

# Notable Quote

Motivation gets you started.

Habit keeps you going!



# Understanding Credit



# Definition of credit

Credit is your ability to  
borrow money?





# What is a credit report?

- Credit history
- Types of outstanding loans
- How long you have had loans
- Whether you pay your bills on time
- Information from creditors



# What is a credit score?

A computer-based determination of the risk you pose to each of your creditors.



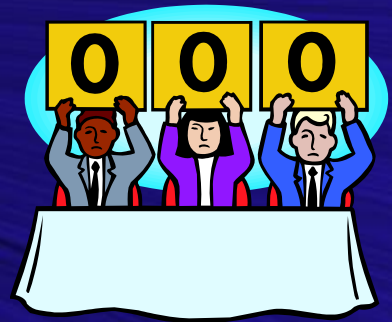
# Why build a clean credit record?

- The lower credit score, the higher the loan rate, less opportunity to save
- Credit scores impact the ability to open bank accounts, to obtain lines of credit and credit cards at preferred rates



# Why build a clean credit record?

- Mortgage, auto loan, or credit card qualification
- Insurance coverage
- Apartment rental or lease
- Employment positions
- Create accounts with utility companies



# Factors That Influence Credit Scoring



# Payment History

- 35% of credit score
  - How recent is the most delinquency, collection or public record?
  - How many credit obligations have been delinquent?

# Amounts Owed

- 30% of credit score
  - How much does the consumer owe creditors?
  - What percentage of available credit card limits is the consumer using?
  - What percentage is outstanding on open installment loans?



# Length of Credit History

- 15% of credit score
  - How long have accounts been established - average number of months accounts have been open
  - New accounts - Number of months since most recent account opening



# New Credit

- 10% of credit score
  - Inquiries: Number of recent inquiries (12 months)
  - New accounts - Number of trade lines opened last year

# Types of Credit Used

- 10% of credit score
  - What is the mix of credit product types?
  - Revolving credit - number of bankcard trade lines
  - Installment credit - percent of trade lines that are installment loans



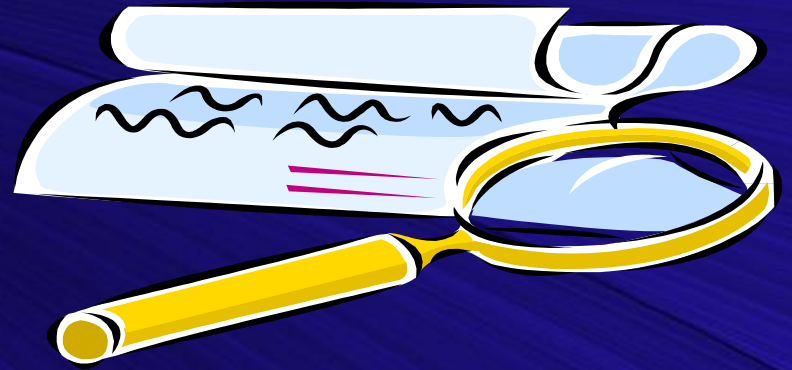
# What's NOT in the FICO score?

- Race, color, religion, national origin, sex, and marital status
- Age
- Salary, occupation, title, employer, date employed or employment history
- Where someone lives
- Any interest rate being charged on a particular credit card or other account
- Any information not found in the credit report



# What's NOT in the FICO score?

- Any items reported as child/family support obligations or rental agreements.
- Certain types of inquiries
- Any information that is not proven to be predictive of future credit performance
- Whether or not someone is participating in credit counseling of any kind



What does a credit report disclose?

# What does a credit report disclose?

- Identification Information
  - Full name
  - Last two addresses
  - Social security number
  - Date of birth
  - Place of employment



# What does a credit report disclose?

- Information on accounts
  - Name of creditor
  - Date account was opened
  - Original balance or credit limit
  - Current balance
  - Term of the account
  - Late payment history
  - Current status of account

# What does a credit report disclose?

- Public record information
  - Bankruptcies
  - Tax liens
  - Judgements
- Credit report inquiries
- Consumer statement
  - Challenging or explaining an entry in the file
  - 100 words or less

# Key Credit Report Terms





# Key Credit Report Terms

- Bankruptcy
  - Relief from payment of all debts through court action.
- Charge-off
  - A debt that is no longer considered to be collectible.
- Collection Accounts
  - Accounts which your creditors turned over to a collection agency.

# Key Credit Report Terms

- Credit History
  - List of both open and closed accounts.
- Credit Score
  - Numerical summary of the credit information on file with the credit repository (Equifax, etc.)
- Grace Period
  - The period of time beyond the due date during which payment of a debt may be made without penalty.



# Key Credit Report Terms

- Lien
  - The legal claim of a creditor upon the property of a debtor for the payment of a debt.
- Public Record
  - Events that are a matter of public record and are related to a consumer's creditworthiness.



# Facts You Should Know



# Facts You Should Know

- The payment history on a credit report is supplied to the credit bureau by the credit grantor.
  - This includes open and closed accounts.



