Credit ~ The Basics
Participant’s Guide
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Welcome to the Credit ~ The Basics module!

Objectives
After completing this module, you will be able to:
• Define credit and loan
• Understand credit reports and credit scores
• Distinguish between secured and unsecured loans
• Identify the costs associated with getting a loan
• Identify the factors lenders use to make loan decisions

Participant Materials
This Credit ~ The Basics Participant Guide contains:
• Information to help you learn the material
• A sample dispute letter
• Information on pulling your credit report
• Instructions on reading your credit report
• Details on how to opt-out of credit offers
### Pre-Test

**test your knowledge about credit**

1. **Select all that apply.** *Maintaining good credit is important because it:*
   - a. Can help you graduate from college
   - b. Allows you to carry more cash than usual
   - c. Allows you to buy expensive items, like a car, house, or furniture, and pay over time
   - d. Might cause your interest rates to be raised

2. **What is a loan?**
   - a. A charge by a financial institution for maintaining or servicing your loan account
   - b. Money you borrow but must also repay
   - c. Something valuable that you own and can sell for cash
   - d. The cost of borrowing money

3. **What type of an interest rate changes periodically?**
   - a. Fixed rate
   - b. Variable rate
   - c. Waning interest
   - d. Dual rate

5. **What should you review and compare when shopping for a loan?**
   - a. Annual percentage rate (APR)
   - b. Fees
   - c. Truth in Lending Disclosures
   - d. All of the above

6. **What four factors do lenders generally use in their loan making decision?**
   - a. Collateral, capacity, capital, and whether you purchase their credit protection insurance
   - b. Capital, character, overdraft protection, and collateral
   - c. Capacity, capital, collateral, and character
   - d. Character, collateral, capacity, and credit limit
What is Credit & Why is it Important?

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 some extra. The extra amount is part of the cost of borrowing money. This cost is also called interest. If you use credit carefully, it can be useful to you. Not being careful in the way you use credit can cause problems.

You have probably heard the term “good credit.” Having good credit means that you make your loan payments on time to repay the money you owe. If you have a good credit record, it will be easier to borrow money in the future. However, if you have problems using credit responsibly, it will be harder to borrow money in the future.

Why Is Credit Important?
Credit is important because it:

• Can be useful in times of emergencies
• Is more convenient than carrying large amounts of cash
• Allows you to make a large purchase, such as a car or house, and pay for it over time
• Can affect your ability to obtain employment, housing, and insurance based on how you manage it

Collateral

• Collateral is security you provide the lender. Example: You pledge an asset you own, such as your home, to the lender with the agreement that it will be used as repayment if you cannot repay the loan.
• A guarantee is a form of collateral. Example: Cosigning is a form of guaranteeing a loan; if a person with no credit history asks another person to cosign a loan, the cosigner is equally responsible and has to repay if the borrower defaults.
• In a secured loan the borrower offers collateral for the loan. Example: Collateral is given up to the lender if the loan is not paid back. Home equity loans and home equity lines of credit are examples.
• An unsecured loan is not backed by collateral. Example: Credit cards are often unsecured loans, although some are secured. Other examples include personal and student loans.
• An asset is something valuable that you own like a car, savings and investment accounts, and property such as your home.
Types of Loans

**Consumer Installment Loans**
A consumer installment loan is used to pay for personal expenses for you and your family. Examples are:
- Auto loans, whereby the automobile you are purchasing is used as collateral for the loan
- Unsecured loans for short-term needs, such as buying a computer

**Credit Cards**
- Credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses.
- Having a credit card allows you to buy things without actually having the money right away. Remember that if you are not careful in spending, you can get into big trouble—you could be burdened with debt. You need to be sure you are able to make the minimum monthly payment on your credit card bill.

**Home Loans**
There are three main types of home loans.
- Home purchase loans are made for the purpose of buying a house. These loans are secured by the house you are buying.
- A home refinancing loan is a loan that replaces an existing home loan by paying it in full and replacing it with a new home loan. A cash-out refinance loan allows you to borrow more money than owed on the loan to be replaced. Reasons homeowners might want to refinance their home loan include getting:
  - A lower interest rate
  - Money for home repairs
  - Money for other personal needs
- Home equity loans allow you to borrow money that is secured by your home. Equity is the value of the home minus the debt or what you owe on the home loan:
  
  \[
  \text{Value of Home} = 250,000 \\
  \text{Minus debt} = -200,000 \\
  \text{Equity} = 50,000
  \]
- If you already have a home mortgage, such as the original home purchase loan, the home equity loan would be a second mortgage also secured by your home. A lender may allow you to borrow up to a certain percentage of your home's value, generally up to 80 percent. These loans can be used for any reason.

