

To Your Credit



FDIC



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Welcome



1. Agenda
2. Ground Rules
3. Introductions



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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**



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Objectives

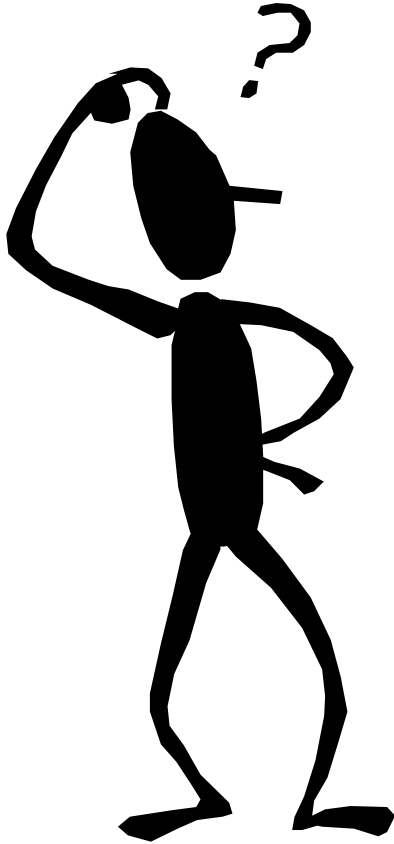


- **Describe the implications of good and bad credit scores**
- **Identify ways to build and repair your credit history**
- **Recognize how to correct errors on your credit report**
- **Recognize how to guard against identity theft**



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What Do You Know?



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



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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



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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



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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



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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?



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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



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Credit Reporting Agencies

Equifax

Experian

TransUnion



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Credit Report Information

- Identifying information
- Credit history
- Inquiries
- Public record information



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Public Record Information

- **Information may include:**
 - Judgments
 - Unpaid tax liens
 - Collections
 - Bankruptcies



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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



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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**



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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



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Reasons a Loan Application May Be Denied

- **No credit history**
- **Credit problems or poor credit history**



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Credit Score

- A number that helps lenders determine your credit risk
- **Two types:**
 - The Fair Isaac Corporation (FICO) Score
 - VantageScore



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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%



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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



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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.**



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Inquiries

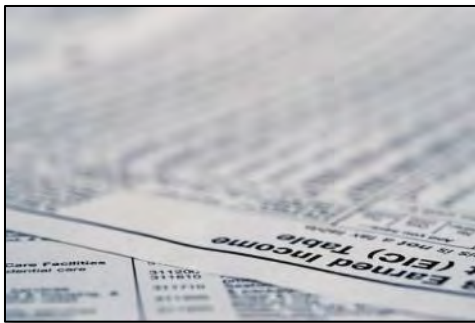
- **Voluntary inquiries**
- **Involuntary inquiries**
- **Excessive inquiries**
- **Inquiries when rate shopping**



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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.



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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



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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



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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



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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.



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Sample Credit Report

1. Personal/ Consumer Information
2. Personal/ Consumer Statement
3. Account summary
4. Inquiries
5. Public Record Information

JOHN Q CONSUMER Report #1234567	Report Date 01/01/2006
Personal Information 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.	
Potentially Negative Items	
Televise 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	
Accounts in Good Standing	
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
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.



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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.**



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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**



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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/
 - 1-877-IDTHEFT (438-4338)



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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
 - File a complaint with the FTC
 - Ask for verification that disputed accounts have been closed and fraudulent debts discharged



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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



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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**



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Building Your Credit History



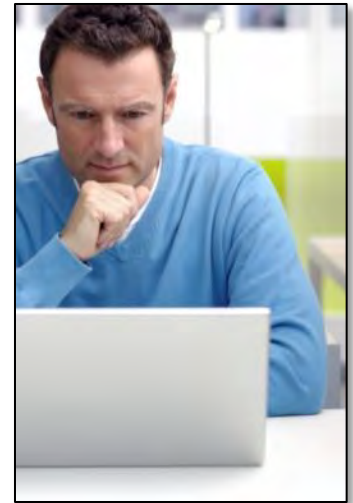
- **Pay your bills on time**
- **Ask lenders to review utility and other bills to grant you credit**
- **Keep your debt levels low**
- **Make regular deposits into your savings account**



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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**



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Credit Counseling Agencies

- **Interview several companies before signing a contract**
- **Be sure they are reputable**
- **Ask questions about services, fees, and a repayment plan**



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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.**



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Summary

- **What final questions do you have?**
- **What have you learned?**
- **How would you evaluate the training?**



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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



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