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Understanding Your Credit

One of the most important money management skills anyone can have is the know-how needed to handle credit and debt wisely. Unfortunately, while nearly every American adult depends on some form of credit, many people misuse it--they dig themselves into overwhelming debt and rack up a poor financial record that creates future problems in numerous ways.

Basically, credit is a way of buying goods and services without first paying for them in full. There are several forms of credit, ranging from loans and mortgages to credit cards. Credit in its various forms is important in that it allows us to buy things we need that we might not otherwise be able to afford—such as a home or automobile.

It's important to remember that while all forms of credit come with a price tag, the costs of using credit can vary greatly. To help consumers make wise choices in handling credit and building a good credit record, The Foundation for Credit Education has developed this easy-to-read online primer. Individual topics and page numbers are listed below.

How Credit Cards Work

Credit cards provide one of the more accessible—and costly—forms of credit. Because credit cards are so convenient and easy to use, it's important to read the fine print and fully understand how every card you're considering works before you accept any particular credit card offer. Even if you don't plan to use the card, accepting an offer can affect your credit record and may even make you liable for certain fees.

Remember—like any other for-profit enterprise, credit card issuers are in the business of making money. They do so by charging interest and other fees, as spelled out in the credit card agreements that are provided to their customers. Wise consumers make it their business to read these agreements carefully and acquaint themselves with the terminology.

Know The Language of Credit Cards

Here are some important basic terms that affect the overall cost of a credit card:

- **Annual Percentage Rate (APR).** The price of credit expressed as a yearly interest rate.

- **Annual Fee.** A fixed annual charge to the consumer for maintaining a particular credit card account.

- **Balance-Transfer Fee.** Credit card issuers try to entice you to transfer your outstanding balance on other cards to theirs, by dangling a low interest rate. If you are considering a transfer, ask whether there will be a fee and how much it is. Also ask how long the low rates will last and whether the rate will go up immediately if you're late on a payment.

- **Finance Charge.** The price you pay to use credit. This cost also includes interest charges, cash-advance fees, late-payment fees and charges for exceeding your credit limit.

- **Fixed Rates.** Under a *fixed rate plan*, the consumer's monthly interest rate is based on the card's specific APR (annual percentage rate) divided by 12. However, this term can be misleading, because a "fixed rate" can be changed for any reason, as long as a credit card company first gives you 15 days notice. Know that many issuers raise rates immediately on cardholders who make late payments. Some companies may even increase your rate based on your late payments to other creditors (issuers frequently check the credit reports of cardholders). If this happens to you, you can contact the issuer and ask for a lower rate or even cancel the card.

- **Credit Limit.** Also called a credit line, this is the highest amount that you can borrow from a credit issuer. Your total credit line is normally indicated on your monthly statement, as well as your "available" credit line (how much you could still borrow from what remains of your total credit limit as of the date the statement was printed). If your credit record is not good, watch out for a really poor offer that matches high fees to a very low credit limit--it won't do you any good to pay $300 in fees and obtain a credit limit of $50.

- **Grace Or Free Period.** A period, usually lasting about 25 days, in which you can pay off your credit card bill without having to pay finance charges. The grace period only pertains to consumers who pay their credit card balances in full each month. However, according to Bankrate.com, many credit issuers are reducing grace periods to 20 days, meaning that by the time your statement arrives, you may already be amassing interest fees.

- **Variable Interest Rates.** Credit cards with *variable rate plans* are linked to adjustments in other interest rates, such as the prime rate or the Treasury Bill rate.

- **Zero-Percent Offers.** A popular come-on designed to attract new credit card customers is the "zero-percent" credit offer. However, these agreements usually have a limited introductory period, after which your interest rates zoom upward. In addition, if you miss a payment or are late, you also may incur an extremely high interest rate.

Calculating Your Finance Charge

Different credit card issuers use different formulas to calculate cardholders' finance charges. The method applied on a card can make a huge difference in finance charges, so it's worthwhile to make sure you understand exactly how charges are determined on any credit cards you have. And if you're considering opening any new accounts or accepting a particular credit offer, be sure to read the credit card agreement first.

Educate yourself so that you can fully understand and compare agreements from different issuers. Two great resources for information are the Federal Trade Commission at www.ftc.gov and www.Bankrate.com. Consider your own situation when reviewing terms and recognize the fact that if you normally carry a balance or make only minimum payments on a card, the way an issuer calculates your finance charges can make a huge difference in the ultimate cost of using credit.

