

Participant Guide

FDIC



FDIC Financial Education Curriculum



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Checking In

Welcome

Welcome to *To Your Credit*! You are taking an important step toward understanding the value of credit and having a good credit history by taking this module. This training will help you understand your credit report and assist you in building a positive credit history.

Purpose

The *To Your Credit* module will teach you how to read a credit report. It will also provide information on how to build and repair your credit history.

Objectives

After completing this module, you will be able to:

- Define credit
- Explain why credit is important
- Describe the purpose of a credit report and how it is used
- Order a copy of your credit report
- Read and analyze your credit report to determine if you are ready to apply for credit
- Differentiate between good and bad credit
- Describe the implications of good and bad credit scores
- Identify ways to build and repair your credit history
- Recognize how to correct errors on your credit report
- Recognize how to guard against identity theft

Participant Materials

This *To Your Credit* Participant Guide contains:

- Information and activities to help you learn the material
- Tools and instructions to complete the activities
- Checklists and tip sheets
- A glossary of the terms used in this module

Pre-Test

Test your knowledge about credit reports before you go through the course.

1. **What is *credit*?**
 - a. Free money
 - b. Money you borrow
 - c. The amount of money in your checking account
 - d. Cash you save for an emergency

2. **Which of the following describes why credit is important? Select all that apply.**
 - a. So you will have funds in case of an emergency
 - b. So you can shop without carrying large amounts of cash
 - c. So you can pay for a large purchase over time
 - d. How you manage it may affect your ability to obtain a job, housing, and car insurance

3. **Which online source is the only one authorized by the Federal Trade Commission (FTC) to provide you with a free copy of your credit report?**
 - a. www.annualcreditreport.com
 - b. www.freecreditreport.com
 - c. www.creditreport.com
 - d. www.creditcentral.com

4. **Which of the following is NOT included on the Public Information Record section on your credit report?**
 - a. Tax liens
 - b. Bankruptcy
 - c. Loan repayment history
 - d. Foreclosures

5. **Which of the following *does* show on your credit report?**
 - a. Income
 - b. Race
 - c. Checking account balance
 - d. Current and previous employers

6. **Which of the following describe the purpose of a credit report and how is it used?**
 - a. It is a record of how you have paid your debts
 - b. It may help you get a job, housing, or insurance
 - c. It may affect the amount you pay for a security deposit on housing or utilities
 - d. It may help you get a loan
 - e. All of the above

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- 7. Who should you contact if you find an error on your credit report?**
- The credit reporting agency and perhaps also the company that reported the error
 - The credit card issuing company
 - Your bank
 - All of your creditors
- 8. Which of the following are ways to prevent identity theft?**
- Protect your numbers (Social Security Number (SSN), credit card, etc.)
 - Protect your mail
 - Keep your financial trash “clean”
 - All of the above
- 9. Which is NOT a way to build a credit history?**
- Obtain a small loan or get a cosigner for a loan
 - Get credit at a local store
 - Borrow the credit card of someone with good credit
 - Pay bills on time
- 10. If you need assistance in repairing your credit history, whom should you contact?**
- The Federal Deposit Insurance Corporation (FDIC)
 - A reputable consumer credit counseling agency
 - Your bank
 - A payday loan service
- 11. Which of these is true about repairing your credit history?**
- You can remove accurate information if it is bad
 - You can create a new identity and start over
 - You will not have to pay any more of your bills
 - It can take years to repair your credit history

Overview of Credit

Credit Defined

Credit is the ability to borrow money. When you borrow money on credit, you get a *loan*. You make a promise to pay back the money you borrowed plus *interest*, which is an extra amount of money a financial institution charges for letting you use its money.

Credit is important for a number of reasons:

- It can be useful in times of emergencies.
- It is sometimes more convenient than carrying large amounts of cash.
- It allows you to make a large purchase (e.g., a car or house) and pay for it over time.
- Prospective employers, landlords, and insurance companies may look at how well you manage credit.

Credit is a loan often secured by *collateral* or a *guarantee*. Collateral is security, or an asset that you provide the lender. Giving the lender collateral means that you pledge an asset you own (e.g., your home) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

Credit Case: Marvin's Desks

Marvin makes writing desks and sells them for extra money. He wants to borrow \$1,000 for a new band saw and an electric sander. He obtains a loan from the bank and pledges his new equipment as collateral.

If Marvin does not (or cannot) pay back the loan, what will the lender probably do?



What Is a Credit Report?

A *credit report* is a record of how you have paid your debts. It tells lenders:

- Who you are
- How much debt you have
- Whether you have made payments on time
- Whether there is negative information about you in public records



Credit Reporting Agencies

There are three major credit reporting agencies: Equifax, Experian, and TransUnion.

These agencies receive information from a variety of creditors, usually monthly, about whether you are making loan and credit card payments on time. The agencies also collect information about bankruptcy filings, court-ordered judgments, tax liens, and other public record information from courthouse records.

Information Contained in a Credit Report

The reports from each of the credit agencies look different, but generally contain the same basic information.

