

Business Credit News

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JUNE 2014 Chairman: Mark Haley
Johnson Oil Company

“Purchase Money Security Agreements”

Every generation has been bequeathed a sacred trust to pass on a better country and lifestyle to the next generation, their children, than the one it inherited from the previous generation, their parents. Sometimes this is referred to as leadership and sadly my generation has failed.

Fifty years ago this month I graduated high school and was one of the first along with millions of other “baby boomers” to venture out and make my mark on the world. We were the generation that Time magazine crowned as the “best and the brightest” and we were expected to lead the way into John Kennedy’s “new frontier”.

The first ten years looked promising as we challenged and changed American attitudes towards politics, ethics, and lifestyle and then for whatever reason, Vietnam – Watergate, we gave up and stopped trying. Contrary to popular belief, our generation never invented anything. We did not invent Rock and Roll. The irony is the popular music of our generation, which has sustained and is still the most popular of any era in American, if not world, history and frightened many of our parents, was created by our parent’s generation. Bob Dylan, the Kingsman, Bob Marley and Otis Redding, to name a few, and don’t forget Elvis, were not Boomers. Nor did our generation invent the personal computer, Ed Roberts invented the Altair 880, and Steve Jobs didn’t invent the “mouse”, Ralph Benjamin a Brit in 1946, and Jobs didn’t invent the personal music player, it was the brainchild of Akio Morita who created the Sony Walkman 20 years before Steve Jobs introduced the iPod. Not one of these individuals were “boomers”. By 1971, the U.S. government was two years into the development, and thirty years ahead of Al Gore inventing, the Internet.

While growing up in California my family often drove highway 99, the state highway, between Los Angeles and San Francisco. This was a treacherous 400 mile two lane highway that connected the farming towns in the San Joaquin Valley. By the time I graduated, I-5, part of the new U.S. interstate highway system, had replaced highway 99 as the preferred route between California’s two major cities. We took these new highways, the interstates, for granted because it was given to us by our parents and grandparents. Not only did we never pay for it but after we took over as the custodians we refused to pay to maintain our highways and infrastructures. While we thought nothing about shelling out six bucks for our morning latte we were outraged if it was suggested we pay an additional dollar fifty for a tank of gas to keep the interstates up-to-date. Interestingly, we did not object to paying a toll to travel the same stretch of highway. While our parents paid millions of dollars in taxes to build dams and reservoirs so that we would not experience the droughts and “dust bowls” brought upon by nature that they and our grandparents lived through, once again we became outraged if we could not water our lawns or wash our cars as a means to conserve what they had given us.

I now reside in North Texas just north of Dallas – Fort Worth. In 1971 the population of Dallas –Fort Worth was 2.1 million and nineteen years later the population had grown to 3.6 million. Today, the population is closer to 7 million and we are still driving on the same roads and Interstates that were built 43 years ago for a population of 2.1 million.

Instead of inventing new things or preserving our legacy. We became the generation of voracious consumers and collectively can take credit for creating something our parents and grandparents could never imagine, uncontrollable debt. In 1992 we achieved political power with the election of the first president born to the “Baby Boom Generation”. Bill Clinton and Al Gore campaigned on the “baby boom ticket” and promised a “new generation of leadership”. Regardless, we steadfastly refused to raise any new tax to maintain or improve what had been passed on to us by previous generations. In fact, just the opposite occurred, our taxes were cut so as to provide us additional spending power and boy we did not disappoint.

One of the largest and fastest growing industries during the last 25 years is the storage industry. According to the American Storage Association, 68% of those who rent a storage unit own a single family home and 30% of those rent the storage unit for more than three years. Of those who own their own homes and rent, 65% have a garage; 47% have a garage and an attic; and 34% have a garage, an attic, and a basement. During our lifetime we have acquired more “stuff” than we can personally use or accommodate in our homes and this does not include the stuff we try to dispose of with those periodic “garage” sales.

