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DID YOU KNOW THAT...?

…during World War II, personal savings accounted for 24% of the gross domestic product (GDP), but in the early 1980's that percentage dropped to 7.5%, and in 2002 it was only 2.4%? *(Source: Bureau of Economic Analysis (NIPA), 2003)*

...while 93% of Americans feel that it is "very important" to pay bills on time, only 80% claim to do it all the time? *(Source: Bankrate.com, March 16, 2003)*

…there are lower delinquency rates among mortgage borrowers who have taken advantage of homebuyer counseling than among those who have not? *(Source: Sandra Braunstein and Carolyn Welch,* Financial Literacy: An Overview of Practice, Research, and Policy*, Federal Research Bulletin, November 2002)*

…last year Americans devoted more time to holiday and special events planning then they did to retirement planning? *(Source: Humberto Cruz, Retirement Plans at Risk for Some, Chicago Tribune, May 27, 2003)*

…almost one third of Americans expect to go into debt over their holiday purchases, but almost two thirds do not develop any spending plan for the holiday period? *(Source: Eileen Alt Powell*, GOOD QUESTION: Holiday Budgets Should Go beyond Gift*s, The Kansas City Star, December 15, 2003)*

...teens aged 12 to 19 spent an average of $103 per week in 2003? *(Source:* Teens Spend $175 Billion in 2003, *Teenage Research Unlimited, January 9, 2004)*

Source:

Humberto Cruz, Retirement Plans at Risk for Some*, Chicago Tribune, May 27, 2003*

AMERICANS AVERAGE A "D" IN FINANCIAL LITERACY

When Bankrate.com, a Web-based company that collects financial data, employed RoperASW to conduct a survey in January 2003 of the financial literacy of 1,000 Americans, the results were not encouraging. The average score was 67, or a "D," with only 10 percent making an "A" and a further 16 percent a "B." On the bright side, it appears that, while we don't always behave responsibly financially, we do understand what we ought to be doing.

In the survey, Bankrate listed 12 basic steps for financial health in America today and asked the people surveyed to assess the importance of each step and to note whether they performed each step:

• Paying bills on time

• Reading your bank account statements regularly

• Paying more than the minimum due each month on your credit cards

• Making out a will

• Contributing to a retirement account

• Comparison shopping for a mortgage

• Maintaining an emergency fund with at least three months' living expenses

• Shopping around for the best bargains in insurance

• Keeping to a monthly budget

• Adjusting your W4 form each year

• Checking your credit report annually for accuracy

• Searching out and changing to credit cards with lower rates

While 93 percent of Americans know that it is "very important" to pay bills on time in order to avoid late fees, 20 percent do not always do it. At least 75 percent of respondents understood that making more than the minimum payment on credit cards and reading their banks statements regularly were "very important." However, respondents were not as savvy about checking credit reports or switching to credit cards with lower rates, with fewer than 50 percent regarding those as "very important."

The survey revealed some interesting facts about the respondents. Those who scored an "A" had an average age of 54 and an average household income of $63,500, while those who failed the test were younger on average, with an average age of 41, and earned less, with an average household income of $43,000.

Most of the "A" scorers were married and balanced work with family demands. They had access to the Internet and used it to manage their finances. Those who failed tended to have children, but more than half were unmarried. They also had Internet access, but only 26 percent of them used it for financial management.

Not surprisingly, financially savvy respondents tended to save, while those failing to make the grade were spenders. Ninety-one percent of the "A" scorers plan their financial decisions carefully, but a third of the failing respondents make decisions spontaneously.

Gender and formal education did not appear to play a role in fiscal responsibility, but attitude was important. Those who could do with financial tutoring found excuses for their irresponsibility:

• Sixty-eight percent said that they would plan their finances better if they had the time.

• More than half claimed that they could not afford to save for a rainy day.

• Over 30 percent found searching for better mortgage deals confusing.

• Twenty percent felt the idea of preparing a will was too depressing.

Sources:

Bankrate.com

Americans not Making Grade in Financial Literacy*, USAA Magazine, August 2003*

FREE ONLINE TAX PREPARATION

This year, the IRS is again providing its *Free File* program to link taxpayers to private company Websites that offer free online tax preparation software. Based on a survey of people who used the service last year, the IRS has provided more consumer protection against unsolicited ads and other promotional material that could incur costs.

