The Art of Credit Management

Pittsburgh IAP/ARS
2475 Defense Ave
Brought to You by Your Family Support Office

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Credit

Credit means that someone is willing to loan you money – called principal- in exchange for your promise to pay it back with interest.

Interest is the amount you pay to use someone else's money. The higher the interest rate, the greater the costs of using credit.

The Five C's of Credit

In evaluating credit applications, lenders focus on five general areas referred to as the "Five C's of Credit."

Character
Your honesty and reliability in meeting financial responsibilities make up your character. Your previous credit history indicates how highly you value paying bills on time.

Capital
Capital is a measure of your financial net worth. Questions about assets (home ownership, mutual funds, savings accounts) and liabilities (credit limits and balances due on present credit accounts) reveal whether your net worth is sufficient to warrant the granting of credit.

Capacity
Capacity refers to the income available to make repayment. Having a substantial income, holding the same job for several years, and having few other debt payments suggest a strong financial capacity to repay.

Collateral
Collateral is property offered and pledged to secure repayment of a loan and subject to seizure should the borrower fail to repay the loan. Lenders view credit backed by collateral as more secure.

Conditions
General conditions of the economy affect credit. When rising interest rates result in a restriction in the supply of money, less money is available for lending. In such cases, many applicants who would have been approved for credit under better conditions will be rejected.

Why People Use Credit

Credit can be used in very positive ways to enhance personal financial planning. Some of the reasons people use credit is summarized in the following list:

1. **For convenience**. Using credit—and credit card in particular—simplifies the process of making many purchases. It provides a record of purchases and it can be used as leverage in disputes over purchases. Convenience use of credit is growing. For example, the use of credit cards at grocery stores has increased greatly in recent years.

2. **For emergencies.** Consumers may use credit to pay for such unexpected expenses as emergency medical services or automobile repairs.

3. **For identification.** For many activities, such as cashing a check or renting an automobile, consumers may need to show a bank credit card to verify their identities. Merchants are not allowed to charge bad checks against bank credit cards, and putting your card account number on your checks increases the possibility of fraudulent use of your charge account.

4. **To make reservations.** Most motels, hotels, and car rental agencies require some form of deposit to hold a reservation. A credit card number usually will serve as such a deposit, allowing guaranteed reservations to be made over the telephone. Note, however, a hotel might notify the credit card issuer to put a hold on your account for the anticipated total amount of the charge; this process is called credit card blocking.

5. **To consume expensive products sooner.** Buying "big ticket" items such as a computer or automobile on credit allows the consumer to enjoy immediate use of the product. Many expensive items would not be purchased (or would be bought only after several years of saving) without the opportunity to pay for them over time. Note, however, that the product should last at least as long as the repayment period on the debt.

6. **To enjoy the good life.** An increasing number of people use credit as a way to raise their current level of living in anticipation of higher incomes in the future. In this way, they enjoy a rate of consumption today that is higher than their current income seemingly would permit. Unfortunately, this strategy for using credit gets many people into financial trouble.

7. **To take advantage of free credit.** Merchants sometimes offer "free" credit for a period of time as an inducement to buy. Known as "same as cash" plans, these programs allow the buyer to pay later without incurring finance charges. Typically, the free credit lasts for a defined time period, such as 90 days or six months. Be careful when using

such plans, as interest may be owed for the entire time period even if the buyer pays one day after the allotted free-credit period ends. One financial strategy is to use a cash advance or convenience check from a bank credit card (discussed later in this chapter) to "pay" the debt just before the deadline, thereby obtaining several months of free credit before finance charges begin.

8. **To consolidate debts.** Many consumers who have difficulty making credit repayments resort to a debt-consolidation loan, through which the debtor exchanges several smaller debts with varying due dates and interests rates for a single large loan. Even when interest rates for such loans are higher, the new payment is usually be smaller then the combined payments for the other debts because the term of the new loan is longer than the terms of the old ones.

9. **For protection against rip-offs and frauds.** Mail-order and telephone purchases made on a credit card can be contested with the credit card issuer under the guidelines of the Fair Credit Billing Act (discussed later).

10. **To obtain an education.** The rising cost of higher education has forced many students to borrow to pay their tuition. This may be one of the better uses of credit, as one is investing in oneself to raise their quality of life and/or income in the future.

Interest is Costly

Interest represents the price of credit. When stated in dollars interest makes up part of the finance charge, which is the total dollar amount paid to use credit (including interest and any other required charges such as a loan application fee). The Truth in Lending Act requires lenders to state the finance charges as an annual percentage rate (APR); the APR expresses the cost of credit on a yearly basis as a percentage rate. For example, a single-payment, one-year loan for $1000 with a finance charge of $140 has a 14 percent APR

A **credit rating** is an evaluation by a lender of a person's creditworthiness. Lenders will look at the applicant's prior credit usage and repayment patterns. It has become routine for lenders to use a credit scoring system (also known as risk scoring), in which a statistical measure is used to rate applicants on the basis of various factors relevant to creditworthiness and the likelihood of repayment.