1. Your identifying information, including:
 - Name
 - Social Security Number (SSN)
 - Current and previous addresses
 - Telephone number
 - Birth date
 - Current and previous employers
 - Spouse's name, if married
2. A report containing your credit history
3. A list of inquiries
4. A report containing information about you in public records (e.g., collection accounts, bankruptcies, foreclosures, tax liens, civil judgments, delinquent student loan payments, and late child support payments)

Personal Bankruptcy

The two most relevant types of bankruptcies are: Chapter 13 bankruptcy and Chapter 7 bankruptcy. You need to have a regular income to qualify for *Chapter 13 bankruptcy*. You can keep all of your property, but you must make regular payments on the debts, even after filing for bankruptcy. Income restrictions apply when filing for *Chapter 7 bankruptcy*. You must give up certain property to the creditor. Yet, you may be allowed to keep certain property that the law agrees is needed to support yourself and your dependents.

It is important to understand that bankruptcy has a very negative impact on your credit. **It should be your last resort!** Depending on the type of bankruptcy, it will remain on your credit report from 7 to 10 years. Having a bankruptcy on your credit report will make it hard to get credit in the future. The law now requires that you receive credit counseling before filing for bankruptcy.

How the Credit Report Is Used

Information in your credit report may determine whether you will:

- Get a loan or other form of credit
- Get a job
- Be able to rent an apartment and/or affect the amount of your security deposit
- Get insurance

Keep in mind, credit reporting agencies do not make credit decisions. Credit reporting agencies simply report the information provided by creditors. This information can affect whether you get your next loan.



Creditors might deny a loan application if you have no credit history or if you have had credit problems in the past. A good credit record indicates you will most likely repay the loan, and lenders will be more willing to give you a loan.

Credit Score

Your credit score is based on the information in your credit report.

- Your *credit score*—sometimes referred to as a credit rating or Fair Isaac Corporation (FICO) Score—is a number that helps lenders determine how much of a credit risk you may be.
- It has become increasingly common for lenders to make decisions largely based on credit scores.

It is important to learn how the score is calculated so you can improve your score if necessary to obtain credit.

- Your payment history is the largest percentage of your credit score. That is why it is important to pay your bills on time.

If you do not have a history of late payments, your score may be lowered if your credit card balance is close to the limit or if you have just begun to use credit.

Creditors may use one or more credit scores. They may generate the scores themselves, or they may use a score calculated by another firm. Two of the scores used by creditors and lenders are *FICO Score* and *VantageScore*.

FICO Score

The FICO score is the primary method lenders use to assess how deserving you are of their credit. A FICO score is calculated using a computer model that compares the information in your credit report to what is on the credit reports of thousands of other customers. FICO scores range from about 300 to 850.

The FICO model takes into account several factors when evaluating creditworthiness:

- Past payment history: 35 percent
- Outstanding debt: 30 percent
- How long you have had credit: 15 percent
- New applications for credit: 10 percent

- Types of credit: 10 percent

Federal law prohibits personal information (e.g., ethnicity, religion, gender, or marital status from being reflected in your FICO score).

VantageScore

VantageScore is a newer credit scoring system offered by all three credit reporting agencies. You should have a similar VantageScore from each of the three agencies. The VantageScore ranges from 501 to 990. It groups scores into letter categories covering an approximately 100-point range, just like grades you receive on a report card. For example, your credit grade would be “A” if you had 901 points or more.

Effects of Good and Bad Credit Scores

It is very difficult to say what is a good or a bad score since lenders have different standards for how much risk they will accept.

- A credit score that one lender considers satisfactory may be regarded as unsatisfactory by other lenders.
- One thing is certain for virtually all lenders when it comes to obtaining a loan or a credit card; the better your credit score is the more likely you are to get a lower interest rate and pay less for borrowing money.
- Scores fluctuate depending on credit activity. Since credit reporting agencies only calculate your score at the lender’s request, it will be based on the information in your file at that particular credit reporting agency, at that particular time.
- Different scores from different credit reporting agencies can be a result of them having different information. To ensure accuracy of your information, you should obtain a copy of your credit report from each credit reporting agency.

Inquiries May or May Not Affect Your Credit Score

The inquiries section of your credit report contains a list of everyone who accessed your credit report within the last two years, including voluntary inquiries spurred by your own requests for credit and inquiries from lenders and other companies you authorized to order your credit report.

Inquiries as a result of a request you make for your own credit report will not influence your credit score. But, inquiries from lenders and potential creditors can be a factor in your credit score. For instance, your credit score may drop if you apply for a new credit card. If it does, it probably will not drop much. If you apply for several credit cards within a short period of time, multiple inquiries will appear on your report. Several inquiries on your credit report may suggest to a lender that you could be having financial troubles or are on the verge of becoming too deep in debt.

