

Personal Credit

Conserving your wealth



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Workshop Handout

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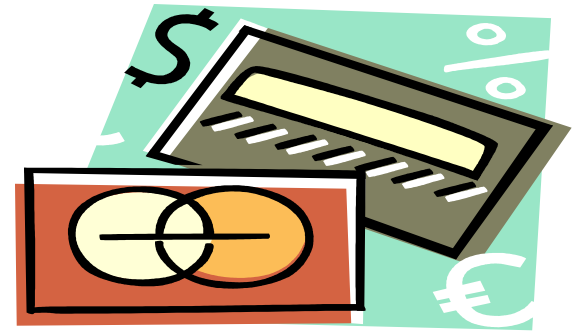
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What do you know about Credit?

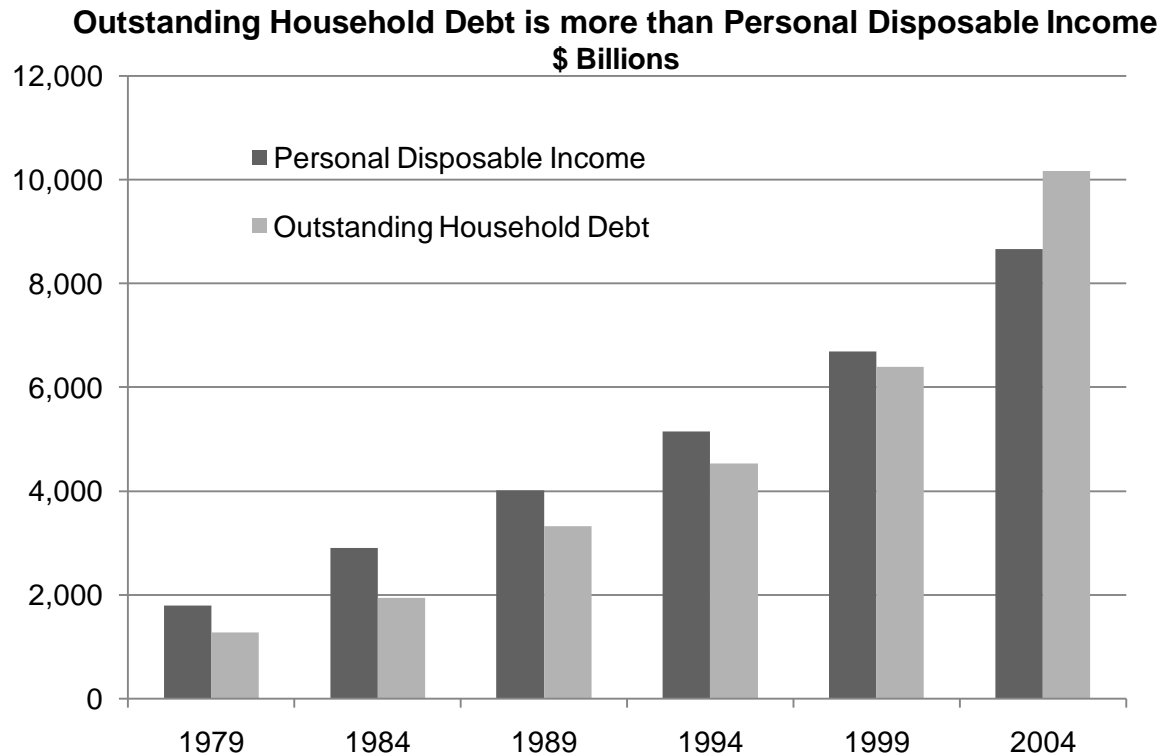
- What is credit?
- Who can get it? Who can't?
- Who needs it?
- At what age is best to obtain?
- How much is too much?
- Is it true, that the best way of buying is with cash?
- What are some of the things considered to be credit?