All three of the major credit reporting bureaus now calculate and report credit scores to lenders. You also have the right to know your scores. Although various brand names are used for the various credit scoring systems, the most well-known score is the FICO score developed; by Fair, Isaac and Company, Inc.

Under the concept of **tiered pricing**, however, lenders may offer lower interest rates to their customers with highest credit scores while charging steeper rates to more-risky applicants. ***Note that even people with low credit scores usually can find some lender who will say "yes."***

How to Establish a Good Credit Reputation

Most people who are new to the world of credit wonder whether they will ever get credit when they need it. The key is to establish a good credit history. The following steps can help you get started.

Establish both a checking and a savings account. Lenders see persons who can handle these accounts as being more likely to manage credit usage.

Have your telephone and other utilities billed in your name. The fact that you can maintain a good payment pattern on your utility bills is an indicator that you can manage your money and will do the same with your credit repayments.

Request, acquire, and use an oil-company or department store credit card. These cards are not difficult to obtain, but should one company refuse, simply apply to another company, as companies' scoring systems differ. Use the credit sparingly and repay the debt promptly.

Apply for a credit card through your bank. Most banks have a program of test credit for people who lack an extensive credit history. The credit limit may be low (perhaps $500) but at least the opportunity exists to establish a credit rating. Later, you can request an increase in the credit limit.

Ask your bank for a small short-term cash loan. Putting these funds into a savings account at the bank will almost guarantee that you will make the required three or four monthly payments. In addition, the interest charges on the loan will be partially offset by the interest earned on the savings.

Ask your bank for a secured credit card. It requires that you open and maintain a bank account or other asset account at a financial institution as security for your line of credit.
Your credit line will be a percentage of your deposit, typically from 50 to 100 percent. Application and processing fees are not uncommon for secured credit cards. In addition, secured credit cards usually carry higher interest rates than traditional non-secured cards.

If you don't qualify for credit on your own*,* consider asking someone with an established credit history -- perhaps a relative -- to co-sign the account. A co-signer promises to pay your debts if you don't. You'll want to repay any debt promptly so you can build a credit history and apply for credit in the future on your own.

Pay off student loans. Many people have their first exposure to credit through the student loans they use to attend college. Paying off these loans quickly through a series of regular monthly payments can show prospective lenders that you are a responsible borrower.

A positive credit history is an asset, not only when you apply for credit but also when you apply for a job, insurance, or when you want to finance a car or a home.

Kinds of Credit Accounts

Credit grantors generally issue three types of accounts. The basic terms of these account agreements are:

- **Revolving agreement.** A consumer pays in full each month or chooses to make a partial payment based on the outstanding balance. Department stores, gas and oil companies, and banks typically issue credit cards based on a revolving credit plan.

- **Charge agreement.** A consumer promises to pay the full balance each month, so the borrower does not have to pay interest charges. Charge cards, not credit cards, and charge accounts with local businesses often require repayment on this basis.

- **Installment agreement.** A consumer signs a contract to repay a fixed amount of credit in equal payments over a specific period of time. Automobiles, furniture and major appliances often are financed this way. Personal loans usually are paid back in installments, too.

Credit Cards

A credit card is a great financial tool. It can be more convenient to use and carry than cash, and it offers valuable consumer protections under federal law. At the same time, it's a big responsibility. If you don't use it carefully, you may owe more than you can repay, damage your credit rating and create credit problems for yourself that can be difficult to fix.

Chances are your mail is full of offers from credit card issuers. How do you know if the time is right for a credit card? Here is some important information that may help you determine whether you're ready for plastic, what to look for when you select a company to do business with, and how to use your credit card responsibly.

Qualifying for a Credit Card

If you're at least 18 years old and have a regular source of income, you're well on your way to qualifying for a card. But despite the invitations from card issuers, you'll still have to demonstrate that you're a good risk before they grant you credit. The proof is in your credit record. If you've financed a car loan or other purchase, you probably have a record at a credit agency (CRA) (The most common type of CRA is the credit bureau). This credit history shows how responsible you've been in paying your bills and helps the credit card issuer decide how much credit to extend.

Before you submit a credit application, get a copy of your report to make sure it's accurate. As a general rule you should review your credit report from each credit-reporting agency at least once a year and especially before making a large purchase. To request a copy, contact the credit reporting agencies directly:

Equifax:	(800) 685-1111	www.equifax.com
Experian:	(888) 397-3742	www.experian.com
TransUnion:	(800) 888-4213	www.transunion.com

If you find an error or omission (good credit info.), notify the credit-reporting agency. The credit-reporting agency must then investigate the error and respond to you within 30 days.

Get the Best Deal

Fees, charges, and benefits vary among credit card issuers. When you're choosing a credit card, shop around. Compare these important features:

- **Annual percentage rate (APR)**. The APR is a measure of the cost of credit, expressed as a yearly interest rate. Check out the "periodic rate," too. That's the rate the issuer applies to your outstanding balance to figure the finance charge for each billing period. For example, if you have an outstanding balance of $2,000, with 18.5 percent interest and a low minimum monthly payment, it would take over 11 years to pay off the debt and cost you an additional $1,934 just for interest, which almost doubles the total cost of your original purchase.