In 1965 the combined personal debt in the U.S. was \$95 million dollars. Today, the combined personal debt is close to \$1.4 Trillion and the majority of it is composed of installment loan and credit card debt. In 1965 the boomers graduated into one of the strongest economic expansions in American history. Boomers needed less education to obtain a decent-salaried job than their children do today and a college education cost a small fraction of what our children pay and what our grandchildren will eventually pay. In 1965 one income was sufficient to get a family ahead economically. Since Boomers entered the labor

pool marginal federal income-tax rates have fallen steadily, with rare exception, and government retirement benefits have proliferated. At nearly every point in our working lives, we chose to allow the costs of our tax cuts and spending hikes to be passed onto future generations as we continued to spend indiscriminately on our wants and toys rather than on our needs and that includes retirement.

The Dow Jones industrial average has risen twelvefold since the early 70's. Boomers will be the first generation of retirees to fully enjoy the Medicare prescription-drug benefit and because Social Security payouts often rise faster than price inflation, Boomers will draw more-generous retirement benefits than our parents did, in real terms—and all at our children's expense. The Urban Institute recently estimated a boomer couple retiring today, after both earning average wages, will accrue about \$200,000 more in Medicare and Social Security benefits over their lifetimes than they paid in taxes to support those programs.

Today, our children are unemployed at historically high levels or working at minimum wage jobs and many are moving back home with Mom and Dad because they cannot afford to live on their own. There are more homeless people on our streets today than there were during the Great Depression of the 1930's. Global competition is stronger than ever, but American businesses have still not fully adapted to prepare new workers for the challenges ahead. Boomers have been instrumental in increasing incomes for the very wealthiest Americans, while shrinking the middle class, and through careless borrowing and reckless financial engineering, driven the economy into the worst recession in over 80 years. Middle-class families today are financially less well off than their parents were at the same point in their lives even though the families today are far more likely to include multiple wage earners. Add to the equation that the majority of Boomers are working longer than expected today because they failed to save for their retirement years and that is preventing the next generation, our children, from taking their rightful place in the line of succession. They, more than we, have empathy with England's Prince Charles, the boomer that was left behind.

While the baby boomers have allowed the economy to move towards one where young people increasingly need a college education to move into the middle class, or even to simply hold on to the middle-class lifestyle they were born into. The other boomers who run state legislatures and private universities have collectively pushed the costs of that now-requisite education into the stratosphere. Tuition has risen at twice the rate of inflation: In today's dollars, tuition, room, and board at a four-year public college ran nearly \$5,800 per year in 1967; it costs about \$15,300 today. Private-college tabs have more than doubled in that time. The increase has saddled young workers with more than \$1 trillion in student debt--the average college student today borrows six times more from the federal government to finance their education, per year, than the average student in 1970. The boomers maintain their low taxes while their children graduate college today with debt they may never be able to repay in their lifetime while trying to maintain the lifestyle their parents enjoyed. Today, our children, who grew up in a middle class lifestyle, are just as likely to earn less than their parents did (adjusting for inflation) as they are to earn more.

Perhaps most egregiously, the baby boomers, led by boomer leaders in Washington, are bequeathing a runaway national debt and a gaping federal budget shortfall that our children and grandchildren will have to pay--through either higher taxes or reduced benefits, or both--if they don't want the country to go broke. Balancing America's future receipts and obligations would require all taxes to rise by at a minimum of 35 percent "immediately and permanently," and all federal entitlement benefits to decrease by another 35 percent, this was the estimate of the International Monetary Fund in 2012. Shielding boomers from that pain--as most in Washington propose--would dramatically increase the bill for everyone else.

Boomers have always talked about making the world a better place. We were the century's most educated and idealistic. We also knew for decades about the fiscal, economic, and environmental paths America was headed down and yet we chose to ignore the crises ahead while we impersonated Nero and waited for the fires to engulf our country and destroy what we had been given.

Our generation hasn't been a total disaster, of course. We did blaze huge social and economic trails for women, minorities, and people with disabilities. Those groups have gained rights that, as long as the rest of us remain vigilant, will never be reversed: Our daughters and granddaughters can grow up to be lawyers or scientists. African-Americans can grow up to be president. Boomers gave us Apple, Microsoft and Google. Boomers even briefly grew the economy and for a couple of years, in the late 1990s, we actually balanced the federal budget.