Aspects of credit covered today

- Overview
- Responsible credit card use
- Managing installment loans
- Effective mortgage shopping
- Maintaining good credit
- Lifting the credit burden
- Protecting yourself

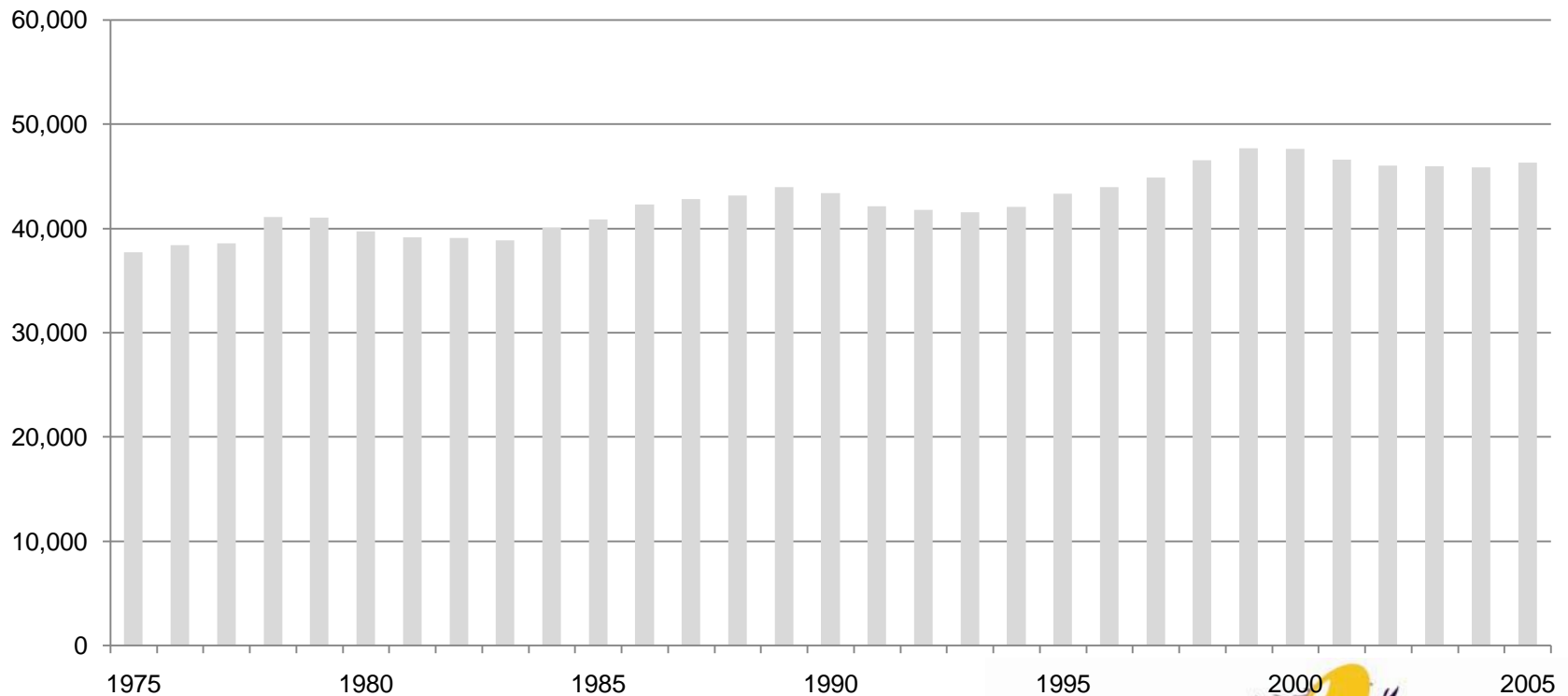
Yet, debt is on the rise



Source: Federal Reserve

Income seems to be leveling

**Typical Household Income
(114 million US households - 2005 dollars)**



Consumer Overview

2004 Consumer Finance Survey	Percent with debt
Primary residence mortgage	45%
Other real estate mortgage	5%
Home equity line	1%
Installment debt (Car and education)	43%
Credit card balance	44%
Other debt	7%

Borrowing, buying, needs, wants.

Conserving your wealth is about *borrowing* or is it about *buying*?

How are consumers' *emotions* played upon to *persuade* them to buy?

What effect does buying what you *need* vs what you *want* have on your credit?

Learn to resist persuasion tactics

- Many sales tactics are used for legitimate marketing
- Sales tactics are also used in scamming victims
- Swindlers bombard their victims with complex combinations of tactics
- How can you avoid being a victim of persuasive tactics?

