

## BIG-SPENDING TEENS

While the U.S. economy floundered in 2002, teens spent almost as much as they had in 2001. In 2000, teens spent only \$155 billion, whereas by 2002, this spending reached \$170 billion. According to a survey of more than 2,000 teens by Teen Research Unlimited (TRU), teen spending averaged \$101 per week in 2002. TRU compiles an annual summary of teen spending from polls of more than 2,000 teenagers, representing the teen population in the U.S.

TRU Vice President Michael Wood attributes teen spending's apparent immunity to the poor economy to two factors. First, the variety of sources from which teens obtain their income, including part-time jobs, handouts from parents, payments for odd jobs, and gifts, means that teen incomes do not fluctuate as much as the economy. Second, the teen population continues to grow steadily as the children of the Baby Boomers become teenagers.

While their parent may have more qualms about the economy over the next 12 months, 48% of teens predict

that they'll be increasing their spending. Only 16% of teens believe that they'll reduce their spending over the next year, and 34% assume that they'll spend about the same as they did last year.

Source: *Teens Spent \$170 Billion in 2002*, Teenage Research Unlimited, February 17, 2003

**Q:** Where can I find consumer publications in Spanish?

**A:** Try visiting the Federal Consumer Information Center's Website. You can access their *Lista de publicaciones federales en español para el consumidor*, which lists more than 200 free government publications, all written in Spanish, and tells you how to obtain copies directly from the agencies that publish them. To view the *Lista* go to:

**[www.pueblo.gsa.gov/spanish](http://www.pueblo.gsa.gov/spanish).**

The Federal Trade Commission also offers a variety of Spanish language publications. at **[www.ftc.gov/ftc/spanishinfo/consumer.htm](http://www.ftc.gov/ftc/spanishinfo/consumer.htm)**. The University of California site at

**[www.espanol.ucanr.org](http://www.espanol.ucanr.org)** has an extensive collection of consumer-oriented Spanish language releases, news tips, audio files, and publications. Finally, *Extension en Español*, the national clearinghouse for Spanish-language educational resources, operated by and for Extension professionals, has a broad selection of bilingual publications at **[www.extensionenespanol.net](http://www.extensionenespanol.net)**.

## IS LONG-DISTANCE BANKING FOR YOU?

Online banking provides you with 24-hour convenience from your home, but you need to ensure that the benefits outweigh the disadvantages. Here is some information to help you decide whether it would be to your advantage to bank long-distance.

### Advantages

By being able to select a financial institution nationwide, rather than just locally, you may be able to find better services and interest rates. Online banks with lower overhead than regular banks may be able to offer customers higher returns on deposits or lower rates on loans.

Banking online allows you to access your accounts and conduct transactions from your home at any hour of the day. Furthermore, you do not have to rely on a mailed statement to monitor your accounts. Of course, many local institutions also provide online services to their customers.

### Disadvantages

Certain problems may be more easily solved in person with a bank employee. With long-distance banking, you'll have to make deposits by mail. Moreover, you will have to rely on automated teller machines to obtain cash and you will usually have to pay for those transactions.

### Tips for Online Banking

As with any other business you conduct over the Internet, you should ascertain that the online banking institution you choose is legitimate and that your transactions are secure. The FDIC has a brochure on *Tips for Safe Banking over the Internet*, available online at [www.fdic.gov/bank/individual/online/safe.html](http://www.fdic.gov/bank/individual/online/safe.html) or from the FDIC's Public Information Center.

**Legitimacy** Check out the online bank's Website to learn as much as you can about it. First, the Website should look professional. From the *About us* or *Contact us* page you should be able to determine the address of the bank's headquarters, its branches, all telephone numbers, and methods for contacting the bank when you need assistance.

Before you make a deposit, check that the bank's Website or advertisement contains the official FDIC logo or the words "Member FDIC" or "FDIC-insured." Fraudulent institutions may use the FDIC logo or name illegally, so you should search the FDIC's database of insured institutions at [www3.fdic.gov/idasp](http://www3.fdic.gov/idasp). However, some banks and thrifts use trade names for their affiliates and Internet sites that are different from their legal names.

Check that an institution is licensed by a federal or state government agency before you apply for a loan, purchase insurance, or invest any money. Licensing information is available from your state government's consumer protection office or the Attorney General's office.

Avoid any deals that appear too good to be true, such as much higher interest on deposits than other banks are offering. Some fraudulent institutions lure customers by using names or Internet addresses that are very similar to those of legitimate financial institutions.

