

# Wise Use of Credit



**CREDIT.ORG**

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# About Credit.org

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## Credit.org is a Nonprofit Consumer Credit Counseling Agency Formed in 1974

Our mission is simple, yet vital: Improve the financial well-being of individuals and families by providing quality financial education and counseling. We offer personal assistance with money, credit, and debt management through educational programs and confidential counseling.



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# Our Services

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## Financial Education Programs

We offer seminars, workshops, and educational materials on topics such as budgeting and money management, identity theft, and understanding credit.

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## Debt Management Programs

If you choose this option, we can work with your creditors to reduce costs and repay debt through one monthly payment.

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## Confidential Debt Counseling

Our certified consumer credit counselors will discuss your financial situation with you, help you understand what may cause financial stress, and help you create a personalized budget, an action plan and give you options to help manage your finances more effectively.

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## Credit Report Review

Our certified counselors work with you to break down your credit report, answer questions, and give guidance for improving your credit score over time.

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## Housing Counseling

Credit.org is a HUD-approved housing counseling agency. We provide homebuyer education seminars, mortgage counseling, foreclosure prevention assistance, landlord/tenant counseling, post-homebuyer education and reverse mortgage counseling (please call ahead for reverse mortgage appointments).

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## Bankruptcy Pre-petition Credit Counseling

We provide counseling (and a certificate of completion as mandated by the bankruptcy reform law) for those considering bankruptcy. We also provide financial education (and a certificate of completion as mandated by the bankruptcy reform law) for those completing their bankruptcy discharge.



# Introduction

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Surveys show that only 12% of high school seniors learn about money management in school. Most of us can't remember learning about finances and how to handle our money while we were students, because chances are we didn't.

Historically, it has been up to parents to teach their children the skills needed to make smart choices, pay off debt, and build savings.

Unfortunately, most of us end up learning these lessons the hard way after we've moved out on our own. We fall into every trap at least once before we learn to avoid them.

It is clear to us at credit.org that there is a pressing need to provide financial education to our clients and the community at large. The importance of credit and financial education is built into our mission statement:

Credit.org is a nonprofit organization dedicated to consumer advocacy. We seek to strengthen our community and improve the lives of consumers by offering services that promote financial literacy, homeownership and a healthy economy. Our mission is simple, yet vital: to offer education on the wise use of credit.

This booklet and the seminar were designed as part of our ongoing efforts to achieve this mission. The Wise Use of Credit is a lesson in obtaining and using credit responsibly.

For more information on our educational programs, call 800.947.3752 or email us at [education@credit.org](mailto:education@credit.org). You may also visit our website at [www.credit.org](http://www.credit.org) to find out about more of the various services we provide.



# The Cost of Credit

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## You didn't think using credit was free, did you?

Depending on the terms and conditions (the application and agreement you sign) your overall cost of using credit can be very expensive in the long run. While credit card companies provide a worthwhile service, many of them are driven by industry standards and their own stockholders to earn the maximum profits, and they are good at what they do.

Many credit cards are designed essentially to never be paid off; in most cases, consumers who only make the minimum required payment on a credit card balance will take over 20 -30 years to pay off that debt depending on the balance and additional charges/fees. Cardholders will incur a great deal of debt in that time.

## THE REAL COST

Based on these average daily balance examples, here is the interest you'll pay each year. (This is only an estimate, not taking into consideration any new purchases or other fees that may change the amount of your balance.)

APR	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000
9.0%	\$90	\$180	\$270	\$360	\$450
16.0%	\$160	\$320	\$480	\$640	\$800
24.9%	\$249	\$498	\$747	\$996	\$1,245

As you can see, the longer you wait, the more you will pay. The best policy when it comes to credit cards is to pay the entire outstanding balance at the end of each month. Consumers who do so will build outstanding credit and pay significantly less interest.

# The Cost of Credit Cont.

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## TERMS AND CONDITIONS

Some of the most common terms and conditions you will find in a credit card agreement or offer:

- **Annual Fee:** The bank charge for use of the card levied each year, which can range from \$15-\$300, billed directly to the customer's monthly statement.
- **Annual Percentage Rate (APR):** The cost of credit on a yearly basis, expressed as a percentage rather than a dollar amount. Creditors are required by law to disclose the APR.
- **Balance Transfer Fees:** The fee charged customers for transferring an outstanding balance from one credit card to another. Card issuers offer teaser rates to encourage balance transfers.
- **Cash Advance Fees:** A charge by the bank for using credit cards to obtain cash from the available cash. This fee can be stated in terms of a flat per transaction fee or a percentage of the amount of cash advance.
- **Default Purchase Rate:** If you default on your account, your card issuer, may sell your debt to another company or collection agency. If that happens, you could be responsible for a different, and higher rate.
- **Double Billing Cycle:** Some companies used to employ a double billing cycle, which means that while the due date on your statement referred to your minimum payment, the due date to pay off your entire balance was different. This kind of 2-cycle billing was made illegal by the Credit CARD Act of 2009.
- **Finance Charge:** The charge for using the card, comprised of interest costs and other fees. The finance charge can be calculated with the following formula:  $(\text{Average daily balance}) \times (\text{Daily periodic rate}) \times (\text{Number of days in billing cycle})$ .
- **Grace Period:** A time period during which a borrower can pay the full balance of credit due and not incur any finance charges. (Some creditors have in their terms and conditions no grace period and the finance charges are based on how many days the account carried a balance before being paid off. There is typically no grace period on cash transactions such as cash advance, balance transfers and the fees associated with the cash transaction).

