

MONEY MISTAKES

Learn How to Avoid Them & How to
Recover Quickly When They Happen



Money Mistakes

Money mistakes happen. Even with the best-laid financial plans, things can slip through the cracks and errors can occur.

But you shouldn't get defeated every time you have a financial misstep. Instead, take it as a teaching moment, learn from your mistakes, and move forward better equipped for the future.

This guide outlines the most common mistakes that consumers make. You'll learn:

- What to look out for
- How mistakes may impact your finances
- What you can do to recover quickly
- How to avoid repeating them

If you run into trouble or have questions, remember that we're here to help! Call **1-800-210-3481** to talk to a certified credit counselor free of charge or visit our website to ask questions for more information.

Money Mistake #1: You miss a mortgage payment

Paying your mortgage should be a top priority. It's an **essential bill** because it keeps a roof over your head.

But what happens if you miss a payment?

First, don't panic. Your lender wants to keep you in your home. So, instead of being an adversary, they are your ally to get back on track.



Quick facts about mortgage payments:

- Most mortgages get paid on the **1st**
- Late fees often don't apply until the **16th**
- A payment isn't considered missed until it's **30 days late**
- Many lenders won't report missed payments to credit bureaus until it's **60 days late**
- Most lenders won't start foreclosure actions until you are **120 days late**

What you should do:

1. **Contact your lender immediately.**
2. **If you can make the payment, do so immediately.**
 - a. Ask if late fees have been applied yet.
 - b. If it's less than 30 days late, this should not negatively affect your credit.
3. **If you can't make the payment this month, discuss your options with your lender:**
 - a. Can you make a partial payment now, then catch up with a larger payment next month?
 - b. Could you skip this month's payment and make a double payment next month?
 - c. Can you catch up with slightly higher payments over the next few months?
4. **If you're having trouble making the payment every month, because you lost your job or had some other change in your budget, discuss these options:**
 - a. Ask for forbearance, to temporarily stop or reduce your payments while you work to improve your situation, such as looking for a new job

b. Consider refinancing, which could permanently lower your monthly payments

5. **If the change in your situation is permanent**, you may need to explore options to get out of your mortgage as smoothly as possible. You should consider:

- a. Selling your home to get out of the mortgage – the money from the sale will pay off what you owe
- b. Using an approved short sale if the sale price of the home is less than the remaining balance on your mortgage
- c. Using a deed-in-lieu of foreclosure to transfer ownership back to the lender
- d. Using deed-for-lease so you can lease the home temporarily while you look for other housing

Remember that your lender wants to help you keep your home. Talk to your lender about which of these options will work for you and how you can work together to find a solution.

Tips for avoiding missed mortgage payments

- Create a budget that covers all your expenses and bills
- Build emergency savings, so if you miscalculate, you have money to cover bills
- Set up AutoPay or Direct Debit to avoid missing payments or paying late

Mistake #2: You have an overdraft

Overdrafts happen when you spend money that you don't have in your checking account. This can happen when:

- You use your debit card when you don't have funds
- You withdraw money at an ATM when your funds are low

-
- AutoPay or Direct Debit pay a bill when your balance is low
 - You write a check that bounces

Overdrafts usually occur because you're having trouble balancing your budget. It's a symptom of a larger financial challenge that you're facing.



Quick facts about overdrafts:

- Overdrafts can be costly:
 - o The average overdraft fee is over **\$33**
 - o You can also get popped with NSF (non-sufficient funds) fees, which range from **\$27-\$35**
- If you consistently overdraft your account, your bank or credit union may **close your account**
- Overdrafts get listed in your **ChexSystems report**, which is like a credit report for your checking account history.
 - o A bad **Chex Systems report** can make it difficult to open new accounts

What you should do

If you do not have funds in your account at the time of a transaction, your balance may drop below \$0.00 if you don't have overdraft protection in place.

1. Check your account balance immediately to see how much the overdraft transaction and fees set you back.
2. **If the overdraft will affect a transaction or bill with a company or service provider**, contact them immediately to make other payment arrangements.
3. See if you have any other transactions pending before you will get more money in your account.

-
- a. If you have AutoPay or Direct Debit set up for bills, you may need to stop these transactions.
 4. Once you deposit additional funds in your account, the overdraft and fees will be deducted.
 5. **If your account is closed because of habitual overdrafts**, you will need to open an account with a new bank or credit union.
 - a. You can request a Consumer Disclosure Report from ChexSystems.
 - b. You may be required to complete financial education courses before you can open the account.