**Legal protection** As with local banking, online banking affords you consumer protection, including the Equal Credit Opportunity Act, the Truth in Lending Act, the Truth in Savings Act, and the Federal Deposit Insurance Act. Moreover, the Electronic Fund Transfer Act protects you from errors in the handling of electronic deposits, payments, or withdrawals, and limits consumer liability for unauthorized transfers.

**Security** Check the bank's Website for its security procedures. Usually banks use encryption to scramble account numbers and other private information. Protect your passwords and PINs by avoiding names, words, and birthdays, and by making them difficult to guess. Never communicate

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## LONG-DISTANCE BANKING

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personal information, such as your bank account, credit card numbers, or Social Security number via email.

**Keep good records** In the event of a dispute, your claims will be supported if you have kept deposit receipts, statements, account disclosures, explanations of your rights and responsibilities, and copies of any agreements you have made with the bank. Check your transactions and balances to make sure that there are no discrepancies.

**Solving problems** If the online bank will not help you directly, you may be able to obtain assistance from the Federal Reserve System, the FDIC, the Office of the Comptroller of the Currency, or the Office of Thrift Supervision. Each of these federal regulators is obliged to investigate and respond to consumer complaints. However, they may not be able to help you with contractual disputes or matters in litigation.

**Depositing money in foreign banks** Some foreign banks have FDIC-insured branches in the United States, in which case your funds would be covered up to the \$100,000 insurance limit, as with FDIC-insured American banks. Some legitimate banks outside the U.S. are not FDIC-insured, even if they have branches in the U.S. There are also fraudulent operations that

use names very similar to those of well-known banks and claim to have FDIC deposit insurance. Do not send any money or personal information to any institution until you have verified its legitimacy. The FDIC can assist you further.

Source: *Long-Distance banking: A Guide to Your Rights and Risks*, FDIC Consumer News, Spring 2002



## LATEST POVERTY GUIDELINES

The following table shows the 2003 Health and Human Sciences (HHS) poverty guidelines for 2003.

Size of Family Unit	48 Contiguous States and D.C.	Alaska	Hawaii
1	8,980	11,210	10,330
2	12,120	15,140	13,940
3	15,260	19,070	17,550
4	18,400	23,000	21,160
5	21,540	26,930	24,770
6	24,680	30,860	28,380
7	27,820	34,790	31,990
8	30,960	38,720	35,600
For each additional person, add	3,140	3,930	3,610

Table: 2003 HHS poverty guidelines (amounts in dollars)

Source: *Federal Register*, Vol. 68, No. 26, February 7, 2003, pp. 6456-6458

## DON'T FALL PREY TO MORTGAGE SHARKS

**W**hile current low mortgage rates are encouraging people to enter the housing market, they are also enticing predatory lenders to take advantage of unsuspecting, eager new buyers. A few tips will help you to arm yourself against devious loan companies:

### **You can avoid paying PMI**

Buyers whose down payment is less than 20% of the purchase price must pay private mortgage insurance (PMI), in addition to principal and interest. Unlike mortgage interest, PMI is not tax deductible.

To avoid PMI, many people take out an 80-10-10 loan, which means taking out two mortgages, with a 10% down payment, an 80% first mortgage, and an additional loan to cover the remaining 10%. The second loan increases your effective down payment to 20%, which allows you to avoid PMI. Also popular is an 80-15-5 loan, with a down payment of only 5%.

The disadvantages of this form of loan are that you have two mortgages, instead of one, and that the smaller mortgage will carry a higher interest rate. However, if the amount saved on PMI exceeds the costs of the higher second loan, you'll come out ahead, so ask your lender to make the calculations for you.

### **Closing Costs are Higher at the Beginning of the Month**

Starting from the closing date on your home, you have to pay interest on your mortgage, until you have paid off the full amount of the principal. Usually mortgage lenders arrange payment dates to coincide with complete calendar months, so that at closing you pay the interest you owe for the time between closing and your first full monthly payment.

While this practice means that your closing costs will be higher if you close at the start of the month, rather than at the end, your first mortgage payment will be due a month later, so you won't lose any money ultimately.

### **If You Plan to Stay, an ARM May Not Be the Way**

Adjustable-rate mortgages (ARMs) often allow buyers to borrow more money, which translates to larger commissions for the brokers and encourages them to market ARMs more aggressively than fixed-rate mortgages.

While the low introductory rates on ARMs may lure homebuyers, later the fluctuating rates, driven by the economy and the Federal Reserve, can become uncomfortably high. If you plan to keep your home for more than five years, you will probably be better off with a 30-year fixed-rate mortgage.

