Module 4

Credit basics

Reviewing your credit report

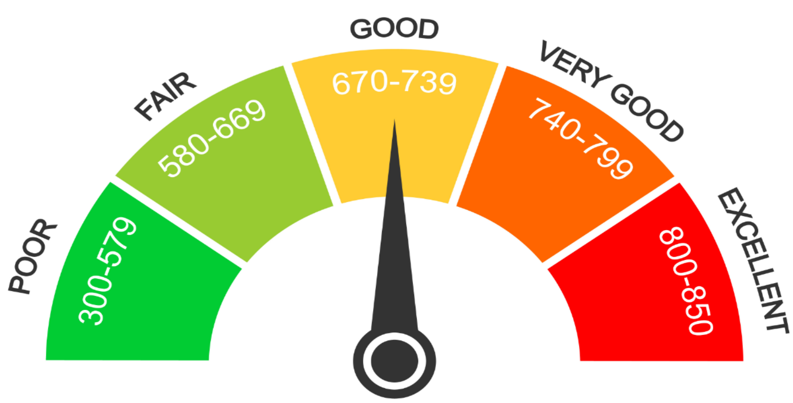
What is credit?

Credit is the ability to borrow money and repay that balance you owe over time (typically with interest and fees). Credit has long existed in various forms, but credit scores are relatively new and were created in 1989.

Good credit

Having good credit is important for anyone. It is especially important if you plan to leave an abusive relationship and build your own financial independence.

Good credit allows you to obtain loans and credit cards with the best interest rates. It can also improve your ability to rent an apartment, buy insurance coverage, get a job, etc.



Domestic violence and credit

Domestic violence survivors who leave the abusive relationship face some unique issues related to credit. Advocates at your local domestic violence organization are a resource for navigating these issues. Many survivors are not eligible for building credit right away after seeking safety. This happens for various reasons including lack of a social security number, immigration status that does not allow employment, lack of a safe address, and limited or no history of employment, housing, bank accounts, etc.

Additional impacts of domestic violence on credit include:

- **Coercive debt:** Many survivors have experienced coercive debt. If this reflects your experience, check your state's information on FreeFrom's Survivor Financial Security Map to learn about potential remedies that may be available in your state.
- **Access to information:** Any time you apply for a new credit card or agree to purchase something 'same-as-cash,' you must complete an application. The application will ask for your current address, phone number, and employment information. This information may be included on your credit report. If your ex-partner still has your Social Security number, they can assume your identity, access your credit report, and see your contact information.
- **Joint accounts:** Also, any joint accounts with your ex-partner (even if you no longer access them) may affect your credit negatively if your partner is irresponsible or purposefully attempting to damage your credit. If possible, have your name removed from any jointly held accounts. If the account was originally in your name and your partner was added as a secondary user, contact your creditor to see if you can have them removed from your account.
- **Illegal activities:** If your ex-partner uses one of your credit accounts without your permission, you may be able to file charges with the police. This may not lead to a criminal case but having a police report filed may assist you in repairing any damage. You should not be held accountable by a creditor. You can use a copy of the police report to dispute any claims.
- **Collections:** In addition, some collection claims may have arisen due to domestic violence. For example, a survivor may have had to flee housing suddenly. In this situation, it is possible that a property management company cannot file for collection, depending on the state in which you are located. In situations like this one, please contact your local DV program for information about your housing rights and options and state and federal laws that can protect you. There are also fair housing rights that may protect you as well. The

laws in each state differ, so checking with a local advocate could help.

You are not your credit

It is important to not connect your self-worth, confidence, and esteem to your credit score. Knowledge is power; therefore, knowing where your credit stands is important. Taking steps to address your credit is key, but **YOU are not your credit**. And you are worthy and deserve all the good things life can offer.

What's a credit report?

A credit report is a detailed breakdown of your credit history created by one of the three credit bureaus. Lenders, insurance companies, employers, landlords, and others use credit reports to make decisions.

What's on my credit report?

Your credit report shows whether or not you've paid credit card bills and loans on time. It also shows how much you owe to creditors and whether you have unpaid loans. It is recommended to review your credit report at least once per year and prior to applying for any new credit accounts.

