

Financial Empowerment Curriculum

Moving Ahead Through Financial Management



Workshop
Credit Overview



Workshop Objectives

- Explain why credit is important.
- Access and read a copy of your credit report.
- Understand what factors contribute to a credit score, as well as how to improve your credit score.

Credit Discussion



- Before we begin to discuss credit, I want you to take a moment to reflect on your personal experience.
- On a scale of 1-10, how comfortable are you with understanding the importance of your credit and credit score?
- Why would you rate yourself the way you did? What life experiences have provided you the opportunity (or taken away the opportunity) to better understand the importance of credit?

Credit Overview



What is credit?

- Credit is your reputation as a borrower.
- It tells others how likely you are to repay your loans.
- Credit is made up from information about your borrowing history. Most of the information comes from your credit reports.
- Lenders (and others) provide information to credit reporting agencies that compile this information to create your credit report.
- Credit scores are numbers generated by a computer program that runs through your credit reports. It looks for patterns, characteristics, and red flags in your history.

Credit Overview



Why is credit and your credit score so important?

- Your credit history and credit score often determines whether or not you will be able to make purchases, such as car or home, using your credit.
- The rate you pay on your credit cards and loans, including a mortgage loan, is often determined by your credit.
- Many employers are now checking credit history and using it in the hiring process.
- Automobile and life insurance companies are also using credit scores when figuring your monthly payments.

Credit Overview



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

Credit Overview



How can you obtain a copy of 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

Credit Overview



What does a credit report look like anyway?

2 Reference #: 0-00027-00000000-00 **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 Amount 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	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓



Credit Overview



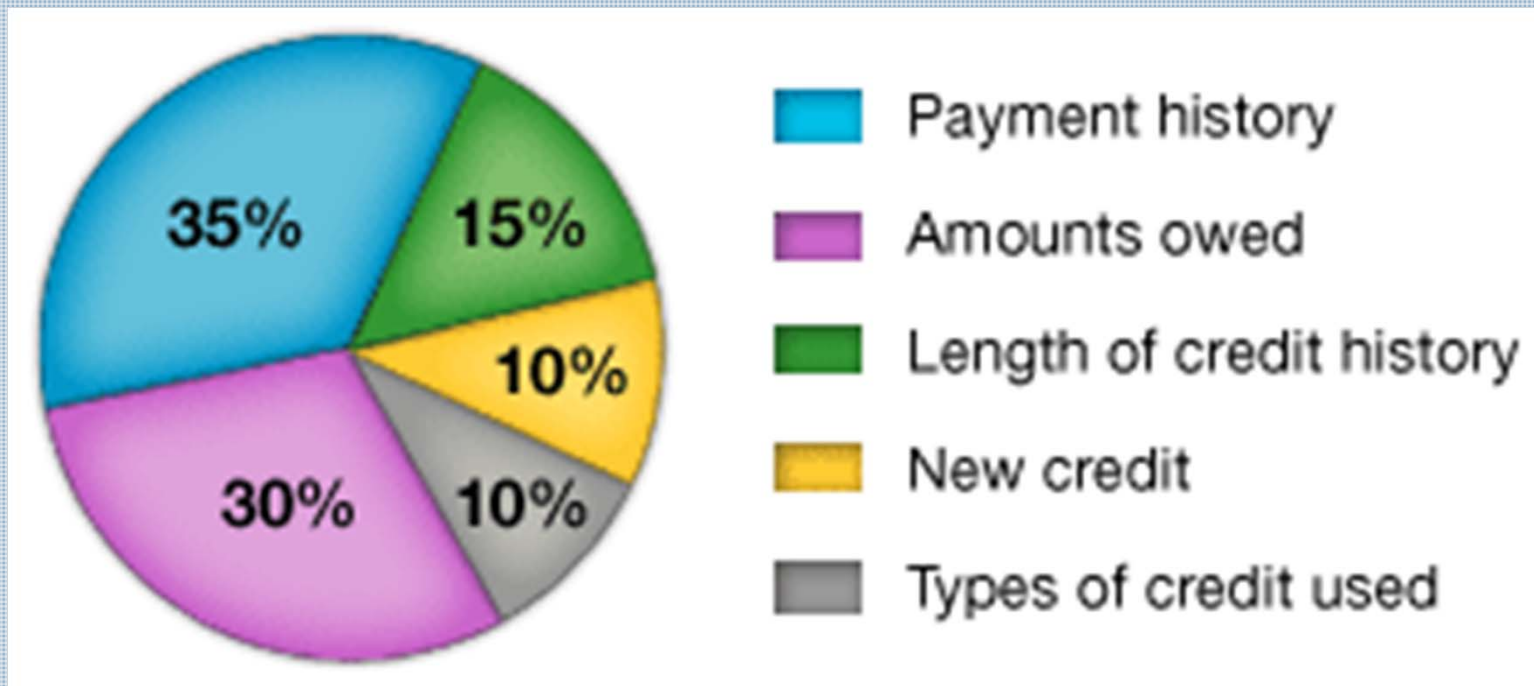
Does checking your credit report lower your credit rating?

- 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 scoring system counts multiple inquiries made in a 14-day period as just one inquiry.

Credit Overview



How is your credit score determined?



Credit Overview



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.

Credit Overview



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 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.

Credit Overview



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.

Credit Overview



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.

Credit Overview



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.

Credit Overview



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.

Credit Overview



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.

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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.

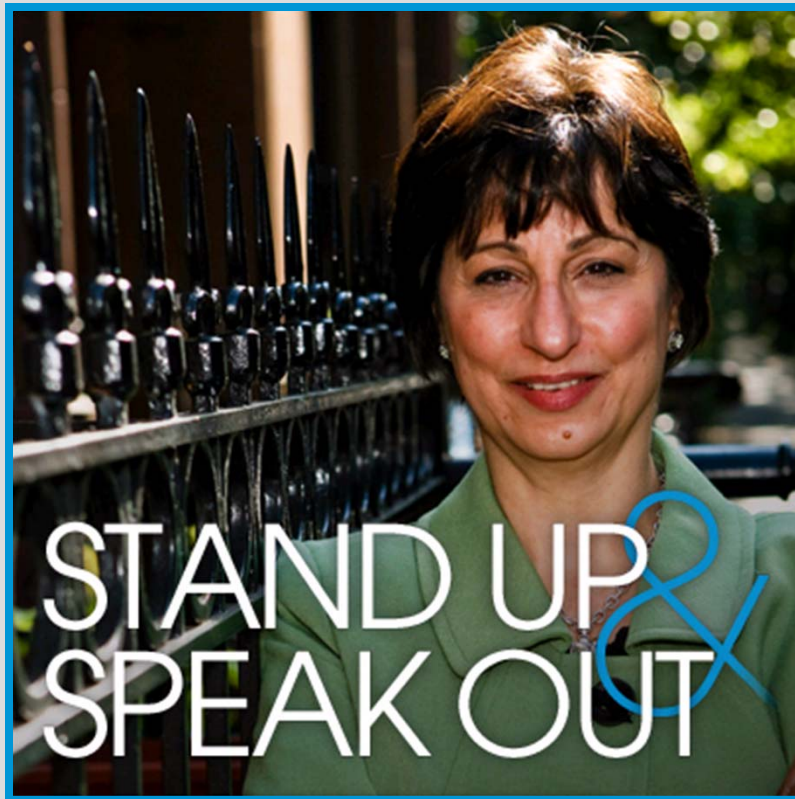
Workshop Review



- 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?

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**THANK
YOU!**