Shopping for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you are only looking for one loan. To compensate for this, the score ignores all mortgage and auto inquiries made in the 30 days prior to scoring. After 30 days, multiple inquiries relating to a mortgage or auto loan application in a typical shopping period are treated as one inquiry. That means that your credit score is not harmed by shopping around for the best car or home loan.

Activity 1: Who Poses the Most Credit Risk?

Read the profiles of each person who wants to apply for a loan. Determine if each person is a credit risk or not. Explain why you think so.

Bob

Bob has never applied for a loan and has no credit history. He works and saves his cash, but has never opened a savings account.

Do you think Bob poses a high credit risk to the lender? Yes No

Why or why not? _____

Eda

Eda has been late making her car payments and recently stopped paying them all together. She also has a tax lien on her house.

Do you think Eda poses a high credit risk to the lender? Yes No

Why or why not? _____

Jelani

Jelani took out a car loan last year. He has been making the payments on time and has a good credit history.

Do you think Jelani poses a high credit risk to the lender? Yes No

Why or why not? _____

Miranda

Miranda's son, who is 19 and working, would like to get a credit card and promises to pay the bill on time. Miranda agrees to cosign for her son. Several months later, she finds out he has been making late payments.

Do you think Miranda poses a high credit risk to the lender? Yes No

Why or why not? _____
Who would be a greater risk to a lender: Miranda or her son? _____

Which of the four people above poses the greatest risk to a lender? _____

Why do you think so?

Opting Out

Credit card companies often access your credit report so that they can send you applications for their credit cards.

- You have the right to opt out of receiving these offers.
- The Fair Credit Reporting Act (FCRA) gives you the right to opt out or stop credit reporting agencies from providing your name and address for marketing lists for credit or insurance.
- Call toll-free 1-888-5-OPT-OUT (567-8688) or visit www.optoutprescreen.com/.
- Another option is to call the phone numbers that may be listed in your credit card privacy notices.

How to Get Your Free Annual Credit Report

To order your free annual report from one or all three of the credit reporting agencies, do one of the following:

- Submit a request online at www.annualcreditreport.com
- Call toll-free: **1-877-322-8228**
- Complete the Annual Credit Report Request Form and mail it to:

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

You can print a copy of the Annual Credit Report Request Form from www.annualcreditreport.com or www.ftc.gov/credit. You will need to provide:

- Your name, address, SSN, and date of birth
- Your previous address if you have moved in the last 2 years
- Identifying information specific to you for security purposes (e.g., amount of your monthly mortgage payment)
- Different information for each requesting company, because the information each has in your file may come from different sources

In addition to the one free report a year, you may also be able to obtain a free credit report if:

- Your application for credit, insurance, or employment is denied based on information in your credit report
- You are unemployed and plan to look for a job within 60 days
- You are receiving public assistance
- You have reason to believe that your report is inaccurate because of fraud, including identity theft

If you are not eligible for a free annual credit report, a credit reporting agency may charge you up to \$10.00 for each copy.

To buy a copy of your report, contact one of the following:

- Equifax: **1-800-685-1111** or www.equifax.com
- Experian: **1-888-EXPERIAN** (397-3742) or www.experian.com
- TransUnion: **1-800-916-8800** or www.transunion.com

Activity 2: Maria's Credit Report

Read about Maria's situation and answer the questions provided.

Maria's Situation

Maria is planning to buy a home. She has already received one free credit report from each of the three credit reporting agencies earlier this year. However, she wants to get a copy of her credit report before she applies for a home loan to make sure the information in the report is still accurate.

Can Maria get this new credit report for free? _____ Why or why not? _____

Since Maria is applying for the home loan with her husband, can she get a credit report that includes both her and her husband's credit information? Explain your answer.

Maria and her husband decide to shop around for the best price on a home loan. Several lenders prequalify them for a home loan. Maria realizes that each time they got prequalified the lender requested a copy of their credit reports. Should Maria and her husband be worried about these inquiries affecting their credit scores? Explain your answer.

How to Read Your Credit Report

The following information is generally included on all credit reports:

1. Personal or consumer information (e.g., name, addresses, and employment)
2. Personal or consumer statement, if you submit a statement to the credit reporting agencies to be included in your credit report
3. Account summary, including: creditor information, account status and type, and account history
4. Inquiries that have been made into your credit history
5. Public record information (e.g., tax lien, legal item, bankruptcy, wage item, judgment, etc.) that is not shown in this example

