% to 35% down and 16% interest. But a loan could still be had.

Here are some sample terms, impacted by all of the usual particulars inside your credit report and on your credit score. This is the same kind of information I would tell a prospective client who had just dropped by my office to apply for a home loan. After accessing the consumer's records, I'd spell things out kind of like this:

--The "A-Paper" Loan: This is what we call it when you have the cleanest credit and the lowest risk. Two years ago, you could have had the credit history from hell and it wouldn't matter as long as that act was cleaned up at least 24 months ago. To qualify here, you would probably come in with a FICO credit score in the low-to-mid 600s (at minimum) and either Fannie Mae or Freddie Mac would buy the bank or savings institution loan outright. The down payment could be as little as 3%.

--The B-Paper Loan: When we step down to B-paper, your credit score dips to below 620. To qualify in this class, you probably have in your report 30-day late payments and probably a few isolated 60-day late ones in the last year to two years.

Because of that, and the credit score, you've got to pay the piper a little bit. We're talking a minimum down payment of 10% to 12%, with an interest rate as high as 12% as well.

--The C-Paper Loan: At the C level, the terms really start to get nasty on you as a borrower. You're in this class if your credit score came in below 575 points. There are no doubt a bunch of 30-day late payment listings and most likely numerous 60-day lates, maybe even a 90-day. The interest will run you 12% to 14% on a mortgage loan, and you may need to lay out a 20% down payment before you even start moving in. That's a huge financial hit for most people to have to take. Most consumers simply can't.

--The D-Paper Loan: You can be the shakiest credit risk in North America and still get one of these. But it's gonna cost you plenty for the privilege, my friend. Be prepared to fork over a minimum down of 25% and a 16% interest rate. The good news here (yes, there is good news believe it or not) is that if you can afford to put 30% down, your credit report is irrelevant. You could have just stepped off the boat without a credit history in this country, and if you can afford to lay out 30% of the purchase price, the loan is virtually automatic.

As I was saying, just about anybody can get a mortgage. The only question is where on the loan spectrum you qualify. Lenders need to guard against default, and the easiest way for them to justify loaning money to a bad risk is to fleece the borrower with massive interest and fees from the get-go. There is no loan money attractant quite so effective as the means to pay excessive fees for the privilege.

Don't be late, or you seal your own fate.

This one lady sat down in my office and asked me to pull her credit history. It was like looking at a rap sheet. On her existing mortgage in the last year, she had three 90-day late notices, six 60-day late slips and all kinds of other tardy notes. She simply never paid anything on time, and it didn't consider it any big deal.

I considered it a personal victory that despite the chronic self-destruction in this woman's credit life, we were still able to get a loan refinancing 80% of her house value. The rates she had to pay were astronomical. But those are the breaks when the bank keeps foreclosing on you.

Are there any tricks to improving your credit score?

Well, they aren't tricks, exactly; I prefer to call them smart and timely decisions (mixed with a little bit of credit industry savvy). I'll be going into more detail on that in Chapter 4. What's somewhat surprising is that Fair, Isaac & Co. itself is now listing articles and giving tips on its website (www.fairisaac.com) that are designed to help you boost the credit scores it so zealously guards and attract a lower mortgage rate.

Briefly, here are a few sensible score-strengthening credit survival tips that will receive greater elaboration in future chapters:

1. **You are not a magician—**Forget about waving magic wands and taking any shortcuts with quick fixes. Your smartest move is to build yourself back to credit health slowly by setting up a budget and paying down your balances consistently. Your credit score will rise slowly but steadily.

2. **Give the free-spending balancing act a rest –** Work your credit card balances *way* down, as far down as you can comfortably get them. Maxing out indicates a lack of discipline, a financial emergency or just plain irresponsibility. It's a good way to guarantee a dip of 60 to 70 points in your score.
3. **If you can't pay on time, don't use the (credit) line –** Paying your credit bills a month or two late is simply committing financial suicide. Even if you can't lay out much more than the monthly minimums initially, make sure they get mailed before the due date. Credit scores are far kinder to consumers who know enough never to be delinquent.
4. **Don't assume your credit report is completely accurate. Request copies regularly –** You'd be shocked at how dramatic an improvement you can see in your credit score just by having the errors deleted from your file. Mistakes drag you into credit disrepute without your even knowing it.
5. **Tell the credit leeches to suck the cash from someone else's pocket –** Whatever you do, don't hire one of those credit repair bozos and expect him to lead you back to the financial Promised Land. He is much more likely to steer you further into the gutter and separate you from several hundred of your precious dollars as a bonus. There are a few skilled and honest people working in that industry, but I haven't met more than one or two in my life. It's doubtful you will be fortunate enough to find them.
6. **It's all about your presentation –** You can restructure the presentation and appearance of your credit report just by knowing how to buff the information and

cast it in a more favorable and acceptable light. Keep on reading and I'll tell you how.

Bad Credit Burns Money!

Chapter 3: Building and Protecting Credit Without Stacking Debt

Now that I've taught you a little bit about how to play the game and determine where you fit into this whole crazy credit maze, I'm going to take you back to square one. Why? Because I've always believed that the best offense begins with a great defense, and in the credit world defense is all about prevention. There is no more effective method for getting yourself back on the road to credit health and vitality than never getting untracked in the first place. And the best recipe for good credit maintenance is the knowledge to distinguish between the positives and the pitfalls as they relate to you, the consumer.

It really isn't all that complicated once you get the hang of the formula. For someone who's new to the credit game and in need of building a credit history, a good analogy would be the construction of a new housing tract. You want to build, but not overbuild. And if you charge too much – whether you be a credit consumer or a housing company – you might just wind up alienating those you need so badly to attract.

But you also need to remember that accruing and establishing credit is a necessary evil in American society today. Burying one's head in the credit sand and choosing not to mount a credit life is no more realistic than running up your credit card balances and believing that the bills will never come due.

There was once a time in this country where people paid cash for everything and viewed credit as a scourge on the land. Those who indulged in it were weak-willed and suffered a clear character flaw. The saying, "Neither a borrower nor a lender be" was taken quite literally and seriously. Your grandparents, or at least great-grandparents, probably stashed their cash savings under the mattress. Such was the distrust of banks in the days following the Depression and the collapse of the American financial industry in the 1930s.

But times change. As housing and automobile prices began to creep upward, only the upper classes of society could have afforded to foot the entire bill for major purchases up front – and in cash. Loans became essential to helping people keep up with the Joneses and realize the American dream. And as Mr. and Mrs. Jones across the street began to collect their consumer toys with the coming of the 1950s and '60s (TV sets, dishwashers, etc.), credit cards became an indispensable way to stretch incomes and play today while paying tomorrow.

With the coming of the computer age, we have reached the point where not only is one's credit rating and reputation utterly linked to their level of financial vigor and personal well-being; where you rank on the credit scale is virtually synonymous with your ability to lead a sound fiscal existence. Your credit background speaks volumes for who you are, where you've been, where you may be going and how long it's likely to take for you to get there. And even neophytes just familiarizing themselves with how credit works should realize the necessity of building a credit file with some haste.

In layman's terms, that means having no credit is nearly as big an obstacle as having damaged credit. But beginners must not dive in blindly, no matter how many mailings offering them low-interest bank cards they receive.

Who needs credit?

The short answer to this question is: everyone. Well, maybe not everyone, exactly – your 4-year-old is best steering clear of carrying a card allowing him to charge toys and breakfast cereal – but *nearly* everyone. Pretty much every grownup must build up credit at an early age in order to increase their chances of qualifying for loans that allow them to make life's big purchases: home, car, possibly college for the kids once they are of age (though responsible parents have hopefully been socking away money for that all along).

Of course, the natural by-product of possessing credit is carrying debt and liability. That's just the reality. But while debt has an inherently negative connotation (often for good reason), it is not, in and of itself, bad. It has a good side as well, the side that allows you to establish a responsible history of prompt bill payment each month. Debt works in your favor if built in manageable increments and applies to credit-establishing necessities like a home and car.

Over the course of several years, productive credit (as "positive debt" is called) paints you as a good credit risk and a consumer who is more likely to secure low-interest loans for that mortgage and those wheels. You are also less likely to be turned down when applying for bank and department store credit cards as well.

The flip side of credit building is the economic limbo that comes with having no viable credit background. Once, people were proud to say that they paid for everything in cash and never bought anything "on time," which is to say paying something off in installments. Unfortunately, these same credit-phobic consumers today are branded as poor risks, since they have no credit background to validate their economic stability and bill-paying credibility. It's a better place to be in than those who have 90-day late notices and collections problems in their credit report. But the only sure path to creditworthiness is to carry, nurture and repay a variety of credit lines and loans.

What are the drawbacks of a minimal credit history?

Quite simply, it will be more difficult to qualify for the lowest interest loans for the least money down with regard to home mortgages and automobile purchases. Without a viable plastic identity in today's society, you as a consumer almost don't exist. The credit-deprived are, in many ways, viewed with greater suspicion – unfair though that may be.

Those who lack credit cards in particular also must endure a host of inconveniences these days. It's far harder to purchase a good or service over the Internet without a credit card, for example, or to order anything over the telephone. Yes, you could use an ATM (or debit) card that draws directly from your checking account and is linked to either MasterCard or Visa. But the danger there is that if you overspend your account with a debit card, you're looking at high insufficient funds identical to bounding a check (not to mention less fraud protection).

Some people carry a credit card or two simply for identification purposes or for the occasional emergency purchase when they happen to be out of cash. This is not necessarily a bad thing, except that it doesn't do much to solve the problem of an underdeveloped credit past. And believe me, in my position as a credit professional, I see what happens to people who haven't bothered to get some credit established on their record. To the lending community, they truly are close to being non-entities. Luckily, that can easily be avoided.

What's the best way to start establishing credit?

Trust me when I say that you practically need to close your eyes and ears not to be bombarded with the multitude of possibilities when it comes to buying into the credit game. They pretty much all involve credit cards of one sort or another. It certainly costs nothing to apply for them.

The options look a little bit like this:

1. **<u>Visa and MasterCard</u> –** These credit cards are not terribly difficult to qualify for as long as you have a regular income and no history of stiffing, say, the telephone company on the monthly bill. They are accepted practically everywhere and grant you lots and lots of buying power. By carrying a revolving balance each month, you will have to pay interest rates as high as 20% on the unpaid remainder. But the good news is that by keeping your balance well below the card's credit limit (usually $1,000 or so for credit beginners) and pay the bill promptly every month, you'll build a positive credit reputation that will prove invaluable in the future.
2. **<u>Discover</u> –** This popular revolving credit bankcard was introduced through a subsidiary of Sears. It's been around since the mid-1980s. And while it isn't accepted at nearly as many merchants as are Visa and MasterCard, it is still a worthwhile option for those looking to build credit. You will, however, want to look closely at the interest rate.
3. **<u>American Express</u> –** The deal on American Express is that it's used more for business travel and entertainment than anything else. The primary Am-Ex Card

also requires cardholders to pay off their account in full each month. This is bad for people who like to keep a running balance, good for consumers looking to get themselves established fast as a solid credit risk. The Optima card (an offshoot of American Express) allows you to build up a revolving balance. But both cards come with a few major negatives. Am-Ex in particular has sky high annual fees, since that's how they make a lot of their money in lieu of interest payments. The card is also only accepted at maybe 40% of the locations where MasterCard and Visa are honored. The company has further had this nasty habit of sometimes failing to report its cardholders' payment histories to the credit bureaus. This is a good thing if you're consistently delinquent, lousy if you aren't. In any case, be warned.

4. **Cosigner Loans –** This is another option for first-time credit applicants who may be having trouble getting credit. When an account is cosigned, a person who probably wouldn't otherwise have qualified can secure a loan for, say, an auto loan or even a credit card. It's a matter of guaranteeing a loan by pairing a qualified consumer with the unqualified one. I often see this especially with teenagers and young adults looking to buy their first car without any established credit. Even with a cosigner, you would be the beneficiary of using the loan to build up good credit on your report. On the other hand, a loan with late payments or that is defaulted altogether impacts the cosigner's credit history as well. So it is not a move to be taken lightly by either party.

5. **<u>Department Store Cards</u> –** These are generally pretty easy to get and – more often than not – free from annual fees as well. But they are generally a shoddy deal for all but those interested in putting another positive mark on their credit report. If you carry over a revolving balance, you'll pay astronomical interest fees for the privilege: anywhere from 18% to 26% on the remaining amount. That can elevate the cost of that silk tie from $20 to $30 or $40 by the time you wade your way through all of that interest.
6. **<u>Gasoline Cards</u> –** These are by far the easiest cards to qualify for. Generally, the primary criterion is to be 18 years old and breathing (and the breathing part is not always enforced). In recent years, oil companies have relaxed their policy of requiring cardholders to pay off their balance in full every month and now allow for balances to carry over from month to month, particularly for repairs and more expensive parts like tires.

How many credit/gasoline/department store cards do you need?

You honestly don't have to carry all that many lines of credit in order to demonstrate the desired result on your credit report. When it comes to building credit, it isn't so much quantity as the quality of the accounts that makes a difference. All that's really required is one major credit card. I'd recommend either a Visa or MasterCard, since they are accepted at the most locations – which makes a difference if you have a cash flow emergency.

Carrying two major cards is fine, too. I might make the second one an American Express Card for a couple of reasons: one, it's a great card to travel with, given its acceptance level internationally; two, its requirement that you pay off the balance in full every month tends to be a great factor in cutting down on temptation. Anything that encourages willpower is a very good thing.

There is also nothing wrong with applying for and carrying a single department store credit card and a gas card as well. But I'd strongly recommend paying off the store card in full each month to avoid getting slammed by those insane interest fees. Try to avoid leaving any balance on the gas card as well, unless a major repair bill makes it unavoidable. Even in an era of inflated gasoline prices, your bill normally shouldn't exceed $150 in any given month.

Is there an optimal amount of debt you should carry?

The obvious answer to this question is, naturally, that the perfect amount of debt to carry is the amount you can reasonably afford without resorting to desperate measures (like high-interest short-term loans designed to wipe out other debts). Once you reach the borrow-from-Peter-to-pay-Paul stage, the only remaining question is how severe your crisis will wind up being. The fact that you will have reached a crunch point is a given.

But that's not what we're talking about here, is it? The issue on the table is the amount of debt carried that can be defined as "reasonable" and how much is too much. The answer varies according to a variety of factors including income and credit history. But before getting into the nitty-gritty details, here are a few sobering facts to chew on that relate to the escalation in individual consumer debt in the United States over the past 20 years:

--At the end of 1998, consumers owed some $450 *billion* (yes, billion) in revolving debt. That's up from $230 billion at the beginning of 1992 and a mere $82 billion in 1980.

--To give you a rough idea of how high total debt among consumers has swelled, a 1997 study by the Consumer Federation of America revealed that credit card liability accounted for only 3.7% of the entire consumer debt pie. This means that the figure for all consumer debt travels well into the *trillions* of dollars.

--In 1985, some 50% of all bankcard holders paid off their balances in full each month. By 1993, the figure had dwindled to roughly 28%. Today, it has plummeted to about 22%.

--Tens of *billions* of dollars are accrued and paid out each year in interest, finance charges and over-limit/late fees on bankcards alone.

In other words, we Americans owe like there's no tomorrow. Unfortunately, there *is* a tomorrow, and it always comes at the most inopportune time for the bottom line. Everyone seemed to go on a spending binge in the 1980s as the gravy train built up a false sense of security in the populace. Everyone thought the good times would roll on forever; they didn't. And while things are humming along for the economy as the new century dawns, millions of Americans have failed to lift themselves out of the debt abyss. Millions more gave up and declared bankruptcy in record numbers.

I can remember a time when carrying high balances on credit cards was considered something of a savvy financial strategy – in the days before tax reform, when inflation was zooming. The economy, and an increasing sense of materialism, encouraged everyone to buy something today and pay it off in tomorrow's cheaper dollars. Then you'd write off the soaring interest payments on your income taxes. Now, of course, that no longer makes sense, particularly since Uncle Sam took away loan interest payments as a tax deduction.

This brings us back to the point of whether or not there is a universal "manageable" amount of debt that can be carried responsibly by Joe and Jane Consumer. There are calculating formulas you can use to place a number on whether you're a master of your debt load or a casualty of it. I'll be getting to those in a moment. But there are a few telltale signs that, when recognized, can help provide a snap assessment of where you stand.

1. **Are your credit cards at or near the maxing-out phase, and do you pay the minimums on the cards each month to stay afloat? If so, you desperately need to go on a debt diet.**
2. **Do you put off making your monthly payment on your mortgage, auto or credit cards in order to pay for more immediate necessities like groceries and health insurance? This is the strategy of someone drowning in the Debt Sea.**
3. **Have you started applying for new lines of credit to credit as a way of holding old and festering balances at bay? If so, bad news, baby.**

4. **Are you working two jobs plus overtime just to barely make ends meet? If the reason is an excess of loan payments, you're cooking up a recipe for disaster.**

Your optimum amount of debt can be defined as a figure that you can live comfortably with, minus any sense of desperation or problem in making payments. My feeling is that it's rarely a mystery to the person or couple or family who has debt problems. Only denial – and a destructive sense of capitalistic entitlement – stand in the way of comprehension. Money problems are easy to get into and tough to get out of, unless you have the proper guidance.

What is the formula for assessing an acceptable sum of debt?

Glad you asked.

The method that's the most widely utilized in the debt assessment arena is known as the "debt/income ratio," or "spending-to-income ratio." Both of them mean pretty much the same thing and are calculated in a similar way. It's part of the formula used by bankers (along with peering at your credit report and credit score) when mulling whether to extend credit.

Calculating the ratio begins with your compiling your most recent credit billing statements. In one column, you create a list of all of your bills, your monthly payments in a second column, and in column three the total balance still owed on those bills. Mortgage payments are not part of the procedure here. For revolving debt credit cards, the idea is to lay out maybe 5% of the total amount still owed. On $2,000, that would be $100.

The next part of the equation is to determine your total monthly income. Begin with your annual gross income (before taxes) and add any freelance or other steady income received (such as from an annuity, alimony, social security benefits or investment interest). But don't factor in overtime pay or bonuses unless they're guaranteed to be part of the monthly financial picture. If you earn an hourly wage rather than a salary, you'd take an average weekly paycheck and multiply it by 52 weeks to determine your annual gross income. Divide that amount by 12 to come up with your monthly income figure.

Having fun so far? Hey, nobody ever said that seizing control of your financial destiny was going to be easy – or without its mundane tasks. Consider this a significant step on the road to fiscal harmony. Or something like that.

Now…Divide your monthly debt payments by your total monthly income. The figure you're left with – which will include fractions – represents your debt/income ratio. When computing it, move the decimal point on the number two spaces to the right to determine the accurate figure.

Here is how it all looks as a mathematical equation:

Let's say that your total monthly payments on loans and revolving debt comes to $700. And we'll estimate that your annual gross income is $34,000. You also have another $5,600 paid to you in alimony from your ex-husband. That's a grand total of $39,600 annually. Divide that by 12 and your total monthly income comes out to $3,300 exactly.

The monthly debt/income ratio equation could be:

700 divided by 3,300 = .22, or 22%.

Okay, I give up – what does a debt/income ratio of 22% mean?

It's not terrible, but it's not so hot, either. This is a basic rule of thumb:

A debt/income ratio of:

Less than 15%: This means you're a responsible consumer in terms of the debt load you're carrying versus the amount of money you're taking in. Your getting a loan approved shouldn't be a big problem.

15 to 20%: The lending community pretty much sees 20% as the dividing line between someone carrying too much debt and an amount that's reasonable to maintain. Anywhere between 15 and 20% is generally considered OK.

21 to 35%: It's time to cut back a little bit on that lavish lifestyle before you really start to lose control. Even though you can probably take care of your bills without breaking too much of a sweat, the burden is beginning to get heavy.

36% to 50%: The party is over, my friend. You need to start budgeting, big time, because your balloon is about to burst. No doubt, it takes some creative numbers work to make ends meet every month. It's time to consult with that financial planner and get back on track.

51% and Above: Get in to see a credit professional – preferably a good one – *right now*. Don't even put it off until tomorrow. You may still find credit card issuers who will keep feeding you more and more credit cards to bail you out of an untenable jam, but they aren't doing you any favors. They are instead your enablers.

How can you make revolving credit your friend?

Like most things in life, maintaining a responsible and positive credit profile comes down to practicing moderation. It's all about modifying your behavior, and your mindset, that begins with thinking of credit as a buffet of limitation rather than a smorgasbord of plenty. It's OK to sample and graze, but heed the warning signs of gluttony. The overindulgence monster constantly lurks.

Qualifying for revolving credit is not similar to winning the lottery by any stretch. It may feel like it, but it is not to ever be confused with "free" money. Actually, not even lottery funds are exactly free, either. You have to take something like 40% off the top for taxes.

The analogy between the lottery and revolving debt is that both are sneaky and deceptive. For the privilege of carrying a credit balance over months and years, you pay all sorts of costs and fees. Some of those costs are spelled out up front, while others are hidden. But the bottom line is that the consumer has to pay a whole lot of money for the convenience of not having to pay back other money. Got that? You might be surprised at the number of borrowers and bankcard customers who were in the dark about the extra fees they were forking over.

Even so, there are plenty of ways to make revolving credit work for you rather than against you. It really just comes down to common sense.

A Prescription for Revolving Credit Success

1. **Keep Your Card Balances Low:** No more than half of your total credit limit and, ideally, even less than that.
2. **Steer Clear of Cash Advances:** These carry fees on top of the other fees and help you build debt with record speed.
3. **Resist Seeking Higher Credit Limits:** Gold cards start with credit limits of $5,000 and go up from there. It's an unnecessary temptation with very little up side and should be avoided.
4. **This Is Not an Excuse To Buy Things You Can't Afford:** This isn't to say you shouldn't reward yourself once in a while by putting a new suit or a gourmet meal on plastic. The words to heed, however, are "once in a while."
5. **Pay More Than the Minimum Required Every Month:** The quickest way into debt is to nibble at that balance and allow it to grow.

