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Financial Matters

A Guide to Personal Finance and Taking Steps Toward Achieving Financial Goals



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Important Questions to Ask Before Investing

When can I withdraw my money? Some investments are very liquid, meaning you can turn them into cash whenever you want. But IRAs, 401(k)s and other tax-advantaged retirement accounts have penalties for early withdrawal (with some exceptions). Certificates of deposit (CDs) at banks and credit unions generally carry a higher rate of return than a regular checking account, but you'll pay a penalty if you withdraw your money before your CD matures.

How risky is this investment? When it comes to investing, if something sounds too good to be true... it is. All investments carry risks, but some are safer than others. A financial adviser can help you find the right level of risk for your needs. If you are in your 30s and saving for retirement, you may want a more aggressive portfolio than if your retirement is only a few years away.

How are you paid for your services? Some financial advisers get commissions when their clients buy certain financial products, while others work on a flat or hourly fee basis.

Investments and Retirement Planning

As countless reports have identified, it is clear that most Americans today are not adequately saving for retirement, and this is especially true for the younger generations.

Social Security benefits alone are generally inadequate for a comfortable and secure lifestyle, and far more could be done to enhance retirement savings. It is important to remember that how much you'll have in retirement is how much you save before retirement.

Choosing to have a retirement savings plan is a smart decision that helps people remain self-reliant later in life. It's simple: saving a little early on makes a big difference. There are plenty of options for retirement savings plans, including Individual Retirement Accounts (IRAs), 401(k) retirement investment funds, enhanced Retirement Savings Tax Credits, employer match programs, and other savings incentives. All of these assist people in securing comfortable retirements.

To explore your investment options, visit:

www.firstgov.gov/Citizen/Topics/Money/Investing.shtml

Dear Friends:

All across South Dakota, individuals and families are working to achieve their financial goals. Whether you are buying a home, borrowing money for college, investing for retirement or just saving for a rainy day, you can save money and stay on track by becoming a more informed financial consumer.

As Chairman of the Senate Banking Committee, I am always thinking about how what Congress does in Washington will affect South Dakota. I have been working to safeguard consumer protections and help our housing market and economy continue to recover.

When you are faced with an important financial decision, you can find many excellent resources online and in this Financial Matters guide. One of the best resources is a new government agency, the Consumer Financial Protection Bureau (CFPB), which was created in the Wall Street Reform Act to prevent the kinds of predatory and fraudulent behavior that helped cause the financial crisis of 2008.

Educating yourself is the best way to take charge of your own financial future. With the resources in this booklet you can start building a foundation of sound financial knowledge that will serve you well as you make financial choices. I am pleased that so many of our local community banks, credit unions and non-profits across the state are actively involved in helping South Dakotans work toward their goals.

Whether you're opening your first checking account or getting ready for retirement, I urge you to take the time to improve your financial literacy.

I hope that the enclosed information will serve as a resource in helping you achieve your financial goals going forward.

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 as legal advice, and for information about your specific situation, please consult your attorney or financial advisor.

Student Debt Repayment Assistance:

Unfortunately, preventative measures might not be useful for people currently feeling the pressure of student loan debt. In such cases, the CFPB's Student Debt Repayment Assistant can be helpful and informative. This function on the CFPB's website outlines the process of paying back student loan debt. It provides advice on budgeting for debt repayment and who to contact with specific questions.

Student Debt Repayment Assistant

www.consumerfinance.gov/students/repay

National Student Loan Database System for Students

www.nsls.ed.gov/nsls_SA

Student Loans

Education is an opportunity to which everyone should have access, but higher education can be costly, and student loans are a serious commitment. The Consumer Financial Protection Bureau (CFPB) has resources to help students make informed financial decisions before taking on educational debt.

Students applying to college should visit the CFPB's Financial Aid Comparison Shopper at www.consumerfinance.gov/payingforcollege. This tool lets college applicants see a side-by-side comparison of the costs of specific schools, and calculate the monthly payments on student loans. The website is designed to give students the tools necessary to evaluate the cost of higher education and to compare costs and financial aid packages from colleges and vocational or technical schools. Many young adults enter college with limited information on how much they will be paying. Visiting this website is a good first step in preventing that from happening.

If you need assistance or wish to file a complaint, contact the Consumer Financial Protection Bureau student loans ombudsman at www.consumerfinance.gov/complaint or call their toll-free number at 1-855-411-CFPB.

Visit these websites for opportunities and information on federal student aid:

The U.S. Department of Education's website:

www.ed.gov

National Association of Student Financial Aid Administrators:

www.nasfaa.org

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Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) was established as part of the Wall Street Reform and Consumer Protection Act in July 2010. This independent agency is the first of its kind with a goal of promoting an equitable and transparent consumer financial marketplace and protecting consumers from unfair practices. The CFPB has the authority to ensure that existing consumer protection laws and regulations are fair and robustly enforced.