- **Grace period.** This is the time between the date of a purchase and the date interest starts being charged on that purchase. If your card has a standard grace period you have an opportunity to avoid finance charges by paying your current balance in full. Some issuers allow a grace period for new purchases even if you do not pay your balance in full every month. If there is no grace period, the issuer imposes a finance charge from the date you use your card or from the date each transaction is posted to your account.

- **Annual fees.** Many credit card issuers charge an annual fee for granting you credit, typically $15 to $55. Some issuers charge no annual fee.

- **Transaction fees and other charges.** Some issuers charge a fee if you use the card to get a cash advance, if you fail to make a payment on time, or if you exceed your credit limit. Some may charge a flat fee every month whether you use the card or not.

- **Customer service.** Many issuers have 24-hour, toll-free telephone numbers.

Other credit card benefits. Issuers may offer additional benefits, some with a cost, such as: insurance, credit card protection, discounts, rebates, and special merchandise offers.

If You're Application Is Denied

If you're turned down for a card, ask why. It may be that you haven't been at your current address or job long enough. Or it may be that your income doesn't meet the issuer's criteria. Different credit card companies have different standards. But if several companies turn you down, it may indicate that you are not ready for a credit card.

If you've been denied credit because of information supplied by a credit bureau, federal law requires the creditor to give you the name, address and telephone number of the bureau that supplied the information. If you contact that bureau within 60 days of receiving the denial, you are entitled to a free copy of your report. If your file contains accurate negative information, only time and good credit habits will restore your credit-worthiness. If you find an error in your report, you are entitled to have it investigated by the credit bureau and corrected at no charge.

You should dispute any inaccuracy in your report with the credit bureau and also with the company that furnished the information to the credit bureau.

Protect Your Credit

Once you get a card, sign it immediately so no one else can use it. Note that the accompanying papers have important information, such as customer service telephone numbers, in case your card is lost or stolen. File this information in a safe place.

Call the card issuer to activate the card. Many issuers require this step to minimize fraud and to give you additional information.

Keep your account information to yourself. Never give out your credit card number or expiration date over the phone unless you know who you're dealing with. A criminal can use this information to steal money from you, or even assume your credit identity.

Keep copies of sales slips and compare charges when your bill arrives. You need to promptly report in writing any questionable charges to the card issuer.

Don't lend your card to anyone, even to a friend. Your credit privilege and history are too precious to risk.

You're Responsible: While a credit card makes it easy to buy something now and pay for it later, you can lose track of how much you've spent by the time the bill arrives if you're not careful. And if you don't pay your bill in full, you'll probably have to pay finance charges on the unpaid balance. What's more, if you continue to charge while carrying an outstanding balance, your debt can snowball.

Before you know it, your minimum payment is only covering the interest. If you start having trouble repaying the debt, you could tarnish your credit report. And that can have a sizable impact on your life. A negative report can make it more difficult to finance a car or home, get insurance, and even get a job.
Federal law offers the following protections when you use credit cards.

What you should do About Errors on your bill. You must notify the card issuer in writing within 60 days after the first bill containing the error was mailed to you. In your letter, include: your name; account number; the type, date and amount of the error; and the reason why you believe the bill contains an error.
In return, the card issuer must investigate the problem and either correct the error or explain to you why the bill is correct. This must occur within two billing cycles and not later than 90 days after the issuer receives your letter. You do not have to pay the amount in question during the investigation.

If you find errors on your credit report that appear to be the result of **Identity Theft** contact:

1-877-IDTHEFT (438-4338) www.consumer.gov/idtheft
1-800-876-7060 www.fraud.org

Actions you should take for Loss or theft of Cards. If you lose your credit or charge cards, or if you realize they've been stolen, immediately call the issuer(s). By law, once you report the loss or theft, you have no further responsibility for unauthorized charges. In any event, your maximum liability under federal law is $50 per card.

For More Information

The Federal Trade Commission (FTC) works for the consumer -- providing the information needed to spot and avoid fraud and deception in the marketplace. Access the more than 150 consumer publications offered by the FTC online at http://www.ftc.gov . Or get a free copy of *Best Sellers*, a list of FTC publications, by calling 1-877-FTC-HELP, or by writing to Consumer Response Center, Federal Trade Commission, at 600 Pennsylvania Avenue, NW, Washington, DC 20580

Average Credit Statistics

Number of Credit Obligations

On average, today's consumer has a total of 11 credit obligations on record at a credit bureau. These include credit cards and installment loans.

Past Payment Performance

- Today's consumers are paying their bills on time. Fewer than 4 out of 10 have ever been reported as 30 days late on a payment.
- Only 2 out of 10 have ever been 60+ days overdue on any credit obligation.
- 85% of all consumers have never had a loan or account that was 90+ days overdue.
- Less than 10% have ever had a loan or account closed by the lender due to default.

Credit Utilization

About 48% of credit card holders carry a balance of less than $1000. When considering the total of all credit obligations combined (except mortgage loans), 54% of consumers carry less than $5000 of debt.