Negative events can make you more susceptible to persuasive tactics

- Foreclosure on a mortgage
- Recent loss of employment in family
- Negative change in financial status
- Concerns about owing money
- Concerns about money in emergencies or basic necessities
- Problems with upkeep in their home
- A change in living arrangements
- Recent retirement in family
- Change in social activities for the worse
- Change in daily routine
- Problems with transportation or traffic
- Problems with troublesome neighbors or co-workers
- Concern about being lonely or legal problems
- Minor violations of the law
- Death of a partner
- Death of a close friend or family member
- Serious injury or illness
- Limits to physical activity
- Divorce or marital separation
- Difficulties in relationships or problems with children or grandchildren

Watch out for yourself and those close to you.



Activity: Needs and wants

- List your last ten expenditures
- Classify them as “n” for needs and “w” for wants
- Look through each item:
 - Did you spend too much in any item?
 - Are there any needs that should be wants?
 - Check with folks in your group.
 - Look at the wants. What can you do to reduce the wants?

Reflecting on what you wrote

- How many were “wants” versus “needs?”
- Which “wants” could be easily eliminated
- Look at your “needs” carefully. Even necessities such as groceries could be economized--families waste on average \$590 in food every year

Credit Cards

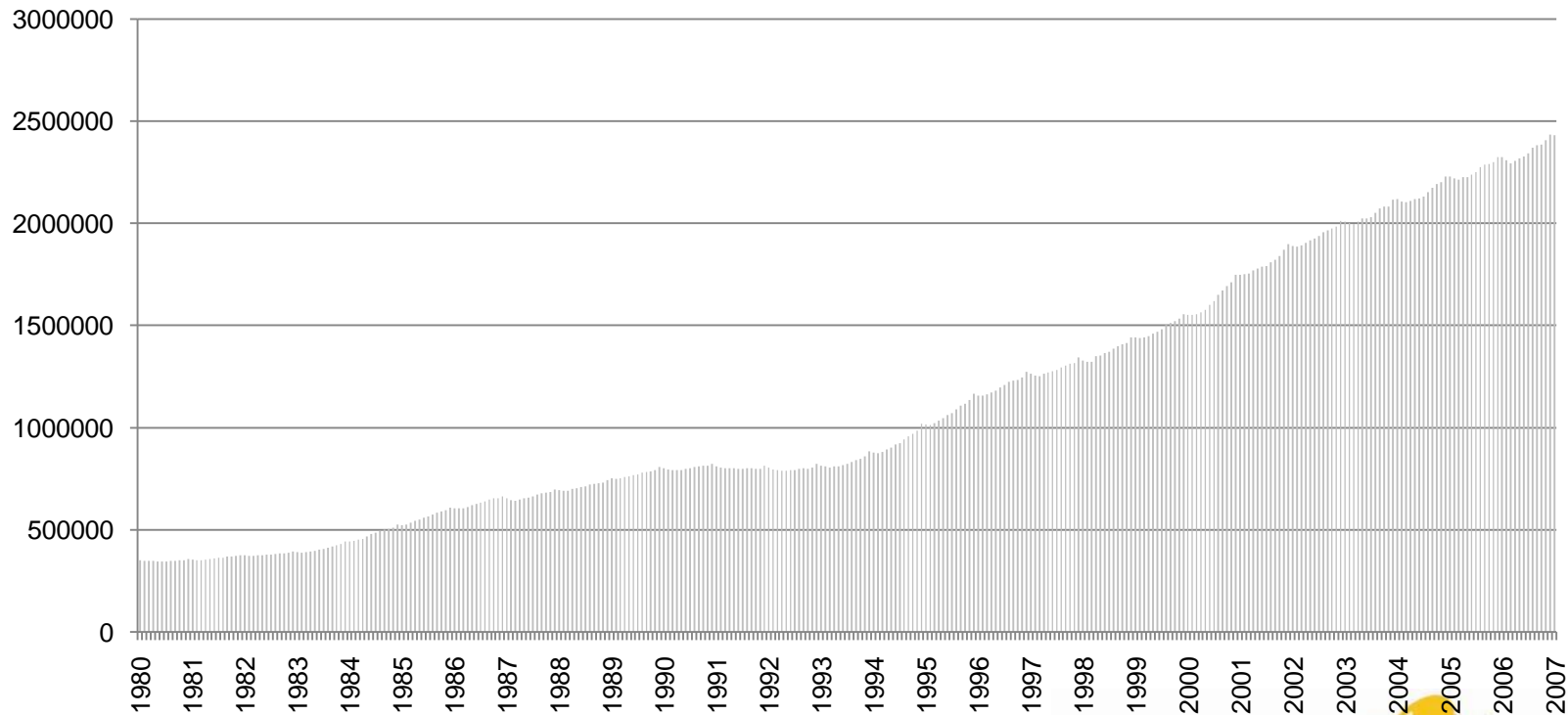
How should you use *credit cards*?

