

GOOD CREDIT

Your score
in the game of life

580 AWESOME

720 GOOD

620 POOR

MODULE 2: GOOD CREDIT

Your Score in the Game of Life

Keys to Your Financial Future is designed to help you plan how to get, manage and use money now and in the future so you have the life you envision for yourself. This second section of **Keys to Your Financial Future** is about credit.

You may think of credit as a bad thing. It can be—using too much credit may lead to crushing debt. Millions of Americans struggle because they have used too much credit. Credit is just a tool. When used right, credit can help you build assets, build your credit history, improve your credit scores, and access other services.

This section will also focus on credit histories and credit scores.

A good credit history and high credit scores can open doors.

A poor credit history and low scores as well as a lack of credit history can create financial roadblocks. This information is especially important as you transition from foster care to financial independence. Bad credit histories and low credit scores can keep you from getting loans, a job, an apartment, utilities, a cell phone, and even insurance.

“Studies show that if you’re a credit worthy borrower, you will do everything in your power to keep your credit high. That in itself is skin in the game.”

— ANTHONY HSIEH

By the end of this module, you will be able to do the following:

- Understand good credit as a productive asset and explain the ways to build and maintain good credit histories and scores.
- Explain the difference between credit and debt.
- Explain the way credit decisions are made using the “Four Cs” framework.
- Describe the difference between secured and unsecured debt.
- List how and where to get credit reports and credit scores.
- Read and interpret information on a credit report.
- Explain how credit scores are created and used.

Why Credit Matters?

In the first module, you wrote about your life vision and your goals. Go back and read what you wrote. Your vision and goals may include things like this:

- ➔ Going to school.
- ➔ Getting a good paying job.
- ➔ Owning a car.
- ➔ Starting a business.

Credit can affect your ability to realize your vision or achieve your goals. Credit can help you pay for college, afford a car, or start a business. Your credit history and scores will determine whether you can get this credit. A good credit history and scores will open doors. **A good credit history and credit scores are productive assets.**

How are good credit score and credit history productive assets?

Unfortunately, a poor credit history or low credit scores may prevent you from getting:

- ➔ Credit.
- ➔ A loan.
- ➔ A job.
- ➔ Insurance.
- ➔ An apartment.
- ➔ Utilities—like electricity, gas, or cable.
- ➔ A cell phone or data plan.

So if you are thinking:

- ➔ “I am too young to worry about credit.”
- ➔ “I never want to use any credit.”
- ➔ “This information does not apply to me.”

...you may be mistaken. As a young person in foster care or transitioning from foster care, credit matters to you—especially if you want or think you may one day want:

- ➔ A job.
- ➔ An apartment.
- ➔ A car.
- ➔ Insurance.
- ➔ Education or training after high school.
- ➔ Utilities.
- ➔ A cell phone
- ➔ A house.
- ➔ You will first learn what credit actually is.

Productive Assets



While productive assets would never show up on a financial statement, they are extremely valuable. They help you get and keep other assets.

Examples of productive assets are your education, your skills, good work habits and your networks. Your credit history as documented in your credit reports and your credit scores are productive assets if they are positive.

What is Credit?

The term **credit** is used in a lot of different ways. This can be confusing. Here are some of the ways the term credit is used:

Do you have good credit?

Does your credit qualify you for a good price on this loan?

Did you pay for this car using credit?

Did the bank credit your account?

Did you get credit for this idea?

GOOD
CREDIT

What do these questions actually mean?

Do you have good credit?

Do you have a good credit history as reported in your credit report?

Having a good credit history generally means you have paid most of your bills as agreed. Good credit also means you probably don't have any judgments, liens, or other court orders.

Does your credit qualify you for a good price on this loan?

Are your credit scores high enough to get the lowest interest rate on this loan?

Credit scores are different from credit reports. A credit score is a number that comes from the information on your credit reports. Credit scores are often used to determine whether someone will get a loan or other services and how much someone will pay for that loan or service.

Did you pay for this car using credit?

Did you borrow money to buy this car?

Credit in this question means the ability to borrow money.

Did the bank credit your account?

Did the bank add money back into your account?

This is an accounting term. It generally means there has been mistake or you have earned money. The bank adds to your balance from its own money.

Did you get credit for this great idea?

Did you get recognition or acknowledgment for this great idea?

This is a way the term credit is used that is not related to money or finances.

In this module, you will learn about credit, credit reports, and credit scores. To keep things clear, when you read or discuss credit scores, the term credit scores will be used. When the topic is credit reports, the term credit history or credit report will be used. And when discussing credit as money you can borrow, the term credit will be used.

Credit: Borrowing money

Credit is the ability to borrow money. Credit allows you to buy something now and pay for it later. When you buy something with credit you obligate future income. **Obligating future income means you are giving up income you haven't earned yet to buy something today.** When you buy something using credit, you have decreased options in the future.

“I'll gladly pay you Tuesday for a hamburger today.”

— WIMPY IN POPEYE

Using Credit



When you buy something using credit, you obligate future income. How? You are agreeing to make payments in the future.

Depending on the kind of credit, you could be paying money back for two weeks or every month for 30 years!

What are the opportunity costs of using credit?

The word credit comes from the Latin word for trust. People trust you to pay back the money you borrow from them.

Credit is a powerful tool. But with all tools, knowing how to use them correctly is the key to success. A person with no training using a chain saw would create bad situation. Likewise, a person with no training using credit can create a very bad situation for themselves and potentially others.

What are some reasons people have gotten into trouble with credit?

The reasons people get into credit problems vary. Credit problems often are the result of these causes:

1. Not understanding the kind of credit they are using or the terms of the credit.
2. Paying too much for credit—often because they cannot qualify for good terms because their credit reports show problems or they have low credit scores.
3. Taking on more credit than they can handle.

Learning about credit now as a young person can help keep you out of trouble when using this tool in the future.

The Different Types of Credit

There are basically two different kinds of credit: installment loans and revolving credit.

Installment loans—With an installment loan, you are approved for a specific loan amount taken out for a specific period of time. The amount you owe each month is calculated when you take out the loan.

What are examples of installment loans?

Revolving credit—With revolving credit, you are approved for a credit limit. You can borrow any amount up to the credit limit. What you pay back each month varies depending on how much you have borrowed during the month.

What are examples of revolving credit?

““ Today, there are three kinds of people: the haves, the have-nots, and the have-not-paid-for-what-they-haves. ””

— EARL WILSON

Credit can also be **secured** or **unsecured**. A secured loan means there is another asset pledged against the loan. If you do not pay the loan as outlined in the terms, the lender can collect the pledged asset. This “pledged asset” is called **collateral**.

For a car loan, the car you are buying is the collateral. With a secured credit card, a deposit held in a certificate of deposit in the issuing bank is the collateral. With a pawn shop loan, the item you have pawned is the collateral. With a payday loan, a post-dated personal check you have provided is the collateral.

Unsecured means there is no asset. Student loans, credit card loans and other signature loans are examples of unsecured loans.

Important Credit Terms



Principal is the amount of money you borrow.

Interest is the “price” you pay to the lender or creditor for borrowing the money.

This price is quoted as an **APR**, which stands for annual percentage rate. It includes both the interest rate and any fees that everyone getting this loan would have to pay. APR does not include late fees, over the limit fees or other fees for not following the terms of the loan.

Terms of the loan are the things you agree to follow when taking out a loan. These include interest rate, kind of interest rate, fees, length of the loan, where or when payments are due, and more.

Secured versus Unsecured



A **secured loan** means there is another asset pledged against the loan. If you do not pay the loan as outlined in the terms, the lender can collect the pledged asset.

An **unsecured loan** means there is no asset pledged against the loan.

“Buying on trust is the way to pay double.”

— SOURCE UNKNOWN

How Credit Works

When you use credit you are borrowing money. The money you borrow is called **principal**. The person or business that loans you the money is called a **lender** or a **creditor**.

Lenders and creditors lend money to make money. You must pay the lender or creditor a price to borrow the money. **The price you pay is interest**. Interest is often quoted as the percentage of the loan that you pay each month while you are borrowing the principal. Most lenders and creditors charge fees, too.

Because interest rates and fees vary from lender to lender, lenders must also calculate and explain the interest and fees as an annual percentage rate. The **annual percentage rate is called the APR**. The APR lets you compare credit offers. The APR does not include fees you may be charged if you are late or over the limit—the APR only includes fees that apply to everyone taking out that loan.

Understanding Variable Interest Rates



KEY CONCEPT

If a credit card or loan has a variable rate of interest, the interest rate will change as market interest rates change. Market interest rates are based on an index. Commonly, variable rates are based on the prime rate. Currently the prime rate is 3.25%.

For example, a credit card with a variable rate will often be expressed as: “we add 11% to prime rate for purchases and balance transfers.” This would mean that today, the interest rate is 14.25%.

Variable rate credit cards and loans often start with an interest rate below those with fixed rates. This makes them attractive in the short-term for most people. There is a risk, however, that the rates could increase. This can make the payment difficult.

Because the rates vary, the payments change. This makes budgeting for a variable rate loan or credit card payment more difficult.

“Those who understand interest earn it; those who don’t, pay it.”

— UNKNOWN

Interest rates can be **fixed** or **variable**. Fixed means the interest rate will stay the same. Variable means it may change. There are many reasons the rate can vary.

The interest rate, type of interest rate (fixed or variable), the reason a variable rate may vary, and fees as well as other information about the loan are called the **terms of the loan**. Terms also include how length of the loan’s life (2 weeks, 1 year, 30 years, etc.) when payments are due, and where payments are due.

How you pay back the loan depends on the kind of loan and the terms of the loan. Installment loans are amortized. Amortized is an accounting term that means the interest has been calculated over the life of the loan so you pay the same amount every month. With each payment, some of it goes to cover the interest payment while some of it goes to cover the principal.

Student loans, car loans, small business loans, and home loans (also called mortgages) are most commonly amortized. This means they are installment loans.

Revolving credit loans are different. The amount you pay each month varies based on the money you have borrowed. Credit cards are the most common example of revolving credit. Many different methods are used to calculate payments.

Following is an example that shows the difference between an amortized loan (installment loan) and a revolving line credit.

KEY ACTIVITY**Amortized Loan versus Revolving Credit**

Look at the following example. Individually or with a partner, answer the questions that follow.

- ➔ Principal = \$1000
- ➔ APR = 10%¹
- ➔ Term = 12 months
- ➔ The revolving credit requires a 5% minimum monthly payment.

Installment Loan

Enter Values	
Loan amount	\$1,000.00
Annual interest rate	10.000%
Loan period in years	1
Start date of loan	1/1/2014
Optional extra payment	
Scheduled monthly payment	\$87.92
Scheduled number of payments	12
Actual number of payments	12
Total of early payments	\$ -
Total interest	\$54.99

¹These terms do not reflect actual market terms. They are being used for example purposes only.

