

# 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

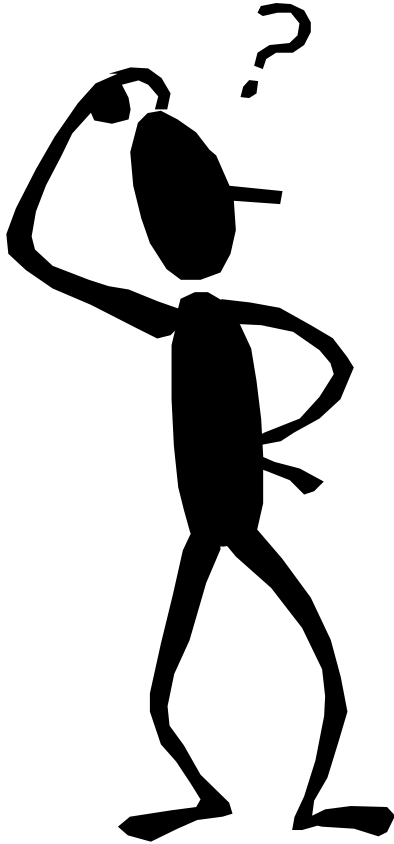


- **Describe the implications of good and bad credit scores**
- **Identify ways to build and repair your credit history**
- **Recognize how to correct errors on your credit report**
- **Recognize how to guard against identity theft**



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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




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# 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](http://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](http://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

<b>JOHN Q CONSUMER</b> Report #1234567	<b>Report Date</b> 01/01/2006
<b>Personal Information</b> 123 Main Street #2 Somewhereville, USA 01234 SSN#123-45-6789 <b>DOB</b> 02/01/68	<b>Employers</b> 1. ABCDE Engineering Corp, Somewhereville USA 2. Port City Engineering, Anywhere, USA
<b>Consumer Statement</b> No personal statements appear in your report.	
<b>Potentially Negative Items</b>	
<b>Televise Cable Comm.</b> 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	
<b>Accounts in Good Standing</b>	
<b>XYZ BANKCARD USA</b> 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	<b>Automobile Financing Services</b> 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
<b>Requests for Credit History</b>	
<b>VISA Card</b> 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/](http://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](http://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

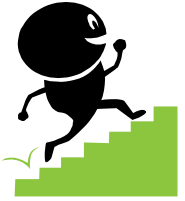


- **Apply for a small bank loan**
- **Apply for credit at a local store**
- **Make large down payments and negotiate credit payments**
- **Ask a friend or relative to cosign a loan for you**



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# Building Your Credit History



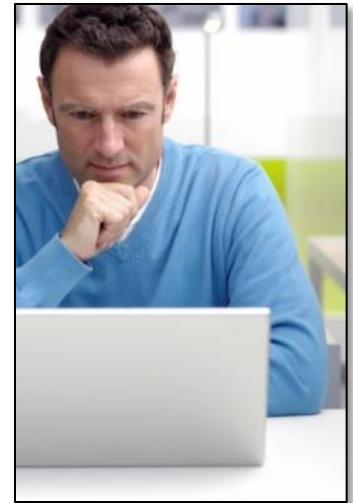
- **Pay your bills on time**
- **Ask lenders to review utility and other bills to grant you credit**
- **Keep your debt levels low**
- **Make regular deposits into your savings account**



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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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