Personal Debt-Payment Limits as a Percentage of Disposable Personal Income	**Note:** These figures are for consumer loans, and do not include mortgage or auto payments.	
Income Percent	**For Current Debt**	**Take on Additional Debt?**
10 or less	Safe limit; borrower feels little debt pressure	Could be undertaken cautiously
11 to 15	Possibly safe limit; borrower feels some pressure	Should not be undertaken
16 to 20	Fully extended; borrower hopes that no emergency arises	Only the fearless or foolhardy ask for more
21 to 25	Overextended; borrower worries about debts	No, borrower should see a financial counselor
26 or more	Disastrous; borrower may feel desperate	Impossible; borrower will probably declare bankruptcy

Key Advice for You

1. Approach all credit usage as an opportunity to build an excellent credit history that will allow you to obtain credit in the future as needed and at the lowest possible interest rates.
2. Comparison shop for credit cards to ensure that you open accounts with the lowest available interest rates. As your credit history expands and improves, open new, lower-APR accounts and close old accounts with higher APRs. Move balances, if necessary, to accomplish this goal.
3. Avoid carrying any outstanding balances on your credit cards and, if you do, strive to bring the balance down to zero within months, not years. Do not make convenience purchases on bank credit cards on which you carry a balance. Do not use credit cards for items you cannot afford.
4. Periodically obtain a copy of your credit bureau report from one of the national credit reporting agencies. If errors or omissions are found, take steps to have them corrected. The check your files at the other reporting agencies to ensure that the errors do not appear in those files as well.
5. Keep receipts from all credit card transactions, and check your monthly billing statements against your receipts for accuracy. Always challenge all discrepancies between your records and the billing statement.
6. Avoid high-cost credit card add-ons for credit card insurance and credit card loss/theft protection. These plans are usually unnecessary for the typical borrower.

Bankruptcy

Bankruptcy is a constitutionally guaranteed right that permits people (and businesses) to ask a court to find them officially unable to meet their debts. When the bankruptcy court grants such a petition, the assets and liabilities of the person are then administered for the benefit of the creditors.

Chapter 13 of the Bankruptcy Act is designed for individuals with regular incomes who might be able to pay off some or all of their debts given certain protections of the court. Under this plan, the debtor submits a debt repayment plan to the court that is designed to repay as much of the debt as possible, typically in 36 to 60 months. Rules are tightening for this, people with certain incomes will be denied Chapter 7 options, and will have repayment tied to the average expenses of the neighborhood they live in as determined by the IRS.

Chapter 7 of the Bankruptcy Act, or **straight bankruptcy** is designed for an immediate liquidation of assets. This option is permitted when it would be highly unlikely that substantial repayment could ever be made. Lower income people have the best chance of exercising this option.

Helpful Websites - Credit Use and Credit Cards

http://www.federalreserve.gov -- (consumer information)
http://www.chicagofed.org -- (consumer information)
http://www.banx.com -- (rates)
http://www.bankrate.com -- (rates and consumer information)
http://www.myfico.com -- (credit scoring) Buy products at your discretion.
http://www.cardtrak.com -- (news on credit cards)
http://www.eloan.com -- (free credit store)
http://www.consumer-action.org -- (credit card rate comparisons)
http://www.getsmart.com -- (Lending Tree – auto, credit cards, mortgage, mutual funds)
http://www.interest.com -- (loan calculators)
http://www.pueblo.gsa.gov -- (consumer information)
http://www.debtanalyzer.com -- (repayment calculators)
http://www.nfcc.org -- (credit counseling information)
http://loanconsolidation.ed.gov -- (information for those with outstanding student loans)
http://www.salliemae.com -- (student loan information)
http://www.lendingtree.com -- (interest rate comparison)
http://www.ftc.gov -- (consumer information)
http://kiplinger.com -- (calculators and credit information)

Helpful Websites - Automobiles and Other Major Purchases

http://www.federalreserve.gov -- (consumer information)
http://www.kbb.com -- (new and used vehicle pricing)
http://www.nada.com -- (new and used vehicle pricing)
http://www.edmunds.com -- (new and used vehicle pricing)
http://www.carsafety.org -- (crash test results and vehicle safety ratings)
http://www.nhtsa.gov -- (vehicle recall information)
http://www.pricescan.com -- (price and product information)
http://www.autobytel.com -- consumer information and vehicle price comparisons)
http://www.consumerreports.org -- (consumer information, product comparisons, and vehicle price reports)
http://www.intellichoice.com -- (dealer prices and ownership costs)
http://www.bankrate.com -- (vehicle loan information)

Credit Scores

This score is calculated by a mathematical equation that evaluates many types of information that are on your credit report at an agency. By comparing this information to the patterns of hundreds of thousands of past credit reports, the score identifies your level of future credit risk.

FICO Scores

- Credit bureau scores are produced from software developed by Fair Isaac and Company.
- FICO scores are provided to lenders by the 3 major credit-reporting agencies:
- While many lenders use FICO scores to help them to make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product.

