



Credit
Abuse
Resistance
Education
(CARE) Program

 SAN DIEGO COUNTY
BAR ASSOCIATION

U.S. Bankruptcy Court –
Southern District of California

CARE Program

- Responsible spending.
- Saving and budgeting.
- Good money-management practices.
- Understand the details about credit.
- Learn about student loans.
- Know your options if you overspend.

Why Do You CARE?

- Your car gets repossessed.
- You get evicted from your house or apartment.
- You get collection phone calls.
- Your bank balance is frozen.
- You are driven to payday loans and check-cashing services and lose lots of money.

Why Do You CARE? *(continued)*

- Accumulation of late fees, over-limit fees, compound interest.
- Damage to your credit score, which can prevent you from renting an apartment.
- Bankruptcy.

Money, Money, Money!



Wants vs Needs



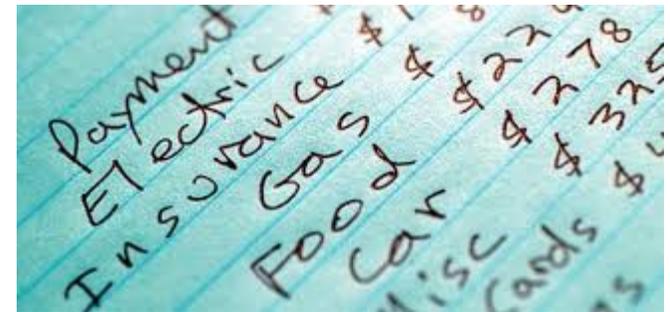
*Don't Buy Stuff
You Can't Afford!*



What is a Budget?

A budget helps you manage your money.

- Calculate your “income.”
- Calculate your “expenses.”



Sample Budget

Income		Expenses	
Gross wages	\$3,000	Rent	\$750
Less payroll deductions	- 1,300	Utilities: Gas, water, Internet, phone	100
Net income	\$1,700	Food	250
		Clothing	25
		Laundry	20
		Transportation	300
		Recreation	30
		Insurance	90
		Misc. expenses	75
		Total expenses	\$1,640

**Savings:
\$60**

Money Management

- Have one to turn your paycheck or assistance check into usable funds so you can pay your bills
- Without one, you must pay expenses and bills using cash only
- Some people do this because they owe support money or taxes or unpaid bills

Cash-Only Living?

No, it creates other problems

- Carrying lots of cash? You can be robbed
- Renting an apartment? Big problem
- Cashing checks at check-cashing services is expensive: 10% +
- A cheaper option: Walmart
 - \$3 to cash a government or payroll check; \$6 if check is over \$1,000

Bank Accounts

- Easy to get if you have good credit and significant money to deposit
 - Open an account at a bank or credit union and make a deposit
 - Order checks and a debit card that will arrive in the mail



Cost of Bank Accounts

- The higher the deposit, the smaller the cost for the account
- High-amount depositors pay only \$17.85 annually for their checking accounts, but accounts may be free if you have direct deposit and bank online
- Cash-strapped people pay an average of \$499.02

Bad Credit?

- You might be rejected by the bank because it uses the Chex System™ to monitor your credit
- Your account may be more expensive
- The higher the deposit, the lower the cost for the account

Alternatives to Bank Accounts

- Credit unions
- Online bank accounts
 - Wells Fargo Opportunity Checking Account
 - Need to make direct deposits of \$750 / month
 - US Bank Second Chance Credit
 - PNC Bank Foundation Checking Program
- Prepaid debit cards

Use Your Account Wisely

- Don't open more than one account
- Don't write a lot of checks
- Don't write checks if no money is in the account, even if money will be deposited the next day
- Know the bank fees
- Know your account balance
 - Available by phone, Internet, or ATM

Use Your Account Wisely

- Regularly balance your checkbook
 - Subtract all debit and ATM transactions along with any associated fees
- Review your bank statement monthly for errors, missed entries, etc.
- Sign up for overdraft protection (linking your checking to a savings account)

Have \$\$ in Your Account!

- ATM usage fees.
- Overdraft charges.
- If you bounce a check, your bank may put your name in Chex SystemsSM, harm your credit, and charge more for the account.
- Don't forget about checks that haven't yet cleared.

The Beauty of Compounding

Would you rather have \$1,000,000 today or have a penny today and double your money everyday for a month?



