

A Plan for Fighting Back - Handout

1) Intro

- a) For getting out of Debt, a Plan beats Bankruptcy! You need a Plan.
- b) **Pv 16:9 In his heart a man plans his course, but the LORD determines his steps.**

2) **STEP 1: Plastectomy** (cutting up your credit cards & not using them)

- a) You can get an 18% (or higher) return from a plastectomy
- b) What happens when you take toddlers to the store with you?
 - i) I want! I want!
 - (1) We're the same way when it comes to what we want.
 - (2) What do you call it when you spend dollars you don't yet have by putting it on your credit card? Greed!
 - ii) What do you tell the toddler? A good parent says "NO" often.
 - (1) If you don't have the money, don't buy it! Just say "NO"

3) **STEP 2: Prioritize Payments**

- a) Pay Necessities First
 - i) Food, Shelter (rent / mortgage), Clothing, Transportation, Utilities
 - (1) Credit Card companies yell the loudest, they will call you immediately if you are late. But, a bank may not call you for several months.
- b) If you make a plan, follow it, do not give in to the squeaky wheel.

4) **STEP 3: Look at your budget and cut costs** (More on budgeting later)

- a) Don't eat out, cut cable, cut entertainment

5) **STEP 4: Mess up their Database System**

- a) When they call, give them lots of info to fill their file and database so that they have so much information they do not know what to do with it all. Tell them all about your budgeting and cost cutting measures. Tell them about your grandparents and aunts & uncles and how they understood the value of thrift. Talk a lot.
- b) Send them a copy of your budget
- c) Tell them whenever you get a new job
- d) Keep them informed of all changes
- e) This messes up their database.

6) **STEP 5: Act, don't react.** Do Not Respond to Threats & Do not Worry.

- a) **Lk 12:25-26 Who of you by worrying can add a single hour to his life? Since you cannot do this very little thing, why do you worry about the rest?**
- b) Collections pressure is the most common reason for filing for bankruptcy, don't fall for it
- c) Get off phone if your pulse rate goes up
- d) They will threaten to put it on your Credit Bureau Report
 - i) We have been told to protect it at all costs
 - ii) Let them put a notice on it, the world won't end (also, you can fix it later)
 - iii) They will damage your credit and will start to call you.

7) **STEP 6: Take Charge!**

- a) Tell them you will only take their call once every two weeks.
 - i) If it has been less than two weeks, tell them that you told them that you would only take their call every two weeks, tell them when to call you, then hang up.
 - (1) Repeat the above each time they call.
 - (2) Prorate your payments out of what is left
- b) Send them a letter saying that you are paying all you can pro rata (This messes up their system).
 - i) Pro Rata means a proportionate amount – the amount you owe one credit card company divided by the amount you owe all credit card companies. [Note: If your debt is past the
 - (1) Let's say you owe \$8,000 total to three different credit card companies and let's say that the amounts are (\$1,000 & \$2,000 & \$5,000)
 - (2) Decide how much you are going to pay to the credit card companies each month and then 1/8 of this amount goes to the first company, 2/8 of this goes to the second company, and 5/8 goes to the third.
 - ii) Tell them you are on the pro rata plan. Tell them this each time.
 - iii) If they say it's Not good enough, say that's too bad and repeat that this is what you're doing.
 - iv) Keep sending them a check of the prorated amount, even if it is only \$5.

8) STEP 7: Lower Rates & Settlements

- a) If you can switch any balances to 0% interest cards, do so.
 - i) Monitor these and keep doing this since the rates will spike up after 6 mos, 9 mos, or a year
 - ii) The goal is not to maintain a bad habit, the goal is to lower the rate so that you can pay off your cards and STOP using credit.
- b) Talk to the Loss Mitigation Department and ask them to lower your rate.
 - i) If they say no, ask to speak to a supervisor.
 - ii) If the answer is still no, call back later and talk to someone else.
 - iii) Repeat until you get your rate lowered significantly.
- c) You can also ask them to lower the total amount that you owe.
 - i) People have had success negotiating their debt down.
 - ii) You can also have others negotiate on your behalf.
 - iii) Get all settlements in writing!!!!
 - (1) Do NOT believe what they say on the phone.
 - (2) They may tell you to send payment in full satisfaction of the debt, but when you do they may also say that whoever told you this doesn't work there anymore.
 - iv) Have them Agree to report your debt to the Credit Bureau as paid in full
 - (1) You do NOT want them reporting the balance as unpaid debt, you want a clean credit report
 - v) NOTE: There is a Tax Impact to forgiven debt: The forgiven part may be sent to you in a 1099 as reported taxable income. Do not be surprised.