Tips for avoiding overdrafts

- Create a budget that covers all your expenses including all bills, necessary expenses, and discretionary expenses
- If you get paid bi-weekly, create a bill payment calendar to ensure bills are divided evenly between your paychecks
 - o If not, contact creditors and service providers to see if you can move some of your due dates
- Talk to your bank or credit union about setting up overdraft protection, which could include:
 - o **Overdraft transfers:** Uses funds in a savings account to cover the transaction
 - o **Courtesy pay:** Financial institution covers the overdraft, but you must repay them promptly with fees.
 - o **Overdraft line of credit:** Uses credit line to cover the transaction; must be repaid, with interest charges

Mistake #3: You max out a credit card

Maxing out a credit card is bad for your budget and your credit score. It's also a clear warning signal that you may be headed for financial hardship.



The most important thing is to act quickly and decisively to identify the financial challenges that led you to hit a credit limit, so you can balance your budget to avoid taking on even more debt.

Then you need to take action to pay off the balance as quickly as possible. Here's why...

Quick facts about credit limits:

- You max out a credit card when you reach or **exceed your credit limit**
- Using any more than **30% of an available credit limit will hurt your credit score**
- Your credit card company may offer you a higher limit, depending on your credit score at the time when you max out the card
- It isn't **always in your best interest** to keep increasing your limits.
- The more cards that you max out, the more it hurts your credit score

What you should do

1. **First, identify what caused you to max out the card.**
 - a. Did you have a loss of income, from an event like a job loss or divorce?

-
- b. Did you have an emergency expense or medical bills that you didn't have savings to cover?
 - c. Are you simply spending more than you earn because you're financially overextended?

2. Next, you need to create or revisit your budget.

- a. Your budget needs to be realistic and accurately reflect ALL the expenses you have, even small expenses.
- b. Make sure to include savings – treat savings like a bill that you pay to yourself

3. Then use your budget to make a plan to pay off the balance.

- a. Don't rely on minimum payments
- b. Determine how much you can afford to pay each month, so you can pay off the balance as quickly as possible.
- c. If you have multiple cards that are at or nearing their limit, pay off the card with the highest APR first.

4. If you can't balance your budget in a way that builds in savings and pays off your balance quickly, **contact a certified credit counselor to discuss your options for debt relief.**

Tip: Don't immediately accept a higher limit offer from a credit card company. That just gives you the opportunity to run up more debt, which may put you further into a hole. You need to focus on paying off the debt you have, not racking up more!

Tips for avoiding maxed out cards

- Planning is often the key to avoiding credit card debt.
 - o You need to plan for big expenses, so you can pay for them in cash instead of using credit.
 - o You also plan savings into your budget so you can build an emergency fund to cover emergencies and unexpected expenses.

-
- A good rule of thumb is that you should save 5-10% of your net (take-home) income each month
 - Even if you can't save that amount, determine what you can save now and then work your way up
 - You should have an emergency fund that covers 3-6 months of bills and other necessary expenses
 - This helps avoid running up credit card expenses if you lose your job or are unable to work
 - Don't get comfortable carrying balances on your credit cards!
 - Balances should be paid off as soon as possible

Mistake #4: A medical bill got sent to collections

Medical debt collections happen when a bill for medical services you receive goes unpaid. Often, this is not the result of being irresponsible about paying your bills. It happens because you assume insurance will cover the bill, but it doesn't.



In many of these cases, your first signal that there's an issue is that you receive a collection notice.

The good news is that the credit bureaus and credit scoring companies have recognized that unpaid medical bills are not necessarily a sign of a consumer's financial risk. As such, they've provided special allowances for medical debt.

Even so, it's important to address the situation quickly to avoid potential credit damage and harassing collection calls.

Quick facts about medical collections and your credit

- In 2017, the three major credit bureaus in the U.S. (Experian, Equifax, TransUnion) launched the **National Consumer Assistance Plan** initiative to ensure credit reporting accuracy and quality
 - o A key part of the plan stipulates that **medical debts won't be reported on consumer credit reports until after a 180-day waiting period.**
 - o This allows time for insurance payments to be applied or arrangements to be made if a consumer has gaps in coverage.
 - o Unlike other types of collections, **medical debt is removed from your report when it has been paid or if it is being paid by insurance.**
- In newer credit scoring models, including FICO 9 and VantageScore 4.0, **medical collections carry less "weight"** than other types of collections.
 - o This means a **medical debt would affect your score less** even if it appears on your credit report after the 180 days passes.

What you should do

1. **If you receive a medical collection notice and you have insurance**, you should contact your insurance provider first to see why the claim wasn't covered.
 - a. If the item was unpaid by insurance by mistake, work with your insurer to see that the bill gets paid promptly.
 - b. If the claim was rejected, you can file an appeal if you believe the procedure should be covered by your plan.