Access to your credit report

Landlords, insurance companies, and even some employers can have limited access to your credit report. They can:

- Verify your personal information.
- View your payment history.
- See whether you've been sued or have declared bankruptcy.
- See how often you've recently applied for credit.

Some states have enacted legislation that restricts employers from using credit information for making hiring and other employment related decisions, unless the credit is particularly relevant to the job description.

Reviewing your credit report

The first step to mastering credit basics is to access and review your credit report. A credit report provides information about you and your history of paying debts.

Under federal law, you are entitled to a free copy of your credit report from each of the three credit reporting agencies (Equifax, Experian, and TransUnion) once very 12 months. A central website handles request for the three agencies. You may order your reports online, by phone, or by mail.

Be aware that while you can obtain a copy of your credit report for free, the free report does not give you your credit score. To obtain your credit score, you will have to pay a small fee. It is not always necessary to know your credit score—knowing what's in your reports is most important. However, knowing your credit score is helpful if you are getting ready to apply for a loan or another line of credit.

There are free ways to access a credit score through several websites. Many credit card companies and banking institutions are now offering free credit scores to their customers, and there are also many consumer websites available where you can access free credit scores.

The websites that offer free credit score access can help you monitor progress towards your credit goals and get personalized information about how to improve your credit score. However, keep in mind that you will be required to supply personal information in order to access these websites. The sites may also include advertisements for loans and credit cards. Make sure to find out which credit score you are looking at, and know that it may be a different score than a lender or business may use to qualify you for a loan or service.

Annual Credit Report Request Service is the only source for the free federally legislated annual credit reports. You can contact them directly or work with your local domestic violence advocate to request a copy of your credit report.

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
1-877-322-8228
http://www.annualcreditreport.com

Does checking lower your score?

It depends.

Checks that don't affect your score:

- Checking your score yourself.
- If an agency you are working with pulls your credit report for financial education or credit counseling.
- Credit inquiries that companies make to send you pre-approved offers.

Checks that do affect your score:
If you apply for a credit card or mortgage, the company will check your credit report. When it does, your credit score will decrease. Applications for new credit account for approximately 10% of your credit score.

Best practices

Only apply for credit when you need it. Try to limit your credit applications to no more than two times per year.

Tip: Avoid applying for an unneeded retail credit card just to save 10% on your purchase.

If you are shopping for a major purchase such as a home or car, apply with various lenders in the same week to protect your credit score and compare the best rates. This is because multiple inquiries made in a 14 day period count as just one inquiry.

Credit rating and interest rates

Your credit score often determines the rate you pay on your credit cards and loans. Here is a chart that shows the potential impact of credit scores on car loan interest rates on a $20,000 car loan. The better the credit rating, the lower the rates and the lower the total price of the car.

Credit rating	Interest rate	Monthly payments	Total price of car
781+	5.18%	$569	$34,117
661-780	6.40%	$586	$35,135
601-660	8.86%	$621	$37,243
501-600	11.53%	$660	$39,614
below 501	14.08%	$699	$41,958

Understanding your credit report

You can find a sample credit report with explanations at: www.transunion.com/how-to-read-your-credit-report.

All credit reports contain the same general information. However, different reports may display information differently and/or not display certain information. In addition, the credit reports that lenders, employers and other businesses see will be slightly different from what you see when you pull your own report. For example, credit reports sold to employers do not have personal information such as age, marital status, account numbers, and other personal information that is protected under the Equal Credit Opportunity Act.

Personal identifying information
- Name
- Birth date
- Social Security number
- Current and previous addresses
- Employment information

Some information, such as addresses, new names, and employment information usually gets updated only when applying for credit. Therefore, it's common to find some of this information out of date. If any of the personally identifying information isn't yours, it could be a simple error, or it could be a sign of identify theft.

Credit history
A credit history lists different types of credit accounts, such as mortgage (real estate), credit cards (revolving credit) and installment credit (personal or auto loans). For each account you should see detailed information about:
- Payment history.
- Balance information.
- Creditor contact information.
- Current status and more.