Companies providing the tax services must now state more clearly the services they offer, the tax forms they provide, and the fees they charge for optional services. They may not use promotional codes or rebates to provide the free services. Moreover, they must guarantee that their software is accurate and take financial responsibility, as well as pay penalties, for any mis-calculations that cause taxpayers to pay interest. They must also permit taxpayers to print copies of their tax returns on their home printers, free of charge.

In addition, taxpayers need not purchase any additional services, such as refund anticipation loans, from the tax preparation sites they use.

This year there are 16 companies offering free online tax services, most of whom target lower income taxpayers or those taxpayers eligible for the earned income tax credit. The idea is to encourage those taxpayers who ordinarily would not take advantage of electronic filing. Taxpayers who file electronically can usually obtain their refunds in half the time it takes for traditional paper filing.

Free File makes tax filing simpler and more convenient. In addition it can alert taxpayers to tax benefits that they might otherwise miss, such as the earned income tax credit.

Software companies offering online tax preparation can help taxpayers with program problems. However, for problems that remain unresolved, taxpayers can email the IRS at **helpdesk@speedymail.com**.

Source: Mary Dalrymple, Free tax filing getting safer, *Associated Press*

SCAMMERS BUSY IN THE TAX SEASON

With the approach of the federal tax-filing deadline, seasonal scammers are trying to lure taxpayers with fake prize winning, fictitious tax credits, and other dubious schemes. Identity theft is also on the upswing. Here are some precautions for the taxpayer to take:

Protect your personal information Don't provide any telephone caller, even one claiming to be an IRS agent, with your Social Security number or other personal information.

Watch out for identity theft by unscrupulous tax preparers Dishonest tax preparers use Social Security numbers and financial information from taxpayers' returns to apply for credit cards and loans in their clients' names. Others charge clients to file false tax returns.

Be wary of claims that you've won a prize Some scammers will call to tell you that you've won a prize and that, to claim it, all you have to do is to pay the caller the income tax due. If you had genuinely won a prize, you would pay any income tax due directly to the IRS, not to a third party.

Ignore claims of tax credits or refunds for "reparation for slavery" Sometimes tax preparers will try to lure African-American clients into paying to apply for a false tax break for "reparation for slavery," although the law does not provide any such credit.

Guard against offers of "big tax refunds" Tax preparers who, without knowing your financial details, try to offer you large refunds may be claiming false or inaccurate claims on your tax return, and you may land up repaying the refund, together with penalties and interest.

According to the IRS, hundreds of taxpayers fall prey to tax scammers every year, so protect yourself by being cautious about offers that seem too good to be true. If you suspect a tax scam, call the IRS fraud line at **1-800-829-0433**.

GROWING CREDIT CARD DEBT

According to a publication by *Demos*, a non-partisan public policy organization, from 1989 to 2001, the average increase in an American family's credit card debt was 53 percent, from $2,697 to $4,126. Middle-class families saw their credit card debt rise 75 percent, but very low-income families' debt rose 184 percent.

Sixty-seven percent of credit card-carrying families with incomes below $10,000 had credit card debts, while almost as many (62 percent) moderate-income families (those earning $25,000-$50,000) did.

It is interesting to note that the figure of $4,126 for the average credit card debt in 2001 may be underreported. That figure is based on surveys in which consumers reported about themselves, whereas calculations based on the Federal Reserve's figures for outstanding revolving credit put the average credit card debt at $12,000, almost three times as much.

Although people with credit card debt may be living beyond their means, during the 1990s there were other costs that rose for many families, while wages either remained level or decreased:

Housing From 1997 to 2001, the number of working families who spent more than half of their income on housing rose from 3 million to almost 5 million, an increase of nearly 60 percent.

Health Care During the 1990s many employers ceased paying the full cost of their employees' health coverage. Furthermore, between 1989 and 1990, health care premiums rose 18 percent, and from 2000 to 2001 they jumped an additional 11 percent.

Real Income Low- and moderate-income families saw their incomes remain level or decline during the 1990s. The income of the lowest 40 percent of earners rose in the second half of the 1990s, but dropped from 2000 to 2001 as the recession began.