-
2. **If you don't have insurance that should have covered the bill**, then you will need to make arrangements to get it paid as quickly as possible.
 - a. You want to see that it gets paid within 180 days
 3. **To ensure the bill gets paid properly**, start by calling the original medical service provider, not the collection agency.
 - a. Request an itemized bill that you should review to ensure you received all the procedures and services listed. If not, you may need to request that the provider review the bill.
 - b. If all billing items are correct, talk to the provider about setting up a payment plan so you can pay the amount off.
 4. **If the medical service provider insists that you go through the collection agency**, then you can contact the collector.
 - a. Only communicate with a collector by physical mail.
 - b. Request that they send you information verifying the debt.
 5. **Once the collector verifies the debt, you will need to find a method to take care of the bill, preferably within 180 days.** Depending on your situation, you may:
 - a. See if you can pay the full amount in a lump sum
 - b. Set up a repayment plan to pay off the bill in installments
 - c. See if the collector is willing to settle the bill for less than the full amount owed

Tip: Collectors must follow certain rules according to the Fair Debt Collection Practices Act. If a collector is contacting you in the early morning or late at night, making threats, or using abusive language, contact the Federal Trade Commission to make a complaint.

Tips for avoiding medical collections

- Review your health insurance policies closely, so you know what's covered and what's not
- If you get insurance through your employer, make sure to attend annual enrollment sessions so you can understand potential annual changes to your plan
- If you are going to get a procedure or see a specialist that you aren't sure is covered, contact your insurer to confirm
- If your primary insurance does not provide full coverage, consider getting gap insurance
- Always request itemized bills from healthcare providers so you can review the bill for accuracy
- Download your healthcare provider's app or check claims online to ensure all claims are promptly paid

Mistake #5: Your personal information was compromised

Identity theft is a serious issue and sometimes it's unavoidable. On the other hand, many cases of ID theft occur because consumers simply aren't careful enough with their information.



This can happen when you:

- Lose your debit or credit card
- Shop online on unsecured websites
- Provide your Social Security number on forms where it's not required or give it out over the phone to a scammer
- Respond to a phishing email intended to steal your identity

-
- Allow a friend or family member access to a financial account

It's important to take the right steps to protect your personal data to prevent ID theft. When a theft occurs, you need to act quickly to minimize the potential risk and potential financial losses.

Quick facts about identity theft

- **3 out of 4** identity theft cases involve the **misuse of an existing account**, such as a debit or credit card
- **Only about 10%** of identity theft victims have **out-of-pocket losses**
- **More than half (55%)** of identity theft victims **resolve the issue in one day or less**
- **Only 7%** of victims **report the crime to the police**

Source: <https://www.bjs.gov/content/pub/pdf/vit16.pdf>

What you should do

1. **If you receive a fraud alert from your bank or credit card company on an existing account, respond immediately.**
 - a. They will ask you to confirm which charges are legitimate and which are fraudulent.
 - b. If there are fraudulent charges, they will most likely freeze your current account number and issue you a new card
2. **If you lose your debit or credit card or it's stolen, contact the account provider as soon as you realize it's gone.** For an ATM or debit card:
 - a. You will have no liability if you report the theft or loss before any unauthorized charges are made
 - b. If the theft is reported within 2 business days, your maximum loss will be limited to \$50
 - c. If you report the theft or loss within 3-60 days, your maximum loss would be limited to \$500

-
3. **If an account is opened in your name**, contact the creditor or lender to request a copy of the application. They must respond within 20 days.
 4. **Notify each of the credit bureaus** (Experian, Equifax, TransUnion) that your identity has been compromised.
 - a. They will allow you to place a fraud alert, which will prevent any other accounts from being opened in your name.
 5. Report the theft to the Federal Trade Commission (FTC) through www.IdentityTheft.gov.
 - a. This will create an identity theft report and affidavit that you will need to take further actions.
 6. In some cases, you may need to **file a police report to report the theft**.
 - a. Some companies may require this if you have financial losses that you are trying to clear.
 - b. This will also be necessary if you know the identity of the thief and want to take them to court.

Tips for preventing identity theft

- All three credit bureaus offer free credit freezes. When you freeze your report:
 - o No one can access your credit history but you.
 - o For companies to check your credit, they will need a PIN number that only you can provide.
 - o You must unfreeze your credit if you want to apply for a loan or credit card.
 - o Once the credit check occurs, you can freeze your credit again.
 - o This will prevent accounts being opened in your name

-
- Be careful about giving out debit card PIN numbers and credit card account information
 - Even allowing family or friends to use your account can lead to theft.
 - When you shop online, make sure that the website is secure
 - The web address bar should have a lock next to the web address
 - The web address should always start with https://
 - Don't click on links from emails that you don't recognize (phishing emails)
 - Don't respond to unsolicited emails requesting financial information
 - Always ask if a form requires your Social Security number. If it is not required, don't add it. Doctor's offices, vets and other service providers may put this on a form even if it's not required
 - Shred financial documents and cut up credit cards before you throw them away
 - Consider getting a locked mailbox, so your mail can't be stolen