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Using Credit Wisely

How Does My Credit History Affect Me?

It is important to establish a solid credit history. Your credit worthiness will affect more than your ability to borrow money or purchase goods and services it may also affect:

- *Your employment* – Some employers require a credit bureau report before making a job offer. Poor credit could mean that you are not offered the job.
- *Your living accommodations* – Landlords regularly request credit bureau information for applicants seeking apartments. Landlords do not want tenants who do not pay their bills.
- *The interest you have to pay to borrow money* – Individuals with better credit records may qualify for lower interest on loans than individuals who have had credit problems and are considered greater credit risks.
- *Your convenience* – Renting a car, making hotel reservations, and hundreds of other transactions are much easier if you have a credit card.

How Do I Establish a Credit History?

- Through providing evidence of monthly rent payments to landlords, or monthly payments to utility companies for electricity, gas, water, and telephone services, you can develop a nontraditional credit report or history. Banks may provide credit on this basis.
- Open, use, and maintain in good standing a checking account at a financial institution that offers credit cards. This indicates stability.
- Start a savings account and make regular deposits that earn interest. If the institution allows, use your savings collateral to secure a small loan. Repay the loan as agreed in order to build a credit history.
- Since department stores want your business, they are generally more willing to extend credit, so this is a good place to apply for a card. If you use and repay department store accounts promptly, this will help you build a credit report.

- You may join a credit union if you qualify for membership in one. All offer savings (share) accounts and most offer interest-bearing checking (share draft) accounts. Many have full service loan departments, including credit cards, with very competitive interest rates designed to assist members in establishing credit.

If you apply for credit and are turned down, call the credit grantor to find out why you did not get the credit, and ask for reconsideration. You may want to find someone with good credit to co-sign.

If you are turned down for credit, you are entitled to see a copy of your credit report at no cost to you. If there is incorrect information on the credit report, dispute it.

Adapted from materials developed by CCOA Credit Counseling of Arkansas

What Questions Will I Be Asked?

These are some of the questions you will be asked. There will probably be others.

- Do you rent or own your home.
- Your full name, age and social security number.
- Your **HOME** address, length of stay at this residence, and any previous addresses.
- Your occupation, employer, and length of employment.
- Sources of income and total monthly income.
- Banking references.
- Type and ownership of all bank accounts.

To avoid delays in processing answer all questions.

If I Am Approved What Should I Do?

- Pay bills early in the cycle to keep finance charges as low as possible. Pay promptly to improve your credit record.
- Keep copies of sales slips and compare charges the day your bill arrives.

- Protect your credit cards and account numbers to prevent unauthorized use.
Draw a line through blank spaces above the total when you sign receipts.
- Keep a list of your credit card numbers and telephone numbers of each card issued in a safe place in case your cards are lost or stolen.

Why Would I Be Denied Credit?

- Lack of credit references.
- Insufficient income.
- Too short a period of residency or employment.
- A bad credit history.
- Too many recent inquiries.

What is in My Credit Report?

- Identifying information – name, date of birth, social security number, current address, and spouse's name.
- Employment information – occupation, current employer, and maybe time on the job.
- Financial Data – credit accounts, credit available, and bill paying history.
- Public record information – bankruptcies, lawsuits, nonpayment of child support, etc.
- Any inquiries received, usually within the last two years, for credit information about you.

Adapted from material developed by CCOA Credit Counseling of Arkansas

Am I Creditworthy?

1. Do you pay your bills on time?
2. Do you have sufficient income to manage credit?
3. Do you avoid overdrawing your checking account?
4. Do you save 5-10% of your income each month?
5. Have you worked for the same employer for 2 or more years?
6. Have you lived at the same address for several years?
7. Do you have any assets?

8. Do you already have credit?
9. Do you have a credit history?
10. Have you overextended credit previously?

These questions are considered when an institution decides whether to extend credit to you. The importance of some questions will vary depending upon the type of lender. For example, if you wish to take out a mortgage, you will need considerably more assets than you need for a credit card. A creditor's overall concerns are in three areas:

- Ability to repay – Will your income enable you to meet your credit obligations? Both your past income and other credit commitments are taken into account.
- Assets – They will ask the value of what you own (car, life insurance, savings account etc.)
- Attitude – When you have used credit previously, have you paid as promised? Stability in residence and employment are also extremely important.

