

# the WISE USE of CREDIT

credit<sup>.org</sup>



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# About credit.org

We are a nonprofit organization founded in 1974.

We offer personal financial education and assistance with money, credit, and debt management through educational programs and confidential counseling.



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Credit.org is a nonprofit consumer credit management organization formed in 1974. Our mission is simple: our people improve the lives and financial well-being of individuals and families by providing quality financial education and counseling. We are accredited by COA (the Council on Accreditation), signifying the highest standards for agency governance, fiscal integrity, counselor certification and service delivery policies.

**Our services include:**

**Financial Education Programs** – We offer seminars, workshops, and educational materials on topics such as budgeting and money management, identity theft, and understanding credit. Materials for many of our workshops are available by contacting our education department or as downloads from our website, [www.credit.org](http://www.credit.org).

**Confidential Credit and Debt Counseling** – Our certified consumer credit counselors will discuss your financial situation with you, help you understand what may cause financial stress, and help you create a personalized budget, an action plan and give you options to help manage your finances more effectively.

**Debt Management Plans** – Debt repayment through our Debt Management Plan. If you choose this option, we can work with your creditors to reduce costs and repay debt through one monthly payment. \*We do not offer debt management plans in all states; please call or check our website for state availability.

**Bankruptcy Pre-petition Credit Counseling and Budget Briefing** – We provide budget and credit counseling (and a certificate of completion as mandated by the bankruptcy reform law) for those who consider filing for bankruptcy.

**Bankruptcy Pre-discharge Personal Financial Management Instructional Course** – We provide financial education and instruction (and a certificate of completion as mandated by the bankruptcy reform law) for those completing their bankruptcy discharge.

**Housing Counseling** – We are a HUD-approved comprehensive housing counseling agency. We provide homebuyer education seminars, counseling for foreclosure prevention, landlord/tenant counseling, post homebuyer education and reverse mortgages (please call ahead for reverse mortgage appointments).

*Counseling available by phone, internet, or in person*

**800.449.9818**

**[www.credit.org](http://www.credit.org)**

# Introduction

Surveys show that only 12% of high school seniors learn about money management in school. Most of us can't remember learning about finances and how to handle our money while we were students, because chances are we didn't.

Historically, it has been up to parents to teach their children the skills needed to make smart choices, pay off debt, and build savings.

Unfortunately, most of us end up learning these lessons the hard way after we've moved out on our own. We fall into every trap at least once before we learn to avoid them.

It is clear to us at credit.org that there is a pressing need to provide financial education to our clients and the community at large. The importance of credit and financial education is built into our mission statement:

Credit.org is a nonprofit organization dedicated to consumer advocacy. We seek to strengthen our community and improve the lives of consumers by offering services that promote financial literacy, homeownership and a healthy economy. Our mission is simple, yet vital: to offer education on the wise use of credit.

This booklet and the seminar were designed as part of our ongoing efforts to achieve this mission. The Wise Use of Credit is a lesson in obtaining and using credit responsibly.

For more information on our educational programs, call 800.947.3752 or email us at [education@credit.org](mailto:education@credit.org). You may also visit our website at [www.credit.org](http://www.credit.org) to find out about more of the various services we provide.

# The Cost of Credit

## You didn't think using credit was free, did you?

Depending on the terms and conditions (the application and agreement you sign) your overall cost of using credit can be very expensive in the long run. While credit card companies provide a worthwhile service, many of them are driven by industry standards and their own stockholders to earn the maximum profits, and they are good at what they do.

Many credit cards are designed essentially to never be paid off; in most cases, consumers who only make the minimum required payment on a credit card balance will take over 20 -30 years to pay off that debt depending on the balance and additional charges/fees. Cardholders will incur a great deal of debt in that time.

## THE REAL COST

### Based on these average daily balance examples, here is the interest you'll pay each year.

(This is only an estimate, not taking into consideration any new purchases or other fees that may change the amount of your balance.)

APR	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000
9.0%	\$90	\$180	\$270	\$360	\$450
16.0%	\$160	\$320	\$480	\$640	\$800
24.9%	\$249	\$498	\$747	\$996	\$1,245

As you can see, the longer you wait, the more you will pay. The best policy when it comes to credit cards is to pay the entire outstanding balance at the end of each month. Consumers who do so will build outstanding credit and pay significantly less interest.

## TERMS AND CONDITIONS

Some of the most common terms and conditions you will find in a credit card agreement or offer:

- **Annual Fee:** The bank charge for use of the card levied each year, which can range from \$15 - \$300, billed directly to the customer's monthly statement.
- **Annual Percentage Rate (APR):** The cost of credit on a yearly basis, expressed as a percentage rather than a dollar amount. Creditors are required by law to disclose the APR.
- **Balance Transfer Fees:** The fee charged customers for transferring an outstanding balance from one credit card to another. Card issuers offer teaser rates to encourage balance transfers.