To get you started, here are a few basic terms to help you understand the calculation methods used by credit issuers:

- **Average Daily Balance Method.** The credit card issuer averages the daily debt in your account during a billing cycle. To arrive at this figure, the issuer credits your account from the day payment is received. The issuer then totals the beginning balance for each day in the billing period and subtracts any credits made to your account that day. Cash advances typically are included. Some issuers also add new purchases to the balance, but this varies according to the particular card agreement. The daily balances are totaled and then divided by the number of days in the billing period.

- **Previous Balance Method.** Some issuers calculate your finance charges based on the amount that you owed at the end of the preceding billing cycle. Payments, credits or new purchases made during the current billing cycle—and in some cases, unpaid finance charges--are excluded.

- **Adjusted Balance Method.** Not to be confused with the average daily balance method, this far less common approach is also the most advantageous to the card holder. With this method, your balance is figured by subtracting payments and credits received during the present billing cycle from the balance at the end of the preceding billing cycle. New purchases you've made during the billing cycle are not included.

- **Two-Cycle Balances.** Some credit card issuers will make use of your last two month's account activity to calculate your balance. To verify whether your issuer uses this approach and which specific method is used, check your credit card agreement and your billing statement. <u>If you have any more questions, contact the issuer and ask for an explanation.</u>

Understanding Cardholder Rights and Protections

- **Prompt Credit For Payment.** A card issuer must credit your account on the day your payment is received unless a delay would <u>not</u> lead to any additional charges to you. This rule applies as long as your payment is made in accordance with the creditor's conditions.

- **Refunds Of Credit Balances Over One Dollar.** When you return merchandise or pay more than you owe, you can choose either to keep a credit balance on your account or contact your card issuer for a refund, which then must be sent to you within seven business days. If a credit remains on your account for over six months, the issuer must make an effort to reimburse you.

- **Errors On Your Bill.** Card issuers must supply you with instructions for requesting corrections on your bills. Many issuers print this information on your statement. If you notice a billing error, you can challenge the charge and refuse payment while the credit issuer looks into it. You will need to dispute the charge in writing within 60 days of receiving the bill. The card issuer has two billing cycles (or 90 days) to either fix the mistake, or to confirm and explain the accuracy of the charge.

- **Unauthorized Charges.** If your credit card is used without your knowledge, you can be held liable for up to $50 per card. You can't be held responsible for anything if you report a missing card <u>before</u> it gets used.

- **Lost Cards.** If you don't report a lost card before it's used, the most you will have to pay is $50. Always report a missing credit card as soon as possible. Most card issuers have toll-free, 24-hour numbers that you can contact in these emergencies.

- **Disputes About Merchandise Or Services.** If you have a problem with merchandise or services that you charged to a credit card that was <u>not issued</u> by the seller, you have the right to withhold payment from the card issuer under certain conditions: You must have made the purchase in your home state or within 100 miles from your residence and the purchase amount must exceed $50. You also should have made an honest effort to work out the problem directly with the seller, and withheld payment only as a last resort.

Understanding Your Credit Score

A credit score is a calculation that is designed to give credit issuers an instant picture of how credit worthy an individual is. Consumers with the highest scores are considered better credit "risks" and therefore are more likely to be offered the most favorable terms on a loan or credit card agreement.

In the past, few consumers paid attention to their FICO scores. One reason was that credit scores mostly were kept secret from consumers until early 2001. Before then, lenders were the only ones with access to FICO scores. Fair, Isaac and Co., the firm behind the FICO credit scoring method, now allows consumers to obtain their own credit scores. They can be purchased, along with your credit report, from all three major credit bureaus (Equifax, Experian, TransUnion) for prices varying from $10-$40. Credit scores also may be purchased at www.myfico.com.

To understand just how important your score is, consider this one example: According to myfico.com, a home buyer asking for a 30-year, fixed-rate mortgage of $150,000 who had a FICO score of 674 would be eligible for a 7.79 percent rate; a consumer with a score one point higher (675) would be eligible for a 6.64 percent rate on the same mortgage and a significant cost savings.