Remember: Any type of home loan you obtain is secured by your house. If any home loan is not repaid, you could lose your house.
The Cost of Credit

Fees
• Fees are charged by financial institutions for activities such as reviewing your loan application and servicing the account.
• A credit card company might charge you an annual maintenance fee of $30, a service fee when you get a cash advance, or a penalty fee for charging over your credit limit. A lender might charge a $30 late fee when you do not pay your bill on time.

Interest
• Interest is the amount of money a financial institution charges for allowing you to use its money.
• The interest rate can be either fixed or variable:
  – Fixed rates stay the same throughout the term of the loan, except in the case of credit cards, where the rate may be changed if the bank gives you required notice.
  – Variable rates might change during the loan term. The loan agreement will show the details of the rate changes.

Truth in Lending Disclosures
• The Federal Truth in Lending Act requires banks to state charges in a clear and uniform manner so consumers can easily compare the actual cost of borrowing.
• Lenders are required to disclose:
  – The amount financed
  – APR
  – Finance charges
  – Total payment
  
• Be sure all disclosures carefully (e.g., terms, conditions, and credit transactions). Not all loans have the same terms and conditions. This can be confusing when you are shopping for credit. For example, when looking for a credit card, the important terms you should look for are:

  – APRs for:
    • Purchases
    • Balance transfers
    • Cash advances
    • Penalties
  – Fees, including:
    • Annual and other periodic monthly fees
    • Transaction fees
    • Cash advance fees
    • Balance transfer fees
    • Penalty fees
  – Grace period, if applicable
  – Balance computation method
The Four C’s of Credit

When you apply for credit the lender will review the Four Cs to decide whether you are a good credit risk; or in other words, whether you are likely to pay back the loan.

Capacity
The lender may consider:
• How long have you been in your job? Generally, a lender would like to see that you have held the same job or same type of job for at least a year.
• How much money do you make each month?
• What are your monthly expenses? A bank or credit union will compare the amount you owe and your other monthly expenses with your monthly income. This is called a debt-to-income ratio. It helps determine how much money you can afford to borrow. The financial institution wants to ensure that your expenses are not too high for you to take on the additional monthly debt of a loan payment. They want to be sure you can repay what they lend.

Capital
For capital, the lender may ask:
• How much money do you have in your checking and savings accounts? Lenders may want to know if you can manage your money well enough to take on a loan.
• Do you own a house? Homeownership means you have equity, or secured savings.
• Do you have investments or other assets (e.g., a car)? Lenders want to determine the value of your assets. Lenders will also compare the difference between the value of your assets and the amount of debt you have. This is called net worth. A positive net worth demonstrates your ability to manage your money.

Character
Regarding your character, the lender may seek answers to the following questions:
• Have you had credit in the past? If you have a good credit history of repaying your other loans, you will have an easier time getting your loan request approved.
• How many credit accounts do you have? If you have never had a credit account, you may have difficulty getting approved for a loan. Having a good credit history shows a lender you can borrow money responsibly.
  – Some lenders let you prove this without a credit history. For example, they might ask for proof that you pay your rent and utility and phone bills on time, or that you make regular deposits to a savings account.
  – Other examples of ways to show a creditor that you are a good credit risk may include:
    • Insurance premium payments
    • Payments of medical bills
    • Payments for school tuition
    • Child care payments
    • Payments of personal loans (documented by a written loan agreement and canceled checks)

Ask the lender to consider alternative forms of history. If a lender is not willing to do this, shop around for one who will.
The Four C’s of Credit con’t

- Have you ever:
  - Filed for bankruptcy?
  - Had any outstanding judgments?
  - Had property repossessed or foreclosed upon?
  - Made late payments?

These situations may make it more difficult for you to get approved for a loan. However, some lenders will ask you to explain what happened. Depending on your circumstances, a lender might be willing to approve your loan request.

Situations that may prevent you from getting a loan at all, particularly if you are currently going through them, include:
- Attachment: A lien against personal property.
- Bankruptcy: A legal declaration of insolvency. Bankruptcy will not fix credit record problems and will be part of your credit history for 10 years. You must get credit counseling before you can file for bankruptcy. The law also requires you to pay a portion of your unsecured debt if possible.
- Foreclosure: A legal proceeding initiated by a creditor to take possession of collateral that secured a defaulted loan.
- Garnishment: A process by which a lender obtains directly from a third party, such as an employer, part of an employee’s salary to satisfy an unpaid debt. Part of the employee’s salary is taken each pay period until the debt is fully paid. This process must be authorized by a court order.
- Judgment: A court order requiring a debtor to pay money to the creditor. The judgment places a security lien on the debtor’s property until the judgment is satisfied (the debt is repaid).
- Lien: A creditor’s claim against property to secure repayment of a debt.
- Repossession: Seizure of collateral that secured a loan in default.