Other Names for FICO Scores

CREDIT REPORTING AGENCY	FICO SCORE
Equifax	BEACON®
Experian	Experian/Fair Isaac Risk Model
TransUnion	EMPIRICA®

More than One Score

Credit bureau scores are not the only scores used: *Many lenders use their own scores, which often will include the FICO score as well as other information about you.*

FICO scores are not the only credit bureau scores: *Other credit bureau scores may evaluate your credit report differently that FICO score, and in some cases a higher score may mean more risk, not less risk as with FICO scores.*

Your score may be different at each of the 3 main credit-reporting agencies: *The FICO score from each credit reporting agency considers only the data in your credit report at that agency.*

Your FICO score changes over time: *As your data changes at the credit reporting agency, so will any new score based on your credit report.*

Although various brand names are used for the various credit scoring systems in use today, the most well known score is the FICO score developed by Fair, Isaac and Company, Inc. (http://www.myfico.com). Because your credit file at each of the three major credit bureaus may differ, your scores may differ as well. Your FICO scores are vitally important as they dictate whether you will be granted credit and at what interest rates.

About FICO Scores

FICO scores are developed using complex statistical models that correlate certain borrower characteristics with the likelihood of repayment. The models are closely held secrets; but the factors that are used in the models, are shared openly by Fair, Isaac, and Company (on the *company's Web site):*

1. *Payment* history: Are you late with your payments? How late? How often? And on how many of your accounts?

2. *Amounts owed*: What is the balance on each of your credit obligations? (Even if you pay in full each month, there might be a balance on a given date.) How do the amounts owed vary on various types of accounts such as credit cards versus installment loans? How many accounts have balances? Are you "maxed out" or nearly so on your cards regardless of

the dollar amount? On installment loans, how much of the original loan is still owed?

3. *Length of credit history*: How long have you had each account? How long has it been since you used the accounts?

4. *Taking on more debt?* How many new accounts do you have? How long has it been since you opened a new account? How many recent inquiries have been made by lenders to whom you have made an application? If you have had a period of poor credit usage in the past, for how long have you been in good standing?

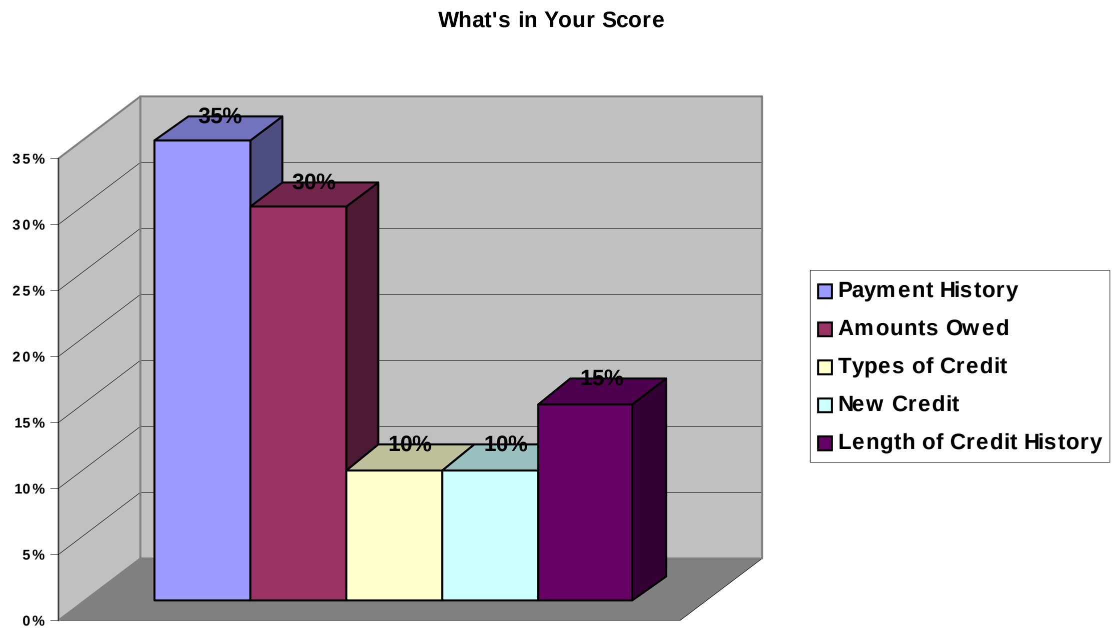
5. *Types of credit used:* Do you have a good mix of credit usage with reliance on multiple types depending on the purpose of the credit (for example, not using a credit card to buy a boat)? How many total accounts do you have?

Each of these areas on the FICO Web site provides insights on how you can improve your FICO scores. For example, if you are “maxed out” on two cards and have low balances on the others, you might shift some of the large balances to the other cards. Or, if you have a number of dormant accounts, you should close those accounts. The chart below indicates the importance of each of the five factors in the development of FICO scores.

How FICO Scores Affect Interest Rates:

FICO Scores	Interest Rates
720 – 850	5.842%
700-719	5.967%
675-699	

Composition of a FICO Score



The data from your credit score can be grouped into 5 categories as outlined above. The percentages in the chart reflect how important each of the categories is in determining your score.