Should I Use Credit?

Advantages

- To establish a credit history
- To make purchases more convenient
- To handle emergencies
- To keep savings intact
- To take advantage of sales

Disadvantages

- Misuse can lead to a poor credit history
- Finance charges increase the true cost
- Future earnings are committed
- Create temptation to overspend
- Provides a false sense of security

Before you apply

- Shop around for credit terms that are best for you. Consider annual fees, finance charges, late charges, over-the-limit charges, and days in grace period.
- Make sure you understand the terms of the credit card plan before you accept the card.
- Estimate your credit capacity.

Adapted from material developed by CCOA Credit Counseling of Arkansas

The Cost of a Credit Card

1. **Annual Percentage Rate** - The interest rate that is charged by the card issuer is one of the most important factors in determining the finance charge that will be assessed against the account. The higher the interest rate the more you will pay in finance charges.
2. **Grace Period** - The grace period is the time between the billing date and when a creditor starts to assess a finance charge. Most credit card issuers allow you a grace period, which may range from 25 to 30 days. Credit card issuers who offer a grace period may charge a higher interest rate and a higher annual fee. Some issuers are reducing or eliminating the grace period.
3. **Method of Calculation of the Finance Charge** - The method of figuring the finance charge varies from store to store and from card to card. The three main methods are adjusted balance, average daily balance, and previous balance. Some methods are more expensive.

The least expensive method is the adjusted balance. With this method, the finance charge is applied after all payments and credits made during the billing period have been deducted. It does not matter whether the account is paid early, late, or within the billing period.

The next method is the average daily balance. The average daily balance is obtained by totaling the outstanding balance for each day in the billing period. Purchases made during the period may or may not be included when figuring the average daily balance. If this method is used, you can reduce the cost of credit by paying as much as possible and by paying your bill as soon as possible after you receive it.

The most expensive method is the previous balance. If an account is not paid in full, the finance charge is based upon the opening balance of the billing period.

If you do not understand how the finance charge is calculated on your account, ask a representative in the credit department to explain it to you.

4. **Annual Fee** - The annual fee charged for a credit depends upon the issuer and the type of card (regular or premium). Most retail stores and all oil companies do not charge an annual fee for their cards, while some bank cards incur an annual fee ranging from \$25 to \$110. American Express does charge an annual fee but has no credit limit.

5. **Credit Limit** - The credit limit on a credit card can range from as low as \$200 to over \$20000 depending on the card issuer and the credit rating of the customer. A person with a very good credit rating will have many offers of high credit card limits from banks and other card issuers.

6. **Penalties** - Some card issuers charge a fee if a payment is late. The fee may or may not be added to the daily balance of your account. Most credit card issuers charge a fee if you exceed your credit limit.

7. **Transaction Fees** - Some banks charge a transaction fee for each cash advance. Generally there is no grace period for cash advances. Interest starts to accrue immediately. Some banks charge higher rates and additional fees for cash advances.

Adapted from material developed by CCOA Credit Counseling of Arkansas

Interest Packs a Powerful Punch!

People are offered credit cards every day. These offers are very tempting. Credit cards seem like an easy way to get things you want now instead of waiting. Some credit card companies will offer you a card even if you don't have a job. Why should you say no to those offers?

Credit is not free. For some people credit can be very expensive. If you use credit now, you will probably have to do without things you want and need later. Look at the following example:

You are offered a credit card with a limit of \$1000. The annual percentage rate (APR) is 19.8%. You accept and begin to use it. You buy clothes, food, gas, and gifts for friends and family. You find a CD player on sale and buy it. Next, you buy some CD's to go with the new player. You buy more clothes, food, gas and gifts. Soon you have reached your \$1000 limit, but your payments are only \$20 per month! As long as you make this small payment each month the credit card company will be happy. Doesn't that sound like a Great deal? It is, for the credit card company, but not for you. Let's look at it more closely. Your balance is \$1000. You make your first \$20 payment. How much do you owe now? The answer is \$996.50. You paid off \$3.50. Lets look at the next few payments:

<u>Month</u>	<u>Payment</u>	<u>Balance</u>
1	\$20	\$996.50
2	\$20	\$992.94
3	\$20	\$989.32
4	\$20	\$985.74
5	\$20	\$981.90

Credit

You've paid \$100 in payments but your balance has not gone down \$20. By just making the minimum payment each month it will take 107 months to pay off this card. That's 9 years! By that time the clothes will be out of style, the food and gas will be gone, the gifts will be forgotten, the CD's might be obsolete (remember records). The total interest paid on this card will be \$1129.91. That's more than the original balance. If this still sounds like a good deal to you keep in mind that this example assumes that you never charge on this card again after the original \$1000. If you use the card again during the pay off time it will take you more than nine years to repay.

