

CREDIT BUREAUS and COLLECTION PRACTICES

CH

6

What do other high school students know about credit bureaus and collection practices?

Bad decisions lead to bad debt and bad credit. We asked some high school students if they or someone they knew ever bought something they couldn't afford:

“My friends bought an ATV and I thought I had to get one, too. **I thought I'd be able to pay for it, but I lost my job and then my ATV.**”

Senior, Georgia

“I know someone who bought a dirt bike that he couldn't afford. He had to get a job, quit football and work after school everyday in order to make the payments.”

Senior, Alabama

“A friend of my dad used a credit card to buy something he couldn't afford. When the creditors began calling, the family stopped answering their phone and ended up asking my dad to help pay off the debt.”

Senior, Texas

“My neighbor bought a car he couldn't afford and it got repossessed.”

Junior, Missouri

“Some people I know bought a bunch of stuff they didn't need, like video games, a pool table, etc. They got into debt and had to file for bankruptcy.”

Sophomore, Tennessee

LEARNING OUTCOMES

Evaluate the myth of building your credit score.

Describe precautions that will protect you from identity theft.

Explain how to correct inaccuracies on a credit report.

Become familiar with the Federal Fair Debt Collection Practices Act and parameters regulating collectors.

KEY TERMS

Bankruptcy
Credit Bureau
Credit Report
Chapter 7 Bankruptcy
Garnishment
Pro-Rata



BEFORE YOU BEGIN

What do you know about credit bureaus and collection practices?

Answer the following questions before you watch the lesson. At the completion of the lesson, review the questions again to see if your views changed.

Before			After	
True	False		True	False
<input type="checkbox"/>	<input type="checkbox"/>	1. The collection industry is a lucrative business, producing over \$40 billion a year in revenues from fees paid to collectors.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	2. Collectors can buy debt for as little as 25 cents for each \$100 in face value, making a huge profit.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	3. A person that owes debt has few legal protections and should receive multiple calls at work and home, which are unpleasant in nature.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	4. Your FICO score is important and you should strive to get the highest score you possibly can as it is an indicator of responsible money management.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	5. More than 75% of credit reports contain mistakes of some sort.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	6. Collectors generally follow the guidelines set forth in the Fair Debt Collection Practices Act, which gives consumers only a few legal rights.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	7. Consumers are entitled to sue a debt collector if they violate the Fair Debt Collection Practices Act.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	8. When a collector tells you that they are going to garnish your wages immediately, you should make some type of payment to prevent this from happening.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	9. Identity theft is the fastest-growing white collar crime in America.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	10. If you are willing to pay a fee, you can have your credit cleaned up, which will improve your FICO score.	<input type="checkbox"/>	<input type="checkbox"/>

Credit Score

One More Myth

- ▶ MYTH: You need to take out a credit card or car loan to “build up your _____.”
- ▶ TRUTH: The _____ score is an “I love _____” score and is not a measure of winning financially.

END OF VIDEO PART 1

Credit Bureaus

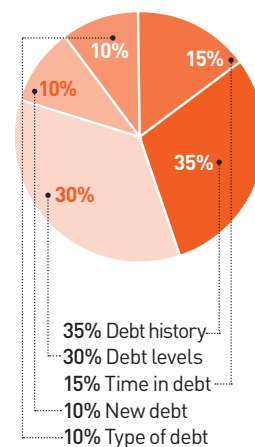
Account information is removed from your credit report _____ years after the last activity on the account, except for a Chapter 7 bankruptcy, which stays on for _____ years.

Beware of credit clean-up scams. The only information that may be legally removed from a credit report is _____ information.

MORE INFO

FICO stands for Fair Isaac Corporation, which developed a score-based rating system that many companies use to measure an individual's credit risk. Although this measurement has become widely accepted, it is a faulty standard that is based on debt, not wealth.

Five Components of the FICO Score



www.myfico.com

WISE GUYS

“I’ve never been poor, only broke. Being poor is a frame of mind. Being broke is only a temporary position.”

Mike Todd

Correcting Credit Report Inaccuracies

The National Association of State Public Interest Research Groups (U.S. PIRG) did a survey of 200 adults in 30 states who checked their credit report for accuracy.

- ▶ ____ of those credit reports contained mistakes of some sort and ____ of them contained errors serious enough to result in the denial of credit.
- ▶ ____ of the credit reports contained credit accounts that had been closed by the consumer but incorrectly remained listed as open.

