

Understanding Credit And The Costs of Money

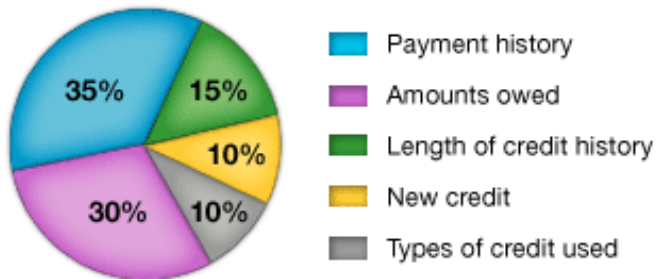


Credit Scores

What's in your Credit Score?

In general, when people talk about "your score" they are talking about your current FICO score. Your credit score is different at each of the three credit bureaus.

Credit scores are calculated from a lot of different credit data in your credit report. The percentages in the chart reflect how important each of the categories is in determining your credit score.



What's NOT in your Credit Score

- Your race, color, religion, national origin, sex and marital status.

US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.

- Your age.

Other types of scores may consider your age, but FICO scores don't.

- Your salary, occupation, title, employer, date employed, or employment history.

- Where you live.

- Any interest rate being charged on a particular credit card or other account.

- Any items reported as child/family support obligations or rental agreements.

- Certain types of inquiries (requests for your credit report).

The score does not count "consumer-initiated" inquiries –

requests you have made for your credit report, in order to check it. It also does not count "promotional inquiries" – requests made by lenders in order to make you a "pre-approved" credit offer – or "administrative inquiries" – requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.

- Any information not found in your credit report.

- Any information that is not proven to be predictive of future credit performance.

Credit Reporting Agencies:

Equifax: 1.800.685.1111
www.equifax.com

Experian: 1.888.EXPERIAN
www.experian.com

TransUnion: 1.800.888.4213
www.TransUnion.com

Credit Scores

Why is it Important to Have a Good Credit Score?

- Renting- Landlords often pull credit scores and reports. They often deny or require large deposits for applicants with poor credit scores. Credit is also important when trying to qualify for a mortgage.

- Employment - Some employers often pull credit reports prior to hiring staff

Many cash handling jobs and expensive products (i.e. jewelry) require a good credit score.

Some individuals are denied employment because of their credit score.

- Premiums \$\$\$\$

Higher Rates on Everything

Insurance: Life, Health, Homeowner's Car

Loans: Small business, Personal, Mortgage, Credit Cards, Car.

- Bottom Line – Your credit score affects whether or not you can build enduring assets or wealth for yourself and your

CREDIT SCORE RANGE	Mortgage Rates	Credit Card Rates	Auto Loans Rates	Insurance Rates
poor 300-550	9.5%	28.9%	18.9%	↑
bad 550-620	8.6%	19.8%	17.9%	
average 620-680	4.9%	13.9%	11%	
good 680-740	4.2%	12.2%	6.5%	
excellent 740-800	3.9%	7.99%	5.1%	

Building Positive Credit

There are several ways to build a positive credit score: Traditional and Non-Traditional Credit.

Traditional- Traditional credit building involves mortgages, credit cards, home loans, etc.

Keep the accounts you have in good standing current. If you are struggling with which account to pay or not pay, it may be best to pay the accounts that are in best standing.

It is almost always best to pay on open lines of credit before paying on collections or profit and loss write-offs.

If you have no open accounts consider purchasing a secured credit card and charge small amounts (\$10-30) monthly and pay off in full. Do not carry a balance.

Non-Traditional- Rent, utilities, phone, etc.

Any account paid on time for 12 months is considered a good credit line. But it is important to note that most mortgages and loans require traditional credit lines, and non-traditional lines are typically harder to use and not the best option for getting a mortgage.

Credit Scores

The Costs of Using Credit

Automobile Financing

If you are making payments on a car, you are probably paying between \$1,500 and \$5,000 more just for having bad credit. This added interest shows up every month in a higher payment. Take a look.

\$20,000 car paid over 5 years:

CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect			
Mildly	6.768%	\$394	\$0.00
Damaged	9.738%	\$422	\$1,680
	14.7295%	\$473	\$4,740

Home Mortgage

Bad credit in auto financing can really hurt, but it is nothing compared to the cost of bad credit when a home is involved. A typical home can cost between \$50,000 and \$130,000 more in interest if you are buying the home with bad credit.

\$100,000 home paid over 30 years:

CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect			
Mildly	6.4065%	\$626	\$0.00
Damaged	7.581%	\$705	\$10,440
	12.5015%	\$1,067	\$158,760

Improving Your Credit Score

Pay on time

- This is the best step you can take towards improving your credit

Set up payment reminders

- Some banks offer online payment reminders through their online banking programs
- Also consider automatic payments through credit/loan providers – it is important to note though that they only make the minimum payment and do not instill a sense of money management

Check your Credit Report

- Repair begins with checking your report (25 to 80 percent of reports have errors)
- Request a copy for free from Annual Credit Report
- Check your report for errors

Reduce the Amount of Debt you Owe

- Come up with a plan that puts most of your available budget for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.



