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# Establishing and Managing Credit

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## Section Objectives

Using credit wisely is an important part of the financial management process and establishing your financial security. Credit allows you to buy now and pay later. It is your ability to borrow money and pay it back. Credit is also a person's reputation for paying bills when due: your "willingness and ability to pay" or your "creditworthiness". Every consumer should learn how to qualify for credit, shop for credit and build a strong credit record. Learning about credit and managing your credit wisely will help buy the house or the car of your dreams and will open many doors in your future as a consumer. After completing this section you will be able to:

- Understand credit and the importance of good credit
- Recognize credit reporting agencies and credit reports
- Understand the fundamentals of credit scoring
- Recognize ways to establish credit
- Know how to manage your debt
- Understand ways to reduce the risk of identity theft

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# Key Terms

<b>Account Statement</b>	A record of transactions and their effect on account balances.
<b>APR</b>	Annual Percentage Rate; total cost paid to a lender for the money that was borrowed, usually expressed in percentage terms.
<b>Asset</b>	Any property with a cash value such as a home, car, equipment, savings, and investments.
<b>Bankruptcy</b>	A legal process in federal court to relieve certain debts of a person or a business that it's not able to pay its debt.
<b>Capital</b>	The original amount of the loan or debt on which interest is calculated.
<b>Collateral</b>	Property that is offered to secure a loan or other credit.
<b>Credit</b>	A means of borrowing money from a person or company and returning it at a later date, usually with accrued interest charged in addition to the initial sum borrowed. Also represents, a person's history for paying bills when due, the willingness and ability to pay or creditworthiness.
<b>Credit Report</b>	A report generated by a credit bureau that shows an individual's credit or repayment history over time and used by lenders to determine creditworthiness.
<b>Credit Reporting Agency</b>	Also known as "credit bureau", a company that gathers, files, and sells information to creditors and/or employers to facilitate their decisions to extend credit or to hire for jobs. There are three major credit reporting agencies in the US: Equifax, Experian and Trans Union
<b>FICO Score</b>	A numerical value that summarizes a borrower's credit risk at a given point in time and evaluates information to make a credit decision.
<b>Grace Period</b>	A period of time during which a loan payment may be paid after its due date but not incur a late penalty. Such late payments may be reported on your credit report.
<b>Interest</b>	Amount charged to a borrower for the privilege of using the lender's money.
<b>Judgments</b>	A formal court decision; when requiring debt repayment may include a property lien that secures the debtor's claim.
<b>Repossess</b>	To regain possession of property or goods after non-payment of money owed.

# What is Credit?

Of the many definitions of “credit,” one of the most important is “financial trustworthiness.” Your credit record is the most important factor lenders consider when you apply to borrow money - for a car or house - or open a credit card account. Credit allows you to buy now and pay later. You may be looking to buy something that you really need, but don't have the cash to pay for the purchase at that time. Credit is a person's reputation for paying bills when due, your willingness and ability to pay or creditworthiness.

## Importance of Good Credit

It is important to establish a solid credit history, primarily by making your payments on time. Your credit worthiness will not only affect your ability to borrow money or purchase goods and services on credit, but may also affect:

- Your employment – Some employers require a credit report. Poor credit could mean that you are not offered the job (for example, if you cannot be bonded or obtain a security clearance).
- Your living accommodations - Landlords regularly request credit information for applicants seeking apartments. Landlords do not want tenants who do not pay their bills.
- The finance rate – Individuals with better credit scores can generally negotiate for lower finance rates than those who are greater credit risks.
- Your convenience – Renting a car, making hotel reservations and hundreds of other transactions are much easier if you have a credit card. Credit cards can be difficult to obtain if you have bad credit.

## Credit History

Your credit history is a record of your open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner. Building a good credit history is essential to anyone who expects to make major purchases or start a business. Building good credit is actually easy to do - if you pay attention to your expenses. Your credit report is a detailed summary of your credit history plus additional facts about you that will help creditors judge your creditworthiness.