Negative and collection accounts are often listed separately from accounts in good standing.

Public records
Public records on credit reports include:
- Bankruptcy filings.
- Foreclosures.
- Judgments.
- Liens.

Inquiries

This is a list of creditors and other authorized parties that have requested and received a copy of the credit report in the last 2 years.

Understanding your credit score

Credit scores vary

Your credit score is calculated from the information in your credit report. There are different types of credit scores. And when you receive a credit score, it will be based on information from one of the three credit bureaus. Your Experian credit score might be different from your TransUnion or Equifax score.

FICO Scores vs. VantageScores

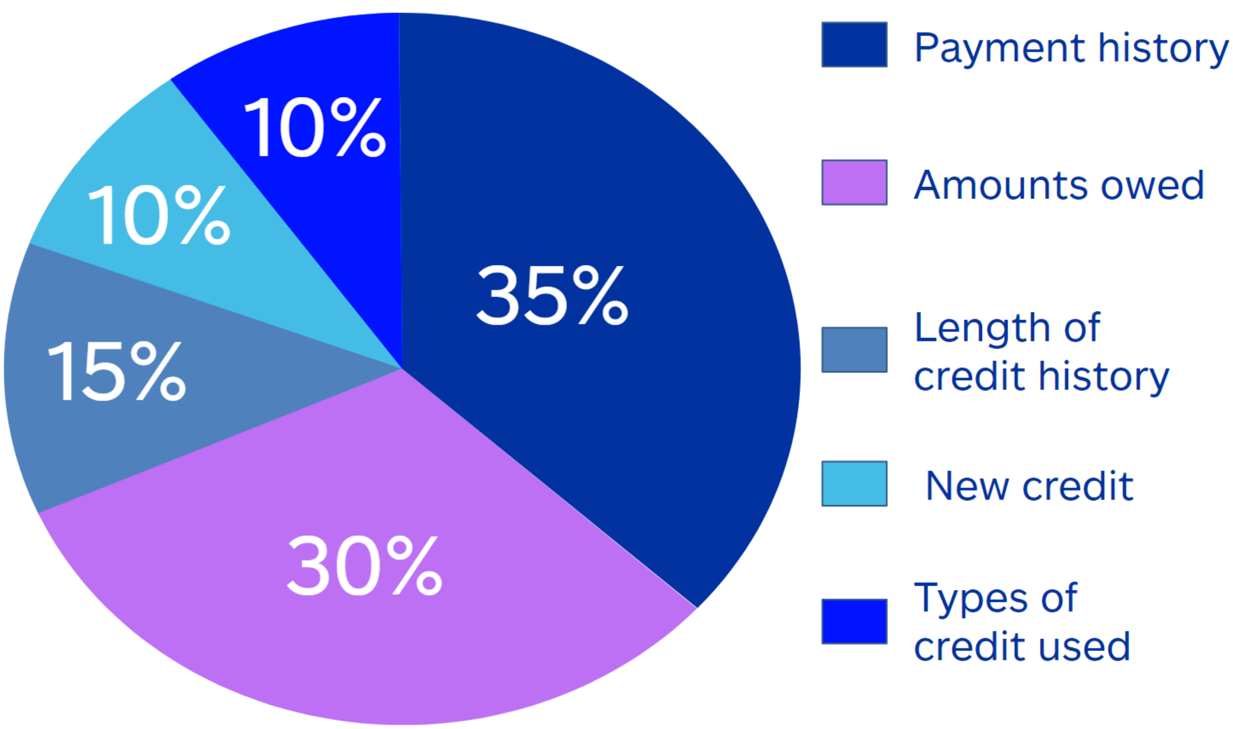
The two most common credit scores that you may come across are FICO Scores and VantageScores. FICO Scores are the scores most commonly used by lenders. However, VantageScores are growing in popularity and are often the scores you receive when accessing your own credit score.

The two use slightly different ranges and calculations. For both, the higher the score, the better. Generally if you improve your VantageScore, your FICO score should also go up. You can learn more about the two score types in an article from Fortune available at: www.fortune.com/recommends/credit-cards/fico-vs-vantagescore/.

