Conquering Credit

The Do’s and Don’ts of Keeping Your Credit Squeaky Clean

Course Objectives – Learn About:

• Types of Credit
• How to Establish Credit
• Credit Score vs. Credit Report
• Avoiding Identity Theft

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Defining Credit

What is credit?
Well, there are two ways to look at defining credit.

In the simplest sense, credit is money that is loaned to you with the understanding that the money will be re-paid. Usually, you’ll pay that money back with interest (unless you’ve taken out an interest free loan from a friend or family member). The word “credit” also refers to your borrowing capacity, or how much lenders will let you borrow.

During this seminar, we’ll take a look at both types of credit and why each is extremely important for your financial well-being.

Creditors usually offer three types of accounts.

- **Revolving Agreement.** A consumer pays in full each month or chooses to make a partial payment based on the outstanding balance. Interest charges apply to unpaid balances. Department stores, gas and oil companies, and banks typically issue credit cards based on a revolving credit plan.
  - Visa®
  - MasterCard®
  - Discover®
  - Department Store
  - Gas

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

- **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 are often financed this way. Personal loans usually are paid back in installments, too.
  - **Indirect Loans** – Borrower gains a loan or financing generally through a retailer who completes all of the documents and then works with a bank or other financial institution to secure the loan.
  - **Direct Loans** – Borrower secures a loan by applying directly with a bank or other financial institution.
Qualifying for Credit

You’re ready to apply for credit, but where do you start? Here’s what you’ll need to know before you take the plunge.

Applications. If you’re planning on shopping around for various car loans or if you’re trying to get your first credit card, be prepared to fill out applications. Be sure to have vital information like your Social Security Number, permanent home address, employment history, and checking or savings account information (account numbers and balances) on hand to make the process as easy as possible.

Regular source of income. Creditors want to know that you can afford to re-pay the money they’re letting you borrow, so it’s important to have a steady job when applying for credit. Some creditors may ask for proof of employment, such as a pay stub.

Good credit history. If you’ve never applied for a credit card or loan before, you likely don’t have a credit history. However, it is always a good idea to check with one of the three major credit reporting agencies before applying for credit.

Co-signer. For those who don’t have a credit history, you may need to have a co-signer. A co-signer is someone who is willing to accept responsibility for your debt if you aren’t able to pay off the loan.
Establishing Your Credit

You have big dreams. Maybe you’re looking to buy a new car, or maybe you’re saving to buy a home. Whatever your goal, you need to establish good credit before a bank will loan you the money for your purchase. Follow these simple steps and you’ll be credit-worthy in no time.

1. **Apply for a checking account.** Manage it responsibly, and this becomes the easiest and quickest way to prove you are credit-worthy. You can also apply for a savings account to get you on your way toward your goal.

2. **Start small.** You have a checking account, now what? It’s time to demonstrate that you can borrow money responsibly. Apply for a credit card at a department store or with a gasoline company (BP, Shell, etc.). These types of cards are fairly easy to get, and your credit limit will be low. Make small purchases, and pay your bills on time.

3. **Baby steps.** Your next small step is to apply for a major credit card, possibly with your bank. A good rule of thumb: Be sure that your credit limit does not exceed the amount of money in your savings account. That way, even if you’re hit with an emergency, you know you have enough cash to cover the expense. If your credit card company offers you a higher credit limit, ask them to reduce it. This will reduce your temptation to use the card, and it will keep you out of debt.
Why Your Credit Matters

Being responsible with your money makes you more than a good citizen – it makes you a good credit risk as well. And when it comes time for you to buy a new home, car, or apply for a credit card, a good credit risk is exactly what lenders will be looking for. Not only does your credit rating determine if you qualify for a loan, it also determines your credit limit (how much you can borrow) and at what Annual Percentage Rate (APR). In other words, the better the credit, the better the deal you get on your loan.

Your Credit Score
Whether you’re applying for a car loan or for a credit card from Kwik-E Gas, most lenders can determine if you’re credit-worthy within seconds. How? They simply pull up your credit score, also known as your FICO score (named after Fair, Isaac & Co, the company that developed the credit score model). It’s a three-digit number ranging from 300 to 850. The higher the score, the better your credit worthiness.

Your Credit Report
Most lenders don’t look closely at your credit report. However, you should keep a close eye on it, because information on that report determines what your credit score will be. And lenders definitely look closely at that.

