

Chapter 105 : Credit Cards  
(Cite as: 9 V.S.A. § 4041)

§ 4041. Definitions

As used in this chapter:

- (1) As used herein, the term "person" shall include a natural person, a firm, an association, and a corporation, and any officer, employee or agent thereof.
- (2) "Cardholder" means any person to whom a credit card is issued and any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.
- (3) "Card issuer" means any person who issues a credit card.
- (4) "Credit card" means any instrument, whether known as credit card, credit plate, charge plate, or any other name, which purports to evidence an undertaking to pay for property, labor, services, or delinquent taxes paid, delivered, or rendered to or upon the order of persons designated or otherwise authorized as bearers of such card, and includes bank credit cards as defined in 8 V.S.A. § 1301(b).

Chapter 063 : Consumer Protection  
(Cite as: 9 V.S.A. § 2457)

§ 2457. Evidence of fraud

The failure to sell any goods or services in the manner and of the nature advertised or offered, or the refusal or inability to sell any goods or services at the price advertised or offered or in accordance with other terms or conditions of the advertisement or offer, creates a rebuttable presumption of an intent to violate the provisions of this chapter. No actual damage to any person need be alleged or proven for an action to lie under this chapter.

Fair Debt Collection Practices Act  
15 USC §1692h

**§ 809. Validation of debts**

(a) Notice of debt; contents

Within five days after the initial communication with a consumer in connection with the collection of any debt, a debt collector shall, unless the following information is contained in the initial communication or the consumer has paid the debt, send the consumer a written notice containing --

(1) the amount of the debt;

(2) the name of the creditor to whom the debt is owed;

(3) a statement that unless the consumer, within thirty days after receipt of the notice, disputes the validity of the debt, or any portion thereof, the debt will be assumed to be valid by the debt collector;

(4) a statement that if the consumer notifies the debt collector in writing within the thirty-day period that the debt, or any portion thereof, is disputed, the debt collector will obtain verification of the debt or a copy of a judgment against the consumer and a copy of such verification or judgment will be mailed to the consumer by the debt collector; and

(5) a statement that, upon the consumer's written request within the thirty-day period, the debt collector will provide the consumer with the name and address of the original creditor, if different from the current creditor.

(b) Disputed debts

If the consumer notifies the debt collector in writing within the thirty-day period described in subsection (a) of this section that the debt, or any portion thereof, is disputed, or that the consumer requests the name and address of the original creditor, the debt collector shall cease collection of the debt, or any disputed portion thereof, until the debt collector obtains verification of the debt or a copy of a judgment, or the name and address of the original creditor, and a copy of such verification or judgment, or name and address of the original creditor, is mailed to the consumer by the debt collector. Collection activities and communications that do not otherwise violate this subchapter may continue during the 30-day period referred to in subsection (a) unless the consumer has notified the debt collector in writing that the debt, or any portion of the debt, is disputed or that the consumer requests the name and address of the original creditor. Any collection activities and communication during the 30-day period **may not overshadow** or be inconsistent with the disclosure of the consumer's right to dispute the debt or request the name and address of the original creditor.

# EMPLOYER'S GUIDE TO TRUSTEE PROCESS AGAINST EARNINGS

## *A question and answer guide to complying with Vermont's wage garnishment laws*

### **Why do I have to cooperate in this process?**

There may be times when you or your company may be owed money by someone else. If you go to Court and obtain a judgment, you are still not guaranteed payment. There are a number of legal tools available to assist you to recover your judgment debt from a Debtor who will not voluntarily pay you. One of them is Trustee Process Against Earnings. Just as you have this tool available to help you recover a judgment debt, the Creditor in this case has the right as well. In order to make the tool effective, Vermont law provides that an employer (Trustee) who does not cooperate in the process will be obligated to pay the entire debt owed by the Debtor to the Creditor. If you follow the steps required of you in this process, neither the Creditor nor the Debtor will have any legally enforceable claim against you.

### **How do I comply with this process?**

Vermont law imposes two requirements on you: First, you must disclose to the Court and the Creditor the amount of "disposable earnings" the Debtor is "compensated" by you each pay period. There is a "Trustee's Disclosure of Earnings" form that you have been provided with. You must: 1. Complete this form and have it notarized; 2. Send one copy to the Court; and, 3. Send one copy to the Plaintiff's attorney. This completed form must be received by the Court and the Plaintiff's attorney at least 3 days prior to the date of the hearing provided to you in the Notice of Hearing. In the alternative, you may attend the Court hearing described in the Hearing Notice you received and provide the disclosure by testimony in open court.

After the Court holds a hearing, the Creditor may be awarded a Trustee Process Order which requires you to withhold money from the Debtor's compensation each pay period and forward it to the Creditor's attorney. The order will have a date when withholding is to begin. If the date is "forthwith" or has already passed when it is served upon you, you must begin to withhold and transmit payments to the Creditor's attorney beginning with the next payment you make to the Debtor after you receive the Order. In the event there is any reason why payment is not being sent to the Creditor, such as: the debtor received no compensation or an amount below the threshold, the debtor is temporarily not working or any other reason why payment is not being sent, you should contact the Creditor's attorney to let them know why payment will not be received.

