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FDIC Consumer News

Fall 2017

Dealing with Debt

Tips to help you borrow wisely and pay off loans and credit card bills

FEDERAL DEPOSIT INSURANCE CORPORATION

How to Dig Out of Debt? Grab More Than One Shovel

Millions of Americans are dealing with debt overload every day. If you're struggling to pay your loans, credit cards or other bills, here are some steps you can take to begin managing the problems.

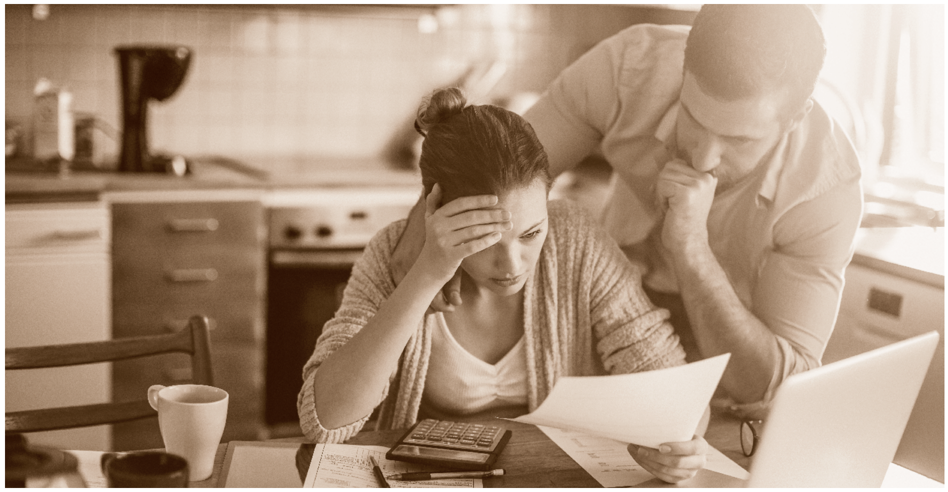
Create a budget. Budgeting gives a clear picture of what you can afford so you can balance your income and expenses. The "Budgeting and Savings Tools" worksheet in the FDIC's Money Smart financial education program can help you get organized (see www.fdic.gov/savingsworksheet).

Try to get a clear picture of your monthly income and expenses. "Even if you have a regular weekly, bi-weekly or monthly paycheck, budgeting enough money to pay your regular expenses and pay down debt may not be easy," said Elizabeth Ortiz, the FDIC's deputy director for consumer and community affairs.

Ortiz added: "Also, many individuals have incomes that vary considerably from month to month because they work on a contractual or temporary basis with hours that equate to full- or part-time work. For them, budgeting can be tricky, especially when they are trying to pay down debt. That makes it especially important to know how much money is available and the expenses that must be paid regularly so that accidentally overspending doesn't become an issue."

Contact your creditors about easier ways to make your most important bill payments. Many people find it helpful to schedule their essential monthly payments sometime soon after the deposit of their first paycheck of the month. In that case, you can ask your lenders, utility providers and credit card issuers to change your monthly billing-cycle date to line up with your first monthly paycheck.

Also, if you think you can't make payments as scheduled, you can be proactive and ask your creditors to consider an extended payment plan that results in lower monthly bills over a longer period of time. Keep in mind, though, a longer payment period could mean you'll pay more in interest. "Discuss a payment plan that can help you avoid getting too far behind," said Berry Holston, an FDIC consumer affairs specialist. "That's especially important with a mortgage because if you have problems repaying the loan you could lose your home."



Have a strategy for saving money on interest and fees. Consider paying off debts with the highest interest rates first. Also, avoid late fees by making sure all bills are paid on time.

"You can track payment due dates on a calendar or use your bank's online bill paying service," said Heather St. Germain, an FDIC senior consumer affairs specialist. "Many banks offer this service, which allows you to see all of your bills in one location online and make payments directly from your bank account."

Consider getting help from a reputable credit counselor. Many companies and public service organizations offer assistance to individuals in creating a budget and learning to manage money, including debt, often for free or at a low cost. Under the Credit Repair Organization Act, companies and service organizations are required to explain the total cost of the service, timeframes to see results, a written contract of the services you will receive, and your right to cancel service without charge within three days. The Federal Trade Commission (FTC) offers tips on how to find and choose a credit counselor at www.consumer.ftc.gov/articles/0153-choosing-credit-counselor.

