

Metropolitan Bar Caucus seminar - February 9, 2007  
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## **CARE PROGRAM PRESENTATION OUTLINE**

“Credit Abuse Resistance Education”

### **I. INTRODUCTION**

- A. Introduce yourself and any other presenter, thank teacher/school for opportunity.
- B. This is a talk about credit and the use/abuse of credit.
- C. CARE Program: explain program, “Credit Abuse Resistance Education,” founded by Judge John C. Ninfo, bankruptcy judge in Rochester, New York. EXHIBIT 1: “The Scared Straight Literacy Program”, EXHIBIT 2: New York State Department of Education Announcement; Website: [www.careprogram.us](http://www.careprogram.us). We are professionals (judges, lawyers, court officials) concerned about abuse of credit.
- D. Consumer bankruptcy filings have doubled over the last 10 years:
  - 1. Then: traditional causes of bankruptcy filings:
    - Divorce
    - Loss of job
    - Catastrophic event: major illness, disability;
  - 2. Now: overspending has become a major cause especially among the young & elderly (we have gone from Ben Franklin’s “a penny saved is a penny earned” to Nike: “just do it!”);
  - 3. STAT: largest % filing bankruptcy: age 35 –44, second %: 25-35, quickly becoming the largest.

### **II. QUESTIONS (encourage discussion)**

- A. Does everyone know what a credit card is?  
Who has one, or has access to one? (If yes, explore the arrangements, if any, with the parents for payment); What do you use card for – entertainment, shopping, emergencies, etc.

Anyone going to college/work? Do you expect to have a credit card in future?  
(STAT: 70% of college grads have at least one credit card) .

- B. Anyone independently wealthy? Have trust fund? Plans to marry Donald Trump, his son or daughter? If the answer is no to these questions, your financial future is largely dependent on you!
- C. Is it too easy or too hard to get credit?

### III. CREDIT

- A. Credit is a tool! It is to be earned, built and maintained. Good to establish credit.
- B. FICO Score: Fair Issac Corporation Score –  
You have been ruled for the last few years by your SAT Scores, the rest of your life you will be ruled by your FICO Score. Anyone 18 or older is eligible for credit and will have a “credit rating score” or FICO Score. Ranges from 300-850. Calculated & provided by credit reporting agencies (Equifax, Experian & Transunion). Score is indication of credit worthiness for loans, mortgages, etc.
- C. Examples of consequences of good, poor, bad, no credit:  
Good Credit: financially responsible, timely payments – lowest interest  
Poor Credit: late payments – usually 6-14% added to lowest interest  
Bad Credit: repossession, foreclosure/bankruptcy – add 11-20%  
No Credit History – add 3-6%.  
  
Example: 30 year/\$100,000 mortgage  
Good Credit: monthly payment: \$103.32  
Bad Credit: monthly payment up to \$679.41
- D. One way to establish credit - credit card.  
Credit cards are necessary evil:  
Useful:  
No need to carry cash  
Need for emergencies  
Necessary to rent cars, make hotel reservations, travel, etc.  
Evil:  
Too easy  
Difficult to keep track of spending
- E. The type of credit established is based upon the way a credit card is used/abused.

#### IV. CREDIT CARD HISTORY

- A. Our parents didn't have/use credit cards. No ATM machines, no credit cards at supermarkets. Groceries, clothes, entertainment paid by cash or check. Larger items (house, car, etc) paid by mortgage, loan. Loan process was extensive/application process lengthy.
- B. 1958: Bank of America mass mailed 60,000 credit card solicitations to residents of Fresno, CA.

1966: group of midwestern banks mailed 5 million – created enormous problems – fraud, stolen cards, etc. But eventually, with technology, fraud receded, banks finally saw minor profits after mailings had reached over 100 million.

However, by 1980 Citibank was losing more than \$1B, caught between New York state usury laws (explain usury) and inflation. So Citibank left New York and moved to South Dakota, a state with no usury laws, no cap on interest rates. Citibank's move to South Dakota was to take advantage of the 1978 Supreme Court decision (*Marquette vs. Omaha Service Corp*), finding that a national bank located in one state was not subject to usury laws of other states where it solicits customers for its bank credit card. This Supreme Court decision effectively led way to eliminate all state usury laws vis a vis credit card, eliminated caps on interest rates and paved way for double digit interest rates.

