

BMG LoansAtWork

Credit Education Program





Course Objectives



- Identify ways to decrease spending and increase income
- Discuss common debt traps to avoid
- Brief discussion of identity theft
- Define credit
- Explain why credit is important
- Installment Loans – Secured and Unsecured
- Costs of Credit
- Obtain a FREE Annual Credit Report
- Read and understand the purpose of your credit report
- How lenders evaluate borrowers
- Describe the implications of good and bad credit scores
- Identify ways to build, maintain and repair your credit history
- How to correct errors on your credit report



Decrease Spending

- Decreasing spending increases your cash flow
- What are some ways you can cut back on your spending?



Increase Income



- Tax credits and tools that may help to increase your income include:
 - Earned Income Tax Credit (EITC or EIC)
 - Child tax credit
 - Credit for child and dependent care expenses
 - Education credits
 - Tax credits for retirement savings contributions
 - Flexible spending accounts



Help With Tax Preparation

Free Tax Return Preparation for Qualifying Taxpayers

- The Volunteer Income Tax Assistance (VITA) program offers free tax help to people who generally make \$53,000 or less, persons with disabilities, the elderly and limited English speaking taxpayers who need assistance in preparing their own tax returns. IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals.

<http://irs.treasury.gov/freetaxprep/>





When There Are More Expenses Than Income

- What payments should you make first if you cannot pay all of your bills?
 - Pay your necessary household expenses first (rent, mortgage, food)
 - Think about the health and safety of your family when prioritizing bills
 - Seek assistance to help cover expenses





Traps To Avoid – Bad Ideas

- Late fees are more expensive than you think
- Payday loans are a bad choice because of the short term and high fees
- Overdraw fees on bank accounts
- Rent-to-own stores are terribly expensive
- You will probably never need credit insurance, and it is costly
- Identity theft programs are expensive and don't enhance your options
- Warranties and other added “protections”





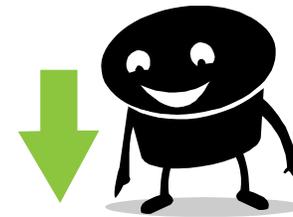
Other Debt Traps

- Buying or renting too much house
- Co-signing a loan
- Raiding retirement savings
- Mismanaging credit cards
- Be careful of student loans (for expenses) and for-profit colleges
- Over-improving your home
- Starting a marriage with extra debt



Minimize Your Risk of Identity Theft

- Protect your personal information (SSN, PINs, passwords, credit/debit cards)
- Protect your incoming/outgoing mail
- Sign up for direct deposit
- Keep your financial trash “clean”
- Regularly review your bank statements and credit card bills



Victims of Identity Theft

Take action immediately:

- File a police report
- Contact your creditors
- Follow up in writing
- Use the ID Theft Affidavit at www.ftc.gov/idtheft
- File a complaint with the FTC
- Ask for verification that disputed accounts have been closed and fraudulent debts discharged



Definition of Credit

- **Credit is:**

- The ability to borrow money
- Sometimes called a loan
- A promise you make to pay back money you borrowed with interest



- **Why is credit important?**

- Having good credit makes it easier to borrow money in the future.
- Is convenient when you do not have cash
- Is useful in times of emergencies
- Allows you to pay for purchases over time
- Can affect your ability to obtain employment, housing, and insurance, depending on how you manage it

Credit Terms



- *Guarantee*: A form of collateral
- *Secured loan*: A loan in which the borrower offers collateral for the borrowed money
- *Unsecured loan*: A loan that is not secured by collateral
- *Asset*: Something valuable that you own

Collateral and Guarantees



What does *collateral* mean?

- It is an asset you own and pledge to the lender, when you take out a loan
- If you do not repay the loan, the lender is entitled to take or keep the collateral
- If you are unable to repay the loan and the collateral is insufficient to cover the balance, you are still responsible for:
 - The remaining balance
 - Any fees and interest associated with the loan

What does *guarantee* mean?

- It is a form of collateral
 - Example: Having a friend or family member cosigning a loan is form of guaranteeing a loan



What Is An Installment Loan?

