

RAISING THE BAR

A DECATO LAW OFFICE NEWSLETTER

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“CREDIT WE DON’T DESERVE”

The above headline appeared in an article dated July 29, 2009, written by Nancy Cook, for *Newsweek*, web exclusive. The article details the credit binge Americans have been on for the past several decades. Does this sound familiar: borrowing against home-equity, to pay off credit cards or other loans. After consolidating the various loans, going out to eat and of course charging the meal on the now “zero” balance credit card. Our spending habits got out of sync, basically we were spending more than we earned. In part, it was out of necessity for food, clothing, property taxes, etc. But, a large part was just overspending. Remember the ads by a certain credit issuer: a very nice family at a ball game, or at a resort, detailing the cost of family fun. The punch line was “priceless,” for everything else there iscard. Great ad to get people to spend money they don’t have.

I mention this because we see an increasing number of people who are overextended and cannot make their monthly credit card payment. Home equity loans are tough to get, because house values have dropped. What to do? The newest ads to offer help with debt, are the “Debt Consolidators.” You know, we can settle your debt for a fraction of the balance. But, are they legitimate? Well, there might be some who are, but of the ones that I know of, through our clients, it has been a bad experience.

Basically, the debt consolidators tell people to: (1) Stop paying your credit cards; (2) Send

us some up front money (maybe \$2,000.00, or so); (3) Send us a monthly payment and we will negotiate with the credit card company and get them to take less than what is owed. So far, our clients have seen minimal negotiation, ruined credit and, in many cases, law suits brought by the card companies for the balance owed. Not a good deal for the consumer. So, **BEWARE, BEWARE, BEWARE.**

If you are going to negotiate do it directly with the card company. More likely than not they will want a lump sum payment of perhaps 65% to 75 % of the balance. Keep in mind with debt reduction, comes the concept of “income.” In January you will probably receive a 1099-R from the card company, for the amount of the debt written off. This will be reported to the IRS and you will have earned taxable income for the amount of the debt written off. Not a great scenario, but the amount of taxes owed will probably be lower than the amount written off.

If you have a child or young adult heading off to college, another credit trap awaits. The card companies are aggressively marketing cards to college students. There are offers of free pizza, t-shirts, etc. The students sign up and oh boy, they have a credit card! Of course, it is often used for such “necessities” as eating out, ipods, etc. I read one report where seniors are graduating with thousands of dollars of credit card debt. Have a sit down talk with your student and urge them to not to take on any credit card debt while in college. If they need money, they can work in the dining hall, fold towels in the gym or in the time honored classic, beg mom and dad for money! Remember, the repayment of student loans often awaits.

UPDATES / REMINDERS:

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