The Beauty of Compounding

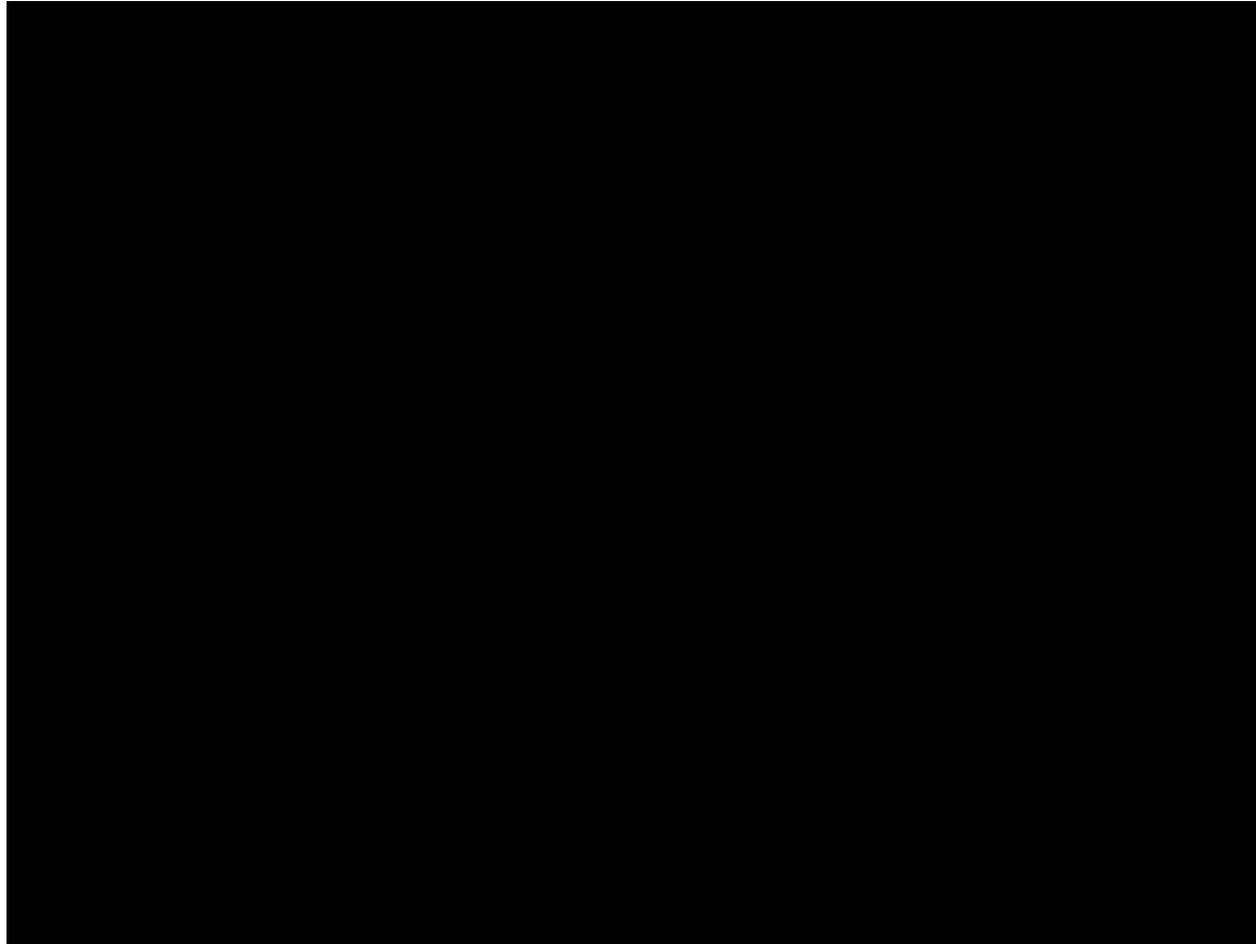
\$1,000,000 at 10% interest

= \$1,100,000

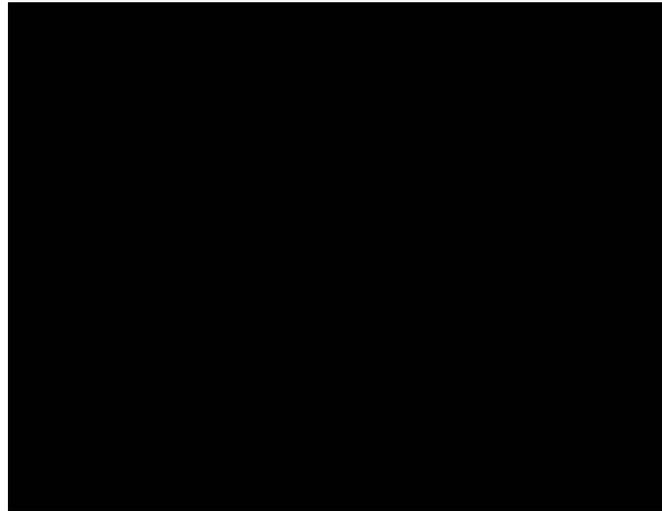
\$.01 and your money doubled everyday

= \$10,737,418.24

The True Cost of Credit



I Wanna Be Rich!



For “Big Ticket” Items

Unless you’ve saved
lots of **cash**...



...you’ll probably use a
credit card.

True or False?

If you pay your credit card balance on time and in full each month, it doesn't matter what rate the bank charges on your credit card.

True

Because you pay interest on the **unpaid** amount each month,
you never pay any interest charge
if you pay the entire amount due
each month.

Banks hate it when you do this!

Can Students Get a Credit Card?

- A credit card CANNOT be issued to someone under age 21 unless the person has a co-signor (over age 21) or can provide proof of a means to repay.
- Before the change in the law, the *average* college student owed about **\$3,000** in credit card debt.

Credit Card Promises & Tricks

- Promise 1: “As low as 9.99% APR!”
- Promise 2: “Up to 5% cash back!”
- Promise 3: “Your card has a credit limit of \$3,000.”

Credit Card Tips

- Get only one credit card.
- Avoid new accounts just for the low introductory rate.
- Stay under 50% of your credit limit and don't max it out.

Credit Card Tips *(continued)*

- Don't co-sign for someone else's credit card, unless you really love them *and can pay it off*.
- Don't take cash advances
- Don't let anyone else use your card!
- Try applying for a secured credit card if you cannot get credit.
- Review your card statement monthly.

Pay Up!

- Calculate how long it will take to pay off credit cards. Visit Bankrate.com
- Make a plan to pay debt and stick to your plan.
- Try to pay the **entire** amount due each month by the due date.
- Pay more than just the minimum payment amount.
- Pay higher-interest cards first, but don't miss any payments on **any** card.

Quiz

*When is it a good idea to take out another credit card?