## Establishing Credit

Some people have no credit history because they have never borrowed money to buy a car, stereo or other goods and have not used credit cards.

Unlike general belief, having no credit is not as bad as having a bad credit history, but having no loan or charge card history does make it more difficult for a lender to see that you can manage credit responsibly. A lender wants to see a pattern of regular and timely payments so that the lending institution will feel comfortable that you will repay your loan in the same way.

## Traditional Credit

As we discussed previously, lenders evaluate your creditworthiness on your use of credit cards, installment loans, mortgages, and similar borrowing methods. This is known as traditional credit.

Once you have established credit and begin to make major purchases like a car or a home and you have credit cards and installment loans, lenders will consider traditional credit to evaluate the risk of lending to you.

**Note: Non-traditional credit may not be used to enhance the credit history of a borrower with a poor payment record or traditional credit score or to “manufacture” a credit report for someone without a verifiable credit history.**

## Credit Reports and Credit Rating

Anytime that you finance or lease a vehicle, you will be asked to complete a credit application. The following presents some of the information requested in a credit application:

<b>Applicant(s) Name(s):</b>	
<b>Drivers License Number</b>	
<b>Address:</b>	
<b>Years in that address</b>	
<b>Own or rent,</b>	
<b>Social Security Number:</b>	
<b>Annual Salary</b>	
<b>Name of Employer</b>	
<b>Years Employed</b>	
<b>Other income:</b>	
<b>Credit accounts</b>	
<b>Mortgage lender, loan balance, monthly payment</b>	

**To speed up the credit application, process, complete all the information on the form accurately.**

Filling out a credit application gives the lender permission to access your credit by obtaining a copy of your credit report. A credit report is a document that offers a detailed account of the credit, employment and residence history of an individual used by a prospective lender to help determine creditworthiness. Credit reports also list any judgments, tax liens, bankruptcies or similar matters of public record entered against the individual. A fee is usually charged when you obtain a credit report however you can get a copy of your credit report for free from all major reporting agencies annually at [www.annualcreditreport.com](http://www.annualcreditreport.com).

Creditors will look at things like:

- Do you pay your bills on time
- Your credit obligations (credit cards, loans, etc)
- Total amount of credit that has been extended to you
- How much you owe in all your accounts?

**All this information is important when it comes to getting credit and will impact your credit rating on your credit report**

And remember, if you have no credit history, creditors will make their decision on a limited basis. You may suggest that they use non-traditional credit (utilities, telephone, and rent payments) or wait until you establish credit by getting a gasoline, department store charge card or a secured credit card.

## Information on your credit report

Your credit report must not reveal some personal information.

It does not contain information about your checking and savings account, major purchases paid with cash or check, your race or religious preference, medical history, personal lifestyle, personal habits, social life, friends or relatives, political preference or criminal record.

## Exercise

**Choose yes or no by placing a check mark on the box if you think this information would or would not appear on your credit report.**

1. Your social security number  
 Yes  No
2. Your address  
 Yes  No
3. Late payment on your department store card  
 Yes  No
4. Your race  
 Yes  No
5. On-time payments made to your gas card  
 Yes  No

## Developing Good Credit

Once you have established your credit, making your payments on time is very important to keep a good credit score. A credit score or a credit rating is given to a person by credit bureaus (ex. Trans Union or Experian) based on experience managing credit (credit cards, mortgage, loans, etc.), reliability making loan payments, current financial condition (income, savings, outstanding debt, etc.) and other factors. People with strong credit ratings tend to qualify for lower-cost loans (low interest rate), while people with weaker ratings might have to pay a higher interest rate.

If your credit score is 675



Your credit rating ranks higher than 40% of U.S. Consumers.



Credit scores are also known as FICO scores. This name comes from the Fair, Isaac and Company, a company that specializes in calculating credit scores and created the credit scoring model that determines the likelihood of repayment. Generally, a minimum score of 620 is required to obtain prime interest rates.