Payment History: this category considers such factors as-

Account payment information on specific types of accounts, i.e. credit cards, retail accounts, loans.
The presence of adverse public records (bankruptcy, judgments, and liens), collections items, and/or delinquency reflects on payment history.
The severity of delinquency impacts payment history.
The amount past due on delinquent accounts or collection items is also weighted in the Payment History score.
Time since past due items, adverse public records, or collection items.
The number of past due items on file is also considered in the payment history.
Number of accounts paid as agreed.

Amounts Owed: includes-

Amount owing on accounts
Amount owing on specific types of accounts
Lack of a specific type of balance
Number of accounts with balances
Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)

Proportion of installment loan amounts still owing

Length of Credit History: includes-

Time since accounts opened
Time since accounts opened, by specific type of account
Time since account activity

New Credit: considers-

Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
Number of recent credit inquires
Time since recent account opening(s), by type of account
Time since credit inquiry(s)
Re-establishment of positive credit history following past payment problems

Types of Credit Used: consists of:

An analysis of the number of various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.) is reflective of credit range.
The FICO score only looks at information in your credit report, while lenders may consider other factors such as, your income and how long you've worked at your present job.
The score considers both positive and negative information in your credit report.

What's Not in Your Credit Score

Your race, color, religion, national origin, sex, and marital status: *U.S. law also prohibits credit scoring to consider any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.*

Your age

Your salary, occupation, title, employer, date employed, or employment history: *Lenders and other types of scores may consider this information.*

Where you live

Any interest rate being charged on a particular credit card or other account

Any items reported as child/family support obligations or rental agreements

Certain types of inquires for your credit report: *"consumer-initiated" inquires, promotional inquires- requests made by lenders to offer you "pre-approved" credit, administrative inquiries, and inquiries made by your employer.*

Any information not found in your credit report
Any information that is not proven to be predictive of future credit performance

Whether or not you are participating in a credit counseling of any kind

If you find an error or omission: you should take steps to get the information corrected. Here's how:

1. Notify the bureau that you wish to exercise your right to a reinvestigation under the FCRA.

2. The bureau must reinvestigate the information within 30 days. If the bureau cannot complete its investigation within 30 days, it must drop the information from your credit file.

3. If the information was in error, it must be corrected. It a report containing the error had been sent to a creditor investigation your application within the past six months, a corrected report must be sent to that creditor.

4. If the credit bureau refuses to make a correction (perhaps because the information was "technically correct"), you may wish to provide your version of the disputed information (in 100 words or less) by adding a consumer statement.

5. Negative information in your file is generally not reportable after a period of seven years (except for bankruptcy data, for which the time limit is ten years).

How Mistakes are Made

When a credit report contains errors, it is often because the report is incomplete, or contains information about someone else. This typically happens because:

- The person applied for credit under different names (Robert Jones, Bob Jones, etc.).
- Someone made a clerical error in reading or entering name or address information from a hand-written application.
- The person gave an inaccurate Social Security number, or the number was misread by the lender.
- Loan or credit card payments were inadvertently applied to the wrong account.

Checking Your Report

Review your credit report from each credit-reporting agency at least once a year and especially before making a large purchase. To request a copy, contact the credit reporting agencies directly:

Equifax: (800) 685- 1111, www.equifax.com
Experian: (888) 397-3742, www.experian.com
TransUnion: (800) 888- 4213, www.transunion.com

If you find an error, the credit-reporting agency must investigate and respond to you within 30 days.

The Consumer Information Center publishes the Consumer Information Catalog which lists more than 200 booklets on a wide variety of subjects, including credit. Access the Catalog and its full-text entries at http://www.pueblo.gsa.gov. Or write: Catalog, Consumer Information Center, at Pueblo, CO 81009. Or call them at 719-948-4000.

How Scoring Helps You

- Before the use of scoring, the credit granting process could be slow, inconsistent, and unfairly biased. However, today due to credit scores:
- People can get loans faster*: Scores can be delivered almost instantaneously, helping lenders to speed up loan approvals.*
- Credit decisions are fairer.
- Credit "mistakes" count for less against you: *the score weighs all of the credit-related information, both good and bad, in your credit report.*
- More credit is available: *Lenders who use credit scoring can approve more loans, because credit scoring gives them more precise information on which to base credit decisions.*
- Credit rates are lower overall: *By controlling credit losses using scoring, lenders can make rates lower overall.*

Improving Your Score

- Payment History Tips
- Pay your bills on time.
- If your have missed payments, get current and stay current.
- Be aware that paying off a collection account will not remove it from your credit report: *It will stay on your report for 7 years.*
- If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor

Amounts Owed Tips

- Keep balances low on credit cards and other “revolving credit”.
- Pay off debt rather than moving it around: owing the same amount but having fewer open accounts may lower your score.
- Don’t close unused credit cards as a short-term strategy to raise your score.
- Don’t open a number of new credit cards that you don’t need, just to increase your available credit.

Length of Credit History Tips

If you have been managing credit for a short time, don’t open a lot of new accounts too rapidly: rapid account building can look risky if you’re a new credit user.

New Credit Tips

- Do your rate shopping for a given loan within a focused period of time: FICO scores distinguish between a search for a single loan and a search for many new credit lines.
- Re-establish your credit history if you’ve had problems: Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- Note that it’s OK to request and check your own credit report: it won’t affect your score, as long as you order it from an authorized agency.