# The Cost of Credit Cont.

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## TERMS AND CONDITIONS

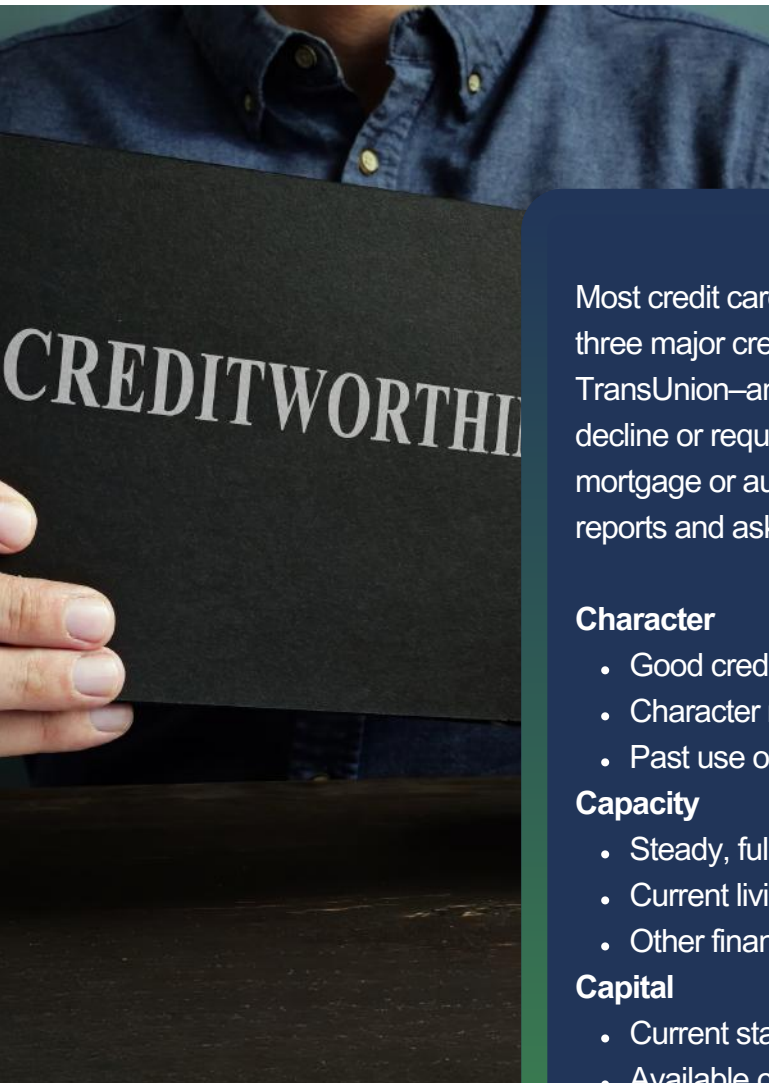
Some of the most common terms and conditions you will find in a credit card agreement or offer:

- **Inactivity Fees:** Sometimes called dormancy fees, these charges are applied by some credit card companies on accounts that go unused for a set period of time. The amount of the fee and the period of time your account may go unused before incurring this fee varies between lenders.
- **Insurance/Protection:** Protection against loss of life, disability, unemployment, etc. Pays or cancels your monthly payments for a time period, if consumer loses their job through no fault of their own. Policies and protection plans vary. Usually monthly fee is based on the amount of the credit card balance.
- **Late Fee:** The fee charged customers for paying late or less than the required minimum payment due by the due date.
- **Notice of Reaffirmed Debts:** If you have ever defaulted on a debt, be careful that your solicitations for “new” cards don’t mention your old debts. Some credit card issuers buy old debts from other companies and then offer “new” cards to people in debt, only to shock the cardholder on their first statement with the old debt.
- **Overlimit Fee:** The fee charged customers for going over their credit line. Since the Credit CARD Act of 2009, customers must “opt in” to be able to go over their credit limit.
- **Reward Program Fee:** The fee charged customers to be enrolled in a rewards program. Some creditors do not charge a fee.
- **Transaction Fees:** Fees for various transactions. Like using your card for cash advances.



# The Three C's of Credit

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Most credit card companies will pull your credit report from one of the three major credit reporting agencies—Experian, Equifax or TransUnion—and based on your FICO Score will either approve, decline or request additional information. When applying for a mortgage or auto loan, most lenders will look at all three credit reports and ask for more information from the following three C's:

## **Character**

- Good credit report
- Character references
- Past use of credit (credit history)

## **Capacity**

- Steady, full employment or verifiable source of income
- Current living expenses
- Other financial obligations

## **Capital**

- Current status of savings and investments
- Available collateral

\* A 2006 survey by Braun Research found that:

- 33% of consumers can't read or understand disclosure, or "fine print"
- 20% couldn't find critical terms
- 44% did not know their APR on their cards
- 20% didn't know their credit limit
- 70% were unaware of "universal default" policies

# Types of Credit Cards

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Before applying for any type of credit or loan, it is important that you are aware of the different types of credit that are available to you and what is involved.

## **Private Label:**

- Issued by a single source
- Can only be used at a single source
- Examples: Department stores, gasoline companies, furniture, jewelry, Goodyear

## **General Label:**

- Issued by a single source
- Can be used in many places • Examples: Bank card, Major Credit card (Visa, Mastercard, Discover, AMEX)

## **Types of Credit Card Ownership**

While today there are many ways to apply for credit (online applications, pre-approved offers, in store rapid credit, mail in applications) before you sign, think about what type of applicant you want based on the responsibilities and understand the consequences of your decision.

### **Individual Applicant**

Primary cardholder. Will report to your credit report as individual. Only person responsible/liable for the management and payments on the card.

### **Joint/Co-Applicant**

Both primary cardholder and co-applicant (joint cardholder) are equally responsible and liable for the management and payments on the card. Will report to both parties' credit bureaus.

### **Authorized User/Buyer**

May use the card for purchasing. Not liable for any responsibilities or payments to the card. Will report to authorized users credit report—listed as authorized user/buyer.

## **Ways To Apply For Credit**

- Online/Internet
- Pre-approved offers
- Mail-in applications
- Instant credit in the store (Rapid Credit)

Under the new “Red Flags Rule” creditors must employ programs to prevent identity theft. You may face stricter application requirements and a more thorough verification process to establish your identity when applying for credit.

# Comparing Credit Card Rates



To save you from any surprises, compare costs before you apply for credit. Use this chart to help make an informed choice.