But overall the failures far outweighed the successes and remind me how fleeting much of that progress was--and how we chose short-term gratification when we had the opportunities to secure a better future for the future generations that will follow. Classic example: Instead of devoting the budget surpluses of the late 1990s to social programs that desperately needed them, we opted for tax cuts in 2001 and 2003 along with expanded Medicare benefit shortly thereafter. A Congressional Budget Office study from that era suggests this move raised the expected tax rate on future generations from 29 percent to 53 percent. And we borrowed heavily to cope with the economic sluggishness of the 2000s and, in so doing, inflated the housing bubble so that, when it popped, it triggered the Great Recession of 2009 bringing down not only the housing industry but the financial markets around the world.

America's federal debt-to-GDP ratio has more than doubled from 28 percent to 62 percent since 1970, and the borrowings has benefited boomers far more than any other age group. A majority of boomers want no part of paying that debt off through higher taxes or reduced benefits: A recent Gallup poll concluded "little appetite (among boomers) for debt-reduction proposals that will take a bite out of their pocketbooks."

Many of our grandparents came to this country with nothing more than the clothes on their backs and a dream to have a better quality of life than what they had in their home country. Many of our parents were part of what Tom Brokaw coined as the "Greatest Generation" for coming together as one to fight to preserve the dreams of their parents and maintain a better lifestyle for future generations. The question future generations will have to find the answer for is "how could a generation so gifted and willing to lecture everyone else on personal responsibility and ethical behavior never recognize, at any stage in their lives, their collective responsibility for creating this mess"? We, the boomers, were the idealistic generation, we were going to change the world for the better and yet we knew all this was coming and we never tried, seriously, to stop it. We have reaped all the benefits and left our children and grandchildren the bills and we knew what we were doing all along, after all we were the "best and the brightest".

I wish you well.

David Balovich is an accomplished author and public speaker. He is presently the North Region credit manager for Holt Cat.

***** **JULY 2014** *****

Day	Date	Group	Location	Time
Tues	8	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin TX	11:30
Tues	8	Coastal Bend Group	Holt Cat, 1325 South Padre Island Dr, Corpus Christi TX	11:30
Wed	9	Rio Grande Group	Victoria Palms Resort, 602 N. Victoria Rd. Donna TX	11:30
Thurs	10	SW Food Credit Group	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:00
Thurs	17	HVAC Credit Group	Texas Air Products, 11122 Gordon Rd, San Antonio TX	11:30
Thurs	17	Austin Ad Media	Teleconference Meeting 1-800-791-2345	2:00
Fri	18	SW Electrical Group	The Onion Creek Country Club, Austin TX	11:30
Tues	22	Austin Construction	Texas Land & Cattle, 6007 N IH 35 & Hwy 290, Austin, TX	11:30
Tues	22	SA Construction	Las Palapas, 4802 Walzem Rd, San Antonio TX	11:30
Wed	23	Victoria Credit Group	Sky Restaurant, 236 Foster Field, Victoria TX	11:30
Thurs	24	Fuel & Lube/Heavy Eq.	Teleconference Meeting 1-800-791-2345	2:30
Wed	29	Laredo Credit Group	The Laredo Country Club, Laredo TX	11:30

NACM COLLECTION SERVICE

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WHY IS IT BENEFICIAL TO PARTICIPATE IN NACM'S CREDIT INDUSTRY GROUPS:

1. **Networking of credit associates you can use as a resource for establishing credit.**
2. **Monthly information on customers you may have concern with.**
3. **Timely information on customers who may be credit risk or HMAs (high maintenance accounts).**
4. **New business that may be coming into the area.**

5. General discussions on how to handle NSF check, credit applications, COD's, etc.
6. Insightful data on current problems in the area.
7. Last, but no least, is the fact that it takes just one bit of information from your credit meeting, that you were not informed about, that could save your company thousands of dollars.

These are not all the benefits for going to your credit groups, but again, if you only came and gathered information on one company that helped save your company a PAL (write off) at the end of the year, IT'S WORTH IT! So, get involved with your industry group, give us a call at (210)225-7106 and we may be able to find a group or start one for you.