

Money on the Mind

Understanding Credit



Understanding Credit

Learning Objectives

What you will learn about:

- How Credit Works
- Understanding Credit Scores
- Obtaining Your Credit Report
- Improving Your Credit Scores

What you will be able to do:

- Understand the role of credit reports and scores
- Understand how to take action to improve your credit score and reduce actions that will lower your score
- Understand how to access and review your credit report
- Learn specific strategies to build, improve, and maintain your credit score
- Identify and avoid high cost or predatory financial products and services

Financial Foundation Goal

Eliminate all high interest debt

The Role of Credit in Building Assets

Setting financial and life goals, routinely maintaining a spending and savings plan, and keeping a record of household expenses are all pillars of a healthy financial foundation. Another important element is having access to credit. **Credit is the ability to borrow money.** Just like monies in checking and savings accounts are assets (things that we own that can be converted to cash), having the ability to borrow money is an important asset. Lots of things that we need and want to purchase are best to purchase with cash when we are able. There are some items, however, like cars, houses and other “big ticket” items that it would be very difficult to build up the cash to purchase. For those items, having access to credit is critical. Building and maintaining good credit gives us access to safe, affordable financial services, and helps us to build assets and wealth.

How Good Credit Saves

The following two examples show how building up a good credit record can lower our costs when we borrow money for two “big ticket” items.

\$10,000 auto loan, 5 year term			
Credit Score	Interest Rate	Monthly Payment	Total Interest Paid
Low	25%	\$294.00	\$7,611.00
Okay	12%	\$222.00	\$3,347.00
Excellent	5%	\$189.00	\$1,232.00

Potential savings over 5 years = \$6,288

(Source: www.bankrate.com)

30 year fixed rate mortgage of \$300,000		
Credit Score	Monthly Payment	Total Interest Paid
620	\$1,815.00	\$353,400.00
650	\$1,711.00	\$315,960.00
700	\$1,559.00	\$261,240.00

Potential savings over 30 years = \$92,160

(Source: www.myfico.com)

One estimate is that a **good credit rating will save approximately \$250,00 in interest throughout our working lives** *(Source: Credit Builders Alliance).*

Understand your credit score

Banks, credit card companies and other businesses use credit scores to estimate how likely you are to pay back money you borrow.

A higher score makes it easier to qualify for a loan or lower interest rates. Many scores range from 300-850, but different companies use different ranges.

You have many credit scores

You can have more than one score, because:

- Lenders use different scores for different products.
- There are many different credit scoring formulas.
- Information can come from different credit reporting sources.

For example, your credit card score could be different from your home loan score, and the scores you purchase online could be different from both of those.

For some people, these differences aren't that big. But because lenders use different scores, you might qualify for lower rates with one lender and not another. It can pay to shop around.

Where do credit scores come from?

Your credit scores are generally based on information in your credit reports. This information is reported by your creditors to credit reporting companies. The three biggest are Equifax, Experian and TransUnion.



Several variables affect your credit score:

- How many credit accounts you have
- How long you've had those accounts
- How close you are to your credit limit
- How much credit you have left
- How often your payments have been late
- Other factors

How to raise your score

- **Pay your bills on time, every time.** One way to make sure your payments are on time is to set up automatic payments, or set up electronic reminders. If you have missed payments, get current and stay current.
- **Don't get close to your credit limit.** Credit scoring models look at how close you are to being "maxed out," so try to keep your balances low in proportion to your overall credit limit. Experts advise keeping your use of credit at no more than 30 percent of your total credit limit.

- **A long credit history will help your score.** Credit scores are based on experience over time. Your score will improve the longer you have credit, open different types of accounts, and pay back what you owe on time.
- **Be careful closing accounts.** If you close some credit card accounts and put most or all of your credit card balances onto one card, it may hurt your credit score if you are using a high percentage of your total credit limit. Frequently opening accounts and transferring balances can hurt your score too.
- **Only apply for credit you need.** Credit scores look at your recent credit activity as an indicator of your need for credit. If you apply for a lot of credit over a short period of time, it may appear that your economic circumstances have changed for the worse.

