

Financial Empowerment Curriculum

Moving Ahead Through Financial Management

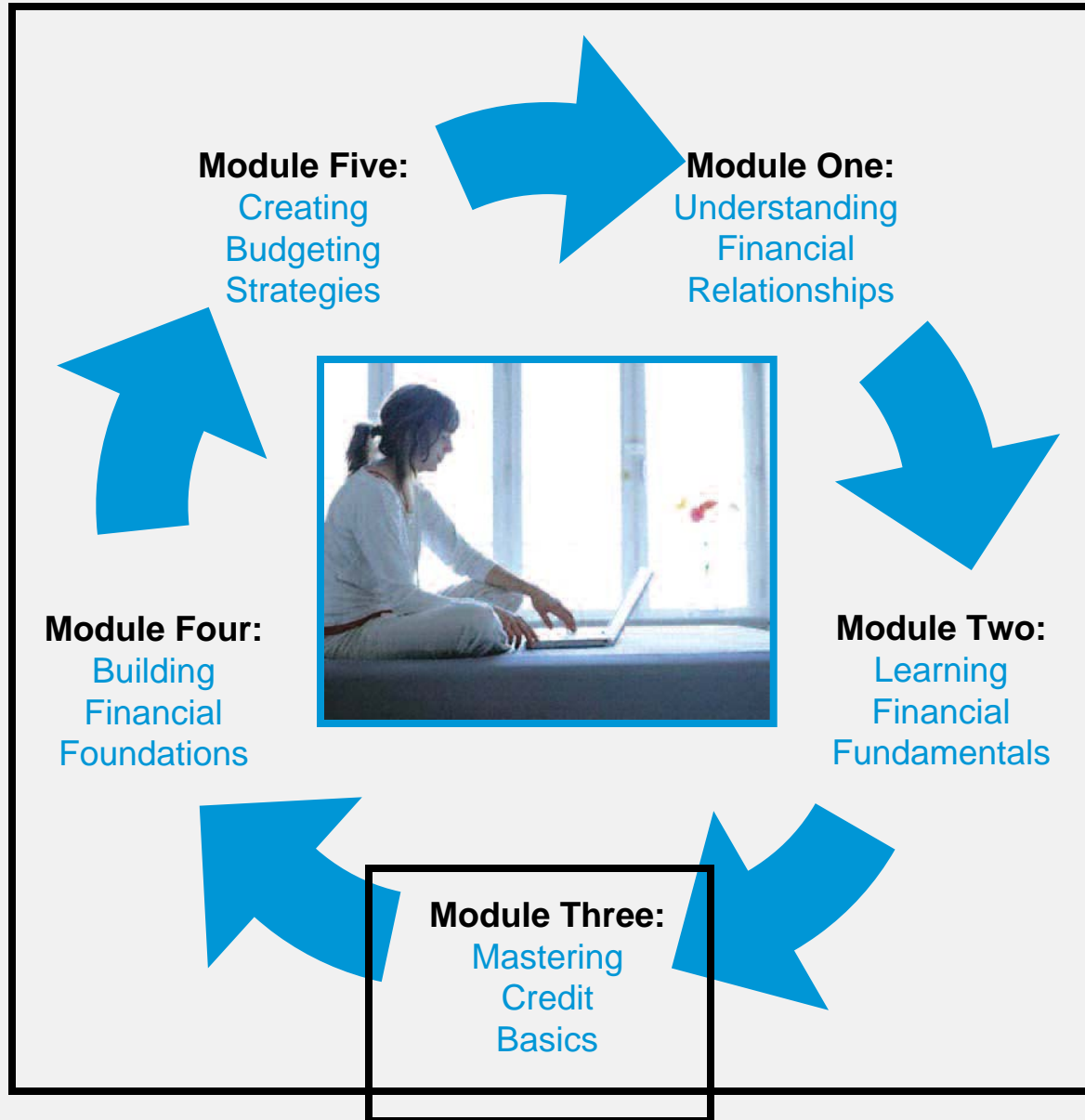


Module Three:

Mastering Credit Basics

Reviewing,
Understanding and
Improving Your Credit

Financial Empowerment Curriculum





Module Three Objectives

- Explain how to access and review your credit report.
- Identify the factors that control your credit report and credit score.
- Recall strategies that will help you increase your credit score.
- Describe the impact of bankruptcy.

Module Three Opening Exercise



- Before we begin to discuss how to review your credit report, I want you to take a moment to reflect on your personal experience.
- On a scale of 1-10, how comfortable are you with your personal knowledge regarding obtaining and reading your credit report?
- Why would you rate yourself the way you did? What life experiences have provided you the opportunity (or taken away the opportunity) to allow you to manage your credit and improve (or harm) your credit score?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.

Module Three:

Mastering Credit Basics

Reviewing Your Credit Report

Understanding Your Credit Score

Improving Your Credit Score

Understanding Bankruptcy

Reviewing Your Credit Report



To master your credit you need to obtain your credit report.