- **Cash Advance Fees:** A charge by the bank for using credit cards to obtain cash from the available cash. This fee can be stated in terms of a flat per transaction fee or a percentage of the amount of cash advance.
- **Default Purchase Rate:** If you default on your account, your card issuer, may sell your debt to another company or collection agency. If that happens, you could be responsible for a different, and higher rate.
- **Double Billing Cycle:** Some companies used to employ a double billing cycle, which means that while the due date on your statement referred to your minimum payment, the due date to pay off your entire balance was different. This kind of 2-cycle billing was made illegal by the Credit CARD Act of 2009.
- **Finance Charge:** The charge for using the card, comprised of interest costs and other fees. The finance charge can be calculated with the following formula:  $(\text{Average daily balance}) \times (\text{Daily periodic rate}) \times (\text{Number of days in billing cycle})$ .
- **Grace Period:** A time period during which a borrower can pay the full balance of credit due and not incur any finance charges. (Some creditors have in their terms and conditions no grace period and the finance charges are based on how many days the account carried a balance before being paid off. There is typically no grace period on cash transactions such as cash advance, balance transfers and the fees associated with the cash transaction).
- **Inactivity Fees:** Also sometimes called dormancy fees, these charges are applied by some credit card companies on accounts that go unused for a set period of time. The amount of the fee and the period of time your account may go unused before incurring this fee varies between lenders.
- **Insurance/Protection:** Protection against loss of life, disability, unemployment, etc.. Pays or cancels your monthly payments for a time period, if consumer loses their job through not fault of their own. Policies and protection plans vary. Usually monthly fee is based on the amount of the credit card balance.
- **Late Fee:** The fee charged customers for paying late or less than the required minimum payment due by the due date.
- **Notice of Reaffirmed Debts:** If you have ever defaulted on a debt, be careful that your solicitations for “new” cards don’t mention your old debts. Some credit card issuers buy old debts from other companies and then offer “new” cards to people in debt, only to shock the cardholder on their first statement with the old debt.
- **Overlimit Fee:** The fee charged customers for going over their credit line. Since the Credit CARD Act of 2009, customers must “opt in” to be able to go over their credit limit.
- **Reward Program Fee:** The fee charged customers to be enrolled in a rewards program. Some creditors do not charge a fee.
- **Transaction Fees:** Fees for various transactions. Like using your card for cash advances.

# The Three C's Of Credit

Most credit card companies will pull your credit report from one of the three major credit reporting agencies—Experian, Equifax or TransUnion—and based on your FICO Score will either approve, decline or request additional information. When applying for a mortgage or auto loan, most lenders will look at all three credit reports and ask for more information from the following three C's.

## Character

- Good credit report
- Character references
- Past use of credit (credit history)



## Capacity

- Steady full employment or verifiable source of income
- Current living expenses
- Other financial obligations

## Capital

- Current status of savings and investments
- Available collateral



\* A 2006 survey by Braun Research found that...

- 33% of consumers can't read or understand disclosure, or "fine print"
- 20% couldn't find critical terms
- 44% did not know their APR on their cards
- 20% didn't know their credit limit
- 70% were unaware of "universal default" policies



# Types of Credit Cards

Before applying for any type of credit or loan, it is important that you are aware of the different types of credit that are available to you and what is involved.

## Private Label:

- Issued by a single source
- Can only be used at a single source
- Examples: Department stores, gasoline companies, furniture, jewelry, Goodyear

## General Label:

- Issued by a single source
- Can be used in many places
- Examples: Bank card, Major Credit card (Visa, Mastercard, Discover, AMEX)

## TYPES OF CREDIT CARD OWNERSHIP

While today there are many ways to apply for credit (online applications, pre-approved offers, in store rapid credit, mail in applications) before you sign, think about what type of applicant you want based on the responsibilities and understand the consequences of your decision.

### Individual Applicant

Primary cardholder. Will report to your credit report as individual. Only person responsible/liable for the management and payments on the card.

### Joint/Co-Applicant

Both primary cardholder and co applicant (joint cardholder) are equally responsible and liable for the management and payments on the card. Will report to both parties credit bureaus.

### Authorized User/Buyer

May use the card for purchasing. Not liable for any responsibilities or payments to the card. Will report to authorized users credit report—listed as authorized user/buyer.

## WAYS TO APPLY FOR CREDIT

- Online/Internet
- Pre-approved offers
- Mail in applications
- Instant credit in the store (Rapid Credit)

Under the new “Red Flags Rule” creditors must employ programs to prevent identity theft. You may face stricter application requirements and a more thorough verification process to establish your identity when applying for credit.



# Shopping for a Credit Card

Under the Truth in Lending Act, creditors are required to disclose the cost of their credit products. You may use these disclosures to compare one credit card offer with another before filling out the paper application, pre-approved or online form.

**Listed below are some questions to ask yourself before applying for credit and use the answers to compare the costs for each of them in the chart on the following page.**

- Is there an introductory rate? What is it and how long does it last?\*
- After that, what will my rate be?
- Is there an application fee?
- Are there processing fees?
- Is there an annual fee?
- Is there a late fee?
- Is there an over-the-limit fee?\*\*\*
- Are there any other fees, like account termination fees or balance-transfer fees?
- When and how can a variable rate be changed?
- What is the grace period before interest is applied?
- How will you inform me of any changes in my contract?\*\*\*
- Will the company inform me if I am about to go over my limit?
- What is the company policy if I have trouble paying my bill?
- May I pay my bill online?
- Is there a rewards program? Is there a fee for the program?