When you are offered one in the store?
When you receive a solicitation in the mail?*

- A. It's always a good idea to have more credit.
- B. Only when the store is offering discounts on everything you buy that day.
- C. It's never a good idea; credit is bad.
- D. When the APR is lower than any other card you have, and you have a zero balance on those cards.

Answer

- A. It's always a good idea to have more credit.
- B. Only when the store is offering discounts on everything you buy that day.
- C. It's never a good idea; credit is bad.
- D. When the APR is lower than any other card you have, and you have a zero balance on those cards.**

Answer D

because you can save money with a lower interest rate,
and you are already using your cards wisely!

Paying Late

- Late payments will decrease your FICO score and increase the rate of interest you must pay.
- The interest rate you pay may increase sharply!
- Late fees may be added!!
- Better to **pay late** than **not at all**.

Your Credit Report Card

Credit reports exist only for people who have established a credit history.

*Having **no** credit history can have adverse consequences.*

Your Credit (FICO) Score

*A 3-digit number between 300 & 850
determined from your credit report*

The higher, the better!

- Reflects late payments, defaults, and number of credit cards
- Used to determine if you are good credit risk

Your Credit (FICO) Score

- Is used to determine the finance cost you pay for a new car or house and your credit card interest rate
- Is checked by landlords when you rent and by employers for high security jobs
- Will determine if you are bankable

Visit www.myfico.com

True or False?

Prospective employers may request credit reports from a prospective employee.

False

The Employment Credit Check Law (2012) prohibits employers from requesting credit reports for Californians unless they are working or seeking work in a financial institution, law enforcement, or the Justice Department.

