



Spending Tomorrow's Money Today

In today's society, more and more people are using credit on a daily basis. Many of them do not appreciate the effect it may have on their financial future. The average family today has six credit cards. For those families who do not pay off their balance in full every month, the average amount of debt

they carry on their credit cards totals \$8500. At one time, if you wanted a new television, you would have to settle for your outdated model until you could afford to buy a new one. Today, with the ease of both obtaining and using credit, most people would go to the appliance store and buy the television on credit using either a credit card or an installment loan.

Credit can be part of a sound financial management plan if used responsibly.

There are good reasons for using credit, such as financing a home, home improvements, and education. Credit can also be useful in the case of financial emergencies if you have not built up a sufficient emergency cash reserve. There are also situations when you should avoid using credit; for example, buying luxuries that you cannot afford or buying products that will not outlast the credit payments.

Debit cards offer some of the same advantages as using credit without some of the disadvantages. Like credit cards, debit cards are safer and more convenient than cash. However, unlike making purchases with credit cards, there are no interest charges when using

debit cards and fewer fees. In addition, using a debit card reduces your ability to overspend since you cannot spend more money than you have available in your checking account.

There are, however, a few important things to keep in mind when using debit cards. One, you don't have the flexibility to pay for items over time because the money you withdraw comes out of your checking account immediately. Two, you don't have the same right to withhold payment for defective

merchandise as you do with credit cards. Three, debit cards are not protected under the same law that applies to lost or stolen credit cards, so your potential for financial loss is much greater with debit cards. Finally, debit cards may make it easier to overdraw your checking account if you are not careful to record all transactions in your checking account register. Penalties and fees for overdrawing your account can really add up.

Here are some tips for using credit to your advantage:

- ◆ Limit the number of credit cards you have. This will limit your potential for debt and allow you to keep track of how much you owe and to whom.
- ◆ Plan ahead when using credit. Determine what expenses you already have by developing a spending plan. Make sure that your income will be able to cover all your basic living expenses in addition to your debt payments.
- ◆ Always pay your bills when due. Pay more than the minimum amount due so that you can reduce finance charges.
- ◆ Make sure credit payments do not outlive the items purchased.
- ◆ Use credit infrequently. Instead, pay with cash, checks and debit cards.

Understanding the Contract

When you sign or co-sign an application for credit you are agreeing to all of its terms. If you are approved, the application becomes a contract and you are *legally* bound to the terms. It is important to understand the terms used in a contract before you sign on the dotted line.

By law, a creditor must disclose all the terms of the agreement in writing on the application. This is called the Truth in Lending Disclosure. The type of credit applied for will determine the terms that must be disclosed. Two types of credit are available to consumers: closed-end and open-end. Closed-end credit includes installment loans and mortgages. Credit cards and home equity lines of credit are examples of open-end credit.

Closed-end credit is a loan which requires the same payment each month for a specified amount of time, at a specified interest rate. This type of credit is often used to purchase cars, furniture and appliances and for personal loans. The following disclosures must be made in writing prior to the loan closing:

- ◆ **NAME** of the company financing the loan.
- ◆ The **AMOUNT FINANCED** and a list of **WHAT IS and IS NOT INCLUDED** in the amount financed (purchase price, down payment, taxes).
- ◆ The **FINANCE CHARGE** which includes interest and other fees, expressed in a dollar amount.
- ◆ The **ANNUAL PERCENTAGE RATE (APR)**. This is the cost of the credit expressed as a yearly rate.
- ◆ The **PAYMENT SCHEDULE** which includes

the number of payments, the amount of each, and when they are due.

- ◆ The **TOTAL AMOUNT** of the payments.
- ◆ The **PREPAYMENT PENALTY**, if applicable. This is a charge for paying the loan in full before the end of the loan period.

- ◆ The **LATE PAYMENT CHARGE** if the payments are not made on time. The consequences of not making payments on time is also explained.

- ◆ The **SECURITY INTEREST**, if any. For example, with a car loan, the car becomes the security for the loan. If payments are not made as agreed, the creditor can take the car.