\* By law, introductory rates must last at least 6 months.

\*\*Under the Credit CARD Act of 2009, consumers must “opt-in” before they will be able to exceed their credit limit and incur an over-the-limit fee.

\*\*\*Creditors are required by law to provide written notice 45 days in advance of any changes to credit card terms.

# Getting a Secured Credit Card

With a secured credit card, the borrower puts up cash against the amount of credit they need. For example, you could make a \$500 deposit that the creditor holds, and they provide you with a credit card that carries a \$500 limit. Why do this instead of just using the \$500 for purchases? This is a way to build your credit rating. If you spend 6 months or a year making timely, in-full payments on your secured card, your credit score will go up and your creditor may convert the secured card to a traditional revolving credit card.

A secured card is virtually guaranteed to be approved, since there's little to no risk to the lender--if you don't make your payments, the creditor can take the money from your deposit and simply cancel your secured card. However, if this happens it will be very devastating to your credit, so handle secured accounts carefully and always make your payments on time and in full.

1. **Where to get a secured card.** Start with your personal bank or credit union. If you don't use a financial institution that offers secured cards, you can find options online, but the best way to apply for a secured card and make your initial deposit is in person.
2. **What it costs.** Fees vary, but it should be possible to find a secured credit card option that doesn't carry a application fee. There will probably be annual fees, though. Shop around to find a reasonable annual fee, and remember, your goal is to have a secured card only as long as it takes to build up a good credit history and qualify for better credit products. So you shouldn't expect to pay the annual fee more than a few times before you're ready for a traditional credit card.
3. **Amount of deposit.** This amount varies, but for beginners, a secured card is usually \$250-\$500. The amount you deposit sets your initial credit limit, but over time, if you handle this account responsibly, your credit limit may be raised higher than the amount you have on deposit.
4. **Other options.** Some banks that do not offer secured cards will instead offer a traditional credit card with a very low credit limit and high fees & interest. If you go this route, remember your objective is the same; use this "starter" credit line to prove that you are responsible and can be trusted with a higher credit limit and better terms. Borrow very sparingly and always make your payments on time.
5. **Be careful.** There are many slick telemarketing scams that offer credit for a fee, but all they do is send you a credit card application. That's why we advise applying for your secured card in person at a bank or credit union. At the very least, get an application from your local financial institution, so you know whom you're dealing with.
6. **Credit reporting.** We've mentioned a few times now that the whole point of the secured card is to give you a chance to prove you can handle credit responsibly and build a positive credit history. If the secured card you apply for doesn't report payment history, then you're wasting your time. Make sure any card you apply for will give you the credit you deserve by reporting your positive payment history. Also find out if they intend to flag your account as secured on your credit report, because that won't be as great a boost for your credit.

# How Much Debt Can You Handle?

## MAKING SURE YOU STAY IN BALANCE

Experts say the secret to a healthy home balance sheet is to keep your monthly consumer debt payments down to around 10-15% of your total net income. The absolute maximum: 20%. This includes payments due on credit cards, personal, school, car loans, but not first mortgages, home equity loans or rent. Those obligations can count for as much as 35% of your total monthly expenditures.

Your own safe personal debt ceiling; however, depends largely on who you are:

- If you are earning \$20,000 a year or less, debt counselors say your net income may leave you only enough for essentials. Avoid borrowing at all.
- If you are single, middle aged and net \$40,000 a year, you can probably afford 20% in debt. But knock that back to 15% if your income is based on commission instead of a regular salary.
- If you and your working spouse take home \$50,000, you can probably carry 20%. If you have children, make it 15%.
- If you are retired and on fixed income, stay within 10%.

Follow this worksheet to tally up your monthly payments.

List Loans & Charge Accounts	Avg. Monthly Payment
	\$
	\$
	\$
	\$
	\$
	\$
	\$

1. Total your monthly consumer debt payments. \$ \_\_\_\_\_
2. Enter your net monthly income. \$ \_\_\_\_\_
3. To calculate the most you can afford each month, divide your net monthly income by 5 for a 20% limit, 6.7 for 15%, or 10 for 10%. \$ \_\_\_\_\_
4. To find out whether your payments are within your means, subtract line 1 from line 3. that sum is your safety margin. If line 1 is larger than line 3, you should reduce your debt as soon as possible.

# How to Reduce Credit Card Debt

If you find yourself with too much credit card debt, follow these suggestions to pay off those balances.