JOHN Q CONSUMER Report #1234567		Report Date 01/01/2006		
Personal Information 123 Main Street #2 Somewhereville, USA 01234 SSN#123-45-6789	1	Employers 1. ABCDE Engineering Corp, Somewhereville USA 2. Port City Engineering, Anywhere, USA		
Consumer Statement No personal statements appear in your report.		2		
Potentially Negative Items Televise Cable Comm. Acct#: 1234 5678 1234 5678 Type: Collections Date filed: 05/01/05 Status: Delinquent in collections 120+days Amount: \$125.00 Credit limit/Original Amount: N/A				
3				
Accounts in Good Standing <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"> XYZ BANKCARD USA Acct#: 0110220 Type: Revolving Date added: 12/12/99 Responsibility: Individual Status: Open/Never late Monthly Payment: \$15 Terms: N/A High balance: \$129 Credit Limit/Original Amount: \$1000 Recent Balance: \$79 </td> <td style="width: 50%;"> Automobile Financing Services Acct#: 0981024057 Type: Installment Date added: 03/29/06 Responsibility: Individual Status: Open/Never late Monthly Payment: \$245 Terms: 60 months High balance: N/A Credit Limit/Original Amount: \$10,000 Recent Balance: \$4,665 </td> </tr> </table>			XYZ BANKCARD USA Acct#: 0110220 Type: Revolving Date added: 12/12/99 Responsibility: Individual Status: Open/Never late Monthly Payment: \$15 Terms: N/A High balance: \$129 Credit Limit/Original Amount: \$1000 Recent Balance: \$79	Automobile Financing Services Acct#: 0981024057 Type: Installment Date added: 03/29/06 Responsibility: Individual Status: Open/Never late Monthly Payment: \$245 Terms: 60 months High balance: N/A Credit Limit/Original Amount: \$10,000 Recent Balance: \$4,665
XYZ BANKCARD USA Acct#: 0110220 Type: Revolving Date added: 12/12/99 Responsibility: Individual Status: Open/Never late Monthly Payment: \$15 Terms: N/A High balance: \$129 Credit Limit/Original Amount: \$1000 Recent Balance: \$79	Automobile Financing Services Acct#: 0981024057 Type: Installment Date added: 03/29/06 Responsibility: Individual Status: Open/Never late Monthly Payment: \$245 Terms: 60 months High balance: N/A Credit Limit/Original Amount: \$10,000 Recent Balance: \$4,665			
Requests for Credit History VISA Card Address: PO Box 1414 NY NY 10001 Date: 04/01/05				
4				

Activity 3: John Q. Consumer

Use the information on the sample credit report to answer the questions about John's credit history.

JOHN Q CONSUMER Report #1234567	Report Date 01/01/2006
Personal Information 123 Main Street #2 Somewheresville, USA 01234 SSN#123-45-6789 DOB 02/01/68	Employers 1. ABCDE Engineering Corp, Somewheresville USA 2. Port City Engineering, Anywhere, USA
Potentially Negative Items	
Televise Cable Comm. Acct# 1234 5678 1234 5678 Date filed 05/01/05 Status: Delinquent in collections 120+ days Amount \$35.00 Credit limit N/A	
Accounts in Good Standing	
XYZ BANKCARD USA Acct# 0110220 Date added 12/12/98 Status: Open/Never late Monthly Payment \$15 High balance \$129 Credit Limit \$1,000	Homeowner Credit Services Acct# 0110220 Date added 04/23/00 Status: Closed at consumer's request 08/22/2004 Monthly Payment \$0 High balance \$3,228 Credit Limit \$1,000
Requests for Credit History	
VISA Card Address: PO Box 1414 NY NY 10001 Date: 04/01/05	

John Consumer has an account that has been sent to a collection agency. Where on his credit report would you find this information? _____

Who is the original creditor? _____

In August 2004, an account was closed at John's request. What was the high balance on this account? _____

In what section did you find this information? _____

Who does John work for? Where did you find this information? Hint: current employers are listed first.

Sample Dispute Letter

Date

Your Name

Your Address

Your City, State Zip Code

Complaint Department

Name of Credit Reporting Agency

Address

City, State Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are (highlighted/circled) on the attached copy of the report I received.

This item (identify item/s disputed by name of source, including: name of creditor or tax court and identify type of item, e.g., credit account, judgment, etc.) is inaccurate or incomplete because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, including payment records, court documents) supporting my position. Please reinvestigate this/these matter/s and (delete/correct) the disputed item/s as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing)

Identity Theft

Identity theft, or ID theft, occurs when thieves steal your personal information, such as your Social Security number, birth date, or credit card numbers. With sufficient information, another person can become you and use your identity to commit fraud or other crimes.

How to Avoid Identity Theft

1. **Protect your SSN, credit card and debit card numbers, personal identification numbers (PINs), passwords, and other personal information.**

Never provide this information in response to an unwanted phone call, fax, letter, or email, no matter how friendly or official the circumstances may appear. Be mindful of those who may be shoulder surfing (or trying to look over your shoulder) while you use the ATM, and seeking to steal your PIN. In case your wallet is lost or stolen, carry only the identification you really need: checks, credit cards, or debit cards. Keep the rest, including your Social Security card, in a safe place. Do not preprint your SSN, phone number, or driver's license number on your checks. You have the right to refuse requests for your SSN from merchants. Ask the merchant to use another form of identification that does not include your SSN (e.g., a passport) and have your driver's license number changed.

2. **Protect your incoming and outgoing mail.**

For incoming mail: Try to use a locked mailbox or other secure location (e.g., a post office box). If your mailbox is not locked or in a secure location, try to promptly remove mail that has been delivered or move the mailbox to a safer place. When ordering new checks, ask about having the checks delivered to your bank branch instead of having them mailed to your home where you run the risk of a thief finding them outside your front door.