Adapted from material developed by CCOA Credit Counseling of Arkansas

Which Credit Card is Right for You?

*Look for the credit card that best suits your own personal spending habits. If you usually carry a balance from month to month, get the lowest interest rate you can. But if you always pay off your balance in full, the rate doesn't matter. Your priority is to find a card that does not charge an annual fee and does provide a **grace period**, which is a period of time lenders give before they start charging interest. If you pay off your entire balance each month, you may want to consider special "give back" cards that offer you frequent flyer mileage or credits towards a car for every dollar you charge. If you have a troubled credit history or have a tough time controlling your credit card spending, you may want to consider a secured card or a debit card.*

Beth Kobliner, [Get a Financial Life](#)

Most people want at least one of the very low interest credit cards. Unfortunately, it is not easy to qualify for the lowest rate cards – only four in ten applicants are approved. Here are some requirements to qualify:

- ❖ **Salary** – in most cases you will need to earn at least \$10,000 a year.
- ❖ **Stability** – have been at the same job and same residence for at least a year.
- ❖ **Debt** – your monthly debt-to-income ratio (monthly debt divided by income) should not be more than 35% to 45%. To figure this, add your rent/mortgage payment, car payment, student loan payment, and minimum required payments on your credit cards. To get the percentage, divide this total by your monthly income before taxes.
- ❖ **Usage** – issuers calculate the ratio of your outstanding debt to your potential debt. For instance, if you have a credit limit of \$1000 on an existing credit card and your outstanding debt on that card is \$800 your **usage ratio** is 80%. This should not

exceed 80% if you have up to two cards and should not exceed 65% if you have more than two cards.

- ❖ **Bill-paying habits** – if you have recently been more than 30 days late in paying a credit card bill or were more than 60 days late in the last four years, you will have trouble getting a low-rate card.

Department store credit cards are easier to obtain than bank cards and may be a good way to establish credit so you can qualify for a bank card. Be careful with your use of department store cards. Typically they have no grace period on payment and your credit card payment is due the day you receive the bill. If you pay it a week later the payment will show on your credit report as late.

If you can't get a regular card try a secured card. The issuer requires you to provide collateral by depositing money into a special account. You are usually allowed to charge an amount equal to the sum you keep in the special saving account. Once you have demonstrated you can handle a secured card, issuers will be more willing to take a chance on giving you a regular credit card.

However, be cautious in your use of credit cards. Do not be tempted to use the credit on your card as an additional source of income. Resist the temptation to use the credit card at ATM machines as a source of cash except in extreme emergencies. Misuse of credit cards is one of the greatest factors contributing to consumer financial troubles today.

Comparison Shopping Chart for Credit Cards

Credit card applications and marketing materials contain valuable information about the card that is useful to compare it with other cards. However, this information is way on the back of the application in very small print.

The following table will help you compare credit card products and make an informed decision when you choose a card for yourself. You will have already determined how you are going to use the card and how you are going to make the payments.

I have compared two cards: one from Chase Platinum MasterCard and one from CitiBank to show you how to complete the table.

Bank: Chase

Annual Percentage Rates	<u>Preferred Pricing:</u> 2.99% for 9 months. After 9 months 14.99% if your balances are greater than \$2,500 or 16.99% if your balances are less than \$2,500. Preferred pricing will remain in effect as long as you make the minimum required payment to your account <u>Non-Preferred Pricing:</u> Up to 24.99%
Variable Rate Information	<u>Preferred Pricing:</u> 2.99% for 9 months. After 9 months 5.49% over prime if your balances are greater than \$2,500 or 7.49% if your balances are less than \$2,500. Preferred pricing will remain in effect as long as you make the minimum required payment to your account <u>Non-Preferred Pricing:</u> Up to 14.99% over prime, not lower than 19.8%
Grace Period for repayment of the balance for purchases	Not less than 22 days.
Method for computing the balance for purchases	Average Daily Balance (including new purchases)
Annual Fee	None
Minimum Finance Charge for Purchases	\$.50 (if a finance charge is imposed)
Transaction Fee for Purchases	None
Transaction Fee for Cash Advances	3% of each cash advance (\$5 minimum)
Transaction Fee for Balance Transfers	\$50 (may be reduced at Chase's discretion)
Late Payment Fee	\$29
Over the Credit Limit Fee	\$29

