To Your Credit
Welcome

1. Agenda
2. Ground Rules
3. Introductions
Objectives

• Define credit
• Explain why credit is important
• Describe the purpose of a credit report and how it is used
• Order a copy of your credit report
• Read and analyze your credit report
• Differentiate between good and bad credit
Objectives

• Describe the implications of good and bad credit scores
• Identify ways to build and repair your credit history
• Recognize how to correct errors on your credit report
• Recognize how to guard against identity theft
What Do You Know?

What do you know or want to learn about credit reports?
What Is Credit?

- Which response would a financial professional use to define *credit*?

  1. Money given to you that you do not have to pay back
  2. Money you borrow to pay for things but must also pay back
  3. Recognition for a job well done
  4. That long scrolling text at the end of a movie
Credit Defined

- **Credit** is:
  - The ability to borrow money
  - Sometimes called a loan
  - A promise you make to pay back money you borrowed with interest
Importance of Credit

Why do you think credit is important?

• It is useful in times of emergencies
• It is convenient when you do not have cash
• It allows you to pay for large purchases over time
• It can help you obtain employment, housing, and insurance
Credit Case: Marvin’s Desks

• Marvin makes and sells writing desks. He wants to borrow $1,000 for a new band saw and an electric sander. He obtains a loan from the bank, and pledges his new equipment as collateral.

• If Marvin does not (or cannot) pay back the loan, what will the lender probably do?
What Is a Credit Report?

• It tells lenders:
  • Who you are
  • How much debt you have
  • Whether you have made payments on time
  • Whether there is negative information about you in public records
Credit Reporting Agencies

- Equifax
- Experian
- TransUnion
Credit Report Information

• Identifying information
• Credit history
• Inquiries
• Public record information
Public Record Information

• Information may include:
  • Judgments
  • Unpaid tax liens
  • Collections
  • Bankruptcies
Personal Bankruptcy

- **Chapter 13**
  - Debtor keeps all of his or her property and makes regular payments on the debts

- **Chapter 7**
  - Debtor must give up certain property to the creditor
Impact of Bankruptcy

• It should be your last resort!
• Bankruptcy:
  • Remains on your credit report for 7–10 years
  • Makes it hard for you to get future credit
Credit Reports Do Not Contain What Information?

• Checking and savings account balances
• Income
• Medical history
• Purchases made with cash or check
• Business account information
• Race, gender, religion, or national origin
• Driving record
Credit Report Uses

- **Credit reports are used:**
  - To obtain loans and other credit
  - To get certain kinds of jobs
  - For housing (rental applications and mortgages)
  - To obtain insurance
Reasons a Loan Application May Be Denied

• No credit history
• Credit problems or poor credit history
Credit Score

- A number that helps lenders determine your credit risk

- **Two types:**
  - The Fair Isaac Corporation (FICO) Score
  - VantageScore
FICO Score

• Primary method used to assess credit
  • Score range: 300 to 850

• The score is based on:
  • Past payment history: 35%
  • Outstanding debt: 30%
  • How long you have had credit: 15%
  • New applications for credit: 10%
  • Types of credit: 10%
VantageScore

- Newer credit scoring system
  - Score range: 501 to 990
- Also groups scores by letter categories
  - A = 901-990
  - B = 801-900
  - C = 701-800
  - D = 601-700
  - F = 501-600
Good and Bad Credit Scores

• The higher your credit score, the more likely you are to:
  • Get a better interest rate
  • Pay less for borrowing money

• Review your credit report regularly to ensure accuracy of your information.
Inquiries

- Voluntary inquiries
- Involuntary inquiries
- Excessive inquiries
- Inquiries when rate shopping
Other Factors Influencing Lenders

• What other factors might influence a lender’s decision to make a loan besides your credit report and credit score?

• Income
• Length of residence
• Employment
Activity 1: Who Poses the Most Credit Risk?

Complete Activity 1 in the Participant Guide.

1. Read each scenario.
2. Determine if each person is a credit risk or not.
3. Be prepared to explain your answers.
Opting Out

• It is your right!
  • Call: 1-888-5-OPTOUT (567-8688)
  • Visit: www.optoutprescreen.com
  • Call: The phone numbers that may be listed in your credit card privacy notices
Request Your Credit Score

• Receive a copy of your credit score from:
  • Credit reporting agencies
  • Companies that want to sell you your credit score as part of a package of products

• Receive a free credit report:
  • Once every 12 months
  • When you apply for a consumer loan secured by your personal dwelling
Free Annual Credit Report

Visit: www.annualcreditreport.com
Call: 877-322-8228
Mail:
Annual Credit Report Request Service
P. O. Box 105281
Atlanta, GA 30348-5281
Activity 2: Maria’s Credit Report

Complete Activity 2 in the Participant Guide.