No.	Payment Date	Beginning Balance	Scheduled Payment	Total Payment	Principle	Interest	Ending Balance
1	1/1/2014	\$ 1,000.00	\$ 87.92	\$ 87.92	\$ 79.58	\$ 8.33	\$ 920.42
2	2/1/2014	\$ 920.42	\$ 87.92	\$ 87.92	\$ 80.25	\$ 7.67	\$ 840.17
3	3/1/2014	\$ 840.17	\$ 87.92	\$ 87.92	\$ 80.91	\$ 7.00	\$ 759.26
4	4/1/2014	\$ 759.26	\$ 87.92	\$ 87.92	\$ 81.59	\$ 6.33	\$ 677.67
5	5/1/2014	\$ 677.67	\$ 87.92	\$ 87.92	\$ 82.27	\$ 5.65	\$ 595.40
6	6/1/2014	\$ 595.40	\$ 87.92	\$ 87.92	\$ 82.95	\$ 4.96	\$ 512.45
7	7/1/2014	\$ 512.45	\$ 87.92	\$ 87.92	\$ 83.65	\$ 4.27	\$ 428.80
8	8/1/2014	\$ 428.80	\$ 87.92	\$ 87.92	\$ 84.34	\$ 3.57	\$ 344.46
9	9/1/2014	\$ 344.46	\$ 87.92	\$ 87.92	\$ 85.05	\$ 2.87	\$ 259.41
10	10/1/2014	\$ 259.41	\$ 87.92	\$ 87.92	\$ 85.75	\$ 2.16	\$ 173.66
11	11/1/2014	\$ 173.66	\$ 87.92	\$ 87.92	\$ 86.47	\$ 1.45	\$ 87.19
12	12/1/2014	\$ 87.19	\$ 87.92	\$ 87.92	\$ 87.19	\$ 0.73	\$ (0.00)

Revolving Loan

Month	1	2	3	4	5	6
Balance	\$ 1,000.00	\$ 958.33	\$ 918.40	\$ 880.14	\$ 843.46	\$ 808.32
Payment	\$ 50.00	\$ 47.92	\$ 45.92	\$ 44.01	\$ 42.17	\$ 40.42
Interest Owed	\$ 8.33	\$ 7.99	\$ 7.65	\$ 7.33	\$ 7.03	\$ 6.74
Ending Balance	\$ 958.33	\$ 918.40	\$ 880.14	\$ 843.46	\$ 808.32	\$ 774.64

Month	7	8	9	10	11	12	TOTAL
Balance	\$ 774.64	\$ 742.36	\$ 711.43	\$ 681.79	\$ 653.38	\$ 626.16	
Payment	\$ 38.73	\$ 37.12	\$ 35.57	\$ 34.09	\$ 32.67	\$ 31.31	\$ 270.43
Interest Owed	\$ 6.46	\$ 6.19	\$ 5.93	\$ 5.68	\$ 5.44	\$ 5.22	\$ 45.07
Ending Balance	\$ 742.36	\$ 711.43	\$ 681.79	\$ 653.38	\$ 626.16	\$ 600.07	

“ *The only man who sticks closer to you in adversity than a friend is a creditor.* **”**

— AUTHOR UNKNOWN

How much total interest is paid for the installment loan?

How much interest is paid for the revolving credit?

How much principal is owed on the installment loan after 12 months?

How much principal is owed for the revolving credit after 12 months?

Which kind of loan seems like it would be easier to manage in your budget? Why?

“ *A credit card is a money tool, not a supplement to money. The failure to make this distinction has supplemented many a poor soul right into bankruptcy.* **”**

— PAULA NELSON

As you can see from the example, the installment loan is much easier to manage because you know what you will pay every month at the beginning of the loan. With revolving credit, the amount you owe each month changes.

Paying Off Credit Cards

Credit cards are really convenient. They let you buy things without having cash on hand. They also keep you from having to carry cash. And there are protections for you if they are stolen.

If your credit card is stolen and you report it, the most you could ever be liable for is \$50. In other words, if the person who steals your credit card charges \$1,000 on your card before you report it, the most you will ever have to pay is \$50.

But credit cards get people in trouble. People charge things on credit cards believing they will be able to pay off the amount at the end of the month. But then at the end of the month other priorities win out over paying off the credit card in full. So they send in a minimum payment instead.

Although paying the minimum payment on time keeps you in good standing, this is exactly what credit card companies want you to do. This is where they make a lot of their money.

A better approach, if you are carrying a credit card balance, is to pick a fixed amount above your minimum payment and pay that each and every month. You will:

- ➔ Pay off your credit card balance faster.
- ➔ Pay a lot less interest.

The Trouble with Some Credit

There are some credit situations that can cause big problems for young people. Plan to avoid these situations.

KEY ACTIVITY

The Trouble with Credit

Read each case. Individually or with a partner, answer the questions that follow each case study.

Jamal Visits a Pay Day Lender

Jamal was short on money. Living on his own since transitioning out of foster care, he knew about where to get resources if he needed them. This month, he knew he would not be able cover his rent the following week with the amount in his checking account. And pay day was still two weeks away.

Jamal went to Cash Fast and got a payday loan. In exchange for \$500, he provided a \$525 check post-dated for three days after the day he would be paid. He was confident he would have the cash to cover this loan in his account.

The following week, he paid his rent on time and in full. The next day, his car tire blew out. He used up all of the money in his checking account to replace the tire. When pay day came around, he really couldn't afford to hand over \$500 to Cash Fast. So he renewed the loan for a fee—another \$25.

JONATHAN KENT:

“Clark Kent, you stole from us!”

CLARK KENT:

“No, I used your credit cards!”

(Clark goes on a buying spree in Metropolis at his parents' expense after being exposed to red kryptonite.)

— WB'S, "SMALLVILLE,"
AIRED 10/15/02

It took Jamal 6 months to pay back the loan. He renewed it every 2 weeks. Each time he renewed the loan, he paid another \$25.

- ➔ How much did he pay to borrow \$500 for 6 months? _____
- ➔ Does this loan seem like a good idea? _____

Susan Makes Minimum Payments on Her Credit Card Balance

Susan opened a credit card. She was twenty-one and had just transitioned from care. She was working part-time and going to school. She was so excited to have this new card with a \$2,000 limit and a 21% interest rate. Within a month, she had charged \$1,800 worth of clothing, furniture and even a plane ticket to visit her aunt in another state. When the bill came, she was surprised. She owed only \$36. What a great deal!

For the next twelve months, she paid only the minimum required on the \$1,800 she borrowed using her credit card.

Month	1	2	3	4	5	6
Balance	\$ 1,800.00	\$ 1,795.50	\$ 1,791.01	\$ 1,786.53	\$ 1,782.07	\$ 1,777.61
Payment	\$ 36.00	\$ 35.91	\$ 35.82	\$ 35.73	\$ 35.64	\$ 35.55
Interest Owed	\$ 31.50	\$ 31.42	\$ 31.34	\$ 31.26	\$ 31.19	\$ 31.11
Ending Balance	\$ 1,795.50	\$ 1,791.01	\$ 1,786.53	\$ 1,782.07	\$ 1,777.61	\$ 1,773.17

Month	7	8	9	10	11	12	TOTAL
Balance	\$ 1,773.17	\$ 1,768.74	\$ 1,764.31	\$ 1,759.90	\$ 1,755.50	\$ 1,751.11	
Payment	\$ 35.46	\$ 35.37	\$ 35.29	\$ 35.20	\$ 35.11	\$ 35.02	\$ 426.11
Interest Owed	\$ 31.03	\$ 30.95	\$ 30.80	\$ 30.80	\$ 30.72	\$ 30.64	\$ 372.85
Ending Balance	\$ 1,768.74	\$ 1,764.31	\$ 1,759.90	\$ 1,755.50	\$ 1,751.11	\$ 1,746.74	

- ➔ After making her payments for 12 months, how much did she still owe? _____
- ➔ How much principal did she pay off? _____
- ➔ How much interest did she pay? _____
- ➔ Does this loan seem like a good idea? _____

If she continued making payments at this rate of 2% of outstanding balance, it will take her over 100 years to pay it off. And she will have paid over \$12,000 in interest. Even though Susan is paying the minimum balance required by the credit card company, she is paying just enough to cover the interest every month. Very little from each payment is going toward the principal. If she had paid 5% instead of 2%, it would have taken her 11 years and cost \$957 in interest.

If she had paid a fixed amount of \$72 per month, it would have taken her 2 years and 9 months to pay off the loan. She would have paid only \$588 in interest.

Xander Gets Upside-down in His Car Loan

Xander has been on his own for five years. After leaving foster care, he got a medical assistant associate's degree. He has a great job as a medical assistant. The car he has had for the past four years has died. He wants to get a new, reliable car. He doesn't have a down payment, but with dealer financing he can get a new SUV for below market price. The new SUV's value is \$19,500. His price is \$19,000. He borrows the full amount. His equity on the day he buys the car is:

$$\text{\$19,500 (Asset value)} - \text{\$19,000 (Liability or loan amount)} = \text{\$500 (equity)}$$

After one year, the SUV will be worth about \$15,015. His loan balance would be \$16,000. After one year of owning the car, his equity would be:

$$\text{\$15,015 (Asset value)} - \text{\$16,000 (Liability or loan amount)} = \text{-\$985 (equity)}^2$$

Even if he sold his vehicle for the full asset value (which is not always possible), he would have to come up with nearly \$1,000 to pay off the loan.

→ Does this loan seem like a good idea? _____

How is Credit Different from Debt?

Credit is the ability to borrow money. **Debt** is the result of using credit: it's when you owe someone or a business money. Debt is a liability. Credit on the other hand can be an asset.

What kind of asset is credit?

- Physical Financial Productive

The ability to borrow money can help you afford other assets. Assets are the foundation for wealth and financial independence. Having credit may help you:

- **Avoid financial crises**—Low priced credit may help you deal with emergencies.
- **Get a job**—Education or training may help you get a good job and student loans may help you get that education.
- **Start a business**—A loan for a key piece of equipment may lead to a successful business.
- **Own a home**—Most people use a mortgage to finance their own home.
- **Provide for your family.**
- **Achieve your goals and realize your vision.**

But credit must be used carefully and wisely. Once you use credit, you owe money. **When you owe money, you obligate your future income.** Obligations made today with income you have not yet earned, may decrease options for you in the future. The bottom line—use credit with caution.

Credit versus Debt



Credit is the ability to borrow money. It can be a productive asset. When you use credit, you have debt. **Debt** is when you owe someone or a business money. Debt is a liability.

“Creditors have better memories than debtors.”

— BEN FRANKLIN

² The depreciation rate used was determined using the Money-zine.com car depreciation calculator. The average depreciation in one year is \$5,405.

Who Provides Credit?

What people or businesses do you know about that can be lenders or creditors?