Rebuilding Your Credit

- Get a free copy of your credit report; visit annualcreditreport.com
- Fix errors on your credit report
- Don't fall for scams promising that rebuilding your credit is easy or 100% guaranteed

Rebuilding Your Credit

- Most negative credit report information remains for 7 years
 - As time passes, its impact on your credit score decreases
- File bankruptcy if it is appropriate

Rebuilding Your Credit

- Start with a secured credit card or a gas card to establish a good credit history



- The *National Foundation for Credit Counseling* offers free or low-cost help for rebuilding finances:

http://www.nfcc.org/FirstStep/firststep_01.cfm.

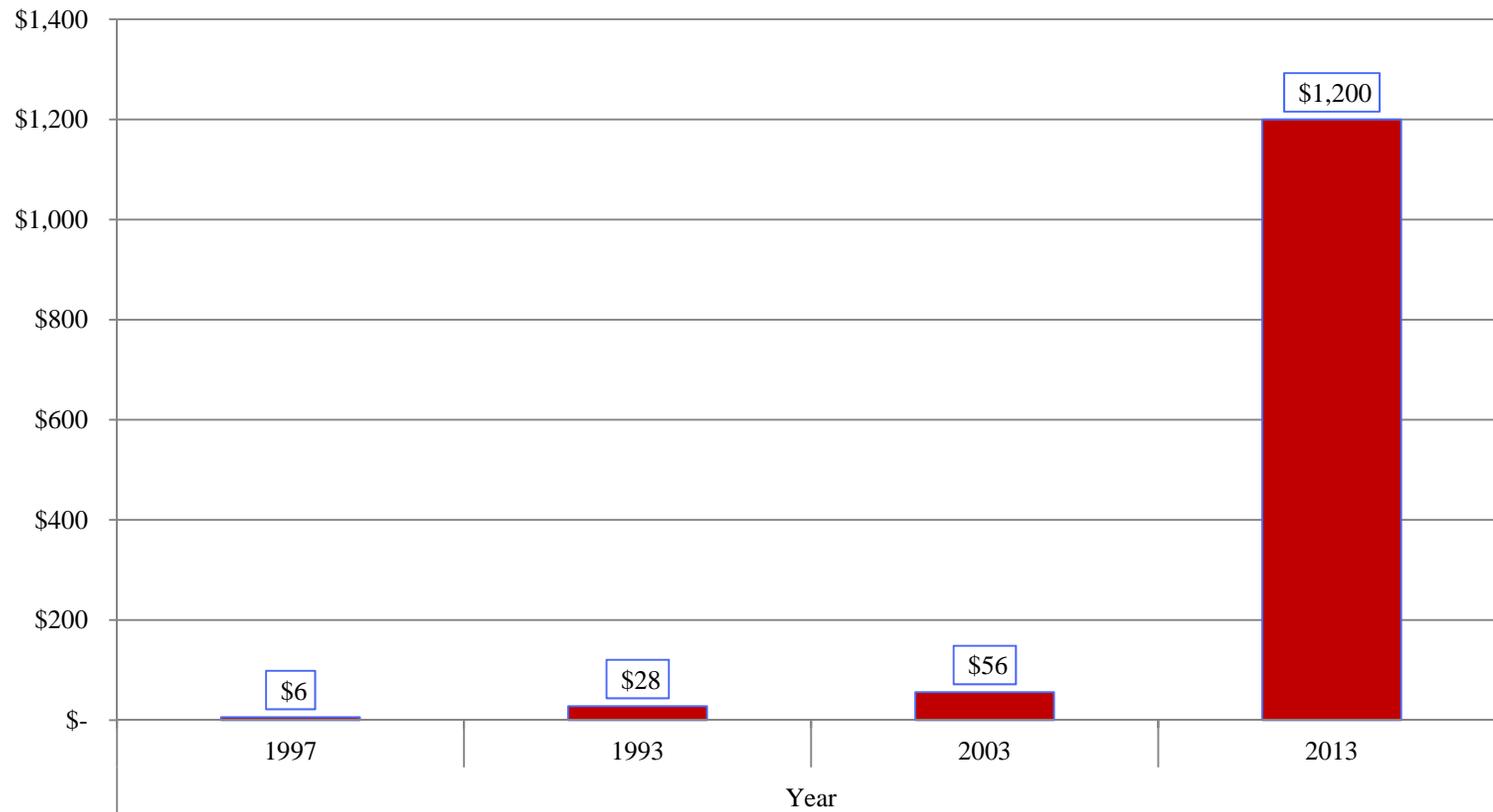
Student Loans

- After high school, do you plan on attending a college or technical school?
- How do you plan to pay your tuition?