- Accounts you closed that are listed as open.
- The same item showing up more than once (like an unpaid debt).

How to fix mistakes

If you find something wrong in your credit report, you may contact both the credit reporting company and the creditor that provided the information. Explain what you think is wrong and why. Include copies of documents that support your dispute.

Your credit reports will come with instructions on how to dispute mistakes.

Your credit report matters as much as your score

Mistakes in your credit reports could hurt your credit history and credit score, so check them regularly. You can get one free credit report from each of the big three credit reporting companies every 12 months. Go to annualcreditreport.com or call **877-322-8228**.

When you get your report, look for:

- Mistakes in your name, phone number, or address.
- Loans, credit cards, or other accounts that are not yours.
- Reports saying you paid late when you paid on time.

Submit a complaint

If you have a credit reporting problem, you can submit a complaint:



Online

consumerfinance.gov/complaint



By mail

Consumer Financial Protection Bureau
P.O. Box 4503
Iowa City, Iowa 52244

We'll forward your complaint to the company and work to get a response from them. You will receive email updates along the way and can track the status of your complaint online.

Borrower Rights and Responsibilities

As consumers of credit we have several responsibilities: 1) to borrow only what we believe we can repay; 2) to read and understand credit contracts; 3) to pay on time; 4) to notify the creditor if we can't make payments on time; and 5) to report lost or stolen credit information as soon as possible. We also have rights when we borrow money. Below are some of our most important consumer rights.

Truth in Lending Act (1968)

Ensures consumers are fully informed about cost and conditions of borrowing. Each loan should have a document that outlines the total costs of the loan.

Fair Credit Reporting Act (1970)

Protects the privacy, completeness, and accuracy of information in a credit check. Ensures your right to receive a free credit report when your credit application is denied.

Equal Credit Opportunity Act (1974)

Prohibits discrimination in giving credit on the basis of sex, race, marital status, religion, national origin, age, or receipt of public assistance. If you are denied credit, you have the right to know why.

Fair Credit Billing Act (1974)

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts or in electronic fund transfer account statements.

Fair Debt Collection Practices Act (1977)

Prevents abuse by professional debt collectors, and applies to anyone employed to collect debts owed to others (professional debt collectors). Debt collectors may not contact you at work if instructed not to, harass you, lie, and must not identify themselves as trying to collect a debt to your employer and family, and must stop contacting you if you ask them to in writing.

CHECK YOUR CREDIT REPORT AT LEAST ONCE A YEAR

The Consumer Financial Protection Bureau advises consumers to check their credit reports at least once a year.

Consumers can receive free copies of their credit reports every 12 months from [AnnualCreditReport.com](https://www.annualcreditreport.com). This is the only authorized source under federal law that provides free credit reports from the three major national credit reporting companies - Equifax, Experian and TransUnion. Other websites that promise free credit reports may require you to sign up for "free trials" that eventually charge you or purchase other products or services you may not need.

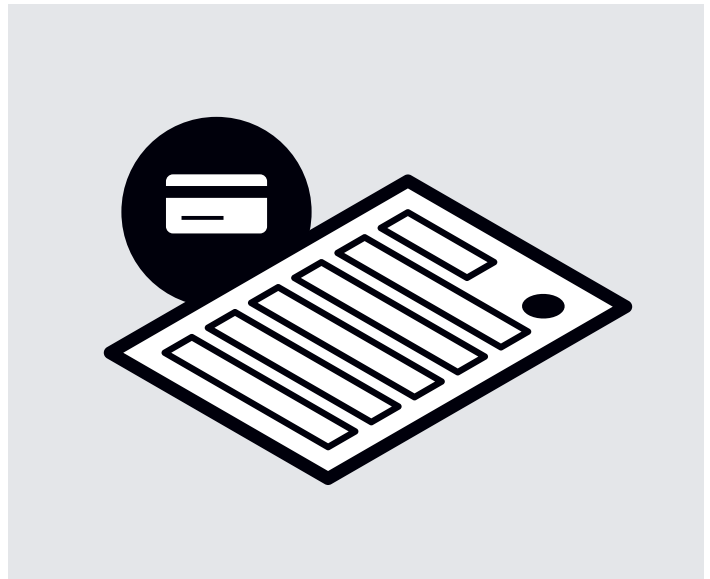
Check your credit report to:

- Look for and fix mistakes that could hurt your ability to get credit.
- Be sure your information is correct and up-to-date.
- Guard against identity theft.