As you can see from your list, many individuals or businesses can become lenders or creditors. These include the following and many more:

- ➔ Friends.
- ➔ Family members.
- ➔ Clothing stores.
- ➔ Gas stations.
- ➔ Automobile dealers.
- ➔ Banks.
- ➔ Credit unions.
- ➔ Credit card companies.
- ➔ Payday lenders.,
- ➔ Rental stores (rent-to-own).

How are Credit Decisions Made?

What would you want to know about someone before you lent him or her money?

When to Use Credit



When should you use credit. If you listen to some financial “gurus”, they will say avoid the use of credit—stay out of debt! But sometimes this is not

practical. The best times to use credit are when investing in assets that are likely to increase in value—your training or education, a home or even a well-planned business.

Generally, avoid the use of credit for short-term purchases *especially if they will create a long-term debt obligation*. This commonly happens when pay day loans, rent-to-own arrangements or credit cards are used to buy things. For furniture, clothing, appliances and dinner with friends, use your income or create a small stash of savings to pay for these items.

“Before borrowing money from a friend, decide which you need most.”

— AMERICAN PROVERB

Just like you, people and businesses that lend money want to know about you—before they lend you the money. They want to know whether you are ***the kind of person who is likely to pay them back***. Specifically they want to know if you have the:

- ➔ Capacity.
- ➔ Capital.
- ➔ Collateral.
- ➔ Character.

to pay back the loan. These are called the ***“Four C’s”*** of credit.

What does “capacity to pay back the loan” mean?

What does “capital to pay back the loan” mean?

What does “collateral to pay back the loan” mean?

What does “character to pay back the loan” mean?

Different lenders or creditors use different Cs in making their decisions. For traditional lenders like banks or credit unions, character—your credit scores and credit reports—will be the most important “C.” For payday lenders, collateral in the form of a post-dated check will be the most important “C.”

Lenders and creditors want to know if you have the financial ability to pay back the loan. This is the definition of capacity. They want to know how you will pay the money back. Lenders find this information out about you from two places:

1. The application you complete to get the credit or loan.
2. Your credit report produced by one of the credit bureaus.

Creditors use the following information to find out how you will pay back the money:

Information	Where They Get It
Your income	From you on a credit application. <i>They may ask for proof. You need to give a paycheck stub, copies of tax returns and they may call your employer to verify your income.</i>
Your debt	From you on a credit application, and From a credit bureau on your credit report.
Your assets	From you on a credit application.
Your debt to income ratio	The creditor calculates this using information from your credit application and your credit report.

Creditors want to ensure that you two things to cover the amount you borrow:

1. Income.
2. Employment.

Debt-to-Income Ratio

Creditors also want to make sure you don't have too much debt already. If you have too much debt, lenders risk you not paying them back. Lenders use something called the **debt-to-income ratio** to determine if you have too much debt. This is a simple calculation:

Your **monthly debt payments** divided by your **monthly gross income**.

Capacity

Do you have the financial ability to pay back the loan?

KEY ACTIVITY**Understanding the Debt-to-Income Ratio**

Leon is 24 years old. His monthly debt payments include an auto loan and credit card payments. His monthly debt payments total \$485. His monthly gross income is \$1,870. His debt to income ratio is:

*\$485 (monthly debt payments) divided by \$1,870 (monthly gross income) = .2593
or 26% (debt to income ratio)*

This means that 26% of his gross income goes to cover his debt payments right now. Another way of thinking about this is that for every dollar he earns, \$0.26 goes to cover debt. That leaves \$0.74 of every dollar to cover his other expenses.

What other expenses does he have to cover with that \$0.74?

Lenders and creditors want to make sure that you are not obligating too much of your income to cover debt payments. They will calculate your debt-to-income ratio including the estimated monthly payment for your new debt, too.

So what is considered a “good” debt-to-income ratio? It depends.

20% or less with no mortgage (home loan)

- ➔ This means that monthly credit card payments, student loan payments, auto loan payments and other debts should take up 20% or less of your gross income.

28% or less for just the mortgage (home loan)

- ➔ This means that monthly principal, interest, taxes and insurance (called PITI) should take of 28% or less of your gross income.

Gross versus Net Pay

Gross pay is what you earn before any deductions are taken. Deductions are taken for federal income tax, Social Security, Medicare, state tax, local tax, and insurance. There are other deductions that may be taken out of your paycheck.

Net pay is what you have left after all of the deductions are taken out. It's what you take home.

36% to 43% and below for all debts

- ➔ This means that all debts (including the mortgage) should be between 36% and 43% or less of gross income.³

Though you may not use this information for a long time, knowing about your debt-to-income ratio can help you make any borrowing decisions.

³ www.fha.com; University of Minnesota Extension Service, Debt Know How.

KEY ACTIVITY**Using the Debt-to-Income Ratio**

Read each case study below. Calculate the debt-to-income ratio and answer the questions.

Maria's Debt-to-Income Ratio

Maria is 22 years old. She just left foster care. Right now, she has student loan payments of \$285 per month. She also has credit card debt. On her two credit cards, she pays \$140 per month.

She is trying to decide whether to buy a new car. The car she is considering has a monthly payment of \$225. The car she has is running, but is 14 years old. She is afraid it is going to give out on her. She doesn't have any savings built up to deal with car repairs and other emergencies.

Her monthly gross income is \$2,100.

What is her debt-to-income ratio?

Based on only her debt-to-income ratio, should she take on an auto loan?

What else would you want her to consider before making this decision?

Using the Debt-to-Income Ratio

One way you can ensure you are staying financially independent is to keep debt under control. You can use your debt-to-income ratio to:

- ➔ Figure out whether to take on new debt—should you buy a new car or stick with this old car for a while longer?
- ➔ Make a goal for your debt level—can you get your debt-to-income ratio down to 25% by the end of the year?
- ➔ Keep track of how you are doing paying down debt—how much has your debt-to-income ratio decreased in the past 6 months?

Debt-to-income ratio is a measure of your financial health. Just like your blood pressure reading tells you how much pressure there is on your heart, your debt-to-income ratio can tell you how much pressure your debt has on your income.

Dakota's Debt-to-Income Ratio

Dakota is 29 years old. He left foster care at the age of 21. He has two children (ages 4 and 9) and wants to get a house. He has a good job making \$2,950 per month. He is still paying for student loans, but only \$165 per month. He has a car loan of \$295. He just paid off his credit card debt and has a savings account with \$7,500 for emergencies.

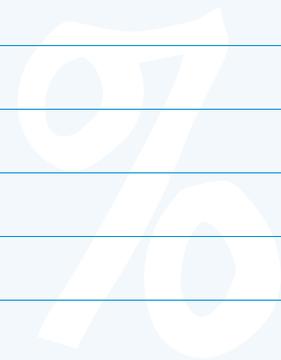
The house he is considering will have a monthly payment (principal, interest, taxes and insurance) of \$820. He has to borrow about \$104,000. Right now he is paying \$800 in rent.



What is his debt-to-income ratio?

Based on his debt-to-income ratio, should he take on mortgage (home loan)?

What else would you want him to consider before making this decision?



Keys to Your Financial Future

Step 2.1: Calculate Your Debt-to-Income Ratio

If you have no debt or income, skip this step for right now. But remember to come back to it when you do have income and debt. You can use this as a tool to keep your debt in check in relation to your income. You can also use it when you are considering taking on more debt. Remember to include the monthly payment of new debt in your calculation.

“ A bank is a place that will lend you money if you can prove that you don't need it. ”

— BOB HOPE

Debt	Monthly Amount Owed
Credit Card Debt	
Automobile Loan	
Student Loan	
Other	
Other	
TOTAL MONTHLY DEBT	

Monthly Gross Income = _____

Total Monthly Debt/Monthly Gross Income = _____

- If number is .20 (20%) or less, you do not have too much debt.
- If the number is .21 (21%) or greater, you have too much debt. Get assistance from the Opportunity Passport™ site staff if you have too much debt.

Sometimes your ability to repay is just not enough. Creditors want to know what assets you have that you may be able to use or sell should you need the money to cover the loan. This is **capital**.

Which assets count? They are looking for financial assets (savings account, certificates of deposit) or physical assets. This information comes from your credit application.

Sometimes creditors want to have legal rights to take something your own in case you don't pay them back. This is **collateral**. Many forms of credit including most credit cards do not need collateral.

Big loans for items like cars or homes usually require collateral. The collateral in those cases is usually the item the loan is for.

- ➔ In the case of a loan for a car, the car becomes the collateral. The car is actually “pledged” (which is like a legal promise) against the loan should you not pay back the loan. If you don't pay back the loan, the lender will take the car and sell it. This is called **repossession** or “repo” for short.
- ➔ In the case of mortgage (a loan for a house), the house becomes collateral. If you don't pay the loan as agreed, the lender can foreclose. **Foreclosure** is when the lender takes back the home and sells it to cover the loan.

Alternative lenders may also require collateral.

- ➔ For pawn shop loans, the collateral is the item you have “pawned.” If you don't pay the pawnbroker back as agreed, then the item you pawned will be sold to the general public in the pawn shop.
- ➔ For pay day loans, your post-dated check serves as collateral. Unless you pay back the loan or renew the loan, your post-dated check will be cashed.

Loans that require collateral are called secured loans.

“Neither a borrower nor lender be,
For loan oft loses both itself and
friend, And borrowing dulls the edge
of husbandry.”

— SHAKESPEARE

Capital

Do you have other assets that can be used or sold to cover the loan?

Collateral

Do you have an asset that can be pledged against the loan?

Character

Are you likely to pay back the loan as agreed?

What is a Post-Dated Check?



A post-dated check is one you write today. Instead of writing today's date on it, you write a date for sometime in the future. For payday loans, the check is most commonly written for two weeks into the future.

Why do creditors or lenders care about character?

Because they want to know if you are likely to pay them back.

Since most creditors or lenders do not know you personally, they have to use something else to figure out your character. They want to know whether you are **the kind of person who pays bills and honors credit agreements**. What do they use? They use your **credit reports** and **credit scores**. In fact, many lending decisions are primarily based on credit scores or reports.

A **credit report** is a written record that includes some of your bill-paying history. A **credit score** is a number calculated using information on your credit reports.

Does someone's credit report or credit score = someone's character?

There is much more to someone's character than what is included in their credit reports and credit scores. While lenders and other businesses may use this to determine someone's character, always **remember that there is much more to your character than what is captured on your credit reports.**

What is in a Credit Report?

A credit report contains some of your bill-paying history. Your credit reports will include information about the following and more:

- ➔ Credit cards you have.
- ➔ Loans you have.
- ➔ The amount of money you have borrowed through loans and credit cards.
- ➔ On-time payments for credit cards and loans.
- ➔ Late payments for credit cards and loans.
- ➔ A history of the places you have lived.
- ➔ Whether you have any payments outstanding because of legal judgments.

How does information get on your credit report?

