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MY MONEY

FINANCIAL EDUCATION - Powered by CAMBRIDGE CREDIT COUNSELING

IN THIS EDITION

Did the Holidays Overwhelm Your Budget?

Every year people vow they'll keep things under control. There's no way they're going to break their budget and overspend through the holidays this year. They're focused this time. No slip ups. And then…

They start buying gifts, and decorations, and food, and a bunch of other things to celebrate the season…

When they come to, somewhere around the third week of January, with a stack of bills piled up on the table and their budget left in tatters, it dawns on them that it has happened again, maybe worse this year than ever, and they feel powerless to stop their spending.

"The road to hell is paved with good intentions," isn't just an old saying. It's one of those sayings with a lot of truth to it, especially when it comes to managing your money. That's because spending habits become ingrained in us over the years, and it often takes more than sheer will power to change your behavior, even if you're disciplined in other areas of your life. In fact, a sizable percentage of consumers picked up their financial habits before they even had money of their own to spend. Think about it. How many of you spend money and/or save money like your parents did? The financial climate changes, just like the weather, and no two families are alike in every way, but your relationship with your money may have been handed down to you without your even realizing it. So, what can you do about it? **Get help**.

Every year, the phones at nonprofit credit counseling agencies start to ring in late January, and they usually don't let up until May or June. That's a good thing, if only because it means people are finally going to get the assistance they need from a professional counselor. It means they won't be sleeping with one eye open, wondering how they're going to pay all their bills this month. If you're already a Cambridge client, you've learned about the generous rate reductions and other concessions that most major creditors are willing to make to give consumers the breathing room they need while they learn how to regain control of their spending. Your average interest rate may have dropped from 24% or 25% down to an average of just 7%, and your past-due fees were waived by your bank. How did that make you feel? Like a huge weight was lifted from your shoulders? That's typically how our clients describe it – they can finally sleep again at night, confident that they're getting back on track. Before the giving season is over, we hope you'll share that feeling with anyone you know who's struggling with their spending. Encourage them to call Cambridge and you'll be giving them a free gift that's actually priceless.

Interest rates? Tariffs? Student loans? Where'd We Put that Crystal Ball?

At its mid-December meeting, the Federal Reserve cut interest rates by another quarter of a point. Some financial experts had been hoping for more, given the improving economic conditions, but the Fed is almost always more inclined to take baby steps, and this time was no exception. More important, however, was the signal they sent about future decreases (Experts had hoped for 3 rate decreases in 2025.). With all of the uncertainty that's already become the prevailing mood in advance of a second Trump administration, the Fed suggested that future decreases may not happen. Here's why.

If tariffs are placed on a variety of imported goods, merchants selling those goods will raise prices, increasing costs paid by American consumers. Inflation, which has been in decline over the last 18 months, will start to increase again, and the Fed won't drop rates under those circumstances. Similarly, if mass deportations result in fewer minimum-wage agricultural workers, food prices will increase and inflation will follow. In either of those gloomy scenarios, if inflation rises sharply enough, the Fed may have no choice but to raise rates, because rate increases are its primary tool to keep inflation under control.

What effect will this have on the rates consumers pay for financing? It may take a few weeks for December's quarter-point reduction to be reflected on any variable rate loans you have. Car loan and mortgage rates may drop slightly, but like you, lenders are also waiting to see if the next administration follows through on some of its proposals. Credit card rates may not budge at all, but for a slightly different reason. You may think of it as just a piece of plastic, but a credit card is really a loan, and a very risky loan, at that. Think about it. Car loans and home loans are secured by collateral. If you miss enough payments, the lender will seize the car or home. But credit cards are unsecured credit, meaning there is no collateral. That's high risk for a lender, which is why rates are where they are.

And on top of that, if the economy is unpredictable or turbulent, as it is now, rates aren't going to come down.

Which leaves us with student loans - more unsecured debt. When we left off in November, the SAVE repayment plan was being held up in federal court. That's still the case, and millions of student loan holders enrolled in the SAVE plan are still in limbo. Most experts feel that the court involved will kill the plan, but if the court's decision isn't precisely worded, it may bring down other income-driven plans along with it as collateral damage. And also bear in mind: It's very unlikely that the Trump administration would appeal the court's decision to kill SAVE. This lower court's decision could be final.