How can revolving credit land you in trouble?

Forgetting the debt implications, irresponsibly loading up your bankcard balance (or balances, if we're talking about multiple credit lines) serves as a red flag to the credit bureaus that you are an out-of-control consumer. Out-of-control consumers are not deemed good credit risks. In fact, they quickly take on pariah status inside the lending industry. This is particularly true once you start missing payments, allowing bills to accrue and maybe even letting one slip to collection status. Revolving credit is the culprit every time.

Once you begin applying for new lines of credit after charging other cards to the limit, you in effect sign your own death certificate as a viable credit risk. It happens almost without your realizing it. Indeed, it can sneak up on you in a matter of weeks. No cash leaves your wallet or pocketbook, so the expenditure doesn't feel real. But it looks genuine enough once the bill hits the mailbox.

When your credit fortunes head south, it's generally a combination of the following reasons:

A Prescription for Revolving Credit Disaster

1. **You Earn $30,000 a Year But Surmise That Your Pair of $3,000 Limit Credit Cards Elevates Your Income to $36,000:** This is the credit equivalent of sticking the muzzle of a gun in your mouth and pulling the trigger.
2. **You Think, "Those Aren't Bills the Credit Card Companies Are Sending Me. They're Just Suggestions":** Wrong. If you fail to take them seriously and allow the late payments to pile up, you do so at the great peril of your credit reputation and future.
3. **Credit Limits Are Made to Be Exceeded, You Believe:** The costs in fees and creditworthiness are incalculable.
4. **Even On a $25,000 Annual Salary, It's Time To Buy That SUV:** A feeling of entitlement or believing something is deserved are lousy justifications for any budget-busting expenditure.
5. **What the Heck, You Can Always File for Bankruptcy:** Yes. And with that attitude, it's almost a sure thing that you will.

Remember the rule: Too much spending = Too little lending.

Just in case you truly believe that it's just fine and dandy to gratify your every spending whim and overextend yourself into oblivion, it pays to understand that it comes with a price-tag attached. Sure, you can wipe out all of your debts with a single bankruptcy. It's great the way the system gives us such a nifty escape clause. But the truth is that while you may escape financially and with your assets protected, your butt still winds up in a sling due to the damage done your credit status.

This is why it's so important to practice a little preventive maintenance. The best time to get a handle on your standing as a credit consumer is while you're still in the building process. You don't want to have to worry about doing the repair work if you can fix things before they break. Because once they shatter, securing any kind of loan becomes a tricky – and expensive – proposition. And there is no better time to drive home this particular objective than at the very beginning, when the consumer is still young and carefree and untarnished. This prompts yet another pressing question, namely:

Can college kids be trusted with credit cards?

And the answer is: of course not. These are often teenagers we're talking about here. Unfortunately, the bankcard industry has rendered the point mott by making it ridiculously easy for college students to secure plenty of plastic security in the form of Visa, MasterCard, Discovery and American Express.

This should scare the living daylights out of a generation of parents and, perhaps, a few enlightened young adults attending our institutions of higher learning. Arguably, these kids are receiving their most significant education in money and credit management. The catch is that they cannot gain this knowledge from any book or professor but solely through the real-life experience of putting their credit lives on the line even as many continue to live at home.

From the day they arrive for freshman orientation, college kids are aggressively courted by the credit-card industry despite their decided limited incomes and lack of a credit history – not to mention a reputation of flakiness. Not only are students encouraged to apply for credit cards with limits of anywhere from $300 to $2,000; they are practically bowled over by eager issuers who nearly beg and plead the student community to become their credit partners.

Why the hard-sell to such a dubious group of consumers? The reason is relatively simple, actually. College students represent a golden goose for card marketers with a stake in turning credit greenhorns into lifetime customers.

It's like this: students are more than eager to establish credit records and financial independence outside of the nest. They also have a long-proven urge to spend money on clothes, recorded music, electronic devices and cars. This makes for a perfect fit with bankcard firms who salivate over the opportunity to lure a demographic slice of society that likes to buy things and has a vested interest in demonstrating they can pay their bills without the help of mommy and daddy. (One study found that 82% of students pay their own credit card bills.)

It Sounds Like a Perfect Match. What's the Problem?

Well, it gets back to that whole issue of the reliability of college-age individuals to meet their bills on time. Since it's easier for someone to get a credit card while an 18-year-old college freshman than as a legitimate wage earner following graduation, it begs the question of what happens to these pink-cheeked credit customers once they start falling behind on payments and misusing the cards with charges that exceed their means. The answer, of course, is a compromised credit stature that can taint their financial futures for years to come.

The figures show that more than half of the undergraduate students attending four-year colleges and universities today have at least one credit card and probably two. That same study found that 41% carried a revolving balance that averaged $584 while spending $131 a month. This actually doesn't sound so bad. Few kids are likely to land in major trouble with such modest balances and expenditures. And in fact, that kind of credit accountability and experience carries a bona fide up-side. It helps teach them, at a tender age, how to be responsible credit consumers, including the fine art of practicing budgetary restraint.

Indeed, restraint might accurately be seen as the fourth "r" being taught in school, joining reading, 'riting and 'rithmetic. In terms of its impact on their grownup lives, gaining that kind of early credit may be a more important educational tool than the other three combined.

In credit, an ounce of prevention is worth a pound of repair.

Before tackling the discussion in Chapter Four of how best to rectify an impaired credit record, here is a final reminder that credit hassles need not sink to the level of requiring emergency resuscitation. The secret is to avoid slipping into destructive patterns that can only lead to the disintegration of reliability and respectability. Believe me when I say that the bill always comes due. It's a battle you are far better off never having to fight.

Bad Credit Burns Money!

Chapter 4: Repair Is There – So Don't Despair

All right, so you screwed up, right? You did all of the classically wrong things and found yourself declared a credit disaster area by the industry. You were late on payments. You probably even ignored one or two bills entirely and saw them sent over to a collection agency. You may even have defaulted entirely on a car loan. And so now, things are looking pretty bleak. There is nowhere to run, nowhere to hide. For at least a year or two, you're financially crippled, considered roughly the same credit risk as Charles Manson. You'll just have to bite the bullet and suffer the consequences for a few years.

This is probably what you're thinking, right? And to some degree, you are correct. In order to turn things around, the agenda calls for you to turn into a Boy Scout, start paying every bill on time, slice up all of your credit cards, write out a real, sensible budget plan, and live off of your means rather than your credit line. For a couple of years, your financial life will be more about cleaning up than partying. You can believe all of that.

Here is the part that may surprise you, though: you can change the way your credit report looks and clean up even the most soiled credit reputation even while drowning in debt and despair. It's all about knowing how to play the angles and nurse a diseased credit file back to a measure of health.

And that's where I come in. Just call me Dr. McMillan, healer of ailing credit.

McMillan is my name, reviving lost credit causes is my game.

Part of the secret of improving a damaged credit profile without having to sweat bullets or dance in circles is putting your trust in someone who knows how to – shall we say – massage the system. I'm not talking about someone who works for one of those so-called credit "repair" agencies. (More about those scavengers later in the chapter.) No, I'm referring to a professional: a lender or adviser who has been working in the credit industry to know the ins and outs and pass along his insider knowledge to his clients.

I like to see this as the healing work of a credit clinic, if you will. Some people have an HMO. Some have the best medical plan. And some have neither one. But what matters most in both medicine and credit consultation is having a pro on the other end. If you walk into the clinic and have a crummy doctor, the chances are you'll walk out sicker than when you walked in. The same is true of credit doctors. There are quacks. There are hacks. And then there are the pros.

I like to think that I fall into the latter category. Not to boast, but I've worked miracles in my job that leave even me surprised. Sometimes, it seems to be lady luck. Other times, it's knowing the score and playing the odds. But I also believe that we create our own destiny. There are no accidents. That, I strongly believe, is why I succeed where a lot of others fail.

Here is what I'm talking about:

Bill payments are rated by the credit bureaus on a scale of 1 to 9, with 1 representing an on-time payment, 2 a check sent in 30 days late, 3 a bill paid 60 days late, a 4 is 90 days late, and so on up to 9 (which means the bill was sold to a collection agency). Well, there have been several instances in which I've contacted individual creditors on the behalf of clients and negotiated deals for them to work off a certain amount of a debt through structured payments. In exchange, we get the creditor to agree to change the reporting of the client's credit report to reflect a lowered (or better) bill payment rating. I've seen a 9 reduced to a 1. In essence, the impact of a negative entry was reversed.

When you can engineer a deal to change the status of a bill that was put through the collection department and effectively wipe the record clean of that fact, it's a technique known as "curing." With the right bargaining, late payments and black marks on a credit report can be enhanced to reflect payments being made currently on-time and without any problem.

Now…some might look at this as manipulation of a credit history. I prefer to see it as "restructuring." It's just a matter of making garlic smell like Chanel No. 5. If a client can put distance between a horrible past and a better today, what's the harm in giving this rehabilitated individual an opportunity to put it all behind him or her?

I've gotten clients to write letters explaining the events that triggered the credit mishaps in question. Maybe it was a spouse's serious illness, or an expensive and nasty divorce. These things happen. And so long as it can be proven that the problems were isolated incidents rather than a pattern of sustained behavior, it is incumbent on me to convince the credit bureaucracy that this person shouldn't be penalized for circumstances outside of their control.

Can you really modify a credit report? Isn't it set in stone?

Not only can it be done; It's done routinely and ethically.

Qualifying for loans and carrying a good credit standing is all about having a clean credit report. Even if you have some problems reflected on your profile over the last 24 months – the only time frame that really matters – you can change your risk profile if you can amend the presentation. It's all about the presentation. If you can restructure it through payments to creditors, notes of explanation and the like, you can mold the information to appear in a more favorable and acceptable light.

Let me tell you, good loan officers can get some seemingly real deadbeats into houses. That may sound a bit harsh and manipulative. But let me ask you this: would you rather put your faith in a loan professional who works the system to your advantage and overcomes your spotty credit history to land you a mortgage – or someone who plays by all of the conservative rules and lands you a rejection? I don't think that's a terribly difficult question, do you?

Life isn't always fair, so you want to make sure you do everything possible to make sure it's as fair as possible for you (given your so-so credit history). It's just like it is in high school or college. Some students work really hard and are unfailingly studious and still struggle to keep up a 3.0 grade point average. Then there are the kids who are less disciplined scholastically but have great street smarts that enable them to bend the rules and work the system. And they come out with 3.5 GPAs and above.

Understand that I'm not suggesting anyone lie, cheat, steal and computer hack their way to improving the way their credit report looks. Everything I'm talking about, and that I do, is well within the rules and certainly the law. And I also happen to know there are times when a little bit of credit industry savvy can go a long way in bridging the gap between the "haves" with spotless credit and the "have-nots" who might have a few problems to work through. I like to think that having me on your team helps even up the score for those in need of credit repair. I can usually get people what they need no matter their record. If you put your trust in a broker who insists on doing things by the book at all costs, unless you have the greatest credit you could wind up taking it on the chin.

On the other hand…

The credit game remains an unpredictable one. There are never any completely sure things. That's especially true when it comes to rebuilding a bad credit rating. Typically, you find no magic wand, no quick fix. Aside from being lucky enough to find a way to restructure the way your report reads, the only sure remedies are setting up a budget to work down your bills and starting over with small-limit and "secured" credit cards (more on those in a minute).

GETTING IT BACK TOGETHER

There was one guy who came into my office – let's call him Rick – who had some issues on his credit report with some bills that had gone to collections, all sorts of late paying situations. But he had just begun to try to rebuild his credit when he came into my office. I talked to him about taking things slowly. He took my advice. Rick bought a few hundred dollars worth of stuff at a furniture store that he paid off on time. He got it down to zero within a month or two. He had a

very low balance on a couple of credit cards and managed to keep from using them. Rick also picked up one or two other small debts as a way of showing he had changed his ways and was now operating on the other side of the credit ledger.

Within, say, about four months, Rick was already starting to get better and higher-limit credit card offers in the mail. His credit score is back up over 600. He applied for a mortgage and, as of this writing, he was looking pretty good. And it's probably going to be a textbook decent FHA mortgage with a fairly standard interest rate. But here's the kicker: Rick's wife, Jane, still had a bunch of junk on her credit record and wasn't even making the effort to clean things up. Yet we were able to leave Jane's name off of the mortgage application and just take her husband's credit history into consideration.

This is one way that a married couple can make the system work for them. They can opt – like Rick and Jane – to use only one of their backgrounds on the application. Of course, that also meant we couldn't take Jane's income as a positive factor, either. If you lose the negative, you lose the positive, too. But those kinds of options are out there. And as long as either a husband or wife gets his or her act together to target building their credit and cleaning up the past, there's a lot I can do for them in the home loan world.

If you find yourself in deep credit quicksand, I generally suggest cutting up your credit cards – unless you have filed for bankruptcy, in which case the plastic is rendered obsolete at the same time you wipe out the debt of any remaining balances. But what you have to remember is that restoring your good credit name is kind of like putting the tread back onto a tire. It will allow you to get your car on the road, but it won't ride like new. You'll just have to make do with a restored piece of rubber. The same is true of repairing credit. Your life's journey won't feel quite the same with compromised credit. But if you drive capably and without dawdling, you'll still get where you need to go – eventually.

Is there any sort of time-tested formula to follow in shining up a tainted credit profile?

As a matter of fact, there is. It's called stay the heck out of department stores, shopping malls, Internet retail sites and anyplace where you feel the urge to splurge. Those days are over, my friend. Say hello to wholesale stores, buying in bulk, buying inexpensive gifts for friends and family and – in general – pinching every possible penny. Then, progress to pinching dollars. It's difficult to find many pennies out there nowadays.

But besides that, there are six responsible steps you should take when embarking on the pothole-filled road to upgrading your credit profile and rehabilitating your blighted stature in the consumer finance world.

The 6 Steps to Revamping Your Tarnished Credit:

1. **Make sure your credit report isn't telling lies about you –** Make it mandatory to order your credit report at least every six months, because you just never know what might be hiding there. Any inaccurate entries that further stain your standing,

particularly in a negative way, must be reported and disputed immediately before it can do further harm.

2. **Start paying off every bill (especially old and festering debts) that you can –** Don't automatically assume that, unless you dump it through a bankruptcy, your ancient debts sent through to collections are something you're no longer responsible for. Potential creditors are less likely to lend you money if you still owe other creditors on delinquent, unpaid accounts. It's even possible to have collateral repossessed and wages garnished. The idea is to erase as many items marked "unpaid" from your credit report as you can.

3. **Contact your creditors and ask them to change your credit record to reflect positive changes in payment behavior and the settling of old bills –** If you were a consistent flake in the past but have been paying on time and have been on the ball over the past 12 months, be sure to encourage that creditor to reflect the change in your credit history. You don't need to threaten to send someone over to bust their kneecaps, either. A polite letter and a call to the credit manager is generally the most effective way to guarantee positive entries on your record.

4. **Wheel and deal until you talk a debtor into helping negotiate a dollars-for-deletion agreement –** As I stressed earlier, people are reasonable – and they respond to money. If you hold any delinquent accounts, few companies will refuse to exchange your full payment for expunging your record of a negative entry. This is

particularly true of collection agencies. But be sure to get any deal in writing before proceeding. There are some creditors who view this practice as unethical, but they are in the minority.

5. **Once you pay off old debts, it's possible to slowly establish new credit with the same creditors –** Even if, say, you had a Visa or MasterCard account that was closed due to non-payment, once the balance is paid in full it's wise to ask the creditor to reopen your account with a greatly reduced credit limit. More often than not, you will be accommodated if your record reflects a newfound dedication to turning around a damaged credit portfolio.

6. **Seek out new lines of credit (and don't abuse them!) –** The easiest and most popular way to re-establish negative credit, even coming out of a bankruptcy, is through secured Visa and MasterCard bankcards, which are backed by a collateral savings account in the issuing bank. A $500 credit limit often must be accompanied by a $500 balance in a savings account. But for those who can get credit cards no other way, it gets you back in the ballgame.

How long will a lousy credit record continue to torment you?

While rising from the ashes of credit death is never a mess-free issue and always requires that a price be paid in anxiety, inconvenience and reduced credit clout, derogatory entries in your credit report have a reporting life of seven years (from the date of the last activity or reporting) – or 10 years in the case of bankruptcy. And certain items can linger in your file even longer.

Unpaid tax liens, for example, don't get erased from your credit file until they get paid, even if it's 25 years. Unpaid lawsuits and judgements can also smudge your credit character for decades in unsettled. So here's a word of advice: if you encounter tax liens or lawsuits or judgements, for the love of real estate, pay them promptly! The credit life you save may be your own.

This is also another terrific reason to check your credit report often. Credit bureaus have been known to neglect removing expired or outdates negative information in a prompt way. It can hang around for years and years, damaging your life and expanding like a cancerous tumor in its damaging impact on your fiscal existence. So request that credit file and scour it carefully. The only person that mistakes or lingering negatives harm is you. So it's up to you to be vigilant.

What *not* to do when struggling to rebuild your credit life…

There are pitfalls to avoid when working to patch up your wounded credit past. Basically, anything that seems a little bit too simple and too magical is undoubtedly a Band-Aid solution to a far more complex problem, at best.

Keep in mind these things to avoid:

One-Shot Credit Cards

These are described as credit cards and smell like credit cards, but they neither look nor act like them. The first tipoff is that they generally are made out of paper instead of plastic – always a bad sign. They also charge exorbitant up-front fees and often limit your purchasing power to cruddy merchandise bought out of their catalogue. It's a bad idea all around.

Passbook Loans

This is the practice of putting some money in the bank, immediately taking out a loan against the deposit balance, paying it back quickly and then upping the amount until you've introduced a new payment history. The only problem is that a lot of banks will be on to you fast and won't allow a series of such tiny loans that they make no money on. Equally important, credit bureaus aren't even made aware of many such loans. It's largely a waste of time.

Finance Company Loans

Credit bureaus know that someone will seek out one of these high-interest firms for loans out of desperation, since no one else will loan them any money. Bearing this in mind, the bureaus tend to look badly on anyone who gets into bed with a finance company in the hope it will buff their credit appearance. It won't.

Credit Repair Franchises

When it comes to credit repair firms – and I use the term "repair" herely loosely – I pull no punches. Run! Run as fast as you can in the other direction and *don't look back*! These are people who prey on the needy and the naïve. They are nearly all bad news.

Beware! The few legitimate repair professionals out there who could legitimately help you are unlikely to be found amidst the overwhelming collection of riff-raff that dominate this bogus industry.

Now, I'll tell you how I *really* feel about credit repair agencies.

Do you really think that if you have $15,000 or $20,000 in debts, these guys are going to be able to wave a magic wand and make it all go away? Think again. If it sounds too good to be true, it's because it is. If you try to get something for nothing, you're liable to wind up with nothing for something.

Generally, these bozo services promise you the world. We've all seen the ads:

"Credit problems? No problem!"

"We can erase your bad credit – 100% guaranteed!"

"Create a new credit identity – legally."

"We can remove bankruptcies, judgements, liens, and bad loans from your credit file forever!"

Yeah, right. Here is the reality: They want you to pay for these "repair" services they are supposedly granting you *before* any service is provided. That ought to instill plenty of confidence in their legitimacy, huh? They also typically neglect to tell you what your legal rights are and the things you should do yourself that will cost you nothing. Some of these places will even encourage you to create a new identity and in essence commit fraud.

Meanwhile, what are they doing for you? Not a whole lot, as it turns out. They'll take anywhere from $300 to $500 of your money – money that you don't have or you wouldn't be talking to them in the first place. For this up-front fee, they will basically get items that aren't listed as live debts erased from your credit report. Usually within 90 days, the creditor has woken up and identified the removed debt as legitimate. And suddenly, there it is back on your credit report again. All of the hocus-pocus has disappeared, and you're out a wad of cash.

SKIPPING OUT ON CREDIT WHEN CREDIT IS DUE

Once upon a time, I was visiting a friend who shared an office with a fellow. I'll call him Kevin. Now, Kevin's specialty was the dubious art of repairing people's damaged credit. Panic-stricken people who had badly overextend themselves financially would come in. Kevin would take their money. He would make some suggestions and many promises. Typically, he convinced them to bring him their paycheck and he promised to pay their renegotiated bills on a regular schedule. Then the person would leave, content in the knowledge that their credit report would soon be sparkling clean. Except that I'd hear lots of horror stories of Kevin's taking people's money and not fulfilling on promises. He had been set up in several different variations of the same business over the prior few years.

So anyway, this one day I'm sitting there. Kevin is out. And this lady burst through the door. And she is positively livid. Kevin had a deal with this woman where she'd bring him her paycheck and he would pay the bills. For people in a credit crisis, it was a way to guard against plummeting further into debt.

Unfortunately, Kevin had apparently failed to pay this woman's bills that month. It was all past due. But there's no Kevin in sight.

This woman was not petite. She must have out-weighed me by 100 pounds. She looked me straight in the eye and gave me this look of death, like she could have murdered me on the spot if I was in any way affiliated with Kevin. She had been wronged, and she wanted to whip somebody's butt. Fortunately, this wasn't one of those cases where a distraught individual packed a load of firearms and walked in and immediately terminated anyone who happened to be in the office that day. But I never did see Kevin again.

These agencies buy a credit repair kit for a few hundred bucks and then try to sell themselves off as experts. Trust me when I say that they aren't. If you find one who is, pinch yourself, because it will be the luckiest day of your life.

A far more characteristic example of credit repair guys in action comes from one of those SPAM e-mails that was sent to me recently. It's headlined, *"Clean your credit file. DO NOT MISS THIS OPPORTUNITY!"* and goes on to note:

"You will simply go though my easy 5 step programs to quickly establish instant credit." It goes on to say, *"When we are finished, you will have a copy of your credit file proving you now have excellent credit again. This will take less than 30 days."*

After offering a double-your-money-back guarantee that if you fail to qualify for *"personal loans, business loans, auto loans, credit cards and home loans*," the advertisement asks consumers to forward a check in the amount of $29.95. And we see that the name of the Coral Springs, Florida company doing the soliciting is called *"CMC."* What a shock! The people asking web surfers to trust them identify themselves solely with initials. This should tell you all that you need to know about these agencies. Do yourself and your wallet a favor. Ignore them.