- 1. Find out how much you owe.** This shouldn't be difficult, but remember that this isn't a static figure. Your balance will grow continually due to fees and interest. If you call your credit card company for a pay-off amount, ask them how long that amount will be valid.
- 2. Pay more than the minimum.** Minimum payments are designed to keep you paying forever. After you pay down a portion of the balance on a given card, you may see the creditor offer to lower your monthly minimum payment. Don't take them up on the offer, continue paying more than the minimum.
- 3. Send in your payment as soon as you get your bill.** Remember, you want to beat the deadline for the grace period so you won't incur any more interest than necessary. And a history of prompt payment goes a long way on your credit report. Remember if a portion or all of the balance you are paying down was a cash advance, the grace period does not apply.
- 4. When you pay off one card, put those payments on another.** Keep installment debt payments at the same level, regardless of how many debts you've paid off. Your balances will shrink faster that way.
- 5. Refuse your card issuer's offer of a minimum payment of zero.** If you're doing well paying down your debt, your creditors will offer a make no payment this month as you are paid ahead, you will not assess a late fee, but interest will still accrue.
- 6. Refuse your card issuer's offer to skip a payment for a month.** Again freeing yourself from debt is your top priority. Skipping payment for a month might put more money in your pocket in the short term, but over time it will cost you.
- 7. Consolidate your cards.** Transfer balances to the card with the lowest interest rate whenever you can. This does not mean applying for new credit cards just to get a lower interest rate, such as a balance transfer. This means between existing accounts. You want to avoid opening new accounts and credit inquiries.
- 8. Refinance your high-rate credit card.** You may have had to accept a high-rate credit card if you were starting out and/or had a less than perfect credit rating. If your payment history has been solid and your credit has improved, you may be able to refinance to a lower rate; call your card holder and ask the customer service representative and/or the representative's manager for a lower rate.
- 9. Consider using your savings to pay off your high-rate credit card balances.** Chances are a high interest rate is costing you far more than you would earn in interest from a typical savings account. That money may be better spent paying down debt than gathering smaller interest in a savings account.

# How to Avoid Late Fees

With credit card late fees at \$39, this is no time to be the least bit tardy with your card payment.

- 1. Follow payment guidelines.** Each credit issuer is allowed to set specific payment guidelines. If any of the guidelines are not met, the issuer can take up to five days to credit your payment. An on-time payment could easily become “late” during that period, so follow these payment guidelines carefully:
  - Use the preprinted envelope provided by the credit card company.
  - Include the billing coupon, and be sure to write the amount being paid in the box provided.
  - Make sure checks are legible and the payment amount is correct. Sign the check. Write the last 4 digits of the credit account number on the check. Write in blue or black ink.
  - Send payment with proper postage to the payment address requested by the issuer. It’s a good idea to mail your payment at least one week in advance of the due date. Ten days to two weeks prior is better.
- 2. Pay minimum immediately.** The safest strategy for anyone sending a credit card payment by snail mail is to pay the bill as soon as it arrives, even if you can only make the minimum payment. Giving your issuer the 2 percent minimum payment it wants ASAP is a great way to guard against late fees. And you can always send a bigger payment when you’ve got more cash.
- 3. Change your due date.** Are your credit card bills due at a time of the month when you’re running low on cash? Many credit card issuers will let you set your own due date– if you ask. Why not time it so your credit card bill arrives right after your paycheck? That way you’ll have plenty of cash to pay your bill each month.
- 4. Set up automatic online payments.** Paying bills online can be a great buffer against late fees. Most major issuers accept online payments. You can sign up for these services on the issuer websites. Choose an online payment amount and date that automatically covers the minimum amount due on a credit card each month, well in advance of your credit card due date. This is a great way to pay credit card bills while traveling.
- 5. Pay by phone.** Is a quick and easy way to make a last minute card payment. You’ll be asked for the numbers at the bottom of your check. Make note of your payment in your check book and void the check. Some issuers charge fees ranging from \$7.50–\$25.
- 6. Express mail or wire payment.** Consider sending a credit card payment by express mail or wiring the payment. The U.S. Postal service charges \$13.65 for an express mail flat rate envelope, which guarantees next-day delivery.
- 7. Good payers can ask for waiver.** Call and ask your issuer to waive the fee. Many issuers will waive late fees as a courtesy to customers with good payment histories.

# How to Transfer a Balance

Before you transfer that credit card balance to a card with a super low introductory rate, read the fine print and ask questions. Otherwise you could end up paying fees and a much higher interest rate than you expected.

Ask these questions before transferring a credit card balance:

- 1. How long does the introductory rate last?**
- 2. What is the card's annual percentage rate after the teaser rate expires?**
- 3. Does the teaser rate apply to transferred balances or new purchases or both?**
- 4. Does that card have an annual fee?**
- 5. What about late fees and overlimit fees?**
- 6. Are there balance transfer fees?**

Read through the credit offer a few times. A lot of information is hard to decipher. For example, some offers waive fees for “initial balance transfers” only. These are the transfers that are authorized when the customer accepts the card and completes the balance transfer form. (Some issuers charge transaction fees as high as 4 percent. So the higher the balance, the higher the transaction fee. A 4 percent fee on a \$5000 balance would cost \$200).

In such cases, every balance transfer is treated as a cash advance and is subject to cash advance fees.