Five key factors

According to FICO, these percentages are based on the importance of the five categories for the general population.

For some particular groups (e.g. people who recently started using credit), the importance of these categories may be somewhat different.



Payment history

This is THE most important factor in your credit score.

- Payment information on specific types of accounts (credit cards, installment loans, retail

accounts, etc.)
- Presence of adverse (negative) public records (bankruptcy, judgments, liens, etc.), collection items, and/or delinquency (past due items).
- Amount past due on delinquent accounts or collection items.
- Severity of delinquency (how long past due).
- Time since there were items past due, adverse public records, or any collection items.
- Number of past due items on file.
- Number of accounts paid as agreed (in good standing).

Amounts owed

Your score considers how much debt you currently owe as a factor to help lenders decide if you are capable of taking on new debt.

- Number of accounts with balances.
- Amount owed on accounts.
- Amount owed on specific types of accounts.
- Whether you have a balance on certain accounts.
- Proportion of credit lines used (how much of your total credit limit is used on certain types of revolving accounts).
- Proportion of installment loan amounts still owed (proportion of balance to original loan amount on certain types of installment loans).

Length of credit history

Just as your resume can tell employers about your experience in the work world, your credit score factors in how much time and experience you have using credit.

- How long you have been using credit.
- The date you opened your oldest account.
- The date you opened your newest account.
- The average age of all your accounts.
- Time since accounts opened, by specific type of account.
- Time since account activity.

New credit

Credit scores consider how often you are applying for new loans.

- Number of recently opened accounts, and proportion of accounts that are recently opened,

by account type.
- Number of recent credit inquiries.
- Time since recent account opening(s), by type of account.
- Time since credit inquiry(s).
- Reestablishment of positive credit history following past payment problems.

Types of credit used
Credit scores also consider if you have experience managing different types of credit accounts such as credit cards, auto loans, and home mortgages.
- Your mix and number of credit accounts (revolving, installment, etc.)

Credit scores continued

No one piece of information or factor determine your score. The importance of any factor depends on the overall information in your credit report. As the information in your credit report changes, so does the importance of the different factors in determining your score. Late payments will lower your score. Establishing or reestablishing a good track record of making payments on time will raise your score.

Your credit score only considers information from your credit report. However, lenders may consider many factors beyond the credit report and score when making a credit decision such as your income, length at current job, type of credit you are requesting, collateral you have to secure the loan, etc.

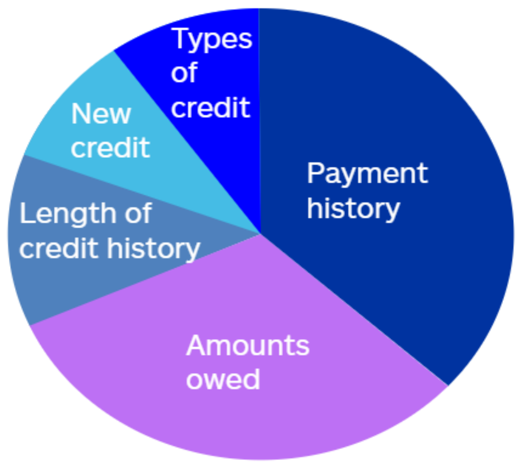
Improving your credit score

No quick fix

Establishing credit or improving a poor credit score takes time and there is no quick fix. The best advice is to manage credit responsibly over time.

Building and repairing credit

We will look at each of the five key credit score factors in more depth with a focus on ways to repair and build credit scores.



Payment history tips

Pay your bills on time

Delinquent (late) payments, accounts that turn into collections, and public records can have a major negative impact on your credit score.

Get current and stay current

The longer you pay your bills on time, the better your credit score. Paying off a collection account will not remove it from your credit report. It will stay on your report for seven years from the date the account became delinquent. Very small collection or paid accounts are not considered or weighed for FICO or Vantage scores.

Seek help

If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor. This won't improve your credit score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.