If the credit item doesn't fit, you must not sit.

In the past, consumers who found in their credit files misleading information or outright mistakes that threatened their financial reputation often encountered a stubborn and even hostile credit bureau administration to deal with. The employees didn't want to know about any information about errors they supposedly made and would strongly encourage you to shrivel up and disappear. They changed reports without any real consistency and often refused.

Things began to change in the 1990s, however, as consumer pressure inspired Congress to forge a more up-to-date version of the federal Fair Credit Reporting Act. John and Jackie Taxpayer receive a somewhat warmer and more helpful crew at Equifax, Experian and Trans Union, the three primary credit reporting bureaus. But there is nonetheless still a certain art to dealing with these all-powerful bureaus, a protocol and a method to calling erroneous entries on your credit report into question.

With this in mind – and courtesy of Lexington Law Firms – I offer you…

<u>The Ten Commandments of Credit Report Disputes</u>

I. Thou shalt never lie in any dispute or on your credit applications. It's actually a crime in many states to tell an untruth while wrangling over your credit report.

II. Thou shalt always indidate whether the disputed listing is being challenged as "not mine" or "not late." It is the credit bureau's right to know if you are contesting the existence of a listing or merely the information within it.

III. Thou shalt always tell the credit bureau the desired outcome of any investigation. It must be made clear if you desire to have an entire listing erased or simply the delinquent notation within it.

IV. Thou shalt always provide a justification for your challenge. Without an explanation, a credit bureau fact checker may not bother taking you or your beef seriously.

V. Thou shalt always be sure to include indicators of authenticity in any dispute. Relevance and proof are all-important. It's necessary to get creative and include sentences or phrases in any dispute correspondence that will convince the credit bureau you're for real.

VI. Thou shalt never try to sound like an authority. The credit bureaus are inundated with more than 10,000 disputes daily, and yours should look much like the others – not polished and professional.

VII. Thou shalt increase your level of insistence and threats of aggression with each dispute. It pays to be friendly and polite initially, but only if action is being taken in your favor. After that, frustration directed at a bureau investigator can work in your favor.

VIII. Thou shalt avoid bombarding the credit bureaus with numerous disputes. Sending one after another tends to be wasteful and counterproductive, resulting in alienating the reporting agency altogether. Allow at least 60 days pass between challenges.

IX. Thou shalt use inaccuracies and inconsistencies as examples of how the credit listings are wrong. They help form context in communicating the basis of a given dispute.

X. Thou shalt create and utilize additional techniques that help further the idea that a complaint letter is from a truly wronged and disadvantaged consumer. Credit bureau checkers tend to give priority to the most urgent of the disputes that flood his or her desk. Make sure to convey the gravity of your situation fully.

If you finally decide it just isn't worth fighting any of this stuff, there's always bankruptcy – but only when all else fails.

One of the great contradictions of our booming stock market and overall economy is that at the same time we experienced the longest consistent economic upturn in American history in the 1990s, we also saw bankruptcy filings soar to record levels. It's a fact that continues to perplex the experts. Bankruptcy is supposed to be linked to bad times and hard luck, not low unemployment and a strong dollar.

Be that as it may, a few million Americans throw in the towel and take the ultimate step to dump their liabilities, eliminating them entirely by filing for Chapter 7 and Chapter 13 bankruptcy. It surely enables those who have piled up enormous debt to clean the slate and embark on a fresh start in one swift stroke without recourse from creditors. It's one of the great escape hatches we have at our disposal by virtue of being United States citizens.

The other side of the coin is that a generation of Americans is using bankruptcy as a way to shrug off years of irresponsibility and a love affair with materialism. It goes without saying that those who opt for bankruptcy should first make a genuine attempt to gauge whether its feasible to pay off even a percentage of any debt to creditors. Because while filing provides great relief and a weight off the shoulders of the debt-riddled, it also brands a black mark on your credit record for anywhere from 7 to 10 years. It effectively takes you out of the home loan, auto loan and credit card equation for a few years, affording the opportunity to acquire only secured, protected credit lines.

With that kind of penalty, why has bankruptcy thrived recently in this land of plenty? Here's one explanation: it no longer carries the stigma of shame that it once did. The wrenching guilt that once gripped bankruptcy filers no longer applies in most cases – replaced by both relief and the sense of entitlement that led to much of the credit overindulgence in the first place.

Rest assured, it is never cool to be crippled with massive debt, even if you can sign it all away relatively painlessly.

Living debt-free: It's not just a job, it's an obligation.

The idea that I attempted to convey in this chapter surrounds literally a consumer's responsibility to himself or herself. You owe it to you – and to your family – to pursue a life of financial freedom bolstered by credit integrity. When your credit is in the dumpster, it doesn't just challenge your fiscal existence; it literally saps your soul. It imprisons your heart and your head in a vise grip that continues to turn up the heat on your anxiety until you want to scream.

We've all had problems with our credit file from time to time – including me. Few can make it through an entire lifetime without a few blips on the record to keep you honest. The goal, however, is to keep those blips to a minimum. And once they do surface, it's necessary to make a pact with yourself to start the credit report cleanup process and minimize the damage to your reputation. If you allow it to race out of control, the monster of consumption and overindulgence will zap you every time.

At some point, all of us need to come to terms with the sense of accountability we have to heed as grown-ups. Besides giving attention to our spiritual health, marital vows and our role as parents, our greatest responsibility is in providing for ourselves and our loved ones. When we plummet into great debt, we begin to fall down on that duty. You might want to keep that in mind the next time you plot a shopping spree at the mall.

Bad Credit Burns Money!

<u>Chapter 5: Identity Theft and Fraud – It *Can* Happen to You</u>

You know how they say that heart disease is the silent killer – doing its damage often without any symptoms or clues? Well, credit fraud is the silent crime. It can damage a victim's credit reputation and, indeed, ruin his or her life with literally no indicators that anything is wrong until the roof caves in overnight. And it happens to thousands of unsuspecting consumers in America every year.

You want a few examples? They aren't difficult to find.

For instance:

--A young secretary was forced to spend years struggling to clear her name after a tax evader got hold of her Social Security card, which the woman had never received. The imposter used her name and card number to skip from job to job and collect unemployment insurance, health benefits and maternity benefits – all without paying any taxes. The secretary, meanwhile, was constantly harassed by the Internal Revenue Service to settle her "unpaid tax bill." Her bank account balance and wages were garnished. She had to travel to each of the imposter's six former employers and plead for written statements to prove to tax officials she had never worked at those jobs. It was a nightmare without end.

--A disabled telecommuter was stunned to receive a credit report from TRW that was seven pages long and littered with some 15 past-due fraudulent accounts. Later, she received notice that she had defaulted on a loan. None of the alleged violations had actually been committed by her.

--An Army employee suddenly discovered that a relative had assumed her identity and opened several fraudulent credit card accounts in her name. To clear up her damaged credit, the woman paid off $30,000 in duplicitous debts. She then quit her job and found a new one paying $30,000 annually. But that offer was subsequently withdrawn by the prospective new employer after he saw her credit report. She was ultimately left jobless and homeless and finally departed the country for the only work she could find: in Korea.

--Using someone else's birth certificate and Social Security card, a man was able to obtain a photo ID card from the government. He subsequently used these three pieces of identification to open several crooked bank accounts. The crook then managed to steal more than $170,000 from the banks by depositing bogus checks into the accounts and immediately withdrawing the money through ATMs.

These are by no means isolated incidents. Tens of millions of dollars are pilfered every year in scams and rip-offs that typically victimize innocent people by taking from them the most valuable commodity they possess from a credit/financial perspective: their name. It is done without warning and usually without a sound, insidiously destroying someone's record and reputation through forged paperwork, spurious credit and bank accounts, and all variety of fraudulent tricks.

Identity theft is the most heinous non-physical violation of a human being that one can imagine. And it isn't merely a crime against an individual; it's really a crime against society. Yet it happens every day, in each major city and every state in this country as well as every corner of the globe. The growth of commerce on the Internet has helped fuel an explosion in the crime, what with the often naked access to credit card numbers in cyberspace. Nobody believes it can happen to them. The unfortunate reality is that all of us are vulnerable.

What does identity theft involve?

Very basically, identity theft entails the criminal acquisition of key pieces of someone else's identifying information for the purpose of impersonating them and committing a variety of crimes in that person's name.

These thieves use every possible identifier to perpetrate their reprehensible masquerade. Besides the basics like your name, address and phone number, identity stealers snoop around to snare your Social Security number, driver's license number, credit card and bank account numbers, telephone calling cards, birth certificate and passport. Armed with this information, they can take out bank cards in your name, acquire loans you are obligated to pay, rent apartments, establish utility services, even buy homes – all on your dime. They go on spending sprees at the mall, run up telephone bills, default on payments and cash fraudulent checks. And you're responsible for covering all of them.

Meanwhile, your credit record gets so severely cut to ribbons that it can take months or years to clear up. It results in being denied jobs, disqualified for loans and possibly even unable to open a simple checking account. Forget about buying a house; even trying to qualify to rent a modest apartment is a nightmare.

How could this happen? How can your personal information be so easily obtained and abused? Why don't victims usually find out until things have sped way of hand? For answers to these and other questions, read on.

How can somebody actually steal your identity?

You would be shocked to discover how easy it is to this pull off this sort of stuff. There are reasons why this kind of white-collar scan is the fastest growing type of robbery in the United States. It removes any vestige of honor from thievery, transforming the perpetrators into faceless cowards who are only too anxious to shoot you in the back, computer-age style. It's like digging into a consumer's pockets while his pants rest on the easy cheer and he's snoozing.

Forget about crooks needing sawed-off shotguns and ski masks. Today, the primary tool of their trade is a good set of eyeglasses with which to read enough numbers to steal you blind. This thief strikes when you least expect it. Furthermore, he is so sneaky that an unsuspecting consumer doesn't even know he or she has been victimized until the dude is long gone. These felons don't just steal your wallet; they also rip out your soul while they're at it. And they don't need much to do it. It really is ridiculously simple, yet sophisticated.

Here are a dozen of the ways that identity thieves do their evil deeds:

1. **Stealing Your Mail:** The thief will reach right into your mailbox and help himself (or herself, let’s not be sexist) to anything that looks like a credit card, a credit statement, a bank statement, a pre-approved credit card offer, tax information or any bill that lists any of your various numbers (Social Security, federal ID, driver’s license, etc.).

2. **Redirecting Your Mail:** It takes great audacity for a criminal to walk into a post office and re-route your mail to his mailing address or P.O. box. But these folks obviously have brazenness to spare.

3. **Sifting Through Your Garbage:** It takes only a couple of the right pieces of paper for a criminal to set the wheels in motion for ruining your life. Your trash is an inviting potential gold-mine of numbers and identifying information, particularly if it has credit card or loan applications, employee files or any sort of identifying data or – God forbid -- bank deposit slips, canceled checks or discarded computer disks packed with files.

4. **Illegally Obtaining Your Personal Credit Report:** Hard as it is to believe, they are able to do it – and without a whole lot of muss or fuss. A date of birth, a driver’s license number, a Social Security number, and it’s hello, credit info.

5. **Stealing Your PIN code at the ATM or phone booth:** By lurking behind you and spying how you press the number pad, identity thieves can steal you silly.

6. **Intercepting Your Information on the Internet:** This can be accomplished through hacking into the credit files of online retailers and pulling down credit card numbers. Or they can be even sneakier by sending you a fake e-mail message – posing as, say, an insurance salesman, travel agent or other service provider – and then making off with your card number once you enter it to purchase that product or service.

7. **Setting Up Telemarketing Schemes to Snare Account Numbers:** The elderly are famously vulnerable to this trick. But the criminals are often so convincing that it's easy to slip up.

8. **Busting Into Computer Systems and Databases:** The names, addresses and credit card numbers of consumers are especially plentiful at certain websites, particularly those serving government, financial and credit organizations. Security lapses occur with alarming frequency. One recent case found a 14-year-old boy facing criminal charges after making $3,000 worth of fraudulent purchases using several debit card numbers he had downloaded from the Internet. Even young teenagers can do it.

9. **Opening New Lines of Credit From Your Stolen Credit Cards:** If your wallet is stolen, don't believe for a second that immediately canceling your credit cards and locking your checking account makes you 100% safe. Quite the contrary. If a thief

has your information and enough motivation and savvy, he can embark on a whole new credit and checking life – in your name.

10. **Seizing Your Social Security Number:** This number is available from a number of sources, including a database of the Internet. And once an identity thief has it in hand, that little nine-digit code is a virtual license to become *you*. It is the key that unlocks access to your credit, medical, financial and educational records. Armed with those, any crook can become your evil twin.

11. **Snaring Your Cell Phone Number:** This happened to a friend of mine who was hit one month with a $2,478 cell phone bill. He reported it immediately, of course. The person in the fraud unit of his phone company told him that his number was stolen, and 14 pages' worth of calls made in his name, by someone standing at a highway overpass using a device that can intercept the number of a call phone being used in a moving car.

12. **Having a Phony ID Made With Their Picture – and *Your* Name:** It's unbelievable how simple it is to have a fraudulent ID card, or even a phony driver's license, made. Just get online and start surfing the web. There are literally dozens of sites that specialize in helping crooks appropriate your identity. Or if the lawbreaker has his own computer, color printer and scanner, it's easy to manufacture the bogus card himself. Modern technology has made it a snap to clone identities and ruin lives.

‘Skimming’: The latest credit scam:

“Skimming” is what happens when credit card fraud goes really, really hi-tech. And it’s a form of the crime that is soaring to epidemic levels.

This scam centers on a small electronic device called a “skimmer.” It is a black box that’s about the size of a Palm Pilot with a slit in the center. When the magnetic security stripe of a credit card is fed through that thin slot, it captures and stores the data encoded on the card. That data includes the cardholder’s name, account number and expiration date as well as an invisible, encrypted card-verification code that is recognized only by the card company’s central computer. The code is transmitted electronically from the merchant to the card issuer at the point of any sale to confirm a card’s legitimacy.

Since it can copy that code, it gives any counterfeiter all of the knowledge components to create an absolute clone of any credit card. And that’s just what skimming frauds do. Once they pass your credit card through the slot of the device, the information is instantly downloaded into a computer and straightaway transmitted through Internet e-mail to one of several card-copying set-ups. These duplicators are run by organized crime syndicates throughout Europe, Asia and Latin America. But they use the credit cards of well-heeled Americans as the mother’s milk feeding the scheme.

This kind of bank fraud is considered the biggest problem plaguing the financial industry today. It’s the way banks will be robbed – and, indeed, already are being cleaned out – in the future. With 20 or so credit card accounts, these criminals can generate $50,000 to $75,000 worth of fraudulent charges, and none of it is detected until the victims receive their monthly billing statement. That might be as much as 50 or 60 days later.

It's been estimated that "skimmers" absconded with about $125 million in 1999, a figure that's considered wildly conservative. It could have been doule or triple that. The problem is that the devices are so easy to hide, fitting in the pocket and operated on a single battery. And each one can store the data from as many as 300 individual credit cards.

There isn't really even very much that consumers can do to avoid being skimmed, aside from maybe keeping a closer eye on waiters or cashiers who may be hiding a device in their uniform. But actually, the only defense against the shady practice is to be vigilant when reading your billing statement to catch any charges that don't belong there. Of course, it's doubtful that anyone hit with $2,000 in bogus purchases is likely going to miss it on the bill.

What are the consequences of having your identity swiped?

I spoke at the beginning of the chapter about some of the devastating pitfalls that can result from being targeted in an identity theft sting. While individual credit card holders aren't liable for charges rang up by credit swindlers and scam artists, the damage to one's credit portfolio and peace of mind aren't nearly so minor. The inconveniences and feelings of violation can be, and generally are, overwhelming. It's like somebody taking blank ink and pouring it over every document, employment record and credit file that you possess.

While the victim of identity stealing doesn't have to pay off the typically astronomical credit debt that was accrued through fraudulent means, financial losses can nonetheless prove staggering. A typical loss is estimated at an unreal $36,000. That's what it costs the unlucky consumer in telephone calls, notarized statements, loans to help get through the mess, counseling fees and lost wages from the time off work and level of stress involved. This doesn't even include the fiscal toll from having to pay off the thief's bills (at least temporarily).

On top of all that, the victim is often shown little respect and credibility from law enforcement and can easily be arrested. Unless the scammer is tracked down and exposed, an added battle comes from creditors who want their money and credit bureaus who skeptically figure you're just trying to dodge a debt. The bureaus are not easily inclined to remove the false data from a victim's credit file, short of strong and conclusive proof (which isn't always available). And if the criminal isn't caught, he is likely to carry out the fraud all over again – on you!

Having your identity pilfered is, in short, one of the most insidious and abusive nightmares imaginable. And for the victims, it never seems to end.

Is this really all that common? Aren't we as a society growing a little overly paranoid?

We may be paranoid, but in this case, the alarm is not unfounded in the least. In fact, the scope of the credit fraud problem as a whole is possibly being undersold. In the United States alone, banks lost upwards of $300 million to identity thievery and other forms of credit fraud in 1999. That's more than three times what the total was in 1995: roughly $90 million.

I probably don't need to tell you that banks aren't terribly happy about taking escalating losses that are closing in on half a billion dollars annually. The banking industry has to make up that shortfall someplace; usually, it arrives in the form of higher interest rates and service fees for you, me and the typical consumer. We all have to pay for fraud at some point in the financial food chain. Identity theft sends the red ink flowing like no perpetual white collar crime ever has before.

I'll tell you how serious this type of crime is getting to be: even the cops are doing it. Well, not that many cops – but some. Back in May 1999, a half-dozen Los Angeles Sheriff's Department deputies were busted for running an elaborate credit fraud scheme that found them taking out cash advances at ATMs on stolen credit card numbers. They netted a few million bucks before the feds were tipped off and launched a seven-month undercover operation that ensnared them all. Each is expected to do hard time in prison.

What does it say about where we are in America in terms of who we can trust when law enforcement officials are making off with our credit cards and running up the limits with cash advances? It's surely a sad day when sheriff's deputies are on the take. And it drives home the point that if we as consumers fail to be super-vigilant, a lot of us are likely to be next in line on the fraud hit list.

How can you guard against becoming a victim?

Ah, now *there's* the magic question. All of us, after all, are clearly vulnerable. But there are common sense ways to lessen your risk of being an easy target. You need to at least make it a little bit tough for the identity thief and credit scammer to acquire the necessary goods on you, even while understanding that most identity fraud targets never learn how the perpetrators got their grimy paws on the identifying information in the first place.

Be that as it may, I offer the following preventive measures for cutting down the risk of having the equivalent of a nuclear warhead strike your credit file:

1. **Invest in a paper shredder and shred all of your documents before putting them outside in the trash can –** It takes only a couple of pieces of paper with your numbers and ID criteria for a thief to take your name and make it his own. Using a $40 shredder might foul up his scavenger hunt.

2. **Always store your credit cards and documents that contain sensitive information in a safe and secure place –** A small safe is a good idea, since it's better than leaving records, passports, bills and other data out in the open.

3. **Get copies of your credit report at least twice a year and check it closely for erroneous and inaccurate entries –** Heed the lessons of those who have learned the hard way. Report all errors to the credit bureau and have them corrected immediately. Monitor your credit card billing statements, canceled checks and phone and utility bills closely as well to catch curious discrepancies as quickly as possible.

4. **Use and carry around as few credit cards as possible –** And then after you make a card transaction, be sure that the card you got back is your own. If there are any

carbons involved (there rarely are anymore), rip them up and dispose of them immediately. Don't leave them lying on a counter. Ever.

5. **Don't write your credit card account number on your check –** Even when paying your credit card bill, scribbling the account number on the front or back of the check isn't a great idea. And it goes without saying that you should never give out your card numbers or other personal data over the phone unless it involves a trusted business relationship – and *you* placed the call.

6. **Keep close track of elapsed time when applying for a new credit card –** If the card or rejection doesn't arrive within a reasonable amount of time, call the bank or credit card company. And report any stolen cards immediately.

7. **Never provide your address in tandem with the use of a credit card –** Also order your next batch of checks without your driver's license number preprinted on them. At every turn, divulge as little personal info as possible.

8. **If you receive a phone call from a credit card issuer inquiring about an unusual type or number of charges, be brief and wary –** Don't volunteer any information in these situations, just in case the person isn't whom they say they are. Merely confirm or deny direct questions. If in doubt, hang up and call back the card issuer directly.

9. **Don't ever write down or tell anyone your PIN code or account passwords –** If anyone ever calls claiming to be in an official capacity and asks for your code or password, hang up immediately. They are lying. Also, never tell anyone confidential details like your date of birth, mother's maiden name or Social Security number. Credit thieves thrive on this stuff.

10. **It also wouldn't hurt to stand directly in front of the screen and keypad at the ATM kiosk while conducting your banking –** Don't stand off to the side, especially while entering your PIN code, and invite a thief to memorize a few letters or numbers and gain easy access to your account.

11. **Try to erase any personal information about yourself that's found in an Internet online directory or database, or in your online profile –** You never know who may be lurking out there in cyberspace just waiting to pounce on data that enables them to impersonate you.

12. **If you ever receive an e-mail message claiming to be from your web provider that requests personal information, don't give it –** There are frauds out there who can take your name and password and use it to send e-mails from your address and sometimes even make purchases online.

13. **Look into anonymous payment methods for buying goods and services on the Internet –** Most web-based merchants protect your credit card number with

encryption technology that foils the fraudulent behavior of all but the most skillful computer hacker. But using stored-value and pre-paid cards digitally-encoded electronic money can add an extra layer of protection.