### **How do I calculate the Debtor's "Disposable Earnings?"**

Disposable earnings are those earnings the Debtor is entitled to receive after deduction of all amounts required by law to be withheld. Taxes, FICA and other prior garnishments, including child support, are required to be withheld. 401k contributions, medical insurance, charitable contributions, loan repayments, savings plans and other discretionary deductions are not. The Trustee is required to disclose the regular compensation which would be paid to the Debtor if they did not elect any voluntary deductions. If you are not clear as to whether one or more deductions are required, you should disclose the earnings after the deductions you are clear on and itemize the deductions you are not clear about.

The Trustee is required to disclose the average disposable earnings for each pay period. It is not sufficient for you to list the amount of the Debtor's hourly rate or yearly salary. If the Debtor is paid weekly, state the weekly disposable earnings, if they receive compensation which varies greatly (ie. \$100 one week, \$300 the next) you are required to average the Debtor's earnings. Generally averaging the last ten compensation periods is acceptable. You should provide a printout of the last ten compensation periods with your disclosure if this is the case. If the Debtor is a seasonal employee, you should disclose how much they are compensated on average during the season and the dates of the season they are likely to work. Failure to properly disclose the amount and frequency of the Debtor's disposable earnings may result in you being responsible for payment of the Debtor's entire debt to the Creditor.

### **If I don't pay the Debtor wages or salary, must I still participate in this process?**

Yes. If the debtor receives no compensation from you at all, you must still complete and return the forms with that response. Compensation is much more than wages or salary. If the Debtor receives commissions, payments for milk or other products, or any other regular payment, you must disclose this fact and the average compensation paid to the Court and the Creditor. If the Debtor works independently, but regularly for you, you must disclose this fact. For example, postal and newspaper carriers, subcontractors and delivery drivers all receive compensation which must be disclosed. If you are unsure about the meaning of the term "compensation" in this proceeding, you should seek legal advice. Failure to properly disclose your relationship with the debtor may result in you being liable for the Debtor's entire debt to the Creditor.

### **What if Debtor is temporarily out of work?**

If the Debtor is temporarily out of work because of work slowdown, seasonal employment, disability or they are on worker's compensation, you should disclose this fact and state when you expect the Debtor will be able to return to work. You should also disclose the average amount of compensation they either received before absence from work or the amount you expect them to receive when they return.

If you have received a Trustee Process Order and the Debtor is out of work or no longer receiving compensation while on worker's compensation, or other disability insurance coverage, you should not withhold or transmit any of the Debtor's compensation. If a Debtor has retired and receives pension payments from you, you may be required to withhold and transmit funds under the Order.

### **What if I receive more than one Trustee Process Order?**

You must review the terms of each order and comply with its terms. Most Trustee Process Orders contain a provision that you must withhold the stated amount so long as the Debtor's earnings do not fall below a certain dollar amount or percentage of their disposable earnings. For example, certain Orders provide that enforcement of the Order may not cause the Debtor to lose more than 15% of their disposable earnings or drop below \$206.00 per week in earnings. Others provide for up to 25% withholding or a minimum threshold of \$154.00 per week in earnings. You should withhold the maximum amount you can withhold in compliance with the Orders, in the order that you have received them. For example, if a debtor begins with \$230.00 per week in disposable earnings and the first Creditor obtains an Order to withhold \$20.00 per week, that Order takes first precedence. If a later Order requires that the Trustee withhold \$40.00 per week and further provides that the threshold is \$154.00 per week or 25% of earnings, the Trustee should withhold and transmit on both the first and second Order until the terms of the first Order are violated when the first deduction is taken or the terms of the second Order are violated by the second deduction. A deduction which has been Ordered but cannot be taken by its terms waits in line until it can be taken, either because the Debtor's compensation increases or a prior Order is paid off and expires.

### **How do I apply the threshold on the Trustee Process Order?**

The amount of withholding in the Order is the maximum amount which is to be withheld. This is subject to a threshold which should be stated in the Trustee Process Order. There are usually two kinds of threshold, a percentage and a minimum amount. In the event a Debtor makes \$216.00 in a week, the Order requires withholding of \$20.00 per week, and the

Order states that \$206.00 per week is exempt, the Trustee should withhold and send \$10.00 to the Creditor. Thus, the Debtor is assured a minimum amount of \$206.00 per week in disposable earnings. In the event a Debtor makes \$300.00 in a week, the Order requires withholding of \$50.00 per week and the Order states that 85% of the wages are exempt, the Trustee should withhold \$45.00 and send it to the Creditor. If you are unsure about how to apply the threshold in a Trustee Process Order, you should seek legal advice.

### **How long am I required to withhold and send payments to the Creditor?**

You must continue to withhold and send payments to the Creditor until you are instructed by the Creditor to stop. Because the Creditor is entitled to recover interest, service fees and other expenses on an unsatisfied judgment in Vermont, the actual amount of payments may significantly exceed the amount of the judgment disclosed to you in the process. If you are unclear as to whether you should continue to withhold and send money to the Creditor, you should contact the Creditor's attorney.

### **What if the Debtor stops working for me then is re-hired later?**

If the same person who was previously subject to a Trustee Process Order returns to work for you, the same Order is in effect and requires that you immediately begin to withhold earnings and send them to the Plaintiff's attorney. You should contact the Plaintiff's attorney's office to let them know that the person has returned to work for you and confirm that the judgment debt has not been satisfied or otherwise discharged.