Mistakes in your credit reports, or fraud caused by identity theft, can make borrowing more expensive or prevent you from getting credit.

Common mistakes in credit reports include:

- Loans and credit accounts you've never opened.
- Misspelled name, wrong Social Security number, wrong address, or phone number.
- Accounts wrongly listed as late, incorrect balances, incorrect credit limits, closed accounts listed as open, incorrect delinquency dates, or accounts listed more than once.



Dispute mistakes you find

Your credit report will include information about how to dispute a mistake. If your dispute is about a credit account, you should send a dispute letter to both the credit reporting company and creditor that was the source of the information.

Your dispute should clearly explain what you think is wrong and why. State the facts, explain why you are disputing the information, and request that it be corrected.

In your dispute letter to the creditor, you may want to enclose a copy of the relevant portion of your credit report. Highlight the items in question. Also, include copies of documents that support your position. Never send your original documents. Keep copies of your dispute letters and enclosures.

The credit reporting company and the creditor should investigate the dispute or fix any mistake. If the disputed information is wrong or cannot be verified, the creditor

must delete or change it and provide a correction to the credit reporting companies that received the disputed information. If an investigation doesn't resolve your dispute filed with a consumer report company, you can ask that a statement of the dispute be included in your credit file and in future credit reports.

You don't need to pay for credit monitoring

Many companies that promise free credit reports want to sign you up for credit monitoring services or other products. You can take these free or lower cost steps to protect yourself.

Monitor your credit yourself

Under the law, you are entitled to a free credit report every 12 months from each of the nationwide credit reporting companies. You can get these reports all at once, or spread them out. For example, you could visit AnnualCreditReport.com in January to get your Experian report, in April to check your Equifax report, and again in August to get your TransUnion report. By rotating your requests this way, you can keep a periodic eye on your credit records for free.

Put the freeze on identity thieves

You do not need to pay a credit monitoring service to stop thieves from opening accounts with your information. Contact Equifax, Experian and TransUnion and ask that they put a freeze on your credit reports. A freeze prevents prospective creditors from accessing your credit file unless you lift the freeze for that creditor or for a specified period of time. Typically, creditors won't offer you credit if they can't access your credit reporting file, so a freeze prevents you or others from opening accounts in your name. Freezes are generally free for victims of identity theft.

Request a fraud alert

If you believe that you have been or are about to become the victim of identity theft or fraud, you can place a fraud alert on your credit report.¹ A fraud alert requires lenders to take steps to verify your identity before opening a new account in your name, or issuing an additional credit card or increasing the credit limit on an existing account. You can also provide a telephone number so lenders can call you to verify your identity (a fraud alert does not prevent a lender from opening credit in your name).

TIP: If you suspect that the error on your report is a result of identity theft, you will need to file a dispute to correct it. For information about identity theft and steps to take if you have been victimized, You can also visit the Federal Trade Commission's Fighting Back Against Identity Theft website: <http://www.ftc.gov/idtheft/>

Servicemembers

If you are a member of the military on active duty, you may place an "active-duty alert" on your credit report to reduce the risk of identity theft while you are deployed. This alert lets a business know that you are probably out of the country, so the business is required to take reasonable steps to verify your identity before issuing credit in your name. More information about active-duty alerts can be found on Ask CFPB at consumerfinance.gov/askcfpb.

If you have complaints or concerns about a credit monitoring service, contact the Federal Trade Commission, **877-FTC-HELP**.