What if it happens to you, anyway?

Yes, you can take every precaution in the world and still be victimized by an identity thief or credit embezzler despite your caution and attentiveness. I'll be delving into how you can handle a credit crisis in greater detail in Chapter 6. But here are some quick pointers in the event you are preyed upon by a credit cheat:

I. IMMEDIATELY SHIFT INTO DAMAGE CONTROL MODE

If you think you've been targeted for fraud, send out letters to the fraud units of the Big Three credit bureaus explaining your suspicions and your situation as your second order of business. The first order will have been calling up all three credit bureaus to explain your situation and assure them that explanatory letters are on route. At the same time, you need to phone your credit card issuers to close or "flag" your accounts and ring up your bank to alert them to keep an eye out for suspicious checks written on your account. And be sure to ask your credit card issuers to forward replacement cards with new account numbers in place of any that have been abused through the fraud.

II. CONTACT ALL OF YOUR OTHER CREDITORS BY PHONE AND LETTER

This includes department stores, utility companies, lending banks, home mortgage companies and any other business with whom you believe your name may have been used fraudulently. Explain your situation calmly and carefully. And diligently monitor the mail and credit card bills for any new evidence of fraud activity. When it surfaces, each credit granter should be contacted immediately.

III. START A LOGBOOK OF EVERY CONTACT YOU HAVE WITH CREDIT AUTHORITIES AND FINANCIAL INSTITUTIONS

Keep studious track of everything. It's important not only for establishing your own paper trail but for helping keep a measure of control and sanity through an emotionally draining and continually traumatizing process.

IV. CANCEL EVERYTHING YOU HAVEN'T ALREADY CANCELED

For instance, call in to cancel your ATM/debit card, long distance calling card, checking and savings accounts and any other account or personal ID that may have been compromised (even replacing your driver's license number if necessary). This also includes outstanding checks you aren't sure about, which require stop payments. Order fresh cards and account numbers all around.

V. CONTACT THE COPS

Report the crime to every police and sheriff's department with jurisdiction in your case. Document as much evidence for them as humanly possible. Also, request a copy of your police report while holding the phone number of the fraud investigator assigned to your case close by. It's the number you will hand out to creditors and others requesting verification of the crime.

VI. TRY NOT TO FREAK OUT, AND DON'T BE INTIMIDATED!

As painful and demoralizing as it is, it's imperative for victims of identity theft and other credit fraud to remember that:

1. This isn't their fault.
2. They aren't alone. There are more than 500,000 victims of credit fraud every year.
3. It's possible to fight back without hiring an expensive lawyer.
4. This too shall pass.

Who would have the audacity to perpetrate this sort of crime?

Far too many people, unfortunately. It takes some brains and persistence but little in the way of guts or courage. Like crimes perpetrated over the Internet, it is anonymous and faceless and, therefore, requires no mettle. This means that pretty much anyone who continues to draw breath can pull off an identity theft scam. So it's no surprise that there are more than 4,000 new fraud cases reported to the three major credit bureaus in this country *every single day*.

ALL IN THE FAMILY

I run into some unbelievable stuff in my job as a credit professional. But just when you think you've seen it all, something comes along that boggles the mind. You wouldn't believe, for instance, how much identity theft happens in families.

There was this one case of identity stealing where this young guy's father was the thief. The kid came to me and told me matter-of-fact how has dad had just ripped him off blind. Imagine it! His father set out to become him so he could charge up a storm. As a result, the guy's name got dragged through the credit

mud, and it took several painstaking months for us to systematically rebuild his financial life.

It turned out that the father was never caught or punished. The guy didn't want to press charges. But the son was devastated all the same. This clearly wasn't a real father we're talking about here – just a sperm donor.

Then there was a case that came to my attention where the reverse happened: a son adopted his father's identity to obtain and abuse credit over a lengthy period of time. The father came into my office seeking a loan after having been turned down elsewhere repeatedly. Let's call this guy Paul.

Now, Paul was just flabbergasted why he was being treated like someone with horrible credit when he knew his credit past was healthy. He had a difficult time buying a car and was told there were entries on his credit report that reflected badly on him as a risk. He was turned down for a car loan in several places before finally qualifying – and then, it was with a high interest rate. Here was a man who had literally not even used much credit for the past 4 or 5 years. And he was being cast as some kind of financial flake.

Of course, he had no idea that his son, who happened to be Paul Jr., had very easily taken out several loans and other lines of credit in his dad's name and just as easily wasn't paying much of it back. Junior would also intercept the bills before they ever reached dad's desk. It turned out that Paul Sr. was largely a cash guy who wasn't the most savvy, educated guy on the planet. He also never checked his credit report. As a result, his credit got destroyed.

Paul Jr. went to jail for credit fraud two years after he began his little scam. His dad didn't press charges, but one of the creditors did. Paul Sr. was pretty broken up over the whole thing, losing a son and his credit reputation in one stroke. The lesson I learned here was that if you don't keep close tabs on your credit life, it can get away from you – particularly if your son is slime.

Kids have done it to their parents. Parents have done it to their kids. Teachers even pull fraud on their students. Yes, in one high-profile, multi-victim case, a teacher opened fraudulent credit card accounts and stole $43,000 worth of merchandise using the names and Social Security numbers of his students and teaching colleagues. His ploy: he took their personal information from a class list and from pay stubs stolen out of campus mailboxes.

Now *that*, ladies and gentlemen, is gall.

Actually, there was a credit scam artist in Texas who has the teacher beat. In this case, the identity thief was a former loan officer who had obtained a couple's personal information, using the bank's credit terminal to access their credit report. He opened up more than 20 credit, gas and finance account in the couple's names that totaled about $50,000. The couple won a $1.45 million judgement against the thief. Can you imagine? A loans officer!

This should tell you that there is unfortunately no one who can be held above suspicion for fraud – not even your father.

The bottom line is…

We live in a very odd time in America. On the one hand, people have never been more knowledgeable about the security breaches and other fraudulent perils that leave consumers so open to deception and duplicity. On the other, the Internet sells would-be identity thieves all of the necessary instructions to effectively clone the background and identifying records of another human being.

We would all do well to be distrustful of our fellow man. It's sad that it has come to that. But unfortunately, a healthy degree of skepticism and suspicion can go a long way to protecting ourselves from being caught in the jaws of a very nasty – and personally calamitous – situation. In other words, keep your eyes open at all times. You never know who might be hanging around nearby just waiting for you to drop your guard.

Chapter 6: Surviving at Ground Zero – A Crisis Instruction Guide

If you have been victimized by fraud or identity theft, you probably don't need me telling you that this is destined to be the biggest hassle of your life. Once bitten by fraud, it is nearly impossible to avoid getting smacked around inside the credit industry's immense bureaucratic chain. Your credit is destroyed, followed by the destruction of your trust of your fellow man, any faith in the goodness of people, your patience – and, finally, any sense of security.

It is a dreadful piece of business, this fraud and identity theft ordeal. The sense of violation in having some lowlife rip off your good name – cloning your credit card numbers and gorging himself at the trough of materialism – is total. You feel displaced, shellshocked, out of sorts.

So here is a little bit of good news that fraud victims probably already knew: once you report any credit fraud from a card that's been lost or stolen, you have no further responsibility for additional fraudulent charges. Your maximum liability is $50 per credit card. This is an enormous annual financial hit for card issuing companies to have to take, of course. But in the end, they write off the majority with Uncle Sam, and it is we taxpayers who must ultimately bear the brunt.

But if you're just coming up for air after being smacked with the sting, humiliation and frustration of a fraud scam, don't think about any of that now. Just think about making it out of this alive – because you will. Even if it doesn't feel that way now, this too shall pass eventually. Keeping your sanity in the meantime is the key.

How did you get yourself into this mess, anyway?

The simple answer to this question is: you didn't do anything wrong. It's not your fault. In all likelihood, the thief who stole your identity and smeared your credit file obtained your identification information (name, address, driver's license number, Social Security number, credit card numbers) without any slip-ups from you. These criminals are relentless. Once they zero in on a target, they stop at nothing to get the goods on you and ruin your financial reputation with great thoroughness and patience.

See, what makes credit/identity fraud particularly insidious is the fact that it carries with it no time frame, no ticking clock. Much of the fraud, such as a bogus pre-approved credit application or a counterfeit identity adoption, can remain entirely unknown to the cardholding victim for months. You've heard of giving the gift that keeps on giving? Well, fraud is the gift that keeps on taking – week after week, month after month, often undetected (if the perpetrator has the statements sent to a neutral location, for instance).

Again, however, the victim usually does nothing to bring this on himself or herself. Their only culpability is the misfortune of having various forms of their ID information in close proximity to a would-be felon who is only too pleased to grind up the life and reputation of another innocent, faceless consumer like you or me.

Doesn't this stuff happen only to people who aren't attentive?

No way. And I mean *no* way.

For instance, no one in sports has a better eye than a baseball great named Tony Gwynn. The man practically never strikes out, has stroked more than 3,000 hits, and is on his way to the Hall of Fame. At the plate, he has an eye like a hawk. Nothing gets past Gwynn on the baseball field.

LIKE TAKING CANDY FROM A BABY

The cable TV news/information network MSNBC had noticed just how epidemic online credit fraud had grown in cyberspace. They had noted how a young man in Germany had tried to extort $100,000 from the web retailer CD Now by threatening to make public the credit card numbers of thousands of its customers – and how he made good on his threat when he was rebuffed.

MSNBC's executives were curious to see just how really was to uncover incriminating personal identification data of random consumers in the cyber retail world. So one day in January 2000, the network tried a little unofficial hacking of its own – and was astonished. A few minutes into the hacking mission, MSNBC's researchers were able to view nearly 2,500 credit card numbers stored by seven small e-commerce Web sites, using rudimentary instructions provided by an anonymous source.

In all of the cases, a list of customers and all of their personal information was connected to the Internet and either was not password-protected, or the password was viewable directly from the Web site. The people involved weren't even trying all that hard. They were actually still in something of a preliminary browsing mode. Yet it was able to view card numbers as well as virtually every piece of identifying data for 2,500 consumers, using only a commercially available database tool.

With security flaws this massive, instigating fraud is so simple that it's a wonder the credit crime epidemic isn't even worse than it already is. The Internet is making it as simple as peering inside an open door and finding people holding up large signs that disclose every personal fact about themselves.

But something got by Gwynn in his bank account. It turns out that a man who somehow got his hands on Gwynn's bank account, Social Security and driver's license numbers – along with his mother's maiden name – was able to cash a check for $950 in Gwynn's name at a bank in Anaheim, California. Someone else also used Gwynn's name to test drive a Ford Escort and never bothered to bring the car back to the lot.

In other words, even someone with an eagle eye like Tony Gwynn can fall victim to identity fraud. None of us are immune. And none of us are individually to blame. The stealing of identities is not merely a trend today but a virtual plague. It is considered to be the fastest growing crime in America, affecting an astounding 500,000 new victims every year. Trans Union, just one of the three major credit bureaus, saw reports to its fraud division rise from 300 per month in 1992 to more than 40,000 monthly in 1998.

But mere numbers are inadequate to convey the depth of the fraud menace as it impacts the individual victim. It's like being incessantly pecked by the sharp beak of an invisible hawk. You know that the thief is out there doing his dirty work to your good financial character and credit standing. Yet you can't see him, much less confront him or pinpoint exactly where he is or what he's doing. The profound senses of annoyance and befuddlement are exceeded only by the sick certainty that this criminal has trespassed into your very DNA.

This is not meant to sound overly melodramatic. It just so happens that if you've spent much time with people who have been pummeled by identity theft or credit fraud, the intense feelings of personal invasion tend to be more severe even than the daily aggravations that come with having to repair a shattered credit history. And those irritations tend to be more than a little bit exasperating. But for the growing legion of credit fraud and identity theft victims in the United States, there is hope. And there is not only survival, but complete recovery.

Can you really make it out of this ordeal alive?

Not only will fraud victims make it through this test of patience, will and sanity in one piece; it probably won't even be as torturous as it initially feels.

Here is a roadmap for the credit-violated and the scam-suffering to follow that will point them on the road to fiscal – and psychological – recovery:

<u>10 Steps For Surviving a Ground Zero Credit Crisis</u>

1. **NOTIFY ALL OF THE AFFECTED BUSINESSES AND AGENCIES BEFORE IT ALL HAS A CHANCE TO SINK IN –** Get all of your phone calls and letters to banks, creditors, DMV, Social Security, etc. before you have a chance to freak out. Go on instinct and adrenaline initially, and take advantage of the sense of quasi-denial at the start. It's easier to work before the sense of panic takes over.

2. **WRITE DOWN *EVERYTHING* –** That's right. Every random rambling and hostile pronouncement should be committed to paper, along with a running daily log of all contacts, phone numbers, information and minutiae. Besides establishing a valuable paper trail, it should also prove to be therapeutic.

3. **FIGHT OFF ANY THOUGHT THAT YOU BROUGHT THIS ON YOURSELF. YOU DIDN'T –** Playing the martyr role will do you no good and could even lead to plenty of bad in terms of your state of mind. When your attitude is pessimistic, it invariably leads to an increase in negative events occurring. And after being ravaged by credit fraud, you need no more negatives.

4. **AVOID THE SAME ROUTINE YOU FOLLOWED BEFORE –** Since it is doubtful that you or anyone else will ever know how your identity was swiped and/or this unconscionable fraud was pulled on you, try to change your buying habits for a while (even if you are able to procure emergency credit lines). If you purchased a lot of goods on the Internet, lay off of that for a while. If you frequented a certain

restaurant regularly, find a new hangout. Anything you can do to decrease the chances of a repeat victimization will prove to be an empowering thing.

5. **ALLOW THE INDIGNITIES THAT ARE CERTAIN TO MOUNT ROLL OFF OF YOU –** If ever there were a time to avoid sweating the small stuff, the post-fraud/identity stealing period is it. This extends to the people in the consumer fraud divisions of the banks and credit bureaus (as well as the card issuing companies) who may not believe your profession on innocence. Even some friends and family members may question your culpability in the matter. Your job is to ignore them. They don't know any better – but you do.

6. **TAKE AN ASSERTIVE STAND AND NEVER WAVER –** Make certain not to back down in the face of what could prove to be an overwhelming wall of opposition. Credit issuers may well question your credibility, since fraud winds up being a pure loss for these guys. Do *not* be cowed or bullied! Stand by the truth and your principals. Remember that you aren't the bad guy here.

7. **BREATHE –** As in any significant trauma, the tension will grow inside your body and potentially leave you rigid with pent-up stress. Be sure to breathe deeply, breathe often, and remember that there are worse things that could have happened to you. Nobody has died, for instance. Your wife or husband will in all likelihood still love you, as will your kids. Don't allow the magnitude of the angst devastate you. You've still got a life to live.

8. **GET AWAY FROM THE DAILY GRIND FOR A FEW DAYS OR A WEEK –** Simply removing yourself from the line of fire for a brief period can do wonders for one's perspective, even if you are suddenly forced to pay cash for everything.

9. **REMEMBER THAT YOU AREN'T ALONE IN THIS WAR –** Not hardly. A few thousand Americans you've never even met joins the ranks of credit fraud and identity thief targets every single day. You aren't some random freak. You are in very good, and plentiful, company.

10. **NEVER FORGET THAT THERE'S HELP (BOTH THE INFORMATIONAL AND EMOTIONAL KINDS) ALL OVER THE PLACE –** Ironically (but perhaps not surprisingly), the place that has proven to be most susceptible to fraud perpetrators – cyberspace – is also the best place to glean credit fraud information and personal support. E-mail people who have gone through this. Tell them what it feels like. You don't have to face this alone.

Where can you find more up-to-date and localized credit fraud/identity theft information?

Log onto the 'Net and surf over to:

--Verifyfraud.com (http://verifyfraud.com**):** A terrific resource for information on all variety of fraud types along with a multitude of valuable links.

--Internet ScamBusters (http://www.scambusters.org): Answers any and all questions on the subject of how to recognize and deal with every kind of fraud and credit scam known to man.

--The Fraud Defense Network (http://www.frauddefense.com): A wealth of preventive tips for those hoping to avoid becoming the next victim.

--Prevent Stolen Identity Fraud (http://www.futurecrime.com): Includes a "vulnerability quiz" along with a heavy pitch to buy a FutureCrime Prevention Package ($20 plus shipping and handling, with a money-back guarantee).

--The National Fraud Information Center (http://www.fraud.org): Thnis is a national cyber clearinghouse that offers advice, assistance and an educated ear to anyone who is, or fears he may soon be, a fraud victim.

--Internet Fraud Complaint Center (http://www.ifccfbi.gov/): An official federal service whose mandate it is to sniff out and snuff out fraud in its tracks.

--The Fraud Bureau (http://www.fraudbureau.com): Takes reports of consumer fraud incidents and helps the victim deal with the crime both legally and emotionally.

--The Consumer Law Page (http://consumerlawpage.com): Assists victims of credit and other forms of fraud by providing free legal advice and referrals.

Should you ever play detective and search for the thief yourself?

Well, you probably know the answer to this one without my even having to tell you. But I'll say it anyway: trying to take the law into your hands in cases of credit fraud and identity scamming will only result in your wasting an awful lot of time and energy. The odds on you tracking down any truly useful information while working on your own as an amateur sleuth are extremely slim.

This, of course, also raises the question of what you might try to do even on the off-chance that you were able to pin down the position of your felonious nemesis. Let's say that you find the criminal staying in Tallahassee, Florida, while you live in Phoenix, Arizona. Are you going to fly to Florida to make a citizen's arrest? No. Would you ring up the Tallahassee Police Department and leave it to law enforcement to track down the perp and bring him or her to justice? Perhaps.

But again, unless you're lucky enough to have been scammed by an unusually inept crook, it's doubtful there will be sufficient exposure to allow for detection by you. These swindlers are professionals at vanishing. They leave scarcely a trace in surfacing just long enough to load up the retail goodies on your credit cards. As soon as they strike, they disappear into the ether again – kind of like Viet Cong soldiers blending into the jungle foliage.

Besides that uncanny ability to fade effectively from sight, credit scam artists are able to strike in a way that is typically undetectable. Even if you were to catch them literally in the act, a good defense lawyer (to use the term loosely) could likely get any charges dropped. Small wonder that district attorneys, credit card issuers and banks rarely even attempt to prosecute all but the most flagrant credit cheat. They tend to focus their time and dollars on more winnable cases.

When can you expect your life to get back to normal?

Well, that all really depends on several factors. The length of your fraud nightmare is directly related to the level of disruption that your credit con man or identity thief caused to your credit file, as well as the degree to which the deceiver and defrauder insinuated themselves into your life. If only, say, a single counterfeit card was created by the trickster in your name, the clean-up effort might be relatively quick and free of major annoyance. If, however, the dupe assumed every aspect of your identity and operated as a virtual clone, the untying of the knot promises to be more troublesome, frustrating and prolonged.

As a general rule, however, you can pretty much count on the fraud problem remaining at least a minor issue in your life for up to five years – with at least a year of that plagued by serious inconvenience, difficulty and red tape. If you're really lucky, a few phone calls and letters will straighten things out and make the problem disappear. That is the exception, unfortunately, rather than the way things usually turn out.

ME, MYSELF AND…WHO?

You don't think of lawyers as being the usual targets of identity theft, but that's exactly what happened in the case of Mari Frank.

Frank, an attorney, was called up by a bank one day in the summer of 1996 for non-payment of a credit card bill. The amount: $11,000. The bill, as it happened, was being sent out to an address 80 miles from where she actually lived. The thief who impersonated Frank had rung up bills totaling more than $50,000 in the name of Mari Frank, including a lease on a red Mustang Convertible. The perpetrator had snatched up Frank's information by requesting a credit report, having posed as a private investigator.

The credit report has all of the information any thief needs to chisel for themselves a carbon-copy of another person and obtain large blocks of credit. But despite the outright identity rip-off and major accruing of fraudulent credit card bills, Frank discovered that local police didn't consider her to be a victim of crime. They figured her to be someone deep in debt who was lying and trying to dupe her way through. Of course, that wasn't true. But such is life for identity theft victims. The actual crime is merely the beginning of their problems. A second crime occurs when they aren't taken seriously or, worse, are targeted as frauds themselves.

With the local cops not buying her story and thinking it too expensive to prosecute besides, Frank sought out the Federal Bureau of Investigation. Unfortunately, her case wasn't sufficiently severe to interest the FBI, either. Finally, Frank was able to find a local police investigator who not only believes she was telling the truth but too steps to bring her identity thief to justice. The woman was caught, tried and sentenced.

But it might be exaggerating a bit to say that Mari Frank's story had a happy ending. For tossing Frank's life into chaos and ringing up $50,000 in bogus charges through another person's name, the scammer received just a two-month sentence in jail on the work furlough program.

And how did the woman commute to the jailhouse each day? Why, in the red Mustang Convertible that she had fraudulently purchased in the name of Mari Frank, of course. So incensed was Frank with the process and the result that she decided to do something about it, creating the Identity Theft Online site on the Internet at* http://www.identitytheft.org *to help others avoid the kind of frustration with the system that plagued her situation.

What usually happens more often resembles the following scenario:

When Bad Things Happen to Good Consumers: A Tragic Saga

1. **One or more scamming imposters copies your legal name, your address, your date of birth, your credit cards and numbers, your Social Security number, or some permutation of same. They begin running up bills you will ultimately be considered responsible for.**

2. **The perpetrators don't make the payments, and after a month or months, the shock of seeing thousands of dollars in credit entries charged to you but that you had nothing to do with swims surrealistically through your brain. It doesn't feel good.**

3. **You call up and send letters to every issuer with whom you have a line of credit. It doesn't matter. A month later, the calls from the fraud units of collection agencies and creditors begin to pour in, pressuring you to pay up or pay the price. The silent scream becomes your basic form of communication.**

4. **You are forced to spend hours on the telephone squabbling with credit bureaus who don't believe you, credit granters who don't care about you and loan brokers who can't afford to take a chance on you. The indignities are only beginning.**

5. **The cops tell you that you're not the only case they have to deal with that day, and would you mind taking a seat over there for a few hours while the desk sergeant makes a doughnut run? Thanks so much.**

6. **The FBI front guy on the telephone explains that they have bigger fish to fry than this puny identity stealing thing, and please refrain from poking around in that file cabinet on your way out.**

7. **After being put on hold for 23 minutes by the fraud investigator at the Experian credit bureau offices, she comes back on the line to explain that they can't just expunge disputed entries on your credit report without first**

conducting a thorough investigation. You reply that the matter has been under consideration for 23 months.