9) STEP 8: Fix Your Credit

- a) Make Payments
 - i) Pay off any loans you can
 - (1) It is better to use savings that are earning 2% to 3% a year to pay off credit cards that are costing 18% to 28% a year. This is the same as earning 16% to 26% on your money.
 - ii) Pay on time, late payments show up on your credit report
 - (1) Don't skip, try to pay at least the minimum on each card.
 - (2) If you can't pay the minimum on each card, then pay something on each card, pro rata
 - iii) If you can, pay more than the minimum
 - (1) By paying only the minimum, you will still have to pay finance charges and will extend the amount of time it will take you to be debt free
- b) Obtain your free credit report: see Useful Websites handout
- c) Correct errors on your credit report: see Useful Websites handout
- d) Balance out your Cards
 - i) Each card should only have 30% - 35% of the available credit used
 - (1) If the available credit on the card is \$2,000 then you should only have \$600 to \$700 charged on the card.
 - (2) Shift your balances around so that each card only has 30% to 35% of the credit limit charged
 - ii) Ask the credit card company to increase your credit limit
 - (1) Increasing your credit limit, and not using it, increases your credit score
 - (a) Don't do this if it will tempt you to spend more (maxing out a card lowers your credit score)
 - (2) Once again, the goal is not to maintain a bad habit, the goal is to repair your credit so that you can get better rates, so that you can pay off your cards and STOP using credit.
- e) When you pay off your cards, don't close the account
 - i) Cut your card & don't use it, but keep the account active. Active accounts stay on credit report and boost it.
- f) Limit the total number of accounts (too many hurt your credit score because each one makes an inquiry on your credit report that stays there for two years)

10) STEP 9: Make it your Goal to get out of Debt & save \$1,000 for emergencies.

- a) Pick up a second job now, voluntarily, so you won't have to later. Do what it takes to set \$1,000 aside.
- b) Get radical about the above steps.
- c) Read and educate yourself about debt (see booklist).
- d) Start paying off your car loans and home mortgage by paying more than your payment amount and asking them to apply it against principal.
 - i) Tax deductions are NOT a bargain. How does paying \$10,000 a year to the bank in interest to avoid sending \$3000 in taxes to the IRS make sense? If the home is paid for, you send \$3,000 to the IRS & keep the \$7,000.

Key Credit Info

1) Credit Score

- a) Fair Isaac Corporation (FICO), a California based company develop the first credit score. This FICO score has been accepted by all credit scoring institutions as a base platform.
- b) The three major credit bureaus use their own version of FICO scoring model and that is why each of them comes up with a different credit score:
 - i) Equifax uses the BEACON scoring model
 - ii) Experian uses the Fair Isaac Risk Scoring Model
 - iii) Trans Union uses the Empirica Scoring Model.
- c) A FICO score above 700 is generally considered a good credit score.
 - i) It is believed that average borrower has a credit score between 600 and 700.
- d) VantageScore, a new scoring model is slowly catching up as a unique scoring method for everyone since all three bureaus – Equifax, Experian and Trans Union collaborated on its development. Its scoring ranges from 501 to 990 and the scoring have letter grades from "A to F". So a score from 501 to 600 will correspond to "F" grade while a score of 901 to 990 will receive "A" grade. In this system, a grade of 'C' is considered a good credit score.

2) Worst Items to have on Credit Report (<http://credit.about.com/od/creditreportscoring/tp/badcrentries.htm>)

a) Tax Liens – 15 years

- (1) If property taxes are not paid, government can seize the property and auction it off for the unpaid taxes.
- (2) You will still be responsible for the mortgage loan.
- (3) Unpaid tax liens remain on your credit report for 15 years, while paid tax liens remain for 10.

b) Bankruptcy – 7 years (most Ch 13 reorganization bankruptcies) to 10 years (most Ch 7 liquidation)

c) 7 year items

i) Foreclosure – 7 years

- (1) If you default on your mortgage loan, your lender can repossess your home and auction it off.

ii) Lawsuits or judgments – 7 years

- (1) Some creditors may take you to court and sue you for a debt, if other collections fail. If the lawsuit is accurate and a judgment is entered against you, it will remain on your credit report for 7 years from the date of filing, even after you satisfy the judgment.

iii) Charge-offs / Write-offs – 7 years

- (1) Missing your payments for 6 months or more could cause your creditors to deem your account as uncollectible. When this happens, the creditor writes off the account and updates your credit report as "charged-off" or "written off and uncollectible."

d) Debt collections

- i) Creditors often sell written off debt to a debt collector for pennies on the dollar. Sometimes the debt collector places an entry on your credit report.
- ii) Creditors sometimes hire a debt collector and place a note on your report indicating the account is in collection status.