Keep in mind that not everyone who gets an offer qualifies for the super low rate. While an offer may boast a 3.9 percent teaser rate that jumps up to 17 percent after six months, a person may qualify for a card with a 7.9 percent teaser rate and a regular annual percentage rate of 21 percent.

Continue to make your payments on the credit card till your balance transfer is completed. You can always ask for a refund if you overpay.

Also realize that it may take only one slip-up for that super low rate to disappear. Some rates can jump as much as 11 percent after one tardy payment. And if you fall behind on payments on another card, your new card may raise your rate (universal default).

Remember that applying for a balance transfer on a new credit card will be authorizing the creditor to review your credit report, thereby creating a credit inquiry on your credit report. Inquiries, new accounts and high balances all affect your overall credit score. We will discuss this in the next few pages.



# The High Cost of Ignoring Your Bills

It's common for people to become overwhelmed and wish to ignore their financial problems. Let's review what you may face if you stop paying your credit card bills:

1. Your creditors will assess late fees of \$39 or less per month
2. Finance charges will continue on the balances of your accounts
3. The creditors will likely raise your annual percentage rate (APR) to approximately 29.9 percent because you have not honored your contract
4. Once your balances exceed your credit limit, if they do not already, you will be assessed an over the limit fee of \$29 each month

## CREDITORS CALLING

While credit card balances are growing quickly without payment, your creditors will contact you by phone regarding your unpaid bills. The calls will not stop unless you request so in writing.

With no response or payment from you, your creditors will turn over your accounts to a collection agency and calls will begin again. The collection agency will do its best to convince you to make payments and will often demand a lump sum payment.

## BAD DEBT STAYS WITH YOU

After attempting to collect the debt with no results, the creditors will eventually charge off your debts as a bad debt and you may think that the situation is solved. However, the charged off accounts will appear on your credit reports and make it difficult for you to secure a mortgage or other loan and could affect your ability to obtain a job, get good car insurance or even rent an apartment. The charged off accounts may even be sold to another collection agency, and they will start calling you about the debt.

## TAKE THIS COURSE OF ACTION

Even though it can be tough to stop using credit and pay off your debt, it is a much better alternative than not paying your bills.

- Stop charging on your credit cards
- Communicate with your creditors—they may have a payment plan for you
- Work out a spending plan and pay as much as you can on your credit card bills
- Seek professional help from a nonprofit credit counseling agency if you are unable to get things under control yourself.

# Know Your Credit Rights

All consumers should be aware of these laws to better prepare them for the costs of using credit and to protect them before and during the application process, when managing their credit, when denied credit, if a victim of identity theft, when disputing credit, and when dealing with debt collectors.

## **Truth in Lending Act -TILA (1968)**

Consumers must be fully informed about the cost and conditions of borrowing.

## **Equal Credit Opportunity Act—ECOA (1974)**

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

## **Fair Credit Reporting Act—FCRA (as amended 1997)**

Protects the privacy and accuracy of information in a consumers credit report. Makes an Individual's credit files available to him or her.

## **Fair and Accurate Credit Transactions Act—FACTA (2003)**

Added new sections to the Fair Credit Reporting Act, intended primarily to help consumers fight the growing crime of identity theft. Accuracy, privacy, limits on sharing, and new consumer rights. Provided everyone the right to get one free credit report from each credit bureau and a special website and toll free number.

## **Fair Credit Billing Act—FCBA (1975)**

Sets up a procedure for quick correction of mistakes that appear on consumer credit accounts.

## **Fair Debt Collection Practices Act—FDCPA (1978)**

Prevents abuse by professional debt collectors and applies to anyone employed to collect debts. Does not apply to banks or other businesses collecting on their own debts.

## **Identity Theft Assumption and Deterrence Act—(1998)**

Officially makes it a crime for someone to fraudulently use your identifying information, including your credit accounts.

## **Credit CARD (Credit card Accountability, Responsibility and Disclosure) ACT—(2009)**

Bans unfair fees and sudden rate hikes, requires creditors to use plain language in credit card marketing and monthly billing statements, and limits ability of consumers under 21 to obtain a credit card.

# Credit CARD Act of 2009

The Credit CARD (Credit Accountability, Responsibility and Disclosure) Act of 2009, also known as the Credit Cardholder's Bill of Rights, made many important changes to the way credit cards are regulated.

With regard to your credit report and scores, the new law makes your score more important than ever. The law limits the fees creditors may charge, restricts the ways those fees can be imposed, and regulates the adjustment of the interest rates on your credit accounts. Because this increases the risk to the creditors and limits their ability to compensate for those risks with fee hikes, they will only grant credit to people with the best credit histories and scores.

Another important change in the law affects younger consumers. Essentially, anyone under 21 will have a very difficult time getting a credit card under the new law. Most consumers aged 18-21 will need a parent to co-sign on any credit card they obtain. This means that the parent shares responsibility for their adult offspring's borrowing, and will have to repay the debts incurred if the borrower is unable to repay.

