

Financial Matters

A Discussion of Actions South Dakotans
Can Take to Achieve their Financial Goals



prepared by
U.S. Senator Tim Johnson



U.S. Senator Tim Johnson



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Dear Friends:

South Dakota is truly a wonderful place to call home, and we should be rightly proud of all we have accomplished. I continue working to strengthen and diversify our economy, bringing good-paying career opportunities to South Dakotans.

These days, however, achieving one's financial goals also requires planning, saving, analyzing, and educating oneself about the financial markets, our rights, and our responsibilities. Whether preparing to purchase a home, applying for a credit card, planning for a child's education, or saving for retirement, it is important that all South Dakotans periodically assess their financial situation, review their credit report, and take stock of how they are progressing toward their goals.

There are many challenges to having a secure financial future. I work hard every day to find different ways to protect and strengthen South Dakotans' current and future economic outlook. As we move forward, I hope that the enclosed information will serve as a good resource to help you achieve your financial goals.

Sincerely,

Tim Johnson
United States Senator

Notice: Information provided in this booklet is for general informational purposes only, and is intended to help South Dakotans find general information and educational resources regarding common financial matters. None of this information is intended as legal advice. For information about your specific situation, please consult your attorney or financial advisor.

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Building Credit

Anyone who has ever applied for a credit card, personal loan or insurance has a file with one or more of the three major credit reporting companies. This information is sold to creditors, employers, insurers and other businesses. Your credit report affects your ability to get loans, the rates charged for those loans, your ability to get insurance and, in some cases, your ability to find employment.

There are many steps that you can take to build and maintain a solid credit report, which will in turn improve your financial opportunities across the board:

The first step is to obtain a free copy of your credit report.

This will help you to identify areas of improvement that could help bolster your credit rating. [For more information about how to obtain your free credit report, refer to page 15.]

If something on your credit report is inaccurate, the Federal Trade Commission (<http://ftc.gov>) has detailed information about how to contact the credit reporting agency and maintain your best legal footing. If there is accurate negative information on the report, only the passage of time will remove information, but you can often reduce the effects of the negative information by working to counterbalance it with good credit events.

Add existing solid accounts to your file.

Most credit and bank cards, as well as major department store cards and similar lines of credit, are reported to the major credit reporting agencies (the people who keep your credit report). However, some gasoline cards, travel cards, and credit union accounts are not reported. If you have these cards and have used them responsibly, ask your creditors to report them to the credit reporting agencies. This may give prospective creditors the confidence they need to offer you a loan or line of credit.

Keeping Your Favorable Credit Report: Practices for the Future

- Bring current any past due balances that appear on your credit report.
- Develop a budget.
- Pay your bills on time.
- Open a savings account at your bank to demonstrate long-term planning.
- Reduce your credit card balances. Keep your balances at or below 25% of your credit limit, as these balances are heavily weighted in your score.
- Don't cancel or close credit cards and similar credit accounts around the same time you are applying for a loan. Each card you have improves your credit-to-debt ratio (how much you can borrow vs. how much you have actually borrowed on your cards).
- Pay off debt instead of moving it. Your credit-to-debt ratio is very important, so don't cancel cards and move the debt to one card.

- Don't open new accounts around the same time you apply for a loan. New accounts will bring down the average age of your accounts, which is an important part of your score.
- If you're going to close out accounts, do so one account at a time.
- If you're going to close out accounts, close out your newest accounts to preserve your long-term credit history.
- If you're married, keep separate credit cards. Debt can be transferred from one spouse to the other, making it possible for the spouse with the better credit score to borrow.

The websites of the major credit reporting agencies also provide information about managing and protecting your credit. To learn more, visit any of the following:

www.equifax.com
www.experian.com
www.transunion.com

Home Mortgage

Getting a home mortgage loan is a very significant decision that will have an impact on your finances well into the future. If you are interested in a home mortgage loan, the most important thing to remember is to shop around.

Any reputable institution that offers home mortgage loans will help you to understand the differences between the different mortgage products available to you. You can save yourself a great deal of money and headache down the road if you find the right home mortgage loan for you. Smart consumers shop around and ask as many questions as necessary to understand the financial services being offered.

Things to consider when shopping for a mortgage:

- From what kind of financial institution do you want to receive a loan? Commercial banks offer these loans, but so do savings and loan associations, mortgage companies and mutual savings banks. All of these institutions come with their own set of advantages and disadvantages; you should look into all of them.
- Is the loan federally or privately insured? This will change the terms of the loan and the restrictions that apply.
- What kind of interest rate does the loan carry? Is it a fixed interest rate or one that changes over time?
- How long does the loan take to pay off? What changes do you expect in your family's finances during that period?

The South Dakota Housing Development Authority offers educational classes for homebuyers, information for current and future homeowners, and below-market fixed interest rate loans for eligible first-time homebuyers. In addition, they assist eligible homeowners with low-interest home improvement loans. For more information, please visit: <http://www.sdhda.gov>

For more information about your rights and responsibilities in the mortgage process, please visit this website from the Federal Reserve Bank of the United States:

<http://www.federalreserve.gov/Pubs/mortgage/morbro.HTM>

Identity Theft

According to the Federal Trade Commission, identity theft has victimized 27.3 million Americans over a five year period. The economic losses suffered by both consumers and businesses are equally staggering: \$5 billion in out-of-pocket expenses incurred by victims of identity theft and \$48 billion in economic losses suffered by financial institutions.