Institution	Credit Card Type	Credit Card Class	Purchase APR Fixed or Variable	Annual Fee	Purchase Late/Over limit Fee	Purchase Grace Days	Cash Adv. APR Fixed or Variable
Example: Big Bank Card	Visa	Platinum	18.24%	\$0	\$25 \$39	20days from billing	28.24% Variable

# Shopping for a Credit Card

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Under the Truth in Lending Act, creditors are required to disclose the cost of their credit products. You may use these disclosures to compare one credit card offer with another before filling out the paper application, pre-approved or online form.

**Listed below are some questions to ask yourself before applying for credit and use the answers to compare the costs for each of them in the chart on the following page:**

- Is there an introductory rate? What is it and how long does it last?\*
- After that, what will my rate be?
- Is there an application fee?
- Are there processing fees?
- Is there an annual fee?
- Is there a late fee?
- Is there an over-the-limit fee?\*
- Are there any other fees, like account termination fees or balance-transfer fees?
- When and how can a variable rate be changed?
- What is the grace period before interest is applied?
- How will you inform me of any changes in my contract?\*\*\*
- Will the company inform me if I am about to go over my limit?
- What is the company's policy if I have trouble paying my bill?
- May I pay my bill online?
- Is there a rewards program? Is there a fee for the program?

\* By law, introductory rates must last at least 6 months.

\* Creditors are required by law to provide written notice 45 days in advance of any changes to credit card terms.

\* Under the Credit Card Act of 2009, consumers must "opt-in" before they will be able to exceed their credit limit and incur an over-the-limit fee.



# Getting a Secured Credit Card

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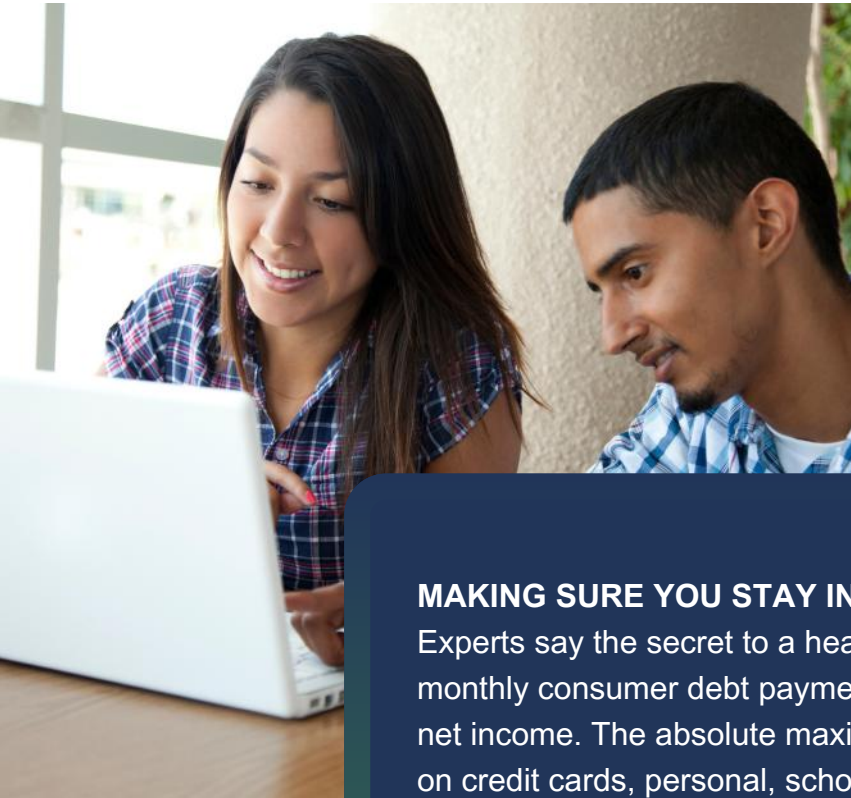
With a secured credit card, the borrower puts up cash against the amount of credit they need. For example, you could make a \$500 deposit that the creditor holds, and they provide you with a credit card that carries a \$500 limit. Why do this instead of just using the \$500 for purchases? This is a way to build your credit rating. If you spend 6 months or a year making timely, in-full payments on your secured card, your credit score will go up and your creditor may convert the secured card to a traditional revolving credit card.

A secured card is virtually guaranteed to be approved, since there's little to no risk to the lender--if you don't make your payments, the creditor can take the money from your deposit and simply cancel your secured card. However, if this happens it will be very devastating to your credit, so handle secured accounts carefully and always make your payments on time and in full.

1. **Where to get a secured card:** Start with your personal bank or credit union. If you don't use a financial institution that offers secured cards, you can find options online, but the best way to apply for a secured card and make your initial deposit is in person.
2. **What it costs:** Fees vary, but it should be possible to find a secured credit card option that doesn't carry an application fee. There will probably be annual fees, though. Shop around to find a reasonable annual fee, and remember, your goal is to have a secured card only as long as it takes to build up a good credit history and qualify for better credit products. So you shouldn't expect to pay the annual fee more than a few times before you're ready for a traditional credit card.
3. **Amount of deposit:** This amount varies, but for beginners, a secured card is usually \$250-\$500. The amount you deposit sets your initial credit limit, but over time, if you handle this account responsibly, your credit limit may be raised higher than the amount you have on deposit.
4. **Other options:** Some banks that do not offer secured cards will instead offer a traditional credit card with a very low credit limit and high fees & interest. If you go this route, remember your objective is the same; use this "starter" credit line to prove that you are responsible and can be trusted with a higher credit limit and better terms. Borrow very sparingly and always make your payments on time.
5. **Be careful:** There are many slick telemarketing scams that offer credit for a fee, but all they do is send you a credit card application. That's why we advise applying for your secured card in person at a bank or credit union. At the very least, get an application from your local financial institution, so you know whom you're dealing with.
6. **Credit reporting:** We've mentioned a few times now that the whole point of the secured card is to give you a chance to prove you can handle credit responsibly and build a positive credit history. If the secured card you apply for doesn't report payment history, then you're wasting your time. Make sure any card you apply for will give you the credit you deserve by reporting your positive payment history. Also find out if they intend to flag your account as secured on your credit report, because that won't be as great a boost for your credit.