- ◆ **INSURANCE CHARGES**, if any. For example, credit life insurance will pay the loan in full if the borrower dies. This coverage is optional, at the borrower's choice, and is an expensive way to buy life insurance.

Open-end credit allows consumers to incur new debt before paying off old debt. The borrower receives a line of credit and agrees to repay at least a partial amount each month. Most credit cards are this form of credit. The disclosures are different than those required for closed-end credit. Look for the following terms in an application for open-end credit:

- ◆ **ANNUAL FEE**: An amount charged to you once a year for the opportunity to use the credit. Not all open-end accounts have annual fees.
- ◆ **ANNUAL PERCENTAGE RATE**: The annual percentage rate (APR) is the annual interest rate you will be charged on any unpaid balance. Some creditors offer set or fixed rates, while others may have a variable rate (a rate that may change from month to month). If there is a variable rate,



the disclosure statement will tell you how the rate is determined, how often it may change, and by how much.

- ◆ **MINIMUM PAYMENT:** The minimum amount which must be paid by the payment due date; usually between 1.5-4% of the unpaid balance.
- ◆ **LATE AND OVER LIMIT FEES:** The amount that you will be charged if you are late with a payment or go over the credit limit.
- ◆ **GRACE PERIOD:** The number of days you have to pay off your bill before interest is charged. Typically grace periods are 20-25 days in length. The grace period only exists if you do not have a previous balance. Not all open-end credit has a grace period.

- ◆ **CASH ADVANCE:** The cash advance feature allows you to make cash withdrawals against your line of credit. Withdrawals can be made through an ATM, at a bank or by cashing special checks. Interest rates on cash advances are usually higher than those on purchases. Moreover, there is no grace period on cash advances.
- ◆ **DEFAULT RATE:** If your payment is late, you miss a minimum payment, pay with a check that bounces, or exceed your credit limit, your APR may increase. This new rate is called the default rate. If the agreement also says that the "rate will increase if you fail to make payment to another creditor when due," this is a **universal default** policy. Your rate can increase dramatically based on your poor payment history with *other* creditors, even if your payment record with the creditor who uses the universal default policy is perfect.

Before you sign or co-sign...

1. Read the contract carefully and completely.
2. If you do not understand the contract or if a particular item is unclear, have someone who is knowledgeable read and explain each item to you. Do not sign the application or contract unless you understand everything to which you are agreeing.



3. Make sure that all spaces are filled in. Do not sign the contract if there are blank spaces. Fill in blank spaces or draw a line through them if they are not applicable.
4. Make a copy of the final contract after you sign it. Keep this copy for your records.

Warning Signs of a Credit Crisis

How do you know when a credit crisis is beginning? Millions of Americans face financial challenges each year. How do you know if you should seek assistance? Take the following test* to determine if you need help.

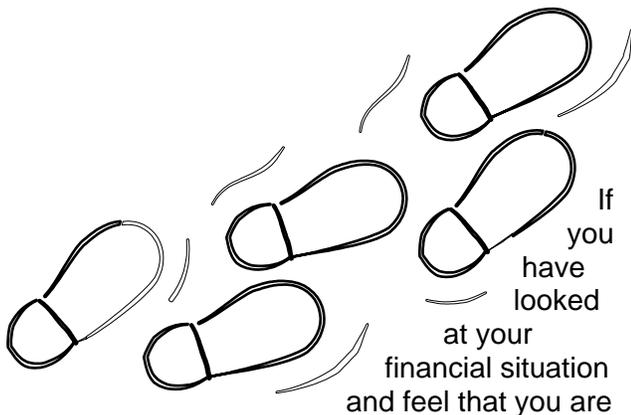
YES	NO	
_____	_____	Are you unsure about how much you owe?
_____	_____	Do you skip some bills to pay others?
_____	_____	Do you use credit instead of savings to meet emergencies?
_____	_____	If you lost your job, would you have trouble repaying the debt you currently carry?
_____	_____	Have you postponed medical or dental appointments in order to make credit payments?
_____	_____	Do you argue with your spouse about how credit is used?
_____	_____	Are you receiving calls from creditors about overdue bills?
_____	_____	Do you buy necessities, such as groceries and gas, on credit because you don't have any money?
_____	_____	Are you using an increasing percentage of your monthly income to pay off debts?
_____	_____	Can you only make minimum payments on your credit cards?