## Obtaining a Credit Report

By this time, you must have a good idea of what you need to do to establish your credit and of what creditors will be looking for when you submit a credit application. You have also reviewed information on credit reports, credit scores and how payments and debt impact your credit history.

To get a sense of how others judge your credit, it is a good idea to get a copy of your own credit report. You can get a copy of your credit report and your credit score by requesting them from the three largest credit reporting agencies. You are entitled to receive one free credit report every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free credit report can be requested through a website <http://www.annualcreditreport.com>, by phone or by mail. At the end of this section please review an annotated credit report. Study it carefully as it will show in detail the type of information that lenders are looking into.

It is entirely your choice whether you order all three credit reports at the same time or order one now and others later. The advantage of ordering all three at the same time is that you can compare them. (However, you will not be eligible for another free credit report from the Central Source for 12 months.) On the other hand, the advantage of ordering one now and others later (for example, one credit report every four months) is that you can keep track of any changes or new information that may appear on your credit report. Remember, you are entitled to receive one free credit report through the Central Source every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion – so if you order from only one company today you can still order from the other two companies at a later date.

In addition to consumers who are eligible for a free credit report through the Annual Credit Report Request Service; consumers in some states are eligible for a free credit report under state law. The following states have laws that make free credit reports available to consumers: Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey and Vermont.

Check the Web site (<http://www.annualcreditreport.com>) and contact information section at the end of this module for credit reporting agencies contact information if you would like a copy of your credit report.

## Correcting Credit Reports

It is important to make sure that your credit report is accurate. It is not unusual for reports to contain errors and omissions. For example, your report may show an unpaid hospital bill for services that were paid by the insurance company. This is a credit problem that you can correct. Left uncorrected, it could hurt your chances of getting a new loan.

The good news is that you can have mistakes corrected on your credit report for free. Here are some steps involved in correcting errors on your credit report with a credit reporting agency:

1. Follow any instructions on how to correct errors provided with your credit report to tell the credit reporting agency about the mistake.
2. Send any additional information that is needed to correct the error.
3. Explain the problem in a brief letter. The agency must investigate the complaint within 30 days and get back to you with the results.
4. Contact the creditor directly if the credit reporting agency disputes the error and you still believe your credit report is inaccurate.
5. Write a consumer statement of your side of the story if the issue remains unresolved. You may write up to 100 words to explain the situation. This statement will be included in all future publications of your credit report.

## Interest, Capital and APR

Before you apply for a loan or credit card, get your credit in shape. There is a very important relationship between your credit and the amount of interest that a creditor will charge you. Your credit score can make a huge difference in your rate.

The following terms will help you understand your loan transaction in terms of the interest, capital and APR.

- Interest is the cost paid to a lender for the money that was borrowed
- Capital is the original amount of the loan or debt on which interest is calculated.
- Annual Percentage Rate or APR is the total cost or charge for the financing of a loan yearly expressed as a percentage of the loan amount.

Prior to signing for a loan, shop around for the best Annual Percentage Rate or APR. Even a 1% of APR can affect the price of your purchase for the life of the loan. The following table shows how much you would pay for a five-year, \$5,000 loan with different APRs.

### COMPARING THE ANNUAL PERCENTAGE RATE (APR)

The cost of a 5-year, \$5,000 loan

APR	Monthly payments	Total Cost
10%	\$106.24	\$6,374.40
11%	\$108.71	\$6,522.60
12%	\$111.22	\$6,673.20
13%	\$113.77	\$6,826.20
14%	\$116.37	\$6,980.00
15%	\$118.95	\$7,137.00
16%	\$121.59	\$7,295.40
21%	\$135.27	\$8,116.20

## Credit and Asset Building

Asset building and credit are closely related. An asset is defined as anything of value owned by an individual or a business that has a cash value such as a savings account, a home or a car. Your good credit can help you realize a major purchase or “an asset” and pay it over time. Some assets increase in value and may be used later on as collateral for a loan for business or college. Also, transaction accounts might be governed by past credit behaviors because banks require credit when evaluating new account applications. Your credit and your assets can determine your access to loans to purchase more assets and the cost of borrowing to you.