# How Much Debt Can You Handle?

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## **MAKING SURE YOU STAY IN BALANCE**

Experts say the secret to a healthy home balance sheet is to keep your monthly consumer debt payments down to around 10-15% of your total net income. The absolute maximum: 20%. This includes payments due on credit cards, personal, school, car loans, but not first mortgages, home equity loans or rent. Those obligations can count for as much as 35% of your total monthly expenditures. Your own safe personal debt ceiling, however, depends largely on who you are:

- If you are earning \$20,000 a year, or less, debt counselors say your net income may leave you with only enough for essentials. Avoid borrowing at all.
- If you are single, middle-aged and net \$40,000 a year, you can probably afford 20% in debt. But knock that back to 15% if your income is based on commission instead of a regular salary.
- If you and your working spouse take home \$50,000, you can probably carry 20%. If you have children, make it 15%.
- If you are retired and on a fixed income, stay within 10%.

# How Much Debt Can You Handle? (Cont.)

**Follow this worksheet to tally up your monthly payments:**

1. Total your monthly consumer debt payments.
2. Enter your net monthly income.
3. To calculate the most you can afford each month, divide your net monthly income by 5 for a 20% limit, 6.7 for 15%, or 10 for 10%.
4. To find out whether your payments are within your means, subtract line 1 from line 3. That sum is your safety margin. If line 1 is larger than line 3, you should reduce your debt as soon as possible.

List Loans & Charge Accounts	Avg. Monthly Payment
	\$
	\$
	\$
	\$
	\$
	\$



# How to Reduce Credit Card Debt

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If you find yourself with too much credit card debt, follow these suggestions to pay off those balances.

1. Find out how much you owe. This shouldn't be difficult, but remember that this isn't a static figure. Your balance will grow continually due to fees and interest. If you call your credit card company for a pay-off amount, ask them how long that amount will be valid.
2. Pay more than the minimum. Minimum payments are designed to keep you paying forever. After you pay down a part of the balance on a given card, you may see the creditor offer to lower your monthly minimum payment. Don't take them up on the offer; continue paying more than the minimum.
3. Send in your payment as soon as you get your bill. Remember, you want to beat the deadline for the grace period so you won't incur any more interest than necessary. And a history of prompt payments goes a long way on your credit report. Remember, if a part or all of the balance you are paying down was a cash advance, the grace period does not apply.
4. When you pay off one card, put those payments on another. Keep installment debt payments at the same level, regardless of how many debts you've paid off. Your balances will shrink faster that way.
5. Refuse your card issuer's offer of a minimum payment of zero. If you're doing well paying down your debt, your creditors will offer a no payment this month as you are paid ahead, you will not be assessed a late fee, but interest will still accrue.
6. Refuse your card issuer's offer to skip a payment for a month. Again, freeing yourself from debt is your top priority. Skipping a payment for a month might put more money in your pocket in the short term, but over time it will cost you.
7. Gather your cards. Transfer balances to the card with the lowest interest rate whenever you can. This does not mean applying for new credit cards just to get a lower interest rate, such as a balance transfer. This means between existing accounts. You want to avoid opening new accounts and credit inquiries.
8. Refinance your high-rate credit card. You may have had to accept a high-rate credit card if you were starting out and/or had a less than perfect credit rating. If your payment history has been solid and your credit has improved, you may be able to refinance to a lower rate; call your card holder and ask the customer service representative and/or the representative's manager for a lower rate.
9. Consider using your savings to pay off your high-rate credit card balances. Chances are a high interest rate is costing you far more than you would earn in interest from a typical savings account. That money may be better spent paying down debt than gathering smaller interest in a savings account.



# How to Avoid Late Fees

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With credit card late fees at \$39, this is no time to be the least bit tardy with your card payment.

- 1. Follow payment guidelines:** Each credit issuer is allowed to set specific payment guidelines. If any of the guidelines are not met, the issuer can take up to five days to credit your payment. An on-time payment could easily become “late” during that period, so follow these payment guidelines carefully:
  - Use the preprinted envelope provided by the credit card company.
  - Include the billing coupon, and be sure to write the amount being paid in the box provided.
  - Make sure checks are legible and the payment amount is correct. Sign the check. Write the last 4 digits of the credit account number on the check. Write in blue or black ink.
  - Pay with proper postage to the payment address requested by the issuer. It’s a good idea to mail your payment at least one week in advance of the due date. Ten days to two weeks prior is better.
- 2. Pay the minimum immediately:** The safest strategy for anyone sending a credit card payment by snail mail is to pay the bill as soon as it arrives, even if you can only make the minimum payment. Giving your issuer the 2 percent minimum payment it wants ASAP is a great way to guard against late fees. And you can always send a bigger payment when you’ve got more cash.
- 3. Change your due date:** Are your credit card bills due at a time of the month when you’re running low on cash? Many credit card issuers will let you set your own due date— if you ask. Why not time it so your credit card bill arrives right after your paycheck? That way you’ll have plenty of cash to pay your bill each month.
- 4. Set up automatic online payments:** Paying bills online can be a great buffer against late fees. Most major issuers accept online payments. You can sign up for these services on the issuer’s websites. Choose an online payment amount and date that automatically covers the minimum amount due on a credit card each month, well in advance of your credit card due date. This is a great way to pay credit card bills while traveling.
- 5. Pay by phone:** Is a quick and easy way to make a last-minute card payment. You’ll be asked for the numbers at the bottom of your check. Make note of your payment in your check book and void the check. Some issuers charge fees ranging from \$7.50—\$25.
- 6. Express mail or wire payment:** Consider sending a credit card payment by express mail or wiring the payment. The U.S. Postal service charges \$13.65 for an express mail flat-rate envelope, which guarantees next-day delivery.
- 7. Good payers can ask for a waiver:** Call and ask your issuer to waive the fee. Many issuers will waive late fees as a courtesy to customers with good payment histories.