Only lenders with a legitimate business need can ask for your credit report, such as when you apply for credit, buy a car, apply for a job, or rent an apartment. However, a potential employer can ask for your credit report with your consent.

Your credit report offers a detailed account of your borrowing habits. To say you have just one credit report is inaccurate. There are actually three major credit reporting agencies that gather information on your credit history: Equifax, Experian, and TransUnion. Surprisingly, these three bureaus could have differing information on your credit history. Also, it’s worth noting that not all lenders use all three credit bureaus to determine your FICO score. That’s why it’s important to look at all three reports to get an accurate read on what others are reading about you.
Your FICO score is used by many different types of lenders as a quick way to determine if you are eligible for a loan from that organization. Below, we’ve listed each category that is reviewed to determine your FICO score.

1. **Past payment history.** (35%) How quickly you pay your bills weighs heavily on your overall score. The more recent your tardiness, the more points you sacrifice. Your credit report will indicate whether you are 30, 60, or 90 days or more late with a payment. A history of late payments on several accounts will cause more damage than late payments on a single account. On the flip side, by paying your bills consistently on time, you can greatly improve your overall score.

2. **Amounts owed.** (30%) Add up all of your outstanding balances and compare the number to the amount of credit that is available to you. At the same time, if you aren’t anywhere near maxing out your accounts, you want to make sure that the credit extended to you isn’t out of proportion with your income.

3. **Length of credit history.** (15%) Obviously, the longer you’ve had credit established, the better you’ll look in the eyes of a lender. Your score is also determined by how long you’ve had individual accounts as well as how long it’s been since you’ve used that account. Don’t open multiple new accounts in the hopes of building credit quickly, however. This will reduce the “average account age” and will therefore reduce your score. It’s best to open one account and build upon that credit rather than opening several accounts and spending small amounts of money on each.

4. **Amount of new credit.** (10%) Every time you apply for new credit (credit cards or loans), that inquiry makes its way onto your credit report. Lenders take note if there have been too many inquiries on your report in a short period of time. FICO can distinguish between multiple inquiries on a single loan (say, if you’re shopping around for the best rates on that car loan) or multiple lines of credit.

5. **Types of credit.** (10%) Credit cards and installment loans (like car loans or your mortgage) are examples of different types of credit. If you have had no credit, lenders will consider you a higher risk than someone who has managed credit cards responsibly.
What’s on Your Credit Report?

- **Personal information** – Past home addresses and some employment history, in addition to basic information like name, address, and Social Security Number.

- **Credit history** – Any credit available to you on a credit card, installment loans (like your car loan), and any bills paid late (30 days or later) will be listed.

- **Public records** – Bankruptcies and other court judgments, like tax liens and suits.

- **Inquiries** – A dated listing of all recent business requests to see your file. These inquiries are made whenever you apply for a loan, credit card, or if a lender makes you a pre-approved credit offer in the mail.

- **Disputed information** – If you find the information on your credit report is inaccurate, you may be able to make a statement correcting the report’s information.

What’s Not Used to Calculate Your Credit Score?

- Your race, color, religion, national origin, sex or marital status

- Your age

- Your education

- Your salary, occupation, title, employer, date employed or employment history

- Where you live
Who Gets the Loan?

Read through these scenarios, and use the information on the previous page to decide who is most likely to be approved for the loan. Who’s least likely to get the loan?

• **Tim** pays his bills on time, but he has $9,500 of debt on a credit card with a $10,000 limit.

• **Mary** is working on paying off her credit card balance of $2,500. She has paid off $750 of that debt, and she is in otherwise good financial standing.

• **Nick** normally is very good about making timely payments on his debts. However, this month, he was unable to pay any of his bills.

• **Carrie** recently applied for an additional credit card. The credit limit is well within her means, and she has a solid credit history.

Answer: Mary is most likely to get approved for the loan, and Nick is least likely to get approved.
What if You are Denied Credit?

The Fair Credit Reporting Act requires that anyone denied credit based on information in a credit report must be notified in writing. The company that denied you the loan will tell you from what agency they obtained your credit report, and credit score (if denied) along with key factors that affected your credit score.