- Each of the three credit reporting agencies must provide you with a free copy of your credit report every 12 months (upon request).
- A central Web site handles requests for the three agencies and you may order your reports online, by phone or by mail.
- Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
1-877-322-8228
<http://www.annualcreditreport.com>
- Equifax: 1-800-525-6285 www.equifax.com
Experian: 1-888-EXPERIAN (397-3742) www.experian.com
TransUnion: 1-800-680-7289 www.transunion.com

Reviewing Your Credit Report



Why is your credit score so important regarding rate?

FICO SCORE	30-YR. FIXED RATE
720-850	5.892%
700-719	6.017%
675-699	6.555%
620-674	7.705%
560-619	8.531%
500-559	9.289%

SOURCE: INFORMA RESEARCH SERVICES AND MYFICO.COM. INTEREST RATES AS OF 9/15/03

Reviewing Your Credit Report



What does a credit report look like anyway?

2 Reference #: 0-00027-0000000-00 **Date of Report:** 02/11/2002

1 **Name:** Bob Buyer **DOB:** 08/14/1966
Address: 2204 First Avenue, San Diego CA 92122

3 **SUMMARY**

5 Account Type:	6 Count	7 Balance	8 Payment	9 Current	10 Closed
4 Real Estate					
XPN	1	\$0	\$1200	0	1
Installment					
XPN	1	\$1247	\$200	1	0
Revolving					
XPN	1	\$684	\$25	1	0
Other					
XPN	1	\$181	\$10	1	0

	11 Inquiries	12 Public Records	13 Collection Accounts	14 Delinquencies	
				Now	Prior
XPN	6	1	0	4	1

15 **DEROGATORY INFORMATION**

See Contact Information to contact creditor

16 **Account Information**

Account: Citibank **Acct#:** 123456789 XXXX **Type:** Revolving

17 Bureau Code	18 Date Open	19 High Limit	20 Monthly Payment	21 Account Balance	22 Last Reported	23 Account Status	24 Account Past Due
XPN	I	0/92	75	N/A	Closed	10/01	Current

25 Bureau	26 Days Past Due			27 History Date	28 24 Month History																		
	30	60	90+																				
XPN	2	2	1	10/01	✓	✓	✓	30	60	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Reviewing Your Credit Report



Does checking your credit report lower your credit rating?

- Checking your credit score or pulling your own credit report does not hurt your credit rating.
- In addition, credit inquiries made by companies checking your credit report to send you pre-approved offers do not count either.
- However, if you respond to those offers, and the credit card company or mortgage lender pulls your credit report to do a more thorough investigation, it does count.
- Each credit inquiry can lower your score by five points.
- However, the FICO scoring system counts multiple inquiries made in a 14-day period as just one inquiry.

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Understanding Your Credit Score

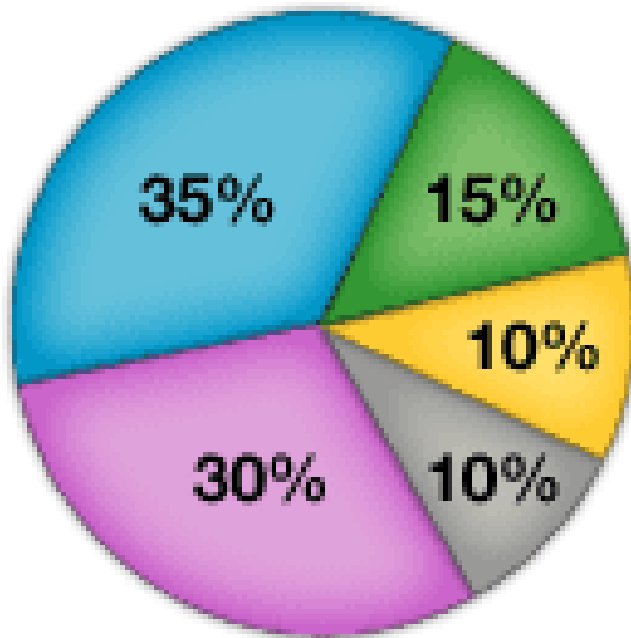
Improving Your Credit Score






Understanding Bankruptcy

Understanding Your Credit Score



How is your credit score determined?



-  Payment history
-  Amounts owed
-  Length of credit history
-  New credit
-  Types of credit used

Understanding Your Credit Score



How do these five factors impact my credit score?

- Your credit score takes into consideration all these categories of information, not just one or two.
- The importance of any factor depends on the overall information in your credit report.
- The information in your credit report changes, so does the importance of any factor in determining your credit score.
- It's impossible to say exactly how important any single factor is in determining your score since they are different for everyone.
- What's important is the mix of information, which varies from person to person, and for any one person over time.

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Improving Your Credit Score



What are some payment tips to improve my credit score?

- Pay your bills on time. Delinquent payments and collections can have a major negative impact on your FICO score.
- If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your credit score.
- Be aware that paying off a collection account will not remove it from your credit report and it will stay on your report for seven years.
- If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.

Improving Your Credit Score



What are some payment tips in regard to the amount owed?