### **What if I still have questions?**

You can call your attorney and they can assist you in complying with the laws concerning wage garnishment. This firm represents creditors seeking Trustee Process in this case and cannot represent you in connection with this proceeding. However, we would be happy to answer any of your questions concerning the proper way to complete the Trustee's Disclosure or deduct and remit payments from the Debtor's earnings.

Mail the Disclosure Form and Payments to:

**Bauer, Gravel, Farnham**

PO Box 33  
No. Hero, VT 05474

Burlington: 802-863-5538

North Hero: 802-372-5770

©Bauer, Gravel, Farnham,

, North Hero, Colchester,

Vermont

STATE OF VERMONT  
**ORIGINAL**  
WRIT OF EXECUTION

Court Vermont Small Claims	<b>RETURN TO COURT CLERK</b> County Windsor	Docket No. [REDACTED] Wrscc
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To any sheriff or constable within the state:

Plaintiff (Address and Telephone No.)  
[REDACTED]  
c/o Bauer, Gravel, Farnham, Nuovo, Parker & Lang  
P.O. Box 607  
Burlington, Vermont 05402

V.

Defendant (Address and Telephone No.)  
[REDACTED]  
[REDACTED]

I. On Date  
May 6, 2009, the plaintiff recovered judgment in the county and court named above against defendant in this action in the amount of:

<b>\$ Damages</b>	<b>\$541.65</b>	(+)	<b>\$ Interest</b>	<b>\$264.98</b>	(+)	<b>\$ Costs</b>	<b>\$179.40</b>	(+)	<b>\$ Attorney Fees</b>	<b>\$ .00</b>	(=)	<b>\$ 986.03</b>	Judgment
													Costs & Int.
													Partial Payment
													Balance still due plaintiff

II. This paragraph is applicable only if there has been post judgment activity, either a partial payment or the accumulation of post-judgment sheriff's costs.

(a) Since judgment, costs and interest have accrued as follows .....

(b) On Date, the defendant partially satisfied this judgment by paying

(c) Therefore, the balance due plaintiff as of the date this writ was issued .....

III. Execution remains to be done. Therefore, by the authority of the State of Vermont you are hereby commanded that of the goods, chattels, or lands of said defendant, within your precinct, you cause to be paid and satisfied unto the said plaintiff at the value

thereof in money the balance of the judgment together with \$ .24 Interest per day from the date of judgment or date of partial payment to and including the date of satisfaction, and therefore also satisfy yourself of your own fees, and make return of this writ with your doings thereon within 60 days of the date hereof.

Date <span style="font-size: 1.2em;">11/18/10</span>	Clerk Deputy <i>Alice R. Water</i>
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Indorsement of Attorneys of Record by Clerk (12 V.S.A. §2682)	Attorney for Plaintiff Bauer, Gravel, Farnham	Attorney for Defendant	Date Returned to Ct.
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**RETURN OF SERVICE**

At <span style="border: 1px solid black; padding: 2px;">Street</span>	<span style="border: 1px solid black; padding: 2px;">Town/City</span>	<span style="border: 1px solid black; padding: 2px;">County</span>	<span style="border: 1px solid black; padding: 2px;">Date</span>
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I visited the above named defendant and demanded payment of the judgment:

<b>Miles</b>	<b>\$ Amount</b>	(+)	<b>\$ Service</b>	(+)	<b>\$ Postage</b>	(+)	<b>Assisting Officer</b>	(+)	<b>Other</b>	(=)	<b>\$ Bill of Fees</b>
											Interest from III
											Balance from I or II <b>\$1,244.97</b>
											Total Due
											Payment
											Outstanding Balance

Comments

The above named defendant (failed to satisfy) (satisfied) said execution in (full)(part) by paying .....

I returned the original Writ of Execution to the above named (plaintiff)(Court of issue):

<b>\$ Amount</b>	<b>Check No.</b>	<b>Date</b>
Deputy Sheriff		

STATE OF VERMONT  
WRIT OF EXECUTION

Court <b>Small Claims</b>	County <b>Chittenden</b>	Debt No. <b>[REDACTED] CnSc</b>
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To any sheriff or constable within the state:

Plaintiff (Address and Telephone No.) <b>[REDACTED]</b>	Defendant (Address and Telephone No.) <b>[REDACTED]</b>
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I. On Date  
10/2/15, the plaintiff recovered judgement in the county and court named above against defendant in this action in the amount of:

\$ Damages <b>1,581.00</b>	(+)	\$ Interest <b>129.46</b>	(+)	\$ Costs <b>173.62</b>	(+)	\$ Attorney Fees <b>0</b>	(=)	\$ <b>1,884.08</b>	Judgement
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II. This paragraph is applicable only if there has been post-judgement activity, either a partial payment or the accumulation of post-judgement sheriff's costs.

(a) Since judgement, costs and interest have accrued as follows: .....

\$ <b>65.00</b>	(+)	<b>costs</b>
<b>46.73</b>		<b>Costs &amp; Int. interest</b>

(b) On Date, the defendant partially satisfied this judgement by paying

**VERMONT SUPERIOR COURT**  
DEC 22 2015  
**CHITTENDEN UNIT**

\$ <b>-0-</b>	(-)	Partial Payment
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(c) Therefore, the balance due plaintiff as of the date this writ was issued .....