8. **You are turned down for a home mortgage loan when the lender points out, "It was looking good there for a while, but that $72,500 in credit card charges over a four-month span seemed to disqualify you. I'd suggest you get that little impulse control problem squared away before you re-apply."**

The key thing to remember with regard to credit fraud and identity theft is that, maddeningly, the bad guys usually get away with it. Despite the escalation in this type of crime, it takes an awful lot before the feds (a.k.a. the FBI and the Secret Service) will get involved. These are federal crimes, all right, but the big guys are only programmed to prosecute interstate fraud and cases valued at over $200,000. That, as you might imagine, is just a small percentage of them.

Local police precincts, moreover, are generally reluctant to put credit cheats and even identity thieves on trial because they know that judges are unlikely to pass down a sentence of serious prison time for a non-violent, non drug-related crime. And restitution to the victim is improbable. Of course, the criminals understand this dynamic that enables them to slip through the felony cracks all too well. It naturally leaves them feeling all the more brazen, safe in the knowledge that they aren't sexy enough – or sufficiently valuable – to interest the judicial community.

This situation of everyone dropping the ball on credit fraud often leads to a mindset in the fraudulent perpetrator that finds him or her so unafraid of capture and prosecution that they continue to charge up a storm (and take out extravagant cash advances) *even after the victim has become aware of the situation and taken steps to put the thief out of business!* You read that correctly. They will calmly replace canceled or fraud-alerted credit cards in the name of the same victim and keep the plastic party rolling right along. It's unbelievable, but it happens. And when it does, the victim's helplessness reaches its peak.

How can you guard against being a credit fraud victim again?

You know what they say – fool me once, shame on you; fool me twice, shame on me. If you get taken in a credit fraud or identity-stealing scam once, it's bad luck. If it blindsides you a second time, even if you did nothing to invite it, the taint of being a repeat victim can't help but do a number on your head. And your friends and family will probably do little to minimize your sudden status as a loser. This is a hassle you want to do everything possible to avoid.

Let's do a little review, then, by returning to some of the tips designed to help you guard against becoming a repeat – or first time – victim of credit crime.

The Do's and Don'ts of Credit Fraud Prevention

DO:

1. **Sign your credit cards as soon as they arrive.**
2. **Carry your charge cards separately from your wallet – in a zippered compartment, a business card holder, or some other small pouch.**

3. **Keep a record of your account numbers, their expiration dates, and the phone number and address of each credit company in a secure place.**
4. **Keep a close watch on your credit card during any transaction. Be sure that the sales clerk or waiter/waitress isn't running the card through any suspicious apparatus. And get the card back as quickly as possible.**
5. **Void any incorrect receipts.**
6. **Destroy carbons immediately (if you still receive one with a transaction).**
7. **Save all receipts to compare them with your billing statements.**
8. **Open all of your credit card bills promptly and compare the receipts against the billing statement, just as you would your checking account.**
9. **Report any questionable charges immediately, and in writing to the card issuer.**
10. **Give card companies plenty of advance notice for any address change.**

DON'T:

1. Lend your credit cards to anyone except maybe a spouse whose name is on the account.
2. Leave cards or receipts lying around.
3. Sign a blank receipt. When signing a receipt, draw a line through any blank spaces above the total.
4. Write your credit card account numbers on a postcard or the outside of an envelope.
5. Give out your account number over the telephone unless you're making the call to a company that you're certain is reputable. Any questions about a company should be

cleared first with your local consumer protection office or branch of the Better Business Bureau.

When does bankruptcy make sense?

When it comes to credit fraud and someone snatching your very identity out from under you, the monetary loss itself is really the least of it, of course. Since you are liable only for $50 in spurious charges so long as you call in the illegal activity within 48 hours of discovering it and/or suffering the loss or robbery of a credit card, the issue is rarely a financial one to the consumer. The banks and creditors tend to be another thing entirely, of course. But that's another story.

Because money isn't a significant aspect of the credit fraud equation, having a victim file for bankruptcy would accomplish little with regard to making the time-chewing harassment and incessant hassle go away. Still, bankruptcy obviously very much falls under the heading of "credit crisis," since it is the ultimate by-product of debt spinning out of control. Bankruptcy gets filed as a means of relieving a mounting pressure, kind of like a geyser that bubbles up under the ground and finally blows to release the pent-up stress and strain.

As bankruptcy filings have soared over the past 20 years, the shame and stigma that accompany what was once viewed as a gnawing humiliation have all but melted away. But that also doesn't mean that accepting a bankruptcy solution should be taken lightly – or as anything other than a last resort.

A few other ideas about bankruptcy to keep in mind:

--It affords those carrying back-breaking liability an opportunity to get a fresh financial start by wiping out all of a consumer's debts while preventing individual creditors from stripping a family's assets.

--Bankruptcy is not a free ride but a serious financial step that wipes the debt slate clean while simultaneously driving a stake through the heart of the consumer's credit standing.

--There is a period following the filing of bankruptcy in which the consumer is given every reason to believe he is a financial leper. The only credit he can obtain is via small-limit ($300 is typical) secured credit card backed by a collateral bank savings deposit. They can't secure a loan to buy a car. They are routinely turned down when applying for major credit cards, making it difficult to write checks or even stay in a hotel – which often requires a credit card number to reserve the first night's lodging fee and to activate the telephone once checking into the room.

--If you cosigned with someone for a loan and try to wipe it out through a bankruptcy, the lender can (and will) go after your co-applicant for payment once your liability is discharged.

--There is nothing cunning or shrewd about a bankruptcy filing. It allows for your debts to be dismissed, but like everything else that cleaning of the slate doesn't come without a price. In this case, the price is between 7 and 10 years of walking on credit eggshells. But for those besieged by such debt that the situation has reached the boiling point, that's probably a modest enough cost.

A little advice for those trying to emerge from a credit mess: get over it and get on with your life. It *can* be done.

Yeah, I know that this is far easier said than done. There is a whole lot more security in wallowing in self-pity and milking a personal trauma, as any brush with credit fraud and identity theft surely happens to be. This isn't to minimize the gut-piercing sense of astonishment and anger that accompany this kind of spiritual violation. The unsettling frenzy of emotions is quite real. It makes it difficult for the person to relax and trust anyone – certainly in a business context – ever again.

But as I have found during my adventures in the credit and finance industry, the people who bounce back quickest and best from this kind of shock to the system are those who look their victimization squarely in the eye, come to terms with the fact it was a lousy break – and move on. Indulging the misery only serves to escalate the fraudulent event's impact on your life. Dwelling on it maximizes its importance. By attacking the problem and striving to go forward and fry bigger fish, you make the point loud and clear that this thing isn't going to defeat you. It may drive you a little nuts every now and then as new and more complex aggravations materialize. But it won't hold you hostage.

This is an important idea on which to focus as we push on to Chapter 7, which deals with an area of credit life that is critically important yet isn't often addressed: the psychological and emotional issues that lead to credit overuse and abuse. It embodies a unique kind of crisis all its own: a crisis of the soul.

Bad Credit Burns Money!

Chapter 7: Credit as an Emotional Crutch: Halting the Cycle of Denial

This chapter is devoted to an area of credit, debt and financial stability that too often goes ignored in my line of work. It's about the mindset that leads to credit splurges and buying binges to begin with. Especially among women, it's what drives far too much fiscal liability: the idea of equating acquisition with happiness, of confusing material possessions with security. The emptiness and insecurity that manifests itself in the need to surround oneself with *stuff* -- and usually expensive *stuff* – is a perfect recipe for monetary over-extension and runaway bills.

Now, before I go too much further, let me just say that I have no education in conventional psychology. I have never practiced therapy in the traditional sense. But I'll tell you this: you can't be a successful broker without having a working layman's knowledge of psychotherapy. It's what the game of dealing with people struggling to keep a level head over such a volatile issue is all about. I find it almost instinctive to counsel people almost like a shrink in helping lend some perspective to the situation. A little bit of head message can go a long way.

You see, I've discovered that people don't lapse into debt by accident, or simply because they have a taste for nice clothes or a luxurious car that may be beyond their means. It isn't about *the stuff* they're buying. It's about *the stuff* they have to deal with in-between the temples. Landing in a financial crunch isn't as simple as miscalculating one's assets or lapsing into irresponsibility. More often than not, it has to do with who we are that determines what we spend. And that compulsion stems from a single tragic personality flaw. It's called insecurity.

In other words, it isn't a matter of what you're buying; it's what's buying *you*.

Does charging your way through life help you get a charge out of life?

Well, you can go ahead and answer this one yourself, of course. Unless you happen to be one of those rare birds who can find true spiritual fulfillment in a spending spree at the local department store, using the procuring of *things* to fill up a void in your life will ultimately only lead to greater feelings of worthlessness and despair. Once the new clothes or furniture or gadgets fail to brighten your day or fill up the gap in your existence, the compulsive debtor struggles with increasing desperation to get his consumerism "fix." He or she buys more and more things they don't need. The debt rises, along with the self-loathing.

Finally, a sense of helplessness begins to cloud the spender's judgement. Not even buying an expensive new outfit does it for them anymore. The person begins to feel there is no escape – and no relief – from the downward financial spiral. They ultimately become prisoners of their own tortured psyches. Their world begins to come unraveled. And yet, they generally suffer in silence, sure in the knowledge that no one would understand, anyway.

What's the difference between a compulsive debtor and someone who is just a little bit out of control?

When we think of a credit life that's just a bit out of control, we flash on someone who maybe allowed a bill to sit there unpaid for 60 days, or maybe even allow an account of two to go to collection. This is a consumer who tries hard to be responsible and savvy but, for whatever reason, slips up and attracts a few black marks in his credit file.

Now…A compulsive debtor is someone who most of the time doesn't know – and doesn't want to know – what their financial situation is at any given time. They don't bother to balance their checkbook. They never organize any sort of monthly budget. They never pay attention to minor annoyances like fines, fees, rates and contractual obligations. They just kind of skate through their fiscal lives, concerned only with where they stand at that very moment and staving off disaster with spit and glue.

Oh yeah. The compulsive debtor also has a tendency to stack credit like a toddler building a house out of Lego's. This person likes to live for the moment and has no interest in planning for the future, or saving for a rainy day, or insuring his family's welfare and security.

Here are some of the other surefire indicators that you, or someone you know, may be traveling the road to compulsive debt:

A DOZEN WARNING SIGNS OF COMPULSIVE DEBT SYNDROME

1. Frequent "borrowing" of items like books, pens or small change from friends and others – and then conveniently forgetting to return them.

2. Poor (or no) saving habits. There is no planning for estimated tax payments, retirement or any other non-recurring but predictable items – and then acting surprised when the bill comes due.

3. Shopping plays out as a compulsion. This spend-a-holic is unable to pass up any "good deal," or even a bad deal on an item that catches his or her fancy. Impulsive purchases are the norm. So is allowing the purchased items to gather dust, unused.

4. A chronic difficulty in meeting basic financial or personal obligations. Also reveals an inordinate and lame sense of accomplishment when even small obligations are met.

5. A different feeling when buying things on credit rather than paying cash. It produces an inflated sense of importance in the grand scheme, of being accepted, grown-up and in the club. It also feels to the compulsive debtor as if the plastic money doesn't produce the same kind of financial hole as does "real" money. More on that in a minute.

6. The tendency to live in chaos and drama as it pertains to money. It finds the debtor using one credit card to pay another, bouncing checks, failing to honor loans from friends and getting into arguments over discrepancies with bills.

7. Similarly, there is a need to live on the edge: existing from paycheck to paycheck, allowing health and car insurance premiums to remain unpaid and policies to lapse, writing checks from barren accounts hoping that money will magically appear to cover them.

8. Normal discussion of monetary issues produces unwarranted inhibition and embarrassment.

9. The propensity to turn into a workaholic and still lack the funds to meet all of the bills. This includes working hours of overtime to pay off creditors and taking jobs below his skill and educational level, simply to produce quick cash and make ends (briefly) meet, as opposed to working extra hours or jobs to save and/or get ahead.

10. An unwillingness to care for – and value – oneself. There is a tendency for the compulsive debtor to live in self-imposed isolation and deprivation and denying basic needs in order to pay off creditors.

11. The fantasy that someone will arrive on a white horse to save the day and take care of you like mommy and daddy used to, if necessary. It's the destructive, enabling belief that someone will always be there to string up a safety net and prevent the debtor from tumbling into the complete monetary abyss.

12. An overall lack of knowledge about the way money works.

So basically, what we're saying here is that the compulsion to accrue debt isn't merely a character flaw; it's a way of life that destroys the consumers who suffer from it, eating away at them from the inside. Anyone who tells you that a propensity to be careless with money and financial obligations isn't a serious problem is probably caught in its jaws himself. The misconception is that this is a matter of simple irresponsibility. Not true. It is a behavioral disorder that often needs treatment – or at the very least, a realistic sense of awareness – in order to be quelled and conquered.

Isn't using credit to surround yourself with comforts and luxuries as much about greed as it is emotional emptiness?

Being a credit-a-holic is rarely just a matter of being merely materialistic and shallow. A deeper issue typically lurks in the psyche of chronic compulsive shoppers and spenders. It begins with the feeling that putting purchases on plastic isn't the same as paying with cash or check, since you don't feel the pinch immediately. It leads to a dangerous habit of looking upon credit shopping and cash advances as "free money." Of course, anyone who puts "free" and "money" into the same sentence is probably a little bit naïve to begin with. Either that, or they have a serious case of denial.

Once you start moving down that road, it's a short walk to becoming a credit junkie – a condition that has nothing at all to do with need and everything to do with greed. But it isn't greed in the conventional sense. This stems from the person's preoccupation with being viewed as OK by the outside world. It isn't so much a wish to keep up with the Joneses. It's really closer to a compulsion to fuel their internal monster of insecurity. That, in combination with a dangerous willpower deficiency, spells T-R-O-U-B-L-E.

Repeat after me: "I am (your name), and I am a creditaholic."

All right, so now that we've defined the behavior and the mindset that can lead to careless, destructive credit, it's time to peer a little bit deeper at the issue by examining the chief symptoms of credit-a-holism.

<u>YOU MAY WELL BE A CREDIT-A-HOLIC IF:</u>

1. **Your total borrowing (not including mortgage) is more than 20% of your net income.**
2. **You have no clue how much you owe until the bills come.**
3. **You find you can't pay even the monthly minimum on your credit cards.**
4. **Your bills are always being paid after the due date.**
5. **You exceed or frequently approach your limit on credit accounts.**
6. **You can't even afford to visit the doctor.**
7. **You regularly receive nasty calls from bill collectors.**
8. **At least one of your credit cards has been revoked.**
9. **You find yourself using savings or other credit lines to pay bills.**
10. **You can't recall the last time that you failed to indulge an impulse to make a purchase.**

Whereas most normal consumers have both an "On" switch and an "Off" switch when it comes to charging or buying non-essential goods, the credit-a-holic has only one button: "Buy." They are virtually incapable psychologically of thinking about any consequences for their habitual overspending beyond the here and now. They are the ultimate gluttons of instant gratification over all else. That, when you come right down to it, is what leads you into desperate straits in the first place.

This consumer foolishly imagines that buying things – surround themselves with the trappings of yuppiedom – will make them feel better about themselves and about life. Well, you don't need to be a psychotherapist to see the transparent absurdity and sadness of this sort of mindset. But you would be surprised at just how prevalent it is in this country.

How are you supposed to resist when there is all of this yummy credit sitting right under your nose?

Oh yes, here we go. The merchandise that taunts you from inside that plush, air-conditioned mall isn't playing fair, is it? It teases you and knows just how to make you feel as if your world will come crashing straight down if you don't buy it right this second. Sound familiar? If it does, you are probably staring straight into the face of trouble right about now.

The bottom line is that if you hear new appliances and clothes and electronic toys beckoning to you with a power that you can't resist, then you simply have to retrain your brain into adopting a new form of willpower. It isn't that simple, of course, but it is that cut and dried. Every time you give in to the urge, it plummets you farther and farther into the financial abyss.

It sounds silly, but what you may need to begin doing is conducting a dialogue with yourself (silently, of course) that finds you literally talking yourself out of the shopping weakness. I'm serious about this, as you should be. I'm not asking you to develop a dual personality or anything like that. It’s really more about having a voice of responsibility available to tap at all times. And the only one you can count on to be there 100% of the time is your own voice.

I’ll give you a perfect example to follow.

KNOW WHEN TO SAY WHEN

So let’s say that you’re walking past an electronics store and you’re feeling pretty good about life, because you just got a new credit card with a $2,500.00 limit. And right now, it’s sparkling clean. Unfortunately, the rest of your finances aren’t quite so spotless. You owe $20,000 in credit debt, you have a huge mortgage, major interest payments, several late bill paying entries on your credit report. It’s kind of amazing they even gave you a new card. You probably should never have applied for one.

But anyway, you didn’t listen to your incredibly smartcredit advisor. You wanted to feel that powerful plastic rush surging through your body, the kind of surge that only fresh credit debt can provide. Can you sense my sarcasm. Good. That means there may be hope for you yet. Because we need to take that plastic rush right out of your life.

So there you are, feeling all kinds of cool with the smell of new plastic rising from your wallet and filling your nostrils. You decide to go for a walk in the shopping district – your favorite of all districts, unfortunately – and now you have come face to face with the monster: retail. Yes, you have just laid eyes on the sleekest, most ergonomic flat-screen computer monitor that it has ever been your pleasure to see. You are instinctively drawn into the store. Your gaze darts immediately to the price tag: $1,499.00.

Hey, no problem! You've got a $2,500.00 limit on that card. Of course, you would be filling up nearly two-thirds of your credit limit with one purchase. And you have a perfectly good, dependable monitor attached to your computer right now. This would be the ultimate frivolous purchase. But that hasn't fazed you in the past. Why should it start fazing you now?

Here is one reason: because you're already in debt up to your eyeballs! And your credit report looks like a horror movie! And were you to buy this monitor, you would be hard-pressed even to pay off the monthly minimum on your revolving credit card. You would be stacking debt atop debt, where it stops, nobody knows. No, wait, actually that isn't true. You know exactly where it will all stop: in bankruptcy court. And buying that insanely expensive and unnecessary monitor will only exacerbate the problem and complicate the inevitable.

So here are my words of wisdom: don't look in the window! This is no joke, honest. Because the minute you start window shopping, your automatic "Buy it!" mechanism kicks in and the internal struggle is off and running. And until you can begin to retrain yourself in a significant way, the "Buy it!" mechanism usually talks the "Don't buy it!" response into yet another superfluous, illogical and short-term gratification purchase. If you don't look into the window, or surf over to that shopping website, the urge to splurge is greatly curtailed or quelled altogether.

Does this sound overly simplistic? Well, it is certainly simple. It's just a matter of common sense, actually. But sometimes it's the common sense area of our brain that short-circuits in favor of the far more fun irresponsible and illogical portion of the gray matter. The secret to avoiding any conflicts between willpower and "won't" power is to just eliminate the stimulus itself. You can't make the wrong decision when there is no decision to be made.

Where can you turn for help?

The Internet supplies a vast resource for those who need a place to look to for assistance out of credit jams and who lend a hand and an ear to help deal with the psychological and emotional factors of credit debt and malaise. Here are a few e-mail addresses and descriptions to keep close by:

1. **American Consumer Credit Counseling (**www.consumercredit.com**):** This is the cyber arm of a nonprofit organization based in Waltham, Massachusetts that each year helps lift up thousands of consumers suffering financial hardships stemming from not just credit overuse issues but also job layoff and a lack of money management skills. Its debt counseling program is geared to keeping you out of bankruptcy court and getting back on the road to fiscal harmony.

2. **Debtor's Anonymous (**www.debtorsanonymous.org/spenders.htm**):** This is an online group serving recovering compulsive debtors and spenders. The groups meet on the Web to share their thoughts, feelings, crises, experiences and solutions. Everyone is given the opportunity to share with the group. Familiarity with the tools and traditions of Alcoholics Anonymous is a plus.

3. **The National Foundation for Credit Counseling (www.bfcc.org):** This is another non-profit group, the online presence of a national network of nearly 1,500 member Neighborhood Financial Care Centers that provide business and emotional assistance in getting through stressful financial situations intact. It supplies counseling, debt solving and money management education services as well as one-to-one discussion.

BOOKS

1. **"I Shop, Therefore I Am: Compulsive Buying and the Search for Self" by April Lane Benson (Hardcover, July 2000):** This is an extremely valuable book for helping understand one's inner credit abuser. But it comes attached with an irony: A book about breaking the cycle of compulsive buying retails for $55.00 – I kid you not.

2. **"Can't Buy Me Love: Freedom From Compulsive Spending and Money Obsession" by Sally Coleman and Nancy Hull-Mast (Paperback, April 1995):** Gives some intriguing insights into the psyches of money-obsessed people (and they know who they are). Offers practical advice, surveys and worksheets for helping come to grips with the monster.

3. **"Women Who Shop Too Much: Overcoming the Urge to Splurge" by Carolyn Wesson (Paperback, May 1991):** Common sense advice on ways women can slay the spending demon within.

Don't expect to get any peace of mind from the banks and credit card providers.

It is a simple fact, ladies and gentlemen, that credit card companies count on people overextending themselves and going into significant debt. In that sense, they prey off of the financially ignorant and the weak willed. They literally build their business model on the presumption – indeed, on the necessity – that a certain percentage of consumers are going to suffer the consequences of their spending impulses and pay through the nose in late fees, over-limit charges and interest charges up the ying-yang.