* adapted from materials developed by the National Foundation for Credit Counseling

Now let's see how you did. If you answered "YES" to...

- 1 to 2 questions:** You may be developing financial problems. Get started today to develop a plan to gain control of your situation.
- 3 to 6 questions:** You may be on the edge of financial disaster. If so, seek help so you will avoid the risk of serious trouble in the future.
- 7 to 10 questions:** You are probably in over your head. Act now to take control of your finances. Seek help to develop a realistic plan to repay debt.

Steps to Financial Control



facing some challenges, your next thought may be "What should I do?" There are certain steps that you can follow to gain control of your financial life.

1. **LIST DEBTS:** Make a list of all debts, including the amounts owed and to whom. This will help you get a clear picture of your overall financial situation.
2. **DEVELOP A PLAN:** List all of your income and all of your expenses. The goal of this plan is to be as honest and realistic as possible in deciding how to repay creditors to whom you owe money.
3. **AVOID NEW DEBT:** Make a commitment to not take on any new debt. You may want to hide or cut up your credit cards to reduce temptation.
4. **CONTACT YOUR CREDITORS:** If your plan requires assistance from your creditors, such as reduced payments, you will need to contact them. Tell them exactly what your challenge is and how you plan to resolve it. By being frank and sincere with your creditors, you may find them more willing to work with you. Take notes as you talk with the creditor. Get the first name, last name, and extension number of the person with whom you are speaking. Speak to a supervisor if you need to. He or she will be able to make exceptions. Follow up the conversation with a letter sent by registered mail. Get all arrangements agreed to with the creditor in writing.

5. SEEK PROFESSIONAL HELP:

Credit Counseling Agency: It may be difficult to make arrangements with all of your creditors. If you are having problems working with your creditors or even developing a plan, contact a non-profit credit counseling agency, such as a member agency of the National Foundation for Credit Counseling (NFCC). These agencies offer free or very low cost financial counseling and debt management. A certified credit counselor or advisor will assist you in developing a comprehensive, realistic spending plan. The counselor can also develop a debt repayment plan to help you get out of debt. To find a member NFCC office near you call 1-800-388-2227. You will be connected to the office closest to you.

When looking for a credit counseling agency to work with, make sure each of the following is true:

- ◆ It is a non-profit agency.
- ◆ The agency is accredited by an independent third party.
- ◆ The counselors are certified by a professional association.
- ◆ The services are provided at low or no cost.
- ◆ The agency provides help with a wide range of issues including budgeting, debt management, and foreclosure prevention.

Using the standards above may help you determine which agency is best suited to help you.

Bankruptcy Attorney: If none of the above works, you may want to contact a bankruptcy attorney. It is important to understand exactly what bankruptcy is and what it will mean for your future. Bankruptcies can remain on your credit report for up to ten years and may affect your ability to get a job, qualify for a mortgage or other types of credit, obtain insurance, or rent an apartment. Remember also that bankruptcy may put an end to your immediate financial crisis, but it will not change unsound financial practices if they are the cause of the problem. Because of the many long-term consequences that will result, bankruptcy should be considered only as a last resort.

The Credit Report

Every month, when you make a payment on time, are late with a payment, or miss a payment, this information is recorded on your **Credit Report**. There are three main credit reporting agencies, also called credit bureaus, in the United States: Trans Union, Equifax, and Experian (formerly TRW). Each credit bureau operates independently, thus, the format of their credit reports may differ somewhat. They all include the following types of information in their reports:

IDENTIFYING INFORMATION: The first section lists your name (including any aliases), your social security number, your address, and your most recent employers. (If you have had more than one address or employer within the last five 5 years, more than one may be listed on your report).

PUBLIC RECORD INFORMATION: This section shows any items that have gone through the court system. These include tax liens, bankruptcies, foreclosures, or court ordered child support.

ACCOUNT INFORMATION: This is the section most people think about when they hear the words "Credit Report". Listed here are the creditors with whom you have accounts, the type of accounts (i.e. revolving, installment, mortgage), how much you currently owe on each account, your monthly payments, your credit limit with each creditor, and your repayment history with each. The repayment history includes whether your payments were on time or late, and if late, how late.