Amounts owed tips

Low balances

High outstanding debt can affect a credit score. A best practice is to use no more than 30% of your revolving credit available. For example, if you have a credit card with a $1000 limit, try to keep your outstanding balance below $300 at any given time. To avoid interest payments, pay the credit bill off in full every month. Don't open new cards you don't need to try to increase your available credit. This can negatively impact your credit score.

Pay off debt

Pay off debt rather than move it around. In addition to paying all of your credit accounts and bills on time, paying down your revolving debt is the second biggest factor impacting your score.

Don't close cards

Don't close unused credit cards as a short-term strategy to raise your score. Closed accounts stay on your credit report for seven years after the close date. In addition, closing unused credit cards will negatively affect your length of credit history. If you are not using your credit cards, make sure that they are securely stored. Try to use them at least once every 6 months so that they don't go inactive. Make sure that you are not incurring any annual fees for cards you aren't using.

Example

Credit reports look at all your accounts and their total balance. Look at the comparison on the next page. Examples 1 and 2 show two ways of paying $100 of credit card debt. In example 1, Card B was paid in full and the account was closed. In example 2, Card A was partially paid. Note the different balance-to-limit ratios.

Original	Balance	Limit
Card A	$500	$1000
Card B	$100	$1000
Total	$600	$2000
Balance to limit ratio		30%

Ex. 1	Balance	Limit
Card A	$500	$1000
Card B	Paid	Closed
Total	$500	$1000
Balance to limit ratio		50%

Ex 2	Balance	Limit
Card A	$400	$1000
Card B	$100	$1000
Total	$500	$2000
Balance to limit ratio		25%

Length of credit history tips

If you have been managing credit for a short time, don't open new accounts rapidly. New accounts will lower your average account age. This will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user. Remember, that it helps your score if you keep your oldest accounts open and in good standing. Closing old accounts that are in good standing will lower your credit score.

New credit tips

When you need a loan, shop around for the best rates. Keep your search within a focused period of time to limit the impact on your credit score.

Reestablish your credit history if you have had problems. Opening new accounts responsibly and paying them on time will raise your credit score after about 6 months.

Types of credit use tips

Apply and open only when necessary

Open only the accounts you need. Don't open accounts just to have a better credit mix. Make sure you factor in fees and interest rates before opening a new account.

Use credit cards responsibly

In general, having credit cards and loans (and paying timely payments) will raise your credit score. Someone with no credit cards, for example, is a higher risk than someone who has managed credit responsibly.

Closing an account doesn't make it go away
A closed account will still show up on your credit report for seven years. And it may be considered as part of your credit score.

Opening a line of credit under a child isn't a solution
Using a child's credit may seem harmless but may result in damaging their credit, limit their ability to get a job, rent an apartment, or buy a car. It's also a form of identity theft and illegal.

Understand how to read your credit card statement
Make sure you know where to find the minimum amount due, total due, due date, interest rate, etc. This will enable you to better prioritize when to pay each creditor.

How to build healthy credit

You may have no credit at all or be "credit invisible". If you are just starting out on your credit journey, your profile will look very different from someone with an established credit history. As we discussed earlier, credit is an agreement or contract. If you want access to credit, you must show the lender that you can pay back what you borrow. It takes time to build good credit, so it is important to understand how.

Managing debt and building credit are both important to a healthy credit score. The only way to build credit is by having credit accounts like loans and credit cards that are being used regularly, paid on time each month, and reported to at least one of the major credit bureaus.

Products for building credit

Start with what you know. See what your bank or credit union offers first. Many credit unions now offer secured credit cards and other starter credit building products for people who are establishing or reestablishing credit history.

You can also find nonprofit financial institutions and community lenders who offer safe and affordable products.

Resources for survivors

You may also be able to access survivor-specific programs that can help you build credit. For example, the National Network to End Domestic Violence offers microloans through their "Independence Project", which provides small, no or low-interest loans to survivors of intimate partner violence. These loans can help you build your credit score in a safe, manageable way.

Check with your local domestic violence agency to see if your area has similar loan programs.

What are active credit accounts

Installment accounts

An installment account (such as a loan) is active if it:

- Has a balance.
- Has a monthly payment.
- Is not closed.