# How to Transfer a Balance

Before you transfer that credit card balance to a card with a super-low introductory rate, read the fine print and ask questions. Otherwise, you could end up paying fees and a much higher interest rate than you expected.

## **Ask these questions before transferring a credit card balance:**

1. How long does the introductory rate last?
2. What is the card's annual percentage rate after the teaser rate expires?
3. Does the teaser rate apply to transferred balances or new purchases or both?
4. Does that card have an annual fee?
5. What about late fees and over-limit fees?
6. Are there balance transfer fees?

Read through the credit offer a few times. A lot of information is hard to decipher. For example, some offers waive fees for "initial balance transfers" only. These are the transfers that are authorized when the customer accepts the card and completes the balance transfer form. (Some issuers charge transaction fees as high as 4 percent. So the higher the balance, the higher the transaction fee. A 4 percent fee on a \$5,000 balance would cost \$200).

In such cases, every balance transfer is treated as a cash advance and is subject to cash advance fees.

Keep in mind that not everyone who gets an offer qualifies for the super-low rate. While an offer may boast a 3.9 percent teaser rate that jumps up to 17 percent after six months, a person may qualify for a card with a 7.9 percent teaser rate and a regular annual percentage rate of 21 percent.

Continue to make your payments on the credit card until your balance transfer is completed. You can always ask for a refund if you overpay.

Also realize that it may take only one slip-up for that super-low rate to disappear. Some rates can jump as much as 11 percent after one tardy payment.

Remember that applying for a balance transfer on a new credit card will be authorizing the creditor to review your credit report, thereby creating a credit inquiry on your credit report. Inquiries, new accounts, and high balances all affect your overall credit score. We will discuss this in the next few pages.

# The High Cost of Ignoring Your Bills

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It's common for people to become overwhelmed and wish to ignore their financial problems. Let's review what you may face if you stop paying your credit card bills:

1. Your creditors will assess late fees of \$41 or less per month
2. Finance charges will continue on the balances of your accounts
3. The creditors will likely raise your annual percentage rate (APR) to about 29.9 percent because you have not honored your contract
4. If you have opted in to allow charges that exceed your credit limit, you will be assessed an over-the-limit fee of \$25-\$35 each month

## **Creditors Calling**

While credit card balances are growing quickly without payment, your creditors will contact you by phone regarding your unpaid bills. The calls will not stop unless you request so in writing. With no response or payment from you, your creditors will turn over your accounts to a collection agency and calls will begin again. The collection agency will do its best to convince you to make payments and will often demand a lump sum payment.

## **Bad Debt Stays With You**

After attempting to collect the debt with no results, the creditors will eventually charge off your debts as a bad debt and you may think that the situation is solved. However, the charged off accounts will appear on your credit reports and make it difficult for you to secure a mortgage or other loan and could affect your ability to obtain a job, get good car insurance or even rent an apartment. The charged off accounts may even be sold to another collection agency, and they will start calling you about the debt.

## **Take This Course of Action**

Even though it can be tough to stop using credit and pay off your debt, it is a much better alternative than not paying your bills.

- Stop charging on your credit cards
- Communicate with your creditors—they may have a payment plan for you
- Work out a spending plan and pay as much as you can on your credit card bills
- Seek professional help from a nonprofit credit counseling agency if you are unable to get things under control yourself.

# Know Your Credit Rights

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All consumers should be aware of these laws to better prepare them for the costs of using credit and to protect them before and during the application process, when managing their credit, when denied credit, if a victim of identity theft, when disputing credit, and when dealing with debt collectors.

## **Truth in Lending Act -TILA (1968)**

Consumers must be fully informed about the cost and conditions of borrowing.

## **Equal Credit Opportunity Act—ECOA (1974)**

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

## **Fair Credit Reporting Act—FCRA (as amended 1997)**

Protects the privacy and accuracy of information in a consumer's credit report. Makes an Individual's credit files available to him or her.

## **Fair and Accurate Credit Transactions Act—FACTA (2003)**

Added new sections to the Fair Credit Reporting Act, intended primarily to help consumers fight the growing crime of identity theft. Accuracy, privacy, limits on sharing, and new consumer rights. Provided everyone the right to get one free credit report from each credit bureau and a special website and toll-free number.

## **Fair Credit Billing Act—FCBA (1975)**

Sets up a procedure for quick correction of mistakes that appear on consumer credit accounts.

## **Fair Debt Collection Practices Act—FDCPA (1978)**

Prevents abuse by professional debt collectors and applies to anyone employed to collect debts. Does not apply to banks or other businesses collecting on their own debts.

## **Identity Theft Assumption and Deterrence Act—(1998)**

Officially makes it a crime for someone to fraudulently use your identifying information, including your credit accounts.

## **Credit CARD (Credit card Accountability, Responsibility and Disclosure) ACT—(2009)**

Bans unfair fees and sudden rate hikes, requires creditors to use plain language in credit card marketing and monthly billing statements, and limits ability of consumers under 21 to obtain a credit card.



# Credit Card Act of 2009

The Credit CARD (Credit Accountability, Responsibility and Disclosure) Act of 2009, also known as the Credit Cardholder's Bill of Rights, made many important changes to the way credit cards are regulated.

With regard to credit report and scores, the new law made one's score more important than ever. The law limited the fees creditors may charge, restricted the ways those fees can be imposed, and regulated the adjustment of the interest rates on credit accounts. Because this increased the risk to the creditors and limited their ability to compensate for those risks with fee hikes, they will now only grant credit to people with the best credit histories and scores, and charge higher interest rates on average than they used to.

Another important change in the law affected younger consumers. Essentially, anyone under 21 now has a more difficult time getting a credit card under the law. Most consumers aged 18-21 need a parent to co-sign on any credit card they obtain. This means that the parent shares responsibility for their adult offspring's borrowing, and will have to repay the debts incurred if the borrower is unable to repay.