\$ <b>1,995.81</b>	(=)	Balance still due Plaintiff
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III. Execution remains to be done. Therefore, by the authority of the State of Vermont you are hereby commanded that of the goods, chattels, or lands of said defendant, within your precinct, you cause to be paid and satisfied unto the said plaintiff at the value

thereof in money the balance of the judgment together with \$ .58 interest per day from the date of judgement or date of partial payment to and including the date of satisfaction, and therefore also satisfy yourself of your own fees, and make return of this writ with your doings thereon within 60 days from the date hereof.

Date <b>12/22/15</b>	Clerk <i>[Signature]</i> , Ct Operations Mgr.
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Indorsement of Attorneys of Record by Clerk (12 V.S.A. §2682)	Attorney for Plaintiff <b>Pro Se</b>	Attorney for Defendant <b>N.A.</b>	Date Returned to Ct.
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RETURN OF SERVICE

At <span style="border: 1px solid black; padding: 2px;">Street</span>	<span style="border: 1px solid black; padding: 2px;">Town/City</span>	<span style="border: 1px solid black; padding: 2px;">County</span>	<span style="border: 1px solid black; padding: 2px;">Date</span>
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I visited the above named defendant and demanded payment of the judgement;

Miles	(+)	\$ Amount	(+)	\$ Service	(+)	\$ Postage	(+)	Assisting Officer	(+)	Other	(=)	\$ Bill of Fees
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Comments

Interest from III
Balance from I or II
Total Due
Payment
Outstanding Balance

The above named defendant (failed to satisfy) (satisfied) said execution in (full) (part) by paying .....

I returned the original Writ of Execution to the above named (plaintiff) (Court of issue):

\$ Amount	Check No.	Date
Deputy Sheriff		

# Alan Bjerke

February 10, 2016

Gary Viens  
House Judiciary Committee  
115 State Street  
Montpelier, VT 05633-5301

Re: Vermont General Interest Statute

Dear Gary,

I understand that earlier this year all members of your committee received an e-mail from Patricia Sabalis concerning the rate of interest that accrues on Vermont Court Judgments. I have reviewed it and would appreciate a moment of your time to address the arguments she raised.

To give you some background on my perspective: I have been an attorney in Vermont for over 20 years, and served in the Vermont House for 3 terms in the 90's. The bulk of my legal practice has been in the civil arena, where I have represented consumer credit debtors and creditors, landlords, tenants, banks, insurance companies and the like. I am also a landlord and own a small business which purchases distressed debts, which I will address in more detail below.

With respect to Ms. Sabalis' e-mail, I would first point out that her math is wrong, and her example misleading. The root of her math problem is that her illustration of post-judgment interest accrual in Vermont is calculated using the *compound method*, when in fact it is calculated using the *actuarial* also known as the *simple method*. There is a significant difference between the two methods, which I hope the following example will help illustrate.

If someone owes you \$1,000 for unpaid rent, lost wages or refusing to pay back money you lent them, you have up to 6 years to sue them in small claims court. If after 3½ years they still refuse to pay you, you must file a complaint with the court, pay a court filing fee and probably by the end of the fourth year you might get a judgment for \$1,480, which includes the original \$1,000 debt and pre-judgment interest at the rate of \$120/yr. Vermont law does not provide for interest at the rate of 12% on the \$1,480 Judgment amount as Ms Sabalis suggests, but only an additional \$120 each year after Judgment. So for the first year after obtaining the Judgment, the actual effective rate of interest which accrues on your \$1,480 judgment is only 8%. ( $\$120/\$1,480$ )

Furthermore, in Ms. Sabalis' e-mail, she claims that 4 years of interest on a \$2,000 Judgment would be \$1,147. Even if the Judgment in her example consisted of only principal and no pre-judgment interest, the interest would only be \$960. Using my example from above, after four years, the \$1,480 Judgment would accrue additional interest of another \$480 for a total of \$1,960. The effective interest rate on the balance owed you at that time would be around 6%. ( $\$120/\$1,960$ ) So while I understand that the 12% rate may appear high at first glance, it is not nearly that high in actual practice with all aspects of the law being considered.

The second issue relates to Ms. Sabalis' claim that the rate of interest on Judgments in Vermont is unfairly high because "it is very rare to receive a 12% return on investment these days . ." I disagree.

The time value of money arises from several factors: One is the **opportunity cost**, or how much money could I save on an interest bearing obligation or make on an income yielding investment if I could apply the money owed me to it. Another is how much **risk** is being taken in connection with an investment, such as it secured like a mortgage or unsecured like a credit card. Finally there is the issue of **liquidity**: can I sell the investment and get cash out at anytime, or am I locked into the investment for a long (and possibly infinite) time.

An unpaid Judgment such as described by Ms Sabalis is best characterized as an involuntary loan from the creditor to the debtor. It is unsecured, meaning that it is the first debt discharged in a bankruptcy. And as the holder of a Judgement Order, you have little if any control over when it will be repaid. I can't imagine any sane creditor wouldn't rather have the money (or even just a portion of it) instead of the unsatisfied Judgment accruing interest.

As a landlord, I can tell you that all of my real estate rental investments generate more than 12% and I wouldn't consider an investment that is only projected to generate less than that, because there are ample opportunities to invest in properties that do. In addition, my real estate investments are 100% secured by real estate and can be liquidated at any time.