There are only four income-driven plans to begin with. Taking down the SAVE plan would leave just three plans, IBR ("Income Based Repayment), PAYE (Pay As You Earn), and ICR (Income Contingent Repayment), all with formulas that will result in much higher monthly payments for loan holders. But if the court's decision caused the suspension or termination of PAYE and/or IBR, that could leave the ICR plan as the only income-driven option available. ICR is the least generous of the four plans, and the impact on the budgets of parents and students suddenly dumped into it could be overwhelming, sending shockwaves through the economy. What do our Student Loan Department counselors think will happen? They're predicting that the SAVE plan will be terminated, and that folks enrolled in it will automatically be placed in one of the other income-driven plans. Remember that we're talking about millions of account holders having to make budget adjustments to incorporate their higher monthly payments, and you'll see why we're forecasting chaos for the Spring of 2025.

Identity Theft: Detection, Protection, and Response

Identity theft remains one of the most pervasive forms of fraud in the digital age. As financial transactions, personal data, and communication continue to migrate online, the risk of falling victim to identity theft is higher than ever. Let's explore what identity theft is, how it has evolved, and the steps you should take to detect, prevent, and respond to it.

What Is (and Isn't) Identity Theft?

Identity theft occurs when someone steals your personal information—such as your Social Security number (SSN), credit card details, or bank account information—and uses it fraudulently to commit crimes like opening new accounts, making unauthorized purchases, or even claiming your tax refund. The key factor in identity theft is the misuse of your personal, financial, or medical information without your consent.

Common forms of identity theft include:

- **Credit card fraud**: Using someone else's credit card information to make purchases.
- **Bank fraud**: Gaining access to bank account details and siphoning funds or writing checks in someone else's name.
- **Tax fraud**: Filing false tax returns using another person's SSN to claim refunds.
- **Medical identity theft**: Using someone's health insurance to get medical services or prescription drugs.

What isn't identity theft? Losing your wallet or having a company you do business with experience a data breach is not identity theft unless your information is subsequently used for fraudulent activity. Similarly, having your social media account hacked doesn't constitute identity theft unless it leads to financial exploitation or fraud.

Current Rate of Reported Identity Theft

As of early 2024, identity theft rates have continued to rise, driven by the increase in online transactions and cyberattacks.

According to recent data from the Federal Trade Commission, there were over 1.2 million reported cases of identity theft in the United States in 2023, marking a 10% increase from the previous year. This sharp rise is attributed to various factors, including the growing sophistication of phishing attacks and the vulnerability of personal data stored on unprotected devices and online platforms.

In particular, credit card fraud has surged due to the expanding use of digital wallets and online payment platforms, while government benefit fraud (such as unemployment benefits fraud) saw a spike during the COVID-19 pandemic and continues to pose a threat.

Steps to Detect Identity Theft

Early detection is key to minimizing the damage caused by identity theft. Here are several steps you should take to detect it before it causes lasting financial harm:

1. Monitor your credit report: Regularly review your credit report for unfamiliar accounts, inquiries, or loan applications. You can access your credit reports for free now every week from each of the three major credit bureaus (Equifax, Experian, and TransUnion) at www.annualcreditreport.com. When you access your own reports there is no impact on your score.
2. Set up transaction alerts: Many banks and credit card companies offer text or email alerts for transactions. Activating these alerts can help you detect suspicious charges quickly.
3. Review your bank and credit card statements: Go over your monthly financial statements to spot unauthorized transactions. Even small amounts can be a red flag that someone is testing your account before making larger purchases.
4. Check your insurance and medical records: Watch for unexpected bills or claims on your health insurance account, as these can be signs of medical identity theft.
5. Monitor your email for fraud alerts: Many financial institutions and services provide fraud notifications via email. Pay attention to messages indicating account changes, password resets, or new account applications that you did not initiate.