For outgoing mail containing a check or personal information: Try to deposit it in a United States (U.S.) Postal Service blue collection box, hand it to a mail carrier, or take it to the post office instead of leaving it in your doorway or home mailbox. A mailbox that holds your outgoing bills is a prime target for thieves who cruise neighborhoods looking for account information. Avoid putting up the flag on a mailbox to indicate that outgoing mail is waiting.

3. **Sign up for direct deposit.**

Sign up for direct deposit of your paycheck or state or federal benefits, (e.g., Social Security). Direct deposit prevents someone from stealing a check out of your mailbox and forging your signature to access your money.

Direct deposit can be very beneficial in the event of a natural disaster that adversely impacts mail delivery, such as a flood, hurricane, or tornado.

4. **Keep your financial trash “clean.”**

Thieves known as dumpster divers pick through garbage looking for pieces of paper containing SSNs, bank account information, and other details they can use to commit fraud. What is your best protection against dumpster divers? Before tossing out these items, destroy them, preferably using a crosscut shredder that turns paper into confetti that cannot be easily reconstructed.

5. **Keep a close watch on your bank account statements and credit card bills.**

Monitor these statements each month and contact your financial institution immediately if there is a discrepancy in your records or if you notice something suspicious (e.g., a missing payment or an unauthorized withdrawal).

Contact your institution if a bank statement or credit card bill does not arrive on time. Missing financially related mail could be a sign someone has stolen your mail and/or account information, and may have changed your mailing address to run up big bills in your name from another location.

6. Avoid identity theft on the Internet.

Never provide bank account or other personal information in response to an unsolicited email, or when visiting a website that does not explain how personal information will be protected. Legitimate organizations would not ask you for these details because they already have the necessary information, or can obtain it in other ways. If you believe the email is fraudulent, consider bringing it to the attention of the Federal Trade Commission (FTC). If you open and respond to a phony email that appears to be from your bank, contact your financial institution immediately. For more about avoiding phishing scams, or to obtain a brochure with tips on avoiding identity theft, visit www.fdic.gov.

Take precautions with your personal computer (PC). For example, install a free or low-cost firewall to stop intruders from gaining remote access to your PC. Download and frequently update security patches offered by your operating system and software vendors to correct weaknesses that a hacker might exploit. Use passwords that will be hard for hackers to guess. For example, use a mix of numbers, symbols, and letters instead of easily guessed words. Also, shut down your PC when you are not using it. For practical tips to help you guard against Internet fraud, secure your computer, and protect your personal information visit www.OnGuardOnline.gov.

7. Review your credit record annually and report fraudulent activity.

Review your credit report carefully for warning signs of actual or potential identity theft (e.g., items that include mention of a credit card, loan, or lease you never signed up for, and requests for a copy of your credit record from someone you do not recognize), which could be a sign that a con artist is snooping around for personal information. Learn more by visiting the FTC at www.ftc.gov/credit.

8. Get more information.

Visit the FTC at www.ftc.gov/idtheft or call **1-877-IDTHEFT (438-4338)**.

What to Do If You Suspect You are a Victim of Identity Theft

If you believe you are a victim of identity theft, the FTC recommends that you immediately take the following actions:

- File a report with your local police. Get a copy of the police report, so you have proof of the crime.
- Contact your creditors about any accounts that have been changed or opened fraudulently. Ask to speak with someone in the security or fraud department.
- Follow up in writing, and include copies of supporting documents.
- Keep records of your conversations and all correspondence.
- Use the Identity Theft Affidavit at www.ftc.gov/idtheft to support your written statement.
- File a complaint with the FTC using the online complaint form (www.ftccomplaintassistant.gov) or call the FTC Identity Theft Hotline.
- Ask for verification that the disputed account has been closed and the fraudulent debts discharged.
- Call the FTC's Identity Theft Hotline at **1-877-IDTHEFT (438-4338)** or visit www.ftc.gov/idtheft.

Fraud Alerts

If you suspect you have been a victim of identity theft, or think you are about to be, (e.g., if your wallet is stolen):

- Contact the fraud department of any of the three major credit reporting agencies. The agency you call is required to notify the other two credit agencies. Tell them you are an identity theft victim (or potential victim).
- You have the right to place an *initial fraud alert* in your credit file. You can do this by calling, writing, or visiting any of the three credit agencies online. This initial fraud alert will last for 90 days.

If you know you are a victim of identity theft, you may have an extended fraud alert placed in your credit file.

- The *extended fraud alert* requires a lender to contact you and get your approval before authorizing any new account in your name.
- The alert is effective for seven years.
- To place an extended alert in your credit file, submit your request in writing and include a copy of an identity theft report filed with a law enforcement agency (i.e., the police) or with the U.S. Postal Inspector.