Managing your personal information is key to minimizing your risk of becoming a victim of identity theft. Here are some tips to help keep your personal information safe:

- Keep an eye on your purse or wallet; keep them in a safe place at all times.
- Don't carry your Social Security card.
- Don't share your personal information with people you don't know.
- Regularly read the statements from your bank and credit card accounts to look for unusual charges or suspicious activity. Report any problems to your bank and creditors right away.
- Tear up or shred receipts for purchases made with your credit card, as well as checks and old bank statements, expired charge cards, and any other documents with personal information.

You may be a victim of Identity Theft if:

- There are unexplained charges or withdrawals from your financial accounts.
- You have failed to receive bills or other mail, signaling an address change by an identity thief.
- You have received credit cards for which you did not apply.
- You have been denied credit for no apparent reason; or
- You are receiving calls from debt collectors or companies about merchandise or services you did not buy.

What to do if Your Identity Has Been Stolen

Contact your creditors and advise them of the suspicious transactions. In the case of fraudulent credit card transactions, the Fair Credit Billing Act establishes procedures for dealing with unauthorized charges. You are required to dispute such charges with your creditor within 60 days. For more information, see the Federal Trade Commission's website at <http://ftc.gov>.

Review your credit reports. You can also place a fraud alert on your credit report by calling any one of the nationwide consumer credit reporting agencies:

Equifax: 1-800-525-6285; www.equifax.com

Experian: 1-888-EXPERIAN (397-3742); www.experian.com

TransUnion: 1-800-680-7289; www.transunion.com

Close the accounts. Close any accounts that you know or believe have been tampered with or opened fraudulently.

File a police report. File this report with your local police or sheriff's office, or with law enforcement agencies in the community where the identity theft took place. Get a copy of the police report so that you can better deal with creditors.

File a complaint with the Federal Trade Commission. You can file a complaint online at www.consumer.gov/idtheft. If you don't have Internet access, call the FTC's Identity Theft Hotline toll-free at 1-877-IDTHEFT (1-877-438-4338).

Obtaining Your Free Credit Report

The Fair Credit Reporting Act (FCRA) requires each of the nationwide credit reporting agencies — Equifax, Experian, and TransUnion — to provide you with a free copy of your credit report, at your request, once every 12 months.

I would encourage you to take advantage of this opportunity each year in order to verify the accuracy of the information that is reported and maintained, as well as to ensure that you have not been a victim of identity theft. You can receive your free credit report by visiting: <http://annualcreditreport.com>.

If you prefer, you can also call 1-877-322-8228 to request the Annual Credit Report Request Form; after you have completed the form, mail it to:

Annual Credit Report Request Service

P.O. Box 105281

Atlanta, GA 30348-5281

Additionally, you may also be entitled to a copy of your personal credit report at no charge if:

- Within the past 60 days, you have received notice of an adverse decision, such as denial of credit, employment or insurance, based upon information contained in your credit report.
- You are unemployed and plan to seek employment within 60 days.
- You receive public welfare assistance.
- You have reason to believe your credit file is inaccurate due to fraud.

Retirement Planning

I believe the government ought to create more investment opportunities for South Dakotans, allowing them to better save for their retirement by supplementing their Social Security benefits. Social Security benefits alone are generally inadequate for a comfortable and secure lifestyle, and far more could be done to enhance retirement savings.

Working Americans who participate in retirement savings plans will help to combat recent trends that suggest a significant decline in the amount of income that Americans are saving for retirement, and will also ensure that more South Dakotans are able to remain self-reliant throughout their lifetimes. There are many options to enhance retirement savings, including Individual Retirement Accounts (IRAs) and 401(k) retirement investment fund participation and growth potential, as well as an enhanced Retirement Savings Tax Credit and other savings incentives.

Today, investing is not something that only the wealthiest Americans can afford. About half of the 30 million families earning between \$25,000 and \$50,000 own stocks. Of the 34 million American households that make less than \$25,000 a year, 6 million owned stock. Additionally, mutual funds have become a middle-class investment product. About half of all U.S. households owning mutual funds in 2005 had incomes between \$25,000 and \$74,999.

To explore your investment options, visit:

<http://www.firstgov.gov/Citizen/Topics/Money/Investing.shtml>

Financial Literacy

Financial education improves spending and saving habits among all Americans, with the hope that good habits that start early will continue for a lifetime. I am pleased that so many of our local banks and credit unions are already actively involved in helping South Dakotans improve their financial literacy, and I hope that the increased national attention to financial literacy will encourage people across America to learn how to take control of their personal finances. I would encourage South Dakotans to take advantage of reputable programs providing free financial education and would particularly recommend <http://www.mymoney.gov/>, a service of the U.S. Financial Literacy and Education Commission.

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