1. **Get clarification.** If your written notification of credit denial isn’t clear enough, talk to the company that denied you the loan directly. They’ll be able to tell you the reason why you weren’t approved for the loan.

2. **Get a copy of your credit report.** You can get a free copy of your credit report, as long as you request it within 60 days after being denied credit. Take a look at the report, and be sure to keep an eye out for inaccurate information.

3. **Dispute inaccurate information.** According to the Fair Credit Reporting Act, both the credit reporting agency (CRA) and the information provider (the creditor denying you credit) are responsible for correcting inaccurate or incomplete information in your report.

   First, tell the CRA in writing what information you believe is inaccurate. CRAs must investigate the items in question, unless they consider the dispute to be frivolous. This will take about 30 days. Then, they’re obligated to forward their findings to the information provider. Once the information provider is contacted by the CRA regarding the dispute, they must investigate the situation. If the information provider determines that the information was inaccurate, they must report the updated information to all CRAs so they can update their files.

   Just as a safeguard, also tell the information provider (the creditor denying you the loan or credit card) in writing about your dispute. Most creditors offer a specific address for these types of issues. If you are in the right and the dispute is settled in your favor, the CRA and the information provider cannot use the inaccurate information again. Just to be sure, ask for a copy of the updated credit report from the CRA you contacted originally.

4. **Find out what you can change.** Just because you weren’t approved for the loan, it doesn’t necessarily mean you did anything wrong. Your income may not be high enough for the amount of credit you’re applying for, or maybe you haven’t been at your current job or residence long enough.
When Good Credit Turns Bad

If you already know your credit is less than stellar, here are some tips for how to get back on track.

1. Remember that any credit mistake you make now will appear on your credit report for the next seven years. Therefore, it’s important for you to make good financial decisions now to help you maintain a favorable credit report in the future.

2. Each month, pay at least the minimum balance due on your credit card.

3. Charge only what you can reasonably expect to pay off in one year or less. The more debt you accumulate, the less creditworthy you become in the future.

4. Paying off any loan on time will increase your credit standing. Set your bills up on an automatic payment system so you know they’ll be paid on time.

5. Lock away your credit cards and don’t use them. However, don’t cancel them. If you have a low credit rating, you may have trouble getting new cards.

6. Once you’ve gotten your credit card spending under control, don’t apply for any new credit cards. Even though getting a 10% discount on purchases at The Pet Palace when you open their credit card sounds like a great deal, applying for new credit could lower your FICO score.

7. Resolve to eliminate your debt. Either pay off a high balance account, or pay off two or three of your smaller balances.

8. Avoid “credit repair” clinics that offer to remove late payments or bankruptcies.

9. Get copies of your credit reports every 12 to 24 months. If there is a mistake on your report, not to worry. Simply go back to the credit reporting agency where you got the report and discuss the mistake with them. They will be able to tell you who to talk to in order to get the bad information off your report.
Avoiding Identity Theft

Unfortunately, identity theft is becoming more and more prevalent. Use these tips to keep your identity – and your credit score – intact.

1. **Regularly and carefully review** your credit card, bank account statements and credit report, instead of just glancing over them. These are typically the first places you’ll notice signs of identity theft.

2. **Call your credit card company or bank if an account statement is late.** If a statement is late, someone may have stolen your credit card and changed the billing address so you wouldn’t notice the additional charges they racked up. Better yet, cancel your paper statements and review them online instead.

3. **Don’t give out personal information** like your Social Security Number on the phone, through the mail, or online unless you initiate the contact or know the caller.

4. **Tear or shred any documents that contain personal information.** These include credit card receipts, insurance forms, physician and bank statements, and even credit card offers. An alarming number of thieves are willing to go through your trash to find useful information.

5. **Deposit outgoing mail directly into post office boxes, not in your own mailbox.** A thief may obtain personal information (including account numbers) from bills you are sending out. If you’re going on vacation, ask the post office to hold your mail.

6. **Don’t carry your Social Security card with you,** and keep it in a safe place. Also, don’t pre-print your Social Security or driver’s license numbers on your checks.

7. **Carry only as many credit cards as you need,** and cancel any extra credit cards you rarely use.

8. If you suspect that you may be a victim of fraud, **order a copy of your credit report once a year** to verify their accuracy.