- C. In 1991, national legislation was proposed to cap interest rates – which were typically 10 points above the prime rate (industry called it the “Big Scare”). Although the legislation ultimately failed, credit card companies began to take a different approach on how it determined its terms and pricing. Now, credit card companies use credit scores (reference prior discussion re FICO Score) and other financial data to develop more sophisticated pricing and credit strategies. No more generic credit lines or charging uniform rates. Recent years have seen the creation of “penalty fees”, “late fees”, “annual fees” – other “rich veins” of profits.

#### V. CREDIT CARD FACTS

- A. REALITY CHECK: Credit card companies make \$\$\$ off you!!!
  - 1. EXHIBIT 3 – Cash Cow  
Last year – made \$30B before taxes/ \$11.7B in late fees, consumers paid \$87B in interest payments alone!
  - 2. EXHIBIT 4 – Cash v. credit

- B. Credit card companies make their money off interest, penalties, fees.
1. EXHIBIT 5 : “**Deadbeat**”: what credit card companies call you if you pay your bill, in full, every month.
  2. WARREN article: In 1990, Professor Warren was hired as one-day consultant by Citibank to address their senior lending executive with policy suggestions that would help Citibank cuts its losses from cardholders in financial trouble. Professor Warren did her research and presented her recommendation - stop lending money to families already in obvious financial trouble! Citibank’s most senior executive responded: “We appreciate your presentation. We really do. But we have no interest in cutting back our lending to these people. They are the ones who provide most of our profits.” Meeting over!
- C. The true cost of credit:
1. How much debt does the average family carry?  
Answer: \$8T in debt
  2. How many credit cards does the average family have?  
Answer: 8 cards
  3. EXHIBIT 6 - The true cost of credit (based on last years stat of \$7T balance)
  4. EXHIBIT 7 - examples of payment calculations – second one shows that it would take almost **8 years** to pay off \$1000 at 18%, paying minimum payment. (without buying anything else!)
- D. Discussion: Will you even remember what you bought 8 years ago?
- E. What can you do with your dollars?  
EXHIBIT 8:
1. Time value of money
- F. Discussion: retirement – social security/pensions – will there be any? Recent news suggests there won’t be either. Investing at an early age is key.

## VI. CREDIT CARD SOLICITATION

- A. Discussion on college campus solicitations: you will be **bombarded** :“free” gifts, t-shirts, water bottles, initial low interest rates, mileage, money back,etc. All gimics that cost credit card companies pennies. They just want to get you as a first time customer because stats show that you will most likely remain a customer.
- B. Credit card company contracts with colleges. Ex: Oklahoma University has \$13M contract with First USA – receive royalties.

C. Debtor Excuses:

1. “If they sent it to me, I must have good credit”: STORY – I receive at least 5 solicitation per year addressed to my father-in-law – who passed away 20 years ago!
2. “It is too tempting to refuse” – show mailing and ask if it is “threatening” them in any way to open!

D. Read the fine print! (If it looks too good to be true – it is!)

1. No such thing as a “fixed rate”.
2. No such thing as “pre-approved”.
3. Different cards carry different terms for charging interest, penalties, fees
4. Universal Default  
typical language: “The highest rate (28.49%) may be charged if the cardholder is late making a payment to any creditor: this can include phone and utility bills, car payments and the like – even if the credit card payments are made on time.”

## VII. BAD CREDIT

A. Consequences

1. Besides bankruptcy there are many consequences to bad credit and credit abuse
2. EXHIBIT 9: Top Ten Consequences of Credit Card Abuse. Go down list and review,
3. Try and get a discussion going, add personal stories. Wally Backman story.

B. Wants vs. Needs

1. Discuss making choices, taking control against impulse spending. We live in a world of instant gratification, living beyond our means.
2. Focus on actual needs. Don’t spend it now because of a potential future “big” job or bonus, it may never come. STAT: average college grad makes \$30T.
3. Understand your wants v. needs.
  - a. EXHIBIT 10: Budget!!!!: sample budget (include savings)

- C. Bankruptcy: Some of the classes may or may not ask questions regarding bankruptcy. Feel free to add this to the discussion if you have the background and class time.

## VIII. SUMMARY

- A. Have one credit card. Research/choose wisely (miles, cash, etc.) No store cards. Pay it off in full every month. Use it wisely. Establish good credit.
- B. Make investing a habit: EXHIBIT 11: Top ten ways to achieve financial security;
- C. EXHIBIT 12: CARE Program “The Real Cost of Credit”;
- D. EXHIBIT 13: Financial Education, Protecting Your Future;
- E. EXHIBIT 14: CARE Program “The Top 10 Financial Tops for High School and College Students”
- E. EXHIBIT 15: UST Pamphlet;
- F. EXHIBIT 16: Care Today, volume 1, issue 1.