Examples: Personal loans with a fixed term (6 months, 12 months, etc.), auto loans.

Once a loan is paid-off and closed, it will no longer be building credit.

Revolving accounts

To be considered active, a revolving account (credit card):

- Doesn't need to have a balance or monthly payment.
- Needs to be used at least once every six months, but ideally every month.

It is best to use a credit card for regular, budgeted monthly expenses and pay the balance in full at the end of the month.

Example

Sharon has a credit card with a $1000 limit. She uses her card to pay for gas for her car throughout the month (about $300/month). When Sharon receives her paycheck at the end of the month, she pays the balance of her credit card in full. Sharon does not pay any interest on her gas purchases because she does not carry a balance from month to month.

Best practices

Have three active credit accounts (at least one installment and one revolving), and use credit at least every 3-6 months.

The key to building good credit is to always pay on time. If a payment is missed, get back on track immediately. The credit score will eventually recover from the missed payment. If money is tight, try paying the new charges plus the interest charge. This will at least keep your primary balance from growing.

Rent payments and credit reports

Rent payments were not previously reported to credit bureaus, but that is slowly changing. Generally, rent reporting depends on the landlord's participation. However, there are some services, like Rental Kharma, that provide rent reporting for individuals for a fee. Check with your landlord to see if they can report your rent payments to demonstrate good credit.

Correcting errors

If you discover an error on your credit report, it's important to take corrective action immediately. You can dispute errors online or follow these steps:

1. Make a copy of your report and circle every incorrect item.

2. Write a letter to the credit reporting agency detailing the errors and include copies (NOT originals) of documents that support your position.
3. Send a similar letter to the creditor you believe reported the incorrect information.
4. Send all materials by certified mail, return receipt requested, so you have proof the information was received.

You can view a sample letter to help correct a report error on the FTC website at: https://consumer.ftc.gov/articles/sample-letter-disputing-errors-credit-reports-business-supplied-information.

What happens next?

The reporting agency must begin an investigation by contacting creditors within 30 days. If the creditor can't verify that the entry is correct, it must remove the error. If any changes result from the investigation, you have the right to access a free copy of your credit report in addition to the report you are entitled to annually.

If the investigation reveals an error, you have the right to request that a corrected version of your credit report be sent to everyone who received the report in the last six months.

Finding help

If you are unable to make a payment, contact your creditor as soon as possible to try to work out a payment plan.

If you have difficulty managing your payment or need help with setting up a budget, contact a credit counseling service or reputable nonprofit financial coaching or counseling organization. Your job might have a financial coaching benefit as well. It is best to work with one that provides one-on-one assistance.

Avoid debt settlement companies! Don't be fooled by companies who claim they can erase bad credit. Stay away from organizations that charge upfront fees, make unrealistic promises, or lack accreditation credentials. Using non-reputable organizations can actually harm your credit.

Financial counselor red flags

A counselor should never suggest the following actions:

- Make false statements on a loan or credit application.
- Dispute information that you know is accurate.
- Misrepresent your Social Security number.
- Obtain an Employer Identification Number from the Internal Revenue Service (IRS) under false pretenses.

If one does, find a new counselor. If you took any of these actions, you would be guilty of committing fraud.

Questions to ask

The Federal Trade Commission suggests asking potential counseling services these questions:

What services do you offer?
Look for an organization that offers a range of services. Services could include budget and credit counseling, plus classes in savings and debt management provided by trained and certified counselors.

Counselors should discuss your entire financial situation. They should help you develop a personalized plan to solve your current money problems and prevent future ones. The first session typically lasts an hour and there should be follow-up sessions.

Avoid organizations that push debt management plans (DMP) and avoid debt settlement companies. Sign up for a DMP only after a certified credit counselor has reviewed your financial situation thoroughly and has offered customized advice about managing your money. If you had a DMP with an organization that closed, ask the new credit counselors how they can help you retain the benefits.

Are you licensed to offer your services in my state?
Many states require that an organization register or obtain a license before offering credit counseling, debt management plans, and similar services. Be sure to work with an

organization that has met your state's requirements.