**Collateral**

To determine what collateral you have, the lender may ask:
- Do you have assets to secure the loan beyond your capacity to pay it off? Collateral is security you provide the lender. As we have seen, giving the lender collateral means that you pledge an asset that you own, such as your home, to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.
- A cosigner can help you get a loan if you are unable to obtain one yourself. This person signs the loan documents with you and is equally responsible for repaying the loan if you cannot. For example, if you do not have a credit history at all, the lender may require you to use a cosigner to get a loan.
Credit Reports

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

If you do not have a credit history, some creditors will consider other factors that indicate whether you may be a good credit risk (e.g., they might ask for proof that you pay your rent, utility, and phone bills on time or that you make regular deposits to a savings account).

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.
- 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
- A report containing your credit history
- A list of inquiries
- 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)

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.

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 Scores

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

- Your credit 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.
- Each of the three major reporting agencies—Equifax, Experian, and TransUnion—all use their own “grading scales” when calculating your scores.

• Payment History ~ 35%
  Your payment history is the largest percentage of your credit score. That is why it is important to pay your bills on time, every time. Late payments can really drop your score, and quickly. If you start with a 700 credit score and make one payment 30 days late, your score can drop to a 630. If you make two late payments, your score can drop to a 600. If you make that second payment on time, your score could rise up to a 660, but it can take you a year to build that score back up to a 700.

• Capacity ~ 30%
  Capacity, or how much you owe, counts for 30% of your score. They look at your installment loans (like auto loans) and compare your balance to the original loan amount. They look at your individual revolving accounts (like credit cards) to see how much you owe in comparison to your limit, and they look at all of your revolving accounts to see what your total balances are compared to your total credit limits. Why is so much emphasis placed on capacity? Because statistically speaking, Americans who go bankrupt charge their credit cards up to the limit before they file.

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

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In order to receive as many capacity points as possible, it’s important to understand the math behind the calculation.

Every day, people consolidate credit card balances and close credit cards in the hopes of improving their credit scores. This can actually have the opposite effect. Let’s look at an example.

- Let’s say you have four credit cards with a combined limit of $40,000 ($10,000 per card). Your combined balance is $20,000. You have 50% available capacity.
- If you consolidate the balances and close two cards, you now have two cards with a $20,000 limit and $20,000 balance. You now have 0% available capacity.
- You’re no further in debt, but your score will drop drastically because you have removed all of your available capacity on your credit cards.

Typically speaking, you don’t want to close your credit card accounts because the more capacity you have, the higher your score. HOWEVER, it’s important to not run up balances on those cards. If you cannot control your spending, it’s better to remove the temptation all together. Your score may be lower from the lack of capacity, but that’s better than having a lower score and all the debt to pay back!

A general rule of thumb with capacity—never charge more than half of your available limit. Creditors like to see that you can control your spending. On that same note, you do need to use your credit cards occasionally to build a history of payment. Remember—on time, every time!
Credit Scores

**Length of Credit History ~ 15%**
How long you’ve had credit accounts for 15% of your score. In order to maximize full points in this category, you’ll want to keep your first credit card open, even if it doesn’t carry a balance or has a horrible interest rate. You don’t have to use it, but you need it.

When you first start out, you’re given a C grade. It will take you five to six years of “good behavior” to earn an A grade. (Of course, we’ve already found out how quickly one or two missteps can drop our scores!).

**New Credit ~ 10%**
10% of your score comes from how much new debt you’ve accumulated in the last 12-18 months.

One of the things they look at is the number of credit report inquiries you’ve had. There are two types of inquiries, hard and soft.

- When you apply for credit, you authorize the lender to ask for a copy of your credit report. This is a hard hit.
- If you apply for a job or pull your own credit, this is a soft hit. Soft hits typically aren’t an issue when your report is being evaluated, but hard hits may, especially if there are several of them. 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. Numerous inquiries on your credit report may suggest that you could be having financial troubles or are becoming too deep in debt, and that will drop your score.

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 considers all mortgage and auto inquiries made within a 30 day period as one inquiry. That means that your credit score is not harmed by shopping around for the best car or home loan. Of course your best bet is to get pre-approved by your bank or credit union before looking for a car or home. Not only will it help you know what you can afford, but it also gives you more bargaining power.

**Credit Mix ~ 10%**
10% of your score also comes from your mix of credit. Lenders want to see where you’re borrowing money and what type of debt you have.