Individuals and businesses report your payment patterns to credit bureaus. They report your payment patterns in a number of situations:

- ➔ When you make your payments on time.
- ➔ When you are late with your payments.
- ➔ If you miss a payment.
- ➔ If you miss many payments—by this time, your debt may be in collections.
- ➔ If you seem to have stopped paying altogether.

Not all of your bill paying is recorded. Many companies only report to the credit reporting agencies if you miss payments or are late. In other words, some businesses only report negative information not positive information.

Credit Reporting and Your Rights



Credit reporting agencies must follow the law when collecting information about you. The law they have to follow is the Fair Credit Reporting Act (FCRA).

For example, you must be informed if your credit file has been used against you—this means your credit report has led to you not getting a job, an apartment or a loan.

You have the right to know what is in your file—you can get your credit report anytime; you can get each of your reports for free one time per year.

You have the right to dispute (challenge) incorrect information. You have to identify the inaccurate information and provide proof. And the credit reporting agencies have 30 days to address your dispute.

For more information on your rights under the FCRA, visit www.FTC.gov/credit.

Utility companies, cell phone providers, landlords, rent-to-own businesses, payday lenders, medical providers (doctors, dentists, and hospitals), and other businesses are among those that generally only report if you are delinquent. However, since December 2010, Experian has been reporting positive residential rental payments.

Why are Credit Reports Important?

You may be wondering why you need to know about credit reports. If you are under 18, you are too young to have credit. Even if you are over 18, you may have never even used credit. So, why is it important for you to know about credit reports?

A lot of people use credit reports to make decisions about you:

A **bank or credit union** may use credit reports to decide whether to give you a loan.

A **credit card company** may use credit reports to decide whether to give you a credit card.

A **landlord** may use credit reports to determine whether to rent an apartment to you.

A **potential employer** may use credit reports to determine whether you will get a job.

An **insurance company** may use credit reports to determine whether to give you insurance coverage as well as the rates you will pay for coverage.

A **utility company** may use credit reports to figure out how much deposit you must pay before your electric or gas is turned on.

A **cell phone provider** may use credit reports to determine what plans you may be eligible for and the rates you will pay.

Finally, credit scores are completely based on information in your credit reports. The more positive the information in your credit reports, the higher your credit scores will be. You will learn about credit scores later in this section.

Why Credit Reports Matter

Even if you don't think you want credit, your credit report will matter if you want:

- ➔ An apartment.
- ➔ A job.
- ➔ Electricity or gas service.
- ➔ A cell phone plan.
- ➔ Insurance.



As a young person in foster care or leaving foster care, getting your credit report and reviewing it at least once per year will be one of the most important things you do for your financial future.

““ A person's credit report is one of the most important tools consumers can use to maintain their financial security and credit rating, but for so long many did not know how to obtain one, or what to do with the information it provided. ””

— RUBEN HINOJOSA

How Long Does Negative Information Stay On Your Credit Report?⁴

In general, negative information stays on your credit report for seven years. This means that if you default on a loan today, then it will have show up on your credit report for the next seven years.

There are some exceptions to the seven-year rule:

- ➔ Bankruptcies are reported for 10 years. Some credit reporting agencies only report Chapter 13 bankruptcies for 7 years.
- ➔ Tax liens are reported until you pay them off and then for seven more years.
- ➔ Civil lawsuits, judgments and arrests will stay on your credit history for seven years after they are recorded by the court.

What is a Tax Lien?

KEY CONCEPT

A lien is a legal term. It is a right to take property if someone does not pay an obligation.

A tax lien happens when someone doesn't pay their taxes. The government files for a tax lien on the property owned by the person who owes taxes. If the taxes are not paid, the government can take the property and sell it to cover the taxes that were not paid.

There are no time limits for the reporting of negative credit information when you do the following:

- ➔ Apply for a job with a yearly salary of \$75,000 or more.
- ➔ Apply for more than \$150,000 worth of credit.
- ➔ Apply for life insurance with a face value of \$150,000 or more.

What is a Bankruptcy?

KEY CONCEPT

Sometimes people feel there is no way they can pay their obligations and debts. They may file for bankruptcy with the courts. It costs money to file for bankruptcy. There are also other requirements people must meet.

There are two kinds of personal bankruptcy. In Chapter 13 bankruptcy, the court reorganizes the debts. The court sets up payment plans with the creditors. Often the individual ends up paying less and an amount he or she can handle. In Chapter 13 bankruptcy, you are protecting your assets but obligating future income.

In Chapter 7 bankruptcy, the court takes most of the person's assets, sells them and then pays off the creditors. Once this is done, the debt is discharged even if some creditors do not get paid much or at all. In Chapter 7 bankruptcy, you are giving up your assets today, but protecting your future income.

⁴The Federal Trade Commission Website was used to verify information in this section. www.ftc.gov.

Where Do You Get Your Credit Report?

Credit reports are made by businesses called **credit reporting agencies**. Sometimes they are called credit bureaus. The three main credit reporting agencies are **Experian**, **Equifax** and **TransUnion**.

Equifax	TransUnion LLC	Experian
PO Box 740241 Atlanta, GA 30374-0241 1-800-685-1111 (to order a report) 1-877-784-2528 (to speak to a customer service representative) www.equifax.com	PO Box 1000 Chester, PA 19022 1-800-888-4213 (to order a report) 1-800-916-8800 (to speak to a customer service representative) www.TransUnion.com	1-866-200-6020 www.experian.com

Security Questions and Identity Theft



Identity theft is when someone steals and uses your name and other information about you. Often this includes your social security number. They use this information to get credit or other services.

If you have been the victim of identity theft, the security questions may present a barrier to accessing your credit reports. You may be asked the monthly payment range for your mortgage. If this mortgage was opened in your name without your knowledge, you will not be able to answer this question to get your credit reports.

You may need to contact the credit reporting agencies directly to get your credit reports if you cannot answer the security questions.

Credit Reports if You Are 18 or Older

If you are 18 or over, you can order a credit report from any of these companies any time. You can order them from their websites. You can call them. You can write to them. You should review your credit reports from all three credit reporting agencies because they do not all have the same information.

You can also get one free report each year from all three credit reporting agencies. This is because of a law called the FACT Act. There are three options to get your free credit reports:

Option 1 Go to **www.annualcreditreport.com**

Be sure to go to this site. There are many sites that claim to be the site for “the annual credit report” or “free annual credit report”. These other sites are generally trying to sell you a credit monitoring service or some other service. These other “free” credit report sites are called “imposter websites.”

Option 2 Call **1-877-322-8228**

Option 3 Write to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Credit Reporting Agencies keep information on millions of people.

To get your credit report, you will need to give them your:

- ➔ Name.
- ➔ Address (and your previous two or three most recent addresses).
- ➔ Birth date.
- ➔ Social Security Number.

You will also be asked a series of security questions like these:

- ➔ The name of a street you lived on before your current address.
- ➔ The monthly payment for a loan you have.
- ➔ The name of a creditor or lender you have a loan with.
- ➔ The security questions are generally based on information in your credit report.

After you receive one free report from each credit reporting agency, there is usually a fee for any additional reports in a year. There are some exceptions:

- ➔ If you have been denied credit, a job or an apartment based on your credit, then you get a free report from the credit bureau that gave the information that led to your denial. ***You must request the report within 60 days of the denial.***
- ➔ If you are receiving public assistance, then you are allowed an additional free report.
- ➔ If you are unemployed and planning to look for a job within the next 60 days, then you can get a free report.
- ➔ If your report is inaccurate because of fraud including identity theft, then you can get a free report.

Credit Reports if You are Under 18 Years Old

If you are under 18, you should not have a credit report at all. You cannot legally enter into a contract for credit if you are under 18. However, if your identity has been stolen, you are likely to have a report with at least one of the credit reporting agencies (Equifax, Experian or TransUnion). Because information may be different with each credit reporting agency, you must check with all three credit reporting agencies if you suspect identity theft or fraud.

Accessing your credit report if you are less than 18 years old can be tricky. Each credit reporting agency has special instructions for minors ordering their credit reports. In most cases a parent or legal or court appointed guardian must make the request in writing or by calling.

Currently, there is no way to access your report through www.annualcreditreport.com. This is because the credit reporting agencies “do not knowingly create a credit file for anyone under 18.”

If you haven't experienced identity theft, you will not have a file except in the following situations:

- ➔ You are an emancipated minor.
- ➔ You are an authorized user on someone's credit card.
- ➔ You have student loans.

If there has been identity theft, there is likely to be a credit report. All three credit reporting agencies should be checked. Here is how to check:

Equifax⁵

There are three ways to check to see if you have a credit file at Equifax.

Option 1: Call customer services at 1-877-784-2528 and explain you are a minor in foster care and want to ensure you have not been the victim of identity theft.

Option 2: Call the Security Freeze Hotline at 1-888-298-0045. Through the automated system, enter information requested: full name, current address, social security number and date of birth.

If the system responds by asking you to send in more information, you do not have a credit file.

If the system allows you to continue placing a security freeze OR asks you for additional security questions, you have a file. If this is the case, call 1-877-784-2528 and talk to a customer service representative.

Important note: Not every customer service representative is helpful. In fact, they may insist that as a minor you cannot have a credit file. Just request a supervisor in this case.

Option 3: Write the Office of Consumer Affairs at:
Equifax Information Services LLC
Office of Consumer Affairs
P.O. Box 105139
Atlanta, GA 30348

Include:

- ➔ Cover letter including full name and birth date.
- ➔ Copy of the birth certificate.
- ➔ Copy of the Social Security Card.
- ➔ Copy of parent or guardian identification card.

If legal or court-appointed guardian, a copy of documentation showing this relationship.

Credit Reports if You are 14 – 17



You should not have credit reports if you are under 18. There are some exceptions:

- ➔ If you are an emancipated minor, in some states you may be able to enter credit contracts before you are 18.
- ➔ If you are an authorized user on someone's credit card.
- ➔ If you have student loans.
- ➔ If your identity has been stolen and used by someone else to get credit—loans and credit cards, cell phone plans, medical services, utilities or cable service.

If you are under 18 and have a credit report due to identity theft, you must work with staff at in your Opportunity Passport™ site.

The Child Welfare System in your state must also check to see whether you have a credit report once a year starting when you are 16. This has to be done—it is required by law. Sometimes, you will know they are doing this on your behalf. Sometimes, they will do this without your knowing about it. But know they are legally responsible as of January 1, 2013 to ensure inaccurate negative information is removed from your credit file before you leave foster care.

⁵Information verified July 2012.

TransUnion⁶

There are two ways to check to see if you have a credit file at TransUnion.

Option 1: **Call customer service at 1-800-680-7289.** They will verify whether you have a credit file. If you do, you will need to work with your court-appointed or legal guardian to order your report. Provide full name, current address, social security number and date of birth.