Also, be on guard against companies that promise to settle your debts or erase a bad credit history if you pay a big fee upfront. These are usually scams to steal your money and perhaps valuable information like your Social Security number, without delivering on their promises.

Know your rights if a debt collector contacts you. Debt collectors have rules they must follow under the Fair Debt Collection Practices Act, such as providing you with a debt validation notice stating the amount you owe and the creditor's name. Debt collectors are also limited on when and how often they can contact you. For more information on dealing with debt collectors, see the next page.

To learn more about solving a debt problem, check out the Summer 2014 ***FDIC Consumer News*** article "5 Tips to Help Rebound from a Bad Credit History" at www.fdic.gov/consumers/consumer/news/cnsum14/history.html. Also see the FTC's "Dealing with Debt" page (www.consumer.ftc.gov/topics/dealing-debt) and suggestions from the Consumer Financial Protection Bureau (go to www.consumerfinance.gov and search using the key words "behind on bills").

Having a Problem with a Debt Collector? You Also Have Protections

Debt collection problems are among the most common complaints received by the FDIC and the Consumer Financial Protection Bureau (CFPB). Many of these complaints suggest that some collectors may be demanding that people pay debts they've already paid or never owed.

If this happens to you, remember that the Fair Debt Collection Practices Act (FDCPA) is the principal federal law aimed at protecting consumers from abusive, deceptive and unfair debt collection practices by third-party debt collectors (companies hired by lenders to collect debts on their behalf).

For example, debt collectors are prohibited from harassing you with repeated phone calls. Collectors also are prohibited from calling before 8 a.m. or after 9 p.m., or contacting you at work if you are not allowed to receive certain communications there. They are not allowed to make false claims about a debt owed or a lawsuit being pursued, or to threaten to garnish your wages. Within five days of being initially contacted, the collector is required to provide a written "validation notice" of how much you owe, to whom, and what to expect next if you want to dispute the debt, unless the information has already been provided by the collector in the initial communication or you have paid the debt.

The law also says that after you tell a debt collector in writing that you refuse to pay or that you want the debt collector to stop communicating with you, the collector can only contact you one more time — either to tell you that all communications have ended or that it will take a specific action, such as suing you, to collect the debt.

While most debt collectors adhere to these rules promoting the fair treatment of consumers, other collectors may not. Be aware that con artists sometimes pose as legitimate debt collectors. "They may even claim to be government officials, including law enforcement, attempting to collect on a non-existent debt," noted Sandra Barker, an FDIC senior policy analyst. "Other possible signs of a fake debt collector include a caller who threatens you with violence or is unwilling to validate the debt by providing proof that it exists."

In one recent example, the Federal Trade Commission (FTC) filed charges against two individuals who allegedly created several businesses that appeared to be law firms to take people's money for fake debts by falsely threatening to sue or have the individuals arrested if they did not pay.

In general, how can you protect yourself when a debt collector contacts you? Find out the collector's name, address and phone number. Obtain the dollar amount they say you owe, including interest charges or debt collection fees. And, ask what the debt was used for and who the original creditor was. "Getting all of this information helps you determine if the debt collector is legitimate and if the information about the debt is accurate," said Heather St. Germain, an FDIC senior consumer affairs specialist.

She added: "If you are not sure the debt is yours or the amount of the debt is accurate, write to the debt collector to dispute the debt or have the company provide more information. If you know the debt is not yours, write a letter immediately to the debt collector and request to not be contacted again. If the debt is yours, but you can't afford to pay it, try to negotiate with the collector to pay a certain amount and have the rest forgiven."

Also take note of how old the debt is. Some states have laws preventing debt collectors from filing lawsuits to collect debts that are several years old.

If you believe a debt collector has violated the law, here are steps you can take:

File a complaint with a federal regulator. Two federal agencies — the CFPB (www.consumerfinance.gov/complaint or toll-free 1-855-411-2372) and the FTC (www.ftccomplaintassistant.gov or toll-free 1-877-FTC-HELP) — share overall enforcement responsibility for the FDCPA and accept complaints about debt collectors. If you file a complaint with the CFPB it will contact the debt collector and try to help reach a resolution. While the FTC does not resolve individual complaints, it uses the information submitted to identify patterns of fraud and abuse within certain industries and businesses. The FTC also will provide information about what next steps you can take.

The FDIC, Federal Reserve Board, Office of the Comptroller of the Currency and National Credit Union Administration also handle complaints about debt collection practices at the federally insured depository institutions they supervise. The agencies also forward complaints to other regulators as needed. To determine which regulator has jurisdiction over a particular banking institution, so you can submit a complaint to the correct agency, you can call the FDIC toll-free at 1-877-ASK-FDIC (1-877-275-3342) or use BankFind, the FDIC's online directory of FDIC-insured financial institutions, at https://research.fdic.gov/bankfind.