Installment loans (auto, home) increase your score while revolving (credit cards) lower your score. Borrowing from finance companies will also hurt your score.
What Else Affects Your Score?

There are several things that credit scores ignore:

- Your salary
- Employer
- Employment history
- Where you live
- Occupation and salary
- Date employed
- Debt-to-income ratio
- Race, religion, age, national origin, sex and marital status
- Interest rate being charged on your loans
- Credit counseling or financial counseling programs

HOWEVER, these factors will be considered by lenders and factor heavily in whether or not you get a loan.

Some companies only report negative information to the credit bureaus. For example, medical providers and utility companies only report you if you DON’T pay your bills on time, meaning your perfect payment history won’t help your score.

There are other actions that you would assume would hurt your score as well, like bounced checks, but this information isn’t reported either. That said, Check It Out talked about how such negative information can prevent you from getting a checking account when your record is pulled through companies such as ChexSystems.

Garnishments, liens and other judgments that were discussed in the Crisis Mode module will show up on your credit report as Public Records, and they will almost certainly lower your score.

- Unpaid taxes owed to local, state or federal authorities may show up on your credit file as tax liens. These typically stay on your credit files until paid. You can expect a tax lien to cause a very large drop in your credit score – and it doesn’t matter whether the amount of taxes owed was $150 or $150,000. Once paid off or satisfied, tax liens remain on your credit reports for seven years.
- Failure to pay child support or paying late will be reported on your credit report and it will remain there for up to seven years, unless you make a deal with the child support enforcement agency. An agency may agree not to report negative information to the credit reporting agencies if you pay some or all of the overdue support, but few child support enforcement agencies will agree to eliminate all negative information. Most will at least report that you were delinquent in the past. In addition, sometimes creditors and lenders report the whereabouts of missing parents to child enforcement agencies.
- Co-signing on a loan is a double edged sword. It can raise your score if you align yourself with a reliable person who pays on time every time, but more than 70% of all cosigners end up making at least one payment on the loan. Bad news is that you may not know the loan will not be paid on time until it is too late and there is already a delinquency.
- Bankruptcy should always be your last resort because it is the single-most negative mark you can have on your credit. Bankruptcies generally remain on your credit report for 10 years. The more recent a bankruptcy occurred, the more it will negatively impact your credit rating.
- If you get a judgment “Dismissed,” you will almost certainly improve your credit rating, because “Dismissed” court judgments are treated as if they never occurred.
How To Improve Your Score

- Ensure your credit report is correct and dispute any legitimate errors. People work for credit bureaus and people make mistakes. You should have already pulled at least one of your credit reports via annualcreditreport.com. Make sure you pull each report once a year and check them for accuracy.

- Focus on bringing delinquent loans current. We talked about reaching out to creditors in our Crisis Mode module. Remember, creditors want to work with you because they want to be paid back. Don’t allow your current loans to go further delinquent in order to pay off old collection accounts. This only compounds your problem.

- Pay off and close second-tier finance companies, payday lenders and title loans.

- Pay down credit cards that are near their limits first, assuming the interest rates are similar.

- Pay down total revolving balances but do not close the accounts (capacity is king!).

- Move revolving balances to installment debt. For example, if you own your car, you can get a title loan from your bank or credit union, and use that money to pay off a credit card. You’ll save money because installment loan rates are usually lower than revolving loan rates, and you’ll boost your score. BE SURE TO PAY YOUR LOAN OR THEY’LL TAKE YOUR VEHICLE!

- Minimize new accounts. Instead of opening new accounts, call your lenders and ask if you can have the limit increased on your current credit card or line of credit. If the answer is no, take that to heart. It could mean your lenders are seeing you as a potential risk.

Did You Know?

- The national average credit score is a 691.
- Only 39% of people obtain a copy of their credit report.
- Only 35% of those people have checked their credit report in the past 12 months.
- 37% of adults admit they have no idea what their credit score is.

How To Read Your Credit Report

The following information is generally included on all credit reports:

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

<table>
<thead>
<tr>
<th>JOHN Q CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report #1234567</td>
</tr>
</tbody>
</table>

**Personal Information**

123 Main Street #2
Somewhereville, USA 01234
SSN# 123-45-6789
DOB 02/01/68

**Employers**

1. ABCDE Engineering Corp, Somewhereville USA
2. Port City Engineering, Anywhere, USA

**Consumer Statement**

No personal statements appear in your report.