“Why do I need to worry about learning this finance stuff? I live at home and my parents pay for everything.”

DAVE’S ANSWER: You’re in school and will be out on your own in just a few years. Now is the time to build great financial habits. Correcting poor habits gets harder and harder as you grow older. If you don’t believe me, take a look around. Seventy percent of Americans live paycheck-to-paycheck according to *The Wall Street Journal*. They spend everything they make and then they’re broke again until the next paycheck comes around. That means these people are one emergency away from financial disaster. Worse yet, many of them know it and refuse to do anything about it. Why? They’ve developed poor financial habits and choose not to correct them.

From now through college, you should be working to establish really good personal habits in all areas, not just financial. You’re building character to become a mature, successful adult. Too many people just party through this time and put off growing up until it’s too late. Suddenly they find themselves out on their own with other people—like a spouse or children—depending on them to survive, but they don’t have the skills to succeed. This is not a plan. Don’t play that game!



▶ _____ listed the same mortgage or loan twice.

You should check your credit report _____,
which you can now do for free.

The three credit bureaus are Experian, TransUnion, and Equifax.

Identity Theft: What to Do

Identity theft is the fastest-growing _____
_____ crime in North America today.

1. Place a _____
alert on your credit bureau report (stays on for 90
days without a police report).
2. Get a _____.

80% of identities are stolen by people you know.
3. Remember, this is _____. You
owe _____ and should pay
_____.
4. Contact the _____
division of each creditor and furnish _____.
5. Be _____, this will take some
time. You now have a new _____.

MONEY FACTS

States with the
highest per capita
rates of ID theft:

- Arizona
- Nevada
- California
- Texas
- Florida
- Colorado
- Georgia
- New York

States with the lowest
per capita rates of
ID theft:

- Montana
- Wisconsin
- Wyoming
- Kentucky
- Maine
- West Virginia
- Iowa
- South Dakota
- North Dakota
- Vermont

Federal Trade Commission

MORE INFO

Of all the identity theft
victims who call in
to *The Dave Ramsey
Show*, approximately
half of them know
the person who stole
their identity. The
thief is often a friend
or family member.

REAL LIFE

Young people seem to have little to lose from identity theft, which makes them easy targets. College students are particularly vulnerable to identity theft. In fact, people aged 18-29 are the most commonly victimized age group when it comes to this white collar crime.

A young listener wrote this letter to *The Dave Ramsey Show*:

"My third day of college, I applied for several credit cards on campus. Five years later, I found out that my personal information was posted on a web site. I had cars bought in my name and credit accounts across the country. A college student who ran one of the credit card booths was responsible for posting my information. Even though I now have a new Social Security number, I constantly have to monitor my credit reports. I have had to explain all of this to employers who run background checks on me. Those free T-shirts wound up costing me \$150,000!"

Obviously, you're never too young to be careful with your personal information. Here are some tips to protect yourself from identity theft:

- Use a paper shredder and destroy credit card offers and mail.
- Check your credit reports annually.
- Never print your Social Security number or drivers license number on your checks.
- Sign the back of your debit card and write "PHOTO ID REQUIRED."
- Create strong passwords using a combination of letters, characters, and numbers.
- Keep passwords and personal information confidential.

An updated version of the 1977 Federal Fair Credit Reporting Act (FFCRA) requires a credit bureau to _____ all inaccuracies within ____ days of notification of such inaccuracies.

To clean your credit report of inaccurate information, take the following steps:

1. Write a separate letter for each inaccuracy.
2. Staple a copy of your credit report to each letter.
3. Circle the account number.

MONEY FACTS

People age 18–29 are the **number one** target of identity thieves.

Quest Communications

68% of teens report they are concerned about online identity theft and fraud.

Charles Schwab Survey

23% of teens know what a credit score is.

Charles Schwab Survey

NOTE: You should also request that “inquiries” be removed. All of these letters should be sent _____ mail with return receipt requested to prove when they receive the letter. If the credit bureau does not prove the accuracy of the account within ____ days, request that they remove the _____ account from your file.

You will have to be assertive after the 30-day period.

Lodge any _____ with the Federal Trade Commission and your state’s Consumer Affairs Division.

END OF VIDEO PART 2

Collection Practices

The best way to pay debt is with a _____.

A collector’s job is not to help your overall situation. His only job is to get your _____.

Collectors are trained _____ or _____.

They are typically low-paid positions with high _____.