¹ consumerfinance.gov/askcfpb/31/what-do-i-do-if-i-think-i-have-been-a-victim-of-identity-theft.html

Contact Us



Website
consumerfinance.gov



General inquiries
Consumer Financial Protection Bureau
1700 G Street NW
Washington DC 20552



Submit a complaint by phone
855-411-CFPB (2372)
TTY/TDD 855-729-CFPB (2372)

Understanding Credit Reports

Each credit bureau's credit report looks a little different. All of them, however, have the same basic information: 1) personal identification information; 2) public record information (basically, civil things that you've been to court about); 3) derogatory information (accounts with negative history or activity); 4) credit account information; and 5) inquiry information (a record of who has accessed your credit information recently). Below is a sample report.

Your Credit Report

Please address all future correspondence to:
 Credit Reporting Agency
 Business Address
 City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name
123 Current Address
City, State 00000

Previous Address(es)
456 Former Rd. Atlanta, GA 30000
P.O. Box XXXX Savannah, GA 40000

Social Security #: 123-45-6789
Date of Birth: April 10th, 1940

Last Reported Employment:
Engineer, Highway Planning

PUBLIC RECORD INFORMATION

Lien Filed 03/93; Fulton CTY; Case or Other ID Number-32114; Amount-\$26,667
Class-State; Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-673HC12;
Liabilities-\$15,787; Personal; Individual; Discharged; Assets-\$780

Satisfied Judgement Filed 07/94; Fulton CTY; Case or Other ID Number-898872; Defendant-
Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/95; Verified 05/95

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
Collection Reported 05/96; Assigned 09/93 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/93; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HIGH CREDIT	TERMS	ITEMS AS OF DATE REPORTED			DATE REPORTED
								BALANCE	PAID DUE	STATUS	
Department St. Bank	32514	J	10/86	36	9/97	\$950	X	\$0	X	R1	10/97
Bank	1004735	A	11/86	24	5/97	\$750	X	\$0	X	I1	4/97
Oil Company	541125	A	6/86	12	3/97	\$500	X	\$0	X	O1	4/97
Auto Finance	529778	I	5/85	48	12/96	\$1100	\$50	\$300	\$200	I5	4/97

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/97 - I2; 02/97 - I3; 03/97 - I4

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/97	Equifax-Disclosure	08/27/97	Department Store
07/29/97	PRM Bankcard	07/03/97	AM Bankcard
04/10/97	AR Department Store	12/31/96	Equifax - Disclosure ACIS 123456789

Negative Information on Credit Reports

Negative information on your credit report generally lowers your scores. However, how much your score is affected depends on the type of negative information. For all of these negative items, the older they are the less impact they will have on your score. For example, a collection that is five years old will hurt your score much less than a collection that is five months old. Below is the basic breakdown of how long different types of negative information will remain on a credit report.

Type of Information	Length of Time on a Credit Report
Late Payments	7 years
Collections	Generally 7 years
Public Records	7 years
Unpaid Tax Liens	Indefinitely
Chapter 13 Bankruptcy	7 years
Chapter 7 Bankruptcy	10 years
Foreclosures	7 years

Collections and Charge Offs

When you fail to pay a bill on time and several months go by with it unpaid, the creditor can choose to send your account to **“collections.”** The collection agency will then begin trying to collect the debt from you. If you then pay the debt, unfortunately it does not mean that the negative information will be immediately removed from your credit report. The account should be noted as **“paid”** on your report, but the negative information about the debt generally will remain on your credit report for the full seven years from the original delinquency date.

When a creditor notifies a credit bureau that it has **“charged off”** a debt, it means the creditor has given up on trying to collect an unpaid debt. Having a debt charged off does *not* mean you no longer owe it! Typically, a creditor will turn over the debt to a collection agency. The collection agency will then try to collect the debt. That collection agency may sell the account to another collection agency, and that collection agency may be represented by an attorney. Although each collection agency account will show the open date as the date it *purchased* the debt, the accounts should still be removed seven years from the date of the delinquency on the original account.

Collection efforts can continue even after a debt is removed from your credit report. You owe the debt until it is paid, settled, or discharged in a bankruptcy. A charged off account remains on your credit report for seven years from the original delinquency date.