Credit Cards Quiz – True or False?

1. Credit cards encourage you buy.
2. You should have a minimum of five credit cards.
3. You should close out all credit cards you don't use.
4. If you are late in payment, you pay a 5% annual charge.
5. You should always pay your outstanding balance.
6. If you lose your credit card, you are liable for all charges so you should buy credit card insurance to cover for this.
7. Credit card companies will contact you by email to let you know about discrepancies in your account.
8. You should use your credit card as often as possible for cash advances.

The big picture

Consumer debt has doubled in the past 10 years
(Consumer credit \$ millions - does not include mortgages)



Credit card facts

- Number issued exceeds 691 million or more than twice the population (adults and children) of the US.
- Between 1980 and 2005, amount charged to their cards grew from \$69 billion per year to more than \$1.8 trillion.
- 44.4% of families had outstanding credit card balances with a median value of \$2200. Average value for Washington state is \$5100 in 2006.
- Use of credit cards adds to household debt, which grew from \$59 billion in 1980 to roughly \$830 billion by the end of 2005.
- One third of teenagers have credit cards cosigned with their parents.
- Some experts believe that the rise in credit cards has brought about the rise in personal bankruptcies.



How well do you know your credit card?

- What interest rate are you charged on your purchases if you don't pay your balance at the end of the month?
- Is this interest rate fixed? If not, how does it change?
- How many days do you have to pay a bill?
- What happens if you are late in paying once? Three times?
- What are you charged on cash advances?
- What happens if you spend over your credit limit?

14 Credit Card Tips

1. Credit cards encourage you to spend. So if you have problems with spending too much, use cash.
2. Opt out of credit card offers by calling Opt out 888-567-8688 or going to the website www.optoutprescreen.com.
3. Before you sign on to a credit card, use the credit card evaluation form to evaluate all fees and charges.
4. Keep only two credit cards on you to minimize loss.
5. Keep a record of your account numbers, their expiration dates, and the phone number and address of each company in a secure place. Some fraud experts recommend that you photocopy the cards you carry with you.

Credit Card Tips (cont'd.)

6. Protect your card and your account number.
7. Save receipts to compare with billing statements promptly.
8. Pay all credit cards on time and in full.
9. Do not spend up to your credit limit.
10. Report any questionable charges promptly and in writing to the card issuer. Do not pay for purchases where product was not delivered or defective.

Credit Card Tips (cont'd.)

11. Correct any billing errors as soon as possible.
12. If you use your credit card to shop online, install security on your personal computer.
13. Don't automatically close credit cards when you no longer use them. Put them in a safe place.
14. If you lose your credit or charge cards or if you realize they've been lost or stolen, immediately call the issuers. Your maximum liability under federal law is \$50 per card.

Installment Loans

- What is an installment loan?
- How does the period of the loan affect your finance charges?
- How does the interest rate affect your finance charges?
- How do you determine how much to borrow?