3) If your debt has been sold

- a) You may write your original creditor (for example, the credit card company) and tell them that they no longer have your permission to report your credit information. [Note: This ONLY works if they have sold the debt since current creditors DO have the right to report your credit information.]
- b) Write the debt collector (the company who bought your debt) and ask them to send you information about the debt (who did I owe it to?; when did it start?; how much was it for originally?; what proof do you have that I owe it?). Often, the debt collector has no information about your debt since they did not request this information.
 - i) If they cannot provide you with proof of your debt, then write them again and ask them to remove the debt from your credit report (if they have placed it on your credit report – check your credit report to see).
 - ii) If they cannot prove or substantiate the debt, and it is inaccurate, then you can write whichever of the 3 credit bureaus has reported it and ask them to remove it. They have to investigate all such inquiries within 30 days.

4) Know Your Limits! Statute of Limitations in FL for Cred Card debt is 4 yrs.

- a) <http://credit.about.com/od/statuteoflimitations/g/flsol.htm>
- b) If your debt has passed the Statute of Limitations AND you have not made any payments in 4 years AND you have not made a statement or put in writing that you still owe the debt, then the debt cannot be collected anymore.
- c) Debt collection agencies know this and will put the pressure on you as the 4 year mark approaches. They may even try to collect after the four years. If they do, simply tell them the debt is NOT collectible and hang up.

Useful Websites & Books for Dealing with Finances

1) Three Major Credit Bureaus

- a) **Equifax** at 1-800-685-1111 or www.equifax.com
- b) **Experian** at 1-888-397-3742 or www.experian.com
- c) **TransUnion** at 1-800-916-8800 or www.transunion.com

2) Free Credit Reports at www.annualcreditreport.com (can also be accessed through www.ftc.gov/freereports)

- a) ONLY government authorized online source to get a free credit report.
 - i) Do not use freecreditreport.com (unless you want to be automatically signed up for a \$15/mo membership in their credit service). Same goes for other “free” credit report sites.
- b) You may get 1 free report a year from each of the 3 major credit bureaus.

3) Victims of Identity Theft go to www.consumer.gov/idtheft

- a) Report the theft to the 3 Major Credit Bureaus at the following #'s (different from the ones above) and addresses:
 - i) **Equifax**: 1-800-525-6285; www.equifax.com; P.O. Box 740241, Atlanta, GA 30374-0241
 - ii) **Experian**: 1-888- 397-3742; www.experian.com; P.O. Box 9532, Allen, TX 75013
 - iii) **TransUnion**: 1-800-680-7289; www.transunion.com; Fraud Victim Assistance Division, P.O. Box 6790, Fullerton, CA 92834-6790
- b) Obtain your credit reports and review them. Putting a fraud alert on your file entitles you to another free report.
- c) Close the accounts that you know, or believe, have been tampered with or opened fraudulently.
 - i) Call and speak with someone in the security or fraud department of each company.
 - ii) This includes Bank Accounts, Credit Card Accounts, Brokerage Accounts, Phone Company Accounts, etc.
- d) File a complaint with the Federal Trade Commission.
 - i) You can file a complaint with the FTC using the online complaint form (at www.consumer.gov/idtheft); or call the FTC's Identity Theft Hotline, toll-free: 1-877-ID-THEFT (438-4338); or write Identity Theft Clearinghouse, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580.
- e) File a report with your local police or the police in the community where the identity theft took place.
 - i) When you go to your local police department to file your report, bring a printed copy of your FTC ID Theft Complaint form, your cover letter, and your supporting documentation. The website explains how to do this.

4) Pamphlet entitled *Common Sense* by Art Williams: www.achievebalance.com/commonsense/CommonSense.pdf

- a) Basic Financial common sense wisdom that everyone should know

5) *Consumer Action Handbook* by US Gov't : www.consumeraction.gov/viewpdf.shtml

- a) Wisdom from US Gov't covering topics like Identity Theft, Credit, Loans, Financial Aid, Health Care, Investing, Telemarketers, Travel, Wills / Funerals, Internet, Television, Nutrition, and buying Homes, Cars, and Insurance.
 - i) For example, teaches you that www.kbb.com is one of the best sites for pricing new or used cars.
- b) Handbook & Website have a sample complaint letter (for dealing with defective items or services that you have bought) and information on how to report complaints to the Better Business Bureau and other Consumer Protection Agencies and Groups.