As a purchaser of distressed debts, my company invests in delinquent tax liens sold by municipalities dealing with unpaid property tax bills. The purchaser at a tax sale receives 12% per year on the money they pay to the town and the lien is secured by the underlying real estate. If the taxpayer doesn't redeem within a year, the town gives me a deed to the property. Is it an investment that is so rare and profitable that people line up to make it? Not hardly. Of the last three tax sales I attended: At two, I was the only bidder and at the other, two of us showed up for two properties that were for sale and each took one.

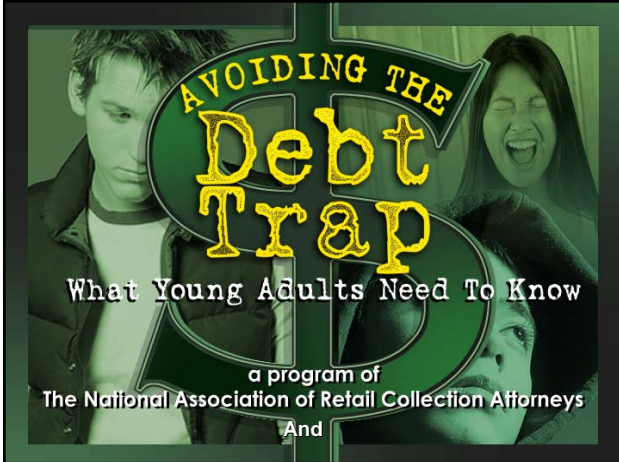
I believe that the current post-judgment interest statute is fair, reasonable, simple to administer and provides an appropriate incentive for debtors to satisfy Judgments against them, without assessing an unduly burdensome penalty for non-compliance.

Thank you for taking the time to review this letter. If I could be of any assistance to you or provide testimony to help you in understanding this issue, please do not hesitate to contact me.

Sincerely Yours,

Alan Bjerke, Esq.  
*Alanb72@aol.com*





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## Budgeting for Beginners Typical Young Adult Budget

Monthly Earnings:	\$1,200
Monthly Expenses:	
– Rent	\$400
– Food	\$400
– Entertainment	\$100
– Transportation	\$200
– Other	<u>\$100</u>
Total	\$1,200
Savings	\$500




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## Budgeting for Beginners Typical Middle Age Budget

Monthly Earnings:	\$4,000
Monthly Expenses:	
– Rent/Mortgage	\$1,500
– Utilities	\$400
– Food	\$800
– Transportation	\$400
– Debt Payments	\$500
– Other	\$150
– Savings	\$250
Total	\$4,000
Savings	\$5,000




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## Budgeting for Beginners Typical Retiree Budget

Social Security	\$1,500
Retirement Savings	<u>\$500</u>
Total	\$2,000
Expenses:	
- Taxes & Insurance for Home	\$500
- Food	\$600
- Travel/Transportation	\$400
- Debt Payments	\$200
- Other	<u>\$300</u>
Total	\$2,000
Savings	\$2,000




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**How does Credit Work?**  
**Credit Back Then**  
*"Buy it used, wear it out,  
 pay with cash or do without"*  
 Signature loans –  
 Small Loan Companies  
 Rent to Own  
 Mortgage Lending –  
 15 years, 20% down

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**How does Credit Work?**  
**Credit Today**

**REPLACED BY** → Electronic Financial Transactions tied to Credit

**REPLACED BY** → Open-end Revolving Lines of Credit

**REPLACED BY** → Leasing

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**How does Credit Work?**  
**How Does Credit Work Today?**



**Terminology:**

- Auto Finance
  - Purchase Price
  - Down Payment
  - Rebates
  - Add ons
    - Credit Life
    - Credit Disability
    - Extended Warranty

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**How does Credit Work?**  
**How Does Credit Work Today?**

**Terminology (cont.)**

- Revolving Line of Credit (Credit Card)
  - Charge Now, Pay When Billed
  - Credit Limit
  - Grace Period
  - "Fixed Rate"
  - Teaser Rate
  - Default Interest Rate
  - Universal Default
  - Rejection of Change in Terms

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**How does Credit Work?**  
**Alternative Finance Options**

**PAYDAY LOANS**

High Fee, Short term borrowing

**PAWN SHOP**

Sell \$300 item for \$75  
Buy back for \$150  
After 60 days, they own it

**RENT TO OWN**

Weekly Rental, no future obligation, eventual ownership,  
available to those w/ poor credit.

- \$1,000 couch, \$25/week  
36 months = \$3,600 final cost

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**It's all in the Math – The True Cost of Credit**  
**The Miracle of Compounding Interest**

Interest for past period is added to the basis for  
calculating interest for next period:

- Year 1:  $\$100 @ 10\% + \$10 = \$110$
- Year 2:  $\$110 @ 10\% + \$11 = \$121$
- Year 3:  $\$121 @ 10\% + \$12 = \$133$
- Year 4:  $\$133 @ 10\% + \$13 = \$146$
- Year 5:  $\$146 @ 10\% + \$15 = \$161$

**Vs. Simple Interest = \$150**

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It's all in the Math – The True Cost of Credit  
**Credit Math**

**\$10,000 20 years @ 10%**

- Simple Interest = \$30,000
- Monthly Compound Interest = \$73,280
- Daily Compound Interest = \$73,870