You can get a free copy of your credit report if you ask when you place a fraud alert on your file. Active-duty military personnel have the right to place an alert in their credit files so that lenders acting on loan applications can guard against possible identity theft.

Security Freeze

- Many states have laws that allow you to place a security freeze on your credit file. A *security freeze* restricts potential creditors and third parties from accessing your credit report unless you authorize the release of the security freeze.
- Be aware that using a security freeze to restrict access to your credit report may delay, interfere with, or prohibit the timely approval of any subsequent request or application for credit.
- State laws vary, and there may be a charge to freeze and unfreeze a credit file. The cost of placing, temporarily lifting, and removing a credit freeze also varies. Many states make credit freezes free for identity theft victims; while in other states consumers pay a fee, typically \$10. For more information please visit: www.ftc.gov.

Building and Repairing Your Credit History

Tips on How to Build Your Credit History

Note: Creditors look at your credit report to look for how many inquiries you have, how much credit you are using, timely payments, delinquent accounts, and how many accounts you have open.



- Apply for a small loan at the bank, thrift, or credit union where you have checking and savings accounts.
- Apply for credit with a local store. They typically have a lower credit limit and a higher annual percentage rate (APR), but they are generally more willing to lend you money.
- Make a large down payment on a purchase and negotiate credit payments for the balance. If you do not have a credit history but have a large down payment, there is less risk you will not make the payments. For example, if you are buying a used car for \$5,000 and have enough cash, you might consider making a down payment of \$1,000 to \$3,000. Although the loan will be very small, it can prove you make your payments on time.
- Ask a friend or relative with an established credit history to be a cosigner for you. A cosigner promises to repay the loan if you do not. The lender should report the payment information for both you and the cosigner to the credit reporting agencies. Remember that you can damage the cosigner's credit history if you do not pay the loan back as promised.
- Pay your bills on time. This will help establish a good credit history so you can get credit in the future.
- Ask the lender to review your history of making rent and utility payments to demonstrate your ability to pay.
- Keep your debt levels low. The more debt you have in relation to your income or your available credit lines, the more you will be viewed by lenders as a higher risk borrower. For example, all of your monthly obligations (rent/mortgage, car payments, school loans, credit card payments, etc.) should be less than or equal to 33 to 36 percent of your monthly gross income.
- Make regular deposits into a savings account. This is another way to show the lender that you can make payments every month, even if you are making the payments to yourself.

Tips on How to Repair Your Credit

There are two ways to repair your credit history: do it yourself, or use a credit counseling agency.

Repairing your own credit:

- Begin by contacting credit reporting agencies to obtain a copy of your credit report.
- Report errors on your credit report to the credit reporting agency in writing. Include copies (NOT originals) of documents that support your position. In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute, state the facts, and explain why you dispute the information and request that it be removed or corrected. Keep copies of your dispute letter and enclosures. Also, tell the creditor or other information provider, in writing, that you dispute an item.
- Contact your lenders to renegotiate payment plans.
- Opt out of receiving unsolicited offers for credit cards to avoid the temptation if you have trouble managing credit cards.



Repairing credit using a reputable credit counseling agencies:

Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Counselors discuss your entire financial situation with you, and help you develop a personalized plan to solve your money problems. If you decide to use a credit counseling agency, the FTC offers these tips for choosing a credit counseling agency and questions to ask regarding services and fees.

- Interview several credit counseling agencies before signing a contract.
- Check with your state attorney general, local consumer protection agency, and the Better Business Bureau to find out if consumers have filed complaints about the agency you are considering. A reputable agency will send you free information about itself and the service it provides without requiring you to provide any details about your situation. If the agency will not do this, find another agency.
- Ask questions about services, fees, and a repayment plan.

Questions to ask credit counseling agencies:

Services and Fees:

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What is the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees, or licenses your agency? Is your agency audited? Are you licensed to offer your services in my state?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?
- Will the fact I am working with you appear on my credit report?

Repayment plans:

- If I enroll in a repayment plan, will it appear on my credit report?
- How much debt must I have to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put into a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?

- What if I cannot maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

For additional information on choosing a credit counselor, visit: www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm.

Credit Repair Scams

Only consistent efforts and making payments on your debts will improve your credit. Therefore, it is important to choose your credit counseling agency carefully.

Some businesses make promises about repairing your credit that they cannot deliver.

Beware of companies that:

- Promise to erase your bad credit or to remove bankruptcies and judgments from your credit file. No one can have accurate information removed.
- Promise fast and easy credit repair. If you have bad credit, it can take years to repair your credit legitimately.
- Offer to create a new identity for you. If you make false statements on loan applications or use a fake SSN you will be committing fraud. You can also be charged with mail or wire fraud if you use the mail or telephone to apply for credit and provide false information.
- Want you to pay for credit repair services before providing any service. Legitimate companies provide a service before requesting payment.
- Will not tell you your rights and what you can do yourself: Remember, you can order your credit report yourself. If you see errors on your report, you can also request that the credit reporting agencies make appropriate changes.