Types of Credit Used Tips

- Apply for and open new credit accounts only as needed.
- Have credit cards and manage them responsibly: Someone with no credit cards tends to be a higher risk than someone who has managed credit cards responsibly.
- Note that closing an account doesn’t make it go away**.**

Total Available Credit

- More than half of all people with credit cards are using less than 30% of their total credit card limit.
- Just over 1 in 8 is using 80% or more of their credit card limit.

Length of Credit History

- The average consumer’s oldest obligation is 13 years old, which indicates that he or she has been managing credit for some time.
- 1 out of 5 consumers have credit histories of 20 years or longer.

Inquiries

- Any time someone applies for credit and a lender requests a copy of the credit report- this request is noted as an “inquiry” in the applicant’s credit file.
- The average consumer has had only one inquiry on his or her accounts within the past year.
- Fewer than 7% had 4 or more inquiries resulting from a search for new credit.

Credit Inquiries

- What is a Credit Inquiry?
- A credit inquiry is an item on a credit report that shows a business with a “permissible purpose” has previously requested a copy of the report.
- The only inquiries that do count toward your FICO score are the ones that result from your applications for new credit, such as when you apply for a mortgage, auto loan or other credit.
- Inquiries that don’t count toward your FICO score are your own credit report requests, credit checks made by businesses to offer you goods or services, or inquiries made by businesses with which you already have a credit account.
- Inquiries are a subset of the “new credit” category, which accounts for 10 % of the total FICO score.
- Inquiries can have a greater impact if you have few accounts or a short credit history. Large numbers of inquiries also equate to greater risk to the lender.

What Happens When You Apply for Credit

- The inquiries section of your credit report contains a list of everyone who accessed your credit report within the last 2 years.
- Most credit scores aren’t affected by multiple inquiries from auto or mortgage lenders within a short period of time. Usually, these are treated as a single inquiry and will have little impact on the credit score.
- Rate Shopping: when looking for a mortgage or auto loan, it may cause multiple lenders to request your report, even though you’re only looking for one loan. The score counts multiple auto or mortgage inquiries in any 14-day period as just one inquiry.

Rebuilding Your Credit

Re-establish your credit history if you've had past problems: Opening new accounts responsibly and paying them on time will raise your FICO score over the long term.
Check your own credit reports regularly, and before applying for new credit to insure that they are accurate and up-to-date. *As long as you order your report from an organization authorized to provide credit reports to consumers, your own inquiries will not affect your FICO score.*

Facts and Fallacies

Fallacy: *My score determines whether or not I get credit.*
Fact: Lenders look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history. They may extend you credit although your score is low.

Fallacy: *A poor score will haunt me forever.*
Fact: A score is a "snapshot" of your risk at a particular point in time. Scores change gradually as you change the way you handle credit.

Fallacy: *Credit scoring is unfair to minorities.*
Fact: The Equal Credit Opportunity Act (ECOA) prohibits lenders from considering this type of information when issuing credit.

Fallacy: *Credit scoring infringes on my privacy.*
Fact: Credit scoring evaluates the same information lenders already look at- the credit bureau report, credit application and/or your bank file.

Fallacy: *My score will drop if I apply for new credit.*
Fact: If it does, it probably won't drop much. However, most credit scores are not affected by multiple inquires from auto or mortgage lenders within a short period of time.

Repaying Student Loans

What you need to know about repaying student loans...
After you graduate, leave school, or drop below half-time enrollment, you have a period of time before you have to begin repayment. This "grace period" will be

- **Six months** for a Federal (FFEL) or Direct Stafford Loan.
- **Nine months** for Federal Perkins Loans

Exit Counseling
You'll receive information about repayment, and your loan provider will notify you of the date loan repayment begin. We can't emphasize enough the importance of making your ***full*** loan payment ***on time*** either monthly (which is usually when you'll pay) or according to your repayment schedule. If you don't, you could end up in default, which has serious consequences. Student loans are ***real*** loans—just as real as car loans or mortgages. <u>You have to pay back your student loans.</u>

Review Your Loan Information

The U.S. Department of Education's National Student Loan Data System (NSLDS) allows you to access information on loan and/or federal grant amounts, your loan status (including outstanding balances), and disbursements made. Go to www.nslds.ed.gov.

For questions about your NSLDS data, Contact the Federal Student Aid Information Center toll free at 1-800-4-FED-AID or TDD 1-800-730-8913. Hours of operation are 8AM to Midnight (Eastern Time), Monday through Friday, and 9AM to 6PM (Eastern Time) on Saturdays.

Paying Back Your Loan

Your monthly payment will depend on the size of your debt and the length of your repayment period. The booklet *<u>Repaying Your Student Loans</u>* is available at http://studentaid.ed.gov explains available repayment options, includes examples of monthly payments for different loan amounts, and covers other topics you need to consider when managing your loans.

Federal Family Education Loans (FFEL) and Federal Perkins Loans
If you have specific questions about repaying these types of loans, please contact your loan provider. (In the case of Perkins Loans, this will be the school that made you the loan). Don't know who your loan provider is? Go to www.nslds.ed.gov and find out.