Student Debt

Student Debt (in \$ billions)



Student Loan Types

Government

- Have fixed rates
- Can be forgiven for government service
- Examples: Perkins, Direct, Subsidized, PLUS, etc.

Private institutions (banks, etc.)

- Have variable interest rates
- May or may not have to pay while in school
- Cannot be consolidated into a federal program
- No loan forgiveness

Government Student Loans

Perkins

- College is the lender
- Up to \$5,500 per year

Direct Unsubsidized (Interest rate: 3.86%)

- Common Loan
- Interest charged at time of disbursement

Direct Subsidized (Interest rate: 3.86%)

- Typically for student with some financial need
- No interest charged until 6 months after you leave school

PLUS

- Loans for parents
- May limit repayment options and consolidation



True or False?

All schools are not for profit (nonprofit).

False

Not all schools are nonprofit.

In fact, for-profit schools often have the poorest graduation and employment-success rates and may not be optimal choices for further education. The more advertising you see, the more likely it is for-profit.

True or False?

If a school is offering you a student loan,
it is a government loan.



False

Schools do not necessarily recommend loans in the students' best interests. Look out for your own interests. Some school admissions officers have been investigated for misconduct in their recommendations of student loans.

Student Loan Traps



- **Be wary** of private student loans!
- **Understand** your loan terms
- **Make sure** your desired degree has the earning power to pay off your loans!
 - Don't take out a \$100K loan for a career that pays \$40K
- **Do not** use student loans to pay for living costs – buy used books or live at home, the food may be better.
- **Do not** miss a payment! Default is VERY expensive!
 - Student loans never go away. They typically are not dischargeable in bankruptcy.

Student Loan Tips

Work study

- Can be school or federally funded
 - Federal Work Study available at 3,400 institutions

Scholarships

- Free money!
- Available for all kinds of students
 - Can be academic, sports, ethnicity, essay competition, public service, religious, etc.

Get a job

- Offsets living expenses and even tuition
- If in your field of study, a great way to become familiar with industry and make contacts for post-graduation employment

Student Loan Tips *(continued)*

- **Borrow** only what you need
- **Research** the VALUE of your school
 - College Scorecard
 - <http://www.whitehouse.gov/issues/education/higher-education/college-score-card>
- **Know** when you need to begin repaying your loan
- **Get** help before getting too far behind
 - Federal: (800) 4-FED-AID
 - Private: Your lender
 - Lender concerns: <http://www.consumerfinance.gov/>

Vocational Schools

Do you plan on attending a vocational, technical, or trade school?



Fashion Institute of Design & Merchandising



Vocational Schools

What is a vocational school (votech)?

- Trains students in a particular field
- Typical fields include:
 - Computer or automotive technician
 - Medical or dental assistant
 - Hair stylist
 - Paralegals
- Also known as trade or correspondence schools

Vocational Schools

The Good

- A great way to learn a trade or skill in a year or two
- May be less expensive than a 4-year degree

The Bad

- May put you into a field with no real job prospects
- Better alternatives may be available through community colleges & apprenticeships

Vocational School Tips

Check the school's reputation with students about how current the technology and curricula are

- Google
- Discussion boards
- Ask a graduate

Check the school's reputation with employers

- Ask potential employers about the school
- Ask school about placement-assistance references

Vocational School Tips

Check licensing and accreditation

- U.S. Department of Education
 - [Database of Accredited Postsecondary Institutions and Programs](#)
 - [Council for Higher Education Accreditation database](#)

Check complaints filed

- Office of the Attorney General
- Better Business Bureau

Vocational School Tips *(continued)*

Earnings

- Do not rely on the school's figures for earnings in a particular field
- Ask an employer or someone actually in that field
- Be conservative in your estimates
 - Make sure you can repay any loans!

Student Loans

- Private or government?
- Check the school's student loan default rate
 - <http://studentaid.ed.gov/about/data-center/student/default>

Community Colleges

Community colleges offer many programs!

