



Maxed Out

This movie was a real eye-opener for me. First, I was surprised by the amount of debt that many Americans carry from month to month. I was also stunned by the practices of some of the credit card companies in America. The movie accuses the credit card industry of targeting the young and the weak, offering credit to people that they know cannot afford to repay. Lets start with a few of the statistics:

- The average US household carries \$9,205. in credit card debt. That means that they spend \$1300. a year in interest payments.
- Four billion dollars worth of credit card offers arrive in mailboxes each year. (What a waste of paper!)
- Banks make three trillion dollars of credit available on credit cards each year.
- Fees have increased 160% over the last five years.

Elizabeth Warren of Harvard Law School says that, "Consumer lending is grossly profitable." She suggested that credit card companies be more rigorous in screening the marginal buyers. If they simply refused credit to those unlikely to repay they would greatly reduce collection problems. She was told that most of the profit is made from the low income people who are struggling to make the payments. Those people (who have the least) are the ones who end up paying penalties, late fees and higher interest payments.

And many will make minimum monthly payments until they die.

There's a misconception that the larger banks are safer and more trustworthy. Apparently the larger companies are the ones that are more predatory. The key markets that they target are: 18 year old college students and low income individuals.

Most consumers feel that they have privacy, but they don't. Each person's purchases are monitored constantly. Every time you swipe your credit card, write a check or sign a paper the information is collected and reported to the credit agencies. The credit agencies assign individuals a FICO score. The FICO score determines the interest rate that will be paid on car loans, mortgages and credit cards. It may even affect whether a landlord will rent to you. The problem is that mistakes can be made. That's why you hear so much about getting periodic credit reports and checking them for accuracy.

The movie discussed the practices of collection agencies trying to get repayment. They compared them to the drug dealers of the 80's and 90's. They are allowed to offer credit to marginal buyers and then harass them about their delinquent accounts for up to 180 days.

Many of the cases involved a person or family dealing with an unexpected event like: illness without insurance, a car accident without car insurance or funeral expenses. These circumstances were the main reasons that people turned to credit. After making the minimum payment for awhile, they'd fall behind because of the large interest payments. If they were late with a payment or went over the limit, there would be a penalty. Ms. Warren calculated that for every \$1. of principle-- a consumer would be charged \$2. more in interest and fees. For many people the only

way to stop the collection process is to file bankruptcy. MBNA is the second largest credit card company in the nation. They are lobbying hard to fight leniency in bankruptcy laws.

After watching the movie, I was left wanting a solution. I find credit cards to be very convenient. In some ways they're too convenient. Credit card companies encourage people to use their cards to pay for everything. I find it sobering to think of paying 21.9% interest on a latte!

The only way to win at this game is to spend responsibly. Here are a few tips:

- Find affordable health insurance, even if it's only for catastrophic illness. In the state of Minnesota, if you've lost your job, you can remain on the company policy for 18 months under the COBRA act. If you're finding it difficult to find insurance, you can find coverage through the state of Minnesota.
- Start a nest egg for unexpected expenses.
- Get a credit card with the lowest possible interest rate.
- If having a card feels like play money, figure out a way to make it real. Keep track of your receipts and tally them. Monitor all of the small purchases.
- Make it your goal to spend only what you can repay each month.
- Pay on time.
- Teach your children about credit cards, (and about fees, penalties and interest) while they are still living under your roof.

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