- Keep balances low on credit cards and other “revolving credit.” High outstanding debt can affect a credit score.
- Pay off debt rather than moving it around.
- Don't close unused credit cards as a short-term strategy to raise your score.
- Consider following the 30% rule (i.e. if your limit is \$1,000, try to keep your balance below \$300).
- Don't open a number of new credit cards that you don't need, just to increase your available credit. This approach could backfire and actually lower your credit score.

Improving Your Credit Score



What are some payment tips in regard to new credit?

- Rate shop for a loan within a focused period of time.
- Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your credit score in the long-term.
- Apply for and open new credit accounts only as needed.
- Use credit cards but manage them responsibly.
- In general, having credit cards and loans (and paying timely payments) will raise your credit score.
- Someone with no credit cards, for example, is at higher-risk than someone who has managed credit responsibly.

Improving Your Credit Score



If you discover an error on your report, do the following:

- Make a copy of your credit report and circle incorrect information.
- Write a letter to the agencies detailing the inaccurate information.
- Explain each dispute and request an investigation for resolution.
- Send a similar letter to the creditor reporting the incorrect information.
- Send all materials by certified mail with return receipt.
- The reporting agency will initiate an investigation by contacting creditors to verify the accuracy of the information.
- If an investigation doesn't resolve your dispute, ask that a 100-word statement of the dispute be included in your file.

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Understanding Bankruptcy



What is bankruptcy?

- Bankruptcy is a last resort.
- It cannot clean up a bad credit record and will be part of your credit record for up to 10 years.
- Before considering bankruptcy, consult a nonprofit credit counselor.
- There are different forms of bankruptcy.
- Chapter 7 wipes out all debts and provides certain personal-property exemptions.
- Chapter 13 is a court-approved repayment plan. The debtor keeps all property and makes regular payments on the debts after filing for bankruptcy.

Understanding Bankruptcy



What are the long-term effects of bankruptcy?

- It is a very long process to reestablish credit your credit after filing for bankruptcy.
- It could determine whether or not you get the job you want. Some businesses use credit reports to make employment decisions.
- Your insurance rates may increase.
- It may be difficult to rent an apartment or qualify for a home loan.
- Bankruptcies stay on your credit report for 10 years.
- Phone companies and other utility and service providers may look at your credit history before providing service.

Understanding Bankruptcy



Before filing bankruptcy, consider the following strategies:

- Consider a smaller home or vehicle. If you reduce spending, you may be able to find the money to repay your debt.
- Talk with your creditors. Creditors are often willing to work out a payment plan to help you pay off what you owe.
- Talk with a nonprofit counseling agency. These agencies can help you create a plan to handle all of your debts.
- Talk to an attorney. Expert advice can help you understand the consequences of declaring bankruptcy.
- Consider debt consolidation. To pay your debt, you may be able to borrow against your workplace retirement plan or other securities.

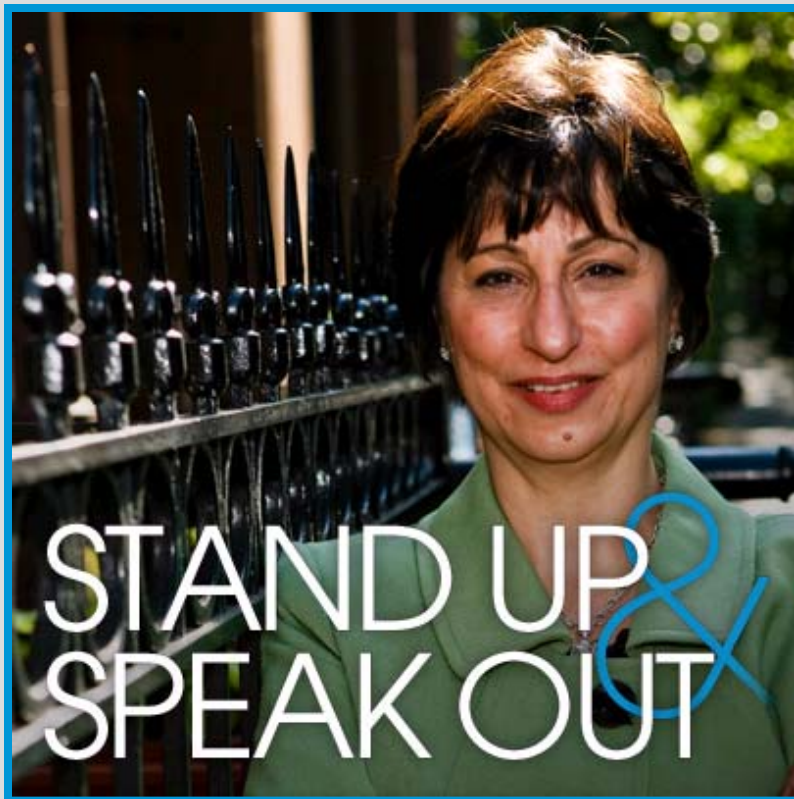
Module Three Review Exercise



- Think about what we have discussed during the past hour.
- What do you believe was the most important piece of information you learned today?
- What is one action item you will commit doing to improve your current situation?
- Be prepared to share your ideas and thoughts with the class.
- You have five minutes.

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**THANK
YOU!**