You can:



- Earn an AA degree
- Earn credits toward a BA degree and for some programs, a full BA
- Complete your first two years of classes for a BA
- Earn a Technical degree or Certificate
 - Programs range from Aviation Maintenance to Real Estate Appraiser

Why Consider Community Colleges?

Community colleges

- Often cost less than a university or vocational school
 - Example: UW is roughly **\$275/credit** (full-time). Seattle Community College is **\$89/credit** (full-time)
 - For first two years, the cost difference is roughly **\$15,000!**
- May have smaller classes than universities

*Lower cost & wide variety of programs means greater freedom in determining what you want to do **before** incurring a huge debt.*

Community Colleges

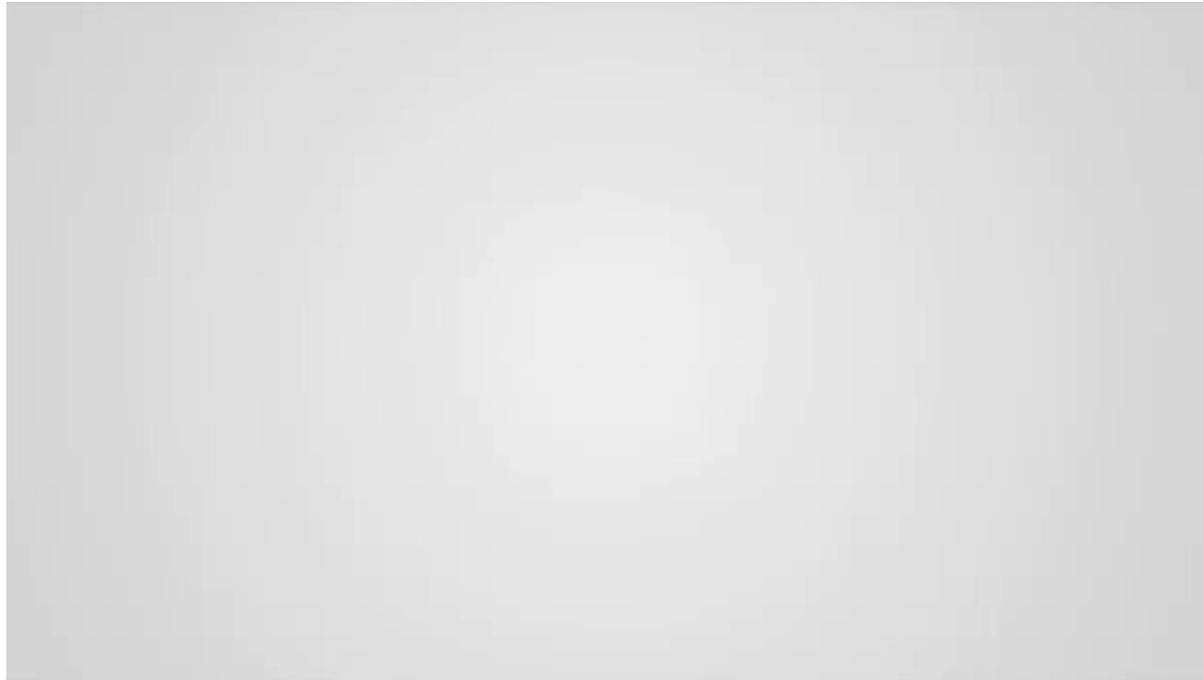
Direct-Transfer Agreements

- Many community colleges have direct-transfer agreements with local universities and colleges. Check out transfer guarantees.
- Allow you to complete first two years of a four-year degree at a community college and then transfer to a college or university as a junior in many cases

Community College?

- Make sure your degree or certificate is enough to get you a job in the field
- Check the schools' accreditation and programs
- If planning to transfer to a four-year college, make sure they accept your classes and/or degree
 - Work with the school counselors to ensure you are on track
- Take school seriously because remember, *you are paying for the credits*

Payday Loans



Payday Loans “Cycle of Death”

Don't get caught in the payday loan cycle!



Easiest solutions to needing a payday loan:

- Create and fund a savings account containing \$250 - \$1,000
- Exhaust all other options first— including pawn shops or your family (if desperate)

U.S. Bankruptcy Court – Southern District of CA

**Visit the CARE Web site
Students page**

www.casb.uscourts.gov/CARE