Bank: CitiBank

Annual Percentage Rates	Introductory offer 1.9% for balances greater than \$3,500, 2.9% for balances lower than \$3,500. After introductory offer 14.49% for purchases and 19.99% for cash advances. If you default under any CitiBank Card agreement 24.49%
Variable Rate Information	4.99% above prime. If you default, 14.99% above prime.
Grace Period for repayment of the balance for purchases	20 –25 days if you pay you balance in full by the due date.
Method for computing the balance for purchases	Average Daily Balance (including new purchases)
Annual Fee	None
Minimum Finance Charge for Purchases	50 cents
Transaction Fee for Purchases	None listed
Transaction Fee for Cash Advances	3% of each cash advance, not less than \$5
Transaction Fee for Balance Transfers	3% of each cash advance, not less than \$5, but not more than \$29
Late Payment Fee	\$29
Over the Credit Limit Fee	\$29

Which bank charges the lower interest rate? _____

What do I mean by that? _____

Are there really very many differences in these two credit card products? _____

Two blank tables are set up on the following page. You may use them to compare credit card offers. If you need to compare more than two credit cards, make copies of the page.

Credit

Bank:

Annual Percentage Rates	
Variable Rate Information	
Grace Period for repayment of the balance for purchases	
Method for computing the balance for purchases	
Annual Fee	
Minimum Finance Charge for Purchases	
Transaction Fee for Purchases	
Transaction Fee for Cash Advances	
Transaction Fee for Balance Transfers	
Late Payment Fee	
Over the Credit Limit Fee	

Bank:

Annual Percentage Rates	
Variable Rate Information	
Grace Period for repayment of the balance for purchases	
Method for computing the balance for purchases	
Annual Fee	
Minimum Finance Charge for Purchases	
Transaction Fee for Purchases	
Transaction Fee for Cash Advances	
Transaction Fee for Balance Transfers	
Late Payment Fee	
Over the Credit Limit Fee	

Your Credit Report: “Getting It, Understanding It, Improving It”

When you apply for a credit card, bank loan, or car loan you are giving permission for the creditor to check your credit report. It is important for you to be familiar with your own credit report. You should check your report at least once a year and prior to applying for credit.

You can obtain a copy of your credit report from a local credit bureau or from one of the three major bureaus. You can find the listings for your local bureaus in the yellow pages of your phone book. The addresses for the three major bureaus are included here:

<p>Equifax CSC P.O. Box 674402 Houston, TX 77267-4402 1-800-685-1111 order line 1-800-759-5979 questions</p>	<p>Emperian 224 N Block St Fayetteville, AR 72701 1-501-442-2332 1-800-682-7654</p>	<p>TransUnion P.O. Box 390 Springfield, PA 19064-0390 1-800-888-4213</p>
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The cost of a credit report from any of these bureaus is \$8 for you or \$16 for a report on you and your spouse.

For all three of the major bureaus your request must be in writing and must include the following:

- ❖ Your full name, including Jr., Sr., III, etc.
- ❖ Your current address with zip code
- ❖ Your previous addresses for the last five years with zip codes
- ❖ Your spouse’ first name
- ❖ Your social security number
- ❖ Your year of birth
- ❖ Your signature
- ❖ Proof of your current address (utility bill, drivers license, etc.)
- ❖ A check or money order for the cost of the report

If you are interested in requesting the report in person at your local bureau, you should bring proof of your identity.

After you get a copy of your report, you must decipher it. Some reports are now written in an easy to read style, but others are still a confusing maze of numbers and letters. There are some basic guidelines for reading your report. The report will list your current accounts and past accounts. It will tell you when the account was opened, and whether you are the primary person responsible for the account, a joint holder, cosigner, or authorized user. It will show how often (if ever) you have been 30, 60, or 90 days past due. The report will also show what the high balance was on the account or what your credit limit is. Matters of public record, such as bankruptcies, judgements, and some collection activities will be listed. If there is something on your report that you don't understand, you can get help at the local credit bureau or at Credit Counseling of Arkansas.

