



CREDIT BASICS PARTICIPANT'S GUIDE

Developed For



justine PETERSEN
BUILDING ASSETS. CHANGING LIVES.

By



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CREDIT



Module 1

ABC'S of Credit

Activity 1: The Five C's of Credit

Activity 2: When to Use Credit

Activity 3: Credit Reports

Activity 4: Credit Scores

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CREDIT DEFINITIONS

Credit

Trust given to another person for future payment of a loan, credit card balance, etc.

Creditor

A person or company to whom a debt is owed.

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THE FIVE Cs OF CREDIT

C = Capacity

C = Capital

C = Collateral

C = Conditions

C = Character

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WHEN TO USE CREDIT

Can you describe a situation when it is a good time to use credit and when it is NOT a good time to use credit?

Good time to use credit

Time to NOT use credit



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SAMPLE CREDIT REPORT

John Doe
123 Home Address
City, State 00000

Please address all future
correspondence to the
address on the right:

Credit Reporting Office
Business Address
City, State 00000

Date: 03/04/06
Social Security Number: 123-45-6789
Date of Birth: 04/19/57

*List of both open
and closed
accounts*

*The type of account
and timeliness of
payment*

CREDIT HISTORY

Company Name	Account Number	Whose Account	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported			Date Reported
								Balance	Past Due	Status	
Store Card	1125151	J	05/96	66	12/03	3500	0	0		R	02/04
Your Bank	2953900	I	11/96	48	11/03	9388	48M	0		I	12/03
Master	3554112 51511	A	06/97	24	10/02	200		0		O	12/03
XYZ Bank	5422977	I	05/05	12	01/06	5000	340	3000	680	R60	

J = joint; I = individual; A = authorized user

O = open; R = revolving; I = installment

PRIOR PAYING HISTORY

>> 30 days(03) 60 days(04) 90+ days(01) 08/02-30 02/02-60 10/01-90

The number of times an account was over-due 30, 60, or 90 days

Dates of two most recent delinquencies plus date of most severe delinquency

COLLECTION ACCOUNTS

>> Collection Reported 06/00; Assigned 09/99 to PRO COLL; Client – ABC Hospital, Amount \$978; Stat Unpaid–06/00; Balance–\$978 06/00; Date of Last Activity 09/99; Individual; Account Number 787652JC <<
Collection Agency Telephone Number
PRO COLL (800) 555-1234

Public record items obtained from local, state, and federal returns

COURTHOUSE RECORDS

>> Lien Filed 03/02; Fulton Cty; CASE NUMBER – 32114; AMOUNT - \$26,667, Class – City/County; Released 07/02; Verified 09/03 <<
>> Bankruptcy Filed 12/98; Northern Dist Ct; Case Number 673HC12; Liabilities – \$15,787; Personal Individual; Discharged; Assets \$780 <<

ADDITIONAL INFORMATION

Former Address 456 Jupiter Rd., Atlanta, GA 30245

Former Address P.O. Box 2138, Savannah, GA 31406

Last Reported Employment Engineer, Space Patrol

Checking Account Opened 09/98
Closed 05/02 Reason: Nonsufficient funds
In the amount of \$400

COMPANIES THAT REQUESTED YOUR CREDIT HISTORY

03/04/06	Equifax	02/12/05	Dept. Store
12/16/05	ABC VISA	08/01/04	YOUR BANK
06/11/05	YOUR BANK	04/29/04	ABC BANK