While credit loans have always been risky ventures for banks, finding them writing off five times more credit card than commercial loans as uncollectible, the write-off figures are totally astonishing today. In 1999, banks wrote off more than $20 billion in credit card loans. That's $20 *billion*, or almost half of what Microsoft chairman Bill Gates is worth, give or take $10 billion. The $20 billion figure represented 5.5% of the total outstanding debt. The norm had been 3% until the 1990s. That represents serious monetary exposure for the banks to cover.

There is a grand total of $500 billion in credit card debt floating around out there in the United States, or half a trillion dollars. That kind of figure is almost impossible to conceive. The culprit for this kind of insane number is the banks and their relentless pursuit of credit card profits. Not that they can necessarily be held accountable for it. Credit cards, after all, are a business like any other. And it unfortunately needs to pull its revenues from the pockets of consumers who have trouble keeping their credit lives under control.

IT ADDS UP FAR TOO QUICKLY FOR COMFORT

There was a lady named Jesse who got herself into so much financial trouble that she literally had to turn over her life, and her faith, to Debtor's Anonymous. She was anything but the typical Twelve-Step advocate. She lost her job at a warehouse and then compounded it by failing to apply for unemployment benefits.

It wasn't too long before Jesse was $93,000 in the hole with her credit cards. Then, Jesse's sister Rita almost lost her home after paying for the birth of her son on a credit card – Rita's husband was working temp jobs at the time, and they had no health insurance. Ouch.

"I used to see credit cards as an asset," admitted Jesse. "When they give you a credit line, it increases your sense of importance. What I didn't realize was how quickly it can increase your sense of debt, too."

Jesse and Rita are victims of not only circumstance but of a credit liberal credit environment fueled by banks who have a profit motive in enticing lower-income customers to use revolving credit like an extension of their income. When their income drops, credit becomes not a tool of convenience but one of necessity. This is one of the clear motivators that encourages people to tap a credit mindset that can lead nowhere but down.

Poor families now comprise a significant chuck of credit card debt because more of them are able to get credit cards. Only 20% of lower income Americans were able to procure credit cards in 1983; by 1995, that figure had doubled to 40%. And those same families were carrying nearly double the balance on their cards in 1995 as they had in ’83: an average of $1,300.00, up from $700.00 a mere dozen years before. And these consumers, given their financial realities, are left with no cushion if crisis strikes.

Of course, the middle class is following lower income consumers into the debt abyss with great purpose themselves. Nearly 70% of all U.S. households now owe money on their credit cards, spending $92 billion in combined interest charges and fees in 1999. In fact, the average American household now owes an amount equal to more than 100% of their yearly income. That’s a 40% jump just since 1960. Is it any wonder that credit and loan debt is out of control – and people are using plastic as an emotional crutch?

In short, the increasingly wide availability of credit has not only sent materialism soaring; it has also fueled the perpetual cycle of debt, poverty and and need for Americans to spend more time at work to pay for all of that loot rather than home with their families. That in itself is a trend that can’t help but sap the nation’s very emotional soul.

College Students: The Credit Industry’s Dependable Cash Cow

No segment of society has its collective head played with by credit quite as powerfully as are college students. They are vulnerable, they are naïve, they are most prone to fall victim to the lure of materialism, and they tend to view plastic as play money – until the bill comes due, of course. And it always comes due.

Yes, somehow money just doesn’t look the same when it’s made out of plastic. It doesn’t feel the same. It doesn’t spend the same. I maintain that if you made credit cards out of something closer resembling paper cash, consumers would be far less apt to overindulge. That’s why you can bet the credit industry will never consider such a thing. Not when credit limits are up. Debt is way up. And profits are skyrocketing.

This brings us back to the idea of why kids are so vulnerable when it comes to credit, whether we are talking financially or emotionally. Now that they are often away from the nest and looking to establish their independence, students are far more likely to want to gratify their immediate desires with purchases. It is, after all, the first time in their lives that they haven’t had to ask permission from mommy and daddy. That’s a powerful lure. And the credit industry knows it.

Even if college students steer clear of using their credit accounts to acquire luxury items and material goodies, it’s easy for them to build up debt buying what they believe to be “necessities.” A lot of them put $100 sneakers, plush backpacks and high-end computers in the “necessities” category, however. And with the average college kid now holding three credit cards, according to a 1999 survey, the dependence on plastic as a lifeline to financial independence is total. For humans not yet schooled in handling their finances, it’s a dangerous thing.

Take the case of the son of a friend of mine. He was a graduate student who used his student loan to clear all of his credit card debts a few years ago. Within eight months, he’d racked up another $18,000 on his credit cards. This is not a person with any sort of propensity to control his spending habits. In his case, plastic freed him to satisfy his every whim (or, perhaps, to support himself through cash advances without having to hold an outside job). Any way you slice it, though, it still spells D-E-B-T and M-I-S-E-R-Y.

Where should you definitely *not* turn for help if you suffer from credit weakness and a lack of self-control?

This probably will seem obvious and unnecessary, but don't look to banks or credit brokers to help heal your financial/credit woes. Too many people in the business look at consumers who overstep their fiscal boundaries as easy marks, as their bread and butter. It speaks volumes that even after that graduate student whom I mentioned earlier rang up an $18,000 credit tab, the credit card issuing banks continued to fall all over themselves to keep him as a customer and even ply him with new cards with zero-balance credit lines.

Because credit cards delay the pain, they make it absurdly easy to overspend on a grand scale. And pretty soon, you're forking over hundreds of dollars in interest payments alone each month. This is the guy who keeps the credit industry thriving. But at the same time, this poor sap has slid down into a hole of ballooning debt with no obvious means of escape. His brain told him that he was bulletproof when it came to credit and debt. As they all discover, however, Superman doesn't carry plastic. It would only weigh him down while he was trying to fly.

You can't change your life without first changing your behavior

Heed these rules of financial and psychological well-being:

1. **Stop acting materialistically and start behaving conscientiously –** Ninety percent of the products you buy for pleasure and luxury are superfluous and altogether unnecessary. But those who routinely overextend their finances are so

accustomed to the cycle of debt that they know no other way. To bust the cycle, you have to be conscious of where your head is it.

2. **Stop equating your sell-worth with your self-worth –** People who tie acquisition and possessions together with happiness and contentment are cooking up a recipe for fiscal disaster. Gear your life to be about people and relationships rather than money and things. When all is said and done, the people in your life are all that matter, anyway.

3. **Get some real therapy –** Credit debt and financial problems stem from insecurity, from the feeling that you're not enough just being you and need to purchase things to validate your existence and feel worthy. A therapist can help credit abusers and other problem consumers to look at the problem from a psychological perspective and pose possible solutions.

4. **Break the habit of looking upon credit card purchases and cash advances as "free money" –** It would be really nice if some money was worth less than other types of money (and I'm not talking about the U.S. vs. the Canadian dollar here), But the plain fact is that credit cards spend the same, pile up debt the same and can leave you feeling just as dazed and overwhelmed as does the chronic mishandling of non-plastic money. That's just the way it is. Get used to it, people.

5. **Avoid shopping malls, Websites and other areas that tempt you to part company with money you don't really have –** I really can't stress this enough. Changing your behavior and altering your thinking starts with modifying the bad habits that got you into trouble in the first place. If you were on a diet, you wouldn't go hang out at McDonald's or Burger King, would you? So just think of it this way: your home is overweight, and you need to put it on a strict retail diet. And while you're at it, slice up the credit cards altogether.

Forget about that keeping up with the Joneses stuff. They're really not so hot, anyway.

OK, so let's say George and Suzi Jones and their three perfect children who live across the street pull into the driveway this afternoon in a gleaming new Mercedes-Benz SUV. We're talking $65,000, maybe $70,000. It's gorgeous and positively jam-packed with snob appeal. You peer sheepishly at the Joneses through the drawn shades in your living room. You're jealous. You're irate. You're going to march right down to that Mercedes dealer and grab yourself one of those little gas-guzzling German jobs, too.

But just as you start to pull out of the driveway in your '94 Honda Civic with the dented fender and annoying rattling under the hood, you realize just how illogical it is to try to keep score with the people across the way. Besides that, it's upsetting; it's bad on the heart; it does nothing to help you in the eyes of God; and it can be very, very expensive. And yet, the insecure and the shallow among us lay out all kinds of money and log far too much time keeping pace with an image.

The good news is that we can choose not to play this game of keep-up. And once we allow ourselves to drop the anxiety and the unstated, non-specific competition of winning the materialism race from our neighbors, friends and family, the result is true emotional freedom. It should go a long way toward improving your credit report, too.

Bad Credit Burns Money!

Chapter 8: What the Credit Industry Doesn't Want You to Know

Now I understand that the title of this chapter sounds a bit sensational. This is a ploy not to mislead you but to recapture your attention, since I figure your attention may understandably be starting to lag a bit at this point. So be aware that I'm not trying to convince you that banks and credit card companies are inherently evil or even necessarily deceptive (at least, not all of the time). It is not their mandate to lure consumers onto the degradation superhighway.

These lending institutions are, however, in the business of extracting optimum profit for their bottom line, and it so happens that for them to maximize their business interests, it is required that they take a certain percentage of their customer base for dupes.

What I mean to say here is that, while credit card issuers are not necessarily looking to lead consumers astray into a pile of debt, those cardholders who show the greatest inclination to accrue inflated interest payments and a mass of penalty fees are not going to be discouraged from doing so. These, after all, are the cash cows who keep the credit industry awash in earnings. Those customers who overextend with the greatest desperation prove to be the most lucrative profit center in the credit kingdom.

It is thus incumbent on Joe and Jane Consumer to avoid becoming one of those individuals whose financial hardship serves to prop up the credit industry, to steer clear of the cancer that is compounding debt. Because serial debt isn't merely the credit industry's bread and butter; it is also the jam, the marmalade, the entrée, the beverage and the dessert, too. For credit card firms, the best customer is one teetering on the edge of overwhelming liability and despair but still manages to pay a chunk of the outstanding balance each month (a majority in hyped-up interest fees rather than principal).

Yes, if you want the credit card issuers and lending institutions to adore you with all of their heart, make sure you pay only the minimum on your inflated revolving card balance – and pay it long after the due date, too, so you're sure to get socked with a late payment fee to boot. And if you really want to put a smile on everyone's face, exceed your card limit, too, a move that will probably set you back another $35 each month that you're over. Your kindness and generosity in keeping the credit card business swimming along will be appreciated greatly.

A corporate titan built on a foundation of human weakness.

Hard as it may be to believe, the first early rumblings of the conventional credit card business as we know it today came little more than 40 years ago with the introduction of the BankAmericard in 1958. BankAmericard (which changed its name to Visa in 1976) started in California as the first charge card ever issued that aimed to be accepted not just by a single department store like Sears or Montgomery Ward. It correctly sensed a broadening of the postwar consumer boom fueled in large measure by an explosion of buying on credit.

These days, Americans charge up more than $400 *billion* on their cards annually, according to a widely accepted research firm. In 1999, consumers paid for that credit privilege – and then some. They racked up $50 *billion* in finance charges for the card issuers, a figure that would buy the inventory of 5,000 Jaguar dealerships combined. It could also pay for the services of Michael Jordan for 2,000 seasons, or purchase Nike (with $34 billion left over).

You might correctly guess that the executives of the credit lending institutions live mighty well. They have managed to peddle their services so effectively that they have more than a *billion* (there's that number again) credit cards presently in circulation. That's four cards for every man, woman and child in the United States. And on average, these consumers carry a whopping $5,800 month-to-month balance on their cards in 2000, paying an average of 18.3% in interest. That amounts to $929.70 each year in interest payments. Money that, for Americans, is basically tossed into the trash can each year.

What BankAmericard knew in 1958, and what Visa, MasterCard and Discover know still, is that your average, red-blooded, lower-income and middle-income grownup isn't bothering to do the math. Otherwise, who in their right mind would cough up an 18.3% surcharge on every purchase they make? No one would, of course. But the card issuers understand all too well that consumers of credit rarely stop to think about all the money they're pouring down the drain. And the credit industry isn't in any hurry to help them figure it out.

Just who *are* these card issuers, anyway – and how do they get away with being so un-forthcoming?

Let's take the first part of this question first.

In the U.S. today, MasterCard and Visa operate as networks of banks – and, increasingly since the early 1990s, as nonbanks like Providian – that issue cards under their imprint. They all pool expenses to keep the system slim and trim, because their costs are exceedingly high. While most of the cost of a home mortgage is the money a bank lends, much of the cost of credit card lending is the paperwork. Credit card companies shoulder all of the expense from sending out a zillion piece mailings for new customers, processing the card receipts, reimbursing the local merchants' bank, and maintaining the powerful computers that approve or reject your credit card within seconds of being swiped by a salesperson.

That high overhead exerts pressure on the banks to maximize that expensive infrastructure once it's in place, and to try to suck more and more interest-paying customers into the system. But since only 10%-12% of the credit card revenues are brought in by the annual card fees and the small charge to the retailer or business accepting your card for a purchase, it's the interest and penalties that feed the machine and keep it humming. Without them, the credit business is kaput. And without irresponsible, out-of-control people, those revenues plummet.

As for the question of how the card issuers are able to run their business on a model of information soft-peddling and seeming misrepresentation, it is essentially a non-issue because none of it is categorically deceptive. The execs running the industry are smarter and more subtle than that. Instead, they work the angles and play on consumers' hopes and fears to entice a steady flow of runaway interest and fresh stockpiles of revolving debt.

The lengths to which credit card lenders will go to bolster their coffers is rarely illegal, per se. Whether or not an ethical line is routinely skirted or crossed is a matter of interpretation. One thing is certain: you need to be aware of the games that can be played in helping separate you from your money. Those who don't pay attention are doomed to suffer the consequences.

What kinds of shady ploys are we talking about here?

Let me just again point out before going any further that the credit industry's sins in leading consumers financially astray are more in the area of information *omission* than unlawful *co-mission*. But it all counts the same in the credit game, because what you don't know *can* hurt you. And without adequate knowledge, it will hurt you over and over again.

What I'm talking about here is this:

<u>WAYS THAT CREDIT CARD PROVIDERS MISLEAD & SEDUCE</u>

1. **They sniff out financial weakness like a tiger smelling blood –** Creditors too often prey on customers who are the least credit-worthy, correctly figuring them to be most likely to overextend, max out their cards and send the interest meter soaring off the charts. Blatantly seeking to become a spend-a-holic's chief enabler is an underhanded practice, to say the least. But it's a reality of the business. It typically applies to those who have recently declared bankruptcy (since issuers understand that consumers can declare it only once every seven years), students with limited income and fixed-income seniors.

2. **They successfully tack on discouraging charges to those paying off their cards each month –** If you carry no revolving balance and pay no interest, you are

of no good to the credit card companies. But if you happen to be a chronic pay-in-full monthly customer, you will eventually be hit with annual fees even for cards that enticed you with its no-fee offer at the beginning. The fine print of a credit contract likewise often includes wording that allows lenders to slap non-use fees onto the bills of those who lack a carryover balance.

3. **They begin playing fast and loose with your credit line in hopes of trapping you into paying extra fees –** It's hard to believe that this even happens, but it does (and with great regularity). Some credit companies will entice a customer to use a cash advance check or a skip-a-month payment offer, and then – without mentioning a thing – lower the credit limit. The maxed-out cardholder is then slammed with a fee for exceeding that diminished limit. And unless the consumer is paying close attention, this bogus charge is unnoticed entirely. It's a rather appalling version of the bait-and-switch.

4. **Even for transactions where there are supposedly no fees, fees somehow materialize, anyway –** You may not be required to fork over a finance charge to take out a cash advance on your card. But most banks charge hefty transaction fees that average 2% of the total advance and are never less than $10. Some will also sock cardholders with a fee of a few bucks for calling the toll-free phone number to check their balance, and penalize card inactivity with still more fees.

5. **They can reduce the payment grace period to zero –** Beware of lenders who pull the grace period out from under your feet without bothering to mention it in a noticeable way (it is usually buried in changes to the lengthy "terms" document), particularly if you pay your balance each month in full. Without a grace period, you accrue interest from the day a purchase is made. When this happens, the only way to avoid a finance charge would be for you to pay the bill before it arrives in the mail. Few of us are so inspired.

6. **They encourage you to pay the minimum amount that's due on your card each month –** If you aspire to be sucked into a compound interest sinkhole, paying just the minimum is a swell strategy. It affords you the convenience of taking 75 years to pay off $2,500 in charges. As a bonus, you will be hailed as such a profit center for the card company that they'll probably erect a bronze statue of your likeness in front of their corporate headquarters.

7. **They unilaterally raise credit line limits to spur heightened overspending and debt stockpiling –** Only those consumers with great willpower and senses of responsibility are immune to the allure of inflated credit limits, which delude us into thinking we can spend up to the sky and carry high volumes of debt without negative consequence. The companies well understand the psychology of distorting a consumer's sense of wealth and power. It leads to credit carelessness and abuse. And it's the card issuers who load the bullet into the gun.

What do the credit card companies gain when you make only the minimum monthly payment on your balance?

Pull up a good, comfortable chair. This may take a while to explain all of the financial advantages that fall to credit issuers when you become a monthly minimum-paying customer. Not that a lender would ever share the full extent of this perpetual windfall of interest and fees that comes at your expense. That would be bad for business. Perhaps the time has come to see it spelled out.

Here is how it's spelled:

The Minimum Monthly Payment: A Lesson in Fiscal Suicide

When you pay only the minimum amount that's due on your card every month, you play right into the hands of companies seeking to maximize the bearing of interest. You're the guy (or gal) who props everything up, keeps the CEO's private jet airborne, fuels the bonuses for the executive board. The problem is that you probably won't earn in your lifetime what these guys do in three months.

The numbers should be frightening to anyone who is disturbed by the idea of tossing heaps of cash into the garbage can every year.

When you pay off only the minimum, it means you are taking care of between 1.5% and 2.5% of your entire outstanding balance each month. This figure is cleverly calculated to prevent you from paying off your account in full anytime before the new millennium – the one that arrives in 3000. If a minimum-payout credit consumer slices a few pennies from the principal owed in any given month, he or she is doing pretty well.

As exaggerations go, this is only a slight one.

Consider this:

Let's say that you're carrying a balance of $4,500 on your credit card, and you are determined to fork over no more than the minimum that's due every month. Even if you don't put another penny on the card, it will take you 44 years and 1 month (or 529 months) to pay it down to zero. This means that if you started paying it off on your 30th birthday, the debt wouldn't be erased in full until just after you turned 74.

And how much would you have paid out to the credit card company over the course of that 44-plus years? Oh, only $17,000, give or take a few hundred bucks. This represents a mere 400% of so surcharge in compounded interest, nearly four times the original total of the incurred debt. Paying cash, by comparison, is the equivalent of finding a 75% off sale. That isn't merely scary; it's a Stephen King novel come to life.

Here is still more context that spells out the foolishness of being a minimum payer:

Suppose that you somehow paid off that $4,500 debt in a couple of months and subsequently came into a sudden $3,000 lottery jackpot. You decide to invest it in the stock market, figuring it the best option for gaining a sizeable return on investment. If an average year pushes stock holdings up 12%, the annual gain on Wall Street would still be less than the 18% annual growth of debt on the $4,500 that's being paid at the minimum rate.

The moral here is that any consumer who insists on working off a credit card debt in tiny installments unwittingly becomes the greatest investment that the credit card companies could ever hope to have. The cardholder, on the other hand, charitably turns over to a corporate credit empire a sum that would likely fund his kid's college education.

Even if you pay more than the minimum, don't you have to be a mathematician to comprehend the way the credit industry calculates finance charges?

Pretty much. And that's just the way a lot of the credit card lenders would like to keep it, since – for consumers – knowledge represents power. And too much power can cut into the hallowed credit industry profit margins. Consequently, card companies do everything in their power to ensure that their customers don't fully understand the price they're paying (in more ways than one).

It practically requires a working knowledge of algebra, calculus, and quantum theory to discern your annual (and monthly) interest rate on a given credit card. The range generally falls between 0% and 32%. Some banks charge a fixed APR (Annual Percentage Rate), others a variable one that's tied to an index like the prime lending rate. A toll-free phone call to a cheery customer service representative at your credit card company can get you a translation of the finance charge calculation process. This, however, could potentially leave you even more confused than ever.

7 REALITIES ABOUT YOUR CREDIT CARD FINANCE CHARGES

1. **If you pay off your balance in full each month, you can avoid finance charges entirely.**
2. **Don't pay too much heed to your APR, since your lender will probably change it and isn't required to tell you in advance.**

3. **If you keep consistent bill paying habits, expect to have a fairly steady rate of interest. Miss a few payments and you could raise finance charges by as much as a third.**
4. **Low "teaser" interest rates on cards generally expire after six months. It's common for 6% to become 16% in the blink of an eye.**
5. **If you find that a current lender is charging more than 12% in finance charges, it behooves you to try to renegotiate your rate with the lender.**
6. **Lenders respond to threats to switch a card balance to a competing credit card with lower interest and will often drop your rate to keep you.**
7. **Nothing is ever clearly spelled out on your credit card bill with regard to any itemized breakout of monthly interest charges. Bank regulators are trying to change that. It looks as if it will be an uphill battle.**

Can you actually renegotiate your credit card interest rate?

In a word, yes. Credit card lenders would prefer it were you not aware of this little fact, but it's true that if you are a valued customer – i.e., one who pays his or her fair share of monthly interest charges and doesn't try to clean off the balance with any regularity – you can often talk them into substantially lowering that pesky finance charge percentage. You might even manage to have them waive the annual fee, particularly if the company is earning money off of you elsewhere.

Anyone who carries a revolving balance is an asset that card companies do not want to lose. So if your current rate of interest is up between 16% and 18% (the national average) and you suddenly find an institution that would be more than happy to offer a

14% balance on any transferred balance, chances are your present company wouldn't be averse to renegotiating it still lower. But if you start making late payments, all bets are off, and the rate soars skyward once again.