How to rebuild your credit

When you experience a financial challenge, your credit record could suffer. Rebuilding it takes time. There are no shortcuts or secrets.

The steps below can help

1. Pay your bills on time, every time

“On time” means the payment gets to the company by the day the bill is due. Mail your bills a few days before they’re due.

Think about signing up for text alerts to make sure you don’t pay late or miss a payment. Or, consider automatic payments from your bank to help make sure your bills get paid on time. Keep track of automatic payments so you know you have enough money in your account to cover them.

2. Don’t get too close to your credit limit

Credit scores consider how close you are to being “maxed out” on credit cards. If you use too much of your available credit, you can hurt your credit score. Experts advise using no more than 30 percent of your available credit – some even say you should use less than 10 percent.

3. Don’t apply for too much credit in a short time

Your credit score may go down if you apply for or open a lot of new accounts in a short time. This includes getting a new card so you can transfer



balances, or opening a new store card account so you can get a discount.

4. If you can’t qualify for a regular credit card, try a secured card

Many banks and credit unions offer secured credit cards. With most of these cards, your credit line starts out small. You put an amount equal to your credit limit in an account as a deposit.

As you show you can pay on time, your credit limit may grow and you may have your deposit refunded. Fees and interest rates can be high for secured cards, but using one can help you to establish a credit record.

5. If you pay with a credit card, pay your balance off every month

You’ll build credit by using your credit card and paying on time, every time. Pay off your balances

in full each month to avoid paying finance charges. Paying off your balance each month can also build better credit than carrying a balance.

Keep it up

Credit scores are partly based on experience over time. The longer you have credit and pay on time, the more information there is to show you're a good credit risk.

6. Check your credit reports and fix errors right away

You can get a free copy of each of your credit reports from the three nationwide credit reporting companies every year at annualcreditreport.com.

You may find incorrect information that is bringing your score down. If you do, file a dispute with the credit reporting company and with the company that was the source of the information.

How long does negative information generally stay on your credit report?

Bankruptcy	10 years
Foreclosure	7 years
Lawsuits and judgments	7 years or longer


These four things don't help rebuild your credit


- 1. Using a debit card or paying cash.** These transactions don't help you prove you can repay debts.
- 2. Using a prepaid card.** A prepaid card is your own money, loaded on to the card in advance.
- 3. Taking out a payday loan.** Even making on-time repayments might not help your credit.
- 4. Taking an auto loan from a "buy here, pay here" car lot,** unless they promise in writing to report your on-time payments.


Submit a complaint

Have an issue with a financial product or service? We'll forward your complaint to the company and work to get you a response - generally within 15 days.

 **Online**
consumerfinance.gov/complaint

 **By phone (180+ languages)**
M-F, 8 a.m. - 8 p.m. ET
(855) 411-CFPB (2372)
(855) 729-CFPB (2372) TTY/TDD

 **By mail**
Consumer Financial Protection Bureau
P.O. Box 2900
Clinton, Iowa 52733-2900

 **By fax**
(855) 237-2392

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information	Transaction Information	Loan Information
Date Issued	Borrower	Loan Term 60 months
Closing Date		Purpose Auto Loan
Disbursement Date		Product
Settlement Agent	Seller	Loan Type <input type="checkbox"/> Conventional <input type="checkbox"/> FHA
File #		<input type="checkbox"/> VA <input type="checkbox"/> _____
Property	Lender	Loan ID #
Sale Price		MIC #

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$20,000	
Interest Rate	4.5%	
APR	4.91%	
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$372.86	
Costs at Closing		
Closing Costs	\$200	Includes \$200 in Loan Costs + \$0 in Lender Credits. See page 2 for details.
Cash to Close	\$200	Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information	Transaction Information	Loan Information
Date Issued	Borrower	Loan Term 60 months
Closing Date		Purpose Auto Loan
Disbursement Date		Product
Settlement Agent	Seller	Loan Type <input type="checkbox"/> Conventional <input type="checkbox"/> FHA
File #		<input type="checkbox"/> VA <input type="checkbox"/> _____
Property	Lender	Loan ID #
Sale Price		MIC #

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$20,000	
Interest Rate	3.5%	
APR	5.17%	
Monthly Principal & Interest <i>See Projected Payments below for your Estimated Total Monthly Payment</i>	\$363.83	
Costs at Closing		
Closing Costs	\$800	Includes \$800 in Loan Costs + \$0 in Lender Credits. See page 2 for details.
Cash to Close	\$800	Includes Closing Costs. See Calculating Cash to Close on page 3 for details.