Credit Myths:

- 1. Your credit report includes your score.**
- 2. Paying off a big chunk of debt will improve your score right away.**
- 3. Checking credit reports too often will hurt your credit score.**

Credit Reports

What's in your Credit Report?

- Identifying Information - Includes your name, Social Security #, Addresses, Date of Birth, and Employment Information.
- Trade Lines- Includes your name, Social Security #, Addresses, Date of Birth, Employment Information
- Credit Inquiries- Shows everyone who has inquired about your credit report within the last 2 years
- Public Records- State and County court records. Includes bankruptcies, foreclosures, suits, wage attachments, liens, and judgments.
- Collection Items- any unpaid items that have gone to collection agencies. Stay on your report for 7 years.

Only you can give the permission to have your credit report pulled to:

- Banks
- Credit Card companies
- Landlords/ Real Estate Companies
- Employers (but they have to ask you first)

What's NOT in your Credit Report?

- Your credit score
- Checking/Savings accounts
- Debit/Pre-Paid Cards
- Bankruptcies more than 10 years old
- Charged-off or debts placed for collection that are more than 7 years old
- Information about your credit card rewards / cash back
- Gender
- Ethnicity
- Religion
- Political affiliation

Where to Pull Your Credit Report

Annual Credit Report – You can get your free credit report yearly online, by mail, or through the phone. Free credit reports requested online are viewable immediately upon authentication of identity. Free credit reports requested by phone or mail will be processed within 15 days.

www.annualcreditreport.com

You receive one free copy from each bureau per year. Otherwise the cost is approximately \$10.

Avoid any other credit companies that try to give you free reports!

Credit Myths:

- 4. Your credit histories merge when you get married.***
- 5. Credit bureaus are responsible for giving and denying credit.***
- 6. Staying debt-free will give you a perfect credit score.***
- 7. If you pay your bills on-time then you don't need to check your credit.***

Credit Reports

How to Handle Errors:

Each credit bureau has different ways to handle errors on credit reports:

- **TransUnion** - If you find errors on your credit report, you can call them at 800.916.8800 or visit their website to dispute them. www.transunion.com
- **Experian** - can go to their website to dispute errors and use the online forms. www.experian.com
- **Equifax** - Their website is also set up to have people use online forms to address errors, report identity theft, and handle other concerns. Or you can call 888.397.3742 to report it to Equifax. www.equifax.com

Credit Terms:

APR - A measure of how much interest credit will cost you, expressed as an annual percentage.

APY- Differs from APR in that it considers compounding. For example, a credit card company might charge 1% interest each month; therefore, the APR would equal 12% (1% x 12 months = 12%). This differs from APY, which takes into account compound interest. The APY for a 1% rate of interest compounded monthly would be 12.68% $[(1 + 0.01)^{12} - 1 = 12.68\%]$ a year. If you only carry a balance on your credit card for one month's period you will be charged the equivalent yearly rate of 12%. However, if you carry that balance for the year, your effective interest rate becomes 12.68% as a result of compounding each month.

Credit Myths:

8. How you handle credit indicates how trustworthy you are.

9. Asking for lower limits will help your credit.

10. You need to carry a credit card balance to have good scores.

11. If you have poor credit then your credit scores will suffer for seven years.

Bank Quotes	What You Are Actually Paying			
	APR	Semi-annual	Quarterly	Monthly
5%	5.06%	5.09%	5.11%	
7%	7.12%	7.19%	7.23%	
9%	9.20%	9.30%	9.38%	

Credit Card Averages			
	Avg. APR	Last week	6 months ago
National Average	15.00%	15.00%	15.00%
Low Interest	10.40%	10.40%	10.40%
Balance Transfer	12.62%	12.62%	12.60%
Business	13.13%	13.13%	13.13%
Student	13.16%	13.16%	13.77%
Cash Back	14.47%	14.47%	14.45%
Airline	14.63%	14.63%	14.63%
Reward	14.84%	14.84%	14.83%
Instant Approval	15.49%	15.49%	15.49%
Bad Credit	23.64%	23.64%	23.64%

Source: CreditCards.com
Updated: 09-26-2012

Resources and Tips

Positive Behaviors	Negative Behaviors
<ul style="list-style-type: none">• Paying credit card balances in full every month.• Paying credit card bills on time.• Applying only for credit cards that are needed.• Keeping track of all charges by keeping receipts and using a check register in the same manner that individuals keep track of personal checks or debit card transactions.• Checking the monthly credit card statement for errors.	<ul style="list-style-type: none">• Making late credit card payments (this may trigger penalty fees, a higher penalty interest rate, and hurt the credit score).• Paying on the minimum payment.• Exceeding the credit cards limit (will usually trigger a penalty fee).• Charging items that cannot be paid off immediately.• Owning too many credit cards.

Here are some online resources for finding out more about credit and keeping track of your spending:

Credit Karma – www.creditkarma.com

GreenPath, University - <http://www.greenpath.com/universiy>

Myfico.com – www.myfico.com

Mint.com – www.mint.com

Learnvest.com – www.learnvest.com

Bankrate.com – www.bankrate.com