**Earning vs. Paying**



I invested \$10,000  
and now I have **\$73,870**



I spent \$10,000  
but had to pay **\$73,870**

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It's all in the Math – The True Cost of Credit  
**Compare the Cost of Credit**

**Loan 1**

- \$10,000 / 36 months
- 5.5% interest
- \$500 origination fee
- \$317.06 Monthly pmt
- \$11,414.16 Total Cost

**Loan 2**

- \$10,000 / 36 months
- 7% interest
- No origination fee
- \$308.77 Monthly pmt
- \$11,115.72 Total Cost

**Lower interest rate does not  
always result in lower total cost**

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Smart vs. Expensive Uses of Credit  
**Wise Use of Credit**

Purchase Washer & Dryer for Home:

Assumptions: Cost of Washer/Dryer: \$1,000 / Value of time (hourly) \$0.00

	Laundromat	Home
Cost per load	\$4	\$0
Soap	Same	Same
Electricity	\$0	\$1
Water	\$0	\$0.50
Time wasted (hours)	3	0
Drive cost (per trip)	\$5	\$0
Depreciation	\$0	\$100

**LOADS PER WEEK**

	1	2	4	6	10
Net Annual Savings	\$225	\$300	\$450	\$600	\$900
Rate of Return	18%	27%	44%	59%	90%
Rate of Return, Time = \$1/hr.	36%	44%	59%	75%	105%

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Smart vs. Expensive Uses of Credit  
Other Wise Uses of Credit



Purchase  
Home • Car • Durable Goods



Finance Education  
Emergencies  
Home Renovations  
Refinance Higher Cost Credit

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Smart vs. Expensive Uses of Credit  
Potentially Expensive Uses of Credit

- Charging Dinner & Entertainment
- Charging daily expenses
- Charging luxury purchases
- Paying one card with another ("Surfing")
- Speculating or gambling

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Smart vs. Expensive Uses of Credit  
What If You Bought ...  
A New Surround System.



CD Player  
\$500.00



Tuner  
\$300.00

TOTAL \$2,000.00

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Smart vs. Expensive Uses of Credit

And what if you use your credit card to buy the system and you make monthly payments of \$300?

Assume you never miss a payment and the annual percentage rate on your card is 8%.

What will the system end up costing you?

How long will it take you to pay for it?

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Smart vs. Expensive Uses of Credit

Your total cost will be  
**\$2052.00**

It will take you  
**SEVEN MONTHS**  
to pay for it

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Smart vs. Expensive Uses of Credit

- Now, instead of an 8% rate of interest, assume that, because of your poor credit rating, you must pay interest at the rate of **24.9%**.
- Also assume that you pay only the **MINIMUM MONTHLY PAYMENT** of \$45 per month (2.25% of the balance).

How long will it take you to pay for it?

What will the system end up costing you?

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Smart vs. Expensive Uses of Credit

Your total cost will be  
**\$5,595.84!**

It will take you  
**Nearly  
125 Months!**  
(over ten years)  
to pay for it



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Smart vs. Expensive Uses of Credit

Your choices:

- Pay \$2,000 cash
- Pay \$2,052 over seven months
- Pay \$5,595 over ten years



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The Benefits of Good Credit  
What are the Benefits of Good Credit?



- Lower cost to borrow money
- Larger amounts available to borrow
- Many more credit options available
- Satisfy security clearance checks
- Satisfy employment background checks
- Insurance rates may be lower
- Easier access to credit in emergencies

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**The Burdens of Bad Credit**  
**What are the Consequences of Bad Credit?**



- Higher cost to borrow money
- Less money available to borrow
- Many less credit options available
- Unable to get security clearances
- Denied employment in some positions
- Insurance rates may be higher
- Difficult to access credit in emergencies

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**Credit Tips**  
**How to Establish Credit**

- Using a checking account or debit card instead of a credit card
- Pay bills in full and on time
- Do not have many open credit card accounts
- Do not have a balance on your credit card exceeding more than 20-30% of your credit limit

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**What is a Credit Bureau Report?**

- Voluntary Association of Merchants & Credit Grantors
- Each member submits information on its customers to the Bureau
- Each member has access to the information submitted by other members
- Bureau may obtain information from other sources: *Court records, property records, motor vehicle records, etc.*
- Information from all sources are collected into one report for each person
- 3 largest Consumer Credit Bureaus: TransUnion, Experian, Equifax

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## Credit Bureau Reports

- Look back 7 to 15 years depending on basis for request.
- Shows the information last reported by the creditor to the bureau.
- May not show information of credit history with non-members.
- Consumers may request a copy of their credit bureau report once each year or if a creditor notifies you that they have denied you credit based on your credit report.
- Any inaccurate listing may be disputed by a consumer, triggering a re-investigation process.