During the 1990s deregulation of the credit card industry contributed to the credit card debt. Some of the strategies used to lure consumers into debt included:

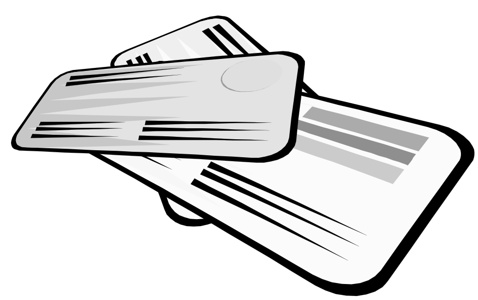
Aggressive Marketing From 1993 to 2001, direct mail solicitations increased from 1.52 billion to over 5 billion

Credit Extension By 2001, the credit card industry was offering consumers almost $3 trillion, up from $777 billion in 1993. The average number of credit cards per cardholding household is now six, with an average of $21,000 in available credit.

Reduced Minimum Payment Requirements The amount consumers can pay of their balance without incurring a penalty is now only two or three percent, down from five percent. This encourages consumers to carry more debt and to take longer to pay off their credit card balances.

Significantly Increased Late Fees and Penalties The credit card industry made $7.3 billion in late fees in 2001, up from $1.7 billion in 1996. The average late fee is now $29, and most cards no longer allow a late payment grace period. Many credit cards now cancel low introductory rates as soon as a client makes a single late payment.

Source: Tamara Draut and Javier Silva, Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s, *Demos: A Network for Ideas and Action, September, 2003*



SCAM *NATIONAL DO NOT EMAIL REGISTRY*

If you've become fed-up with all the spam (unsolicited email) you receive, you may be enticed by the so-called *National Do Not E-mail Registry*. Beware, however, because there is no legitimate site run or authorized by the Federal Trade Commission (FTC), the U.S. consumer protection agency.

Until recently there was a scam Website at www.unsub.us, which appeared very similar to the legitimate *National Do Not Call Registry*. Although that site no longer exists, there may be similar ones on the Web. The FTC is worried that such sites may try to lure consumers into parting with their email addresses and other personal information, which scammers can then use to commit identity theft. At the least, these sites may collect valid email addresses to sell to spammers, so that consumers who register at these sites will end up with even more spam.

If you receive email purporting to come from an organization claiming to stop spam, or from the FTC itself, report it to the FTC at **www.ftc.gov** or **1-877-FTC-HELP**. If you have reason to believe you have already fallen victim to a scam, file a complaint at **www.ftc.gov** and visit **www.ftc.gov/idtheft** to learn how to minimize the damage you might suffer.

In June 2004, the FTC will report on its study of the feasibility of creating a *National Do Not Spam Registry*.

Source:

http://www.ftc.gov/opa/2004/01/spamcam.htm

POVERTY GUIDELINES FOR 2004

The following table shows the 2004 Health and Human Sciences (HHS) poverty guidelines for 2004.

Size of Family Unit	48 Contiguous States and D.C.	Alaska	Hawaii
1	9,310	11,630	10,700
2	12,490	15,610	14,360
3	15,670	19,590	18,020
4	18,850	23,570	21,680
5	22,030	27,550	25,340
6	25,210	31,530	29,000
7	28,390	35,510	32,660
8	31,570	39,490	36,320
For each additional person, add	3,180	3,980	3,660

Table: 2004 HHS poverty guidelines (amounts in dollars)

Source: *Federal Register, Vol. 69, No. 30, February 13, 2004, pp. 7336-7338*

PAYDAY LOANS-QUICK CASH OR A QUICK TRIP TO SPIRALING DEBT?

Suppose you're hard up for cash right now and can't wait until payday. A payday loan, to tide you over until your next paycheck arrives, might sound like an appealing prospect. All you have to do is to walk into a place advertising "Cash Advance" in large, bold letters, make out a check for the loan amount plus a finance charge, and the lender won't deposit the check for a few weeks, by which time your next paycheck will be in your bank account. If you are unable to repay the loan, you may be able to extend it by paying additional fees.

Other factors making payday loans seem attractive include:

Easy Application Process Unlike the application for a conventional short-term loan, the application process is fast, simple, and requires only a drivers' license, bank statement, and recent pay stub. The lender doesn't perform a full credit check, but considers only the borrower's check-writing history and future probability of writing bad checks.

Convenience Apart from fast loan approval, payday loans are often available after business hours and from high-volume locations such as shopping centers or busy neighborhoods.