INQUIRIES: This section lists the names of creditors who have viewed your credit report. Your credit report can only be reviewed if there is a "permissible purpose." Anyone reviewing

your credit report must have your permission and do so only if there is legitimate cause. It is your right as a consumer to review your credit report. In fact, it is suggested that you look at your credit report at least once a year, and definitely before a major purchase, such as a house.

Creditors do not have to report to all three agencies. In many cases, they may only be affiliated with a single agency. For this reason, it is suggested that you review credit reports from all three agencies. This will allow you to be aware of all of the credit information that has been compiled about you, and therefore to know the information on which the creditor will be basing his/her decision.

You can order your free annual credit report:

- online at www.annualcreditreport.com
- by calling 1-877-322-8228
- by completing the Annual Credit Report Request Form and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281

When you order, you will need to provide your name, address, Social Security number, and date of birth. To verify your identity, you may need to provide some information that only you would know, such as the amount of your monthly mortgage payment.

If you have been denied credit based on information in your credit report, you may receive within 60 days of the denial a free copy of the credit report that was used.

Contact information for each of the three major credit bureaus is below.

Equifax
P.O. Box 740241
Atlanta, GA 30374-0241
(800-685-1111)
Web site: www.equifax.com

Experian
P.O. Box 2104
Allen, TX 75013-0949
(888-397-3742)
Web site: www.experian.com

Trans Union Corp.
760 W. Sproul Road
Springfield, PA 19064-0390
(800-888-4213)
Web site: www.tuc.com

Commonly Asked Questions About Credit Reports and Credit Scores

How can my credit report be used?

Credit reports are used for more than just extending credit. They may be viewed by landlords for apartment rentals; by employers before hiring potential employees, before promoting a current employee, or for issuing security clearances; and by insurance companies prior to selling an insurance policy. To view your credit report, an individual must have a legitimate business need in connection with a transaction initiated by you to review an account. For example, a potential employer must have written permission before looking at your credit report. If you do not give permission, the employer cannot hold this fact against you when determining if you should be offered the job.

How long does information stay on a credit report?

Most information will stay on your credit report for seven years. Inquiries made by creditors when you apply for credit stay on your credit report for two years, and bankruptcy can stay on a credit report for up to ten years. Recent inquiries used for credit solicitation or account review may also appear, although only the report sent to the consumer contains these inquiries. When information is deleted from a credit report, it does not mean the debt is no longer owed. The creditor can still continue to collect the debt unless it was discharged through bankruptcy.

What should I do if there is a mistake on my credit report?

If after reviewing your credit report you believe that there is incorrect information listed, you can dispute it through the credit reporting agency. A dispute form, enclosed with the credit report, can be completed and sent to the credit

reporting agency. The agency then has 30 days to research the dispute. If they find there is a mistake, the incorrect information is taken off your report and a copy of the new report is sent to you and anyone else who received the report within the last 6 months. If the credit bureau's records prove to be correct, the information will stay on your credit report. If you still believe it is inaccurate, you can dispute the information with the original creditor. If the credit reporting agency cannot verify if the item is true or false, it will be deleted from your record until it is verified.

It is your right to put a statement, up to 100 words, at the end of your credit report explaining the situation that may have caused you to become delinquent.

How do I *FIX* my credit report to improve my credit score?

The information in your credit report is used to create your credit score. Lenders use your score to determine whether or not to grant you credit, and if so, how much and at what interest rate. Thus, a good credit score is important in order to obtain credit and to qualify for the best possible terms.

If you are not happy with your credit score or think it may be affecting your ability to obtain credit, there are some steps you can take to improve it. First, be sure your credit report is accurate. Your score will only be as good as the information in your report. Next, pay all of your bills on time and stay current on all of your active accounts. A credit history with a pattern of late payments can negatively impact your score. Keep in mind that while past repayment patterns can remain on your credit report for up to seven years, your credit score is more heavily weighted on your recent repayment history. Finally, avoid any companies who claim they can improve your credit score. There is nothing these companies can do for you that you cannot do on your own – for free!