Your Credit Score Calculated

Information from your credit report--such as your bill-paying history, the kinds of accounts you have, outstanding debts, and the length of your credit history--is compiled and compared to the information of other consumers with similar profiles. A certain number of points is granted for each factor, depending on how much it pertains to a consumer's creditworthiness. The end score will be a number between 300 and 850. Lenders like to see scores above 700. Here are some tips to understand the percentage of different factors that affect your credit score.

- **Payment History (35 percent).** Your payment history accounts for the largest portion of your credit score. It's extremely important to pay your bills on time. Paying bills late, having accounts turned over to collectors or declaring bankruptcy, have strong, negative effects. Remember that your recent payment history has a greater impact on your score, so it's especially important to be punctual with your payments during the months preceding a new loan application.

- **Outstanding Debt (30 percent).** The amount you owe relative to your credit limits can decrease your score as well. This includes what you owe on credit card and loan balances.

- **Credit History Length (15 percent).** Simply put, the lengthier your credit history is, the higher your credit score will be. FICO scores take the age of your oldest currently open account and the average age of all of your accounts into consideration. Therefore, you may not want to close out old, unused accounts, since this will shorten your credit history. You generally shouldn't open new credit accounts just before you apply for a major loan. To do so would lower the average age of your accounts.

- **New Credit Applications (10 percent).** Try to resist that new, low-rate credit card. Every time you apply for credit, it's noted on your credit report. If you're applying for credit frequently, lenders assume that you're eager to get into debt.

- **Your Credit Mix (10 percent).** You want to have a mix of revolving credit (credit cards) and installment credit (such as auto loans). This will improve your credit score because lenders will assume that you manage money well, since you have experience with different kinds of accounts. However, this does not mean that you should have a large number of accounts. The more accounts you have, the more credit you have available to you. Lenders assume that you may overuse your credit if you have too much available to you.

Know the Score

It's a good idea to access your score to confirm its accuracy, especially before applying for credit. It's also a good idea to purchase your score from all three credit bureaus. This is because each bureau may have different information on you, depending on which companies have contacted them about your accounts. Also, creditors will usually take the middle of your three scores. Find out your middle score and then work to improve it.

Obtaining A Credit Record

A credit record is an historical account designed to show how well—or poorly—a consumer has managed credit in the past. It also contains information about employment and place of residence. In addition, it notes whether a consumer has an arrest record, has filed for bankruptcy or been the subject of any legal action.

Consumer reporting agencies (CRAs) or credit bureaus make individual credit records available to employers, insurance companies, lending institutions and credit issuers. This means that your credit record may be reviewed any time you apply for a job, a loan, a credit card, insurance, etc. What your credit record indicates about your character, trustworthiness and creditworthiness can make a huge difference in your life. Obviously, it's vital to ensure that your credit record is correct.

Retrieving A Negative Record

If you've been refused credit, employment or insurance due to the details of your credit report, federal law states that the company that has denied you a service must supply you with the name of the CRA that provided the negative information. Your credit report will be free of charge if requested within 60 days of the denial. You also should be eligible for a free report if you're out of work and plan to search for employment within 60 days; you're on welfare; or if your credit record is incorrect due to fraud.

If you do not meet any of the criteria for a free report, you can obtain copies for a small charge from one of the three major nationwide credit bureaus:

Equifax, www.equifax.com; 800-685-1111

Experian, www.experian.com; 888-397-3742

Trans Union, www.transunion.com; 800-916-8800

Correcting Credit Report Errors

Consumer Reports magazine says that an estimated 48 percent of consumers have credit reports containing errors. Be aware that the Fair Credit Reporting Act (FCRA) obligates the CRA, and the company that supplied the CRA with your credit information, to rectify any faulty or incomplete information that might appear on your credit report. Contact both the CRA and the information source if you find an error on your credit report.

Write to the CRA

Send a letter explaining the error to the CRA, along with copies (NOT originals) of documents that support your position. Include your full name and address. Your letter needs to:

- Clearly distinguish the disputed items in your credit report.
- Explain in detail why you dispute the items.
- Ask for deletion or completion of the incorrect information.

You also may want to include a copy of your credit report with the disputed information circled. Send your letter by certified mail, return receipt requested, and save copies of both the letter and the enclosures.

