

Chapter One

An Introduction to the Credit System

Fighting for a Chance

Donny protected his country. As a firefighter trained to fight large forest fires he was sent around the country to protect people and property from the forces of nature. Americans could go about their daily business, could sleep safe at night with their families because of Donny and his fire-fighting unit, experts at fighting wild fires, preserving forests and family homes. He felt satisfaction in knowing what he did mattered.

Donny was a recent college graduate. Like over a third of all college graduates he had student loan debts; in his case over \$20,000 was due. Like over half of all college students, he had more than two credit cards with an unpaid balance of over \$2,000 each. In Donny's case the total was \$4,500. His first card had been burdened with charges to impress a worthy co-ed. The relationship didn't last. The debt did. His second card was from a national department store chain. He received 10% off everything in the store when he applied for the card. He was still paying off several of the shirts he no longer wore.

Donny had recently financed the purchase of a new Ford F150. It was a great truck he needed to have. He was certain he could make all of the payments. The local fire department paid him like clock work.

Donny was sent to fight a huge summer fire in Oregon. Another mission, another job to do. In the past, when on the fire lines, Donny had always been able to receive his bills and make payments on a timely basis.

Then a white powder was found on an envelope at his local post office. It was anthrax. The post office was shut for three weeks while the matter was carefully investigated. The mail didn't move for another six weeks.

Donny didn't receive his bills. Meanwhile, the Oregon wild fire threatened towns and property in all directions. He was on the lines for seemingly the entire summer. Like all of the other firefighters in his unit, he assumed that the creditors were aware of the situation and would arrange a grace period for payment. After all, they were serving their country.

But the creditors didn't care what Donny was doing. He was now two payments late on all of his bills. That was all that mattered. Explanations, whether reasonable, justified or good, were just excuses. And all excuses were bad.

Donny's credit card had a Universal Default Clause, one of the most odious of all credit traps, and one that was restricted later by the Credit CARD Act – too late to help Donny. By being one day late on any payment to any creditor, the credit card company could charge a default rate on any existing balance of up to 29.99%. This meant that in Donny's case he had to pay an extra \$2,500 a year for being one month late on another creditor's bill.

Donny missed two car payments while fighting the huge Oregon fire and the F-150 was repossessed. Because he had just purchased it, the money owed far exceeded the artificially low value it was sold for at auction.

Finally the horrendous Oregon wild fire was brought under control. Donny and scores of other firefighters returned home from a very difficult mission. In gratitude, the country's financial establishment unleashed a torrent of debt collection sharks on the returning heroes.

The firefighters were incensed. They had served their country. Through no fault of their own the mail had been delayed. Under such circumstances a little leeway was appropriate. If they were in the military, the Service Members Civil Relief Act could have shielded them from credit sharks. Why shouldn't firefighters be equally protected? But the creditors didn't care. They had rules and standards. And they made a great deal of money when people paid late. Some of the firefighters were now being forced into

bankruptcy. Others lost their homes; many had their futures seriously delayed. A number of them wrote their Congressmen demanding relief from the ingratitude of the nation's credit establishment. But individual firefighters didn't contribute to Congress.

And yet the credit card companies, leasing companies, banks and other lenders spent millions and millions of dollars to influence Congress. There was no contest.

Donny was forced to declare bankruptcy. The next seven years felt like financial hell. He had a black mark on his record he worried about and worked every day to overcome. He had trouble getting approved for more credit, and when he did, he paid higher rates.

All for the privilege of serving his country.

Playing the Credit Game

Dewey liked to play the angles. If there was an opportunity for him to take advantage of a situation or of someone else he would do so. Especially if it meant easy money without the need for work.

Recently, Dewey had turned to new credit card and bank account deals. The FBI called it identity theft, and claimed it was the fastest growing crime in America. Dewey preferred to call it selective borrowing, and it was so easy and so lucrative he'd wished he known about it sooner.

Dewey had learned that by obtaining someone's social security number along with basic personal information he could obtain a credit card and a bank account. The accounts would be in the unsuspecting person's name but available for the use and benefit of Dewey, who moved from city to city to ply his special talents.

Dewey had just obtained the personal information from an elderly gentleman named John Logan. It was all so easy. He called up Mr. Logan pretending to be a utility company representative. He said he needed the information to update the company's files. Mr. Logan was all too nice and willing and forthcoming.

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Dewey's friend could forge a driver's license to perfection. His friend's business used to be geared toward underaged teens who wanted to go bar hopping. The market now was for sharpies like Dewey. With Dewey's photo and driver's license carrying John Logan's information and an address controlled by Dewey, the plan was put in motion. Dewey opened a bank account in John Logan's name. He paid a few small bills and maintained good credit for a time. Then Dewey obtained a credit card in Logan's name. All was ready to prime the credit pump.

With the credit card Dewey bought as much electronics as the card would allow. TVs, stereos and computers were easily fenced for cash. Dewey felt no remorse. The credit card companies and the national electronics retail chain made more than enough money. They could easily afford Dewey's hit. So could old Mr. Logan for that matter.

With his bank account Dewey wrote a large number of checks on one weekend to a number of small retail outlets around town. The smaller stores didn't have the ability to check cash availability. It was the weekend. The banks were closed. They took down John Logan's driver's license information and Dewey loaded up a rental U-Haul truck with his purchases.

By the time the checks started bouncing, Dewey was hundreds of miles away getting ready for his next selective borrowing.

Unlike the credit card charges, which were absorbed by the credit card company and passed onto consumers around the world in the form of higher prices, the small retailers Dewey hit were not so lucky. When the bounced checks came back the retailer was responsible. They were out the money they paid for the goods they handed over to Dewey.

The scam also cost the John Logan's of the world dearly. Calls from the creditors and collection agencies, even when one is innocent, takes its toll. The crushing financial and resulting emotional stress of a stolen identity is too much for many to take. For John Logan, a stroke followed. He died shortly thereafter.

The stories of Donny and Dewey illustrate the extremes and the ironies of credit and debit problems facing so many Americans.

The credit industry actively entices all comers, especially the young and inexperienced, with the promise of credit. Critics charge their aggressive practices border on predatory lending, taking unfair advantage of those who shouldn't be borrowing. Whatever the case, the easy availability of credit encourages two types of people to sign up who shouldn't: those represented by Donny and those represented by Dewey.

Donny, fresh from college with student loans, two credit cards and a truck payment, is starting his career on the edge of the credit abyss. If he doesn't work, he is in trouble. Dewey, always ready to play the angles, has found a career taking advantage of the credit industries' willingness to lend, allowing him to work causing trouble. To combat the Deweys of the world, the credit industry responds with rules and a rigidity that move the Donnys closer to the abyss. One missed payment, anytime, for any reason, be it anthrax or cows in the road slowing the mail, and the machinery of negative credit can start to grind. A freefall ensues. A number of lives are ruined.

The irony of this scenario is how the credit industry treats each individual. Dewey is a cost of doing business. His fraud is known and accounted in their budgets is an expense factor. The cost is spread out over the entire industry with millions and millions of consumers footing the bill as increased costs.

Donny, on the other hand, the deserving and ethical individual and a victim of circumstance, is a casualty of doing business. He had his chance, argue industry experts, and he missed a payment. He will be punished until he can be trusted once again.

And so in this upside down world where criminality is a cost and inadvertence amounts to a crime, it is important to know the rules, the motivations and the road map for winning with credit.

First, let's look at what motivates us to get into debt...