[www.annualcreditreport.com](http://www.annualcreditreport.com)

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## FICO Credit Scores

- Determined by Fair ISSAC Corporation
- Analyzes data from credit report to determine a comparative score to compare your future likelihood to repay consumer credit advances
- Determined by past use of credit as recorded by the 3 credit reporting agencies
- Consumer credit score typically a 3-digit number between 300-850, 850 being the best
- Lenders purchase the score to evaluate creditworthiness

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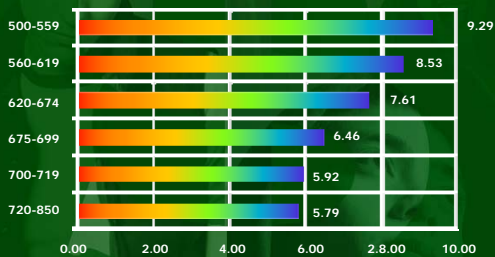
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## FICO Credit Scores (cont.)

Used by lenders to determine your credit risk / interest rate

Lower FICO score = higher interest    Scores >700 = lower interest



Average interest rate for a \$200,000 30-year, fixed-rate mortgage on August 5, 2005, based on credit scores nationwide

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### FICO Credit Scores (cont.)

- Also used by lenders:
  - To approve your credit application
  - To increase your credit limit
  - To determine treatment if you make a very late payment

FICO Scores are **not** part of your credit report. Learn more and obtain your scores; visit:

[www.myfico.com](http://www.myfico.com)

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### Young Adults

- People under age 25 are fastest growing group of bankruptcy filers
- One out of five young adult households are in debt hardship (over 40% of income goes to debt payments each month)
- In last decade, youngest adults (18-24) saw credit card debt increase 104%
- Graduating college students average \$20,402 of debt-- \$3,262 on credit cards
- Individuals seeking credit counseling have average annual salary of \$29,425; average debt excluding mortgage or rent of \$23,184

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### Test Your Financial Knowledge

TRUE

FALSE

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## Test Your Financial Knowledge True or False?

All credit cards charge the same annual percentage rate of interest on the balance you owe.

**FALSE**

- Different banks charge different rates. Other important terms vary also, such as annual fees, late fees, grace period.
- Check out this website for a comparison of terms:
  - [www.cardtrak.com](http://www.cardtrak.com).
  - [www.bankrate.com](http://www.bankrate.com)

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## Test Your Financial Knowledge True or False?

The Annual Percentage Rate (APR) on a credit card can be changed at any time by the credit card issuer.

**TRUE**

The APR on your credit card can be changed **AT ANY TIME** by the credit card issuer.

Change may take place just 45 days after first notice to the borrower.

You may reject the change and payoff the account under the old terms, but may not also make future charges to the account.

Rejection of the change must be made in writing and often sent to a specified address.

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### TERMS & CONDITIONS

Authorizes: When you sign and return the form for this credit card offer from Bank USA, N.A. I "we", or "us", you agree to the following:

Bank United Corp., P.O. Box 97328, Jackson, MS 39208. If we receive this form after the expiration date on the front, or the name and address on the front differ from the information you submit to us, we

**5. As described in the Cardmember Agreement, we reserve the right to change the terms of your account (including the APRs) at any time, for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account.**

PROHIBITION OF THE REMEDIATION RIGHTS UNDER THE FCRA

4. Claims and disputes are subject to arbitration.  
5. As described in the Cardmember Agreement, we reserve the right to change the terms of your account (including the APRs) at any time, for any reason, in addition to APR increases that may occur for failure to comply with the terms of your account.

Notice About This Pre-Approved Offer: You have been "Pre-Approved" for this offer on the basis of criteria contained on your credit report.

Before we finally approve you for a credit card, we will review your credit report and the information you provide with your form to confirm that you continue to meet these criteria and the other predetermined criteria for this offer. Based on this review, you may not receive a card or you may receive a card with a credit line as low as \$200. It is possible that certain applicants directly applying for a credit card from us, or us or in the future, credit advice cards on the same terms or on more favorable terms than the terms available through this offer. You have the right to verify credit bureau data to use your credit report in connection with any credit or insurance transaction you do not initiate. To exercise this right, please call 1-888-567-8088 or write to the credit bureau(s) listed below.

Equifax Options, P.O. Box 740123, Atlanta, GA 30374-0123.  
Experian Target Marketing, P.O. Box 918, Allen, TX 75013.

before we grant you credit, or we have actual knowledge of the adverse obligation. All obligations on this account will be incurred in the interest of your marriage or family. You understand that we may be required to give notice of this account to your spouse. Married Wisconsin residents must furnish their (the applicant's) name and social security number as well as the name and address of their spouse to Cardmember Service of P.O. Box 15176, Wilmington, DE 19805-5218.

Attitude Information Sharing: Bank USA, N.A. is part of affiliates may share information about you among affiliates in order to offer products and services of interest to you. If you would prefer that we do not share information from your application, credit bureau or third parties, please call us at 1-888-858-8818. For more information about our information handling policies, visit us on the web at <http://bank.usa.com>.

If you omit any information on the form, we may deny your request for an account. We cannot process the form if the mailing address has been changed to a foreign address. Return your offer in the envelope provided or mail to: Cardmember Service, P.O. Box 15176, Wilmington, DE 19805-5218.

We comply with Section 508 of the USA PATRIOT Act. This law mandates that we verify certain information about you while processing your account application.

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## Is That Fair??

Understand what an open end revolving line of credit account ("Credit Card") is, and what it is not:

The bank gives you access to credit to make purchases at most merchants.

You agree to pay the charged amounts off as soon as you are billed.

If you don't pay off the balance in full, you agree to pay the bank the finance charge in the current agreement.