## Manage your Money and New Credit

Managing your money is a life long task. It is the biggest investment for a healthy financial life. It is a good idea to start managing your money early, but is never too late to look at your finances. The steps will always be the same, but you may have to review your management plan several times during your life to tailor it to your changing needs.

## Steps to Your Life Long Money Management

- Open a checking and a savings account at a bank or credit union to establish your new credit. This alone will only establish a banking history, not a credit history. Make sure that you always have enough money to cover your checks, check card purchases and ATM withdrawals.
- Create a budget and a spending plan to know how much do you have and where you need to make adjustments.
- Increase your income if needed. Find a better paying job or start your own business. Sometimes, you might need to take classes to move to a higher paying career.
- Save, save, save, pay yourself first, every month deposit the same amount or more into your savings account.
- Borrow only for what you need, save money for what you want. Many times what we think we need is a want and can be purchased later.
- Pay your bills in full and on time every month. If you can't, contact your creditors right away and consult with a consumer credit counselor.
- Pay your taxes when due, you will avoid owing high balances with penalties to the government.
- Open a retirement account as soon as possible, your money will grow every year.
- Invest your money wisely; consult a financial advisor prior to making a major purchase or investment.
- Beware of identity theft. Keep an eye on your accounts and report any suspicious changes of address or usage of your credit by unauthorized individuals immediately.
- Review your budget and spending plan as often as necessary, at least, every six months. Your money management is subject to change if your life situation changes.

## Non Traditional Credit

Traditionally lenders look at the number of accounts a consumer has opened and his or her payment history. They evaluate your creditworthiness on the use and payment history of credit cards, installment loans, mortgages, and similar borrowing methods.

By some estimates, 50 million people lack traditionally established credit — but still have track records of paying bills such as rent utilities, insurance, and telecommunications. Lenders may use several types of credit that require the borrower to make periodic payments on a regular basis, such as rental housing and utilities that are paid at least every three months. Using these alternative approaches can help borrowers who might otherwise get denied for credit and the lenders who might want to reach them.

### Nontraditional Credit Worksheet

I make monthly payments for:

Payment	Yes	No
Rent		
Utility bills		
Phone, cable Internet		
Childcare		
Child support		
Car Insurance		
Christmas Club savings		

If you do not have a credit history and you want to establish one, there are easy ways for you to build a credit record. You may also be able to re-establish your credit after you had a past negative credit history. The following are some ways to build a credit history:

- Always pay your bills on time – You may use canceled checks or reference letters from your large, recurring expenses to demonstrate your credit worthiness.
- Open a checking account and a savings account – Use your check register to always balance your account; make regular deposits into your savings accounts. This shows creditors that you are working to save and that you have reserves to repay debts.
- Apply for a loan using savings as collateral – At your bank or credit union, ask if they make loans with savings as collateral to back up the loan. If you get a loan, make the payments in full on time.
- Apply for a limited-use credit card – Shop for the card with the lowest annual percentage rate, then pay the bill in full each month on time so that you don't have to pay the interest
- Apply for a loan with a co-signer – A co-signer is someone that has good credit and agrees to be responsible for the payments if you do not make them. If you don't make the payments, any bad information becomes part of the co-signer's credit history. Again, if you get the loan, make the payments in full and on time.

## Managing Your Debt

Managing your debt involves similar steps to managing your money only that you now focus on your loans, credit cards, and other charge accounts. The key to managing your credit is control – “control of”:

- how much you spend on credit,
- how quickly you pay it back
- the types of items you purchase.

Credit is not a financial cure-all. Used the right way, however, it can help you afford certain purchases and build a powerful credit rating. Follow these steps to keep track of your debt and plan for a healthy financial future:

- Pay your bills on time
- Call your creditor if you are paying late or can not pay at all
- Keep and maintain records of your credit purchases and any agreements made with your creditors
- Avoid paying late charges and over-the-limit-fees
- Payoff your credit cards every month to avoid paying interest when possible
- Do not charge more than you are able to pay every month
- If in a debt crunch, it is advisable to use the services of a consumer credit counseling agency.