List of businesses that have received your credit report in the last 24 months

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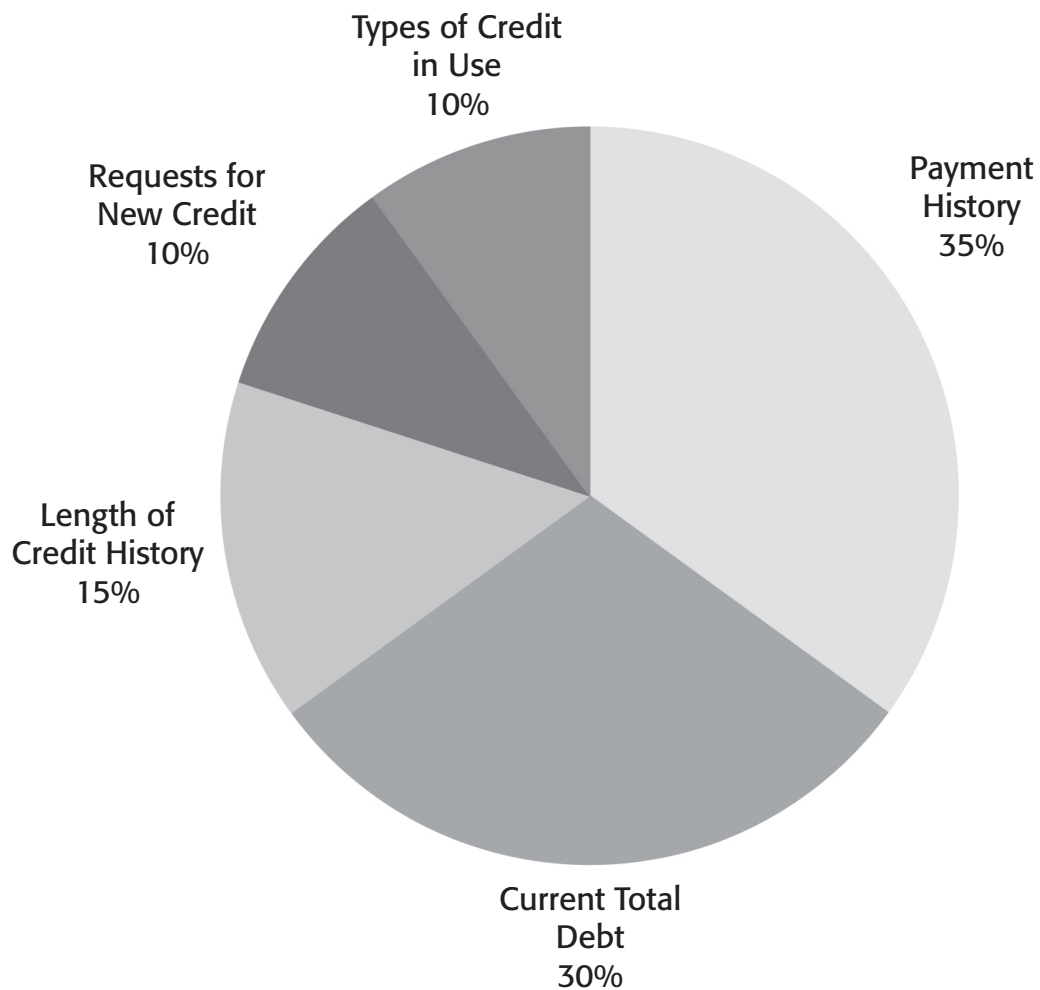
WHAT IS A CREDIT SCORE?

- A credit score is a number that helps a lender predict how likely an individual is to repay a loan, or make credit payments on time.
- A credit score is a number that changes as the elements in a credit report change. For example, payment updates or a new account could cause scores to go up and down.
- A credit score has broad use and impact: Your credit past is your credit future.
- FICO[®] scores, one of the most common credit scoring systems, vary between 350 and 850.
- VantageScoreSM, a new credit scoring system developed by the three credit bureaus, ranges from 501-990.

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WHAT MAKES UP A TYPICAL CREDIT SCORE?



Source: Fair Isaac and Consumer Federation of America, 2005.

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IMPROVING YOUR CREDIT SCORE

- **Pay bills on time.** The best thing you can do to improve your score is to pay your bills on time. You can begin to improve your credit history immediately by making at least the minimum payments on time. Delinquent payments and collections can have a significant negative impact on your score.
- **If you have missed payments, get current and stay current.** The longer history you have of paying your bills on time, the better your score will be.
- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.** New accounts will lower your average account age or the length of time you have the account. People who have had accounts for longer periods of time and have paid them on time tend to have higher scores. Additionally, if you open up several new accounts rapidly, it will appear that there is a risk of you utilizing all of this new credit. Thus, this additional credit could lower your score.
- **Correct mistakes.** Your credit score is a reflection of the information in your credit report. If your credit report contains negative information, it will negatively impact your credit score regardless of whether or not the information is accurate. Review your reports from all three credit bureaus for accuracy once a year, as well as several months before applying for a loan. If you discover inaccuracies in your report, follow the procedure to correct the information.
- **Do your rate shopping for a loan within a focused period of time.** Some scores, such as FICO scores, distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. For example, some scores count all rate inquiries for car loans or mortgage loans in a two-week period as one inquiry.
- **Keep balances low on credit cards and other "revolving credit."** High outstanding debt can negatively affect a score.
- **Pay off debt rather than moving it around.** The most effective way to improve your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- **Remember, it's okay to request and check your own credit report.** When you request your own report, it is considered a consumer inquiry. This won't affect your score, as long as you order your credit report directly from one of the credit-reporting agencies or through an organization authorized to provide credit reports to consumers.