6) Debt [see Federal Trade Commission (“FTC”) website]

- a) Generally, the FTC website has the best advice: www.ftc.gov/bcp/menus/consumer/credit/debt.shtml
 - i) You will note that many of the links below are from the FTC website

7) The Law

- a) Federal Fair Debt Collection Practices Act: www.ftc.gov/bcp/edu/pubs/consumer/credit/cre27.pdf
 - i) Summarized and simplified at: www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.shtml
- b) Fair Credit Reporting Act: www.ftc.gov/os/statutes/fcrajump.shtml
 - i) Summarized and simplified at: www.ftc.gov/bcp/menus/consumer/credit/rights.shtml

8) Credit Scores, Credit Reports, Loans, Credit Repair, Correcting Errors on Credit Report

- a) Credit & Loan Info: www.ftc.gov/credit
- b) Credit Repair / Correcting Errors Info: www.ftc.gov/bcp/edu/pubs/consumer/credit/cre13.shtml

9) Bankruptcy Info (www.uscourts.gov/bankruptcycourts.html)

- a) http://www.daveramsey.com/the_truth_about/bankruptcy_3018.html.cfm
- b) <http://www.daveramsey.com/bankruptcy/?event=dspFindAttorney>
- c) <http://www.bankruptcyinformation.com>

10) Foreclosure Info

- a) http://portal.hud.gov/portal/page?_pageid=73,1&_dad=portal&_schema=PORTAL
 - i) FHA program that started 10/1/08 to help people stay in their homes by refinancing their loans
- b) <http://www.hud.gov/foreclosure/foreclosuret看tips.cfm>
- c) <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>
- d) <http://www.daveramsey.com/etc/realestatecenter/index.cfm?FuseAction=dspContent&intContentID=10734>
- e) <http://www.daveramsey.com/etc/realestatecenter/index.cfm?FuseAction=dspContent&intContentID=10011>

11) Ideas for making \$\$\$ part time, at home, as an entrepreneur

- a) www.squidoo.com/sparecash
- b) www.entrepreneur.com
- c) www.crown.org

12) Other Books

- a) *The Total Money Makeover* by Dave Ramsey (exposes the bad habits that get us into debt)
- b) *Richest Man Who Ever Lived: King Solomon's Secrets to Success, Wealth, and Happiness* by Steven K. Scott
- c) *The Millionaire Next Door* by Thomas J. Stanley (shows what's required to save money and get out of debt)
- d) *The 7 Habits of Highly Effective People* by Stephen R. Covey (how to view life & how to think)
- e) *Who Moved my Cheese?* by Spencer Johnson (how to think about job loss & the rat race – all about attitude!)

Cost Saving Tips Handout - Know where to get a Bargain!

Mindset: If you are buying from an individual, bear in mind that they are motivated to sell whatever they are selling (i.e., they don't want it). Therefore, you may be able to get it at a price below what it is worth simply because they don't want to keep the item. This is a very good point to keep in mind as you can always appeal to the fact that you have cash and that you are willing to come to them, pick it up and take it off their hands. It is very useful to say to people in any kind of negotiation: "If you want the cash, it's here."

- 1) Garbage: People throw out all kinds of stuff.
 - a) If you are early enough on bulk pick-up day, you can find some very good things.
 - b) Sometimes people throw out perfectly good items simply because they bought a new one.
- 2) Coupons from paper/mail/internet: Don't, however, be tempted to buy things you otherwise wouldn't.
 - a) www.judysbook.com
- 3) Trade / Barter / Team Up with other people
 - a) Trade babysitting duties
 - b) Voucher system: offer to help
- 4) Refunds / Rebates
- 5) Consignment
 - a) Consignment shops are second-hand stores that offer used goods at a lower price than new. Many offer new items as well. The dealer pays the seller upon sale of the goods. Merchandise often sold through consignment shops include antiques, athletic equipment, cars, books, clothing (especially children's, maternity, and wedding clothing which are often not worn out), furniture, firearms, music, musical instruments, tools, and toys. eBay drop off stores often use the consignment model of selling. Art galleries, as well, often operate as consignees of the artist.
 - i) Consignment shops differ from charity or thrift shops in that the original owner retains some of the revenue from the sale, rather than donating it to the charity. They differ from pawnbrokers, which acquire the good from the original owner in exchange for money or a loan of money.
 - b) You can bring your clothes and sell them.
- 6) Classified Ads
- 7) Garage Sales
- 8) Ebay
- 9) Pawn Shop
 - a) Contrary to rumor, the items are not hot in a pawn shop that is in a decent part of town.
 - b) Pawn shops do not give you a good price if you are selling, but they are good for purchasing items
- 10) Repo Lots
- 11) Estate Sales
- 12) Auctions
- 13) Foreclosures (not for the uneducated)
 - a) Look for untended houses
 - b) Best to obtain from the owner before foreclosure or from bank after foreclosure