Do you offer free information?
Avoid organizations that charge for information about their services.

Will I have a formal, written agreement or contract with you?
Don't commit to participate in a DMP over the phone. Get promises in writing. Read documents carefully before you sign them. If you're told you need to act immediately, consider finding another organization.

What are your counselors' qualifications?
Find an organization whose counselors are trained by a group that is not affiliated with the firm that provides credit.

Have other consumers been satisfied with your services?
Once you've identified credit counseling organizations that suit your needs, check them out with your state attorney general, local consumer protection agency, and Better Business Bureau (www.bbb.org). These organizations can tell you if any consumer complaints are on file. Be aware that the absence of complaints doesn't guarantee legitimacy. However, if there are consumer complaints, be very careful.

What are your fees?
Get a detailed price quote in writing. Ask specifically whether all fees are covered in the quote. If you cannot afford to pay the fees, ask whether the organization waives or reduces fees to consumers in your situation. If an organization won't help you because you can't afford to pay, look for help elsewhere.

How are your employees paid?
Do the employees of the organization receive commissions if you sign up for certain services, pay a fee, or make a contribution to the organization? Employees who recommend that you purchase certain services may receive commissions. And many credit counseling organizations receive compensation for enrolling consumers in DMPs. If the organization won't disclose whether it receives compensation from creditors, or how their employees are compensated, go elsewhere for help.

How do you protect personal information?

Credit counseling organizations handle your most sensitive financial information and should have safeguards in place to prevent misuse. Ask about how they will keep all your personal information, including name, address, phone number, and financial information confidential and secure.

Understanding bankruptcy

Last resort

Bankruptcy is a last resort. It cannot clean up a bad credit record and will be part of your credit record for up to 10 years. It usually does not eliminate:

- Child support.
- Alimony.
- Fines.
- Past due taxes.
- Some student loan obligations.

Unless you have an acceptable plan to catch up on your debt under chapter 13, bankruptcy usually doesn't permit you to keep property when a creditor has an unpaid mortgage or lien on it.

Consult first

Before considering bankruptcy, consult a nonprofit credit counselor.

Forms of bankruptcy

There are different forms of bankruptcy. Many debtors won't qualify for chapter 7 and must establish plans to repay debt within 5 years under chapter 13.

Chapter 7
Chapter 7 wipes out all allowable debts and provides certain personal property exemptions. The debtor gives up all property unless the state finds that the debtor needs it to support his or her dependents.

Chapter 13
Chapter 13 is a court approved repayment plan. The debtor keeps all property and makes regular payments on the debts after filing for bankruptcy.

Long-term effects of bankruptcy

- It could determine whether or not you get the job you want.
- Your insurance rates may increase.
- It may be difficult to rent an apartment or qualify for a home loan.
- Bankruptcies stay on your credit report for 10 years.
- Phone companies and other utility service providers may look at your credit history before providing service.

First try

Before you decide to file bankruptcy, try the strategies below:

Reduce your spending
Consider a smaller home or vehicle. If you reduce spending, you may be able to find the

money to repay your debt.

Talk with your creditors
Creditors are often willing to work out a payment plan to help you pay off what you owe.

Talk with a nonprofit counseling agency
These agencies can help you create a plan to handle all of your debts.

Talk to an attorney
Expert advice can help you understand the consequences of declaring bankruptcy

Consider debt consolidation
To pay your debt, you may be able to borrow against equity in your home, retirement savings, stocks or other securities, or the cash value of your life insurance policy. Analyze the risks and consequences of this action thoroughly as they can be considerable.

Property and bankruptcy

Each state has laws defining exempt and nonexempt property. Creditors cannot seize exempt property. Some property is entirely exempt, while the exemption for other property may be limited to a certain dollar amount. Examples of exempt property include:

- Household furniture and furnishings.
- Tools of a trade or business.
- Clothing and jewelry.

Social security and other such benefits, including life insurance, may also be exempt property. Some states exempt all or a portion of one's home and adjoining land. To learn more about which assets are protected in your state, contact a lawyer or local nonprofit legal organization.