**Potentially Negative Items**

**Televiser Cable Comm.**

Acc#: 12345678 1234 5678
Type: Collections
Date filed: 05/01/05
Status: Delinquent in collections 120+ days
Amount: $125.00
Credit limit/Original Amount: N/A

**Accounts in Good Standing**

**XYZ BANKCARD USA**

Acc#: 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**

Acc#: 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
Effects of Good and Bad Credit

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.

A Tale of Two Scores

Even a few points difference in credit scores can have a big impact on your wallet. Let’s say two people are looking to buy the exact same $20,000 car. One person has a 590 score and the other has a 680 score.

<table>
<thead>
<tr>
<th>590 Score</th>
<th>680 Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Car loan rates</strong></td>
<td><strong>Car loan rates</strong></td>
</tr>
<tr>
<td>36 mos = 9.94%</td>
<td>36 mos = 3.94%</td>
</tr>
<tr>
<td>48 mos = 10.94%</td>
<td>48 mos = 4.94%</td>
</tr>
<tr>
<td>60 mos. = 11.19%</td>
<td>60 mos. = 5.19%</td>
</tr>
<tr>
<td>Payment = $437</td>
<td>Payment = $379</td>
</tr>
<tr>
<td>Total Interest = $6,213</td>
<td>Total Interest = $2,754</td>
</tr>
<tr>
<td>Total Paid: $26,213</td>
<td>Total Paid: $22,754</td>
</tr>
</tbody>
</table>

The first person has interest rate options ranging from 9.94% to 11.19%. Most people finance their vehicles for five to six years depending on the age of the vehicle. Sixty months, or five years, is the most common term for car loans, so let’s see how much it will cost her. Her monthly payment will be $437, she’ll pay $6,213 in interest for a grand total of $26,213.

The second person has interest rate options ranging from 3.94% to 5.19%. Her monthly payment will be $379, she’ll pay $2,754 in interest for a grand total of $22,754.

That’s $3,459 more!
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)
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 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
Rights Under Equal Credit Opportunity Act

• **Creditors May not deny credit approval based on:**
  - Race or color
  - Religion
  - National origin
  - Sex or Marital status
  - Age (as long as you are old enough to enter into a contract)
  - Receipt of income from public assistance programs
  - Exercising your legal rights for credit protection

• **It is illegal to:**
  - Refuse credit if you qualify
  - Discourage applying for credit
  - Offer credit on terms less favorable than someone with similar qualifications
  - Close your account

• **Warning Signs: Look for red flags such as:**
  - You are treated differently in person than on the phone
  - You are discouraged from applying for credit
  - You hear the lender make negative comments about race, religion, sex or other protected demographics
  - You are refused credit even though you qualify
  - You are offered credit with a higher rate than what you qualified for
  - You are denied credit but not given a reason
  - Your deal sounds too good to be true
  - You are pressured to sign

• **Protect Yourself**
  - Shop Around for different credit products and compare offers
  - Know your credit history as it is the basis for decisions made related to credit
  - Don’t focus on monthly payment: know the fees and interest being charged. Ask questions to learn about how you will be charged and under what conditions fees and interest may change
  - Stay in control: don’t allow a lender to rush you into signing documents or delay action on your application
  - Don’t sign until you are satisfied

• **Special Note to Women:** a good credit history is essential to get credit. Make sure that credit you may have received in another name (maiden or former married name) is reported on your credit report. If you have joint credit with your spouse make sure that payments are reported on both credit reports to establish payment history. Contact your local credit reporting company to ensure all relevant information is reported under your name.
Fact/Fiction Debt Collection

Credit collectors may not engage in deceptive practices to influence your payment of debts under the Fair Debt Collection Practices Act. Consider the following statements that might be given and know the truth about debt payments and how it affects scores, reports and future credit opportunity.

• **“Paying off this debt will remove it from your credit report”**
  - **FICTION:** Debts remain on your credit report a minimum of 7 years after the final payment.

• **“Your credit report will be updated with the payments you make”**
  - **MAYBE:** Payments on debts in collections will change credit reports only if debt owners or collectors furnish information about the payments to the credit reporting agencies. If they do not furnish payment information it may be deceptive for them to make representations about how debt payments will be reflected on a consumer’s credit report.

• **“Pay off this debt and your credit score will improve”**
  - **NOT NECESSARILY** there are a number of factors that increase your credit score and the payment may not improve your score.

• **“Paying off debts in collection will improve your creditworthiness”**
  - **NOT NECESSARILY** - lenders may use a variety of sources of information to assess the creditworthiness of prospective borrowers, including credit report or credit score information. The extent of impact depends on the lenders weighting of a variety of factors that debt collectors often will not know. Collectors may well deceive consumers if they make representations about improved creditworthiness that result from paying debts in collection.