It is important that you set up a credit card account for your children when they reach age 18 and monitor their activity closely. This will give you the opportunity to protect yourself if the borrowing gets out of hand or there are repayment problems. And more importantly, this is how your adult children will establish a credit history and score that will allow them to borrow on their own when they reach age 21.

Be aware that while the Credit CARD Act protects consumers from unreasonable rate hikes and fees, there is no cap on the interest rate creditors may charge. You may find that credit will be more expensive going forward. That means higher interest rates across the board, and more annual fees.

Here are some more provisions of the new law:

- A ban on universal default and 2-cycle billing
- Creditors must accept payments as on-time if they are paid by 5pm on the due date
- Bills must be sent at least 21 days before the due date
- Creditors must disclose how long it will take a consumer to pay off a balance if only minimum payments are made, as well as how much the debt will cost including interest after making minimum payments
- Customers must be permitted to pay by phone or internet without incurring additional fees
- Creditors must provide 45 days notice before increasing interest rates
- Interest rates cannot be raised within the first 12 months of a new account opening, and promotional rates must remain in effect for no less than 6 months
- Consumers must opt-in before they will be able to exceed their credit limit
- Payments in excess of the minimum must be applied first to the balance with the highest interest
- If something happens that causes the creditor to raise your interest rate (if you miss a payment, for example) the creditor must now, by law, re-evaluate your credit standing after six months have passed. If you've had no more missed payments or other problems in your record during the intervening six months, the creditor must return your interest rate to where it was before you incurred a penalty rate.

# The Credit Report Terms

All consumers should be aware of the terms used in the process of an application for credit.

## Credit History

- History of and individual's record of payments.
- One's credit behavior affects one's ability to get credit in the future.

## Credit Bureau

- A business that collects information on the credit history of individuals and sells that information to potential creditors, employers, landlords, and insurance companies.
- Receives information from various places where individuals do business.

## Credit Report

- Financial information collected businesses and used by lenders to determine creditworthiness of individuals.
- Contains personal and employment history on an individual.
- Includes payment history on all debts by an individual.
- Credit reporting companies do not make the decision of creditworthiness; they only supply the information. Lenders make the decisions.
- Individuals can contact credit reporting companies for a copy of their credit report. There may be a fee for the service; however, individuals who have recently been denied credit may request a credit report for free, if requested within 60 days from the date of denial of the credit application.

## Credit Reporting Companies:

- Equifax [www.equifax.com](http://www.equifax.com) 1-800-685-1111
- Experian [www.experian.com](http://www.experian.com) 1-888-EXPERIAN
- TransUnion [www.transunion.com](http://www.transunion.com) 1-800-888-4213

## Credit Score

- A numerical rating based on credit report information that represents a person's level of creditworthiness. Typically a FICO Score is what is received from the credit reporting agency used for the credit decision. More on FICO Scores later. Other non-FICO scores are not used by creditors and are less useful to consumers.

## Credit Rating

- A rating given to an individual by a credit reporting agency.
- Reflects past performance in paying debts.
- Projects future performance in paying debts.
- Positive rating may allow an individual to receive favorable consideration in loans and credit cards, such as lower interest rates.

## Adverse Action Letter

- A letter sent to a consumer explaining the reason(s) for denial. This letter must say which credit bureau(s) were used in the decision and provide the address and phone number of the credit bureau(s) so the consumer can obtain a free copy of their report credit.

# Where Can You Get a Copy of Your Credit Report?

The FACT Act of 2003 required the three major national credit-reporting bureaus to establish a website, a toll-free number and a mail address for consumers to request their credit report for free every year:

1 Go to the **website** [www.annualcreditreport.com](http://www.annualcreditreport.com). **MAKE SURE** you type the address in correctly, or you may end up at an imposter site set up by identity thieves.

a. Type the exact address of the free report site, **INCLUDING** the **www** (that is, type [www.annualcreditreport.com](http://www.annualcreditreport.com)).

b. Verify that you are immediately redirected to the secure page: <https://www.annualcreditreport.com/cra/index.jsp> is the address.

c. Verify that the security lock is present in your browser.

d. On the data entry page (the first page you visit after you tell the site what state you live in), verify that a “VeriSign security” symbol is present near the top right on the page. Click on the certificate to ensure that it is indeed the certificate for [www.annualcreditreport.com](http://www.annualcreditreport.com).



2. Call by **phone**: 877-322-8228



3. To submit a request by **mail**, download the Annual Credit Report Request Form located at [www.annualcreditreport.com/cra/requestformfinal.pdf](http://www.annualcreditreport.com/cra/requestformfinal.pdf) and mail it to:

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

(Keep in mind that the location of the form or file name may change.) Do not contact the credit reporting bureau directly as this is the only method to receive a free credit report.