# Facts You Should Know

Payment in full does not remove a particular entry from a payment history.

- Bankruptcy:- 10 years from date of entry or the date of judgement.
- Suits & Judgments:- 7 years from the date of entry or until the governing statute of limitation has expired, whichever is longer.
- Tax Lien:- 7 years from the date of payment.



# Facts You Should Know

- Collections/Charge-offs:- 7 years from the date placed in collection or from date of charge-off.
- Any other adverse information:- 7 years from the date of delinquency action.
- Inquiries:- 2 years from the date of entry.

# Facts You Should Know

- A divorce decree does not supersede the original contract with the creditor and does not release a consumer from legal responsibility.
- The balance reported should be the balance on the date the creditor reported the information to the credit bureau.
- Credit bureaus do not grant credit; however, each creditor has established certain criteria for making credit decisions.



# Where Are You?

- Is the report accurate and complete?
- Do you have any unsatisfactory credit?
- Do you have any outstanding collection items or public record items?
- Do you have numerous recent credit inquiries?
- Is the report accurate and complete?



# Warning Signs of a Credit Crisis





# Warning Signs of a Credit Crisis

- You are at or near the limit on your credit card (s).
- You charge more each month than you make in payments.
- You are consistently late with bill payments.
- You are working overtime to keep up with spending.





# Warning Signs of a Credit Crisis

- You are using savings for daily expenses.
- You are making required monthly payments to your creditors totaling 20% or more of your take home pay.
- You have recently been denied credit.
- You do not know how much debt you owe.
- You are using cash advances from credit card issuers to pay other creditors.

# Warning Signs of a Credit Crisis



- You have defaulted on a payment or your rents.
- You pay only the minimum amount due on your bills each month.
- You have paid a bill with a post-dated check.
- You have had a check returned for insufficient funds.



# Warning Signs of a Credit Crisis

- You are facing creditor law suits, repossessions and/or garnishment of wages.



Where do you want to go?





# Become A Responsible Credit User -

## Where Do You Want to Go?

- List your goals
  - Immediate goals ... up to three months
  - Short-term goals .. three months to one year
  - Long-term goals ... more than one year

# Become A Responsible Credit User - Where Do You Want to Go?

- Decide when you want to reach that goal.
- Prioritize your goals.



# Credit Report

- In Class Review of a Sample Credit Report



# How will you get there?





# Improving your FICO score

- STEP 1. Be Patient
- STEP 2. Make it Accurate
- STEP 3. Improve your credit habits  
(mostly using common sense)

# Credit Improvement



# Credit Improvement Tips

- Don't charge more than 30% of the credit cards limit.
- Don't charge more than you pay off each month.
- Pay bills each month with automatic deductions before due date.
- Pay more than the minimum amount each month.

# Cost of Making Minimum Payments

Item	Price	APR	Interest Paid	Actual Paid	Total years to pay off
• TV	\$500	18%	\$216	\$716	5
• Oomputer	\$1,000	18%	\$516	\$1,516	7
• Furniture	\$2,500	18%	\$1,415	\$3,915	10



# Benefit of Making Larger Payments

Original Number	APR	Monthly Payment	Total Number Pays	Total years to pay	Total Payment
\$2,500	18%	MP(\$25)	123	10	\$3,915
\$2,500	18%	MP + \$25	50	4	\$3,258
\$2,500	18%	MP + \$50	33	3	\$2,839

# Clean Up Credit

- Is the report accurate and complete?
- Do you have any unsatisfactory credit?
- Do you have any outstanding collection items or public record items?
- Do you have numerous recent credit inquiries?
- Is the report accurate and complete?



# Improving your FICO score

<u>Score Component</u>	<u>Score Weight</u>	<u>Advice to improve your score</u>
Payment History	35%	Pay your bills on time
Amounts owed	30%	Decrease your balance and increase your limit/balance ratio
Length of Credit History	15%	Keep older accounts open. Don't swap accounts constantly
New Credit	10%	Apply for new credit only when needed
Types of Credit Used	10%	Have a sensible mixture credit
<b>Total</b>	<b>100%</b>	

# Re-Establishing Credit





# Re-establishing a Good Credit Record

- Develop or revise your spending plan or budget.
- Buy reasonably priced items of real need with payments that fit easily into your budget.
- Pay as promise, on or before the due date.
- Put some money away each month (e.g., savings account, mutual funds).





# Re-establishing a Good Credit Record

- Establish a personal contact with the branch manager or loan officer of the bank where you have an account.
- Contact creditors whose accounts you have paid off earlier. They may consider re-opening a line of credit.
- Do not make several applications for credit within a short time.

# Re-establishing a Good Credit Record

- Accept offers for pre-approved credit cards, but be aware of high interest rates.
- Accept offers from dealers who sell and finance their own merchandise.
- If you must borrow money, offer security such as a car, savings account or other valuable property.