If you believe you have been a victim of deceptive debt collection practices, the Consumer Financial Protection Bureau ([www.consumerfinance.gov](http://www.consumerfinance.gov)) has a complaint process that you can use to report these collectors and hold them accountable for damaging practices.
Credit Repair: How To Help Yourself

You see the advertisements in newspapers, on TV, and on the Internet. You hear them on the radio. You get fliers in the mail, and maybe even calls offering credit repair services. They all make the same claims:

“Credit problems? No problem!”

“We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!”

“We can erase your bad credit — 100% guaranteed.”

“Create a new credit identity — legally.”

The Federal Trade Commission (FTC) says do yourself a favor and save some money, too. Don’t believe these claims: they’re very likely signs of a scam. Indeed, attorneys at the nation’s consumer protection agency say they’ve never seen a legitimate credit repair operation making those claims. The fact is there’s no quick fix for creditworthiness. You can improve your credit report legitimately, but it takes time, a conscious effort, and sticking to a personal debt repayment plan.

Recognizing a Credit Repair Scam

Everyday, companies target consumers who have poor credit histories with promises to clean up their credit report so they can get a car loan, a home mortgage, insurance, or even a job once they pay them a fee for the service. The truth is, these companies can’t deliver an improved credit report for you using the tactics they promote. It’s illegal: No one can remove accurate negative information from your credit report. So after you pay them hundreds or thousands of dollars in fees, you’re left with the same credit report and someone else has your money.

If you see a credit repair offer, here’s how to tell if the company behind it is up to no good:

- The company wants you to pay for credit repair services before they provide any services. Under the Credit Repair Organizations Act, credit repair companies cannot require you to pay until they have completed the services they have promised.

- The company doesn’t tell you your rights and what you can do for yourself for free.
The company recommends that you do not contact any of the three major national credit reporting companies directly.

The company tells you they can get rid of most or all the negative credit information in your credit report, even if that information is accurate and current.

The company suggests that you try to invent a “new” credit identity — and then, a new credit report — by applying for an Employer Identification Number to use instead of your Social Security number.

The company advises you to dispute all the information in your credit report, regardless of its accuracy or timeliness.

If you follow illegal advice and commit fraud, you may find yourself in legal hot water, too: It’s a federal crime to lie on a loan or credit application, to misrepresent your Social Security number, and to obtain an Employer Identification Number from the Internal Revenue Service under false pretenses. You could be charged and prosecuted for mail or wire fraud if you use the mail, telephone, or Internet to apply for credit and provide false information.

Your Rights Regarding Credit Repair

No one can legally remove accurate and timely negative information from a credit report. The law allows you to ask for an investigation of information in your file that you dispute as inaccurate or incomplete. There is no charge for this. Some people hire a company to investigate on their behalf, but anything a credit repair clinic can do legally, you can do for yourself at little or no cost. According to the Fair Credit Reporting Act (FCRA):

You’re entitled to a free report if a company takes “adverse action” against you, like denying your application for credit, insurance, or employment. You have to ask for your report within 60 days of receiving notice of the action. The notice will give you the name, address, and phone number of the consumer reporting company. You’re also entitled to one free report a year if you’re unemployed and plan to look for a job within 60 days; if you’re on welfare; or if your report is inaccurate because of fraud, including identity theft.

Each of the nationwide consumer reporting companies — Equifax, Experian, and TransUnion — is required to provide you with a free copy of your credit report once every 12 months, if you ask for it. The three companies have a central website, a toll-free telephone number, and a mailing address for consumers to order the free annual credit reports the government entitles them to. To order, click on annualcreditreport.com, call 1-877-322-8228, or 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 use the form in this brochure, or you can print it from ftc.gov/credit. You may order reports from each of the three consumer reporting companies at the same time, or you can stagger your requests, ordering one from each company throughout the year from the central address. Don’t contact the three nationwide consumer reporting companies individually or at another address because you may end up paying for a report that you’re entitled to get for free. In fact, each consumer reporting company may charge you up to $10.50 to purchase an additional copy of your report within a 12-month period.

Sample Dispute Letter

Date
Your Name
Your Address
City, State, Zip Code

Complaint Department
Name of Company
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 encircled on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditor or tax court, and identify type of item, such as 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, such as payment records, court documents) supporting my position. Please investigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing.)

Helping Yourself

Step 1: Tell the consumer reporting company, in writing, what information you think is inaccurate. Include copies (NOT originals) of any documents that support your position. In addition to providing your complete name and address, your letter should identify each item in your report you dispute; state the facts and the reasons you dispute the information, and ask that it be removed or corrected. You may want to enclose a copy of your report, and
circle the items in question. Send your letter by certified mail, “return receipt requested,” so you can document that the consumer reporting company received it. Keep copies of your dispute letter and enclosures.