Many states have laws that regulate credit repair companies. Before signing a contract, check with your local Better Business Bureau, state attorney general's office, or local consumer protection agency to see whether complaints have been filed against the company.

Credit Case: Credit Repair Scams

The credit repair agency promises to erase negative credit information and remove bankruptcies and judgments from your credit file. Which statement on the slide indicates this could be a scam?

The credit repair agency offers to create a new SSN for you. Which statement on the slide indicates this could be a scam?

If you make false statements on loan applications or use a fake SSN you will be committing fraud. You can also be charged with mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. This credit repair agency promises you fast and easy credit repair. Which statement on the slide indicates that this is a scam?

Tips for Maintaining Your Credit When Payments Are a Problem

- Consider steps that can enable you to make your payments. Look for ways to cut expenses. If possible, pay your bills using funds in your checking or savings accounts, and avoid withdrawing or borrowing money from your retirement savings.
- Stay current on loans, credit cards, and other bill payments. This will help minimize damage to your credit score. This is important if your financial difficulties are due to a job loss, because as you apply for new jobs, employers may review your credit report.
- Contact your lenders immediately if you anticipate payment problems. If you expect you will be unable to pay your bills—whether they be utilities or your mortgage payment or credit card—call quickly to work out a plan. If you wait until you are unable to make the payments, you can damage your credit rating and have fewer options available for getting help.
- Be proactive if your payment problems have already started. If you are unable to make your loan payments, seek help quickly by discussing your options with your lender or mortgage loan servicer (the company that collects payments and performs other work for the lender, including negotiating new payment plans with borrowers who are late or delinquent on their loan payments).

Post-Test

Now that you have gone through the course, see what you have learned.

1. **Select all that apply. Your credit score may impact your ability to:**
 - a. Apply for a loan or other form of credit
 - b. Apply for a job
 - c. Apply to rent an apartment
 - d. Open accounts, with utility companies for example

2. **Which of the following are ways you can build a credit history if you do not already have one? Select all that apply.**
 - a. Obtain a small loan
 - b. Establish credit at a local store
 - c. Get a cosigner for a loan
 - d. All of the above

3. **Identity theft occurs when thieves steal your personal information (e.g., your Social Security number, birth date, or credit card numbers).**
 - a. True
 - b. False

4. **Which of the following might be a reason for having your loan or credit application denied? Select all that apply.**
 - a. Paying your bills on time
 - b. Obtaining a loan or credit
 - c. Having a tax lien against your property
 - d. Having never established a credit history

5. **Which of the following are the best and safest options for repairing your credit history?**
 - a. Do it yourself
 - b. Use a Housing and Urban Development (HUD)-certified credit counseling agency
 - c. Use a credit repair company
 - d. a and b

6. **Which of the following information is included in your credit report? Select all that apply.**
 - a. A list of inquiries for your credit report
 - b. Personal identifying information
 - c. Credit history of your accounts
 - d. Public record information
 - e. All of the above

- 7. Which of these is true about repairing your credit history?**
 - a. You can remove accurate information if it is bad
 - b. You can create a new identity and start over
 - c. It can take years to repair your credit history
 - d. You will not have to pay any more of your bills

- 8. Which of the following accurately describe the implications of good and bad credit scores? Select all that apply.**
 - a. You are more likely to get a lower interest rate if your credit score is high
 - b. You are more likely to pay a higher interest rate if your credit score is high
 - c. It is easier to borrow money if your credit is good
 - d. It is easier to borrow money if your credit is bad

- 9. Unless you have a circumstance that allows you to obtain it more often, under the Fair Credit Reporting Act (FCRA), how often can you get a free credit report from each of the three major credit reporting agencies?**
 - a. Every 3 months
 - b. Every 12 months
 - c. Every 6 months
 - d. Every 24 months

- 10. Why should you check your credit report annually?**
 - a. To identify and dispute any errors or inaccurate information
 - b. To ensure you have not become a victim of identity theft
 - c. To make sure your credit history is accurate before applying for a loan
 - d. All of the above

Glossary

Annual Percentage Rate (APR): The rate of interest you are charged, expressed as a yearly rate.

Balance Computation Method: A method for calculating interest. The most common is the average daily balance.

Credit: The ability to borrow money.

Credit Report: A full history report of information included within a consumer's credit file at the credit reporting agencies.

Credit Score: A numerical estimation of the likelihood that the consumer will meet his or her debt obligation(s).

Fees: Service charges from a financial institution, including:

- **Annual fee.** A fee, charged annually, for the privilege of using a credit card. Most cards that offer rewards (e.g., airline miles or travel awards) charge a yearly fee.
- **Balance transfer fee.** A fee for moving balances from one credit card to another. This fee is usually a percentage of the balance transferred. It might have a minimum and a maximum limit.
- **Cash advance fee.** A transaction fee charged when you access cash through an Automated Teller Machine (ATM) with your credit card. The advance often carries a higher interest rate than regular purchases, and there usually is no grace period.
- **Late fee.** A fee you incur if payment is received after the due date. A typical charge is \$29 per late payment.
- **Over-the-limit fee.** A fee applied if your outstanding charges exceed your credit limit. The charge is typically \$20.