You should look over your report carefully and check for errors. When you check your credit report you need to look for three things. *Does the report contain incorrect information concerning your accounts? Does the report contain information that does not pertain to you, such as accounts that you never had?* This is particularly important for people with common names. There are many John Smiths whose social security numbers are similar. *The third thing you should check is omissions.* If you have a credit card or loan that has a positive history, you want to make sure that it is listed.

If you find an error on your credit report, you can have it corrected. The company that issued the report can explain the process for doing this. Usually it is just a matter of filling out a dispute form telling what you believe is wrong. Any information that you can add, such as "this is my father's account. We have the same name" or "I have never lived at this address," will help the credit bureau verify or correct the information. If they cannot verify the information within 30 days, it must be removed from your report. However, if it is verified at a later date it will be put on the report again.

After you have looked over your report for errors, you need to determine if there is anything on your report that would lessen your chances of getting credit. Have you been slow with your payments? Do you have old accounts that have been charged off? Are you carrying an excessive amount of credit? The information can stay on your report for seven years, and in some cases longer, so if there is any negative information on your report, you should take steps to improve it. You are entitled to have a 100-word explanation added to the file. This will not remove the negative information, but if it was due to unavoidable circumstances such as medical emergencies or the loss of a job, this explanation might make a difference. The best way to improve the look of your credit report is to begin making timely payments now.

Remember that there are no rules about what makes a good credit report. Each person who reviews the report will judge it based on his or her company's guidelines, past experience, and many other criteria. If you are turned down for credit you should ask why. If the reason is something you can change, do it. If it is not, work to keep similar entries from appearing on your report.

Adapted from material developed by CCOA, Credit Counseling of Arkansas

BACKGROUND INFORMATION FOUND ON ALL CREDIT REPORTS

First National Bank
 987 Any Road
 Anytown, Anystate 12345

Date Received 5/11/95	Date Mailed 5/11/95	In File Since April-70	Inquired As: Individual Account
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Betty G. Consumer
 123 Any Street
 Anytown, Anystate 12345

Former Address: 4321 First Ave., Anytown, Anystate 45678	SSN: 123-45-6789	Spouse's Name: Robert R.
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Present Employer and Address ABC & Associates 987 Main St., Anytown, Anystate 12345	Position Income \$3,500/mt.	Emp. Date 10/81	Date Verified 12/94
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Former Employer and Address
 ABC, Inc. 456 Second Drive, Anytown, Anystate 12345

SAMPLE LISTING OF ACCOUNTS ON AN EQUIFAX CREDIT FILE

Company Name	Acct#	Whose Acct	Date Opened	Months Reviewed	Date-Last Activity	High Credit	Terms	Items as of Date Reported			Date Reported
								Bal.	Past Due	Status	
Charter Bank Visa	8624	I	6/91	30	3/95	6000		520		R1	4/95
FFB (Real Estate Mortgage)	664893	J	3/86	36	3/86	61K	766	57.3K		I1	4/95

Explanation (from left to right, starting at top of credit data)

- Company Name:** Identifies the business that is reporting the information.
- Acct#:** Your account number with the business reporting the information.
- Whose Account:** Indicates who is responsible for the account; I-individual; J-joint.
- Date Opened:** The month and year the account was opened.
- Months Reviewed:** Number of months that the account payment history has been reported.
- Date-Last Activity:** This date could be the date of the last payment, charge, or where there is no balance.
- High Credit:** The highest amount charged or the credit limit.
- Terms:** Represents the number of monthly installments or payments.
- Items as of Date Reported:**
 - Bal.:** The amount on the account at the time of the report.
 - Past Due:** Indicates any amount past due at the time of the report.
 - Status:** Type of account (O-open; R-revolving; I-installment). Timeliness (1-current; 2-30days late, etc).
 - Date:** Last time the account was updated.