You may always reject a change in the account terms by contacting the bank to terminate the account.

If you reject a change in terms you cannot use the card and must pay the account bank according to the terms prior to the proposed change.

It is NOT an agreement to lend you money forever at the rate first agreed to.

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## Test Your Financial Knowledge True or False?

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

TRUE

- Since you only pay interest on the unpaid amount each month, you *never pay any interest charge if you pay the entire debt.*
- Exception: Some cash advances incur finance charges immediately

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## Test Your Financial Knowledge True or False?

You pay no interest on a debit card purchase.

TRUE

- A debit card works just like a check. Your ATM card is probably a debit card.



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## Test Your Financial Knowledge True or False?

There is a credit report for everyone over the age of 18.

**FALSE**

- There is a credit report only for those who have established a credit history.
- Having **no** credit history can also have adverse consequences.



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## Test Your Financial Knowledge True or False?

If you are late making a few payments on your credit card, the interest rate you pay may increase sharply.

**TRUE**

- For example, on one Platinum VISA card, the rate jumps from 4.9% to 24% if you pay late or miss even one payment. Late charges also accrue.



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## Test Your Financial Knowledge True or False?

If you miss just one or two payments on your credit card, it won't hurt your credit rating.

**FALSE**

- That negative information can legally remain on your report for 7 - 15 years.

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### Test Your Financial Knowledge True or False?

If you apply for a car loan, the lender will probably review your credit report.

TRUE

- People who lend you money will almost always review your credit report. If your credit is poor you may be unable to get a loan or your interest rate will be higher.
- You may receive free copies of your credit report each year.

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### Test Your Financial Knowledge True or False?

When you apply to rent an apartment, your prospective landlord may review your credit report.

TRUE

- Because you are promising to make future payments a landlord would want to know your past payment history.
- Many landlords belong to Associations that retrieve and report information to the credit bureaus for them.

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### Test Your Financial Knowledge True or False?

When you apply for a job, your prospective employer may review your credit report.

TRUE

- A prospective employer can review your credit report if you give written authorization.
- More employers are asking to see credit reports.
- What happens if you refuse to let employers see report?

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### Test Your Financial Knowledge True or False?

Bouncing just one check won't cause you credit problems.

**FALSE**

- If you bounce a check your bank may put your name in ChexSystems. You could be "blacklisted" by financial institutions for up to 5 years - this means you cannot use a checking account at many stores.

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### Test Your Financial Knowledge True or False?

The average college student owes several thousand dollars in credit card debt today.

**TRUE**

- Credit card debt is rising rapidly among young adults.
- Don't fall into the trap of spending money you don't have.
- Doing so may result in you having to file bankruptcy.

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### What if you get behind?

- Budgets only work when everything goes as planned.
- Job loss, illness & change in living situation most common reasons people get behind.
- EVERYONE gets behind in their finances at one time or another.

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## What to do if you get behind

### DO

- Adjust your budget
- Contact creditors
- Come up with a realistic plan
- Stick to your plan
- Look for ways to increase income or limit expenses

### DON'T

- Ignore the problem and hope that it will go away.
- Try to maintain your old habits/budget
- Get upset or embarrassed

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## Ignoring your creditors when you get behind

- Telephone calls/letters from the creditor
- Telephone calls/letters from a collection agency
- Communication from an attorney
- Filing of a lawsuit
- Issuance of Judgment

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## Ignoring your creditors when you get behind (cont.)

- Involuntary enforcement remedies
  - Wage Garnishment
  - Bank Account Seizure
  - Property Lien - Foreclosure
  - Vehicle seizure
  - Mandatory Court Appearances

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### Tips for protecting your credit

- ✓ Make a budget and compare it to your actual experience monthly
- ✓ Pay your regular bills in full and on time
- ✓ Always know your current credit balances
- ✓ Review your credit report from each Bureau each year
- ✓ Contact your credit cards every now and then to ask them to lower your rates

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### Tips for protecting your credit (cont.)

- ✓ Contact and work with creditors if you get behind – Don't avoid them – It will only make it more expensive
- ✓ Keep creditors and the post office notified of address changes
- ✓ Research credit options closely when financing a home, car or other large purchase to compute the total cost of credit.
- ✓ Keep an eye out for opportunities to refinance your existing credit obligations
- ✓ "Buy it used, wear it out, pay with cash or do without"

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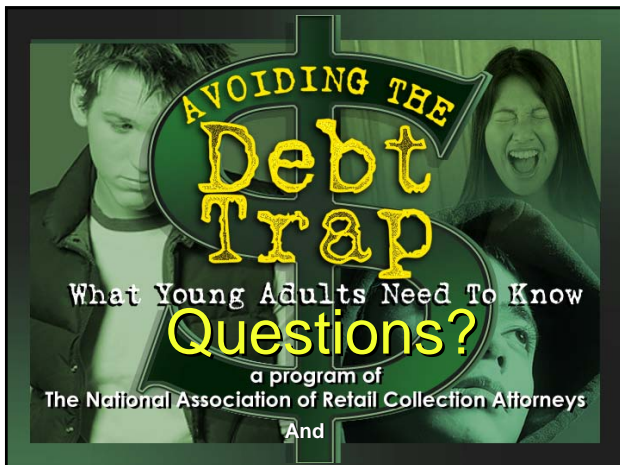
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