Direct Loan Servicing Online
If you have questions about your Direct Loan, you can go online to find the answers. Using your PIN, you can view your detailed account information, complete exit counseling, make an online payment, enroll in any electronic services, and more at www.dlssonline.com or 800-848-0979

Paying Online
In some cases, you might be able to reduce your interest rate if you sign up for electronic debiting.

Difficulty Repaying
If you don't repay your student loans on time or according to the terms of your promissory note, you might go into default, which will affect your credit rating. There is assistance for borrowers having difficulty repaying their education loans, including consolidation, deferment, and forbearance.

Loan Consolidation
A Consolidation Loan allows you to combine all your federal student loans into a single loan. To lower your monthly payments, you can combine multiple loans into one packaged loan and extend your repayment period. Remember that extending the repayment period will increase the amount of money you pay in interest over the life of your loan – sometimes dramatically.

If you can afford substantial monthly payments, you may be able to refinance at a lower interest rate but stick with the standard 10-year repayment period. https://loanconsolidation.ed.gov or 800-557-7395.

Lowering your interest rate: The government offers one more reason to consider its loan consolidation program: a variable interest rate that will never exceed 8.25% (9% on PLUS [parent] loans). If your loans carry a higher interest rate, it may be to your advantage to consolidate them or refinance. You can still extend the payment period, too, if you can't make the payments even at the lower interest rate.

If you consolidate your loans with a private lender, you'll get only a small interest rate reduction, if any. Your new loan will carry a fixed rate, based on the average rate of all the loans you consolidate. But ask your lender about other ways to reduce the rate.

Sallie Mae – one of the largest private loan consolidators – will cut your interest rate by 1/4% if you authorize automatic payments from your bank account, and will knock a full percentage point off the rate if you make your payments on time for 48 consecutive months.

Extending Loan Repayment times: Nearly all lenders will allow you to extend the term of your student loan from its original length, which typically runs 10 years, to one which runs between 12 to 30 years, this grace period depends in part on how much money you owe them. You can choose a fixed monthly payment for the life of the loan or "step-up" payments that start low and increase over time. Remember that extending the repayment period will increase the amount of money you pay in interest over the life of your loan – sometimes dramatically.

Payments geared to your income: If lengthening the repayment period doesn't bring down your monthly payment enough, consider a repayment plan based on your income level. Under the government's program, you can obtain an "income-contingent" repayment plan that bases your monthly payment on your annual income and the loan amount. As your income rises or falls, so do your payments. Payments may be as low as 4% of your adjusted gross income.

However, if your payments fall below the amount of interest due each month, the unpaid interest is added to the principal of your loan, meaning you'll have to pay interest on it, too. It can significantly increase the total amount that you'll eventually have to pay. If, after 25 years, you're still making payments, the government will wipe out your remaining debt – though present tax laws would require you report your forgiven debt as taxable income.

Inspired by the federal competition, private lenders have recently developed "income-sensitive" plans. These plans are similar to the government's income-contingent plan, but your payments must always cover the interest due, and there are no provisions for forgiveness after 25 years.

Default

Default means you failed to make payments on your student loan according to the loan terms. When you took out your loan you signed a *promissory note*, a binding legal document that specifies the terms of the loan. In other words, you failed to make your loan payments according to the agreed upon schedule. Your school, the financial institution that has your loan, your loan guarantor, and/or the federal government can take action to recover the money you owe. Here are some consequences of default:

- National credit bureaus can be notified of your default, which will harm your credit rating, making it hard to buy a car or a house.
- You would be ineligible for additional federal student aid if you decided to return to school.
- Loan payments can be deducted from your paycheck.
- State and federal income tax refunds can be withheld and applied toward the amount you owe.

- You will have to pay late fees and collection costs on top of what you already owe.
- You can be sued.

Obviously, you don't want to let your loan go into default. However, should this happen, find out what options are available. Go to http://www.ed.gov/offices/OSFAP/DCS/ the *Guide for Defaulted Borrowers* to find comprehensive information developed by the Department's FSA Collections section.

Some Helpful Student Loan Websites

Federal Student Aid Information Center - Student Financial Aid Program information	http://studentaid.ed.gov 1-800-4FED-AID (1-800-433-3243) TTY: 1-800-730-8913
Defaulted Loans - Borrowers whose loans are in default - Debt collection services	http://www.ed.gov/offices/OSFAP/DCS/ 1-800-621-3115 TTY: 1-877-825-9923
Loan Consolidation - Application for loan consolidation - Debt Collection services	https://loanconsolidation.ed.gov 1-800-557-7392 TTY: 1-800-557-7395
Sallie Mae	www.salliemae.com 1-800-272-5543

DEBTS: (UNSECURED CREDIT CARDS, LOANS, MEDICAL BILLS, ETC)

INTEREST RATE	CREDITOR NAME	BALANCE	REGULAR PAYMENT	SUGGEST-ED DEBT PAYMENT
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				
13.				
14.				
15.				
16.				
TOTALS:				

End of Debt Goal in months: ______________________________