It is important that you set up a credit card account for your children when they reach age 18 and monitor their activity closely. This will give you the opportunity to protect yourself if the borrowing gets out of hand or there are repayment problems. And more importantly, this is how your adult children will establish a credit history and score that will allow them to borrow on their own when they reach age 21.

Be aware that while the Credit CARD Act protects consumers from unreasonable rate hikes and fees, there is no cap on the interest rate creditors may charge. After the Credit CARD Act, credit became more expensive. That meant higher interest rates across the board, and more annual fees.

Here are some more provisions of the Credit CARD Act:

- A ban on universal default and 2-cycle billing
- Creditors must accept payments as on-time if they are paid by 5pm on the due date
- Bills must be sent at least 21 days before the due date
- Creditors must disclose how long it will take a consumer to pay off a balance if only minimum payments are made, as well as how much the debt will cost including interest after making minimum payments
- Customers must be permitted to pay by phone or internet without incurring additional fees
- Creditors must provide 45 days' notice before increasing interest rates
- Interest rates cannot be raised within the first 12 months of a new account opening, and promotional rates must remain in effect for no less than 6 months
- Consumers must opt-in before they will be able to exceed their credit limit
- Payments in excess of the minimum must be applied first to the balance with the highest interest
- If something happens that causes the creditor to raise your interest rate (if you miss a payment, for example) the creditor must now, by law, re-evaluate your credit standing after six months have passed. If you've had no more missed payments or other problems in your record during the intervening six months, the creditor must return your interest rate to where it was before you incurred a penalty rate.

# The Credit Report Terms

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All consumers should be aware of the terms used in the process of an application for credit.

## **Credit History**

- History of and individual's record of payments.
- One's credit behavior affects one's ability to get credit in the future.

## **Credit Bureau**

- A business that collects information on the credit history of individuals and sells that information to potential creditors, employers, landlords, and insurance companies.
- Receives information from various places where individuals do business.

## **Credit Report**

- Financial information collected by businesses and used by lenders to determine creditworthiness of individuals.
- Contains personal and employment history on an individual.
- Includes payment history on all debts by an individual.
- Credit reporting companies do not make the decision of creditworthiness; they only supply the information. Lenders make the decisions.
- Individuals can contact credit reporting companies for a copy of their credit report. There may be a fee for the service; however, individuals who have recently been denied credit may request a credit report for free, if requested within 60 days from the date of denial of the credit application.

## **Credit Reporting Companies:**

- Equifax [www.equifax.com](http://www.equifax.com) 1-800-685-1111
- Experian [www.experian.com](http://www.experian.com) 1-888-EXPERIAN
- TransUnion [www.transunion.com](http://www.transunion.com) 1-800-888-4213

## **Credit Score**

- A numerical rating based on credit report information that represents a person's level of creditworthiness. Typically a FICO Score is what is received from the credit reporting agency used for the credit decision. More on FICO Scores later. Other non-FICO scores are not used by creditors and are less useful to consumers.

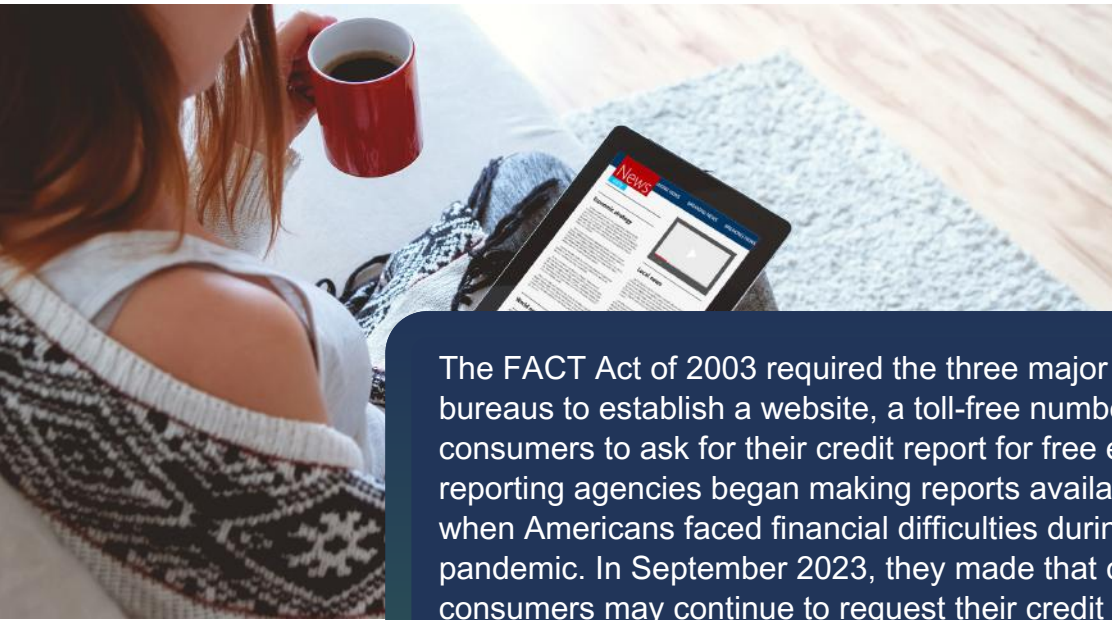
## **Credit Rating**

- A rating given to an individual by a credit reporting agency.
- Reflects past performance in paying debts.
- Projects future performance in paying debts.
- A positive rating may allow an individual to receive favorable consideration in loans and credit cards, such as lower interest rates.

## **Adverse Action Letter**

- A letter sent to a consumer explaining the reason(s) for denial. This letter must say which credit bureau(s) were used in the decision and provide the address and phone number of the credit bureau(s) so the consumer can obtain a free copy of their credit report.