Consumers can use the “Tell Your Story” section on the CFPB’s website to share information about their experiences with financial services. The CFPB also accepts complaints from consumers on troubles they encounter in the financial marketplace.

Consumer Financial Protection Bureau

www.consumerfinance.gov/complaint

1(855) 411-2372

Things to consider when looking to take out a mortgage:

- What type of financial institution do you want to engage in the lending process with?
 - Commercial banks offer loans, but so do savings and loan associations, mortgage companies and credit unions. All of these institutions come with their own set of advantages and disadvantages, which you should weigh against your own financial situation.
- Is the loan federally or privately insured?
 - This is very important and will affect 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 an adjustable rate that changes over time?
 - The type of interest rate that the loan carries will factor into the monthly payments that you will have to pay over the duration of the product.
- How long will 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: www.sdhda.gov

Home Mortgage

Buying a home will probably be the single biggest financial decision of your life. When considering a home mortgage, I strongly encourage you to take the time to learn about your options, shop around, and make sure you are choosing the mortgage that's best for your unique situation.

If you are interested in a home mortgage loan, it is important to consider a variety of lenders and to make sure that you understand the products being offered. To this end, the Consumer Financial Protection Bureau (CFPB) is working to simplify mortgage disclosure forms through their "Know Before You Owe" program. This initiative is focused on better educating consumers about the costs associated with each loan and reducing the level of confusion that is inherent with complex financial documents.

For more information about your rights and responsibilities in the mortgage process, please visit the following website of the Federal Reserve Bank of the United States: www.federalreserve.gov/Pubs/mortgage/morbro.htm

Consumer Financial Protection Bureau Resources:

It is important that consumers are provided with the information they need as they make some of the most important financial decisions of their lives. Yet, when it comes to financial matters, it is common for consumers to have questions about the products and services being offered. As part of its mission to provide reliable information to consumers, the CFPB developed an "Ask CFPB" section on their website (www.consumerfinance.gov/askcfpb), which provides answers to many commonly asked questions concerning credit cards, mortgages, credit scores and reports, and debt collection.

I encourage South Dakotans to take advantage of reputable programs providing free financial education, like www.mymoney.gov, a service of the U.S. Financial Literacy and Education Commission. This website provides resources to help you navigate major life events that require financial planning, ranging from the birth of a child to retirement.

Office of Servicemember Affairs

Servicemembers, veterans and their families face unique circumstances as they deal with frequent relocations, overseas deployments, and other financial challenges. The Office of Servicemembers Affairs (OSA) at the Consumer Financial Protection Bureau was established by the Wall Street Reform and Consumer Protection Act to make sure that our nation's heroes receive the support and guidance they need to achieve their financial goals. The OSA works to educate and empower members of the military and their families, and serves as a resource to help deal with lenders or difficult financial situations.

OSA Resources

Emergency Assistance for Servicemembers

Service-specific Personal Financial Management Services

Support for Military Spouses

Legal Assistance

Information for Wounded, Ill, or Injured Warriors

Money Management and Saving

Information for Surviving Spouses

Information on Avoiding Scams

www.consumerfinance.gov/servicemembers

Tips for using your credit card:

- **Always pay your bill on time.** Not only does this help keep your credit score and report favorable, but you will also avoid costly fees and penalties.
- **Don't exceed your credit limit.** Closely monitor your credit card accounts to ensure you are staying below your credit limit to avoid higher interest rates and fees.
- **Beware of hidden fees.** There are many transactions that incur additional fees when using your credit card, such as cash advances, balance transfers, and paying your balance over the phone. Make sure you understand the fee structure associated with your card.
- **Pay your balance in full.** Interest accrues on any portion of your balance that is not paid in full at the end of the month. The more you reduce your balance, the less interest you will be charged. Many people just pay the minimum payment that is required and end up paying an enormous amount of interest before being able to pay off the balance of the card.

Credit Cards

As with any financial product, it's important to understand the terms and conditions of your credit card accounts. Before you sign up for an account, shop around to compare interest rates and fees. Credit cards can be a useful tool in managing your spending, but if you're not careful you can end up paying off your balance for years.

In July 2011, the Consumer Financial Protection Bureau (CFPB) rolled out their Consumer Report Unit and launched a credit card consumer complaint hotline. Additionally, as part of their "Know Before You Owe" initiative, the CFPB is in the process of simplifying credit card agreements. They have released a shorter and more direct disclosure form prototype and are currently receiving and reviewing comments on the prototype.

Important fees and terms to understand:

- The Annual Percentage Rate (APR) is the annualized interest rate for the entire year.
- The periodic rate is the interest you are charged at the end of each billing cycle.
- The annual fee is an amount you pay each year to be a cardholder. Not all cards have an annual fee.
- The grace period is the time given to pay your balance prior to incurring any interest.