9. If you are concerned about your credit and identity theft, **consider signing up for a credit watch program** that sends regular updates on any credit activity done in your name.
Getting a Copy of Your Credit Report

Before you apply for credit, get a copy of your credit report. You are entitled to receive one free credit report every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free credit report can be requested online at www.annualcreditreport.com, by phone or by mail.

If you find inaccuracies or need to dispute information contained in your credit report, contact the credit reporting agency that provided the credit report.

**Equifax**
www.equifax.com

**Experian**
www.experian.com

**TransUnion**
www.transunion.com
Resources

U.S. Bank

usbank.practicalmoneyskills.com

To help today’s consumers of all ages become financially savvy, Visa® has partnered with leading consumer advocates, educators and financial institutions, including U.S. Bank, to launch a national program to improve the nation’s financial skills – Practical Money Skills for Life.

usbank.com/personal/sub_global/personal_resources.html

Are you wondering how much money you’re going to need to pay off that credit card? Or, maybe you need to know how much car you can afford. At usbank.com, you’ll find financial calculators for nearly every financial question you need to answer.

usbank.com/credit101

Credit cards are a convenient way to help provide financial freedom. But they do come with responsibility. U.S. Bank can help you on your road to establishing and building good credit for the long haul.

whatismyscore.org/usbank

Get up to speed with this short, interactive tutorial that will start you on your way to a solid credit history.

The Federal Trade Commission (FTC)

ftc.gov

This agency 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, or get a free copy of Best Sellers, a list of FTC publications, by calling 1-877-FTC-HELP (1-877-382-4357).

Consumer Information Center (CIC)

pueblo.gsa.gov

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 on their website.

Consumer Financial Protection Bureau

consumerfinance.gov/learnmore

The Consumer Financial Protection Bureau offers information on everything from leasing your first car to filing a consumer complaint about a bank. The site also offers direct links to other sites with consumer protection information.

National Foundation for Credit Counseling

nfcc.org

This organization provides information on how to improve your credit rating. If you need credit counseling, they can refer you to one of their accredited counseling service partners located near you.
Glossary

**Annual Fee**
A flat, yearly charge similar to a membership fee that allows you to keep your credit card active.

**Annual Percentage Rate (APR)**
A measure of the cost of credit expressed as a yearly interest rate. Many credit card plans charge different APRs for credit used in different ways – for example, one APR for purchases, another for cash advances, and still another for balance transfers. Some plans may increase the APR if a payment is late.

For a variable-rate credit card plan, the interest rate is explicitly tied to another rate, such as the Prime Rate or the Treasury Bill rate. If the other rate changes, the APR on your card will, too. The APR on fixed-rate credit card plans, though not explicitly tied to changes in other interest rates, can also change over time. The card issuer must notify you before the “fixed” interest rate is changed. A tiered APR means that different rates apply to different levels of the outstanding balance (for example, 16% on balances of $1 - $500; 17% on balances above $500).

**Cash Advance Fee**
A fee charged if you obtain a cash advance. This fee is in addition to the interest rate charged on the amount of the advance, which is often higher than the interest rate for purchases.

**Finance Charge**
The dollar amount you pay to use credit. This charge is the sum of the interest charges, cash advance fees, etc. accumulated during a billing cycle. Besides interest costs, the finance charge may include other charges such as cash-advance fees.

**Grace Period**
A period of time, often about 25 days, during which you can pay your credit card bill without incurring a finance charge. Under nearly all credit card plans, the grace period applies only if you pay your balance in full each month. It does not apply if you carry a balance forward from month-to-month. Also, the grace period usually does not apply to cash advances, which may begin accruing interest from the day of the transaction.

**Late-Payment Charge**
A charge imposed when your payment is late. If your payment arrives after the grace period or due date, you may be charged both a finance charge (the interest on your outstanding balance) and a late-payment charge. Some card issuers may also impose a penalty rate if you have more than one late payment within several months.

**Over-the-Limit Fee**
A fee imposed when your charges exceed the credit limit set on your card.

**Penalty Rate**
The rate that applies under specific circumstances set out by the card issuer. For example, if you make 2 late payments within 6 months, a card issuer may have a policy of raising the APR.

**Periodic Rate**
The rate you are charged each billing period. For some credit card plans, the periodic rate is a monthly rate, calculated by dividing the APR by 12. For example, a credit card with an 18% APR has a monthly periodic rate of 1.5%.