Issue 70

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CREDIT & COLLECTION NEWS

FEBRUARY 2014

ID THEFT RISING; CRIMINALS GET CREATIVE

Identity theft is on the rise again, according to Javelin Strategy and Research. The firm, which does an annual survey of identity theft victims, estimates that **13.1 million** U.S. adults were hit by ID theft in 2013, an increase of **500,000** victims from 2012. It's the second-highest annual total in the 11-year history of Javelin's annual study. Only 2009, with **13.9 million** victims, topped last year. "Our research shows that 2013 was a banner year for some really bad things," said Al Pascual, researcher at Javelin.

Given recent news about massive credit card database breaches at Target and other retailers, the increase might not come as a surprise. But Javelin's sample was taken well before news of the retail giant data breaches, according to Pascual - he's convinced the impact of those massive thefts probably won't be detected until the 2014 study. In other words, identity theft is really **on the rise**.

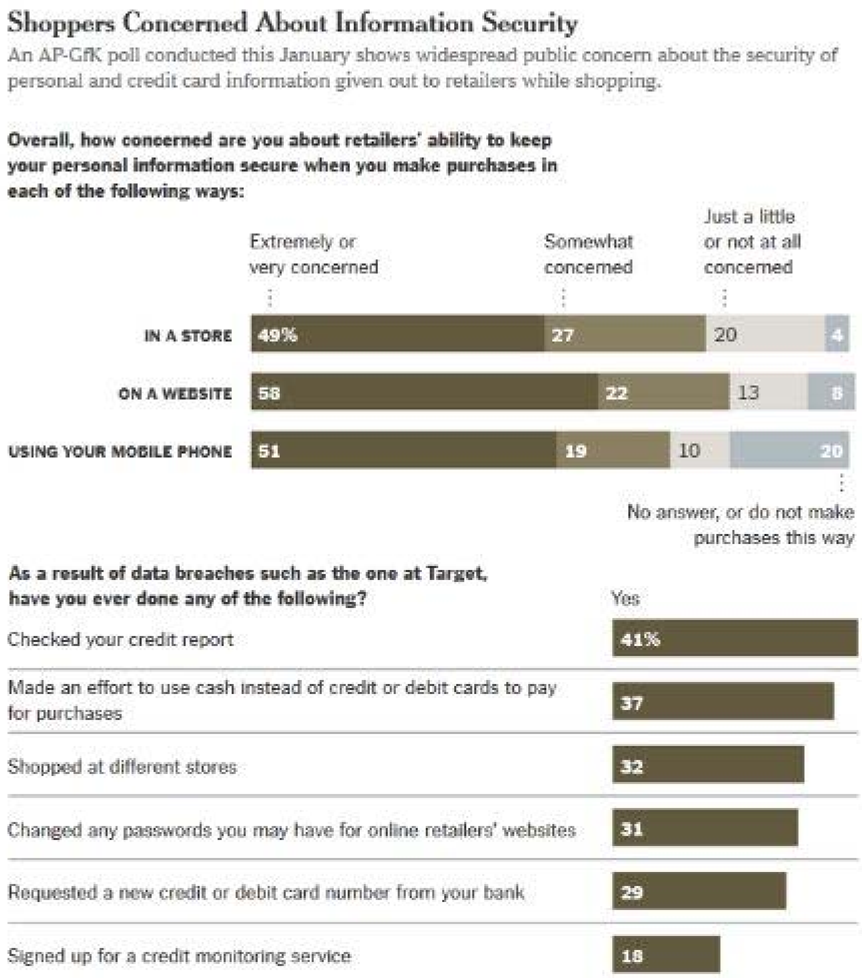
The one piece of good news that can be found in Javelin's study is that the dollar amount of loss for each victim is down, so total losses are also down - from **$21 billion** in 2012 to **$18 billion** last year. That's a good news/bad news story, however. Criminals who are getting less revenue per victim seem to be responding to that trend by attacking more victims. "The industry had gotten better at catching fraud sooner, but … criminals last year were better at getting their hands on (consumers') data," Pascual said. "So now it affects more people."

Even though Pascual thinks Target victims might not have shown up in the survey, data leaks are still a major problem for victims - even leaks that are never made public. "We saw a lot of other big breaches last year, in the insurance industry, in restaurant chains," he said. "Typically there are more breaches than consumers are aware of."

When they do receive notice of a breach, consumers need to pay attention, Pascual said. Nearly **1 in 3** consumers who received a data leak notification letter actually experienced fraud - a record number. "We need to make sure consumers take breach notifications seriously," Pascual said, "It seems like one hits every few weeks."