Finance Charge: The cost of credit. It includes interest, service charges, and transaction fees.

Grace Period: The number of days you have to pay your balance before a creditor starts charging interest.

Identity Theft: A fraud committed or attempted using the identifying information of another person without authority.

Interest: The amount of money a financial institution charges for letting you use its money.

Minimum Payment: The minimum payment is the minimum dollar amount that must be paid each month.

Opt Out: To opt out of receiving mailed credit card offers, call 1-888-5-OPTOUT (567-8688) or visit www.optoutprescreen.com.

Periodic Rate: An interest rate applied to your balance to calculate the finance charge.

Previous Balance: The amount you owe at the end of the previous billing period. Payments, credit, and new purchases during the current billing period are not included. Some creditors also exclude unpaid finance charges.

Principal: The total dollar amount of purchases made on a credit card, or the balance remaining on a loan, not including interest or other fees.

For Further Information

Federal Deposit Insurance Corporation (FDIC)

www.fdic.gov/consumer

Division of Supervision & Consumer Protection

2345 Grand Boulevard, Suite 1200

Kansas City, Missouri 64108

1-877-ASK-FDIC (275-3342)

Email: consumeralerts@fdic.gov

Visit the FDIC's website for additional information and resources on consumer issues. For example, every issue of the quarterly *FDIC Consumer News* provides practical hints and guidance on how to become a smarter, safer user of financial services. Also, the FDIC's Consumer Response Center is responsible for:

- Investigating all types of consumer complaints about FDIC-supervised institutions
- Responding to consumer inquiries about consumer laws and regulations and banking practices

U.S. Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the U.S. Government's website dedicated to teaching all Americans about financial education.

Whether you are planning to buy a home, balance your checkbook, or invest in your 401k, the resources on MyMoney.gov can help you. Throughout the site, you will find important information from federal agencies.

Federal Trade Commission

www.ftc.gov/credit

1-877-FTC-HELP (382-4357)

The Federal Trade Commission (FTC) website offers practical information on a variety of consumer topics, including credit and identity theft. The FTC also provides guidance and information on how to select a credit counselor.

What Do You Know? – To Your Credit

Instructor: _____ Date: _____

This form will allow you and the instructors to see what you know about credit reports both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before the Training				After the Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
I can:								
1. Define credit	1	2	3	4	1	2	3	4
2. Explain why credit is important	1	2	3	4	1	2	3	4
3. Describe the purpose of a credit report and how it is used	1	2	3	4	1	2	3	4
4. Order a copy of my credit report	1	2	3	4	1	2	3	4
5. Read and analyze my credit report to determine if I am ready to apply for credit	1	2	3	4	1	2	3	4
6. Differentiate between good and bad credit	1	2	3	4	1	2	3	4
7. Describe the implications of good and bad credit scores	1	2	3	4	1	2	3	4
8. Identify ways to build and repair my credit history	1	2	3	4	1	2	3	4
9. Recognize how to correct errors on my credit report	1	2	3	4	1	2	3	4
10. Recognize how to guard against identity theft	1	2	3	4	1	2	3	4

Evaluation Form

This evaluation will enable you to assess your observations of the *To Your Credit* module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

<p>1. Overall, I felt the module was:</p> <p><input type="checkbox"/> Excellent</p> <p><input type="checkbox"/> Very Good</p> <p><input type="checkbox"/> Good</p> <p><input type="checkbox"/> Fair</p> <p><input type="checkbox"/> Poor</p>					
<p>2. I achieved the training objectives.</p> <p>3. The instructions were clear and easy to follow.</p> <p>4. The overheads were clear.</p> <p>5. The overheads enhanced my learning.</p> <p>6. The time allocation was correct for this module.</p> <p>7. The module included sufficient examples and exercises so that I will be able to apply these new skills.</p> <p>8. The instructor was knowledgeable and well-prepared.</p> <p>9. The worksheets are valuable.</p> <p>10. I will use the worksheets again.</p> <p>11. The participants had ample opportunity to exchange experiences and ideas.</p>	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
<p>12. My knowledge/skill level of the subject matter before taking the module.</p> <p>13. My knowledge/skill level of the subject matter upon completion of the module.</p>	None		Advanced		
<p>14. Name of Instructor:</p> <p>Instructor Rating:</p> <p>Please use the response scale and circle the appropriate number.</p>	<p>Response Scale:</p> <p>5 Excellent</p> <p>4 Very Good</p> <p>3 Good</p> <p>2 Fair</p> <p>1 Poor</p>				
<p>Objectives were clear & attainable</p>	1	2	3	4	5
<p>Made the subject understandable</p>	1	2	3	4	5
<p>Encouraged questions</p>	1	2	3	4	5

Had technical knowledge	1	2	3	4	5
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What was the most useful part of the training?

What was the least useful part of the training and how could it be improved?
