

Keys to your Financial Future



Key Two
Understanding Credit

Reputation

- ▶ How would the person closest to you describe your reputation in three words?
- ▶ Can you change your reputation?
- ▶ What do you think makes up a financial reputation?

Saif's Story

Saif has been living independently for three years. He has an apartment he shares with three friends. Saif's roommate, Logan, pays the bills once he has collected everyone's share of the rent and utilities. Saif is commonly late with his share, leading to arguments in the apartment. He borrowed \$1,000.00 from his aunt to cover living expenses when he first started living on his own. To date, he has not repaid her-not even a little bit. Saif pays his mobile phone bill on time and has never missed a car payment, though.

- ▶ How would you describe Saif's financial reputation?
- ▶ How can he change it?

Have you ever thought.....

- ▶ “I am too young too worry about credit.”
- ▶ “I never want to use any credit.”
- ▶ This information doesn't apply to me.”

Why credit matters

If you want the following then you need credit!

- ▶ A place to live.
- ▶ A car and insurance.
- ▶ Mobile phone and plan.
- ▶ Less expensive loans.
- ▶ A condo or house (some apartments).
- ▶ Some jobs even require credit.



What is Credit?

- ▶ Credit- Borrowing or buying with an agreement to pay later.
- ▶ Lending credit-Loaning out money.
- ▶ Credit History (credit report)- Includes your credit reports and credit scores.
- ▶ Credit Score- A three digit number generated using information on your credit reports .Scores can range from 300-850.
- ▶ **Remember negative information stays on your credit report for SEVEN years. Bankruptcies are reported for TEN.**
- ▶ Delinquent- This means you have missed payments.

What's on a credit report?

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

Credit Worthy

5 Key factors:

1. Payment history (Do you pay your bills on time?)
2. Amount owed to current creditors.

Example: balance on credit cards, car payment.

3. Length of credit history (The longer you have had access to credit and paid your bills on time, **THE BETTER!**)
4. Types of credit used.

Example: Car payments/ Mortgage payments are viewed a better debt than consumed debt.

5. Number of open accounts. (Lenders may be wary if you have too many accounts opened.)

Where Do I Get My Credit Report?

- ▶ Credit report agencies (CRAs) or credit bureaus -Make credit reports.
- ▶ Three nationwide credit report agencies are: **Equifax, Experian, and Transunion.**
- ▶ You have the right to **one FREE** credit report every **12 months.**
- ▶ Credit Reporting Act- A law to protect you against credit report agencies that they have to follow. This means you must be informed when your credit is used against you or for you. You have the right to see what is in your file and you also have the right to challenge incorrect information (With proof and within 30 days).

What If I am under 18?

- ▶ If you are under 18 years old you **can not** get your credit reports for free through Equifax, Transunion, or Experian.
- ▶ Each nationwide credit report agency will have its own process for a minor who wants a credit report.
- ▶ **Credit report review for young people in care-** The child welfare agency by law will check to see if you have a credit report once a year when you turn 14 years old. Some individuals get informed when this happens others do not. This is to ensure that negative information is removed from your credit file before you leave care.

How Does Information Get on Your Credit Report?

- ▶ When you make payments on time or late.
- ▶ If you miss one or more payments.
- ▶ If your debt is in collections or you have stopped paying your loan all together.
- ▶ Most companies only report to the credit reporting agencies if you miss payments or are late with payments.
- ▶ If a person gets so deep in debt and can not get out on their own they can file for **bankruptcy**. This should be a last resort as it damages a credit score and prevents you from getting a house, loan, or credit cards.

Why Get A Credit Report???

- ▶ Mistakes in your personal information.
- ▶ Information from someone that is not you.
- ▶ Account (s) you do not recognize.
- ▶ Information about an account that is wrong.
- ▶ Account that shows up multiple times with different creditors.
- ▶ Inaccurate collection information.
- ▶ Inaccurate information put back after it was corrected.
- ▶ Negative information that is too old to be reported.

How To Read a Credit Report

Five sections in a credit report:

- ▶ Personal information
- ▶ Public records
- ▶ Account information
- ▶ Accounts in collection
- ▶ Inquiries

What To Do If There Are Mistakes?

- ▶ File a dispute or get the mistakes corrected.
- ▶ Each credit agency has an online form you can complete.
- ▶ You can also write a letter explaining the error and include evidence.

NEVER SEND ORIGINAL DOCUMENTS!!!!!!!!!! SEND COPIES ONLY!!!!!!!!!!

What is a Credit Score?

- ▶ Your credit score is a three-digit number generated by a mathematical algorithm using information in your credit report. It's designed to predict risk, specifically, the likelihood that you will become seriously delinquent on your credit obligations in the 24 months after scoring.
- ▶ Scores can range from 300-850. The higher the score the better.

Can Applying for Credit Effect My Score?

Yes! Applying for a credit card will affect your credit score if they run a **hard inquiry**. Some credit companies will run a **soft inquiry** which is more of a background check for your credit.

How To Improve My Credit Score?

- ▶ Get your credit report and view it.
- ▶ Identify any mistakes.
- ▶ If you have late payments make them current.
- ▶ Confirm anything in the public records or collection section that DOES belong to you.
- ▶ If you have outstanding collections find a way in your budget to pay them off.
- ▶ Be aware of your rights with debt collectors.
- ▶ Contact Creditors.
- ▶ Once you have paid off old debt or something in collections get a new credit report.
- ▶ Close accounts you no longer use or want.
- ▶ Use credit building strategy.

If You Have A Balance On Your Credit Cards And You Are Up To Date

- ▶ Look to see where you have used 30 percent or more of your available credit.
- ▶ Look to see what are your highest interest rates- These are costing you more!
- ▶ Call your creditors and try to get a lower interest rate.

Credit Building Strategy

- ▶ Get your credit report.
- ▶ Follow steps to maintain a high credit history.
- ▶ Get a secured credit card- **ONLY USE 30% OF AVAILABLE LIMIT!!!!**
- ▶ Credit building loan- **MAKE SURE THE BANK REPORTS THIS TO A CREDIT REPORTING AGENCY!!!!**
- ▶ Become an authorized user- the negative and positive credit history goes on your account.
- ▶ Get a department store charge card.
- ▶ Keep records to have an outline of your own credit history.

Maintain A Positive Credit History

- ▶ Review your credit report every year.
- ▶ Correct any errors.
- ▶ Pay all your bills on time and in full.
- ▶ If you are going to be late with any bills, contact your creditor immediately.
- ▶ Keep paying down debt balances.
- ▶ If possible diverse your credit.
- ▶ Never use more than 30% of your credit limit.
- ▶ Avoid applying for lots of credit cards.
- ▶ Pay Taxes and Child Support.
- ▶ Keep strong financial records.