

# THE COMPASS CHRONICLE

Highlighting important wealth management issues

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**A client-focused wealth management firm dedicated to providing objective advice to individuals, families, and corporate retirement plans.**

### Our wealth management services include:

- ◆ Investment Management and Consulting
- ◆ Retirement Planning
- ◆ Education Funding
- ◆ Gift Planning

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## Protecting Your Credit

*You may remember the television commercials that ran for LifeLock, a service that promised to protect your personal information from identity theft. The bold commercials disclosed the Social Security number of LifeLock's CEO. Unfortunately, a mockery was made of LifeLock's identity theft protection service when a Texas man used the CEO's Social Security number to secure a payday loan. In March, LifeLock paid \$12 million to settle charges the company failed to protect customers' personal information.*

The Federal Trade Commission estimates that roughly 9 million Americans have their identities stolen each year, costing consumers, businesses, and financial institutions billions of dollars. Identity theft occurs when someone uses your personally identifying information, such as your name, Social Security number, or credit card number, without your permission to commit fraud or other crimes. These crimes include renting an apartment, obtaining a credit card, or establishing a telephone account in your name. Victimized consumers may lose job opportunities or be denied credit, including education loans, car loans, or mortgages.

Identity thieves obtain personal information primarily through two means. One method is to take someone's established address and telephone number, and then acquire the individual's matching Social Security number from sources on the Internet or elsewhere. The thief then changes the addresses of existing bank and credit card accounts, and applies for new accounts under the victim's name.

The second method used by identity thieves is through the use of key-stroke malware, software that runs on an infected personal computer and is able to copy someone's key strokes, including user names, passwords, answers to challenge questions, and account numbers. If you access a Web site that has been hacked into and keystroke malware has been maliciously installed, your computer can become infected.

Aside from keeping your personal information private and maintaining the latest version of antivirus software on your personal computer, two additional options are available in order to protect against identity theft: establishing a fraud alert or credit freeze on your credit file.

### Fraud Alert

Anyone may place an initial fraud alert on their 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 (e.g., 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.

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## Protecting Your Credit

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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 your current creditors are exempt from your credit freeze (i.e., they may still review your credit file). 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 will be \$5 or \$10 with each credit bureau, plus a similar fee each time you would like to lift the freeze temporarily. If you have been an identity theft victim, these fees are waived and some states offer free freezes for residents over 65 years of age.

Based on my experience, Experian and TransUnion allow you to place credit freezes by accessing their Web sites, while Equifax requires a letter requesting such action. Your credit score is not affected by a credit freeze and the freeze will last until you remove it.

A credit freeze will not prevent you from receiving pre-approved credit offers. To halt these offers, you must call 888-5OPTOUT (888-567-8688) or go online at [www.optoutprescreen.com](http://www.optoutprescreen.com).

### Summary

Protecting your credit is critical in today’s society where gaining employment and obtaining loans can be dependent on the quality of your credit history. The emotional and financial costs of repairing your credit once you have become an identity theft victim can be significant. To protect your credit, consider instituting a fraud alert or, better yet, a credit freeze on your credit file.

## The Homestead Exemption

If you own your own home, you should be aware of a legal regime called the homestead exemption that allows you to protect your home’s equity from certain creditors. Though homestead exemptions are dictated by state law and, consequently, vary by state, they tend to have three common features. They can:

1. prevent the forced sale of a primary residence to meet creditors’ demands;
2. provide a surviving spouse with shelter; and
3. offer a property tax exemption (e.g., in Florida, the first \$50,000 of a home’s assessed value is exempt from paying property taxes and this exemption is indexed to inflation).

Some states provide an automatic homestead exemption, while in other states you must file for a homestead exemption to receive its protections. For example, New Hampshire provides an automatic \$100,000 exemption, while Massachusetts provides \$500,000 of protection, but requires a filing with the registry of deeds. In most states, however, a homestead exemption does not reduce your liability with first or second mortgages, mechanics liens, debts undertaken prior to the exemption, alimony or child support, and government taxes and liens.

Since many of COMPASS’ clients are Massachusetts residents, let us delve into the Massachusetts Homestead Act in more detail, which only offers the first two features listed above (i.e., there is no property tax exemption). To gain creditor protection for your principal residence, you are required to file a form called a “Declaration of Estate of Homestead” at your local registry of deeds. The form references your property’s deed and a \$35 filing fee must accompany the notarized form. As indicated above, Massachusetts allows you to protect up to \$500,000 of equity per residence, per family.

If you are at least 62 years of age or disabled, each owner has \$500,000 of protection when filing the appropriate form.

In Massachusetts a real estate attorney will normally file a declaration of homestead as part of the closing on a first or second mortgage. If you are unsure whether your primary residence in Massachusetts has a homestead exemption filed, you may search your real estate filings on the registry of deeds’ Web site ([www.sec.state.ma.us/rod](http://www.sec.state.ma.us/rod)). You may also download the appropriate form from this site to file a homestead exemption.