- A loan that is repaid in equal payments or installments for a specific period of time
- What items are typically purchased with an installment loan?
 - Cars
 - Furniture
 - Computers
 - Household appliances



Unsecured Installment Loan:

- Not secured by collateral
- Different underwriting standards than secured loans
- Examples: personal loans and private student loans



Secured Installment Loans:

- Have lower interest rates than unsecured loans
- Require collateral
- Examples: Mortgages and home equity loans



Why Do Borrowers Prefer Installment Loans?

- Clear payment amount and repayment period
- Lower rates than credit cards, rent-to-own and payday loans
- Lower loan balances during loan term because payment includes principal





Cost of Installment Loans

1. **Finance Charges:** Dollar amount the loan will cost, including: interest, service charges and loan fees
2. **APR (Annual Percentage Rate):** Cost of borrowing money on a yearly basis
3. **Fixed-rate loan:** Loan with interest rate that stays the same throughout the term of the loan
4. **Variable-rate loan:** Loan with interest rate that might change during any period of the loan term





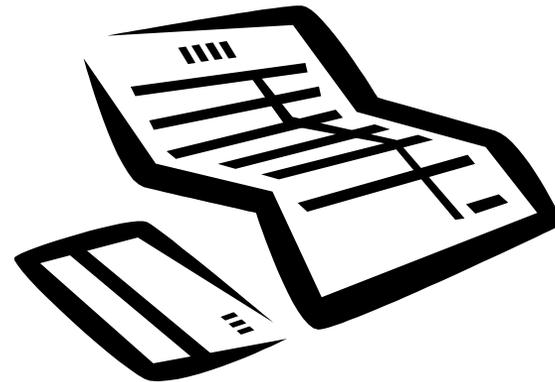
The Cost of Credit

- **Fees:**
 - Charges by financial institutions for activities such as reviewing your loan application and servicing the account
- **Interest:**
 - Amount of money a financial institution charges for letting you use its money
 - Fixed or variable rates



Truth in Lending Disclosures

- **The Federal Truth in Lending Act:**
 - Requires lenders to disclose charges so you can compare the actual cost of borrowing
- **Lenders must disclose:**
 - The amount financed
 - APR
 - Finance charges
 - Total payments





When You Need Money Fast

- Borrow from yourself first – put money into an emergency savings account
- Comparison shop for loans by looking at total dollar costs and APRs
- Check out emergency cash options with your bank
- Ensure you can afford the payment within your existing budget





How Lenders Evaluate Borrowers

Capacity: Your ability to meet payments

- How long have you been on your job?
- How much money do you make each month?
- What are your monthly expenses?

Capital: Value of your assets and net worth

- How much money do you have in your checking and savings accounts?
- Do you own a house?
- Do you have investments or other assets (e.g., a car)?

Character: How you paid your bills or debts in the past

- Have you had credit in the past?
- How many credit accounts do you have?
- Have you ever:
 - Filed for bankruptcy?
 - Had any outstanding judgments?
 - Had property repossessed or foreclosed upon?
 - Made late payments?

Collateral: Property/assets used to secure the loan





What Is a Credit Report?

- It is a report produced by Credit Bureaus which tells lenders:
 - Who you are
 - How much debt you have
 - Whether you have made payments on time
 - Whether there is negative information about you in public records
- Credit reports are used:
 - To obtain loans and other credit
 - To get certain kinds of jobs
 - For housing (rental applications and mortgages)
 - To obtain insurance



Credit Report Information

- Identifying information
- Credit history
- Inquiries
- Public record information
 - Information may include:
 - Judgments
 - Unpaid tax liens
 - Collections
 - Bankruptcies



Impact of Bankruptcy

- It should be your last resort!
- Bankruptcy:
 - Remains on your credit report for 7–10 years
 - Makes it hard for you to get future credit





Credit Reports Generally Do Not Contain What Information?

- Checking and savings account balances
- Medical history
- Purchases made with cash or check
- Business account information
- Race, gender, religion, or national origin
- Driving record



Reasons a Loan Application May Be Denied

- No or little credit history
- Credit problems or poor credit history
- Income
- Length of residence
- Employment Information



What is a Credit Score ?