FEEDBACK

Identity thieves and scammers work in clever ways. Have you ever been scammed on the phone or internet?

“Someone created a phishing site that had ‘myspace’ in the domain so I logged in and they stole all of my info.”

Senior, Texas

“I was taking a quiz on the internet and all of a sudden it asked for my cell phone number. Stupidly I gave it to them and the company started charging \$9.99 a month to my cell phone.”

Sophomore, Florida

“One time a fake phone book company called to confirm the information for my family’s business. They asked if I wanted to extend the listing for ‘two more years for \$399,’ and I said yes, thinking it was \$3.99. The bill we received in the mail was for \$399 and we paid it because they said it was already printed. But it was not a real company and we have nothing to show for our money.”

Senior, Texas

They are taught in their training to evoke strong _____.

The way to counteract this technique is to ALWAYS pay _____ first, and then you set the order of payment.

Always set your priorities by the Four Walls:

1. Food
2. Shelter
3. Clothing
4. Transportation

END OF VIDEO PART 3

Federal Fair Debt Collections Practices Act

In 1977, a consumer law was passed by Congress called the Federal Fair Debt Collection Practices Act (FFDCPA) to protect you from unfair collectors. The law technically only applies to collection agencies (not your creditor), but later court cases make most creditors also abide by the FFDCPA.

- ▶ The Act states that _____ is illegal, and restricts a collector’s calls between the hours of _____ and _____ (unless they have your permission).
- ▶ The Act also allows you to demand that a creditor cease calling you at _____. You should request this in writing by _____ with return receipt requested.

- ▶ The Act even allows you to insist that a creditor stop _____ contact except to notify you of _____ proceedings. This is called a cease-and-desist letter.
- ▶ Do not use a cease-and-desist letter except in horrible situations, because all _____ stop and any hope of a positive resolution is lost.
- ▶ No collector or creditor may _____ a bank account or _____ wages without proper and lengthy court action, except in the case of delinquent IRS or student loan debt. All such threats are a bluff.

MONEY FACTS

The **number one** consumer complaint the Federal Trade Commission receives is regarding **debt collectors.**

Federal Trade Commission

Pro Rata Plan

Your plan should include as much prompt repayment of debt as possible, but YOU must set your priorities of repayment.

DO NOT let a collector use your _____
_____ as a paper club.

END OF VIDEO PART 4

When you are unable to pay the minimum payments, use the _____ plan.

Pro Rata Debt List

“Pro rata” means the fair share, or the percent of your total debt each creditor represents. This will determine how much you should send them when you cannot make the minimum payments. Even if you cannot pay your creditors what they request, you should pay everyone as much as you can. Send the check for their pro rata share, along with a copy of your budget and this form, every month. Do this even if the creditor says they will not accept it.

Do you need to use the pro rata plan?

First, use your monthly cash flow plan to determine your total disposable income. Simply write down your income on the line at the top of the form. Then, write down the total you spend on necessities (not including consumer debt) each month. Subtract the necessity expense from the income, and you are left with your disposable income. This is the money you have to put toward your debts.

Second, add up your total amount of debt, not including your home, and write that in the blank provided. Below that, write in the total of the minimum monthly payments on all your debts. If the total of your minimum payments is greater than your total disposable income, you need to use the pro rata plan.

For example, Joe and Suzie have a total debt of \$2,000, with a combined total minimum payment of \$310. However, this family only has \$200 in disposable income each month, which means they do not have enough money to make the minimum payments. So, they will use the pro rata plan to give each creditor their fair share of the family’s \$200.

How to Use This Form

This form has six columns:

1. Item: the name and type of the account.
2. Total Payoff: the total amount due on the account.
3. Total Debt: the combined total of all your debts.
4. Percent: the portion of the total debt load that each account represents. You can calculate this by simply dividing the Total Payoff by the Total Debt for each line.
5. Disposable Income: the amount of money you have left after paying necessities.
6. New Payment: the amount that you will now send to each creditor. You calculate this by multiplying the numbers in each line’s Percent and Disposable Income columns.

The pro rata plan helps you to meet your obligations to the best of your ability. Of course, your creditors will not like receiving less than their required minimum payments. However, if you keep sending them checks, they’ll most likely keep cashing them.