Report the problem to your state Attorney General's office or to other state or local regulators. It's possible that a debt collector also may be violating state or local laws. If so, the relevant State Attorney General can sue a debt collector on behalf of the state. Other state or local regulators that handle consumer complaints can take action on your behalf. If you need help locating your state's office, start with the National Association of Attorneys General's website at www.naag.org/naag/attorneys-general/whos-my-ag.php or call 1-202-326-6000.

Note: Even if a debt collector violates the FDCPA, this does not erase any legitimate debt you owe.

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Thinking of Co-signing a Student Loan? Know the Risks

Many parents and grandparents dream of helping loved ones attend college and post-graduate programs. One way to help them qualify for a student loan or obtain a loan at a lower interest rate is by being a co-signer. When co-signing a loan, you are promising to pay the loan back if the student-borrower fails to do so. But ***FDIC Consumer News*** wants to remind readers that co-signing a loan is not a decision to be taken lightly.

According to the Consumer Financial Protection Bureau (CFPB), an increasing number of consumers are carrying student loan debt into their retirement years. From 2005 to 2015, the number of Americans age 60 or older with one or more student loans quadrupled from about 700,000 to 2.8 million, and the average debt load for these individuals roughly doubled from $12,100 to $23,500. This includes parents who have co-signed a student loan or have taken out a student loan on behalf of their child — in the latter, only the parent is responsible for repaying the debt.

"Many people don't realize that if you are a co-signer on a student loan, you are just as responsible for the loan payment as the primary borrower, who in this case is the student," said Elizabeth Ortiz, deputy director for consumer and community affairs at the FDIC. "That means a lender can pursue both you and the student-borrower at the same time to repay the loan if the loan goes into default."

If you are considering co-signing a student loan for a family member, you may want to do the following first:

Make sure you have maxed out federal loans and federal financial aid. Families should consider scholarships and financial aid from the federal government, states, schools, companies and organizations, as well as federal student loans offered by the U.S. Department of Education. Federal loans offer important benefits for student-borrowers, like fixed interest rates and income-based payments. Most students take advantage of federal student loans as well as other financial aid, such as grants and work-study programs. Families also can use "PLUS" loans — federal student loans that can be taken out by parents and, in some cases, stepparents (but not grandparents or legal guardians), and do not require co-signers, except in limited circumstances.

Students who are left with a gap in financing their education costs after maximizing federal loans and financial aid may turn to private student loans issued by a bank or another financial institution. However, unlike federal student loans, private loans often require a co-signer because most students have a limited credit history (a record of borrowing money and paying it back).

Ask key questions:

• *For the lender: How soon can I be released from my repayment obligations as a co-signer?* Most lenders allow for a co-signer to be released from the loan obligation after a certain number of on-time payments by the student-borrower. However, terms and conditions for being released vary from lender to lender. For additional guidance, visit the CFPB website (see below) and search using the key words "co-signer release."

• *For your family member: How do you plan to repay this loan?* Student loans appear on both the student-borrower and the co-signer's credit report along with other credit obligations, like credit cards or car loans. Remind the student-borrower that failure to make timely loan payments can reduce your credit scores as well as his or hers, and that can make it harder to obtain credit with optimal terms, such as a lower interest rate.

• *For yourself: Can I repay this loan, if necessary?* "As with any major financial obligation, you should always prepare a budget, consider repayment plans that will fit that budget and have backup plans if the student-borrower defaults on the loan," said Ortiz.

If you are a co-signer on a student loan, you are just as responsible for the loan payment as the primary borrower, who in this case is the student.

Parents or grandparents thinking about co-signing a student loan also often ask if their Social Security payments or other income could be withheld (garnished) if the student-borrower defaults on the loan. The answer depends on the type of loan.

• *Private loans:* Banks and other private companies that offer private student loans are not allowed to garnish federal payments if the student-borrower or co-signer can't or won't repay the loan. The lender, however, can pursue other ways to collect the amount due.

• *Federal loans:* A borrower who defaults on a federal student loan may be subject to the garnishment of money from income tax refunds, Social Security income and other federal payments.