CRAs Must Reinvestigate Your Dispute

CRAs are required to reinvestigate the disputed information within 30 days, unless they find your dispute trivial. They also are responsible for sending your disputes to the information provider. The information provider must then investigate your dispute and present its results to the CRA. If disputed information cannot be verified by the information provider, CRAs nationwide will be advised and corrections to your credit report will be made. Recognize the following:

- If a CRA cannot verify a disputed item, the item must be deleted.
- The CRA must correct flawed information in your report.
- The CRA must complete information that is not current. For instance, if your report shows that you were once late with payments, but fails to show that you are no longer negligent, the CRA must update your record.

If the reinvestigation produces a change in your credit report, the CRA should give you the written results and a free copy of the revised report. Also, upon your request, the CRA must send your corrected version to your report recipients from the past six months. Job applicants can have corrected versions sent to their potential employers from the past two years.

If the reinvestigation does not settle your dispute, you may file a statement of up to 100 words explaining your viewpoint. Ask the CRA to include this statement in your report each time it is issued.

Write to the Creditor

After writing to the CRA, send a letter concerning the dispute to the creditor or information provider. Remember to enclose copies (NOT originals) of the documents that defend your position. If the information provider cannot prove that the disputed information is accurate, it may not be used again.

When Negative Information is Accurate

What if negative information on your report is accurate? Accurate negative information normally takes seven years to be removed from your record. There are exceptions to this rule:

- Information pertaining to criminal convictions may be reported indefinitely.
- Bankruptcy can be reported for 10 years.
- Information reported because of an application for a job with a salary over $75,000 has no time limitation.
- Information reported because of an application for over $150,000 in credit or life insurance has no time limitation.
- Information pertaining to a lawsuit or a judgment against you can remain on your report for seven years or until the statute of limitations runs out, whichever is longer.

Adding Accounts to Your File

Some of your creditors may not provide CRAs with your information. Utilities, gasoline card companies and local retailers are examples. If this occurs, those accounts will not show up on your credit file and you may be denied credit due to a "no credit file" or "insufficient credit file" detection. You will need to ask the CRA to add the missing account information to future reports. CRAs are not obligated to fulfill your request, but they may add the accounts for a cost.

Building Good Credit

- **Punctual Payments, Please.** Late payments on credit accounts can put you on the fast track to a lower credit score. You also may have to pay hefty late fees. Try to come up with a payment plan that keeps you on track or ahead of schedule.

- **Minimum Payments May Hurt.** Making only minimum payments generally costs you more in the long run, due to mounting interest charges that quickly can add up and take years to pay off. As a result, your credit card company may identify you as a high, negative risk and increase your interest rate.

- **Less Is More.** The more credit cards you have, the easier it is to overspend. It also is more difficult to make punctual payments when several different cards are due at the same time. One or two all-purpose cards with lower APRs and wide acceptance status are all that most people need.

- **Retain Receipts And Review Statements.** Hold on to your receipts so that you can confirm all charges when your bill arrives. Always check your statements carefully and report any errors immediately.

- **Charge Wisely.** Having a credit card does not mean you have more income. Only make purchases that you know you can pay off in 90 days or less. Don't risk falling too deeply into debt.

- **Stash Important Information.** Keep a list of your credit card numbers and the telephone numbers of each card issuer in a safe place, in case your cards get lost or stolen.

Choosing Credit Cards

Comparison shop for credit cards carefully, just as you would to find the best deal on any "big-ticket" purchase. Compare all the terms and conditions of different credit card issuers. Read the fine print! If you don't choose and use your credit cards wisely, you may have to contend with excessive fees, growing debt and a damaged credit rating. Be aware that excessive finance charges can eat up a large chunk of your family's income.

Here are some additional tips for selecting credit cards that will give you the best deals to meet your particular needs at the lowest cost:

- **Consider Your Personal Buying Habits And Needs.** It's a good idea to choose a credit card that complements your repayment habits and ability. If you intend to pay off your bills in full each month, a card with a grace period and no annual fee may be best for you. If you'd rather use credit cards to pay for purchases over time, consider the APR and the balance computation method. Find out how widely a card is accepted, and check on the special features and services available.

- **Ask About Your Credit Line.** You'll want to make sure that your credit card limit is high enough to meet your needs, but not so high that you'll be tempted to borrow more than you can repay. A good rule of thumb in determining a reasonable level of debt for your particular income is the "Twenty Percent Rule"—never spend more than 20 percent of your net income on the total of these monthly payments: auto loan, credit cards, installment loans and personal loans.