## Pass the Word On

Money and debt management habits are passed down in families or not passed down at all to younger generations. Regardless, if you were taught about credit or not, it is your responsibility to use it wisely. As we have discussed, a good credit history, a realistic spending plan and regularly saving can give you the foundation to accumulating assets and investing in the future. Sometimes, this information does not touch the lives of many people including those closest to our hearts. If you are taking this class, you are receiving a large amount of information that will be helpful to you as a whole and on individual situations throughout your life. Please, pass the word on. Tell everyone you know and use this information to help those friends and relatives that are either entering the pathway to their financial life or to help those that have fallen on the credit trap and need support in re-establishing their credit.

### Are you in a Credit Crunch, Worksheet

Credit problems can sneak on you easily. Sometimes we are deeply in debt before we realize it. Below are some warning signs about debt load. Answer yes or no to the following questions by placing a check mark on the box to determine how well you are managing your debts.

Warning Signs	Yes	No
Are you always paying your bills late?		
Are you near, at or over the limit on your lines of credit?		
Are your credit balances getting higher every month?		
Are you borrowing money to pay for food, gas, etc?		
Are you paying your rent or mortgage late?		
If you lost your job, would you have money problems right away?		
Can you make only minimum payments on your credit cards?		
Have you been getting calls from collection agencies?		
Is your checking account overdrawn often?		
Are you arguing with relatives about your debt?		
Are you visiting payday lenders or borrowing money to pay this month's bills?		

### Are you in a credit crunch?

If you answered “no” to all the questions: Congratulations, you are managing your debts. Become familiar with the warning signs to avoid future credit problems.

If you answered “yes” to any questions, you should analyze how serious the credit crunch is and what the problems are. Take the actions necessary to reduce debt and take control of your finances.

If you answered “yes” to a lot of questions, you are in a “credit crunch”. Analyze the situation and take steps to change your spending habits. Put your credit cards away and seek the help of a professional credit counselor.

## Common Credit Problems

There are a number of common problems that can affect your credit and therefore many areas of your life.

Some credit problems that make it difficult for a borrower to get a loan are:

- A pattern of 30-, 60- or 90-day late payment on current debts. Making late payments or not sending enough of a payment can hurt your credit rating.
- Past poor credit performance. You missed payments on a credit account for a short period of time.
- Bankruptcies. Declaring bankruptcy leaves a lasting impression on your credit report. Bankruptcy is the term used to describe the legal process you undertake when you are unable to pay your debts. If someone files Chapter 7 bankruptcy, the Court may appoint a trustee to sell any assets that are not exempt to pay as much for your debt as possible. The rest of your debts are canceled. Chapter 13 bankruptcy is where you must repay part or all of your debt under a court-approved payment plan.
- Judgments or liens. A judgment is a court order that can be placed when you don't pay a debt or loan. A judgment automatically places a lien on real property. A lien is a legal hold or claim of someone on your property as security for a debt or charge. For example, a tax lien is a claim against your property, or assets, filed by the taxing authority for unpaid taxes.

## Bankruptcy

Bankruptcy is a process of the federal court that can help you eliminate legal responsibility for most of your debt or repay them on time with the protection of the bankruptcy law. There are two types of personal bankruptcy:

- Chapter 7 – It is also called “liquidation” bankruptcy because the court eliminates your responsibility of paying the debt not secured by personal property or collateral.
- Chapter 13 – It is also known as “reorganization” bankruptcy because it allows the debtor to pay their debt in installments for a period of three to five years.