How to Read Your Credit File

Sample Credit File

Personal Identification Information

Name	Your Name	SSN#	1234-45-6789
Current Address	Street Address City, State, Zip	DOB	1/30/1962
Previous Address(es)	Street Address, City, State, Zip Street Address, City, State, Zip		
Latest Reported Employment	Your Job		

Public Record Information

Lien Filed 03/95; Fulton CTY; Case or Other ID Number - 42967; Amount \$42,789; Class-State; Released 09/98; Verified 09/98
 Bankruptcy Filed 12/94; Northern District Ct; Case or Other ID Number - 673HC12; Liabilities - \$15,787; Personal; Individual; Discharged; Assets - \$780
 Satisfied Judgement Filed 07/92; Fulton CTY; Case or Other ID Number - 898872; Defendant - Counsumer; Amount \$8,984; Plaintiff - ABC Real Estate; Satisfied 02/93; Verified 04/05

Collection Agency Account Information

Pro Coll (800) xxx-xxxx
 Collection Reported 09/96; Assigned 09/95 to Pro Coll (800) xxx-xxxx Client - XYZ Hospital; Amount \$789; Unpaid; Balance \$789; Date of Last Activity 09/95; Individual Account; Account Number 678243UJ

Credit Account Information

Company Name	Account Number	Whose Acct	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported			Date Reported
								Balance	Past Due	Status	
1	2	3	4	5	6	7	8	9	10	11	12
Department St.	32789	J	Oct-89	36	Sep-01	\$1,200		0		R1	Nov-01
Bank	423789	A	May-89	40	Dec-01	\$6,000		0		I1	Feb-02
Auto Finance	78965	I	May-99	40	May-01	\$8,000	\$200	\$2,000	\$400	I5	Feb-02

Previous Payment History: 3 Times 30 Days Late; 2 Times 60 Days Late
 Previous Status: Sep-99 - I2, May-00 - I3

Companies that Requested your Credit File

1/2/2001 Equifax - Disclosure
 7/6/2000 A2Z Bank
 2/5/2000 BG Department Store

This section includes your name, current and previous addresses and other identifying information reported by creditors

This section includes public record items obtained from local, state and federal courts.

This section includes accounts that have been turned over to collection agencies.

- This section contains both open and closed accounts:
- 1) The credit grantor reporting the information.
 - 2) The account number reported by the grantor.
 - 3) See explanation below
 - 4) The month and year the credit grantor opened the account.
 - 5) Number of months payment history has been reported.
 - 6) The last payment, change or occurrence.
 - 7) Highest amount charged or the credit limit/
 - 8) Number of installments or monthly payments
 - 9) The amount owed as of the date reported.
 - 10) The amount past due as of the date reported
 - 11) See explanation below
 - 12) Date of last account update.

This section includes a list of businesses that have received your credit file in the last 12 months.

Whose Account

Indicates who is responsible for the account and the type of participation you have with the account:

J = Joint	M = Maker
I = Individual	C = Co-Maker / Co-Signature
U = Undesignated	B = On behalf of another person
A = Authorized User	S = Shared
T = Terminated	

The following inquires are NOT reported to businesses

PRM – This type of inquiry means that only your name and address were given to a credit grantor so they could offer an application for credit. (Remain on file for 12 months)
AM or AR – These indicate a periodic review of your credit by one of your creditors. (Remain on file for 12 months)
Equifax, ACIS or Update – These inquiries indicate Equifax's activity in response to your request for either a copy of your credit file or a request for research

PRM, AM, AR, Equifax, ACIS, Update and INQ – These inquires do not appear on credit files businesses receive, only on copies provided to you.

Status	Type of Account
O	Open (entire balance due each month)
R	Revolving (payment amount variable)
I	Installment (fixed number of payments)
	Timeliness of Payment
0	Approved not used; too new to rate
1	Paid as agreed
2	30+ days past due
3	60+ days past due
4	90+ days past due
5	Pays or paid 120+ days past the due date; or collection account
7	Making regular payments under wage earners plan or similar arrangement
8	Repossession
9	Charged off to bad debt