SAMPLE LISTING OF ACCOUNTS ON AN EXPERIAN CREDIT FILE

ITEM	ACCOUNT NAME	DESCRIPTION	STATUS OF PAYMENTS
1	Charter Bank Visa P.O. Box 73209 Huston, TX 77273 ACCT# 8624	This revolving loan was opened 6/91 and has unspecified repayment terms. You have contractual responsibility for this account and are primarily responsible for its payment.	As of 4/95, this account is current and all payments have been made on time.
2	FFB Mortgage 180 Wild Basin Rd Austin, TX 78746 ACCT# 664893	This conventional realestate loan was opened in 1986 and has 30 year repayment terms. You are obligated to repay this joint account. The original loan amount of this account is \$61,000.	As of 1995, this account is current and on time. Your balance as of 4/95 is \$57,370. Your scheduled monthly payment is \$776. The last payment reported to Experian was made 4/49.

SAMPLE LISTING OF ACCOUNTS ON A TRANS UNION CREDIT FILE

THE FOLLOWING ACCOUNTS CONTAIN INFORMATION WHICH SOME CREDITORS MAY CONSIDER TO BE ADVERSE. THE ADVERSE INFORMATION IN THESE ACCOUNTS HAS BEEN PRINTED IN >BRACKETS< FOR YOUR CONVENIENCE TO HELP YOU UNDERSTAND YOUR REPORT. THEY ARE NOT BRACKETED THIS WAY FOR CRDITORS. (NOTE: THE ACCOUNT# MAY BE SCRAMBLED BY THE CREDITOR FOR YOUR PROTECTION.)

>NONE<

THE FOLLOWING ACCOUNTS ARE REPORTED WITH NO ADVERSE INFORMATION

CHARTER BANK VISA - #8624		REVOLVING ACCOUNT	
REPT'D	4/95	BALANCE:	\$520
OPENED	6/91	MOST OWED:	
STATUS AS OF 4/95:		PAID AS AGREED	
FFB MORTGAGE - #664893		CONVENTIONAL REAL EASTATE LOAN	
REPT'D	4/95	BALANCE:	\$57,370
OPENED	3/86	MOST OWED:	\$61,000
STATUS AS OF 4/95:		PAID AS AGREED	

COMPOSITE OF PUBLIC RECORD INFORMATION & INQUIRIES INTO YOUR CREDIT FILE

SMALL CLAIMS CT. CASE#SC1001 PLAINTIFF: ANYWHERE APPLIANCES. AMOUNT \$225 PAID 4/4/82. ADDITIONAL INFORMATION: REF. SMALL CLAIMS CT. CASE#SC1001--5/30/82 SUBJECT SAYS CLAIM PAID UNDER PROTEST. APPLIANCE DID NOT OPERATE PROPERLY.

*****COMPANIES THAT HAVE REQUESTED YOUR CREDIT HISTORY*****

1/12/94	Main Bank	11/2/92	Big Town Department Store
3/2/93	National Bank	9/24/91	City Women's Clothes Store

Your Credit Report: Myth and Fact

MYTH: Information on my credit report can not affect current accounts.

FACT: An account may be closed based on your payment history on non-related accounts.

MYTH: Once an account is written off, I no longer owe that debt.

FACT: Even after a debt is written off, you still have an obligation to pay it. Collection activity on the account can resume.

MYTH: If my ex-spouse was assigned a debt in a divorce settlement, I have no responsibility for that debt.

FACT: The original contract with the creditor supersedes the divorce settlement. If you are listed as a responsible party on the original contract any late or missed payments will be listed on your credit report, and the creditor can sue you for the debt.

MYTH: Information can not stay on my credit report for more than 7 years.

FACT: Most information will come off your credit report 7 years from the date of last activity, but there are exceptions. Bankruptcies will stay on the report for 10 years. Judgments will usually be removed after 10 years if the debt has been satisfied; if it has not the judgment may be renewed indefinitely. Under some circumstances, information that no longer appears on the report can be accessed. For instance, if you apply for a loan of more than \$50,000 or apply for a job that pays more than \$20,000 a year, information that has been removed may be supplied to the creditor or employer. With all information, the 7 years starts with the last activity date (every time a creditor makes any changes to the account).

MYTH: If I can not make a full payment to my creditor I can make a smaller payment and the creditor can not report it to the credit bureau.

FACT: If you are not paying your account as originally agreed, the creditor can report that you are late or missing, even if you send small payments.