A Credit Score is a rating number that helps lenders determine your credit risk

- Major Credit Scores:
 - The Fair Isaac Corporation (FICO) Score
 - VantageScore





FICO Score (Fair Isaac Corporation)

- Primary scoring method used to assess credit
 - Score range: 300 to 850
- The score is based on:
 - Past payment history: 35%
 - Outstanding debt: 30%
 - How long you have had credit: 15%
 - New applications for credit: 10%
 - Types of credit: 10%

VantageScore

- Newer credit scoring system
 - Score range: 501 to 990
- Also groups scores by letter categories
 - A = 901-990
 - B = 801-900
 - C = 701-800
 - D = 601-700
 - F = 501-600





Items Which Affect Your Credit Score

- These are the top 4 items which can negatively affect your credit score:
 - Missed or late payments or poor payment history
 - This accounts for 35% of your overall (FICO) credit score
 - Outstanding debt (too high vs income)
 - This accounts for 30% of your overall (FICO) credit score
 - Length of credit history
 - This accounts for 15% of your overall (FICO) credit score
 - New or too many applications for credit
 - This accounts for 10% of your overall (FICO) credit score
- The higher your credit score, the more likely you are to:
 - Get a better interest rate
 - Pay less for borrowing money
- Review your credit report regularly to ensure accuracy of your information.





Request Your Credit Score

- Receive a copy of your credit score from:
 - Credit Bureaus
 - Companies that want to sell you your credit score as part of a package of products
- Eligible for a free credit report:
 - Once every 12 months
 - You are turned down for credit or lender turns you down through a adverse action letter
 - When you apply for a consumer loan secured by your personal dwelling





Free Annual Credit Report

Visit: www.annualcreditreport.com

Call: 877-322-8228

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

*BEWARE of other companies that may try to charge a fee for this information



Checking for Errors

- It is your responsibility to:
 - Contact the Credit Bureau
 - Call, go online or write a letter disputing the error
 - Dispute forms are available online
- Credit Bureaus must conduct an investigation within 30 days of receiving your letter.
- A 2012 Federal Trade Commission (FTC) report discovered that about one in four Americans found at least one potentially significant error on at least one of their credit reports.





Contact the nationwide Credit Bureaus about disputes online, by mail or by phone:

- **Equifax**

Online: www.ai.equifax.com/CreditInvestigation

By phone: Phone number provided on credit report or (800) 864-2978

By mail: [Click here](#) to download the dispute form

Mail the dispute form with your letter to:

Equifax Information Services LLC
P.O. Box 740256, Atlanta, GA 30374

- **Experian**

Online: www.experian.com/disputes/main.html

By phone: Phone number provided on credit report or (888) 397-3742

By mail: Use the address provided on your credit report or mail your letter to:

Experian
P.O. Box 4000, Allen, TX 75013

- **TransUnion**

Online: www.transunion.com/personal-credit/credit-disputes-alerts-freezes.page

By phone: (800) 916-8800

By mail: [Click here](#) to download the dispute form

*Keep copies of your dispute letter and enclosures.

Mail the dispute form with your letter to:

TransUnion Consumer Solutions
P.O. Box 2000, Chester, PA 19016



Building Your Credit History



- Apply for a small bank loan
- Apply for credit at a local store
- Ask a friend or relative to cosign a loan for you
- Pay your bills on time
- Ask lenders to review utility and other bills to grant you credit
- Keep your debt levels low, for example make larger down payments



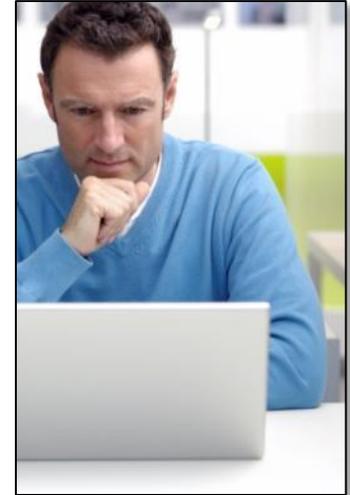
Tips for Maintaining Your Credit When Payments Are a Problem

- Look for ways to cut expenses
- Be Proactive, contact your lenders immediately
- Paying off the loan with the highest cost to borrow first
- Shopping for lower rate debt consolidation loans
- Getting Credit Counseling
- Going forward, stay current on loans, credit cards and other bill payments to minimize damage to your credit score



Rebuilding Your Own Credit

- Get a copy of your credit report
- Contact the credit reporting agency and creditors to report errors
- Consider opting out of unsolicited offers for credit to avoid getting into more debt



Thank You !

- We hope you found this information helpful.
- Now – Questions ?