- **Consider Affinity Cards.** Affinity cards are all-purpose credit cards that are sponsored by professional organizations, travel industry affiliates or college alumni associations. The card issuer may donate your annual fees to these supporting organizations, or make you eligible for bonuses such as complimentary travel and airline tickets. One special precaution: When you apply for a card that offers enticing bonuses such as frequent flier miles, be sure that you qualify. Read the terms of the offer carefully. If you apply for a card that you're not qualified to receive, the credit issuer may send you an entirely different card with different and less-favorable terms. If that occurs, be sure you don't activate the card. Call the company immediately to cancel the account and register your complaint.

- **Compare Fees.** When comparing offers, look at such factors as late fees and over-the-limit fees. Some cards charge a monthly fee, whether or not you have used the card that particular month. Note also that some cards with low rates apply a "special delinquency rate" that may exceed 20 percent if you are late on your payments a certain number of times within a specified period.

- **Don't Become A Collector.** Remember, collecting credit cards should never become a hobby. For most people, a few major cards—carefully selected and always paid on time--are all that is necessary.

- **Minimize Costs, Not Payments.** Once you have selected the best possible credit cards, teach yourself to avoid depending on "minimum payments," no matter how tempting they sound. If you always pay only your minimum payments on time, you may be avoiding late fees, but you're still racking up significant interest charges. The end result is a growing debt that may require years to pay off.

Credit and Divorce

If you are considering or experiencing a divorce, pay special attention to matters affecting your credit. It is especially important that you understand the different kinds of credit accounts attached to your marriage, the implications that they have and the changes you may want to make.

Whenever you apply for credit, you will be asked to choose between an individual or joint account. You can grant authorization for other persons to use either type of account.

Individual Accounts

Creditors consent to individual credit accounts based on your credit history, assets and income. You alone are responsible for an individual account, whether you are married or single. Your payment record will show up on your credit report. Payment status also will show up on the reports of any authorized users on your account. However, these authorized users are not responsible for repaying any debt.

If you're unemployed or have minimal income, it may be harder to establish eligibility for an individual account. But if you are able to open one in your own name, you will have sole responsibility and control. No one will be able to keep you from maintaining a clean credit record.

Joint Accounts

Creditors grant joint credit accounts based on your and your spouse's credit history, assets and income. A joint account can be beneficial if only one person works outside the home. No matter who earns the money, both parties are responsible for paying off debts. When a creditor reports the credit history of a joint account to a credit bureau, both names must be registered.

Companies are more likely to grant credit for an application with joint financial resources behind it. The disadvantage, however, is that both people will always be responsible for the debt, even if a divorce decree appoints independent debt responsibilities to each spouse.

Your Accounts After Divorce

If you proceed with a divorce, it is vital to know what credit accounts you are responsible for. Protect your credit record by making punctual payments to any joint accounts that you keep. You and your former spouse will both be responsible for repaying any debt that exists on a joint account. This means that your credit record can be damaged due to the irresponsibility of your former partner. If you foresee this kind of problem, you may want to consider closing your joint accounts, as well as any other accounts on which your ex-spouse was an authorized user. You also may choose to ask your creditors if you can transfer your joint accounts into individual accounts.

Don't presume that your joint accounts will close automatically after a divorce. Creditors can only close joint accounts upon a spouse's request. Also keep in mind that creditors are not obligated to convert your joint accounts to individual accounts. Creditors may choose to have you submit an application for individual credit. They will grant or deny you an individual account based on this reapplication.

Credit And Job Searching

If bad credit turns up at a job screening or background check, it may weaken your chance of getting the position you're after. However, according to the Fair Credit Reporting Act (FCRA), your credit report isn't fair game for your prospective employers unless they get your approval. If you agree to let them view your credit report and don't get the job because of its contents, consider the following information.

Contest the Accuracy of Your Credit Report

Under the FCRA, credit reporting agencies, as well as the banks or credit card companies that presented your information, must resolve inaccuracies on your credit report. Information that cannot be verified by these agencies must be removed from your report.

Check Credit Reports Annually

The Federal Trade Commission (FTC) recommends that you review the accuracy and completeness of your credit report every year. It's best to obtain copies from all three of the major credit reporting agencies, since the reports may differ.