Adapted from material developed by CCOA, Credit Counseling of Arkansas

Customer Tips: Warning Signs of Being Over-extended on Credit

- ⌘ Paying only the minimum mandatory amount month after month
- ⌘ Being out of cash constantly
- ⌘ Being late in making important payments, such as mortgage or rent
- ⌘ Taking longer and longer to pay off balances
- ⌘ Borrowing from one lender to pay another

Taken from materials developed by the American Bankers Association

Controlling Credit

- ⌘ Note and meet due dates on credit payments to avoid late fees.
- ⌘ Consider changing credit cards to obtain lower rates.
- ⌘ Calculate cost of refinancing or loan consolidation compared with changing lifestyle.
- ⌘ Check loan sources at credit union, employer, cooperatives, charitable agencies, relatives, etc.
- ⌘ If borrowing from relatives or friends, write contract clarifying terms of repayment and interest.
- ⌘ Do not borrow more than needed.
- ⌘ Know the details of credit contracts, penalties, late fees, wage or bank account attachments, credit reporting.
- ⌘ Compare sources of credit, types of financing, fees and annual percentage rates.
- ⌘ Only borrow against equity in house or use home equity line of credit after studying the information and understanding the strict payment schedule and risks involved.
- ⌘ Pay what was charged this month plus some of last month's credit card bill.
- ⌘ If you have more than one credit card, only carry one with you to use in case of emergency or for planned purchases.
- ⌘ Keep your credit cards in a safe place, and keep the card numbers separate from the cards so if you need to report a lost or stolen card, you will have the number quickly.
- ⌘ Be cautious in giving your credit card number over the telephone or the internet.

Adapted from material developed by Credit Counseling of Arkansas (CCOA)

Credit Cleanup

Know Your Legal Rights

In 1977 Congress passed a law called the Federal Fair Debt Collection Practices Act to help protect consumers from unfair collectors and unfair collection practices. The act makes the following stipulations:

1. *Collectors can call only between the hours of 8:00 a.m. and 9:00 p.m. unless you have given them permission to do otherwise.*
2. *You can keep creditors from calling you at work. You should request this in writing and there is a sample form letter in this book. Be sure to send the letter by certified mail, return receipt requested. That way you will know the next time you get a call whether the creditor has received your letter and whether they are breaking the law by calling you.*
3. *You can demand that creditors stop all contact except to inform you of legal proceedings. Again, do this in writing. A Sample letter is enclosed in this book. Do this only as a last resort in the most extreme cases. Writing a cease-and-desist letter is a great way to make a creditor mad – and not a good move when you are trying to work with them to settle your debts. The preferred way to get rid of an obnoxious collector who keeps calling is to **hang up**.*
4. *Collectors and creditors cannot confiscate a bank account or garnishee (attach) wages without suing you and winning the case. Threats to garnishee your wages are bluffs, so don't respond. Just reassure the creditor they will get their money when you have it.*

Adapted from The Financial Peace Planner by Dave Ramsey

Sample Letter to Creditor

(Date)
From
(Your name)
(Your address)

To
(Creditor's name)
(Creditor's address)

RE: _____

Dear _____

I am writing to request formally that your firm (or any agency hired by your firm) no longer contact me at my place of employment.

My employer requests calls such as yours must cease. Under the terms of the 1977 Federal Fair Debt Collection Practices Act, I formally demand all such calls to my place of employment cease. You will please take note that this letter was sent by certified mail so I have proof that you are in receipt of this letter should legal action against you become necessary on this matter.

I am willing to pay the debt I owe you, and I will be in touch soon to work out arrangements.

You may contact me at my home between _____ A.M. and _____ P.M. at the following number _____ or by mail at my home address:

Please give this matter the attention it deserves.

Sincerely,

Adapted from The Financial Peace Planner by Dave Ramsey

Sample Cease and Desist Letter

(Date)

From

VIA: Certified Mail, Return Receipt Requested

To

RE: _____

You are hereby notified under provisions of Public Law 95-109, Section 805-C, the Federal Fair Debt Collection Practices Act, to hereby CEASE AND DESIST in any and all attempts to collect the above debt. Your failure to do so WILL result in charges being filed against you with the state and federal regulatory agencies empowered with enforcement.

Please be further warned that if ANY derogatory information is placed on any credit reports after receipt of this notice, it too, will result in action being taken against you.

PLEASE GIVE THIS MATTER THE ATTENTION IT DESERVES.

Yours truly,

Adapted from The Financial Peace Planner by Dave Ramsey