

## QUESTIONS...

In our competitive consumption society, overspending and the abuse of consumer credit, which is often too easy to obtain, have contributed to a record number of people filing for bankruptcy and experiencing many of the other consequences of serious financial problems. These consequences include, being subjected to collection efforts by creditors, reduced performance at school or work, students being forced to drop out of school and being turned down for school loans, individuals being turned down for a job or losing their job or a promotion, paying higher insurance premiums, families being turned down for an apartment or loans for homes or cars. For many people the stress of financial problems brings on depression, and in some cases results in abuse problems and even suicide.

Unfortunately, too many of our young people are financially illiterate. They need and deserve the opportunity to hear a counter-message to the constant "just do it" and "spend, spend, spend" messages they see on television, at the movies, on their computers, and often, in their family's spending habits.

As a bankruptcy judge and experienced bankruptcy practitioners, we see the many consequences of severe financial problems each and every day. Now is the time to learn about finances, how to manage your money, and how to "just say no" to the short-term temptations to buy and do things you don't need or can't afford that often come with the use of a credit card. Now is the time to learn the lessons that will hopefully stay with you throughout your life. What you learn now may prevent you from being a victim of easy credit and living beyond your means, and help you to live a "debt-free" life. We do not want to see you in the Bankruptcy Court in years to come.

Honorable John J. Hargrove Chief Judge, U.S. Bankruptcy Court

Children at Risk Committee of the SDCBA

San Diego County Bar Association

**Q:** How can I learn more about managing finances?

**A:** Talk with your teachers and parents, and you may wish to check out [credicardnation.com](http://credicardnation.com) maintained by Dr. Robert D. Manning, and the credit information links and nextSTEP Magazine articles on the C.A.R.E. web site, [www.careprogram.us](http://www.careprogram.us).

**Q:** What if I am already in trouble, is there anything I can do to fix my problem now?

**A:** Yes, log onto [www.casb.uscourts.gov/html/care/index.htm](http://www.casb.uscourts.gov/html/care/index.htm) or contact the San Diego County Bar Association's Lawyer Referral & Information Service for an attorney referral.

**Q:** How do we find out more about this program and to arrange for a speaker — who do we call?

**A:** Contact the U.S. Bankruptcy Court at [Karen\\_Nickerson@casb.uscourts.gov](mailto:Karen_Nickerson@casb.uscourts.gov) or log onto our website at [www.casb.uscourts.gov/html/care/index.htm](http://www.casb.uscourts.gov/html/care/index.htm)

**CARE**  
CREDIT ABUSE RESISTANCE  
EDUCATION PROGRAM

(619)  
**231-0781**  
SAN DIEGO COUNTY  
BAR ASSOCIATION



# Credit Abuse Resistance Education



C.A.R.E. Program  
a project of the

U.S. Bankruptcy Court  
Southern District

Children at Risk  
Committee of  
the SDCBA

San Diego County  
Bar Association

[www.careprogram.us](http://www.careprogram.us)

[www.casb.uscourts.gov/html/care/index.htm](http://www.casb.uscourts.gov/html/care/index.htm)

# THE COST OF CREDIT

## USING CREDIT CARDS



You don't need to be like so many others. You don't need to be an over-spender or credit abuser even though the temptation is there. Not every one gives into the temptation and takes drugs, drinks too much, gambles too much or smokes. Say "no" to living beyond your means. Be in control of your finances. Be different. Be smart. Accumulate wealth.

## Realization

The Real Cost of Credit — in contrast to living within your means, say you owe a department store \$1,000 on a credit card. The annual percentage rate is 21%, and you make the minimum payment but make no additional payments. When will this balance be paid off even if you make no additional charges? Depending upon which of the three methods the seller decides to use to calculate the finance charges, the earliest the balance will be paid off is 7 1/2 years and the least amount you will have paid will be \$2,000. Will you still remember what you bought and will you still be using it 7 or 8 years later? Know what credit is really costing you — 18% — 20% — 24%. That's money you don't have to do or buy something else. Why are you paying \$120 for that \$80 pair of sneakers? Every dollar spent on credit is a mortgage on future spending.

In 2001, the average household credit card balance was \$7,000. Today in 2004, it is over \$10,000. At 20% interest the annual finance charge alone is \$1,400, and you haven't paid a penny back yet. If you had an extra \$116 of disposable income a month, why would you have had to borrow \$7,000? If your household lived consumer debt free and within its means from age 25 to age 65, you would not have paid \$56,000 in interest. If you invested that \$116 per month in a retirement account at a 5% return, you could have over \$180,000, at a 7% return, over \$300,000.

## Debt Prevention

1. Always have a budget developed with an understanding of your needs vs. wants, and live within it. If you need a winter coat, must it be an Armani? Today's advertising makes it too easy to convince yourself that a want is really a need.
2. If you can eat it or drink it, or it costs less than \$10, don't charge it.
3. Use a debit card, a check or cash whenever possible and don't have more than one credit card. One is all you need for convenience and emergencies. It will make it easy for you to track your spending habits and know your total consumer debt if you do fall into debt.
4. You don't need store charge cards. You will spend less in a store if you use cash, a check, a debit card or your one credit card.
5. For your one credit card — shop around and get the best deal, and read all of the terms very carefully. You can really get burned on the many fees that issuers charge. Be aware of them so you don't end up paying them.

## Getting Out of Debt

1. If you are not paying off the balance on your one credit card every month, analyze why — are you buying things you don't need? What happened to your budget?
2. Add up the total outstanding balance on all of your credit cards and store charges at the end of every month to see how much you actually owe — you might be surprised. Is that balance increasing? Then it's time to get rid of the extra cards.
3. Always have a plan to repay any consumer debt you incur. Never make just a minimum payment. Don't use credit to get through hard times without first cutting expenses and then realistically plan for how you will pay the debt back.
4. Stop when you cannot pay your bills every month without taking a loan from a credit card or line of credit. You are in serious trouble.
5. If you don't carefully budget your monthly credit card use and keep to it, on the 15th of the month call the 800 number on your credit card to see how much you have charged. You might be surprised.

## COLLEGE STUDENTS BEWARE When You Are at College...

- Go to school with a realistic budget and live within it.
- For the first month, be careful about what you buy and do. Track your spending so you can see if your budget is working.
- Have savings for an emergency.
- You don't need to have a credit card to have a good credit rating.
- On and near campus, fellow students will solicit you to sign up for more credit cards and they will offer you attractive gifts and deals. Refuse them, they are doing themselves a favor, not you!
- Remember — some college students have had to drop out of school and even committed suicide when faced with the reality of their overspending and abuse of easy credit.
- Students say they got into debt trying to live the lifestyle they had at home or trying to keep up with their wealthier classmates. Don't be one of them.
- If you have abused credit, overspent and had financial problems — it may affect your ability to get a graduate school loan, a job, especially a position where you have to deal with money or financial matters, an apartment or a car loan.
- When you graduate, you may not get that "big job" you hoped for that will allow you to pay off the credit card debt you may have incurred.