Recent changes to the law, limit bankruptcy to persons that can prove that they cannot repay the debt. Always consult a lawyer before deciding to file for bankruptcy. Consider bankruptcy **ONLY AS YOUR LAST RESORT** since it can have a negative impact over time on your credit. Bankruptcy will stay on your credit report for 10 years and the debt that has been dismissed can stay for 7 years. It will be difficult to obtain new credit cards, loans, etc. but not impossible

Beware of companies that offer to repair your credit. Everyday, companies nationwide mail advertisements promising to clean up your credit for a fee to you can get a car loan, a job, a mortgage or even insurance. After you pay hundreds of dollar in fees, these companies do nothing to improve your credit report and many times vanish. No one can remove accurate and timely negative information from your credit report. Keep in mind that if you do not agree with an item in your report, you can ask the reporting bureau for an investigation.



## Consumer Credit Counseling

If you have problems paying your debts or you had problems getting a loan in the past, you could consider credit counseling. Credit counseling agencies can help you to:

- create a budget and negotiate with your creditors to make payments more manageable on the loan or debt;
- consolidate your loans or credit card accounts into a debt repayment plan.
- There are many non-profit counseling agencies available to help you manage your credit. Sometimes these services are free or come at a lesser cost than the for-profit services. To find a good credit counseling agency start by asking your friends and family for referrals. Often their recommendations are your best source of information. If you decide that credit counseling is for you avoid agencies that require big up-front fees and make unrealistic promises. Look for companies that are accredited by the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agency.

For more information regarding consumer credit counseling services, you may contact the National Foundation for Credit Counseling at [www.nfcc.org](http://www.nfcc.org) or 1 800 388-2227.

## Identity Theft

Identity Theft is the fastest growing crime in America; 9.9 MILLION victims were reported last year, according to a Federal Trade Commission survey! Generally speaking, federal law says you—the victim of credit or banking fraud—are liable for only the first \$50 of your losses if you notify financial institutions within two days of learning of the loss. In the case of credit cards, many financial institutions will even waive that amount. In the case of debit and ATM cards, many financial institutions will even waive that amount. Debit and ATM cards are different and rely on the policies of each bank or financial institution.

### What is Identity Theft?

Identity theft occurs when somebody steals your name and other personal information for fraudulent purposes. Identity theft is a form of identity crime (where somebody uses a false identity to commit a crime).

### Reduce Your Risk

To reduce or minimize the risk of becoming a victim of identity theft or fraud, there are some basic steps you can take. For starters, just remember the word “SCAM”

**S** - Be **stingy** about giving out your personal information to others unless you have a reason to trust them, regardless of where you are: If someone you don't know calls you on the telephone and offers you the chance to receive a “major” credit card, a prize, or other valuable item, but asks you for personal data -- such as your Social Security number, credit card number or expiration date, or mother's maiden name -- ask them to send you a written application form.

**C** - **Check** your financial information regularly, and look for what should be there and what shouldn't: If you have bank or credit card accounts, you should be receiving monthly statements that list transactions for the most recent month or reporting period. If you're not receiving monthly statements for the accounts you know you have, call the financial institution or credit card company immediately and ask about it.

**A** - **Ask** periodically for a copy of your credit report. Your credit report should list all bank and financial accounts under your name, and will provide other indications of whether someone has wrongfully opened or used any accounts in your name.

**M** - **Maintain** careful records of your banking and financial accounts. Even though financial institutions are required to maintain copies of your checks, debit transactions, and similar transactions for five years, you should retain your monthly statements and checks for at least one year, if not more. If you need to dispute a particular check or transaction especially if they purport to bear your signatures your original records will be more immediately accessible and useful to the institutions that you have contacted.



## PROTECTING YOURSELF AND PREVENTING IDENTITY THEFT

It pays to prevent identity theft because once it happens to you it can take years to clean up the mess. There are several important things you need to pay attention for protecting yourself from identity theft, including:

- **Protect Your Personal Information**

The same way you protect your wallet from getting stolen you should buy a shredder to shred all mail containing personal or financial information.

- **Review Your Credit Reports**

Review periodically your credit reports as they are crucial to your ability to obtain credit, and it is very important to make sure all of the information your credit report contains is accurate.



