

1



2



3

••• Understanding Credit

What is credit?

Credit is **borrowed** money that you can use to purchase goods and services when you need them. You get credit from a credit grantor, whom you **agree to pay back** the amount you spent, plus applicable finance charges, at an **agreed-upon time**.



4

••• Understanding Credit

4 Types of Credit



- Charge Cards/Accounts
- Revolving Credit
- Installment Credit
- Service Contracts

5

••• Understanding Credit

Advantages and Disadvantages of Credit

| | |
|--|---|
| ADVANTAGES: | DISADVANTAGES: |
| <input checked="" type="checkbox"/> Convenient | <input checked="" type="checkbox"/> It's a loan |
| <input checked="" type="checkbox"/> Immediate purchasing power | <input checked="" type="checkbox"/> Interest rate may go up |
| <input checked="" type="checkbox"/> No need for cash | <input checked="" type="checkbox"/> May include additional fees |
| <input checked="" type="checkbox"/> Bills can be consolidated | <input checked="" type="checkbox"/> Can be easy to overspend |
| | <input checked="" type="checkbox"/> Can promote impulse buying |

6

Qualifying for Credit

What about errors?

What are your rights if you think there is a mistake on your credit report?

- 1 Write to credit bureau**
- 2 Bureau has 30 days to:** Investigate, notify you of results, and delete inaccuracies.
- 3 Disagree?** Write "dispute statement" or "reason for excuse" explanation for your file.



10

Qualifying for Credit

How is your FICO Score determined?

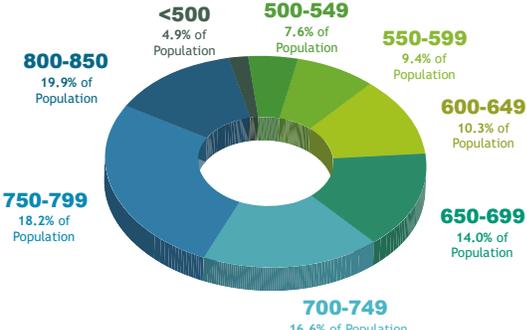


| Component | Percentage |
|--------------------------|------------|
| Payment History | 35% |
| Amounts Owed | 30% |
| Length of Credit History | 15% |
| Credit Mix | 10% |
| New Credit | 10% |

11

Qualifying for Credit

How do you rank with your credit score?



| Score Range | Percentage of Population |
|-------------|--------------------------|
| <500 | 4.9% |
| 500-549 | 7.6% |
| 550-599 | 9.4% |
| 600-649 | 10.3% |
| 650-699 | 14.0% |
| 700-749 | 16.6% |
| 750-799 | 18.2% |
| 800-850 | 19.9% |

12

Qualifying for Credit

Is FICO the only company to score "Creditworthiness"?

Some new scoring companies may look at:

- Payment history on utility and cell phone bills.
- Information like address history, that's part of the public record

The new score is still in its pilot phase.



CREDIT SCORE

13

Qualifying for Credit

Who can look at your credit score?



- Lenders
- Landlords
- Insurance companies
- Potential employers

14

Qualifying for Credit

How do you establish credit?

- Open a credit union savings or checking account
- Put utilities, rent in your name
- A local department store or gas card
- Get a co-signer for a small personal loan
- Offer large down payment
- Apply for a secured credit card



POOR GOOD

15

•••• Qualifying for Credit

What else do creditors consider?

The 3 C's of Credit:

- **Character**
From your credit history, a lender may decide whether you possess the honesty and reliability to repay a debt.
- **Capital**
A lender will want to know if you have valuable assets such as real estate, personal property, investments, or savings with which to repay debt if income is unavailable.
- **Capacity**
This refers to your ability to repay the debt. The lender will look to see if you have been working regularly in an occupation that is likely to provide enough income to support your credit use.

16

What questions could lenders ask?

1. Do you have a steady job? If so, what's your salary?
2. Do you have a savings account?
3. Have you used credit before?
4. Do you pay your bills on time?
5. What are your current living expenses?
6. Can you provide character references?
7. What are your current debts?

17

What questions could lenders ask?

8. What property do you own?
9. Do you have a good credit report?
10. How long have you been at your current job?
11. How many other loan payments do you have?
12. Do you have any investments?
13. How many dependents do you have?
14. What is your debt-to-income ratio?

18

Qualifying for Credit

What if you're turned down for credit?

Dear Credit Bureau,
I just had my credit run for a credit card and was denied. The lender said Experian was used to check my credit and I am entitled to a copy of my credit report. How do I get this?



19

Qualifying for Credit

How do you maintain good credit?

- Create a spending plan and live within it
- Provide complete, accurate and consistent ID on your applications
- Pay your bills on time, all of the time
- Have some credit, but not too much
- Have a mixture of credit types
- Keep credit card balances low
- Use caution when closing accounts
- Be aware of your debt-to-income ratio
- Demonstrate stability
- Contact lenders if you fall behind on payments



20

Managing Credit



21

•••• Managing Credit

Watch out for the fine print when you apply for a credit card



- Late Payment Fee
- Over the Limit Fee
- Balance Transfer Fee
- Replacement Card Fee
- Cash Advance Fees

25

•••• Managing Credit

How to find the best loan for you

- Calculate how much you need
- Check your credit report and score
- Shop for rates and requirements from your credit union
- Ask about interest rates
- Pick your best option



26

•••• Handling Debt Problems

Dangers of Excessive Debt



- Inability to keep up with your everyday expenses
- Stress over your financial worries
- Damage to your credit history
- Inability to save for the future

27

Handling Debt Problems

How can you avoid excessive debt?

- 1 Be aware of the warning signs
- 2 Save money in an emergency fund
- 3 Avoid financial mistakes in the first place



28

Handling Debt Problems

High-Interest Debt Consolidation



Watch out for:

- Pay Day Loans
- Credit Repair “Clinics”
- Pawn Shops

29



Focus on:

- 1 Staying out of debt
- 2 Self-discipline
- 3 Working with creditors
- 4 Continuing to educate yourself

30

Remember...



Your Credit Union
can help you
with all of your
financial challenges.