High Cost Financial Products

Check-cashing outlets:

For most American consumers, cashing a check is simple – they simply deposit it at their bank’s ATM or through a bank teller. However, a large number of people either don’t have bank accounts or rely on alternative channels financial services. Check cashing services are an option for those consumers, but generally charge high fees. Some charge fees equivalent to a percentage of the check value. Others may charge a flat fee in addition to a percentage fee. For instance, to cash a \$1,000 check, a \$5 plus 1 percent fee means you’ll pay \$15 for the check cashing service. Some retailers and supermarket chains offer check-cashing services that may be less costly than at check-cashing stores and banks.

Pawnshops:

Pawnshops offer collateral-based loans – meaning the loan is secured by something of value. You take in something you own, and if the pawnbroker is interested, they will offer you a loan. They keep your item until you repay the loan. The loan amount will likely be a small fraction of the item’s actual value. Pawnshops frequently charge very finance charges for loans on the value of items, and rules regarding the fees vary widely from state to state.

Rent-to-own programs:

Rent-to-own programs offer an opportunity to obtain home entertainment systems, appliances, or furniture for a small weekly fee. Customers typically rent an item for a monthly cost that’s usually lower than a monthly loan payment would be. The rate is attractive because it seems more affordable than an up-front purchase or typical payment plan. However, the rental period is much longer, and after calculating the total expense, the buyer ends up paying far more than a conventional loan would have cost. Example: 40” LCD TV – Buy it now price is \$1,199. Rent-to-Own Price is \$1,919, interest rate is 60%.

Payday loans or cash advance loans:

Allow consumers to get a cash advance on their next paycheck. A borrower writes personal check payable to the lender, plus the fee. The company gives the borrower the amount of the check less the fee, and agrees to hold the check until the loan is due – the borrowers next payday. However, these short-term loans are very expensive. A \$200, two-week advance may cost over \$30 (with yearly costs exceeding \$900). Some credit unions now have payday alternative loans at much lower rates and fees. Many credit unions offer excellent alternatives to payday loans.

Tax refund anticipation loans or rapid-refund tax services:

Provide “instant funds” when you pay to have your federal tax return prepared. However, this “instant refund” is loan with interest rates as high as 120%, and your actual refund is used to pay off the loan plus the interest and/or fees.

Understanding Credit Resources

Order Your Credit Report

You can request and review your free report through one of the following ways:

- Online: Visit AnnualCreditReport.com
- Phone: Call (877) 322-8228
- Mail: Download and complete the [Annual Credit Report Request form](#). Mail the completed form to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Dispute information on your credit report

How do I dispute an error on my credit report?, CFPB website,
<https://www.consumerfinance.gov/ask-cfpb/how-do-i-dispute-an-error-on-my-credit-report-en-314/>

Contact your credit reporting agency

Equifax

Online: www.ai.equifax.com/CreditInvestigation

By mail: Mail the dispute form with your letter to:

Equifax Information Services LLC
P.O. Box 740256
Atlanta, GA 30348

By phone: Phone number provided on credit report or (866) 349-5191

Experian

Online: www.experian.com/disputes/main.html

By mail: Use the address provided on your credit report or mail your letter to:

Experian
P.O. Box 4500
Allen, TX 75013

By phone: Phone number provided on credit report or (888) 397-3742

TransUnion

Online: <https://dispute.transunion.com>

By mail: Mail the dispute form with your letter to:

TransUnion LLC
Consumer Dispute Center
P.O. Box 2000
Chester, PA 19016

By phone: (800) 916-8800