No Need to Deal with Banks or Financial Companies Borrowers who have been rejected for credit cards or loans from conventional credit institutions are more likely to be approved by payday loan lenders, who don't worry about previous late payments and other financial problems.

On the downside, according to the Center for Responsible Lending's (CRL) analysis, payday loans cost U.S. families more than $3.4 billion per year and promote continuous cycles of debt.

APRs for payday loans range from 391% to 443% and incur finance charges of $15-17 per $100.

Payday loans are of short duration, so borrowers do not have much time to obtain the money to pay off the loans, which throws off their budgets even more. If borrowers default on their payday loans, they still owe the lender, plus they will incur bounced check fees from their bank and the lender, which may prompt them to take out additional payday loans.

According to the CRL, only one third of borrowers used payday loans fewer than five times per year, while 27 percent took out 13 or more payday loans per year. In California, the average payday loan borrower takes out 11 loans annually. The payday loan industry derives 91 percent of its income from borrowers taking out five or more loans per year.

To prevent the charging of excessive late fees, telephone pestering of borrowers and their families for payment of bounced checks, and to curb unscrupulous lenders who threaten borrowers with criminal prosecution for bounced checks, the Community Financial Services Association of American, a payday-lending industry group, has established a code of ethics for its members. By 2002, 33 states and the District of Columbia regulated payday lenders directly.

Sources:

Ernst, Farris, & King, Quantifying the Economic Cost of Predatory Payday Lending, *Center for Responsible Lending, 2003 (http://www.responsiblelending.org/)*

Charles Gerena, Need Quick Cash? *Region Focus, Federal Reserve Bank of Richmond, Summer 2002*

HELPING COMMUNITY COLLEGE STUDENTS WITH THEIR CREDIT CARDS AND FINANCIAL EDUCATION

Most studies on the credit habits and financial awareness of college students have focused on four-year colleges rather than community colleges. However, community college students differ from four-year college students in their demographic composition, financial needs, lifestyles, and long-term goals. Unless community college campuses are aware of the specific financial education and practices of their students, it is difficult for them to provide financial resources and intervention.

To obtain an idea of the credit practices and financial education needs of community college students, Angela Lyons and Jennifer Hunt of the University of Illinois have made a limited study of 45 student leaders at community colleges in Illinois.

Community college students form a more heterogeneous group than students at four-year colleges. They are more likely to come from low-income and minority backgrounds, attend college part-time, and have children. In addition, many of them choose community college because of the lower tuition costs.

Community college students tend to own fewer credit cards than students at four-year colleges, but are more likely to maintain credit balances, reach their borrowing limits, and to be delinquent. It appears that community college students would benefit from on-campus financial education, especially to learn about responsible credit management.

While four-year college students prefer to receive financial information online or through printed materials, the community college students in the study chose discussions with a financial professional first, followed by campus workshops and seminars, and then the Internet.

Community college students in the study indicated that they would like to receive financial information from financial aid counselors and, to a lesser extent, guest speakers and professors, whereas students at four-year colleges would prefer information from financial professionals and their parents.

The students in the study tended to obtain information on credit from their parents, the Internet, financial institutions, and friends. They professed an interest in classroom courses on credit, but were not enthusiastic about online courses.

From the study, it appears that community college students prefer to obtain financial information in individual or small-group settings, where they can ask questions and receive personal attention.

Often financial aid information is not readily available on community college campuses. Sometimes financial aid offices discourage students from taking out student loans because the tuition is far less than that at four-year colleges. Also, many community college students later transfer to four-year colleges, and financial aid officers feel it is preferable for them to delay taking out loans until they enroll at the more expensive institutions.

In providing financial education programs and resources, community college administrators have to take into account the heterogeneous nature and diverse requirements of their students, as well as the desire for information in a personal setting and from financial aid officers. However, from the credit habits of community college students, it is evident that providing financial and credit education would be very important.

Source: Angela C. Lyons and Jennifer L. Hunt, The Credit Practices and Financial Education Needs of Community College Students, *Association for Financial Counseling and Planning Education, 2003*

Comments and Requests

Today's Consumer is written primarily for the staff of UC Cooperative Extension. It is available as a PDF file to readers outside of Cooperative Extension. Send comments and requests to me at: Cooperative Extension, University of California, Riverside, CA 92521; 909-787-5241; connie.costello@ucr.edu.

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