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Module 2

Maintaining Good Credit

Activity 1: Debt to Income

Activity 2: The Fair and Accurate Credit Transaction Act - “Fact Act”

Activity 3: Correcting Credit Errors

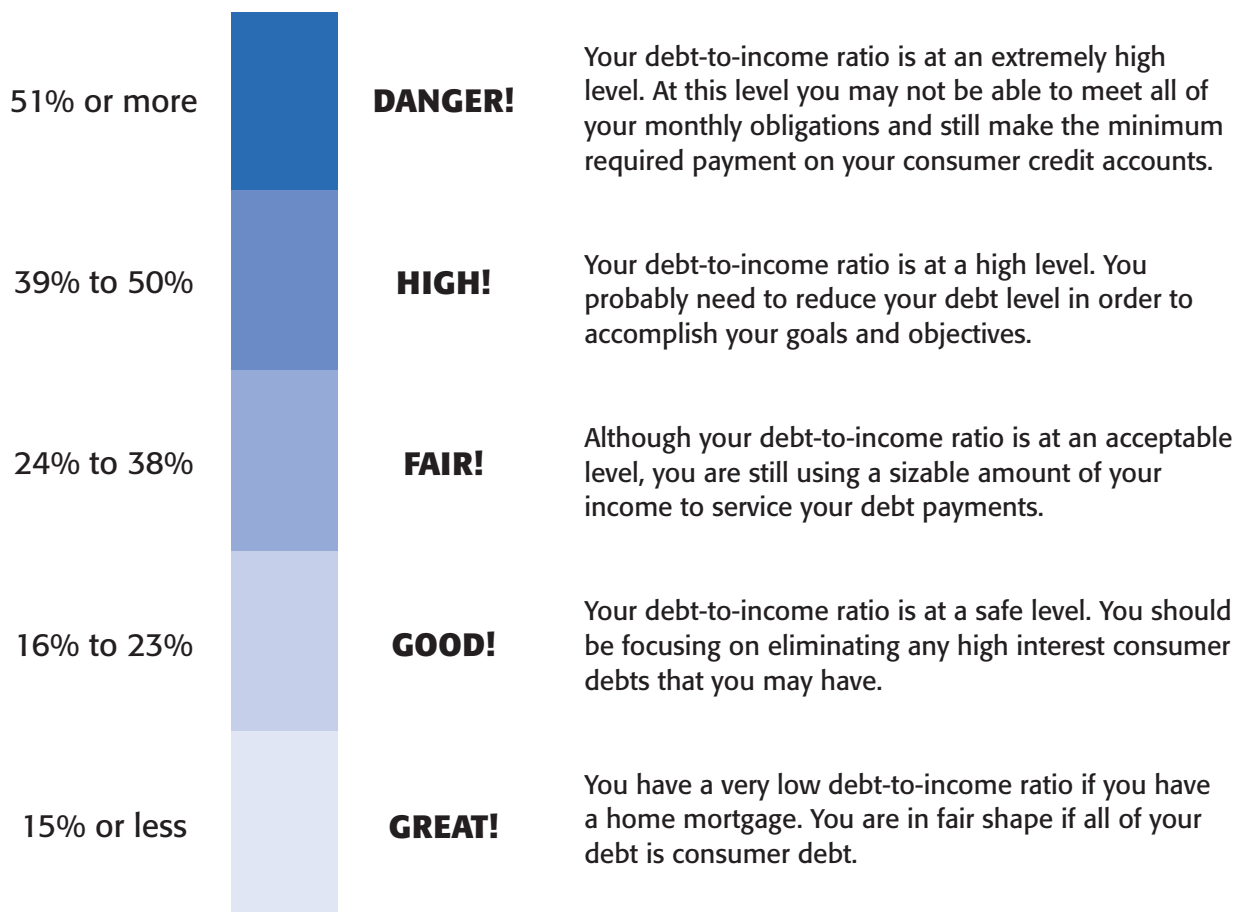
Activity 4: Correcting Credit Problems

Activity 5: Things to do to Maintain Good Credit

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DEBT-TO-INCOME THERMOMETER



Note: This example is for illustrative and educational purposes. Individual circumstances vary based on a variety of factors.