# Where Can You Get A Copy of Your Credit Report

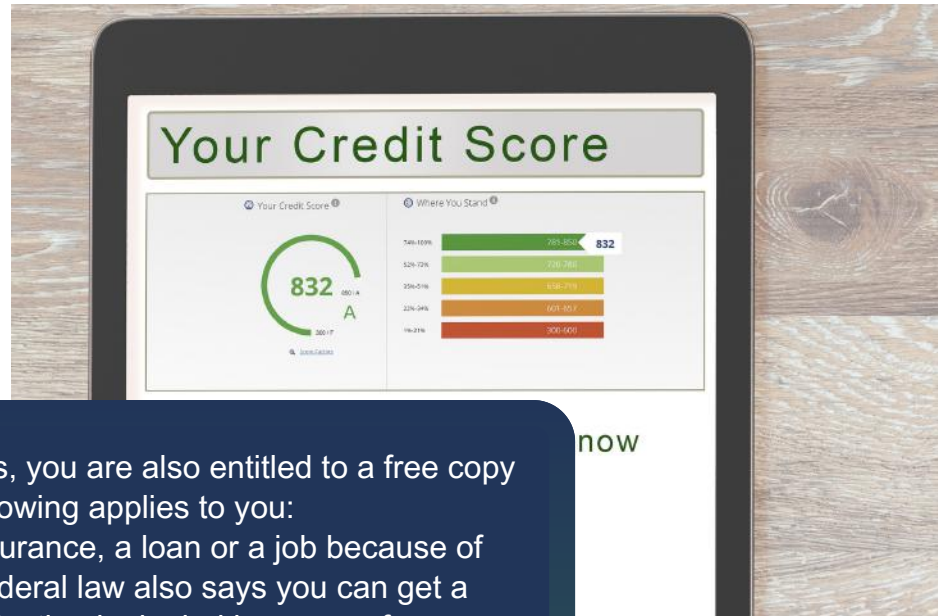


The FACT Act of 2003 required the three major national credit-reporting bureaus to establish a website, a toll-free number, and a mail address for consumers to ask for their credit report for free every year. Those credit-reporting agencies began making reports available for free each week when Americans faced financial difficulties during the COVID-19 pandemic. In September 2023, they made that change permanent so consumers may continue to request their credit reports weekly for free:

1. Go to the website, [www.annualcreditreport.com](http://www.annualcreditreport.com). Make sure you type the address in correctly, or you may end up at an imposter site set up by identity thieves.
  - a. Type the exact address of the free report site, including the www (that is, type [www.annualcreditreport.com](http://www.annualcreditreport.com)).
  - b. Verify that you are immediately redirected to the secure page: <https://www.annualcreditreport.com/index.action> is the address.
  - c. Verify that the security lock is present in your browser.
  - d. On the data entry page (the first page you visit after you tell the site what state you live in), verify that a “VeriSign security” symbol is present near the top-right of the page. Click on the certificate to make sure that it is indeed the certificate for [www.annualcreditreport.com](http://www.annualcreditreport.com).
2. Call by phone: 877-322-8228
3. To submit a request by mail, download the Annual Credit Report Request Form located at <https://www.annualcreditreport.com/manualRequestForm.action> and mail it to:
  - a. Annual Credit Report Request Service
  - b. P.O. Box 105281
  - c. Atlanta, GA 30348-5281.

Keep in mind that the location of the form or file name may change.) Do not contact the credit reporting bureau directly as this is the only method to receive a free credit report.

# Other Free Credit Reports



In addition to your free credit reports, you are also entitled to a free copy of your credit report if any of the following applies to you:

1. If you've been denied credit, insurance, a loan or a job because of what your credit report says. Federal law also says you can get a credit report for free if your application is denied because of information on your credit report. You must ask for this credit report within 60 days of learning you've been denied to get the free report. (You should receive an Adverse Action Notice, which entitles you to a free credit report plus score).
2. If you are unemployed. If you're out of work, you can get a credit report for free within 60 days before you start looking for a job. Contact the credit bureaus and let them know you're going to begin job hunting and you'd like to receive a credit report free under the Fair Credit Reporting Act.
3. If you are on public assistance. With proof of public assistance benefits.
4. If you believe yourself to be a victim of identity theft. Identity theft is an unfortunate crime, but fortunately, you don't have to pay to check your credit report for theft. You can receive your credit report free if you've been a victim of identity theft and have inaccurate information on your credit report. By contacting one of the three credit bureaus and placing a fraud alert, you automatically receive a free credit report from all three credit bureaus.
5. If you receive less favorable terms than originally offered. The practice of giving less favorable credit terms to higher-risk consumers is known as risk-based pricing. This rule states that when a lender decides to extend you credit based on your credit score and/or credit report, they must send you a notice—either a Risk-Based Pricing (RBP) notice or Credit Score Disclosure (CSD) notice—when the credit terms you received are less favorable than those offered to other consumers.

# Other Free Credit Reports (Cont.)



## **Equifax** – [www.equifax.com](http://www.equifax.com)

To request your report, call: 800-685-1111

Or write to: P.O. Box 740241 Atlanta, GA 30374-0241

To report fraud, call: 800-525-6285

AND write to: P.O. Box 740241, Atlanta, GA 30374-0241

If you are hearing impaired (TDD), call: 800-255-0056 and ask the operator to call 1-800-685-1111 and ask for a copy of your credit report.

## **Experian** – [www.experian.com](http://www.experian.com)

To request your report, call: 800-EXPERIAN (800-397-3742)

Or write to: P.O. Box 2002, Allen, TX 75013

To report fraud, call: 888-Experian (888-397-3742)

AND write to: P.O. Box 9530, Allen, TX 75013

TDD: 1-800-553-7803

## **TransUnion** – [www.transunion.com](http://www.transunion.com)

To request your report, call: 800-888-4213

Or write to: P.O. Box 1000, Chester, PA 19022

To report fraud, call 800-680-7289

AND write to: Fraud Victim Assistance Division, P.O. Box 6790, Fullerton, CA 92634

TDD: 1-877-553-7803



# What is a FICO Score?

## What is a Credit Score?

There are many types of credit scores. Fair Isaac Corporation developed the most widely used score model. It is a general risk score (some call it a rating) that indicates the probability of default. The FICO score ranges from 300-850.