Pro Rata Debt List (Continued)

Income \$3361
 Necessity Expense - \$3161
 Disposable Income = \$200

Total Debt: \$2,000
 Total Monthly Payments: \$310

ITEM	TOTAL PAYOFF	TOTAL / DEBT	= PERCENT	DISPOSABLE X INCOME	NEW = PAYMENT
JC Penney	100	/ 2,000	= 5% (.05)	X 200	= \$10
Sears	200	/ 2,000	= 10% (.10)	X 200	= \$20
MBNA Visa	200	/ 2,000	= 10% (.10)	X 200	= \$20
Citibank Visa	300	/ 2,000	= 15% (.15)	X 200	= \$30
Discover	1,200	/ 2,000	= 60% (.60)	X 200	= \$120
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
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_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____
_____	_____	/ _____	= _____	X _____	= _____

REAL LIFE

Borrowing money and failing to pay it back has some serious consequences. Here are some terms commonly used when dealing with debt problems that have gone too far. This is lingo you don't want to experience first hand.

Foreclosure—Process by which the holder of a mortgage sells the property of a homeowner who has not made interest and/or principal payments on time as stipulated in the mortgage contract.

Repossession—Think of the “Repo Man.” Repossession is taking something back (like a car) for failure to make payments.

Bankruptcy—A legal procedure for dealing with debt problems of individuals and businesses.

Garnishment—A court-ordered attachment that allows a lender to take monies owed directly from a borrower's paycheck; only allowed as part of a court judgement.

Surrender of Collateral—In a bankruptcy proceeding, a debtor can give up property (collateral) to the creditor in exchange for a clean slate.

Delinquency—Broadly refers to a borrower not being current on his or her payments.

Lawsuits

Eventually, if you are making no payments and have cut no deals, you will get sued.

Typically, lawsuits for under _____ are filed in General Sessions Court (or small claims court), which is a fairly informal proceeding.

Before you are sued, you will be served by the local sheriff's department and typically given _____ days notice of the court date.

In court, if the debt is valid, even if you fight, you will _____. From that date you will generally have 30 days before the _____ becomes final and _____ or attachments begin.

“My older sister has run up some pretty large debts and a creditor somehow got our parent’s phone number. Now this company is calling my parents four or five times a day, thinking that if they’re pushy enough they’ll pay them. What can they do?”

DAVE’S ANSWER: First, your mom and dad should get an answering machine—one that has a memo button that allows them to record conversations. The next time these bozos call, your parents should get on the phone and explain to them that the conversation is being recorded and that they are not liable for your sister’s debt. Let them know, too, that if they ever contact them again about this matter that they will sue!

Your parents also need to tell them that if they call them again, they will file a complaint with the Federal Trade Commission. What this company is doing is a violation of federal law and the Federal Fair Debt Collections Practices Act. If the caller can’t understand that, make them put a supervisor on the line and repeat it. Your dad needs to crawl all over these people, because what they’re doing is illegal, immoral and just plain mean!

Even if he did owe the bill, calling that many times a day is still a violation of federal law. He’s not going to get rid of these people by being nice!



AT ANY TIME during the process, you may settle with the creditor or their attorney in writing. If you are not able to reach an agreement, you can file with the court a “_____ motion,” called a “pauper’s oath” in some states.

- ▶ If you’re going to settle, get it in writing
- ▶ Never give electronic access to your checking account
- ▶ Never give post-dated checks

END OF VIDEO PART 5

MONEY FACTS

40% of Americans, under the age of 25, believe they are more likely to be hit by lightning, to be audited by the IRS, or to win the lottery than be the victim of a computer security problem.

National CyberSecurity Alliance

Sit back. Relax. Put your pencil down. There are no fill-in-the-blanks in part six of this chapter.

END OF VIDEO PART 6

Recap and Review

Identity theft is on the rise! Be careful with your personal information, including drivers license, Social Security number, account numbers, phone numbers, addresses and passwords.

Do not fall for the “I have to build up my credit score” myth. Your FICO score is an “I love debt” score.

Check your credit bureau report annually.

The Federal Fair Debt Collection Practices Act sets up restrictions that creditors must follow.

Always set your priorities by the Four Walls: food, shelter, clothing and transportation.

Credit Bureaus

The FACT Act amendments to the Fair Credit Reporting Act require the nationwide credit bureaus to provide consumers, upon request, one free personal credit report in any 12-month period. You may contact the Central Source online at www.annualcreditreport.com or by calling toll free (877) FACT ACT. Free copies are also available if you have been denied credit in the past 60 days and the creditor used their services.