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THE FAIR AND ACCURATE CREDIT TRANSACTION ACT

One of the primary objectives behind the Fair and Accurate Credit Transaction Act (the FACT Act) is to help consumers fight the growing crime of identity theft. The following are some highlights of the Act.

- **Free Credit Reports** – The three major credit-reporting agencies are required to provide consumers with a free copy of their own credit report every 12 months. You may request your credit report by any of the three methods listed below.
Website: www.annualcreditreport.com
Telephone: 877-322-8228
Mail: Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
- **Fraud Alerts and Active Duty Alerts** – Consumers who suspect they have been or may be victimized by identity theft can place an alert on their credit files. The alert will put potential creditors on notice that they must proceed with caution when granting credit. While on duty outside the country, military members are particularly vulnerable to identity theft. Active duty alerts allow active duty military personnel to place a notation on their credit report as a way to alert potential creditors to possible fraud.
- **Truncation: Credit Cards, Debit Cards, Social Security Number** – Thieves can steal important account information from receipts that include full account numbers and expiration. The FACT Act requires that over the next three years account numbers on credit card receipts will be shortened (also known as truncation) so that merchants, employees, or others do not have access to full credit card numbers.
- **Red Flags** – Financial institutions must adopt procedures designed to spot identity theft before it occurs. Certain events such as a change of address, a request for a replacement credit card, or efforts to reactivate a dormant credit card account may signal a potential fraud. Financial institutions and creditors now analyze identity theft patterns so that they can take action to prevent further incidences of identity theft.
- **Disposal of Consumer Reports** – Any business that uses a consumer report must adopt procedures for proper disposal, whether it involves printed documents, computer equipment, or other media that may contain personal information.
- **Credit Scores** – For a fee, consumers may request their credit score, including an explanation of the factors that went into computing the score.



CORRECTING CREDIT ERRORS

Unfortunately some credit reports contain serious errors that might cause consumers to be denied credit cards, car loans and even mortgages. That's why it is so important for you to regularly check your credit report. You don't need a credit repair company to fix mistakes on your credit report. Everything a credit repair clinic can do for you legally, you can do for yourself at little or no cost. If you find an error, take the following steps to correct it.

1. Make a copy of your credit report and circle every item you believe is incorrect.
2. Write a letter in English to the reporting agency (the address will be printed on the report). Tell the consumer reporting company, in writing, what information you think is inaccurate. Include copies (NOT originals) of documents that support your position. Explain each dispute and request an investigation to resolve the issues. (See sample dispute letter on Pg. 2.)
3. Send all materials by certified mail, return receipt requested, so that you can prove the packet was received.
4. Send a similar letter of dispute to the creditor whose reports you disagree with.
5. The reporting agency will initiate an investigation, contacting your creditors to verify the accuracy of the information. If the creditor cannot verify that the entry is correct, it must be removed. When the investigation is complete, the agency must send you a free copy of your report if changes were made.
6. If the investigation uncovers an error, you have the right to ask that a corrected version of your credit report be sent to everyone who received the report during the past six months.
7. If an investigation doesn't resolve your dispute with the consumer reporting company, you can ask that a 100-word statement of the dispute (either written by you or the consumer reporting company) be included in your file and in future reports. The credit-reporting agency must include this explanation in your report each time it sends it out.
8. Keep in mind that when negative information in your report is accurate, only the passage of time can assure its removal. Accurate negative information can generally stay on your report for seven years. Bankruptcies can remain on a credit report for up to ten years.

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CORRECTING CREDIT PROBLEMS

Take responsibility for actions.

Examine spending patterns; recognize ways to correct bad habits.
Establish a plan of action for getting out of debt, and stick with it.

Communicate with creditors.

Contact creditors to let them know there are temporary financial problems; request an adjustment in payment schedule.

Negotiate with Collection Agencies on past debt.

Do not continue to take on more debt.