Source: Credit.com

NEWLY WARY, SHOPPERS TRUST CASH



Like dieters vowing to trade cupcakes for carrots, a number of American shoppers are making a new pledge: cash only. The drumbeat of disclosures about credit and debit card breaches at major retailers (and hints of more to come) has unnerved consumers to the point where chatter online and at the water cooler is filled with people promising to curb their plastic habits.

With Senate hearings on the recent Target breach and the security of consumer data have begun, discussion about what consumers can do on their own is likely to grow even louder. A recent poll by The Associated Press and GfK Public Affairs & Corporate Communications found that **37%** of Americans had made an effort to use cash instead of credit or debit cards to pay for purchases as a result of the recent data thefts — almost as many as those who checked personal credit reports because of the thefts. (Just 29% said they had changed passwords or requested new cards.)

Even trying to use cash more often is a strange adjustment for a population that has become accustomed to the convenience of pulling out a little piece of plastic for purchases. Many people now swipe their cards with so little thought that they don't even bother getting the receipt. Whereas cards were once reserved for big purchases, they have become acceptable for almost anything, including at formerly all-cash businesses like New York City taxis. More than a quarter of street food vendors now accept plastic, according to a recent study of food trucks and carts by Mobile Cuisine magazine, and 14% more say they will soon start. With a variety of new forms of mobile payments, paper money has almost become an antiquated concept for some people, like a purse of gold coins.

Still, despite the talk, no hard data exists to indicate whether significantly more consumers actually are using cash. While VISA and MasterCard haven't released card usage data, an American Express spokeswoman said, "In general, card usage at merchants is in line with seasonal trends we've seen in prior years in December and January." While a number of shoppers have said they are using cash at Target specifically, Target itself would not say whether this is true.

Source: New York Times

CARD DEBT GROWS AMONG SUBPRIME BORROWERS

Consumers with low credit scores account for an increasingly large chunk of the nation's credit card debt, with subprime borrowers carrying more than three times the average credit card debt held by consumers with excellent credit scores. In the third quarter of 2013, the typical consumer had a credit card debt load of **$4,061**, according to the most recent data from Experian-Oliver Wyman Market Intelligence Reports. That's down from the same time the previous year ($4,137), though outstanding credit card balances didn't change much overall: In the third quarter of 2012, outstanding consumer credit card debt stood at $594 billion, and it increased year over year to $597 billion.

The data breaks down consumer credit tiers by VantageScore ranges: super prime (781-850), prime (661-780), near prime (601-660), subprime (500-600) and deep subprime (300-499). Near prime and subprime consumers have historically carried the highest average balances, but they rose in the third quarter, while average balances declined among consumers with super prime, prime and deep subprime credit. In fact, the bump in outstanding credit came from near prime and subprime consumers alone — the other groups' balances dropped.

According to Credit.com's recent Americans and Credit Card Debt survey, consumers plan on chipping away at their debt this year. Of the 2,223 respondents, **55%** said they have at least some credit card debt (most common ranges were between $1,001 and $2,500; $2,501 and $5,000; and $5,001 and $10,000, each category with about 17% of responses). About two-thirds (**68%**) said it's extremely likely they'll start to pay their debt down this year, and **71%** said they aren't having trouble managing it.

It makes sense that near prime and subprime consumers have the highest average balances ($5,896 and $5,908, respectively), because debt use makes up a large part of credit scores. Despite the climbing debt in those consumer groups, it's good to see outstanding debt fall among those with the worst credit scores. Overall, Americans are improving their payment habits as there was an **18%** decline in serious delinquencies from the third quarter of 2012. In the third quarter of 2013, only **1.3%** of credit cards were more than 90 days past due, and credit card charge-offs also decreased year over year.

Source: Credit.com

TRANSFORMING POST OFFICES INTO BANKS?

A new report from the Office of the Inspector General of the U.S. Postal Service proposes using the Postal Service for a variety of financial services for low-income Americans, including small loans and debt collection.

According to the report, approximately 68 million adults – or **1 in 4** U.S. households – don't have a bank account or use services like payday lenders. The average under-served household spends more than **$2,000** per year on interest and fees. For the debt collection industry, this contributed to $6.7 billion in cancelled debt for 2011 alone. If collectors could avoid just 5% of this cancelled debt, the industry would end up saving $335 million a year in write-offs; this doesn't even include the millions of dollars potentially saved in collection costs, and legal and administrative fees.