Your letter may look something like the one on the previous page.

Consumer reporting companies must investigate the items you question within 30 days — unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the consumer reporting company, it is required to investigate, review the relevant information, and report the results back to the consumer reporting company. If this investigation reveals that the disputed information is inaccurate, the information provider has to notify the nationwide consumer reporting companies so they can correct it in your file.

When the investigation is complete, the consumer reporting company must give you the results in writing, too, and a free copy of your report if the dispute results in a change. If an item is changed or deleted, the consumer reporting company is not permitted to put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The consumer reporting company also must send you written notice that includes the name, address, and phone number of the information provider. If you ask, the consumer reporting company must send notices of any correction to anyone who received your report in the past six months. You also can ask that a corrected copy of your report be sent to anyone who received a copy during the past two years for employment purposes.

If an investigation doesn’t resolve your dispute with the consumer reporting company, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the consumer reporting company to provide your statement to anyone who received a copy of your report in the recent past. You can expect to pay for this service.

Step 2: Tell the creditor or other information provider, in writing, that you dispute an item. Be sure to include copies (NOT originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a consumer reporting company, it must include a notice of your dispute. And if you are correct — that is, if the information is found to be inaccurate — the information provider may not report it again.
REPORTING ACCURATE NEGATIVE INFORMATION

When negative information in your report is accurate, only the passage of time can assure its removal. A consumer reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. To calculate the seven-year reporting period, start from the date the event took place. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you’ve applied for more than $150,000 worth of credit or life insurance.

THE CREDIT REPAIR ORGANIZATIONS ACT

Credit repair organizations must give you a copy of the “Consumer Credit File Rights Under State and Federal Law” before you sign a contract. They also must give you a written contract that spells out your rights and obligations. Read these documents before you sign anything. And before signing, know that a credit repair company cannot:

- make false claims about their services
- charge you until they have completed the promised services
- perform any services until they have your signature on a written contract and have completed a three-day waiting period. During this time, you can cancel the contract without paying any fees.
- Before you sign a contract, be sure it specifies:
  - the payment terms for services, including the total cost
  - a detailed description of the services the company will perform
  - how long it will take to achieve the results
  - any guarantees the company offers
  - the company’s name and business address

HAVE YOU BEEN VICTIMIZED?

Many states have laws regulating credit repair companies. State law enforcement officials may be helpful if you’ve lost money to credit repair scams. Don’t be embarrassed to report a problem with a credit repair company. While you may fear that contacting the government could make your problems worse, remember that laws are in place to protect you. Contact your local consumer affairs office or your state Attorney General (AGs). Many AGs have toll-free consumer hotlines; check the Blue Pages of your telephone directory for the phone number or www.naag.org for a list of state attorneys general.

Just because you have a poor credit report doesn’t mean you won’t be able to get credit.
IF YOU NEED HELP
Just because you have a poor credit report doesn’t mean you can’t get credit. Creditors set their own standards, and not all look at your credit history the same way. Some may look only at recent years to evaluate you for credit, and they may give you credit if your bill-paying history has improved. It may be worthwhile to contact creditors informally to discuss their credit standards.

If you’re not disciplined enough to create a workable budget and stick to it, to work out a repayment plan with your creditors, or to keep track of your mounting bills, you might consider contacting a credit counseling organization. Many credit counseling organizations are nonprofit and work with you to solve your financial problems. But remember that “nonprofit” status doesn’t guarantee free, affordable, or even legitimate services. In fact, some credit counseling organizations — even some that claim non-profit status — may charge high fees or hide their fees by pressuring consumers to make “voluntary” contributions that only cause more debt.

Most credit counselors offer services through local offices, the Internet, or on the telephone. If possible, find an organization that offers in-person counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs. Your financial institution, local consumer protection agency, and friends and family also may be good sources of information and referrals.

If you are considering filing for bankruptcy, be aware that bankruptcy laws require that you get credit counseling from a government-approved organization within six months before you file for bankruptcy relief. You can find a state-by-state list of government-approved organizations at www.usdoj.gov/ust, the website of the U.S. Trustee Program. That’s the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. Be wary of credit counseling organizations that say they are government-approved, but do not appear on the list of approved organizations.

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. Their counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting. Counselors discuss your entire financial situation with you, and can help you develop a personalized plan to solve your money problems. An initial counseling session typically lasts an hour, with an offer of follow-up sessions.