Equifax
800-685-1111
www.equifax.com

Experian
888-EXPERIAN (888-397-3742)
www.experian.com

Trans Union
800-916-8800
www.transunion.com

Job Loss and Creditors

At one time or another, nearly everyone will have to deal with periods of unemployment. The loss of a regular paycheck while you search for a new job or wait to be recalled to work can have devastating effects on your life, personally, professionally and financially.

Fortunately, most people can weather a temporary loss of income if they focus their energies appropriately. In the process, they also can learn how to save, borrow, spend and budget their money more wisely, lessening future threats to their financial security.

Never set yourself up for a long-term credit and financial problem to "solve" a short-term money crunch.

Before You Contact Creditors

Find simple ways to cut your spending immediately. Reduce expenses at the grocery store, restaurants, malls, entertainment, home and travel. Use coupons and comparison shopping to reduce the cost of essentials. Consider less expensive housing (if feasible), generic medicine, paring down nonessential telephone options such as caller I.D., eliminating cable TV and subscriptions, packing lunches from home, renting videos instead of going to the movies, etc.

Negotiate With Your Employer

Ask for an extension of your employer-provided health insurance. Take advantage of outplacement services to network, prepare a resume, etc. You may even be able to use the employer's office space and equipment to job hunt. If your company offers to continue your salary for a few weeks or months, consider asking for an immediate lump-sum severance package, since this may help you qualify sooner for unemployment.

Ask for Assistance if Eligible

Don't let pride keep you from filing for unemployment. To determine if you're eligible, call your local unemployment office. Eligibility will depend on such factors as how steadily you worked during the past year and how much you earned. Be aware that some states have "waiting periods" or are currently backlogged with applications, so you should file for benefits as soon as you can.

Also, remember that unemployment benefits are taxable, so once you are back to work, try to put some money away toward your next tax bill.

Contact Creditors, Lenders and Other Service Providers

If you've cut expenses and maximized income and are still coming up short, plan to contact every creditor or service that bills you on a monthly or quarterly basis. This may include lenders for loans on your car or home, all credit card issuers, utility companies including telephone service, medical and insurance bills. When you appeal to lenders before you miss any payments, they tend to be more understanding of your situation. Many may work with you to establish a budget program, or an interest-only monthly payment.

How to Contact Your Creditors

- **Review Your Budget.** Using the Foundation for Credit Education's printable worksheets and/or online calculators, determine what income you can reasonably expect to have over the next several months. Be sure to include unemployment, alimony, child support, part-time wages, etc. Don't list anything that you have doubts about, such as possible loans from friends or family. Then, complete the worksheets on your fixed, variable and periodic expenses. Estimate the number of weeks or months you expect to have a lowered income.

- **Decide What You Can Handle—Then Ask For It.** Your budget figures should allow you to figure out how much you can reasonably afford to pay your creditors while you are not working. By requesting that your creditors agree to specific partial payments for an agreed-upon period of time, you may avoid such things as late charges, additional finance charges, collection calls and shut off of vital services such as electricity, water and gas. Be prepared to negotiate.

- **Prioritize And Send Written Notification.** Writing a letter to your creditors is nearly always the best approach. It gives you and the company a record of your request and allows you to fully and calmly explain your situation without any pressure from collection staff. Make a list of who to contact first, based on how much a particular debt affects your family. For most people, debt repayment would follow this priority: mortgage or rent, automobile loan, insurance, utilities, other loans and credit cards from banks and retailers.

- **What To Include In Your Letters.** Briefly describe your temporary unemployment situation. Indicate when you expect to be back at work. Mention any promising leads you may have had on a new job, but don't identify potential employers by name. Explain how you have reviewed your financial situation and developed a strict budget that calls for reduced payment to each of your creditors for a specific time period, such as the next three months. Indicate the partial payment that you are able to make, such as $25 per month instead of $45 per month. Ask for the creditors' cooperation, apologize for the situation and thank them for their understanding. Promise to notify the creditors immediately of any changes in your financial situation. Be sure to include your name, address and credit account number.

- **Be Ready To Answer Questions.** Keep a copy of the letters along with a summary of your repayment plans and budget. Put everything in a file near your phone so that you can respond if any of the creditors call you for additional information. Respond politely to any calls, but never promise higher payments than you can actually make.