How do you go about renegotiating?

Basically, there is no substitute for using the direct approach. In this case, that means a telephone call.

Expect the conversation to go something like so:

A Typical Credit Card Interest Rate Re-negotiation Scenario

Operator: **"Hello, First Flatulence Bank and Trust. May I help you?"**

You: **"Yes. I just received this offer in the mail from First Infidelity National Bank to apply for their Golden Platinum Bronze AdvantaCard Plus with a fixed APR of only 10.5%. I've been a loyal card member for going on 14 years. Is there any way for you guys to match that interest rate?"**

Operator: **"Sir, I'm afraid I'm going to need to transfer you to a different department that handles that. One moment please."**

You: **"OK, thanks."**

(Call is transferred)

Operator No. 2: **"Hello, First Flatulence, how may I be of service?"**

You: "Oh, hi, I just received an offer to take a new credit card from…"

Operator No. 2: **"Oh, I'm so sorry sir, you'll need to speak with our customer Threats and Defections Division."**

You: **"But…"**

(Call is transferred again.)

Operator No. 3: **"Yes sir, this is Bambi in Threats and Defections at First Flatulence. At this time, we can offer you an interest rate of 11.9% as long as you continue to meet your monthly payment schedule on time."**

You: **"But Bambi, I just got an interest rate offer of 10.5% from First Infidelity. Can't you guys match it?"**

Operator No. 3: "I'll need to check with my supervisor to see if we have any promotions on now to drop the rate below 11.9%, sir. One second please. (Leaves for 30 seconds or so and returns). All right sir, I'm back. I'm afraid the best we can do would be 11.3%. But we can also waive your annual $45 fee."

You: "Great. Let's do it."

And just like that, the deed is done.

Are credit providers really so blatant in their zeal to extract lofty interest payments from those who least can afford it?

There is an insidious nature to the ways that credit card institutions tend to exploit the failings and foibles of their customers in providing the shovel that digs them deeper and deeper into the financial hole. The question is asked as to whether the companies should shoulder any culpability in the debt equation, or if their cardholders freely took the credit bait and courted fiscal chaos on their own.

In a culture that finds class action lawsuits being filed by cigarette smokers stricken with cancer – and billion-dollar judgements being handed down by juries against the tobacco industry – you wonder what might be next. Could junk food connoisseurs sue over their clogged arteries? And if so, could chronic abusers of plastic credit seek financial relief from credit providers for their having enticed them into a disastrous pattern of overindulgence?

Don't laugh. You never know.

But in the meantime, it will pay hefty dividends in terms of both financial stability and peace of mind to make this your personal mantra*: I don't want to be a credit industry stooge…I don't want to be a credit industry stooge…*By "credit industry stooge," of course, I mean a consumer who ignores all common sense and any modicum of personal fiscal responsibility to become the kind of person your credit company would bend over backwards to keep happy. Why? Because this individual doesn't seem to care how much money gets flushed down the toilet and flows into the credit provider's bank account.

You know how hotel/casinos in Las Vegas and Atlantic City will ply high rolling gamblers with free airfare, free rooms and other perks to get these habitual big-money losers to their gaming tables? Well, when a credit customer has shown himself or herself to be a self-destructing magnet in attracting big debt and whopping interest payments, card companies swarm around like bees on honey. They would personally come to the houses of these consumers and drive them to the post office to be certain that a mailed credit card offer didn't escape their attention. Then the company employee would carry the completed application back to his office by hand for processing, taking no chances.

Is this sick, or what? Credit card lenders are so hot for customers who have demonstrated a propensity for being out of control that it is well worth the risk that the downwardly spiraling free-spender will file for bankruptcy. As a result, companies feel no shame in placing another financial anvil on the back of someone who is already plummeting to earth like a wounded pigeon.

This is an area of their business that the lending community doesn't much advertise, for some reason. A consumer can be in debt up to his eyeballs, and yet if there is a history of keeping up with the bills by paying off even the bare minimum on several lavish credit lines – actually, *especially* if only the minimum is paid – then the solicitation offers for new cards with fresh lines of $2,500 and $3,000 credit limits will pile up in the mailbox daily. It may not be pretty, but it's the way the credit industry works. And it's probably the way it always will.

What additional options are at your disposal to repair damaged credit and lower your load of debt – that the credit card industry rarely bothers to bring up to its customers?

It turns out that there are indeed a few other things that consumers can latch onto that go against the nagging tendency of credit card companies to guide you further and further into the great debt abyss – which, incidentally, doesn't feel all that great to experience first-hand.

By heeding the following tips, you will steer safely clear of the card companies' alluring, yet potentially poisonous, gravitational pull. Consider it your own Declaration of Independence, so to speak.

HOW TO PREVENT CREDIT COMPANIES FROM ENSNARING YOU IN DEBT (OR KEEPING YOU THERE):

--Never use the convenience checks that companies send: These little puppies are “convenient” solely for card companies who have a vested interest in watching your debt accumulate and your finance charges swell. They arrive in the mail complete with a sizeable fee, no grace period and a higher interest rate. They are bad news any way you slice them.

--Don’t perpetuate the debt cycle by acquiring more credit cards to pay off other cards: This is how debt festers and then spreads like a tumor, sweeping everything into its malignant tentacles. The credit providers want you to race around in desperation as your financial situation careens into oblivion. They have a stake in keeping that mountain of financial liability growing. You have an even greater stake in chiseling that mountain back down to size.

--Fight the urge to view your credit cards as a viable extension of your income: Again, this is the mistake that the credit industry wants you to make, since skewing one’s view of credit and debt tends to send your level of spending and rate of interest soaring into orbit. Don’t be fooled, and don’t give in to temptation. Credit cards have only two responsible uses: for convenience and in emergencies. Once “indulgence” and “luxury” are added to the mix, the problems quickly mount.

--If the will is weak, drastic measures are called for: Slicing up all of your credit cards if they have become a financial burden and fiscal drain is probably a good idea. Or maybe just keep a single card with a small balance for purposes of identification and convenience. Less radical – but infinitely more creative – is the approach favored by a friend of mine. He used to freeze his credit card by placing it into a bowl of water and then into the freezer for 90 minutes or so. If he still wanted to buy the item he was considering after the card thawed out, he'd buy it. If the urge had passed, he didn't. Something to think about.

--If you find you can't control your spending impulses, live credit card-free: This is no longer such a life-altering move. Any purchase or service (such as reserving a hotel room) can now be handled by using a check card emblazoned with a Visa or MasterCard imprint. Your spending limit is determined by the funds available in the checking account to which the card is tied. There is no muss, no fuss, no debt – in short, no down side. Such a deal.

--Embrace a monthly financial budget as a daily reality, not a short-term solution: Give yourself a weekly allowance that forces you to live within, or below, your means, and stick to it religiously. Not only will you live free of the wrenching anxiety that serial debt instills; it will also resume a refreshing feeling of control to your life that you never imagined possible.

--Steer clear of those juicy-sounding credit card solicitation offers that seem to arrive by the bushel: These deals often sound irresistible on paper, promising things like 5.9% interest rates and other tasty perks. But once you get your card, the goodies often disappear a few months in and the finance charges soon skyrocket. Besides, you probably don't need another line of credit anyway – do you?

--Always keep in mind that if credit card providers want you to do it, it will undoubtedly benefit them financially in some way, to your detriment: It is simply a fact of business life: companies look out for themselves. Visa does what is best for Visa. MasterCard does what is best for MasterCard. You need to do what is best for you. Because as a credit consumer, no one is going to seek out the options that make the most sense for you except you. It doesn't make the plastic purveyors bad people so much as people driven by a highly evolved sense of self-interest. It should define your view of the credit game as well.

Bad Credit Burns Money!

Chapter 9: How Bad Credit Penalizes Stupidity, Irresponsibility & Bad Luck

By this point in the book, I might be starting to sound like a broken record. But that's good, because the best way make an indelible impression on consciousness is through constant repetition and reminder. Even as you begin to grow sick of hearing the message, it burns its way into your brain. And once it's there, the hope is that it takes up residence there for good and informs the way you organize your financial life forevermore.

At least, that's the goal, anyway.

While I can't call you up on the telephone every day to make sure you're planning a reasonable monthly budget, paying your bills on time, spending wisely and avoiding impulsive and extravagant purchases, I can supply this permanent record – a conscience refresher, if you will – that you can use as a regular reference point and reality checker.

So you see, I want you to be tired of me and my droning on and on against debt at this point. I want you to resent the way I get onto the issue and beat it to death, at the manner in which I hound you to be responsible. I want you to want to get up from your chair and strangle me and scream at me to shut my yap already. Because that will mean I've done my job.

See, lousy credit is too damaging to your existence to simply take lightly. It destroys reputations, pulverizes peace of mind, drives apart families, obliterates self esteem and erases financial security. Anyone who thinks that I may be exaggerating here should try to get a loan sometime with a lousy credit report, or buy a car a year after filing for bankruptcy. It's a sure way to introduce massive devastation and humiliation to your life.

I know that I've already covered this issue earlier (and covered it, and covered it, and covered it, and covered it some more). But I figure that eventually, the message will be clear enough that I won't need to travel to where you live and shout it into a megaphone (but if need be, I'll schedule a seminar).

What I'd be forced to shout would sound something like this:

Personal debt is eating this country alive.

Forget about fossil fuels, nuclear power and solar energy. America runs on plastic. With a billion credit cards now in circulation, we never, ever leave home without it – or order anything *from* home without it, for that matter. According to the Frederick, Maryland research firm CardWeb, credit card purchases topped $1 *trillion* in 1999. And that figure is expected only to climb in the years ahead as we draw closer to a cashless society.

But as I've been saying throughout this book, right now plastic is a mixed blessing for the credit card-carrying multitudes of this nation. It's estimated that 44 million households – or 57% of all card users – carry credit balances that average in excess of $8,000 in revolving monthly debt. At an average annual interest rate of 17.11%, that generates finance charges of about $114 per household per month. If you were to invest that same amount of money on behalf of your child (presuming an 8% total annual return for 18 years), you'd have pocketed nearly $55,000. That's likely more than enough to cover college tuition for your high school grad.

Instead, the majority of credit-loving Americans burn money that should rightfully belong to their kids as an investment. That saps the very soul of this nation of borrowers. Aggregate credit card debt more than doubled between 1990 and '96 alone. Personal bankruptcy filings were nearly 55% higher in 1997 than they were in '91, according to the American Bankruptcy Institute. Those who opt not to wipe the slate clean with a bankruptcy are ravaged by credit card companies who extract 19% interest rates and all variety of hidden fees.

This culture of spend now/worry later has lured the average consumer into a prison of debt that incarcerates them as punishment for their capitalistic weakness. The negative impact of such behavior is incalculable. And it appears as if it's going to grow worse before it gets better.

Why is this credit debt thing such a big deal?

Now, we've already gone through this earlier in the book to some degree, of course. But it bears repeating. And I have a feeling you know why. Burying yourself deep in a debt ravine isn't just an unfortunate development that causes a little bit of inconvenience. No sir. This sort of negative blip in your personal file impacts every area of your life: work, family, recreation, the way you feel about yourself – everything. It's debilitating, it's embarrassing, it's devastating…and most tragic of all, it's so preventable. An ounce of willpower is more than worth a pound of credit cure. Because when your credit goes south, you wind up paying, and paying, and paying, and then paying some more. And I'm not just talking about the financial kind of paying.

A Single Mom Pays a Visit to Credit Hell

A colleague shared the story of a woman named Teresa. She's 49 years old, a single mom with two teenage daughters who works as a microbiologist at Medical Center Hospital in Odessa, Texas. Teresa probably isn't the typical image you have of a lousy credit risk. I mean, she's a microbiologist, right? How could a microbiologist have heavy-duty problems with debt?

For a long time, Teresa met every obligation tossed into her path. Even after her 1988 divorce, she never missed a mortgage payment on the family home she won in the dissolution. But it was a by-product of the divorce that landed Teresa in trouble. Her guilt over the split with her husband led her to become more generous with gifts, trips and possessions purchased for her two daughters.

Determined that the kids wouldn't miss out because they no longer lived full-time with their father, Teresa bought the teenagers cars and insurance. She sent them off for frequent school choir and church trips. Unfortunately, she was trying to pull this off on an annual salary of $31,000 along with her $5,000 in yearly child support payments. Not surprisingly, that income wasn't covering all of the expenses that Teresa suddenly had. So she began to lean heavily on plastic – even for groceries. And she justified the overuse of the cards by figuring that these were essentials the credit cards were paying for (one of the previously

mentioned signs of trouble is when you are using credit cards for monthly essentials, unless you are paying them off monthly).

Within seven years of her divorce, Teresa was nearly $20,000 in the hole – on 19 credit cards. Suddenly, she couldn't manage even the minimum monthly payments on the cards. Collectors began pestering her with calls at home and work. Teresa's daughters and co-workers would hear her pleading and agonizing on the telephone. And the last thing she wanted to do was admit to her ex-husband that she had dreadful money-management skills. She felt ashamed and trapped.

Pretty soon, Teresa began breaking out in full-body rashes, broke out in cold sweats and suffered regular, wrenching anxiety attacks. Threats arrived almost daily from creditors and retailers demanding payment and threatening repossession. It got to the point where she could hardly sleep, developed a heart murmur and suffered from chronic nervous tremors that left her perpetually exhausted.

It turns out that Teresa's story has a surprisingly happy ending. A friend put her in touch with the nonprofit Consumer Credit Counseling Service (CCCS), which helped her negotiate manageable repayment terms to her debtors. They encouraged Teresa to cut up her credit cards and set up a five-year, $500-a-month payment plan. The balances finally began to shrink. The harassing calls from creditors stopped. Her nervous tics, rashes and chronic anxiety started to disappear.

And after 3 ½ years, a motivated Teresa finally made her last credit card payment. The total she was able to pay off, with interest: nearly $25,000. Last time I checked, she had managed to sock away $3,000 in savings.

There are really two morals to this story. One is that a responsible, highly motivated individual can work off even a towering debt and avoid the last resort of bankruptcy. The second moral is less upbeat, and it's this: if you allow your spending habits to go unchecked and veer out of control, you will be victimized in ways you never imagined. Just ask Teresa. She lost her financial independence, her peace of mind, her health and very nearly her sanity. Heed the lesson, or else.

Nothing will destroy a marriage, or a relationship, quicker than money problems and debt. It stresses you out. It can snag you as surely and insidiously as can alcohol or drugs. Credit abusers, like those others who require fixes, want what they want when they want it. And they never stop to think about what might happen when the gravy train finally derails. Here's a hint: it isn't pretty.

That, in a nutshell, is why this credit debt thing is such a huge deal. It boggles the mind that a country at the height of its prosperity also finds its citizens mired in the most pervasive crisis of financial burden in American history. Temptation and access are a lethal mix, and in the case of credit they have led to more consumers screwing up their lives to feed the instant gratification monster than ever before.

What happens to consumers who badly overindulge?

Where do I even begin? Oh yes: allowing debt to take control of your life pulverizes your very soul. Is that clear enough?

In case it isn't, here are some more concrete ways that being a credit ignoramus makes life difficult:

A FOUR-LETTER WORD CALLED DEBT (OR, WHAT HAPPENS WHEN YOUR CREDIT GOES INTO THE DUMPSTER)

1. **Your mother stops loving you –** All right, I'm just kidding about that one. But she may be the only one who does.

2. **Money worries begin to take over your daily life –** Once you finally begin thinking about the pile of debt that will need to be addressed, it's difficult to think about anything else. It seizes control of your conscious mind - at work, at home and at play.

3. **The more money you owe, the more you have to pay –** One of the ironic realities of being trapped in heavy debt is the fact that with your credit cards overburdened by maxed-out balances month to month, you'll start paying out loads of interest and finance charges for the privilege of carrying that kind of debt. This is particularly true if you only pay off the minimums each month. All you have to do is carry a $5,000 balance for five years at 15% interest, and you'll wind up paying more than $2,100 in finance charges alone. That's your children's college fund that you are carelessly handing to a mega-profit conglomerate. It can't feel too good.

4. **The deeper you plunge into the abyss of credit debt, the more difficult it is to qualify for the credit you really need –** If your credit report looks like the script for a horror movie, forget about qualifying for that home mortgage loan at anything less than an impossible interest rate. Even buying a car will be an adventure – and not a pleasant one.

5. **Once your debt grows extreme enough, you doom yourself to a life spent in hiding –** If you don't pay your credit card minimums on time or miss a few payments entirely, prepare to be hounded by creditors and retailers alike with a barrage of phone calls, hostile inquiries, even outright threats. Your blood pressure rises exponentially.

6. **A negative credit report follows you everywhere –** If you don't think this is true, try racking up a heap of bad credit and see how it impacts your future credit possibilities. Doors that were previously wide open suddenly slam shut. Low interest rates turn into high interest rates. As far as the financial community is concerned, you go from being the life of the party to persona non grata virtually overnight. The journey into fiscal disaster is a killer.

Why does a poor credit history impact your life so profoundly?

Well, it's like this: your buying and paying habits are all that banks, retailers, car dealers and credit providers have to go on when assessing the risk that you might default on a loan or fail to pay off your credit card charges. It would make no sense to their bottom line for all consumers to be ranked equally. Thus, the system is designed to expose some people as solid financial citizens, others as irresponsible ones, and still others as qualifying someplace in the middle.

But because the corporate world doesn't know one consumer from another on a personal basis, the only way to transform that facelessness to individual knowledge is through a credit report. As far as American business is concerned, that report rates you not merely as a worthy/unworthy credit candidate but as a worthy/unworthy human being as well. In our culture, unfortunately, you are essentially what you spend and how you live. That isn't the true gauge of a person's worth, of course. But as far as the credit industry is concerned, nothing else matters except the manner in which you handle your finances.

If we lived in a Third World nation, our monetary lives wouldn't matter very much because we wouldn't have any money. But as we make our home here in the land of plenty, where one ranks on the monetary scale is of paramount importance in our lives. It determines the house we live in, the type of neighborhood where we set down our roots, the kind of car we drive, the type of restaurant in which we dine (or if we even eat in a restaurant, period), the type of recreation we indulge in and even the kind of people we call our friends. In short, the green stuff determines where we rank in society, if not who we are as human beings.

When our lifestyle is profoundly impacted by a financial or credit crisis that leads to short term or long term debt and difficulty, it plays havoc with our class distinction and our station in the grand social order. It may sound shallow to harp on it, but any change in the way people perceive us can't help but impact the way we perceive ourselves.

When overindulgence and serial debt prevents us from frequenting the same restaurants and retailers or hanging out with the same crowd, it invariably has a profound effect on daily lifestyle and simple survival.

Why do we indulge our shopping gene so destructively?

The reasons for this generally fall into two categories. One is simple ignorance, a lack of understanding the cause and effect relationship between giving in to an impulse or whim and the way it will financially cripple you down the road. A second is a more fundamental lack of self-discipline. These shoppers are compulsive but fully aware that what they're doing is going to come back at them. But they are generally hamstrung by a lack of willpower and an inability to quell that inner voice telling them to "spend, spend, spend" and gratify themselves instantly and often.

In both of these cases, the over-spender is to some degree a victim of low self esteem who is defenseless to shrug off the pressure in society to keep up with the latest, the best, the most expensive and the most plentiful. It isn't an illness, exactly, so much as it is a compulsion. But no matter how you slice it, a profound lack of will in the area of materialism and acquisition is a ticket to disaster. Unfortunately, it's a lesson that generally must be learned the hard way.

If only our brain were able to factor in the misery we feel in trying to navigate life through a filter of debt, it could lead to a significant reduction in unnecessary material gain and frivolous spending. Unfortunately, that isn't the way our head works. It conveniently tunes out the potential liability and tunes in the pleasure and rush of running to the mall to go on a spending spree.

TEN MYTHS ABOUT CREDIT THAT CAN LEAD YOU OVER A FINANCIAL CLIFF

1. **It's Better to Have Plenty of Credit Lines and Sources Than Too Few –** Wrong! Too many open credit lines can damage your credit score, since it's far too simple to rack up hefty balances with an abundance of retail accounts, gas cards and major credit cards.

2. **If You Don't Have Credit, You'll Never Have Anything –** Not true at all. Credit is neither a nail in your financial coffin nor the answer to all of your financial problems. It's possible to live a cash-only life, just as it's possible to overextend your credit and become a lending liability. The best strategy is to treat credit like a tool that allows you to build the kind of life you want – but only within your means.

3. **You Don't Need to Worry About Those High Balances Because You Pay the Minimums Every Month –** Oh please! This is an invitation to crushing overpayments of interest and a crutch that allows you to fall into a paycheck-to-paycheck mentality that can seduce you into more debt. This is the surest way to lead your fiscal existence straight down the tubes.

4. **Your Credit Card Company is Raking You Over the Coals By Charging 18% Interest –** This is *so* not true. In point of fact, you sign away your right to complain when you sign to accept an offer from a credit card issuer. But it pays to keep in

mind that every credit card carries a 0% interest rate if the balance is paid in full before the due date.

5. **Unless You Can Eliminate Every Negative Mark on Your Credit History, You're Doomed to Remain in Bad Financial Straits –** Absolutely not. While every late or inconsistent payment in your credit file stands to impact your value as a credit risk, anything that occurred more than two years ago scarcely registers on the consequence meter. If your black mark wasn't earned in the past two years, the chances of having problems qualifying for credit are significantly reduced.

6. **Your Lender Wouldn't Have Approved Your Loan if You Couldn't Afford It –** Oh yes he would have. Your approval has little correlation to your actual financial ability to repay any loan. It may in fact be your very status as a higher risk that make you an attractive candidate to a high-risk lender. A secured lender who can repossess your home or car if you don't pay is not dissuaded by a higher likelihood of default – because either way, they get something, whether it's a check or a dwelling or an automobile. Relying on a creditor to calculate your financial steadiness or worthiness is like trusting the Big Bad Wolf to look out for the best interests of the Three Little Pigs.