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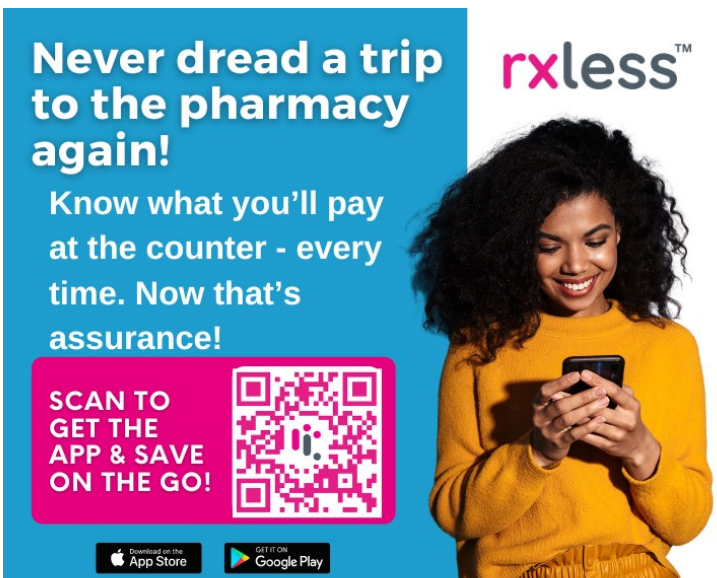
Steps to Prevent Identity Theft

While no one is immune to identity theft, taking preventive measures can drastically reduce your risk. Here are several proactive steps to help protect your personal information:

1. **Use strong passwords and enable multi-factor authentication (MFA)**: Create complex, unique passwords for all your accounts and enable MFA wherever possible. This adds an extra layer of protection by requiring a secondary form of verification (e.g., a text message or app-based code) in addition to your password.
2. **Be wary of phishing attempts**: Avoid clicking on links or downloading attachments from unsolicited emails or text messages. These could be phishing scams designed to steal your personal information.
3. S**hred sensitive documents**: Physical identity theft is still a risk. Shred bank statements, medical records, and other documents containing personal information before disposing of them. Your city or town may even host an annual free shred day.
4. **Avoid public Wi-Fi for sensitive transactions**: Don't access your bank accounts or enter sensitive information when connected to unsecured public Wi-Fi. Instead, use a Virtual Private Network (VPN) for an added layer of security when browsing on public networks.
5. **Freeze your credit**: If you're not planning to apply for new credit, consider freezing your credit report with each of the major credit bureaus. A credit freeze prevents creditors from accessing your credit report, making it harder for thieves to open new accounts in your name. It's easy and free to freeze and thaw your credit when you want to open new accounts or apply for new financing.
6. **Limit the sharing of personal information online**: Be cautious about the amount of personal information you share on social media, such as birthdates, addresses, and even job details. Hackers can piece together your identity from this information.



Steps to Take in Response to Identity Theft

If you suspect you've become a victim of identity theft, taking immediate action can minimize the damage. Here's what to do:

1. **Contact your financial institutions**: Notify your bank and credit card companies as soon as you notice unauthorized transactions. They can freeze your accounts, stop further charges, and issue new cards.
2. **File an identity theft report with the FTC**: Visit IdentityTheft.gov to report the theft and create a personal recovery plan. The FTC provides detailed guidance on how to handle specific types of identity theft, and it provides forms for you to fill out and send to the creditors involved.

3. **Place a fraud alert on your credit report**: Contact one of the three major credit bureaus to request a fraud alert, which will make it harder for thieves to open new accounts in your name. The bureau you contact will notify the other two.
4. **Consider filing a police report**: If your identity theft involves significant financial loss or is tied to other crimes, file a report with your local police department. Some creditors may require this when resolving fraud cases.
5. **Dispute fraudulent charges**: Work with your financial institutions and credit bureaus to remove fraudulent charges and accounts from your credit report. Be persistent and keep detailed records of all your communications. Never make a good-faith payment on any type of fraudulent account, even when the creditor suggests you do so to prevent litigation.
6. **Monitor your accounts closely**: After addressing the initial fraud, continue monitoring your bank accounts, credit reports, and any accounts affected by the theft to ensure there are no further issues.

Identity theft is a growing concern, but by staying vigilant and being proactive, you can reduce your risk and protect yourself from the financial and emotional toll that many victims experience. Regularly monitoring your credit, using secure passwords, and taking steps to prevent fraud are crucial. Should identity theft occur, taking swift and decisive action can limit the damage and help you recover more quickly.