Consider alternatives to co-signing a loan. It's often preferable to act as a guarantor on a student loan instead of a co-signer. As a guarantor, you only become responsible for a loan in default after the lender has exhausted all means of getting repayment from the primary borrower. In most instances, the loan does not appear on your credit report until the lender seeks repayment from you.

For more information about student loans, start at the websites of the CFPB (www.consumerfinance.gov) and the U.S. Department of Education (StudentAid.gov).

Preventing an Accident with Your Car Purchase: Tips for Auto Financing

A car is often one of the most expensive things people buy and, like a home, it is generally an essential part of daily life. Since most people use loans or leases (rental contracts that last a few years) to pay for an automobile, ***FDIC Consumer News*** offers these suggestions.

Research the different financing options. Car buyers interested in financing have several options, including traditional bank loans. Consumers may also want to consider whether to get a loan from the auto dealership or a lease from the dealership or a leasing company with the option to buy the car at the end of the lease period.

Leases have become more popular recently, in part because they generally have lower monthly payments, but understand that you won't own the car at the end of the lease. Also, know that leases generally come with conditions, including fees if you go over mileage limits or damage the car. If you decide you do want to keep the car at the end of the lease period, you could end up paying more in total than you would have if you bought the car without leasing it first.

Only borrow what you can afford. If you decide to use a loan to finance your car purchase, remember that the loan payment isn't the only expense of buying a car. Other expenses include insurance, gas, maintenance, repairs, and inspection and registration fees. Include these costs when determining how much you can afford to pay each month. Keep in mind that, in the worst case, if you can't make your loan payments your car can be repossessed by the lender.

Shop around and compare multiple offers from different lenders. In general, the following features determine how much you will pay for an auto loan:

• *The dollar amount financed.* This depends on the price of the car you buy, including "add-ons" like an extended warranty, minus any down payment or trade-in. "The higher the down payment you can comfortably make, the less you will have to borrow, and you may be offered a lower interest rate," said Kathryn Fritzdixon, an FDIC financial economist.

• *The Annual Percentage Rate.* The APR is a combination of the interest rate as well as certain fees you pay to borrow the money for your car. The APR is comparable across loans, and lenders are required to provide you with the APR for the loans you are considering.

• *The term (length) of the loan.* Recently, auto lenders have been offering longer-term loans than in the past, some for up to seven years. "A longer term means you may have lower monthly payments, but because you pay interest each month, you will end up paying more overall," said Fritzdixon. "It's best to choose a shorter term as long as the monthly payments stay within your budget." If you're buying a used car, she said to be especially careful about longer-term loans because the car may need to be replaced before you finish paying off the loan.

For more tips on topics such as shopping for auto loans and deciding how much you can afford to borrow, see information from the Federal Trade Commission (www.consumer.ftc.gov/topics/buying-owning-car) and the Consumer Financial Protection Bureau (www.consumerfinance.gov/ask-cfpb/category-auto-loans).

When and Why Your Credit Card Interest Rate Can Go Up

You may have heard news recently that interest rates are on the rise. That's good news for depositors wanting to earn more on their savings accounts. It also means that the interest rates charged on your credit cards may go up.

Most credit cards have a variable interest rate, meaning the rate will rise or fall based on changes in a particular "index" of interest rates nationwide. In addition, your card issuer can decide to increase your rate under certain circumstances. For example, a card issuer may raise your interest rate if you are 60 days or more late paying your credit card bill or if you have a significant drop in your credit score. If your card has a low introductory interest rate, the rate will increase once the promotional period ends. As for fixed-rate credit cards, the interest rate will not rise or fall with changes in any specific index, but the rate can go up for other reasons, such as late payments. (Note: Fixed-rate credit cards are very rare in the marketplace today.)

The Credit Card Accountability Responsibility and Disclosure Act of 2009 (the Credit CARD Act) helps protect consumers from many instances of sudden interest rate increases. Under the law, your card issuer generally cannot raise the rate if you've had it for fewer than 12 months. Your card issuer also must provide you with a 45-day advance notice of a rate increase, which can only apply to balances going forward unless you are late paying your credit card bill by 60 days or more. Also, if your card issuer raises your rate because of a 60-day late payment, it must restore the original rate after six months of on-time payments.

What can you do to minimize an increase in your credit card interest

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Enhanced FDIC Tool Helps Consumers Identify Unfamiliar Banks and Websites

It's not unusual to see an email or an advertisement that promises attractive interest rates for savings accounts or certificates of deposit. Often it's about a neighborhood bank or another bank with which you are familiar. Sometimes, however, you don't recognize the name of the institution, but the opportunity seems too good to pass up. Or maybe the name sounds familiar, but you want more information. What do you do next?