- **Protect Your Social Security Number**

Do not carry your Social Security card in your wallet.

- **Place Passwords on Your Accounts**

All banks, credit card companies and phone companies will allow you to password-protect your accounts. This way, if an identity thief tries to access information about your account by pretending to be you, they will be asked to provide the account password.

- **Practice Computer Safety**

Do not answer eMails that appear to be from a bank or credit card company, asking for personal information or to log on to update their records.

Legitimate companies don't do this, and it is best to not even respond. If you are curious about where the eMail came from, you can call your bank or credit card company to confirm (make sure to use the legitimate phone number from your paper account statement or from the back of your credit card – and not the phone number provided in the eMail)

It is important to double check Web addresses, because sometimes imposters create a Web site that looks and sounds similar to the real one.

### If you Become a Victim

The Federal Trade Commission (FTC) is the federal consumer agency in charge of protecting the nation against identity theft. They have set up a website as a one-stop national resource about the crime of identity theft.

The following are steps that you can take to minimize the damage if a problem occurs:

- Report the crime – make a report at your local police department. Contact any federal or state police departments or agencies to include the FTC and the U.S. Postal Service.

- Denounce the crime to the Federal Trade Commission at [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft) and complete a Sworn Declaration of Identity Theft to be used when you question debts that you have not incurred.
- Contact the Fraud Department of the three major Credit Report Agencies
- Contact your creditors.

## Your Credit Rights

There are several credit laws that protect consumers against unfair treatment and discrimination. The U.S. Congress has passed the following laws to protect you.

### Equal Credit Opportunity Act

The Equal Credit Opportunity Act is a federal law that prohibits discrimination in credit transactions on the basis of race, color, religion, national origin, sex, marital status, age, source of income, or the exercise of any right under the Consumer Credit Protection Act. It ensures that all consumers are given an equal chance to obtain credit.

Anyone involved in granting credit, such as banks, credit unions credit card companies, retail and department stores must follow this law. Under the Equal Credit Opportunity Act, you have the right to know whether your application was accepted or rejected within 30 days of filing a completed application, and the reason why your application was rejected. If you are denied credit, the creditor must give you the reasons why you were rejected if you ask within 60 days. If you were denied based on information obtained on a credit report, you can request a copy of your credit report from the credit bureau used by the creditor.

### Truth in Lending Act

The Truth in Lending Act is a federal law that requires lenders to provide standardized information so borrowers can compare loan terms. In general, lenders must provide information on what credit will cost the borrowers, when charges will be imposed and what the borrower's rights are as a consumer.

This law requires specific disclosures for credit transactions (example: credit cards, mortgage loans, etc.) and covers any creditor who regularly extends credit that is subject to a finance charge.

### Fair Credit Billing Act

The Fair Credit Billing Act is a Federal law governing credit and charge card billing errors. It was passed by Congress in 1975 to help customers resolve billing disputes with card issuers. Disputes include everything from computational errors and incorrect charges to the crediting of payments. The act requires issuers to credit payments to a customer's account the day they are received. To be protected under the law, the consumer must write to the issuer within 60 days of the mailing date on the bill with the error. If the credit card company violates this law, consumers can sue for damages.

### Fair Credit Reporting Act

The Fair Credit Reporting Act is a Federal law designed to promote accuracy and ensure the privacy of the information maintained in consumer credit reports by credit reporting agencies.

Your rights under the Fair Credit Reporting Act include the right to receive a copy of your credit report. The copy of your report must contain all the information in your file at the time of your request, including the name of anyone who received your credit report in the last year for most purposes or in the last two years for employment purposes.

Also, any company that denies your application for credit, employment or insurance based on the information contained in your credit report must give you the name and address of the credit reporting agency they contacted. You have the right to request a free copy of your credit report when your application is denied because of information supplied by the credit reporting agency within 60 days of receiving your denial notice. If your credit report contains inaccurate or incomplete information, upon your written request, the credit reporting agency, must investigate and update any inaccurate information. You have a right to add a summary explanation to your credit report if your dispute is not resolved to your satisfaction.

