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"Morningstar's Best Client Newsletter"

## Protect your Credit and Cash

By Louis E. Conrad II, CFA

- ▶ Too often we hear stories of data breaches that place our credit information at risk.
- ▶ This article outlines steps you can take to protect your existing credit and debit card accounts, as well as foil attempts by others to fraudulently open new credit accounts in your name.

Late last year, Target announced that approximately 40 million of its customers' credit and debit card information had been compromised. It later divulged that 70 million of its customers had their name, address, phone number, and e-mail address hacked as well, though there was believed to be some overlap between these two groups of customers. In light of this and other data breaches, what steps can you take to protect your credit and cash?

### What You Should Do

Contact your credit or debit card issuer—If you believe your credit or debit card may have been used fraudulently, immediately contact your credit or debit card issuer and inform it of your concerns. The sooner you contact the issuer, the less potential liability you have.

For example, under the Fair Credit Billing Act, your maximum liability for unauthorized use of your credit card is \$50, but if you report the loss of a credit card before it is used, your liability is \$0. If your credit card is not stolen, but your credit card number is used fraudulently, your liability is \$0. While it may be inconvenient, especially if you use your credit card for automatic payments, you should ask for a new card and PIN.

With an ATM or debit card, you have no liability as long as you have notified the issuer before any unauthorized transactions occur, according to the Electronic Fund Transfer Act. If you report your card is lost or stolen within two business days after you learn about its loss or theft, then your maximum liability is \$50, but it can be as much as \$500 if you wait up to sixty calendar days after your account statement (that lists any fraudulent charges) is sent to you.

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## Protect your Credit and Cash, continued

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However, after the sixty day period, you are fully liable for any money taken from your account if you have not previously notified the card issuer. Note that if your debit card is not lost, but an unauthorized transaction is made with your debit card number, then you will not be liable for any transactions as long as you contact the card issuer within 60 days of the initial statement being sent.

Review your statements—Check your account statements for any unauthorized charges and report them to your credit or debit card issuer. Note that sometimes credit thieves place small charges on a credit card account to determine whether the account is still active.

Monitor your credit report—Actively monitor your credit report or sign up with a credit monitoring service. Under federal law, you are entitled to one free credit report from each of the three credit reporting agencies each year. Consequently, this allows you to check your own credit without cost every four months. Access your free credit report on line at [www.annualcreditreport.com](http://www.annualcreditreport.com).

Two additional options are available to you in order to protect your credit: establishing a fraud alert or credit freeze on your credit file. While these options can reduce the likelihood that new credit will be established in your name without your consent, neither will prevent the unauthorized use of your existing credit or debit cards.

### Fraud Alert

You may place an initial fraud alert on your credit file, which provides some protection for 90 days and may be renewed in 90-day increments indefinitely. To place a fraud alert, you need to contact only one of the three credit bureaus (Equifax, Experian, or TransUnion), which in turn will notify the other two.

Usually a fraud alert is used when you believe you have become or could become the victim of identity theft (for example, you see suspicious activity on a credit card statement). Once you establish a fraud alert,

lenders are obligated to take additional precautions to verify your identity before granting credit in your name.

If you are an identity theft victim, you can obtain an extended fraud alert on your credit file, which will last 7 years. For the extended alert, you need to provide one of the credit bureaus with a copy of the police report or other record verifying your victimization.

### Credit Freeze

While helpful, fraud alerts are not infallible. For extra protection, you can establish a credit freeze (also known as a "security freeze") on your credit file. A credit freeze prevents lenders from accessing your credit report and score unless you specifically grant them access. Consequently, identity thieves are unable to establish new credit in your name even if they have your personal information.

Note that even with a credit freeze, your current creditors, as well as collection agencies, may still access your credit file. In addition, if you apply for credit you have the option of (1) allowing a specific lender access to your credit file or (2) opening your credit file for access to all potential creditors for a certain period of time.

Unlike a fraud alert, to establish a credit freeze you must contact all three credit bureaus. Each credit bureau will provide you with a password that you can use to open your credit file at your discretion. Depending on your state residency, the cost to place a credit freeze is either \$5 or \$10 with each credit bureau, plus a similar fee each time you lift the freeze temporarily. If you or your spouse has been a victim of identity theft, these fees are waived as long as you have provided the credit bureaus with a police report. Your credit score is not affected by a credit freeze and the freeze will remain in place until you remove it.