We recommend that you go to the FDIC's newly updated BankFind database located on our website's home page (www.fdic.gov) and at https://research.fdic.gov/bankfind. For years, consumers have used this popular search tool to obtain office locations, financial data and other information about individual insured banks. Now, significant enhancements to BankFind can help people learn if an insured bank may have certain branches or a website doing business using a "trade name" that is different from the bank's official name, often for marketing purposes. This additional information is more easily available to the public because the FDIC now requires all insured banks to submit details quarterly about the trade names and web addresses they use to solicit deposits from consumers.

BankFind is easy to use. To confirm a bank's official name, enter the name of the bank as you know it in the block entitled "Bank Name," click the "Search" button, and wait for your results. To search websites, enter the basic name for the website in the block labeled "Bank URL." You do not need to enter "www," ".com." or similar parts of the website name. Click the "Search" button and await the results.

How can BankFind help answer consumer questions? Here are a few examples.

• *Are all my deposits insured?* "When a bank fails, consumers' deposits at that bank, regardless of whether the branches are using the official name of the bank or a trade name, will be added together and insured up to the insurance limit," said Martin Becker, chief of the FDIC Deposit Insurance Section. "Therefore, in addition to knowing whether a trade name is associated with an FDIC-insured bank, BankFind can help consumers make sure that their deposits are within the FDIC's insurance limits by verifying whether the deposits are being made into separately insured banks or into a single insured bank that is using more than one name to do business with the public."

Let's say in a hypothetical situation that a bank called Bank A acquires Bank B. Since Bank B has a good reputation in the area it serves, Bank A decides to continue to use Bank B as a trade name for all of the newly acquired branches. If a consumer enters the name Bank B into a BankFind, the information will confirm that Bank B is now a trade name of Bank A and is no longer listed as a separately insured institution.

• *Is this website connected to an FDIC-insured bank?* Most FDIC-insured institutions that offer online banking services have websites with titles that are similar to the bank's name. However, that's not always the case.

Let's say you are considering a deposit at a website called www.GreatAmazingBank.com, and there is no bank mentioned on the site. You can now use BankFind to determine if there is an FDIC-insured bank connected to this website. BankFind will provide you with the name of the bank that owns the website, if applicable, along with other pertinent information regarding that bank.

"This should help consumers avoid being tricked by fake bank sites designed to get consumers to reveal personally identifiable information or possibly even send funds to a fake bank that will then steal those funds," said Calvin Troup, an FDIC senior consumer affairs specialist.

• *If it's not in BankFind, does that mean the website or the promotion isn't legitimate?* "It's possible you may be looking at an illegitimate website. It's also possible that the website is connected to a mutual fund or some other legitimate financial organization," said Troup. "BankFind will not have any information on a site unless it is affiliated with an FDIC-insured depository institution. Consumers should thoroughly investigate who they would be making an investment with prior to sending any money, since the funds will not be FDIC-insured."

Note: If you cannot find the information you need in BankFind or you have questions about what does turn up in a search, you can call the FDIC at 1-877-275-3342 and select option 1 to be connected to one of our deposit insurance specialists.

"An entity that is not listed in BankFind could be a newly insured bank that is not yet in our database, but we know that it does exist, and we can confirm that existence to the consumer. Or, it could be a fraudulent website, which the FDIC needs to know about and the consumer needs to avoid," explained Troup. "By calling the FDIC, we can confirm or research information that consumers need to know before they send money and open any new accounts."

FDIC Tips for Dealing with a Disaster

Hurricanes Harvey, Irma and Maria in 2017, as well as major fires in Northern California, are reminders of how natural disasters or other tragic events can severely damage personal property, making it difficult for affected individuals to conduct day-to-day finances, especially those who have been evacuated from their homes. For tips from the FDIC on preparing for and rebounding from a catastrophe, as well as information on avoiding disaster-related scams, visit our webpage at www.fdic.gov/news/disaster/index.html.

More Savings Options, Greater Financial Independence for People with Disabilities

As previously reported in ***FDIC Consumer News***, the federal Achieving a Better Life Experience Act of 2014 (the ABLE Act) allows many individuals with disabilities to put money in savings accounts that can grow tax-free. The funds saved can be used for "qualified disability expenses," which may include education, "assistive technology" (such as mobility scooters and computer screen readers), housing, transportation and other types of "supports and services." Based on September 2017 guidance from the U.S. Department of Health and Human Services, money in these accounts also will not affect eligibility for means-tested federal benefit programs such as Medicaid.