Establish a Monthly Budget

Make a list of all expenses and current income. Consider getting rid of the "extras"

Create a workable savings plan to address past credit problems.

Create a savings plan that helps pay off old debt and allows you to save as well.

Plan for EITC or tax refund each year to address credit problems.

EITC can be used to pay off debt or can be saved.

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THINGS TO DO TO MAINTAIN GOOD CREDIT

What can everyone do to establish and maintain good credit?

1. Pay all bills on time.
2. Avoid late fees.
- 3.
- 4.
- 5.
- 6.

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Module 3

Credit Cards

Activity 1: Things to Consider When Using a Credit Card

Activity 2: Credit Card Reductions

Activity 3: Keeping Credit Cards Safe

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Things To Consider When Using a Credit Card

Annual Fee

- Annual charge for using a particular credit card.
- Most common with general label credit cards.

What question should you ask?

APR (Annual Percentage Rate)

- Annual cost of credit on a loan.
- May include up-front fees and other internal costs.
- Expressed as a percentage rather than a dollar amount.
- True gauge of the cost of borrowing.
- Truth in Lending law requires lender to tell the APR.

What question should you ask?

Minimum Payment

- Amount of payment required by the account due date, usually billed monthly.

What question should you ask?

Computation Method

- How finance charges are determined.
- Methods may include previous balance, average daily balance, or something similar.

What question should you ask?

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Grace Period

- Period of time after purchase date when balance may be paid in full to avoid finance charges

What question should you ask?

Finance Charges

- Dollar amount of interest paid on money borrowed, plus fees for arranging the loan.
- Also known as interest paid on unpaid balances.

What question should you ask?

Card Incentives

- Special rewards when the card is used.
- Could be a refund of money, free tickets to special events, or rewards for use with hotels, airlines, restaurants, or purchases.

What question should you ask?

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CREDIT CARD REDUCTIONS

Paying only the minimum payments on your credit card may seem appealing, but if only minimum payments are made, it can take years, and sometimes decades, to achieve full repayment.

- Paying the minimum amount due keeps your credit history clean, but it also costs you more.
- The first chart below shows what your true costs would be if you pay only the minimum payment on \$500, \$1,000, and \$2,500 balances.
- The second chart shows how increasing your monthly payment on a \$2,500 balance will reduce both your true costs and the time it takes to pay off the balance.

True Costs of Paying Only the Minimum Monthly Payment

Balance*	APR	First Month Payment	Interest Costs When Making Just the Minimum Payment	True Costs When Making Just the Minimum Payment on Time	Number of Years to Pay for the Item
\$500	15%	\$20	\$100	\$600	2.4
\$1,000	15%	\$22	\$552	\$1,552	6.3
\$2,500	15%	\$55	\$2,377	\$4,877	13.9

Impact of Paying More than the Minimum Monthly Payment on a \$2,500 Balance

Balance	APR	Monthly Payment	Interest Costs	True Costs	Number of Years to Pay for the Item
\$2,500	15%	\$55 (minimum)	\$2,377	\$4,877	13.9
\$2,500	15%	\$80	\$944	\$3,444	5.1
\$2,500	15%	\$105	\$584	\$3,084	3.1
\$2,500	15%	\$130	\$476	\$2,976	2.3
\$2,500	15%	\$155	\$394	\$2,894	1.8
\$2,500	15%	\$180	\$323	\$2,823	1.4
\$2,500	15%	\$205	\$242	\$2,742	1.2

***Assumptions:**

1. No additional sales 2. Customer is paying minimum due only (assuming 2.5% of payment rate for interest calculation). 3. Payment is made on time. 4. Minimum is the positive amortization scenario, maximum of financial charge + late fee + 1% and \$20, with a floor of 1.5%.

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KEEPING CREDIT CARDS SAFE

ALWAYS

- Report a lost or stolen credit card immediately. Why?
- Check all statements against receipts. Why?

NEVER

- Lend your card to anyone. Why?
- Leave credit cards lying around. Why?
- Leave receipts lying around. Why?

Are there other ways to safeguard credit cards?

If so, what are they?

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Module 4

Identity Theft / Debt Collection & Your Rights

Activity 1: How Identity Theft Occurs

Activity 2: How to Avoid Identity Theft

**Activity 3: What to do if Identity Theft has
Occurred**

Activity 4: Debt Collection, Your Rights



HOW IDENTITY THEFT OCCURS

Identity thieves use a variety of methods to gain access to your personal information. Some methods that identity thieves use include the following.