EXPERIAN

(888) 397-3742
www.experian.com

EQUIFAX CREDIT BUREAU

(800) 685-1111
www.equifax.com

TRANSUNION CREDIT BUREAU

(877) 322-8228
www.transunion.com

FEDERAL TRADE COMMISSION

Publishes a brief, semi-annual list (March and September) on card pricing by the largest issuers for \$5 per copy. Offers a number of free credit-related publications.

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Washington, D.C. 20580
www.ftc.gov

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Carmel, NY 10512
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CHAPTER 6: MONEY IN REVIEW

Vocabulary

Bankruptcy
Credit Bureau
Credit Report
Chapter 7 Bankruptcy
Disposable Income
FFDCPA
FFCRA
Fraud
Garnishment
Necessities
Pro Rata

Matching

- a. FICO score
- b. collectors
- c. garnishment
- d. pro rata
- e. Four Walls
- f. identity theft
- g. credit bureau
- h. FFDCPA
- i. fraud

- ___ 1. Gives creditors a “fair share”
- ___ 2. “I love debt” score
- ___ 3. Using another person’s information to obtain goods or services
- ___ 4. TransUnion
- ___ 5. Court order allowing a lender to take money directly from the debtor’s paycheck
- ___ 6. Trained salespeople or telemarketers
- ___ 7. Food, shelter, clothing, transportation

True or False

Determine whether these statements are true or false. Change the false statements to read true.

- ___ 8. You should always pay the collectors first.

- ___ 9. The best way to deal with debt is with a plan.

- ___ 10. The Federal Fair Debt Collection Practices Act allows creditors to call between 7 a.m. and 10 p.m.

- ___ 11. If you are a victim of identity theft, you are only responsible for the first \$250 of debt.

- ___ 12. You should check your credit report every year.

Multiple Choice

13. Passed in 1977 to protect you from unfair collectors:
 - a. FDIC
 - b. FHA
 - c. FFDCPA
 - d. FFCRA
14. Which of the following is one of the Four Walls:
 - a. cable television
 - b. mortgage payment
 - c. cell phone bill
 - d. designer jeans
15. It is a good idea to check your credit report:
 - a. every six months
 - b. every three years
 - c. every year
 - d. every five years
16. Which of the following tactics are collectors likely to use?
 - a. lying
 - b. harassment
 - c. being friendly
 - d. all of the above
17. Which of the following is not a way to build your FICO score?
 - a. pay cash for all purchases
 - b. get a personal loan from the bank
 - c. sign up and use credit cards
 - d. all of the above
18. Which piece of information, if stolen, is not likely to lead to identity theft?
 - a. drivers license
 - b. phone number
 - c. credit card number
 - d. Social Security number
19. The pro rata payment includes which of the following elements:
 - a. repayment of debt as soon as possible
 - b. using the Four Walls to set priorities
 - c. giving a percentage of debt to each creditor
 - d. all of the above
20. The fastest growing group of people filing for bankruptcy are:
 - a. under 25
 - b. 25-30
 - c. 30-45
 - d. senior citizens

Short Answer

21. What is the best way to deal with collectors?
22. Explain the steps to take if you find an error on your credit report.
23. List some precautions to take to help safeguard against identity theft.
24. Describe some common tactics used by collectors. Why do they use these?
25. Refute the myth, "I need to build my credit score."

Case Studies

26. Aaron and Hannah are late making their payments and collectors are beginning to call daily. They are threatening to garnish their wages over the credit card debt amounting to \$13,000. Their car is about to be repossessed because they haven't made the payment in 3 months. Aaron and Hannah both work and are considering part-time jobs to catch up. They have a 16-year-old son who plays sports, so they would have to miss his games. The collectors are getting more and more abusive with every call. What advice would Dave give Aaron and Hannah? Devise a plan for them to follow, including how to deal with the collectors.
27. Chelsea is behind on her credit card and car payments. One collector has been calling her at work and threatening to garnish her wages if she doesn't find a way to get current. Chelsea recently began listening to Dave Ramsey and does have a financial plan to take care of the problem. However, she is now terrified and is considering not making her mortgage payment to get this collector to stop calling. Use what you learned in this lesson to help Chelsea deal with this collector and stick to her financial plan.
28. Neal recently received a call from the bank telling him that he was late making payments on his loan. Neal does not have a loan with that or any other bank, as he lives debt free. What problem does Neal most likely have and what steps does he need to take to correct it?