

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.

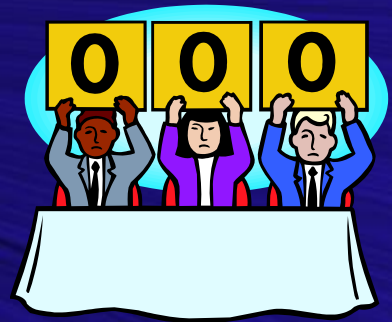


Why build a clean credit record?

- 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

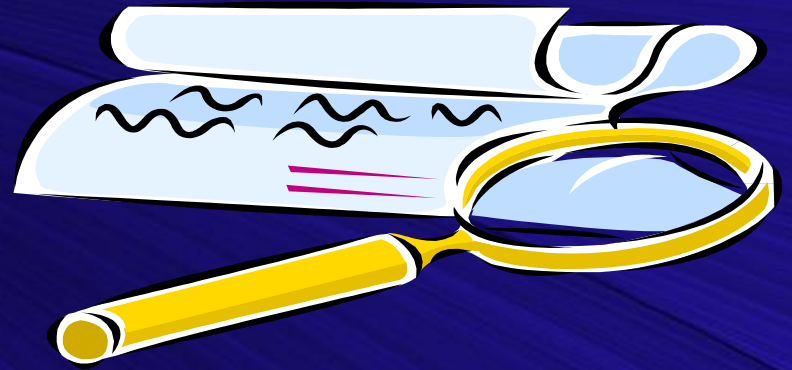
- 10% of credit score
 - What is the mix of credit product types?
 - Revolving credit - number of bankcard trade lines
 - Installment credit - percent of trade lines that are installment loans

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
Total	100%	

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

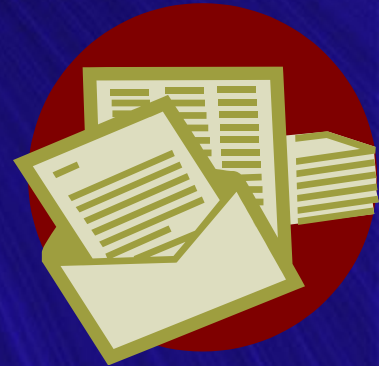


What if you don't have a credit history?

- 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?

Patricia A. Scott, Program Manager

KISRA Empowerment Initiative

Ph: 304-768-1300

Email: patricias@kisra.org

www.kisra.org