# Other Free Credit Reports

In addition to your free annual credit reports, you are also entitled to a free copy of your credit report if any of the following applies to you:

1. **If you've been denied credit, insurance, a loan or a job** because of what your credit report says – Federal law also says you can get a credit report for free if your application is denied because of information in your credit report. You must request this credit report from within 60 days of learning you've been denied to get the free report. (You should receive an Adverse Action Notice which entitles you to a free credit report plus score).
2. **If you are unemployed.** If you're out of work, you can get a credit report free within 60 days before you start looking for a job. Contact the credit bureaus and let them know you're going to begin job hunting and you'd like to receive a credit report free under the Fair Credit Reporting Act.
3. **If you are on public assistance.** With proof of public assistance benefits.
4. **If you believe yourself to be a victim of identity theft.** Identity theft is an unfortunate crime, but fortunately, you don't have to pay to check your credit report for theft. You can receive your credit report free if you've been a victim of identity theft and have inaccurate information on your credit report. By contacting one of the three credit bureaus and placing a fraud alert, you automatically receive a free credit report from all three credit bureaus.
5. **If you receive less favorable terms than originally offered.** The practice of giving less favorable credit terms to higher risk consumers is known as risk-based pricing. This rule states that when a lender decides to extend you credit based on your credit score and/or credit report, they must send you a notice—either a Risk-Based Pricing (RBP) notice or Credit Score Disclosure (CSD) notice—when the credit terms you received are less favorable than those offered to other consumers.

Equifax – [www.equifax.com](http://www.equifax.com)  
 To request your report call: 800-685-1111  
 Or write to: P.O. Box 740241  
 Atlanta, GA 30374-0241

To report fraud, call: 800-525-6285  
 AND write to: P.O. Box 740241, Atlanta, GA 30374-0241  
 If you are hearing impaired (TDD), call: 800-255-0056  
 and ask the operator to call 1-800-685-1111 and request a copy of your credit report.

Experian – [www.experian.com](http://www.experian.com)  
 To request your report call:  
 800-EXPERIAN (800-397-3742)  
 Or write to: P.O. Box 2002, Allen, TX 75013

To report fraud, call: 888-Experian (888-397-3742)  
 AND write to: P.O. Box 9530, Allen, TX 75013  
 TDD: 1-800-553-7803

TransUnion – [www.transunion.com](http://www.transunion.com)  
 To request your report, call: 800-888-4213  
 or write to: P.O. Box 1000, Chester, PA 19022

To report fraud, call 800-680-7289  
 AND write to: Fraud Victim Assistance Division,  
 P.O. Box 6790, Fullerton, CA 92634  
 TDD: 1-877-553-7803

# What is a FICO Score?

## WHAT IS A CREDIT SCORE?

There are many types of credit scores. Fair Isaac Corporation developed the most widely used score model. It is a general risk score (some call it a rating) that indicates the probability of default. The FICO score ranges from 300-850.

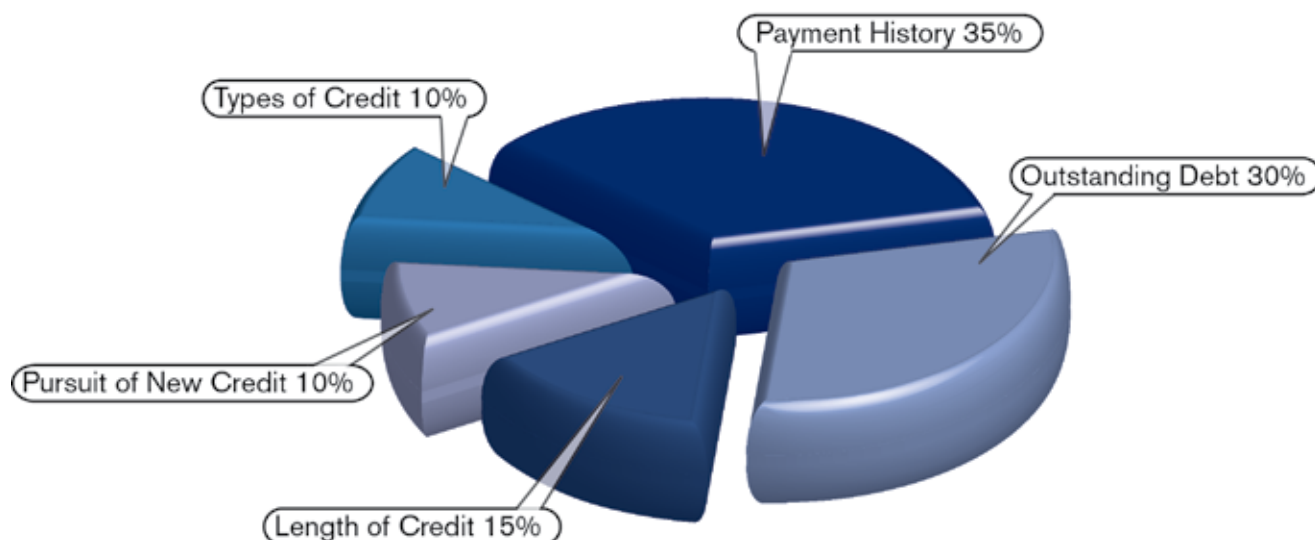
## WHY ARE YOUR THREE SCORES DIFFERENT?