### **Fair Debt Collection Practices Act**

The Fair Debt Collection Practices Act requires that debt collectors treat you fairly and prohibits unfair, deceptive or abusive debt collection practices. The law applies to personal and household debts, includes money owed for the purchase of a car, medical care or charge accounts and covers any person who regularly collects debts owed to others, including attorneys. Under the law debt collectors must identify themselves to you on the phone and contact you only between 8:00 a.m. and 9:00 p.m. Debt collectors may not harass, oppress or abuse you.

## Section Review

Circle the correct answer:

1. Having good credit is important to open a checking account
  - a. True
  - b. False
2. An example of traditional credit is
  - a. telephone account
  - b. internet account
  - c. car loan
  - d. insurance account
3. A warning sign of credit problems is balancing your checking account
  - a. True
  - b. False
4. A credit report may not include your
  - a. social security number
  - b. place of employment
  - c. race
  - d. address
5. A credit reporting agency is also known as a
  - a. federal agency
  - b. Federal Trade Commission
  - c. credit bureau
  - d. consumer credit counseling agency
6. There are no laws in place to protect your rights as a consumer who uses credit.
  - a. True
  - b. False
7. An example of non-traditional credit is a
  - a. home loan
  - b. cable television account
  - c. savings account
  - d. car loan
8. In general, the most important factor in determining your credit score is
  - a. the amount of debt that you owe
  - b. your income
  - c. your payment history
  - d. your expenses
9. There are three major credit reporting agencies
  - a. True
  - b. False
10. If you become a victim of identity theft, you should
  - a. file a police report
  - b. notify the Federal Trade Commission
  - c. notify your creditors
  - d. all of the above



## Additional Learning Resources

### CREDIT COUNSELING RESOURCES

These are reputable organizations that you can contact for more information, or for help.

- National Federation for Credit Counseling is a national nonprofit organization that helps people resolve credit problems.
- Web site: [www.nfcc.org](http://www.nfcc.org)
- Toll-free phone number: 1-800-388-CCCS (2227)
- American Consumer Credit Counseling is a national nonprofit consumer credit counseling organization that helps people regain financial control through debt consolidation and credit counseling.
- Web site: [www.consumercredit.com](http://www.consumercredit.com)
- Association of Independent Consumer Credit Counseling Agencies (AICCCA) is a national membership organization established to promote quality and consistent delivery of credit counseling services.
- Web site: [www.aiccca.org](http://www.aiccca.org)
- Toll-free phone number: 1-800-450-1794
- Myvesta.org is a nonprofit, Internet-based financial counseling and services organization.
- Web site: [www.myvesta.org](http://www.myvesta.org)
- Toll-free phone number: 1-800-680-3328

### Identity Theft Information:

Federal Trade Commission  
[www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)  
 877 438-4338

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

Social Security Administration  
[www.ssa.gov/pubs/idtheft.htm](http://www.ssa.gov/pubs/idtheft.htm)

### Web Sites and contact information

To dispute information in your credit report or for problems with the Credit Reporting Agencies, you must contact Equifax, Experian, or TransUnion directly at:

[www.equifax.com](http://www.equifax.com)  
[www.experian.com](http://www.experian.com)  
[www.transunion.com](http://www.transunion.com)

To request your free credit report in writing, you may write to:

Equifax Information  
 Services, LLC  
 Disclosure Department  
 P.O. Box 740241  
 Atlanta, GA 30374

Experian  
 P.O. Box 2002  
 Allen, TX 75013  
 1 888 397-3742

TransUnion LLC  
 Consumer Disclosure  
 Center  
 P.O. Box 1000  
 Chester, PA 19022

National Foundation  
 for Credit Counseling  
[www.nfcc.org](http://www.nfcc.org)  
 1 800 388-2227

1 800 685-1111

1 800 916-8800