Individual state governments voluntarily establish these accounts under programs managed by each state or a private company serving on its behalf. We can now report that more than half the states plus the District of Columbia have set up ABLE programs, most of which are open to enrollment by eligible residents of any state. Under the law, an individual can open an ABLE account in his or her state of residence (if it offers the program) or through another state's program that allows eligible residents of any state to enroll.

"These accounts can be life-changing because they allow individuals with disabilities to save money, perhaps for the first time, without jeopardizing their federal benefits," said Laura Lawrence, an FDIC senior community affairs specialist.

Each ABLE program offers a range of investment options, usually including an FDIC-insured account. The programs also offer different withdrawal options, tax benefits and fee structures.

These accounts allow individuals with disabilities to save money without jeopardizing their federal benefits.

"When comparing ABLE savings programs, pay close attention to the fees for opening and maintaining the account, tax benefits that vary among programs based on each state's income tax deductions or credits, and any features that may make it easier for you to use the account the way you plan to use it," explained Nancy Tillmon, an FDIC consumer affairs specialist.

To qualify for an ABLE account, the account owner can be any age, but the disability must have started before age 26. Like "529 plan" college savings accounts, ABLE accounts provide favorable tax treatment when the funds are used for eligible expenses. The ABLE account is owned by the person with a disability, but someone else can manage or contribute to the account on his or her behalf. As of 2017, up to $14,000 a year can be contributed to an ABLE account.

Funds in an ABLE account deposited at an FDIC-insured institution are covered by the FDIC for up to $250,000, with the account owner (the beneficiary) being the insurable depositor. "Bank deposits in ABLE accounts are insured as single-ownership funds, subject to aggregation with any other single-ownership funds the account owner, in this case the ABLE account beneficiary, may have at the same financial institution," explained Martin Becker, chief of the FDIC's Deposit Insurance Section.

Links to state ABLE programs and their online enrollment portals, as well as more information about these programs, can be found on several websites, including the nonprofit National Disability Institute's ABLE National Resource Center at www.ablenrc.org. For more help or guidance on the deposit insurance for ABLE accounts or any other accounts you have at an insured bank, you can speak with an expert by calling 1-877-ASK-FDIC (1-877-275-3342).

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Credit Card Interest

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rate and reduce the amount of interest paid on your credit card balance?

Pay your balance in full each month, if you can. "The best way to reduce the amount of interest paid on credit card balances is to pay as much of the total balance due as you can each month," said Ardie Hollifield, an FDIC senior policy analyst. "Your statement will provide you with what is referred to as a 'minimum payment warning,' which shows you the amount of interest you will pay over time if you only make the minimum payment. This will almost always provide you with a clear incentive to pay more than the minimum required."

Pay attention to any notices of a rate increase from your card issuer. Be sure to carefully read all mail from your card issuer, including monthly statements and notices. "If you receive a 45-day notice of a rate increase, consider whether you can pay off the credit card balance and close the account before the increased interest rate becomes effective," said Sandra Barker, an FDIC senior policy analyst.

If paying the card balance in full before the rate increases is not an option, Barker said that within the 45-day period you could transfer the balance from a card with a high interest rate to a different card issuer with a lower interest rate, but you need to be careful. "In many cases, a balance transfer can be a good way to get your debt under control and pay it off faster, but before you move your balance you need to know exactly what you're getting into," she said. "Many credit card issuers offer introductory zero-percent deals in the hopes that you will move your money to them, but you may pay a significant fee for the transfer. If you don't pay off the balance within the introductory period you'll be charged retroactive interest for the entire amount of the transfer. In the end, if you don't reduce the new card's balance each month, you could end up even more in debt."

Avoid rate increases due to late payments. To avoid fees and unscheduled increases to your interest rate, as well as to maintain your credit rating, it's essential to make all payments by the scheduled due date.

For more from ***FDIC Consumer News*** on managing credit cards and dealing with debt problems, search by topic starting at www.fdic.gov/consumernews.

Debt Collector Problems

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For more information on dealing with debt collectors, resources include back issues of ***FDIC Consumer News*** at www.fdic.gov/consumernews, the FTC's webpage at www.consumer.ftc.gov/articles/0149-debt-collection and the CFPB's webpage at www.consumerfinance.gov/consumer-tools/debt-collection. The latter has sample letters you can use to respond to a debt collector and tips on how to negotiate a debt settlement.