Option 2: **Send an email.** TransUnion allows you, parents or guardians to send an email to childidtheft@TransUnion.com. You will need to include your full name, social security number, current address and the statement: "Please confirm whether there is a credit file for this minor." The response will be "yes" a credit file exists. Or "no" a credit file does not exist. If the answer is yes, then the full report should be ordered by writing to TransUnion at:

**TransUnion
PO Box 6790
Fullerton, CA 92834**

Include:

- ➔ Cover letter including full name, birth date and addresses for the previous 5 years.
- ➔ Copy of the birth certificate.
- ➔ Copy of the Social Security Card.
- ➔ Copy of parent or guardian's identification card.
- ➔ If legal or court-appointed guardian, a copy of documentation showing this relationship.

Experian⁷

Option 1: **Check a website or call Experian.**

If you are a minor who is 14 years old or older, you may request a copy of your personal credit report, add a fraud alert or place or remove a credit freeze at www.experian.com/consumer/cac/PrepopulatedForm.do?PrePopulatedForm.No=1052&type=victim

or by calling **1-800-311-4769**.

The request will either be processed or you will be notified that Experian does not have credit information about you.

Credit reports for minors who are 13 years of age or under cannot be accessed online because the Children's Online Privacy Protection Act restricts the online collection of personal information regarding children.

Option 2: **Write to Experian at the following address:**
**Experian
PO Box 9532
Allen, TX 75013**

⁶ Information verified July 2012

⁷ Information verified July 2012

Include:

- ➔ Cover letter including full name, birth date and addresses for the previous 5 years.
- ➔ Proof of current address.
- ➔ Copy of the birth certificate.
- ➔ Copy of the Social Security Card.
- ➔ Copy of parent or guardian identification card.
- ➔ If legal or court-appointed guardian, a copy of documentation showing this relationship.

With the new law, the Children’s Bureau has discussed the idea of the credit reporting agencies developing a universal or automated process to obtain the credit reports of youth in foster care (or verify that one does not exist). While the credit reporting agencies are exploring possibilities, no such mechanism or system is currently available.

Another Credit Report to Know About: CoreScore™ Credit Report⁸

In addition to the credit reports provided by Transunion, Experian and Equifax, **you may have a CoreScore™ Credit Report.** This credit report is produced by CoreLogic. This credit report includes information not traditionally found on the Transunion, Experian or Equifax credit reports. It is supposed to capture nontraditional credit history. The CoreScore™ Credit Report includes expanded public record information including evictions and wage garnishments, estimated asset values (what things are worth), ownership histories for property, and payday loan and rent-to-own payments.

This additional information is supposed to provide a more “complete consumer picture” and help people who do not have much traditional credit.

According to CoreLogic, more information is likely to be added to the report as time goes on.

A FICO Score based on this report in development.

**You can get your CoreScore™ Credit Report
By calling (877) 532-8778 or**

**By mailing a request to:
CoreLogic Credco, LLC
P.O. Box 509124
San Diego, CA 92150**

Impact of Identity Theft on Credit Reports and Scores



Sometimes young people have their identities stolen by family members or other people who have access to their personal information. Those who

steal identities do so because their own credit reports are too poor or their credit scores are too low to get jobs, get loans, credit cards, qualify for apartments, get cell phones, and so on. For young people in care, their personal data can be accessed by many—family members, extended family members, foster parents, staff at congregate care facilities, case workers, social service agencies, and more. This creates an even greater risk for identify theft.

Unfortunately, identity theft can result in your having a poor credit report and low credit scores even though you have never applied for credit. This poor credit can keep you from getting credit, an apartment, a job, a cell phone plan, insurance and utilities.

The best time to get these issues cleared up is before you are 18. This is because you cannot legally enter into a credit contract until you are 18. Mortgages, credit cards and other financial products in your name if you are under 18 can only be the result of fraud. Creditors are much more likely to move to remove these accounts in your name (and on your credit report) if you have not yet turned 18.

⁸ www.corelogic.com and interview with staff members in May 2012 and November 2011.

You will need to include your first, middle and last name, Social Security Number, current and previous addresses, and date of birth. You will also have to send proof of your identity and where you live.

Reading a Credit Report

Reading a consumer credit report can feel intimidating. In general, there are five sections:

1. **Personal Information**—This includes your name and any variations of your name you may have used, your social security number, your current address and phone number, your previous addresses and phone numbers, and sometimes employment information.
2. **Public Records**—This includes bankruptcies, liens (right to property until a debt is paid; liens are often placed because of unpaid taxes), garnishments (court order allowing money, assets or wages of someone to be seized to satisfy a debt) and other judgments resulting from court actions.
3. **Account Information**—This section includes the names of all of the accounts opened under your name and information. It includes account numbers, creditor contact information, balances, payment status, account types, terms, dates opened, and payment patterns. This is where most information on a credit report is. ***This is also the section where you are likely to see whether someone else has stolen your identity.***
4. **Accounts in Collection**—Some credit reports separate accounts that are in collections. If an account has gone to collections, this means the creditor has given up trying to get payment from you. They have given the account to a special department that handles delinquent payments. Or they have sold the debt to a collection agency or lawyer to collect. Special laws apply to debts that have been sold to collection agencies or lawyers.
5. **Inquiries**. Companies look at your credit reports when you apply for credit. They also review your accounts or use the information to offer you a special promotion.

Payment Patterns on Your Credit Reports



Credit reports include information about your payment patterns. Payment Pattern, often abbreviated “PayPat” on credit reports show how you paid on an account each month. On time payments and payments that are 30 days late, 60 days late and 90 days late are recorded. This section will also show whether a creditor has given up collecting payment from you and “charged off” your account. Sometimes it will indicate your account has been sold to a collection agency.

KEY ACTIVITY

Reading a Credit Report

Use the credit report to answer the questions that follow.

Subscriber Name: Auto Credit Zone

Results Issued: 10/15/12

Input Parameters

Reference ID: 7892

SSN: XXX-XX-5555

Name: Williamson, Maria

Current Address: 3456 1st Street

Des Moines, IA 63072

Example Credit Report⁹

Name: Williamson, Maria

SSN: 555-55-5555

In File Since: 04/09

Phone: (444) 444-4444

Current Address: 3456 1st Street

Des Moines, IA 63072

Reported: 09/11

Previous Address: 987 2nd Ave.

Des Moines, IA 63074

Reported: 07/10

45632 5th Blvd #8

Des Moines, IA 63074

Reported: 04/09

Employment

City Hospital

Position: Assistant

Start: 06/11

In File Since: 07/11

Family Restaurant

Position: Wait Staff

Start: 09/10

In File Since: 11/10

Alerts and Special Messages

Type: None

Explanation:

Public Record Information

ABC Bank: (ZP 234567)

Docket #: 692Q49DM

Assets:

Filed: 07/11

Type: Paid Civil Judgment

Liabilities:

Verified: 09/11

Court:

Plaintiff: ABC Bank

Original: \$2,375

Responsibility: Individual (I)

Attorney: Vasquez

Balance: \$0

Paid:

Current:

Balance:

Collections

Results Collection: (Y 09876)	Account #: 98765	Account Rating: 09B
Original Creditor: Big Department Store	Amount Placed: \$489	Opened: 05/11
Account Type: Revolving	Balance: \$350	Paid:
Responsibility: Individual (I)	Past Due:	Closed:
	Last Payment:	Verified: 06/12

Trades

Easy Auto Finance: (A 07788)	Account #: 3210987	Account Rating: I03
Account Type: Automobile	Credit Limit:	Balance: \$7,097.75
Responsibility: Individual (I)	High Credit: \$7,500	Past Due: \$311.38
Remarks: Late on payments	Terms: 60M155.69	Opened: 3/12
		Paid:
		Closed:
		Verified: 9/12
Late Payments: 1 1 0	Delinquency	Maximum: 09/12
		Months 1 - 12
		Amount: 351.38
		Months 13 - 24
30 60 90		321111

National Credit: (N 33445)	Account #: 6758493021	Account Rating: R01
Account Type: Credit Card	Credit Limit: \$1,500	Balance: \$1,475
Responsibility: Individual (I)	High Credit: \$1,768	Past Due:
Remarks:	Terms: MIN75	Opened: 01/12
		Paid:
		Closed:
		Verified: 10/12
Late Payments: 0 0 0	Delinquency	Maximum:
		Months 1 - 12
		Amount:
		Months 13 - 24
30 60 90		111111111

Inquiries

<u>Date</u>	<u>Subscriber Name (Code)</u>
1/4/12	National Credit Card (N 33445)
2/15/12	Community Credit Union (Q 34728)
2/21/12	Credit for Cars (A 55623)
2/21/12	Easy Auto Finance (A 07788)

Consumer Statement

None

Report Provided By:
 Example Credit Report Consumer Affairs Department
 (800) 123-4567
 P.O. Box 546 Wilmington, DE 34567

1. Whose credit report is this?

2. Where does the person live?

3. How many places has the person lived?

4. Has the person had a bankruptcy?

5. Has the person had an account in collections? If yes, what is the account?

6. How many credit accounts does this person have open?

7. What is the balance on each account?

8. How many are late? How late are they?

Debt Collections and Your Rights



When a creditor sells your information to a collection agency or a lawyer that specializes in collecting debt, you have rights under the Fair Debt Collection Practices Act (FDCPA).

For example, they can only contact you between 8 a.m. and 9 p.m.

They must send written notice of the debt they are trying to collect within 5 days after they first contact you.

They cannot harass you, use obscene language, make false statements, or threaten you.

They can contact your friends, family and neighbors to ask about your address, phone number, or where you work. But, they can only contact each person one time.

They must stop contacting you if you ask them to stop in writing. This does not make the debt go away, only the phone calls.

They can contact you one more time to tell you what they intend to do. One of the things they can do is sue you. **If you get a notice of a law suit, do not ignore it. Get help immediately from your Opportunity Passport™ site or get help from Legal Aid.**

For more information on your rights under the Fair Debt Collections Practices Act, visit www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.shtm.

Reviewing Your Credit Reports: 18 or older



Once you are 18, you should get and review your credit reports—all three of them—at least once a year. If you have been the victim of identity theft or think you may be, you will need to review your credit reports more often.

You are solely responsible for taking care of your credit history and scores.

Reviewing Your Credit Reports: 14 to 17 years old



Once you are 16, the Child Welfare Agency in your state must check to see if you have a credit report.

To develop your knowledge and skills, you may want to work with Opportunity Passport™ site staff to get and review your credit reports annually. Starting this habit young, will help ensure you continue this. Checking your credit reports at least annually helps protect your financial future.

9. Overall, do you think this person's credit looks good or does it look like it needs work?

10. Would you extend more credit to them? Why or why not?

How Often Should You Look at Your Credit Report?