# Re-establishing a Good Credit Record

- If necessary, ask a relative or friend who has good credit standing to co-sign a loan application and share your liability.
- Avoid so-called "credit repair clinics" which charge high fees for doing what you can do yourself.

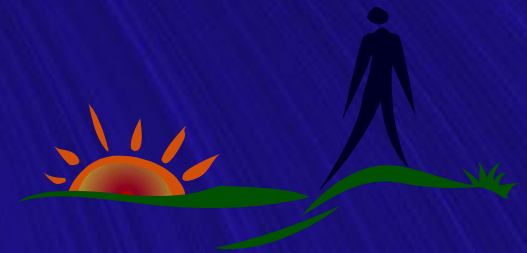


# Changing Credit Behavior



# Changing Credit Behavior

- Be honest about your debts...Add up what you owe to all of your creditors.
- Make or revise your family spending plan/budget.





# Changing Credit Behavior

- Give each family member, including adults, a weekly allowance.
- In your spending, look for luxuries that you can give up temporarily until you have paid off your debts.
- Look to the future.



# Building Credit History



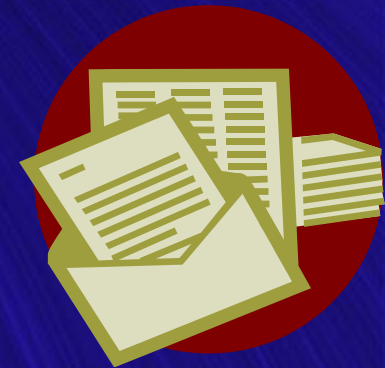


# What if you don't have a credit history?

- Open a checking account at a local bank.
- Open a savings account and make regular deposits.
- Get a secured loan using the money on deposit at the bank as collateral.
- Become a member of a credit union.
- Shop for a low-fee credit card from a large bank, gasoline company or department store.

# What if you don't have a credit history?

- Shop for a low fee secured credit card.
- Apply for a loan with a co-signer.
- Establish non-traditional credit.



# The Lender looks at:

- The 4 C's of Credit
  - Character
  - Capital
  - Capacity
  - Collateral



# 4 C's of Credit

- **Character** - Refers to how you have paid your bills or debts in the past
  - Have you had credit in the past
  - How many credit accounts do you have?
  - Have you ever
    - \*Filed for bankruptcy?
    - \*Had any outstanding judgments?
    - \*Had property repossessed or foreclosed upon?
    - \*Made late payments?

# 4 C's of Credit

- **Capital** - Refers to the value of your assets and your net worth
  - How much money do you have in your checking and savings accounts?
  - Do you own a house?
  - Do you have investments or other assets (e.g., a car)?



# 4 C's of Credit

- **Capacity** - Refers to your present and future ability to meet your payments
  - How long have you been in your job?
  - How much money do you make each month?
  - What are your monthly expenses?



- **Collateral** - an asset pledged as security you provide the lender
  - Do you have assets to provide as collateral to secure the loan beyond your capacity to pay it off?

# Credit and Consumer Rights





# Truth In Lending Act

- Requires lenders to disclose the total cost of your loan including the finance charge.
- A Truth in Lending disclosure will include Annual Percentage Rate, Finance Charge, Amount Financed, Total Payment

# Equal Credit Opportunity Act (ECOA)

- Protects consumer rights throughout all stages of the loan process. ECOA promotes the availability of credit to all creditworthy applicants. Lenders cannot discourage you from applying for a loan or deny your application based on the following factors:



# Equal Credit Opportunity Act (ECOA)

- Race
- Color
- Religion
- National Origin
- Sex
- Marital Status
- Age
- Receipt of public assistance income
- Exercise of rights under the Consumer Protection Act (Example: You cannot be denied a loan because you've filed a complaint against the bank.)

# Fair Credit Reporting Act

- Requires that the lender notify you if you are denied a loan or credit because of information in your credit report. This notice is usually combined with the notice denying the loan or credit.
- Requires bureaus to report accurate and complete information to businesses who are evaluating an applicant's application for credit, employment or insurance.



# Real Estate Settlement Procedures Act (RESPA)

RESPA requires:

- Good Faith Estimate of the costs of settlement (relating to real estate)
- Disclosure when the lender refers settlement to an affiliate
- Disclosure regarding the possible transfer of servicing

# Fair Credit Billing Act

- Consumer must give written notice of billing error within 60 days
- Creditor must respond within 30 days and resolve the problem within 90 days
- If still disputed the creditor must report under dispute



# Fair Debt Collections Act

- Helps eliminate abusive debt collection practices. Under this law, debt collectors other than your creditor cannot:
  - Contact you at any unusual time or place.
  - Contact you at work if you have informed them not to call you there.
  - Use threat of violence or other criminal means to harm you or your property

# Fair Debt Collections Act

- Under this law , debt collectors other than your creditor cannot:
  - Call you with the intent to annoy, abuse or harass you.
  - Call you without identifying themselves.
  - Use deceptive or misleading methods to collect debt.



Questions?

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