The Advocate, Fall 2004

The Advocate
A DCC Educational Newsletter
Autumn 2004

Upcoming Holidays
The Holidays will be coming soon enough, and with them, the desire to purchase gifts for the important people in our lives. Without meaning to sound tooScrooge-like, we want to encourage everyone to find financially sound ways to buy holiday presents. Plan out a budget, assign a dollar range for each person you intend to buy a gift for, and stick to it. Don't over-indulge!! Your family and friends will still love you, no matter what you spend.

The Hidden Costs of Gift Cards
A word of caution: If you choose to purchase a gift card for that hard-to-shop-for person on your list, be aware of the possible disadvantages involved. For example, many gift cards charge a small fee each month the card has not been used – a so-called "dormancy" fee. Or the card may have an expiration date, meaning it will have zero value if not used by a certain period of time. Also, most cards will not redeem any part of the card for cash – even if when you make a purchase you have only a dollar or two lefts on the card. If you do decide to purchase a gift card, be sure to review the terms of the card first, and then clearly inform the recipient.

Back to School
Autumn is the time of year when school starts again. It's a time when traditionally we've refocused our attention on learning new things and reviewing and building on previous knowledge. In this newsletter, Debt Counseling College presents a special Back-to-School Section. Take a moment now to review it.

Reading, Writing and Arithmetic – the ABCs of Debt Management

A is for Annual Percentage Rate (APR) the yearly rate of interest, including fees and other charges. The higher the APR or interest rate, the longer it takes to pay off your credit cards, and the more your monthly payment is applied to paying off interest instead of paying off Principal (see below).

B is for Budget, the monthly Spending Plan used to manage personal finances. Using a budget will help you decide how much money to allot to each category of monthly expenses. It can offer you flexibility as you prioritize your needs and wants. Refer to the Comprehensive Budget in the Education Section of this website which is free for you to use.

C is for Credit Limit, the maximum amount a credit card holder can charge with a particular credit card as determined by that creditor. Exceeding your credit limit will result in over-the-limit charges (see below).

D is for Debt-to-Income Ratio, which is the percentage of your gross income you use to pay off your ongoing financial obligations such as credit cards. Your debt-to-income ratio is important to lenders when they decide if you qualify for a loan. That's why it's so important to pay down your debts as quickly as possible, so your debt-to-income ratio is low.

E is for Equal Credit Opportunity Act, a federal law that protects your rights under the Consumer Credit Protection Act. Specifically, discrimination on the basis of race, color, religion, national origin, sex, marital status, age, source of income, etc. is strictly prohibited in credit transactions.

F is for the Fair Credit Billing Act, which gives you the right to dispute credit card bill transactions. In order to file a dispute, the Consumer must write to the creditor within 60 days of the date of the bill being disputed. The creditor is required to investigate your claim. Consult the Federal Trade Commission website at www.ftc.gov for detailed information.

G is for Grace Period, the period of time you are not charged interest between the date of your purchase and the billing date. With most creditors, Consumers who carry a balance on their credit cards have no grace period.

H is for Household Income, the sum of all income for all members of a household. Most lenders consider household income when evaluating applications for joint credit, joint mortgages and joint loans. I is for Introductory Rate (also known as a "teaser rate"), which is an extremely low (0-3%, for example) interest rate charged by a creditor for a brief initial period of time. When the introductory period of time has expired, so does the low interest rate. The new interest rate is often extremely high (over 20%).

J is for Joint Petition, a single bankruptcy petition filed by a married couple together. In this unfortunate scenario, both the husband and wife will have the bankruptcy on their credit report, typically for 10 years or more.

K is for Key Rate, an interest rate which other rates are calculated on.

L is for Late Payment Fee, an amount charged to a credit card holder for not making a payment by the due date. Some creditors can charge over $35, even if you have been late only once!

M is for Minimum Payment, the minimum amount of money a creditor will accept each month to keep the account in good standing. Most creditors require a minimum of 2% of the total balance due. Unfortunately, with high interest rates, just paying the minimum balance often keeps you in debt indefinitely, because your payment is applied only to the interest charges instead of the Principal (see "P is for Principal, below").

N is for National Issuers. Most of the many credit cards available in the United States actually come from just a few national issuers, such as First USA, MBNA America and Bank of America. Often these national issuers are based in states with regulations that are very favorable to them and which impose no limits on the charges that can be imposed on the cardholder.

O is for over-the-limit (or over-limit) fee, an amount of money charged to the cardholder for going over the Credit Limit (see above) on a credit card. If you are someone whose balance is close to your credit limit, and you make a late payment, the late payment fee may trigger you to go over your credit limit and you will also be charged over-limit fees.

P is for Principal, the amount of money owed for goods and services purchased, not including interest.

Q is for Qualifying Ratio, the percentage of income spent on housing and all other household debt, as calculated by creditors and lenders when you apply for a mortgage, car loan, or credit card.

R is for Reorganization Plan, which is a plan developed when filing Chapter 11 or Chapter 13 bankruptcy. It describes the ways the debtor agrees to repay his or her debts, usually within three to five years.

S is for Statement, a detailed account of all monthly transactions which reflects charges, credits, payments, finance charges, APR, etc. You should review your credit card statements every month, and be sure to check for possible errors (see "Fair Credit Billing Act," above).

T is for Transaction Date, the date that you made a cash advance or the date that you purchased goods or services when using your credit card.

U is for Unsecured Debt, which is the amount of money you owe which is not guaranteed by collateral you have. Credit cards are the most popular form of unsecured debt. This is in contrast to secured debt, which is money you owe that is guaranteed by collateral, such as a Home mortgage.

V is for Variable. If your APR (Annual Percentage Rate, see above) includes a "V," that means your interest rate is a Variable rate and can change depending on certain economic factors. Note that fixed APRs can also change with 15 days advance notice given by the creditor to the cardholders.

W is for Warning Signs. Most people are reluctant to acknowledge that they are having trouble making ends meet. Others know it, but keep pushing it out of their minds. This is understandable, since financial struggles are not pleasant to deal with. Here are some of the warning signs which indicate you may need to get help: you don't pay this month's bills until next month's bills come in the mail; you live paycheck to paycheck without being able to save any money; you pay only the minimum amount due on most of your credit cards; you use one credit card to pay off another; you are getting collection calls for one or more of your accounts; you lie awake at night wondering how or if you will ever get out of debt.

X is for eXplicit Bankruptcy Costs, the money owed by the person declaring bankruptcy, to cover such things as legal fees, court costs, consultants' fees, and document preparation expenses.

Y is for Yield, the rate of return on your saved money. For example, if you put your money is a savings account that has a 2% interest rate, then you will yield an additional 2%, calculated with either simple interest or compounded interest, depending on the savings account.

Z is for ZERO BALANCE! A zero balance means your outstanding balance has been paid and you will no longer be charged any fees.

A ZERO BALANCE IS YOUR GOAL. WE CAN HELP YOU GET THERE!!