Once you are 18, you should get and review all three credit reports every year. This is important for a few reasons:

- ➔ You will be able to see if you have been the victim of identity theft.
- ➔ You will be able to check to make sure your payments are being recorded correctly.
- ➔ You are responsible for taking care of your credit history.

Use the checklist to do this.

Keys to Your Financial Future Step 2.2: Order Your Credit Report

If you are under 18, use the steps in this module to check to see if you have a credit file.
Use this checklist to record the steps you have taken to ensure you do not have a credit file.

Equifax	Transunion	Experian
<p><i>Date checked:</i></p> <p><i>Process used:</i></p> <p><i>Does a credit file exist?</i> <input type="radio"/> Yes <input type="radio"/> No</p> <p><i>If no</i>, you are done.</p>  <p><i>If yes</i>, take the steps to ordering a credit report as outlined in the module.</p> <p><i>Information submitted to Equifax (insert list):</i></p> <p><i>Date information submitted:</i></p> <p><i>Date credit report received:</i></p>	<p><i>Date checked:</i></p> <p><i>Process used:</i></p> <p><i>Does a credit file exist?</i> <input type="radio"/> Yes <input type="radio"/> No</p> <p><i>If no</i>, you are done.</p>  <p><i>If yes</i>, take the steps to ordering a credit report as outlined in the module.</p> <p><i>Information submitted to Transunion (insert list):</i></p> <p><i>Date information submitted:</i></p> <p><i>Date credit report received:</i></p>	<p><i>Date checked:</i></p> <p><i>Process used:</i></p> <p><i>Does a credit file exist?</i> <input type="radio"/> Yes <input type="radio"/> No</p> <p><i>If no</i>, you are done.</p>  <p><i>If yes</i>, take the steps to ordering a credit report as outlined in the module.</p> <p><i>Information submitted to Experian (insert list):</i></p> <p><i>Date information submitted:</i></p> <p><i>Date credit report received:</i></p>

<i>Date credit report reviewed with Opportunity Passport™ Staff or another trusted adult:</i>	<i>Date credit report reviewed with Opportunity Passport™ Staff or another trusted adult:</i>	<i>Date credit report reviewed with Opportunity Passport™ Staff or another trusted adult:</i>
<p><i>Steps taken to get rid of fraudulent credit information:</i></p> <ul style="list-style-type: none"> <input type="radio"/> Identity Theft Report Filed with Police (be sure you have a copy) <input type="radio"/> Identity Theft Complaint Form Filed with the Federal Trade Commission <input type="radio"/> Fraud alert and/or credit freeze on credit file <input type="radio"/> Creditor(s) contacted with letter informing them of minor status (attach Identity Theft Report) <input type="radio"/> Other Steps 	<p><i>Steps taken to get rid of fraudulent credit information:</i></p> <ul style="list-style-type: none"> <input type="radio"/> Identity Theft Report Filed with Police (be sure you have a copy) <input type="radio"/> Identity Theft Complaint Form Filed with the Federal Trade Commission <input type="radio"/> Fraud alert and/or credit freeze on credit file <input type="radio"/> Creditor(s) contacted with letter informing them of minor status (attach Identity Theft Report) <input type="radio"/> Other Steps 	<p><i>Steps taken to get rid of fraudulent credit information:</i></p> <ul style="list-style-type: none"> <input type="radio"/> Identity Theft Report Filed with Police (be sure you have a copy) <input type="radio"/> Identity Theft Complaint Form Filed with the Federal Trade Commission <input type="radio"/> Fraud alert and/or credit freeze on credit file <input type="radio"/> Creditor(s) contacted with letter informing them of minor status (attach Identity Theft Report) <input type="radio"/> Other Steps

If you are over 18, go to www.annualcreditreport.com.

And order your credit report. Be sure to get your report from each of the three credit reporting agencies.

Equifax	Transunion	Experian
<i>Date credit report accessed and printed:</i>	<i>Date credit report accessed and printed:</i>	<i>Date credit report accessed and printed:</i>

Be sure to keep your credit report in a safe and secure place. This document has a lot of personal information. If you do not have a safe and secure place to keep it, review it then shred it OR get some help from staff at your Opportunity Passport™ site.

Keys to Your Financial Future Step 2.3: Credit Report Review Checklist

Use this form to check your credit reports each year. Keep this form with your credit reports. Also be sure to keep any correspondence about the credit report such as dispute letters. If you do find mistakes, highlight them using a highlighter on your actual credit report.

	Equifax	Transunion	Experian
Date You Reviewed Your Report			
Is your name correct? (Check aliases they may have listed for you, too.)			
Is your social security number correct?			
Is your address correct?			
Are your previous addresses correct?			
Is there anything listed in the public records section? If yes, is this information correct?			
Do you have anything listed in the collections section? If yes, is this correct?			
If something is listed in the collections section, has it been noted as closed in the accounts section?			
Review each entry in the accounts section. Do they all belong to you?			
Check the account name, account number, loan amount, and current balance. Are these correct?			
Check payment pattern. Are there payments outstanding? Are there payments marked as late? Are these correct?			
Do you need to file a dispute?			

What should you do if there are mistakes?

If you find mistakes on any one of your credit reports, you should get the mistakes corrected. This is called filing a dispute. Each credit reporting agency has an online form you can complete. You can also write a letter explaining the error. It is generally considered safer to send evidence through the mail. **It is also recommended that you use Certified Mail with a Return Receipt when filing a dispute.** Certified Mail with Return Receipt provides an official record of the date you sent the dispute as well as when the credit bureau received it. If you have evidence, then you can include copies of this evidence with the letter. **Never send original documents: send only copies.**

Here is an example of evidence.

Molly was 23 years old. She aged out of foster care at 18. In her Opportunity Passport™ financial education classes, she learned about the importance of having a good credit history and high credit scores. She wanted to open a business after completing her associate's degree, but needed financing. She also wanted to own her own home one day. She opened a secured credit card when she was 21. She used it to pay for gasoline and groceries only and paid it off in full every month. She also had a loan for the car she bought.

She pulled her credit report and noticed that her cell phone data plan and service provider had reported her as late for four months in a row and owing a balance. Since she paid her bills online, she contacted her bank. The bank provided her with a confirmation number of the payments marked late on her credit report. With this information, she wrote the following letter to the credit reporting agency:

Molly Moore
1234 Lowe Lane
Peoria, IL 45829

January 1, 2012
TransUnion LLC
PO Box 1000
Chester, PA 19022

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have highlighted the items I dispute on the attached copy of the report I ordered online 12/29/11.

The information indicating I made late payments to Super Cell Phone Provider and owe them a balance is incorrect. In April, May, June and July of 2011, these payments are marked late. These payments were made on time. I also have no outstanding balance.

Please see the attached information from my bank indicating when the payments were made using online bill payment.

I am requesting these items be adjusted to correct the information.

Please investigate this matter and correct the disputed items as soon as possible.

Sincerely,
Molly Moore

Enclosures: Confirmation of Payment from Bank of Peoria

Once you mail your letter to the credit bureau, they have 30 days to investigate your dispute unless one of the following is true:

- ➔ If the dispute was filed through **www.annualcreditreport.com**, then they have 45 days.
- ➔ If the credit bureau considers your dispute “frivolous,” then it does not have to investigate within 30 days.

The following will happen once the investigation is complete:

- ➔ The creditor who provided the misinformation must notify all the credit reporting agencies.
- ➔ The credit reporting agency must send you the results in writing as well as free copy of your credit report if the dispute results in a change.

If the investigation does not resolve your dispute, then you can ask that a statement of dispute be included in your file and on future reports.

In addition to writing to the credit reporting agency, send a dispute letter directly to the creditor that provided the misinformation. Send copies of evidence. The creditor must provide notice of the dispute to the credit reporting agency. If they find you are correct, then the information provider may never again report this information.

[Here is an example dispute letter from the Federal Trade Commission:](#)

Date

Your Name

Your Address

Name of Credit Reporting Agency

Address

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received on ___/___/___.

[Insert name of item and account or court case number] is inaccurate because [describe the reasons it is inaccurate]. I am requesting the item be removed [or adjusted, etc.] to correct the information.

Enclosed are copies of [insert list of support documentation that helps prove your claim; ONLY INCLUDE COPIES—NEVER SEND ORIGINALS] supporting my position.

Please investigate this matter and delete [correct] the dispute item(s) as soon as possible.

Sincerely,
Your name

Enclosures: List of what you are enclosing

Example from www.ftc.gov

Keys to Your Financial Future Step 2.4: Disputing Errors on Your Credit Report

If you have errors on your credit report, use this checklist and the example letter to dispute them. Correcting mistakes can make your credit history look better and improve your credit scores.

Status	Task
	Write a letter to the credit bureau that sent you the report.
	Provide the account number for the item you feel is not accurate.
	For each item, explain concisely why you believe it is not accurate.
	If you can, include copies of bills or statements that show you have paid them on time. Send copies only. NEVER SEND ORIGINAL DOCUMENTS.
	Provide your address and telephone number at the end of the letter so the credit bureau can contact you for more information if necessary.
	Make a copy of your letter before you send it to the credit bureau.
	Send a letter to the creditor or information provider who has misreported the information to the credit reporting agency.
	If you can, include copies of bills or statements that show you have paid them on time. Send copies only. NEVER SEND ORIGINAL DOCUMENTS.
	Attach all correspondence related to this dispute to this checklist and keep it in a safe place.

Repairing Credit

If you have problems on your credit reports, you may decide you want to fix them. Most financial experts would recommend that you do. Young people may face many obstacles as they transition from foster care to independent living. Removing poor credit as an obstacle can be a really important step.

If you do not fix problems on your credit reports, you may not be able to get credit—or the credit you can get will be very expensive. Poor credit may also keep you from getting an apartment, a job, insurance, a cell phone plan or you may have to pay a large deposit to get your utilities turned on.

Remember, a good credit history is a **productive asset**. Here are some steps to take in **repairing your credit**:

1. **Order and review your credit report.**
Get help in reviewing your credit report if you have never done it before.
2. **Identify any mistakes.** Take immediate action to correct those mistakes.
3. **If you have any payments that are late, get current.** And make sure you stay current.
4. **If you have any outstanding judgments or collection accounts you want to pay, use your budget to find ways to pay those off.**
 - ✓ Be aware of your rights when collectors are trying to collect money from you. Also understand the length of time creditors have to sue you for the money you owe. Sometimes your actions can extend the amount of time they legally have to sue you.
 - ✓ Contact creditors that you did not pay in the past using the information on your credit reports. Sometimes this means contacting a collection agency.
 - ✓ See if the company will work with you. They may be able to help you get back on track.
 - ✓ Once you have paid off an old debt or something in collection, order a credit reports. Check to make sure the payments you made are on the reports.

Statute of Limitations



There is a certain amount of time creditors have to sue you for payment on something you owe. This is called the statute of limitations. This varies from state to state because it is state law.