7. **If You Co-Sign a Loan, the Lender Will Never Come After You –** Wrong again. In fact, the lender is virtually guaranteed to come after you, since the reason you had to co-sign in the first place was to protect a company or institution from the risk of non-

payment. Since you have the best credit and the best financial portfolio, you get the hassle. Co-signing may not be such a good idea, in fact, I almost always advise against it.

8. **When Necessary, It Pays to Take Out a Cash Advance on Your Credit Card to Fend Off Any Current Credit Hassles –** No way is this accurate in the least. Precisely the opposite is true, as a matter of fact. Cash advances carry added finance charges that kick in the second you take the cash out of the machine at the bank. It is the surest way to dig a deep financial hole for yourself – rather like putting your debt on overdrive.

9. **You Can Wrap Up All of Your Credit Card Debt Into a Home Equity Loan and Make Your Interest Tax Deductible –** Guess again. While a tax advantage can indeed be gained by this strategy, the risk it carries makes it a bad idea. Since you are offering up your house as collateral, you court foreclosure if you fall behind on paying off that home equity loan. There is no similar risk with credit cards.

10. **Credit Cards and Debit Cards Are Pretty Much Identical These Days –** This is simply not true. For one thing, debit cards are tied to your checking account and thus enable you to budget in real time. The problem with them is that they lack the consumer protection afforded by credit cards. If you get defrauded or cheated using a credit card, you can complain effectively by disputing given charges through a third party. With debit cards, if you have a problem with any product or service, you have

to fight directly against someone who is already holding your money. Not great odds there.

How did you get yourself into this debt mess in the first place?

It could have been any number of things. You didn't pay close attention to your swelling credit card balances. You just went through a nasty and expensive divorce. One of your dependents was struck by a serious illness. Or maybe you just lived high on the hog, having convinced yourself that the bills simply would get lost before reaching your home. Or it may have been some combination of several of these factors. And now, suddenly, you're finding that there is just no upside to this debt thing. There is also no way around it, no shortcuts, no quick fixes. Well, there is *one* quick fix. It's called bankruptcy. But it is recommended only for people who don't mind plummeting to status as a credit industry outcast for the next decade or so. Bankruptcy may be the easiest way out, but from a standpoint of damage to your reputation and credit status, there is nothing worse.

It is far too easy in the United States to have a credit crisis sneak up from behind and sink its poisonous fangs into your flesh. Our capitalist system makes it a snap to acquire ever-escalating volumes of revolving and personal credit and accrue massive debts without even noticing. It's so easy to feel ambushed that consumers feel almost betrayed by the system that allowed them to create the monster in the first place.

Living the Good Life Has Its Price

Rosie and Jacob are a couple living in Granada Hills, CA who had carefully planned out in their heads exactly how their dream home would look. Jacob (age 42) envisioned a place with a huge backyard and a pool where the couple's four kids could frolic. Rosie (age 35) regularly mulled decorative ideas for the kitchen and bedrooms in their future home. Both of them thought it only a matter of time before the dream would be realized.

So it came as a major shock to both of their systems when a mortgage broker told Rosie and Jacob that numerous missed and late payments on their three credit cards – as well as the $4,000 in balances owed on them – disqualified them for a mortgage loan.

Shocked and devastated, the couple struggled to figure out how their carelessness had managed to bite them where it really hurts. As it happened, Rosie and Jacob made liberal use of their credit cards in the early 1990s to fund a string of vacations. They took plastic trips to Las Vegas, to New York, to Mexico and to Orlando, FL. They spared few expenses during these excursions, eating in four-star restaurants that cost as much as $150 for a single meal.

This wouldn't have been such a big deal except for the fact that Rosie and Jacob couldn't comfortably afford these R&R trips. After their first son was born in 1992, Rosie quit her job as a juvenile court administrator. That eliminated her $1,200 monthly salary. Jacob, meanwhile, was earning a scant $225 a week while pursuing his master's degree in psychology. To get by, the pair took to using credit cards even to purchase basics like groceries, gas and clothes.

Even when Jacob landed a post as a social services counselor for Los Angeles County and brought in an annual salary of $40,000, it wasn't nearly enough on its own to support a family and cover payments on his $20,000 in student loans, the $575 apartment rent, or the $278 is cost to purchase the couple's new Isuzu Trooper. That was in addition to supporting two young children, and two more during the next four years. Rosie and Jacob were forced to make minimum monthly payments on their cards and work to keep up their spirits.

This put enormous pressure on the couple and their kids. They were trapped. And the angst and uncertainty took its took on Rosie's and Jacob's marriage. The arguments and sniping at one another was wearing a hole through their union, not to mention their psyches.

Determined to turn around their credit lives, however, Rosie and Jacob confronted their debt head on, cutting up their plastic cards and striking deals to halt further interest charges on their balance in exchange for allowing the card company to directly debit their bank account each month. They gave up the lavish dinners and the weekend trips and got a tight handle on their financial position. And within a few months, they had bought their first house for $169,000.

The moral of this tale of a couple who made it back from the brink? There are several of them, really. They include: Don't give up. Don't panic. Don't pamper yourself with lavish dinners and vacations you can't afford. And don't presume that your income will sufficiently rise to take care of future debts, particularly

since consumer nature is to spend up to their means, anyway. The bottom line is that if you can't afford it now, you won't be able to afford the hassles later.

As it stands right at this moment, our system of consumer finance functions to entice all but the most disciplined into irresponsible acts of materialism. It lures us into false senses of need and satisfaction. And so long as that's the case, there are going to be millions of consumers who take the bait, land in debt and struggle to turn it all around. The alternative to reversing our bad credit ways is a slow death from the angst created by the financial burden. And that, of course, is no alternative at all.

Where can you turn for emergency debt advice and assistance?

The Internet has changed everything in terms of its immediacy, its phenomenal information access and the sheer volume of options that sit at your mouse-clicking fingertips. If you have any online savvy whatsoever, it pays to surf over to any of several sites on the World Wide Web whose plentiful resources will help to get the credit monkey off of your back and buy you time.

Here are some of the most useful sites to keep in mind:

Debt-Busting Help on the Web

The National Foundation for Credit Counseling (www.nfcc.org**) –** This national nonprofit organization exists to help remove people from unbearably stressful financial situations through counseling, discussion and education. They have 1,500 offices throughout the United States. Use them.

The Motley Fool (www.fool.com**) –** This is a terrific financial self-help site that serves as the Internet arm of the stock/fiscal empire of syndicated radio personalities Mark and David Gardner (they're brothers). It supplies a step-by-step "Get Out of Debt" tutorial, thousands of tips from real people who have been down the same difficult road, and a highly useful credit card discussion board. Go ahead and be a fool and pay these guys a visit.

iVillage Money Life (www.ivillagemoneylife.com**) –** The major lure here is an interactive "Debt Reduction Planner" that helps you budget and get organized, plus a "Debt Support Group" chat room that allows you to commiserate with others in similar financial circumstances.

CardWeb (www.cardweb.com**) –** Owned by a credit card research firm, Card Web features a Consumer Corner that lists competitive credit card interest rates and detailed information on the industry. The site also offers a superb list of frequently asked questions (labled "FAQ's" in the 'Net world) that spells out your legal rights when you're in debt.

Quicken (www.quicken.com**) –** Owned by Intuit, this cyber stop serves up a treasure trove of financial tools that include one designed to help those in debt to come up with a personalized plan for getting one's finances back on track. Simply enter your current debt amounts and income; Quicken calculates the rest.

The Family Money Homepage (www.familymoney.com**) –** It supplies a plethora of information and resources for those suffering money woes, including advice on budgeting and borrowing, taxes, home mortgage discussion and – in essence – a primer in how to be a wiser and better consumer.

Money Magazine (www.money.com**) –** A highly detailed and impressive site that's designed to teach lessons in money management, debt control and future financial planning. It's like having a fiscal planning magazine available to access whenever you need it most.

The Whiz (www.thewhiz.snap.com**) –** This site covers every area of financial hardship and aid, from banking to credit to insurance to investment. It spells everything out in blunt language, with the goal being teaching both credit users and abusers how to make the most of the tools at their disposal.

Can you really turn an impossible credit situation around?

You surely can. But it takes strength of character, a persistent will, a thick skin and lots and lots of patience. Reversing your credit and finance fortunes is hardly an overnight process. There are no quick fixes or easy turnarounds (remember, you didn't get here overnight). But if you have the desire and the determination – and the discipline to change ingrained patterns of behavior – you can take back your life and begin to feel like a whole person once again.

Bad Credit Burns Money!

Chapter 10: How Good Credit Improves the Quality of Your Life

All right, so I think I've covered all of the bad stuff that can happen to you when you allow bad credit to drag down your reputation and seize control of your life. It's not a very pretty picture, is it? And the worst part is that it just keeps punishing you over and over and over. With a dismal credit standing, it feels like you're dying a little bit every day. And in fact, a little bit of you probably does.

But you know all of that already. If you don't, it's because – for whatever reason – you simply haven't been paying attention.

The good news, ladies and gentlemen, is that there has never been a better time to be a good credit risk in America. The benefits of financial stability and fiscal/credit responsibility are more positive and plentiful than at any time in our history. That makes you a real dimwit if you fail to take advantage of this economic boom time. It offers virtually limitless ways to cash in.

Oh yeah? What's so great about having good credit, anyway?

Pretty much everything financial in your life is easier, less stressful, more positive, less combative, smoother and more satisfying when you carry a solid and substantial (i.e., responsible and practical) credit folder. And that, in turn, naturally makes your personal and family life that much better.

Let's take it point by point:

TEN WAYS THAT GOOD CREDIT ENRICHES YOUR LIFE

1. **You never need to worry about meeting monthly payments –** This may be the most important factor of all. Imagine how it would feel to open your credit card statement and find a $250.00 balance instead of a $2,400.00 one (on a credit limit of $2,500.00). You can pay it all off, or just a portion, and not need to mire yourself in that whole minimum payment game.

2. **You don't have to pay outlandish monthly interest fees and finance charges –** Those who are trapped in the jaws of debt may have trouble even comprehending the notion of low interest fees and actually having the flexibility to pay off a large chunk of principal in a given month. Just knowing that you aren't tossing your money away is almost enough by itself to make you feel human again.

3. **You qualify for the more attractive interest rates on home and car loans –** Are you jealous of those people who effortlessly pull in single digit rates on everything from large purchases to credit cards? When your credit is solid, you can go from being resentful to being grateful – because that great credit risk is *you*. Honestly, it can be done. It's just a matter of changing around your priorities and amending a negative mindset.

4. **No need to give a second glance to ads hyping those predatory credit counselors, debt consolidators and the ceaseless parade of profit-mongers**

who prey on the financially strapped – The mere idea that you may feel compelled to consider the services of these shameless hucksters is enough by itself to leave you feeling like a loser. With good credit, you can ignore their annoying pitches with complete confidence.

5. **If you really want that Lexus SUV, it's yours for a phone call (and with the best interest rate the dealer can offer) –** Of course, this kind of purchase without adequate income to pay it off can start Mr. and Mrs. Good Credit on the road to meet Mr. and Mrs. Debt Pile. But if you can't splurge once in a while, what's the point of amassing sparkling credit in the first place?

6. **You can pay a visit to a mortgage broker and feel safe that the people in the cubicle next-door won't be laughing at you –** Yes, it's true. We lenders enjoy a good joke as much as anyone else. And when your credit report looks like a highway that's under construction, well, we in the mortgage industry get a little snicker out of that. We know that in order to get you a loan, we'll need to become spin doctors of the highest order to compensate for those collection accounts and unpaid bills. When you have good credit, no one chuckles under his breath. You earn respect instead.

7. **You never have to be concerned that a restaurant or retailer will reject your credit card –** That's a big one, isn't it? Have you ever been on a date and literally prayed that the place you're having dinner will take your card that's in

grave danger of maxing out? If you've been there, you don't want to visit that place again. Talk about talking years off of your life.

8. **You and your family carry the security of knowing that – in an emergency – you could borrow $20,000 or $30,000 virtually overnight (and at low rates) –** You wouldn't want to do this, of course. But if, say, you have a medical emergency or a need to travel to a foreign land for whatever reason, it feels good to know you could make it happen with a minimum of hassle. This luxury is available only to those who happen to be solid credit risks.

9. **You don't need to be a slave to the credit card providers –** Those who are drowning in financial woes are forever looking to pick up new lines of plastic credit, paying off one debt by building another. When your credit level is high and debts are low, stacking fresh credit is a burden you need not think about.

10. **Even when a recession inevitably returns, you are guaranteed to feel the pinch least of all –** It's a cliché, but it's a cliché because it's true: tough times don't last, but tough people do. Well, we can turn it around and also say that great economic times don't last forever, either. And the great economy in which Americans find themselves will take a dive at some point as well. But those with a sensible balance of credit and debt and a good ratio to their income won't be dragged too far down. Those already carrying debt will, by contrast, find the balloon keeping them afloat in grave danger of bursting.

If you have great credit already, how do you keep it?

Basically, this can be accomplished by being careful, vigilant, stable and responsible. That sounds pretty boring, I know. But once you tap into the peace of mind that comes with being a top credit citizen, there's nothing all that dull about it. And it surely beats the alternative by a longshot.

Here are some tips for remaining on the right side of the credit/debt ledger:

--To prevent the feeling of depriving yourself, buy yourself one (hopefully small) indulgence on your credit card each month. That way, you hopefully won't have the desire to go off on a spending binge.

--Don't let your credit cards pass the halfway mark of your credit limit. In other words, if you have a $3,000.00 limit on your card, don't pass the $1,500.00 mark. If you can avoid it, don't pass the 1/3 mark, either. Once you go past 50%, it's too easy to buy into the idea that you might as well just push it up to the limit, anyway.

--Never pick up a new line of credit merely because you can. Carry the minimum that you can comfortably live with, probably no more than 3 or 4 cards total (including department store/retailer/gasoline cards).

--Pay off as much on each credit card balance as you can each month. Sending in a check for only the minimum payment is the first step on the road to Debt City.

--Resist the urge to take out high-interest, short-term loans to wipe out even a small debt. Even if your debt load as a whole is small, it can lead to bad habits along the lines of borrowing-from-Peter-to-pay-Paul.

--If you are already paying off on home mortgage and auto loans, don't hang out at the mall. These monthly debts are probably taking a sizeable chunk of your income already. Be conservative in any other retail spending aside from true necessities. Incidentally, a new portable DVD player is *not* a necessity.

--Whenever you find yourself in a purchase situation, ask yourself: do I really *need* this? Or is it just a case of really *wanting* it? If it's not expensive and you have yet to buy your one indulgence of the month, go for it. Otherwise, think twice.

--Remember that good credit is a long-term investment. Short-term gratification is a mere momentary fix. Keep your eye on the big picture.

--Beware of identity thieves and credit cheats. They prey predominantly on those with good credit for a simple reason: those with solid financial reputations have far more latitude to attract loans and build fresh new lines of credit. So never let down your guard, particularly on the Internet. Criminals lurk everywhere.

If you have lousy credit right now, how do you turn it into good credit?

As I've detailed throughout the book, transforming a bad credit history is about far more than repairing a few tardy bill payments. It's about changing your whole mental attitude and your emotional attachment to money and materialism. Your entire relationship with the world of purchasing must undergo a psychological makeover; otherwise, we're talking about plugging gaping wounds with Band-Aids and settling for short term solutions.

The necessary steps to earning all of the benefits that come with being a good credit risk are not all that complex. They look a little something like this:

<u>TEN WAYS TO TRANSFORM BAD CREDIT TO GOOD</u>

1. **Pay your bills on time, for crying out loud! –** Sorry about that "for crying out loud!" part. It's just that consumers who stain their credit reps by allowing bills to linger unpaid for months at a time drive creditors nuts. Once you start being responsible, the rest begins to take care of itself.

2. **Check your credit report regularly to know what you're up against –** You also never know when you'll uncover an error that is dragging down your credit risk factor unfairly. The credit bureaus aren't infallible, nor are the retailers. They make mistakes. Don't let them victimize you.

3. **Strike a deal with a debtor that allows you to negotiate lowered payments on delinquent accounts in exchange for deleting it from your record –** Money talks. You'd be surprised what you can get done when you ask for it, particularly when a monetary payment is part of the equation.

4. **Seek out fresh lines of credit to replace the old –** Use secured Visa and MasterCard bankcards) backed by a collateral savings account) to re-establish yourself in the credit game.

5. **Don't file for bankruptcy if it's at all possible –** When you declare bankruptcy, you essentially doom your credit file to a decade of purgatory. Sometimes bankruptcy is unavoidable. But if it's not absolutely necessary, do everything possible to avoid it.

6. **Pay off as many bills, even the really old ones, as you can –** The credit industry loves it when you pay off even the bills that debtors had long since written off as

uncollectible. It shows renewed character and responsibility. Erasing as many items marked as “unpaid” in your credit file is the goal.

7. **Contact creditors individually and assure them you’ve changed your ways and expect some brownie points for it –** Any positive changes to your credit file over the past 12 to 24 months is going to significantly alter your credit risk assessment for the better. But creditors don’t automatically change this stuff. They need a little prompting. That’s where you come in.

8. **Stop buying things impulsively –** It is incumbent upon you to build up your willpower. The fallout from allowing your financial life to veer out of control are simply too great to let your credit get out of hand. Staying out of malls might be the first logical step.

9. **Cut up your old credit cards to eliminate unnecessary temptation during the payoff process –** It’s always a good idea.

10. **Avoid the credit repair agencies unless you have a desire to waste even more money –** There are sound, smart, honest credit repair operations out there, but not many. Don’t take a chance that you’ll be lucky enough to find one of them. You probably won’t.

But can’t you just pile up the debt, file for bankruptcy every seven years and live irresponsibly ever after?

Yes, in fact you could live like this. Too many people do. They are the financial leeches who drain and milk the system, creating whopping tax write-offs for credit providers and loan houses and creating a need to wring greater and greater interest revenue out of consumers. An uncanny number of Americans are taking the bankruptcy way out, finding it a way to have their cake and eat it, too. And unfortunately, if they play their cards right, it is.

Of course, there is also a down side to piling up tens of thousands in debt and then climbing out through the escape hatch of bankruptcy. These people are consistently reduced to the status of credit pariahs in the United States. And while the stigma of shame that once defined filing for bankruptcy has largely disappeared, it still cripples those who consistently fall back on it in a variety of ways. There is, in short, no excuse and no absolute recovery strategy from chronic credit overindulgence.

Besides, lugging around the albatross of bankruptcy is far more difficult to bear emotionally than even financially. Because when you come right down to it, the difference between carrying positive credit and being riddled with debt is at least as much about where your head is at as it is the state of one’s pocketbook. That’s what makes having a positive, stable, well-maintained credit file such a major issue in the life of every consumer.

What’s the most invaluable by-product of carrying great credit?

It turns out that this is ridiculously easy question to answer. I'm not talking about financial security per se, or purchasing freedom, or even the ability to procure loans for even homes and cars with a minimum of muss and fuss. It's not just about the lower interest rates, either. But it might just be a combination of all of these things.

The intangible of which I speak here is psychological freedom.

This doesn't mean that if your credit is solid you will never require therapy. But it does mean that whatever neurosis or emotional illness you may be suffering from probably won't have originated from a credit or financial problem aside from the typical money issue of never having enough. When you have a measure of control of your fiscal life, the sense of stability props up every area of your life in terms of confidence, harmony, inner peace, the whole thing. I'm not trying to go all New Age on you or anything as we wrap up this book. But I don't feel I'm exaggerating to equate a certain psychological mellowness with your ability to keep your financial affairs in order.

Just think of all the things that look and feel better when you don't need to worry about being hounded by debtors and stretched to the max by inflated credit card bills:

--Your Marriage/Attachment to a Significant Other: There is no greater strain on a relationship than money problems. The most severe and unnerving financial hardship is debt borne of overtaxed credit and loans. It only stands to reason that when you eliminate fiscal problems from this equation, the union is far more likely to thrive.

--Your Self Esteem: Few areas of our lives foster greater senses of independence and stability than do financial freedom and sound credit. One's self esteem can't help but thrive when it's bolstered by such positives.

--Your Sense of Order: Debt and credit woes leave you feeling discombobulated, frazzled, out of sorts. The opposite is true when you have all of your financial ducks in a row. It instills the idea that there is a certain order to the universe.

--Your Ability to Cope With Other Crises In Your Life: Retaining a veneer of calm and sanity in your money affairs tends to trickle over to every other area of your existence to instill an overall peace of mind. Of course, you find people without money woes who still manage not to be happy. But taking finances and credit off the table as an issue surely can't help but help.

--The angst that accompanies constantly living on the edge of financial doom vanishes: Moving through life bolstered by financial freedom and credit integrity removes the nerve-wracking reality that the financial roof could cave in at any moment.

--Relationships with friends, co-workers, relatives and children improve with the improved sense of personal worth that comes with a secure financial state: When you feel better about yourself, you invariably convey that positive ideal to everyone with whom you come into contact. And that upgrades every interaction in your life.

--With sound credit comes an elevated attitude, and with an elevated attitude comes a better life: There's no disputing it.

OK, so what now?

Your duty now is to take the lessons and advice imparted in this book and use them to help maintain your solid credit integrity or – more likely – to forge a new and improved financial existence. I don't claim to have all of the answers; then again, maybe I do. What I do understand, however – and what I worked diligently here to convey – is that even the best credit standing could probably use a bit of massaging now and then to help keep it in optimal health.

I'm also guessing that those of you who made it clear to the end of this book are more than likely in need of some serious credit improvement. And that's really OK. It happens to the best of us, even yours truly. It doesn't make you a bad person. It doesn't even necessarily make you an irresponsible or materialistic consumer. It simply makes you someone who could use a little help and guidance. My foremost hope is that I supplied a goodly amount of both.

Now, get out there and pay for something in cash. The hide you wind up saving may just be your own.

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