### **Negotiate the Broker Fees**

Mortgage brokers buy mortgages at wholesale rates and sell them to you at retail rates. Before you sign for a mortgage, the lenders must disclose their commissions, but you may negotiate the fees, particularly if you are taking out a jumbo loan. On standard loans, reasonable markups range between 1 and 1.5 percent.

### **Don't Be Fleeced by These Schemes**

If you are familiar with the following devious schemes commonly used by dishonest lenders, you'll be less likely to fall prey to them.

**Bait-and-switch** The lender promises you one type of loan or interest rate, but actually gives you a different one. Often the higher interest rate doesn't take effect until several months after you start paying off your loan.

**Equity stripping** Equity in your home is the amount you own above your mortgage. Lenders may encourage you to borrow heavily against your equity (to consolidate debt, pay for home improvements, and so on). If the payments and fees become too high for you to afford and your equity is sufficiently reduced, the lender can foreclose on your loan, take possession of your home, and strip you of your equity.

**Loan flipping** If you need extra money, some lenders encourage you to refinance your mortgage several times. Each refinancing incurs fees and you may end up

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with a higher interest rate than your original one. You may face foreclosure on your home if your payments grow too high.

**Loan packing** Some deceitful lenders will try to include fake or unnecessary charges in your contract. Sometimes they will encourage you to purchase insurance that you don't need. They may also charge for services that don't exist.

**Home improvement scams** Dishonest contractors may try to lure you into agreeing to expensive, often unnecessary repairs. They then suggest you finance through a particular lender, who has the loan proceeds sent directly to the contractors. Often the work is not satisfactory, and you will be left with a long-term high-interest loan.

**Mortgage servicing scams** Once you have the loan, the lender tells you that you owe more money for fake taxes, insurance, legal fees, or late fees. Some lenders discourage you from paying off your loan or refinancing with a different lender by giving you incorrect information and making you pay more than you owe.

Sources:

*High-Cost "Predatory" Home Loans: How to Avoid the Traps*, FDIC Consumer News, Summer 2000

*Six dirty secrets of mortgage loans*, Annelena Lobb, CNN/Money, August 26, 2002

## THAT COLLEGE DEGREE PAYS

According to a Commerce Department's Census Bureau report released on July 18, 2002, those four or more years spent in college were worth every minute. An adult with a high school diploma can expect to earn \$1.2 million over a lifetime, while a college graduate will earn \$2.1 million with a bachelor's degree, \$2.5 million with a master's degree, \$3.4 million with a Ph.D., and \$4.4 million with a professional degree.

These figures are based on the projection of earnings from 1999 over a lifetime of work, which is defined as the period from ages 25 through 64.

Dropping out of high school can be costly. In 1999 dropouts averaged only \$18,000 per year, while high school graduates earned \$25,900.

Other interesting tidbits to be gleaned from the report include:

- Over a working lifetime, men with professional degrees may expect to earn nearly \$2 million more than similarly qualified women.
- Since 1982, more women than men have been graduating from four-year colleges.
- Almost 90% of high school seniors graduate and about 60% enter college.

Although entering graduate school can mean a loss of earnings, it won't take long for the financial benefits of a graduate degree to compensate. In areas such as health sciences and engineering, these benefits usually mean a 30-50 percent increase in salary.

A survey by the Graduate Management Admissions Council indicates that an MBA may be one of the most lucrative graduate degrees. In the first year after graduation, graduates earned on average \$80,000, compared with \$45,000 before they entered the program, which translates to an increase of 78 percent.

Chemical engineers can increase their salaries by an average of 16 percent, from \$71,000 to \$82,400, by obtaining master's degrees, while computer engineers, who earn an average of \$53,653 with a bachelor's degree, can earn \$60,974, or 13.6 percent more, with a master's degree.

Teachers, too, will find it beneficial to earn master's degrees. A first-year teacher in 1999 earned on average \$30,700, but teachers with experience and master's degrees earned \$51,955.

Annual salary figures were obtained from *Biggest Bang for the Buck: Some Master's Degrees Boost Pay More Than Others* by Tim Haran at CBS.MarketWatch.com

## CONSUMERS LIST THEIR TOP COMPLAINTS

The Federal Trade Commission (FTC) and the National Association of Consumer Agency Administrators (NACAA) and Consumer Federation of America (CFA) have released their latest lists of top consumer complaints.

According to the FTC, 43% of complaints lodged in the Consumer Sentinel database concerned identity theft. Other major concerns for consumers are listed (as a percentage of complaints) in Table 1 below.

