Mark Kaufman, C.P.A.
James Kiriakos, C.P.A.

Financial Forum

A Letter From Pegg & Pegg LLP

1430 Broadway,
Suite 1105A
New York, NY 10018
(212) 532-4287

December, 2004

Credit Scams – Beware

A recent survey by the Federal Trade Commission (FTC) found that three of the top four scams perpetrated on consumers involved credit. The most frequently reported fraud involved advance-fee loan scams, in which a telemarketer or mass retailer promises a consumer a credit card or loan in exchange for an upfront cash payment. Consumers generally pay the money but get nothing in return. Other credit scams include selling credit card insurance for hefty fees, despite the federal law that limits a consumer's credit card fraud liability to a maximum of $50. Another scam involves promising to repair a consumer's credit record by getting information removed from their credit card report or by setting up a new one, often with a false social security number. According to the FTC, those carrying a lot of debt are the ones most likely to respond to theses frauds.

Law enforcement agencies say that it is difficult to catch the thieves because they set up shop, collect as much money as they can, and then move on. Often they work on the Internet, which makes them even harder to find. The best defense, according to law enforcement officials is consumer vigilance. Consumers should reject all offers from telemarketers, unsolicited mail, or late-night television promotions.

When it comes to clearing up a credit record, consumers should be extra careful if the promoter is suggesting something they should not be able to do such as getting a new social security number. Scammers in this field often target consumers who have low credit scores from the major rating agencies – Equifax, Experian, and TransUnion. Low scores either from too short a credit history or misuse of credit, make it hard for consumers to obtain new credit cards or good interest rates on loans.

For individuals who haven't yet established credit, such as a recent high school or college graduate, or for those who have very poor credit, there are a few steps that can be taken to protect oneself. Some can qualify for a secured credit card, whereby the consumer deposits money in a savings account with a bank or credit union and is given a card with a credit limit that equals the money deposited in the bank. Some can qualify for gas station and department store credit cards that are often easier for beginners to get than bankcards because they generally have lower credit limits. If the card is used and paid off on time, the consumer will begin to build credit. Unfortunately, those who have bad credit reports because they have borrowed too much or have not paid their bills on time have been marked as credit risks and may have trouble getting more credit.

Knowing Your Credit Score

The credit score is a three-digit number compiled from information on your credit report and is used to predict the chances that you will repay your loans and other credit on a timely basis. Mortgage lenders use the score to determine whether a homebuyer gets a loan and at what interest rate. Landlords and utility companies use the scores to screen prospective tenants and customers. Even some employers, in search of responsible and disciplined workers, may consider credit scores when considering job applicants.

Many people do not understand a credit score. According to surveys, only about one-third of those asked knew that a credit score gauges the risk of a consumer not repaying a loan or other credit. More than half believed, incorrectly, that a married couple had a combined score. Almost two-thirds asked, mistakenly, believed that income was a component of scoring. It's not what you earn, but your ability to pay off bills on time. Forty percent did not realize that paying off a large balance on a credit card could boost a score. About a third believed, incorrectly, that charging up to a credit card's limit could help your score. Only about 10 percent knew what a good score was.

Consumers can't be entirely faulted for not knowing much about credit scores. For years, the companies that compiled the scores kept their methods a secret. In fact, it was only a few years ago, when scoring companies faced the prospect of disclosure legislation, which they began to sell credit scores to consumers.

Because a variety of companies produce credit scores, the scores can vary somewhat. The FICO score, for example, rates consumers on a scale of 300 to 850. The higher the score, the better a consumer looks to his creditors. With the FICO scores, payment history accounts for 35 percent of the score, the largest component. The amount owed, which includes the amount of debt in relation to the available credit, is the second most important factor, comprising 30 percent of the score. The remaining pieces include the length of credit history, new credit accounts opened and types of credit used.

Today you can buy your FICO score from one of the three major credit bureaus for $12.95 (myFICO.com). Consumers should check their credit scores as soon as they decide to make a major purchase, such as a house. That way they may have some time to improve a low score. Among the best ways to raise low scores is to pay bills on time and avoid charging up to your credit card limit.

New Check Clearing Changes May Confuse Consumers

A new law, formally known as the Check Clearing for the 21st Century Act has taken effect, which is changing the way checks are processed by accelerating the shift toward electronic processing. In some cases, consumers will no longer be able to get their paper checks back, but will instead receive a printout of an image of a check, known as a substitute check. Only 12 percent of all commercial banks are estimated to begin implementation of this new system this year

The immediate effect of the act will be faster clearing times for certain types of checks, mainly for those of large amounts that go out of state. Ultimately, all checks will move faster. However, surprises may be in store for consumers who have counted on a lengthy "float," the time it takes to process a check. Many consumer advocates have expressed worries that the faster check processing will lead to increases in overdraft fees. According to an estimate by Consumer's Union, consumers could be bouncing almost 7 million more checks and paying an additional $170 million in fees each month. They also worry that the act will result in more check fraud, as copies of checks are created and transferred.

There is no provision in the Check 21 Act that requires banks to extend benefits of faster processing to consumers by making deposits available more rapidly. However, officials at the Federal Reserve have said that they would require banks to speed up the availability of deposits, if checks clear faster under the new law.

Banks, for many years, have been able to use imaging technology to electronically process checks. However, the adoption of the technology has been slowed by the legal requirement that the paper check be returned to the "paying' bank, unless that bank waived its right to get the check back. The old law forced banks to fly paper checks across the country. The Check 21 Act does away with the requirement that a paper check be returned, a change strongly supported by the banking industry because it is expected to lower their costs.

Under the Check 21 Act, consumers will no longer have the legal right to demand the return of the old cancelled check. Instead, banks can supply a substitute check that has the same legal standing as their paper counterparts when it comes to proving payment.

Banks have said that they have been trying to inform customers about the Check 21 Act, posting information on their Web sites and enclosing brochures in statements. Many said that they also provided training for customer service representatives, so that they will be able to handle questions about the new law.

From the consumer's perspective, they will no longer be able to take advantage of the float and thereby lose some flexibility with their finances. Consumers will have to stay on top of which checks have cleared their account and when. As a result, consumers should not write a check unless the funds are already in the account. Tracking your account online will become the easiest way to stay up to date with your checking account. Most banks allow you to view your account online for free. That way you can check your balance, see when your checks clear and see your recent transactions.

Consumers should carefully inquire how the new check-clearing act might affect their bank accounts. After all, it is their money.

Pegg and Pegg LLP

Certified Public Accountants

Who We Are

Pegg & Pegg LLP is a professional partnership of certified public accountants and auditors. Since our inception in 1925, the firm has been noted for providing high quality, personalized service at a reasonable price to our clientele. At Pegg & Pegg LLP, we maintain a philosophy of being on the cutting edge of accounting with the latest technology and continuing education for all professional members. We are members of the New York State Society of Certified Public Accountants.

Our client base ranges from individuals to significant commercial and non-profit institutions. We have committed our firm to maintain and expand the resources necessary to provide high quality and personalized accounting services. Within the firm, we maintain specialties in income taxation, business accounting, auditing, pension analysis, business planning, trust and estate planning and administration. Our ability to focus on our client's specific needs has earned us the reputation of a trusted advisor.

1430 Broadway, Suite 1105A
New York, NY 10018
(212) 532-4287