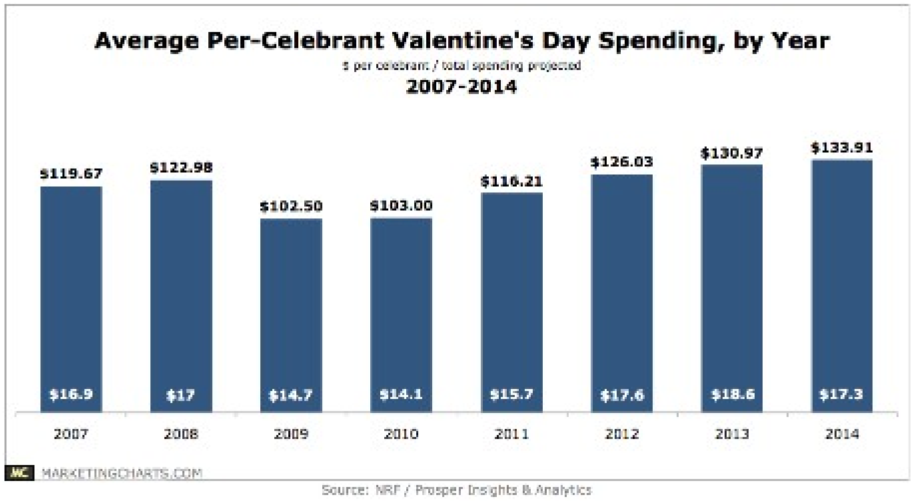
The USPS would go about instituting these changes by offering credit services like small personal loans. First, consumers would be offered a Postal Service prepaid card. Then, "Postal Loans" would be available to people who have their paychecks directly loaded onto that card; consumers could borrow up to half of their gross paycheck. Every borrower would pay at least 5% from their gross pay per paycheck until the loan is paid off; the USPS could automatically withhold payments from the consumer's paycheck, and then put the difference on the card.

"If even one-tenth of the 12 million Americans who take out a payday loan each year got this hypothetical Postal Loan instead, they could collectively save more than half a billion dollars a year in fees and interest," the report states.

This proposal comes at a time when federal regulators are cracking down on predatory payday lending practices, and the collectors associated with them. In **December**, the Consumer Financial Protection Bureau took its first action against an online loan provider and its affiliated debt collection agency. The CFPB filed a lawsuit under allegations that the companies collected money consumers didn’t owe.

Source: Inside ARM

CONSUMERS CAUTIOUS THIS VALENTINE'S DAY



On the heels of a healthy yet modest holiday shopping season, cautious consumers aren’t quite ready to splurge on Valentine’s Day this year, continuing to keep their budgets in check. According to the National Retail Federation’s 2014 Valentine’s Day spending survey (conducted by Prosper Insights and Analytics), 54% of Americans will celebrate with their loved ones this year, compared to 60% in 2013. The average person plans to spend **$133.91** on candy, cards, gifts, dinner and more, up slightly from $130.97 last year. Total spending is expected to reach $17.3 billion.*

Gift-givers will find the perfect gift for their loved ones that fits their budget, whether it’s candy, flowers, jewelry, clothing, an evening out or simply a greeting card. Nearly half (**48.7%)** will buy candy, a third will give flowers (**37.3%**) and over half (**51.2%)** will send greeting cards. Another **19%** will treat their significant other to something sparkly – jewelry spending will total **$3.9 billion**, and **37%** will celebrate with an evening out, spending an estimated total of **$3.5 billion**. Others will give more practical gifts like clothing (**15.8%**) or gift cards (**14%**) so their loved ones can have that item they’ve been eyeing in the store.

Men will spend **$108.38** on gifts for their significant others – twice as much as women who will spend **$49.41** on their special someone. But Valentine’s Day isn’t just for couples; people will show their appreciation for family members (**59.4%**) friends (**21.7%**) teachers (**20.4%**) and colleagues (**12.1%**). Like every holiday, Americans won’t forget about their pets.**19.4%** will buy gifts for their furry friends, spending an average of **$5.51**.

“While fewer are planning to celebrate Valentine’s Day this year, millions of shoppers will still make room in their discretionary budgets to send cards and gifts to loved ones or enjoy a special evening out,” says Prosper Insights and Analytics Director Pam Goodfellow.

Cautious consumers do their research when it comes to shopping, and many will purchase gifts online. The survey found that **26.1%** plan to shop online this Valentine’s Day, flat with last year’s **26.3%**. Many will turn to their tablets or smartphones before making their final gift decisions; **24%** will research products or compare prices on their smartphones and **32.2%** will do so on their tablets.

Source: National Retail Federation

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