### Top Consumer Fraud Categories for 2002

Internet auctions	13%
Internet services and computer complaints	6%
Advance fee loans and credit protection	5%
Shop-at-home/catalog sales	5%
Foreign money offers	4%
Prizes/sweepstakes and lotteries	4%
Business opportunity and work-at-home plans	3%
Telephone services	2%
Health care	2%
Magazines and buyers clubs	2%

Table 1

Heading the list of complaints, for the second year in a row, in the NACAA/CFA survey was Home improvement, followed closely by Household goods and Automotive sales. Table 2 lists the results of this survey for 2001 (as the percentage of agencies listing each complaint as a major category).

### Major Consumer Complaint Categories for 2001

Home improvement	59%
Household goods	54%
Automotive sales	51%
Automotive repairs	46%
Credit/lending	42%
Business practices	32%
Services	24%
Telecommunications	20%
Collections	17%
Pyramids & business opportunities	17%
Recreation & vacations	17%

Table 2

The NACAA and CFA have summarized the trends for the past five years as follows:

**Home Improvement** For the last five years, home improvement has retained a place amongst the top five consumer complaints. In 2001, home improvement was the

fastest growing type of consumer complaint reported by NACAA agencies. Since 2001, home improvement contractors have topped the list of businesses most likely to go out of business and most likely to reopen under a new business name.

**Household goods** include appliances, electronic equipment and computers, furniture, and other items. Consumers reported defective goods, warranties that were not honored, difficulty obtaining refunds, and deceptive advertising. Household goods complaints have been increasing steadily and are in second place for the second consecutive year.

**Automotive sales** topped the list of complaints from 1997 through 2000, except for 1999, when it took second place. Many auto sales complaints revolve around questionable financing packages.

**Automotive repair** has held the fourth spot since 1999. Complaints about automotive repair tend to involve repairs carried out incorrectly or not at all.

**Credit/lending** has remained in fifth place since 1998. NACAA agencies have logged complaints about predatory mortgage lending, credit card fees and billing, advance-fee loans, payday loans, and other very expensive small loans.

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## CONSUMER COMPLAINTS

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**Telecommunications** was separated from **Utilities** in 2001 because the FCC instructed local consumer protection offices to monitor complaints against landline and mobile service providers. Utilities complaints include problems with gas, water, electricity, and heating oil companies.

**Recreation and vacations** moved back to the top ten list in 2001, after a break in 2000. Many complaints may have stemmed from the chaos in the airline industry following September 11.

**Mail order** complaints have moved off the top ten list, as have Telemarketing complaints. The latter may continue to drop as states adopt Do-Not-Call laws.

To offer consumers further protection from fraud, the FTC provides the following tips:

- Share your credit card or other personal information only with companies you know and trust.
- Steer clear of companies that do not state clearly their names, physical addresses, and telephone numbers. Avoid companies that provide only their Websites or mail box drops.

- Do not sign any contracts or make payments until you have all agreements in writing. Make sure you have read and understood the fine print.
- Never pay "up-front" for a loan or credit. Legitimate lenders never "pre-guarantee" loans or credit cards, especially to clients who have bad credit, no credit, or bankruptcies.

Sources:

*FTC Releases Top 10 Consumer Complaint Categories in 2002*, Federal Trade Commission, January 22, 2003

*Eleventh Annual NACAA/CFA Consumer Complaint Survey Report*, NACAA/CFA, November 25, 2002

## PREPAID PHONE CARD PROBLEMS

**W**hat do you do if your prepaid phone card doesn't work? First, make sure you, or a family member or friend, haven't used all the time remaining on your card. Next, check that the card has not expired. If you are sure that neither of these is the case, call the customer service number printed on the card and explain your problem to the customer service representative. If you are not satisfied with the response, try returning your phone card to the place where you purchased it and ask for a refund. If you are still unsuccessful at resolving the problem, file a complaint with

the California Public Utilities Commission's (CPUC) Consumer Affairs Branch.

Your complaint should contain the following:

- a photocopy of the front and back of the phone card (if available)
- name and address of merchant where the card was purchased
- your name, address, and phone number
- a brief description of your complaint

There are three ways to file your complaint:

1. Mail your complaint to CPUC-Consumer Affairs Branch, 505 Van Ness Ave., San Francisco, CA 94102
2. Phone your complaint in by calling toll-free: 1-800-649-7570
3. File your complaint online at: [www.cpuc.ca.gov](http://www.cpuc.ca.gov)

Source: *Prepaid Phone Card—What Should I Do If My Phone Card Doesn't Work?*, California Public Utilities Commission.



## 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](mailto:connie.costello@ucr.edu).

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