DO-IT-YOURSELF CHECK-UP
Regardless of your credit history, financial advisors and consumer advocates recommend reviewing your credit report periodically for three important reasons:

1. The information in your credit report affects whether you can get a loan or insurance — and how much you will have to pay for it.

2. It’s important to make sure the information is accurate, complete, and up-to-date before you apply for a loan for a major purchase like a house or car, buy insurance, or apply for a job.

3. It can help you deter, detect, and defend against identity theft. That’s when someone uses your personal information — like your
name, your Social Security number, or your credit card number — to commit fraud. Identity thieves may use your information to open a new credit card account in your name. Then, when they don't pay the bills, the delinquent account is reported on your credit report. Inaccurate information like that could affect your ability to get credit, insurance, or even a job.

**For More Information**

To learn how to improve your credit worthiness and find legitimate resources for low or no-cost help, please see the following publications at ftc.gov/credit.

- **Your Access to Free Credit Reports** — Explains why it is important to monitor your credit history, how to request a report, and how to dispute errors.

- **How to Dispute Credit Report Errors** — Explains how to dispute and correct inaccurate information in your credit report. Includes a sample dispute letter.

- **Building a Better Credit Report** — Learn how to legally improve your credit report, how to deal with debt, how to spot credit-related scams, and more.

- **Knee Deep in Debt** — Discusses options to help you get back in the black, including: realistic budgeting, credit counseling from a reputable organization, debt consolidation, or bankruptcy.

- **Fiscal Fitness: Choosing a Credit Counselor** — Defines debt repayment plans, explains the differences between secured and unsecured debt, and offers questions to ask credit counseling agencies if you consider using their services.

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.
1. Which of the following is an example of a secured loan?
   - a. Home loans and home equity loans
   - b. Most credit cards
   - c. Personal loans
   - d. Student loans

2. Which type of interest rate can change during the loan term?
   - a. Fixed interest rate
   - b. Variable interest rate

1. Which of the following must be included in the Truth in Lending Disclosure? Select all that apply.
   - a. Amount financed
   - b. APR
   - c. Finance charge
   - d. Total payments

2. What is used as collateral for a home loan?
   - a. The home
   - b. The furniture or furnishings
   - c. Personal assets (e.g., a car)
   - d. All of the above

3. Lenders will review the Four Cs to determine whether you are a good credit risk. Which of the following refers to property or assets offered to secure the loan?
   - a. Capacity
   - b. Collateral
   - c. Capital
   - d. Character
Glossary

- **Annual Percentage Rate (APR):** The cost of your loan expressed as a yearly percentage rate.
- **Credit:** The ability to borrow money.
- **Collateral:** The security you provide the lender.
- **Consumer Installment Loan:** A loan used to pay for personal expenses for you and your family over a set term or period of time.
- **Credit Cards:** Plastic cards with magnetic strips on the back. The front displays your account number, name, and bank name. With a credit card, you can buy goods or services and pay for them over time, receiving a bill each month. Credit cards give you the ongoing ability to borrow money for household, family, and other personal expenses.
- **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 obligations.
- **Debt-to-income-ratio:** compares the amount you owe and your other monthly expenses with your monthly income.
- **Equity:** the value of the home minus the debt or what you owe on the home loan.
- **Fees:** The amounts charged by financial institutions for activities such as reviewing your loan application and servicing the account.
- **Fixed Rate:** The interest rate stays the same throughout the term of the loan, except in the case of credit cards, where the rate may be changed.
- **Guarantee:** A form of collateral. It occurs when someone you know agrees to be responsible for any money that you owe the lender but have not paid.
- **Home Equity Loan:** A loan that allows a homeowner to borrow money that is secured by their home.
- **Home Purchase Loan:** A loan for the purpose of buying a house. This loan is secured by the house you are buying.
- **Home Refinancing Loan:** A loan process by which an existing home loan is paid off and replaced with a new loan.
- **Interest:** The amount of money a financial institution charges for letting you use its money.
- **Loan:** Money borrowed on credit.
- **Net Worth:** the difference between the value of your assets and the amount of debt you have.
- **Opt Out:** To opt out of receiving mailed credit card offers, call 1-888-5-OPTOUT (567-8688) or visit www.optoutprescreen.com.
- **Payday Loan:** A short-term loan. The loan service cashes the check on your payday, at which time your loan is paid in full.
- **Penalty APR:** The terms of your credit card agreement may provide that the creditor will permanently increase the interest rate on your credit card by a large amount if you do not pay your credit card bill on time, or if you exceed your credit limit.
- **Unsecured Loan:** A loan not backed by collateral. Credit cards are often unsecured loans, although some are secured by a bank account.
- **Variable rate:** An interest rate that may change during the loan term.