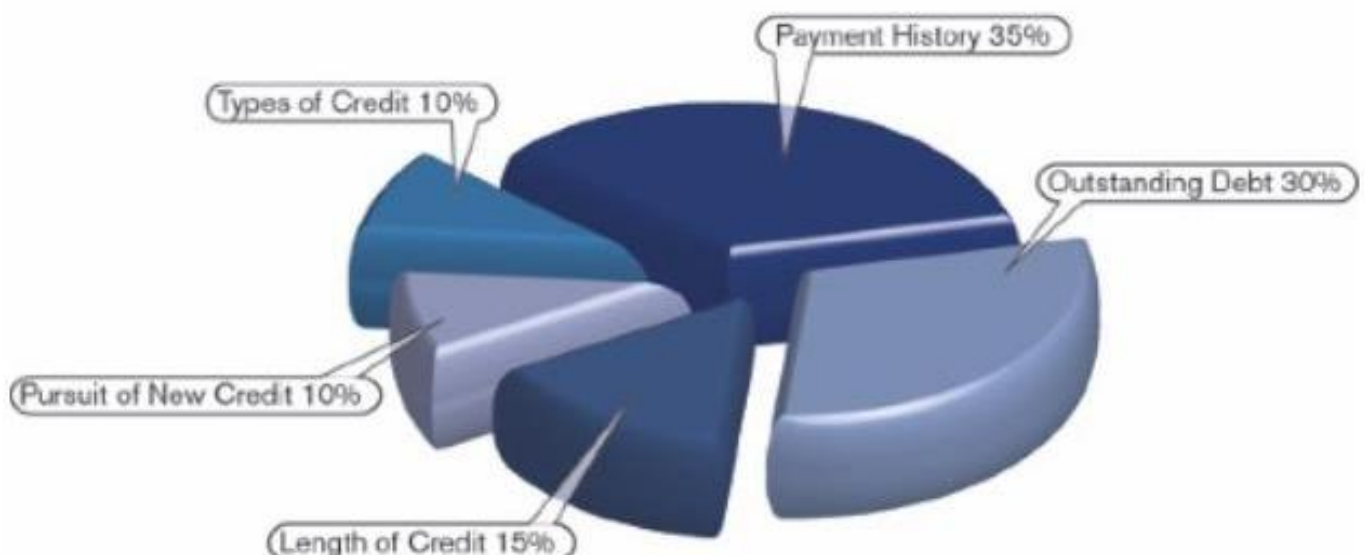
## Why Are Your Three Scores Different?

Transunion's is called "FICO Risk Score Classic", Experian's is called "Experian Fair Isaac Model", and Equifax uses the true FICO score, privately labeled "Beacon." Within their scoring model are different scoring ranges. They are only true FICO scores if they are Fair Isaac's model. Also, creditors and lenders don't always report your information to all three of the credit reporting agencies, so each of your credit reports may have differences.

## What Affects Your Credit Score?

Your credit score is based on five factors. These factors and their percentage impact on the score's calculation are as follows:

- 35% - Payment History (bankruptcies, late payments and collections)
- 30% - Outstanding Debt (credit card balances and number of cards, also known as utilization)
- 15% - Length of Credit (age of oldest credit card account, average age of accounts, time since accounts were used)
- 10% - Types of Credit (bank cards, department store cards, finance companies, secured – mortgage/auto)
- 10% - Pursuit of New Credit (number of inquiries from potential lenders and newly opened credit accounts)



# Keeping Cards Safe

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Avoiding identity theft is not simple, but there are several common-sense things that consumers can do. The identity theft problem has been studied for several years and here are some suggestions for consumers:

## **Always**

- Report lost or stolen cards immediately
- Check all statements against receipts

## **Never**

- Lend your card to anyone
- Keep your PIN or Passwords in your purse or wallet
- Leave your card lying around
- Leave receipts lying around
- Most credit card companies will tell you that while it can cost you that \$50, that fee is rarely applied. If your cards are lost or stolen or you feel someone is using your card without your authorization, call ASAP. You are supposed to report stolen or missing cards as soon as possible, or at least within 24 hours, for that zero-liability luxury.
- Then write. Follow up your call with a letter confirming the facts of the loss or the fraudulent charges on your statement, and also include details of your call (whom you spoke to and when, etc.)

## **Be Prepared**

- Write down the names and account numbers of the credit cards that you carry in your wallet. Write down the toll-free phone numbers (usually found on the back of the card) to call to report lost/stolen cards and keep this information where you keep your important private papers. Having this information easily available will help you if your wallet becomes lost or stolen.

# Resources

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## **One free report from each bureau weekly:**

- [www.annualcreditreport.com](http://www.annualcreditreport.com)
- (877) 322-8228

## **Free publications from Credit.org to download:**

- [www.credit.org](http://www.credit.org) (Select Educational Guides and Downloads)
- Call (800) 431-8157 to get resources

## **Prevent Unwanted Credit Offers And Unwanted Phone Solicitations:**

- Sign up for the national Do Not-Call list 1-888-382-1222
- Call 1-888-5 opt out
- [www.optoutprescreen.com](http://www.optoutprescreen.com)

## **Credit.org credit card calculators**

- You can see how long it will take to pay off specific balance amounts based on the annual percentage rate on the card and the monthly payment applied,  
<https://credit.org/resources/calculators/>

## **Looking to establish or re-establish your credit?**

- You may also review [bankrate.com](http://bankrate.com) for secured credit card offers to compare the costs of their terms and conditions.
- <https://www.bankrate.com/finance/credit-cards/>



# Wise Use of Credit

**Credit.org**

1825 Chicago Avenue  
Suite 240  
Riverside, CA 92507

PO Box 5438  
Riverside, CA 92517-5438

**1-800-WISE-PLAN (800.947.3752)**

**[www.credit.org](http://www.credit.org)**