- **Get Professional Help, If Necessary.** If you feel confused or overwhelmed by debt, consult the professional counselors and educators at a reputable debt counseling agency, such as those affiliated with the Foundation for Credit Education--Credit Counselors or CDC Consumer Debt Counseling. Certified debt counselors are trained to help you assess your financial situation, work out a debt repayment plan and contact all your creditors on your behalf. Credit counseling agencies also work with creditors to obtain reduced interest charges and eliminate late fees and over-the-limit fees.

Additional Recommendations

- **About Housing Payments.** Be sure to contact your lender or landlord to discuss your situation. Lenders generally avoid foreclosing on mortgages because of costs involved. Many mortgage companies offer a "forbearance agreement," in which you are allowed to pay a portion of your normal mortgage payment each month for a specific period of time. Depending on the landlord, renters may be able to submit partial payments for a month or two or even perform maintenance work in exchange for a portion of the rent. If you are considering a move to less expensive housing, remember to figure in the many costs of moving before making a decision.

- **Avoid Repossession.** If your car is repossessed, it may be sold at auction for less than what you still owe on it. This means you are still liable for the remaining amount of your loan. To avoid having your car repossessed, it's probably best to ask that your loan be rewritten at a lower monthly payment, even though this may increase your total finance charges over the course of the loan.

- **Tips On Insurance.** Check with your insurance providers to determine whether there are grace periods on making payments. Also, ask what the consequences will be if your insurance lapses for a month or two and has to be reinstated later. Avoid lapses on your life insurance policy since your premiums could be set higher when you resume your policy. You also may be required to undergo a physical—if you have any health problems, you could be denied coverage. Send a letter to your insurers explaining your situation and asking about payment options.

- **Saving On Health And Auto Insurance.** You may want to lower health insurance payments by increasing your deductibles. Also, be sure to look into the health insurance provided by your former employer to see what it would cost you to continue it. (Under COBRA legislation, employers are required to let you continue your health insurance plan for a minimum of 18 months, but it can be very expensive for you.) Check out Medicaid and low-cost community services. For car insurance, switching to higher deductibles may reduce your premiums significantly. Also, if your car is old or in poor condition, you may want to reduce your collision and comprehensive (fire and theft) coverage. Remember, however, that state law requires you to maintain liability coverage.

- **Know Your Rights.** The law protects you from harassment, false threats and abuse from collection agencies. For information on your rights or to register a complaint, contact the Federal Trade Commission, www.ftc.gov.

Protect Your Credit Record

- **A Negative Report Can Haunt You For Years.** Late credit card payments may be reported to the credit bureau. Negative information remains on your credit report for seven years. Also be aware that potential employers may check your credit report before hiring you. To maintain the best possible credit rating, contact your creditors, explain your situation and offer to send in partial payments. Avoid using your cards totally until your financial situation is back to normal. Don't let a short-term financial crunch become a long-term problem by ruining your credit record.

- **Avoid Bankruptcy.** Bankruptcy also will damage your credit record for years. It is rarely the best solution, particularly when the loss of income is a temporary problem.

What To Do For Short-Term Cash

- **Consider Carefully Before Taking Out Non-Traditional Loans.** Many lenders advertise non-traditional forms of loans as a way to manage your financial crisis. While these offers may sound appealing when you are facing a sudden loss of income, you must evaluate them carefully to avoid putting yourself in a worse financial position. *Debt consolidation loans* generally lend you money at higher interest rates than many of the debts that are “covered” for you. *Home equity loans* also can be costly and put your house at risk if you default. *Payday loans* and *car-title loans* usually have exorbitant short-term interest rates and are best avoided entirely.

- **Sensible Options.** Better sources of short-term cash might be to borrow against your life insurance policy or your company pension plan. You also may be able to borrow against your spouse’s 401(k) plan, although you cannot borrow from your own once you leave your job.

- **Reduce Withholding.** Your working spouse can increase his or her paycheck by adjusting the amount of taxes withheld. (Normally, when one wage-earner in the family loses a job, the family drops into a lower tax bracket and will thus avoid owing a big amount to the IRS, even if withholding is reduced.) Another way to increase the amount of your spouse’s paycheck would be to temporarily reduce or stop 401(k) contributions.