- They look for personal data by going through your trash, or the trash of businesses, looking for personal data in a practice known as “dumpster diving.”
- They steal wallets and purses.
- They may use personal information that you share on the Internet.
- They pose as legitimate companies or government agencies that you do business with in order to get your personal information.
- They steal your mail, including your bank statements, pre-approved credit offers, new checks, and tax information.
- They complete a “change of address form” to divert your mail to another location.
- They may place a virus on your computer that searches for bank account information that is followed by a PIN and/or a password. That information is ultimately sent to the identity thief without the victim’s knowledge.

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HOW TO AVOID IDENTITY THEFT

1. Monitor your credit report. It contains your SSN, present and prior employers, a listing of all account numbers – including those that have been closed – and your overall credit score. If you become a victim of identity theft, you will catch the theft early by checking your credit report at least once per year. Order a free copy of your credit report by visiting www.annualcreditreport.com.
2. Don't give out personal information on the phone, through the mail, or on the Internet unless you initiate the contact or know the individual who initiated the contact. Thieves will pose as bank representatives, Internet service providers, government agents, and even ex-boyfriends or -girlfriends to get you to reveal personal information.
3. Protect your credit and debit cards. Whenever you receive a new card, sign it immediately. Don't loan it to anyone. Do not carry extra credit cards or other important identity documents except when needed.
4. Protect your mailbox. Remove your mail as soon after delivery as possible, and deposit outgoing mail in post office collection boxes.
5. Protect your wallet. Keep items with personal information in a safe place at home and do not share this information with friends or acquaintances. Don't carry your Social Security card in your wallet. Instead, memorize the number.
6. When creating passwords and PINs (personal identification numbers), do not use any numbers or codes that could easily be guessed by thieves.
7. Ensure your computer has appropriate anti-virus software that will detect and prevent keylogging viruses.
8. Notify your bank when you change your address or phone number.
9. Other suggestions: _____

List some things you will do to protect your personal information:

1. _____
2. _____
3. _____
4. _____
5. _____



WHAT TO DO IF YOUR IDENTITY HAS BEEN STOLEN

If you think your identity has been stolen, take the following steps.

- File a police report.
- Contact the three major credit bureaus.
(To report fraud: Equifax: 800-525-6285;
Experian: 888-397-3742; Trans Union: 800-916-8800)
- Close accounts.
- Contact all creditors involved.
- Keep a record of your contacts.

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Debt Collections, Your Rights



If your rights are violated you may not have to pay the debt.

In this section, You will know :

Who May Contact You.

How they may contact you.

What is prohibited.

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Debt Collections, Your Rights



Who May Contact You

Any Person authorized to collect the debt may contact you.

They must identify themselves as a debt collector and who they work for.

They can only contact you or your attorney, NO ONE ELSE!!!!

They cannot discuss the debt with anyone else!!!!

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Debt Collections, Your Rights



How They May Contact You

A Collector can Contact you in Person, by mail, phone, or fax.

They cannot contact you between 9pm and 8am or at an unreasonable place.

They cannot contact you at work if they know your employer disapproves.

They must stop contact if tell them so in writing.

They must send you a written notice telling you the amount owed, who you owe, and what action will be taken if you do not pay.

If you tell them you do not owe them, they cannot contact you unless they send you proof.

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Debt Collections, Your Rights



Prohibited Activities

Debt Collectors May Not Harass, Oppress, or Abuse any person!!!!

They may not:

Threaten violence or harm to you, your reputation, or property.

Publish a list of people who do not pay.

Use profane or obscene language.

Falsely imply they are government representatives, including prosecutors.

Falsely imply you have committed a crime.

Misrepresent the involvement of an attorney.

Imply you will be arrested if you do not pay your debt.

Threaten to sue, then not follow through.

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Debt Collections, Your Rights



Prohibited Activities, Cont'd

Give False Credit Information to anyone.

Collect an amount greater than your debt.

Deposit a Post-Dated Check Prematurely.

Contact you by postcard.

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Debt Collections, Your Rights



What To Do If Your Rights Have Been Violated.

You have the right to sue the debt collector.

You can receive damage awards and court costs if you win.

Report problems to Attorney General or to The Federal Trade Commission.