While there are circumstances where this may not apply, the statute of limitations in your state is listed here:

- ➔ Arizona—6 years
- ➔ California—4 years
- ➔ Colorado—6 years
- ➔ Connecticut—6 years
- ➔ Delaware—3 years
- ➔ Florida—5 years
- ➔ Georgia—6 years
- ➔ Indiana—10 years for installment loans; 6 years for open-ended accounts like credit cards
- ➔ Iowa—5 years for installment loans; 10 years for open-ended accounts like credit cards
- ➔ Maine—6 years
- ➔ Michigan—6 years
- ➔ Hawaii—6 years
- ➔ Missouri—5 years
- ➔ Nebraska—4 years
- ➔ New Mexico—4 years
- ➔ North Carolina—5 years for installment loans; 3 years for open-ended accounts like credit cards
- ➔ Rhode Island—10 years
- ➔ Tennessee—6 years
- ➔ Texas—4 years

Statute of limitations is not related to how long information can be reported on your credit reports. But be aware that your acknowledgement of a debt or even sending in payment can “restart the clock” on the statute of limitations.

www.creditinfocenter.com/rebuild/statuteLimitations

5. ***If you have balances on credit cards, use the following list to help prioritize those to pay down first.***
 - ✓ Highest rates of interest—these are costing you more.
 - ✓ Call your creditors to try to negotiate a lower rate if:
 - ✓ You have paid them regularly.
 - ✓ You have seen a lower rate advertised by them for new customers.
 - ✓ Where you have used 30% or more of your available credit.

6. ***Go over credit cards you have with no balances (charge cards, credit cards, etc.).*** If you have many and are not using them consider getting rid of some of them to avoid future problems with credit. ***If you are concerned about your credit scores, get some individual assistance reviewing your credit before closing accounts.*** Closing accounts, while good for financial management may actually make your credit scores go down. Be sure to close those accounts that you have had the shortest period of time.

7. ***Send a letter to the card issuer asking them to close those accounts you identify in the above step.*** Make sure you say ***“effective immediately”*** and cut up the card. Inactive credit accounts run the risk of being closed *by the credit card issuer*—it looks better on your credit history if the account is closed by your request rather than vice versa.

Avoid any business or any person claiming they can fix your credit. It is not true. No one can remove negative information from your credit report if the information is true. Only you can improve your credit history and your reputation with creditors through building credit and making regular monthly payments.

Who Can Repair or Build our Credit History?



Only you! But you can get guidance and support from others.

In general, avoid businesses that claim they can fix your credit for you. They will charge you money up front and then temporarily “repair” your credit by disputing everything on it. After the credit bureau investigates these disputes, all of the correct negative information will be back on your credit reports. They use other techniques, too. But none of them permanently repairs or builds your credit.

The only way to really repair your credit is to make on time payments, pay down your debt balances and pay off judgments.

The only way to build credit is to use credit responsibly. Using credit responsibly means using credit as agreed. If you are trying to build credit, it also means only using credit (loans and secured credit cards) from financial institutions that are FDIC or NCUA insured and *regularly report your payments to the credit reporting agencies.*

“Credit-repair companies can't repair credit.”

— DALE MILLER

Debt Validation

KEY CONCEPT

If you do not pay your debts, it may go to a debt collector. The original creditor will sell or assign the debt to the debt collector. Assign means the original creditor still owns the debt, but has hired a debt collector to try to get payment.

Debt collectors work in debt collection agencies or can be attorneys.

You do have rights when a debt goes to a debt collector. These rights are detailed in the Fair Debt Collections Practice Act.

One key right you have is to validate the debt. Validate means you can get proof from the debt collector that the debt is really yours.

The challenge is that you only have 30 days from when the debt collector sends you (in writing) notice of your debt. At that point, you have the right to request validation. You must make this request in writing. You can request proof that the collection agency owns or has been assigned the debt.

You can also request:

- ➔ the name and address of the original creditor,
- ➔ account statements or payment history from the original creditor as well as how they came to the balance you now owe, *and*
- ➔ copy of the original signed agreement between you and the original creditor.

Send the letter through **Certified Mail with Return Receipt**. This will give you proof you sent the letter. The return receipt will give you proof they received the letter. Be sure to hold onto this information.

They have 30 days to respond.

If they do not respond within the time frame, they cannot:

- ➔ Try to collect the debt.
- ➔ Contact you about it.
- ➔ Report it to TransUnion, Equifax or Experian.

For more information about debt collection, see www.ftc.gov or www.consumerfinance.gov.

Credit Utilization Rate

KEY CONCEPT

One thing that can make your credit scores drop is using too much of the credit you have available. This is especially true with credit cards.

If you have a credit card, you should never use more than 30% of the credit limit at any time during the billing cycle.

Figuring out your credit utilization rate is easy. Take the amount you have charged and divide it by your credit limit. As long as it is below .30 or 30%, your credit scores should not be negatively affected.

Building Credit

As a young person in foster care or just leaving foster care, you may not have a credit history. Or you may be trying to repair your credit. In either situation, you may want to consider building your credit. Building your credit is different from repairing your credit. Building your credit is about using specific products to create a positive credit history and scores.

Having good credit scores and a positive credit history is a productive asset.

Following are some strategies that can help you build credit:

Step 1: Get your credit report.

This is the same first step if you are repairing your credit, too. You may not have a credit report especially if you are not yet 18. And, even if you haven't used credit, you could have credit reports or scores—for example, if you missed cell phone plan payments, not paid medical bills, or missed rental payments for example.

Also, if you have been the victim of identity theft, you will need to address this.

Review your credit report as discussed.

Step 2: Create an alternative credit history.

Create an alternative credit history that documents your history of payment on utilities and phone bills. This can serve as alternative proof of your payment behavior and help you qualify for some credit products or other services.

Step 3: Get a secured credit card.

This is a credit card that is secured with money. Your money! The money is put in an account that is dedicated to pay the debts on the card if you do not. There is little risk for the creditor here. They have your money as security to cover the debt. And you get the chance to show that you can pay on time.

Usually, these credit cards have low credit limits so **you must be very careful to only use 30% of the available credit limit to prevent your credit scores from dropping**. If you use more than 30% of your credit limit, you run the risk of lowering your credit scores.

Therefore, if you credit limit is \$500, do not charge more than \$150 on it **at any time during a billing cycle**. Even if you pay your credit card bill in full each month (which you should try to do to avoid paying interest) try to avoid charging more than 30%.

“The surest way to establish your credit is to work yourself into the position of not needing any.”

— MAURICE SWITZER

KEY ACTIVITY

Know the 30% Limit

Calculate the maximum you should ever charge on these credit cards given their credit limits.

Credit Limit	Maximum Amount to Charge to Credit Card
\$250	
\$500	
\$600	
\$750	
\$1000	

Step 4: Get a credit builder loan.

Many banks and credit unions offer credit builder loans. These are for people without a credit file (no information on their credit reports). They are designed to help you build credit.

You will usually need to deposit the amount of money you want to borrow in an account to get this kind of loan. This deposit is security for the bank. Sometimes, banks or credit unions will allow you to deposit the loan into an account and actually use the deposit to pay back the loan. **BE SURE THE BANK OR CREDIT UNION REPORTS TO A CREDIT BUREAU.** If the bank or credit union does not report to a credit bureau, your efforts will not factor into your credit report or credit scores.

Step 5: Follow the steps to maintaining good credit.**Maintaining Good Credit**

There are no secrets to maintaining a positive credit history or good credit scores. Here is a check list:

- **Review your credit reports every year.** Be sure to print out or order your reports from all three credit reporting agencies—Equifax, TransUnion and Experian. Use the tools provided in this module to review your credit reports.
- **Correct any errors.** You are the only one who can do this for yourself once you are 18. It is your responsibility to make sure the information in your credit reports—all three of them—is accurate.
- **Pay all of your bills on time and in full every month.**
- **Never use more than 30% of your credit limit.**
- **If possible, diversify your credit.** Have a credit card and a credit building loan. This shows you can handle both kinds of credit—revolving credit and installment credit.
- **Avoid applying for too many credit cards at one time.** Every inquiry is reported on your credit report. And applying for multiple credit cards can make it look like you are looking for quick money.
- **If you are going to be late with any bill, contact your creditor immediately.** They may be willing to work with you—letting you make two small payments within a billing cycle or letting you pay interest only for one month.

What is Credit Score?

Have you ever hear the term credit score?

What do you know about credit scores?

Who Makes Credit Scores?



While Fair Isaac Corporation (FICO) is used 80% to 90% of the time to make decisions about consumers, there are other companies that make and sell credit scores.

The three credit reporting agencies have their own credit scores. These are marketed directly to consumers for “educational purposes.”

- Experian has the Experian Credit Score also called the PLUS Score (this is the score advertised on television with the guy playing the guitar)
- Equifax has the Equifax Credit Score™
- TransUnion has the TransRisk Score

In 2006, TransUnion, Equifax and Experian developed the VantageScore as a joint venture.

Finally large banks may use their own credit scoring models.

A credit score is a number that summarizes key pieces of information from your credit reports. A special mathematical formula is used to come up with the number.

A higher number for your credit score is positive. A high number means you are likely to pay back your credit obligations as agreed. A low number means you may not pay back your credit obligations as agreed.

After seeing all of the information on credit reports, you may be wondering why this information even matters to you. Thinking about your credit scores may be about the last thing on your list of concerns as a young person in foster care or transitioning from foster care. But it does matter.

Creditors and lenders use scores to decide whether to give you credit. They also use it to decide how much credit to give you—**this is the amount of your loan**—and how much to charge you for the credit—**this is the interest rate and fees they will charge you**.

If you have a lower credit score, creditors may still give you credit—they just increase the cost of credit. Your interest rate and fees may be higher.

Although the lending industry has been the biggest user of credit scoring, other businesses use credit scores. They use credit scores as a “short cut” to making decisions. So who else uses credit scores?

Insurance Providers—In general, lower credit scores result in higher rates for coverage. Low credit scores may even result in the denial of coverage.

Property Owners and Landlords—Like insurers and creditors, property owners are increasingly using credit scores to assess quickly the risks of renting. Bankruptcy (as reported on credit reports) used to be seen as the primary credit-related barrier to renting a place to live. Now, credit scores can also factor into the decision.

Utility Companies—Utility companies that require consumer deposits are using credit scores to help determine deposit levels for customers. The lower the credit scores, the higher the deposit. This is because of the perceived risk that the individual with lower credit scores is likely to be late or even miss payments.

Credit scores are made by companies that collect and sell data and information about consumers. The most widely used credit scores are the one produced by Fair Isaac Corporation. Fair Isaac Corporation makes and sells the FICO scores. If you have a credit history, then you have FICO scores.

You have at least three FICO scores. One for information in each of your credit reports—a FICO score based on your Equifax Credit Report, a FICO score based on your Experian Credit Report, and a FICO score based on your TransUnion Credit Report.