1. Read the scenario.
2. Answer the questions provided.
3. Be prepared to explain your answers.
# Sample Credit Report

1. **Personal/Consumer Information**
   - **Personal Information**
     - Address: 123 Main Street #2, Somewhereville, USA 01234
     - SSN: 123-45-6789 (DOB: 02/01/68)
     - Employers:
       1. ABCDE Engineering Corp, Somewhereville USA
       2. Port City Engineering, Anywhere, USA
   - **Consumer Statement**
     No personal statements appear in your report.

2. **Personal/Consumer Statement**
   - **Potentially Negative Items**
     - **Television Cable Comm.**
       - Acct#: 1234 5678 1234 5678
       - Type: Collections
       - Date Filed: 05/01/05
       - Status: Delinquent in collections 120+ days
       - Amount: $125.00
       - Credit limit/Original Amount: N/A

3. **Account Summary**
   - **XYZ BANKCARD USA**
     - Acct#: 0110220
     - Type: Revolving
     - Date Added: 12/12/99
     - Responsibility: Individual
     - Status: Open/Never late
     - Monthly Payment: $15
     - Terms: N/A
     - High balance: $129
     - Credit Limit/Original Amount: $1000
     - Recent Balance: $79
   - ** Automobile Financing Services**
     - Acct#: 0981024057
     - Type: Installment
     - Date Added: 03/29/06
     - Responsibility: Individual
     - Status: Open/Never late
     - Monthly Payment: $245
     - Terms: 60 months
     - High balance: N/A
     - Credit Limit/Original Amount: $10,000
     - Recent Balance: $4,665

4. **Inquiries**

5. **Public Record Information**

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**Requests for Credit History**

**VISA Card**
- Address: PO Box 1414 NY NY 10001
- Date: 04/01/05
Activity 3: John Q. Consumer

Complete Activity 3 in the Participant Guide.

1. Use the sample credit report.
2. Answer the questions provided.
Checking for Errors

• It is your responsibility to:
  • Contact the credit reporting agency
  • Write a letter disputing the error

• Credit reporting agencies must conduct an investigation within 30 days of receiving your letter.
Minimize Your Risk of Identity Theft

• Protect your personal information (SSN, PINs, passwords, credit/debit cards)

• Protect your incoming/outgoing mail

• Sign up for direct deposit

• Keep your financial trash “clean”

• Keep an eye on your bank statements and credit card bills
Minimize Your Risk of Identity Theft

• Avoid identity theft on the Internet

• Review your credit record annually and report fraudulent activity

• Resources from the Federal Trade Commission (FTC):
  • [www.ftc.gov/idtheft/](http://www.ftc.gov/idtheft/)
  • 1-877-IDTHEFT (438-4338)
Victims of Identity Theft

• Take action immediately:
  • File a police report
  • Contact your creditors
  • Follow up in writing
  • Use the ID Theft Affidavit at [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)
  • File a complaint with the FTC
  • Ask for verification that disputed accounts have been closed and fraudulent debts discharged
Victims of Identity Theft

• Place a fraud alert on your credit file:
  • Initial fraud alert – 90 days
  • Extended fraud alert – 7 years

• Place a security freeze on your credit file:
  • Restricts access to your credit report
  • May delay, interfere with, or prohibit the timely approval of subsequent requests or applications for credit
Building Your Credit History

• Apply for a small bank loan

• Apply for credit at a local store

• Make large down payments and negotiate credit payments

• Ask a friend or relative to cosign a loan for you
Building Your Credit History

• Pay your bills on time

• Ask lenders to review utility and other bills to grant you credit

• Keep your debt levels low

• Make regular deposits into your savings account
Repairing Your Own Credit

• Get a copy of your credit report

• Contact the credit reporting agency and creditors to report errors

• Consider opting out of unsolicited offers for credit to avoid getting into more debt
Credit Counseling Agencies

• Interview several companies before signing a contract

• Be sure they are reputable

• Ask questions about services, fees, and a repayment plan
Credit Repair Scams

• No one can remove accurate information from your credit report.

• It can take years to repair bad credit legitimately.

• No one can create a new identity for you.

• Legitimate companies provide a service before requesting payment.

• You can order your credit report yourself.
Summary

• What final questions do you have?

• What have you learned?

• How would you evaluate the training?
Conclusion

• You learned about:
  • Reading a credit report
  • Ordering a credit report
  • Building and repairing your credit
  • Protecting yourself from identity theft and credit repair scams