Office for Protection of Older Americans

Older Americans were hit particularly hard by the financial crisis, as decades of savings and home equity evaporated when the stock market tumbled and home prices fell. The Office for Protection of Older Americans at the Consumer Financial Protection Bureau was established by the Wall Street Reform and Consumer Protection Act to be an educational resource and to help combat predatory and exploitative financial products aimed at seniors. The Office of Older Americans works to educate seniors so they can make informed financial choices about long-term care, retirement planning, and other issues. The Office also coordinates with law enforcement and other financial agencies to stop financial scams and protect seniors.

Resources for Older Americans

Information and Assistance in Avoiding Scams

Elder Financial Abuse Prevention

Housing

Long-Term Care

Protecting Your Investments

Retirement

Support on Financial Decision-Making and Legal Issues

End of Life Issues

Taking Care of Loved Ones

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, which include Equifax, Experian, and TransUnion. Your information is compiled and used to generate a credit report and a credit score. Your credit report contains information about your existing credit accounts and balances, your borrowing history, and companies and persons that have inquired about you. Your credit score is a number based on the information found in your credit report. The most common credit score is the FICO score, and it ranges from 300 to 850 – higher is better.

Your credit score and report are used by lenders, insurers and other businesses to make decisions about whether to give you a loan, a credit card, or even a job. If your credit score is low, there are steps that you can take to raise it, which will in turn improve your financial opportunities.

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).

What To Do If You Suspect 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

Obtain a free copy of your credit report.

Obtaining a copy of your credit report 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, see page 12.]

If something on your credit report is inaccurate, the Federal Trade Commission (<http://www.FTC.gov>) has detailed information about how to contact the credit reporting agency and maintain your best legal footing. If your credit report contains negative information, like late bill payments or a bankruptcy, only the passage of time will erase it. However, you can often reduce the impact of negative information by working to counterbalance it with good credit decisions.

Add existing strong 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 companies that maintain your credit report). However, some gasoline cards, travel cards, and credit union accounts are not reported. If you have a card or other credit account that doesn't appear on your credit report, and you have used it responsibly, you can ask the lender to report it to the credit reporting agencies.

Obtaining Your Free Credit Report

The Fair Credit Reporting Act (FCRA) entitles you to a free copy of your credit report from each of the nationwide credit reporting agencies — Equifax, Experian, and TransUnion. You can get one copy per year from each of the agencies.

I strongly encourage you to take advantage of this opportunity. Monitoring your credit report will make sure you catch errors that could hurt you financially, and is one of the best ways to spot identity theft.

The only authorized source for your free credit report is www.AnnualCreditReport.com. Watch out for other websites with similar names or catchy jingles. Only one source is actually free.

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

Managing your personal information is key to minimizing your risk of becoming a victim of identity theft.

Here are some tips for keeping your personal information safe:

- Don't carry your Social Security card in your wallet.
- Keep an eye on your purse or wallet; they must be in a safe place at all times.
- 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. Also, charges under \$1 can indicate you have been a victim of skimming.
- 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.
- You are receiving calls from debt collectors or companies about merchandise or services you did not buy.

Identity Theft

Identity theft is one of the most widespread forms of financial crime, affecting an estimated 9 million Americans every year. You can take steps to safeguard your personal information and protect yourself from this growing problem.

Identity thieves use people's names, Social Security numbers and other information to make purchases or take out loans in someone else's name. If you discover you have been the victim of identity theft, clearing your name can be costly and time-consuming, but acting quickly will help minimize the damage.

New mechanisms for identity theft are constantly evolving and some of the most used techniques currently include phishing and skimming. Phishing occurs when a person or organization sends you an email directing you to a website and prompting you to enter in your password, credit card number, social security number, or bank account information under false pretenses. The email may suggest that something has occurred in your bank account and the organization needs you to verify your information for your own protection. However, often these emails are not legitimate. Check with your bank before you submit any of your personal information.

Skimming occurs when a person, usually at a restaurant or store, swipes your card through a tiny device to collect the information stored on your card, which then can be sold to others. Skimming devices have even been found on ATM machines and gas pumps. Since the stored card information is usually sold at a later date, skimmers will process a small charge on your card to verify it is still an active account.

Additionally, you may 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.

Keeping Your Credit Report Favorable

Practices for the Future:

- Pay off any past due balances that appear on your credit report.
- Develop a budget.
 - *Write out your sources of income and your recurring expenses, and then calculate your remaining disposable income.*
- 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.
- Pay off debt instead of moving it. Your credit-to-debt ratio is very important.

- 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, and close out your newest accounts to preserve your long-term credit history.
- If you're married and your spouse has poor credit, consider keeping your accounts separate. However, if you are getting ready to buy a house, mortgage lenders will look at both of your credit scores.

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