FICO scores range from 300 to 850. People with FICO scores between 760 and 850 have the very best scores—they will get the lowest rates for credit and loans. The cost of credit can be very different depending on your FICO score range:

FICO Score Range	Interest Rate	Monthly Payment	Interest Paid Over Life of the Loan
760 - 850	3.50%	\$ 449	\$ 61,656
700 - 759	3.75%	\$ 463	\$ 66,722
680 - 699	3.90%	\$ 472	\$ 69,801
660 - 679	4.15%	\$ 486	\$ 74,997
640 - 659	4.60%	\$ 510	\$ 83,692
760 - 850	5.10%	\$ 543	\$ 95,462

This example is based on a \$100,000 loan for 30 years (a mortgage).

Someone with a credit score in the 620 to 639 range will pay more than 50% more for this loan than someone with a score above 700.

FICO score ranges and interest rates are based on an example from www.myfico.com. The monthly payment and total interest paid was calculated using an Excel Amortization Table Spreadsheet.

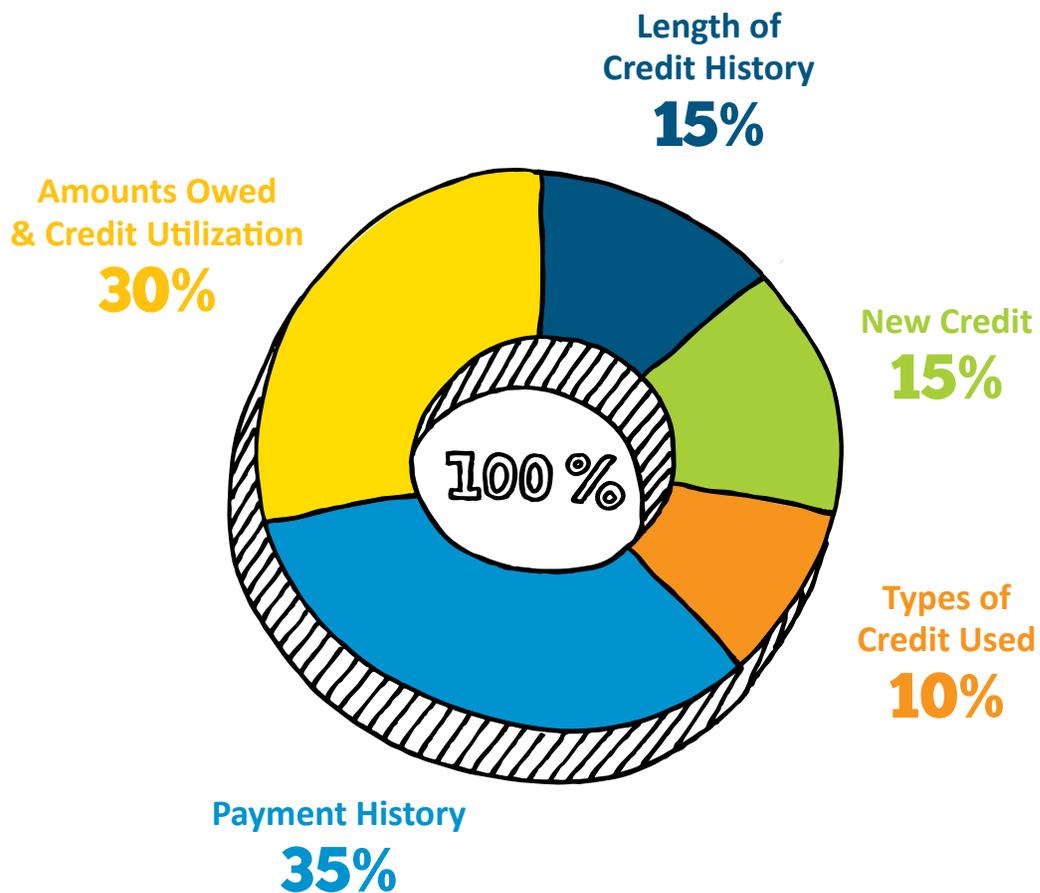
People with rates below 620 will generally not qualify for most conventional credit. Conventional credit means credit you can get at banks or credit unions.

What's in Your Score

Most credit scoring models include information about the following:

- How you have handled your accounts including your repayment history.
- Whether you are paying down balances on loan and other credit consistently.
- The rate at which you are using credit versus the amount of credit you have available.
- How many different types of credit you have (revolving versus installment loans; secured versus unsecured loans).
- Length of credit history.

Different credit scoring models weigh each of these items differently. FICO scores are calculated using the following weights:



	What Does it Mean	Questions Asked
Payment History (35% of the score)	Your track record with paying back your debts	<ul style="list-style-type: none"> ➔ Have you paid on time? ➔ Do you pay in full? ➔ How often do you pay late? ➔ How late are you? ➔ Have any of your accounts been charged off? ➔ Have any of your accounts gone to collections? ➔ Have you filed bankruptcy?
Amounts Owed (30% of the score)	The debts you owe right now	<ul style="list-style-type: none"> ➔ On all your credit sources, how much debt are you carrying? ➔ Are you paying down these balances in a consistent manner? ➔ Are you using 30% or less of the credit available to you (credit utilization rate)?
Length of Credit History (15% of the score)	Your “credit age”	<ul style="list-style-type: none"> ➔ How long have you had credit?
New Credit (10% of the score)	A clue to see if you are stretched too thin and using lots of credit to catch up	<ul style="list-style-type: none"> ➔ Have you opened any new credit lines recently? ➔ What kind and for how much?
Types of Credit Used (10% of the score)	Your line up of revolving, installment and other forms of credit	<ul style="list-style-type: none"> ➔ How many credit or department store charge cards do you have? ➔ How many auto loans? ➔ Do you have any mortgages or student loans? ➔ Are you able to manage many different kinds of credit?

What is Not Included in Credit Scores

Some things cannot be included in the credit score calculations. The Equal Credit Opportunity Act prohibits the following from being used to determine someone's credit scores:¹⁰

- ➔ Race
- ➔ Color
- ➔ Religion
- ➔ National Origin
- ➔ Sex
- ➔ Marital status
- ➔ Receipt of public assistance
- ➔ Whether the individual has “exercised any consumer right under the Consumer Credit Protection Act”

In addition, FICO specifically does not include an individual's age, salary, occupation, job title or employer, employment history, or place of residence. FICO also does not consider interest rates being charged on credit accounts, child or family support obligations or rental agreements, or whether the individual is participating in credit counseling.

FICO also does not count certain inquiries against a person's credit, including the following:

- ➔ Inquiries made by the consumer to check his or her credit report.
- ➔ Inquiries made by lenders and other businesses to make offers such as pre-approved credit offers.
- ➔ Inquiries that are considered administrative.¹¹

In general, FICO does not use any information that is not found on a credit report produced by one of the three major credit bureaus. Other credit scoring models may consider some of these factors even though FICO does not.

How Can You Improve Your Credit Scores

Since all of the information that goes into a credit score comes from the credit reports, the first step in improving your credit scores is **ordering and reviewing your credit reports regularly**. Once you are 18, you should do this at least one time per year. Order your report from each of the national credit reporting agencies one time per year through www.annualcreditreport.com.

Make sure you are **paying all of your bills on time**. This has the biggest impact on your credit scores. Remember, it accounts for 35% of your FICO scores and is a big factor in other credit scoring models, too.

Ensure you are **not using more than 30% of the credit available to you**. The rate at which you are using your credit is called your credit utilization rate.

If possible, try to **have a diversity of credit** (revolving credit and installment loans; secured and unsecured loans). Be sure to work closely with someone if you decide to take on more credit to build your credit scores. Taking on too much credit and failing to pay as agreed will lead to far worse results than having only one kind of credit.

¹⁰ Consumer Federation of America and Fair Isaac Corporation. Your Credit Scores. Federal Citizen Information Center. www.pueblo.gsa.gov/cic_text/money/creditscores/your.htm

¹¹ www.myfico.com

Credit and the Opportunity Passport™

Having a good credit history and credit scores can open doors for you. As you transition to financial independence, the Opportunity Passport™ wants to ensure you start out with positive credit.

You can use your matched savings account to improve your credit—both your credit history and your credit scores. What does this mean? It means you can apply your matched savings to repair your credit history and improve your scores by paying for different expenses:

- ➔ Accounts you may be late on.
- ➔ Debts in collections.
- ➔ Accounts you risk becoming late on.
- ➔ Dealing with legal or other issues resulting from identity theft.

To build your credit history and improve your scores, you can use your matched savings to do the following:

- ➔ Secure a credit builder loan to build credit.
- ➔ Secure a credit card to build credit.

Before deciding to use your matched savings to build credit, be sure you have taken these steps:

- ➔ Ordered your credit report.
- ➔ Reviewed your credit report with Opportunity Passport™ staff or someone they have referred you to.
- ➔ Considered other asset building opportunities you may be giving up to use your matched savings for credit repair or building.

Good credit—having a good credit history and positive credit scores—is a productive asset. Good credit can help you get and keep other assets. Investments of time and money now to deal with credit issues make credit accessible, loans more affordable, jobs more available, insurance affordable, and renting an apartment possible.

“If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability.”

— HENRY FORD

EXCELLENT ★
 ✓ GOOD
 ★ ★ ★ ★ ★ ★ ★ ★
 AWESOME

MODULE 2

Wrap Up – Good Credit: Your Score in the Game of Life

Congratulations on finishing the second module of *Keys to Your Financial Future*.

You have:

- Learned about credit.
- Explained the difference between credit and debt.
- Explained how credit works.
- Used key credit terms like principal, interest and APR.
- Explained how credit decisions are made.
- Calculated a debt-to-income ratio.
- Explained where and how to get your credit reports whether you are under 18 or 18 and older.
- Described how often you should review your credit report.
- Learned to write a letter of dispute.
- Explained how credit scores work and are calculated.

While there were far fewer *Keys to Your Financial Future* Steps in this section, this information will serve as the foundation for the rest of your financial life. Here is a list of all of the steps you have completed:

- Keys to Your Financial Future Step 2.1:
Calculate Your Debt-to-Income Ratio
- Keys to Your Financial Future Step 2.2:
Order Your Credit Report
- Keys to Your Financial Future Step 2.3:
Credit Report Review Checklist
- Keys to Your Financial Future Step 2.4:
Disputing Errors on Your Credit Report
- Keys to Your Financial Future Step 2.5:
Credit Repair and Credit Building Plan

Positive credit reports and high credit scores are productive assets. They can help you:

- Get credit.
- Pay less for credit.
- Get employment.
- Access utilities.
- Qualify for apartments.
- Select the most cost-effective cell phone plan.
- Qualify for insurance.

Poor credit histories and credit scores or not having a credit history can close doors. Use this time to go back and review the work you have done. Get inspired to use your money to make the life you want to build for yourself, for the people you love and for your community.