TransUnion's is called "FICO Risk Score Classic", Experian's is called "Experian Fair Isaac Model", and Equifax uses the true FICO score, privately labeled "Beacon." Within their scoring model are different scoring ranges. They are only true FICO scores if they are Fair Isaac's model. Also creditors and lenders don't always report your information to all three of the credit reporting agencies, so each of your credit reports may have differences.

## WHAT AFFECTS YOUR CREDIT SCORE?

Your credit score is based on five factors. These factors and their percentage impact on the score's calculation are as follows:

1. 35% - Payment History (bankruptcies, late payments and collections)
2. 30% - Outstanding Debt (credit card balances and number of cards, also known as utilization)
3. 15% - Length of Credit (age of oldest credit card account, average age of accounts, time since accounts were used)
4. 10% - Types of Credit (bank cards, department store cards, finance companies, secured – mortgage/ auto)
5. 10% - Pursuit of New Credit (number of inquiries from potential lenders and newly opened credit accounts)



# Keeping Cards Safe

Avoiding identity theft is not simple, but there are several common sense things that consumers can do. The identity theft problem has been studied for several years and here are some suggestions for consumers:

## Always

- Report lost or stolen cards immediately
- Check all statements against receipts

## Never

- Lend your card to anyone
- Keep your PIN or Passwords in your purse or wallet
- Leave your card lying around
- Leave receipts lying around

Review your credit reports regularly for signs of ID theft.



Most credit card companies will tell you that while it can cost you that \$50, that fee is rarely applied. If your card's are lost or stolen or you feel someone is using your card without your authorization, call ASAP. You are supposed to report stolen or missing cards as soon as possible, or at least within 24 hours, for that zero liability luxury.

Then write. Follow up your call with a letter confirming the facts of the loss or the fraudulent charges on your statement, and also include details of your call (whom you spoke to and when, etc.)

## Be Prepared

Write down the names and account numbers of the credit cards that you carry in your wallet. Write down the toll free phone numbers (usually found on the back of the card) to call to report lost/stolen cards and keep this information where you keep your important private papers. Having this information easily available will help you if your wallet becomes lost or stolen.

## RESOURCES

Credit.org has great credit card calculators, where you can see how long it will take to pay off specific balance amounts based on the annual percentage rate on the card and monthly payment applied.

<http://www.credit.org/calculators/>

If you are looking to establish or re-establish your credit you may also review Bankrate.com for secured credit card offers to compare the costs of their terms and conditions.

[http://www.bankrate.com/brm/rate/cc\\_home.asp](http://www.bankrate.com/brm/rate/cc_home.asp)



# More Resources

Visit [credit.org](http://credit.org)'s FIT Academy at [www.credit.org/blog](http://www.credit.org/blog) to find free online courses, expert advice, personal finance and budgeting calculators, and ebooks on a range of personal finance subjects:



## Consumer Guide to Good Credit

Good credit is indeed crucial to financial health. Because credit reports frequently contain errors, we must all check our credit reports regularly and ensure that they are accurate and up to date. This guide will teach you how to do that.



## The Power of Paycheck Planning

Learn time-tested strategies to budget, manage and prioritize your paycheck and learn how to take control of your finances by learning to budget your paycheck – before you spend it.



## Preserving Homeownership/ Foreclosure Prevention

This guide will show you what options are available if your mortgage becomes delinquent, you are facing foreclosure, or you are facing a mortgage interest reset which you can no longer afford.



## The Wise Use of Credit

You have creditor need to establish credit – now what? Managing your credit responsibly helps build a solid foundation for your financial future.



## Road Map to Financial Freedom

This guide helps you take the first steps on your journey to financial freedom with Credit.org through the use of a Debt Management Plan to consolidate and pay back unsecured debt.



## Identity Theft Prevention

Learn what to do to protect yourself from identity thieves, and what steps to take to restore your good standing if you are a victim of identity theft.



## Raising a Money-Smart Child

A parent's guide to providing children with the necessary basic financial skills as early as possible. It's never too early to develop good saving and spending habits!



## Predatory Lending

Don't be a victim! Protect your equity, know your rights, and avoid dishonest lenders.



## Understanding Your Credit Reports and Scores

Understand what information is contained in your credit report and how it affects your life. Also learn how your credit scores are calculated.



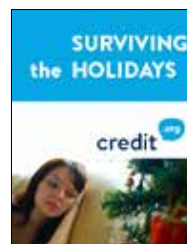
## Deals for Wheels

Get the information you'll need to make a sound decision about buying or leasing a car, and find out how to get a great deal on your next set of wheels.



## Couples & Money

This seminar helps couples communicate about money matters, offers money and budget saving tips, and helps couples develop a spending plan for their future goals.



## Surviving the Holidays

Learn to prepare for costs associated with the holidays, manage your holiday spending, and begin your New Year without holiday debt.



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Inland Valleys  
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## Credit.org

4351 Latham Street  
Riverside, CA 92501

PO Box 5438  
Riverside, CA 92517-5438

1-800-WISE-PLAN (800.947.3752)

[www.credit.org](http://www.credit.org)

[education@credit.org](mailto:education@credit.org)