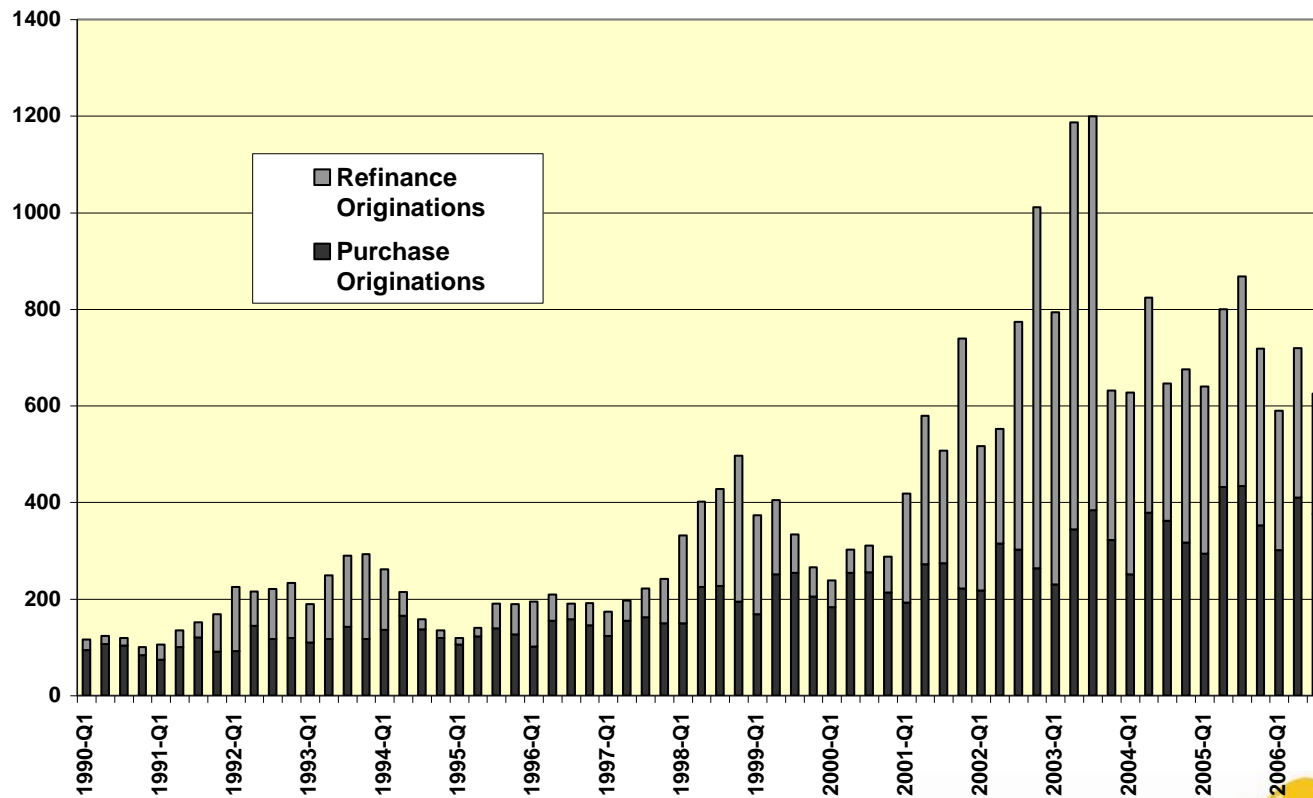
Saving Tips For Car Loans

- Shop around and do a lot of research before you buy a car. A car depreciates or loses value so it's not wise to spend a lot of money on a car.
- Pull your credit report and know how you rate.
- The type of car you buy can affect how much you pay for car insurance, maintenance and gas.
- Negotiate for the lowest price.
- Don't take out a loan for longer than the time you will be using the car.
- Shop around for the lowest interest rates.
- Don't spend more than 40% of your monthly income on debt including your mortgage.

The home is part of the American dream,
but you can't get one without a *mortgage*.

Mortgages - \$10.2 trillion in debt

Mortgages and Refinances (\$ billions)



Source: Mortgage Bankers Association



Mortgage Shopping

- How do you determine what you can afford in a mortgage?
- What is an adjustable-rate mortgage? What is a fixed-rate mortgage?
- Do you pay more interest with a 15 year fixed or 30 year fixed?
- What is subprime lending?
- What is APR?
- What are points?
- What is down payment? What is the recommended amount?
- What is overage or yield premium?
- What is private mortgage insurance (PMI)?
- Are there any other fees to close a mortgage? Are they fixed?

Debt-to-income ratio

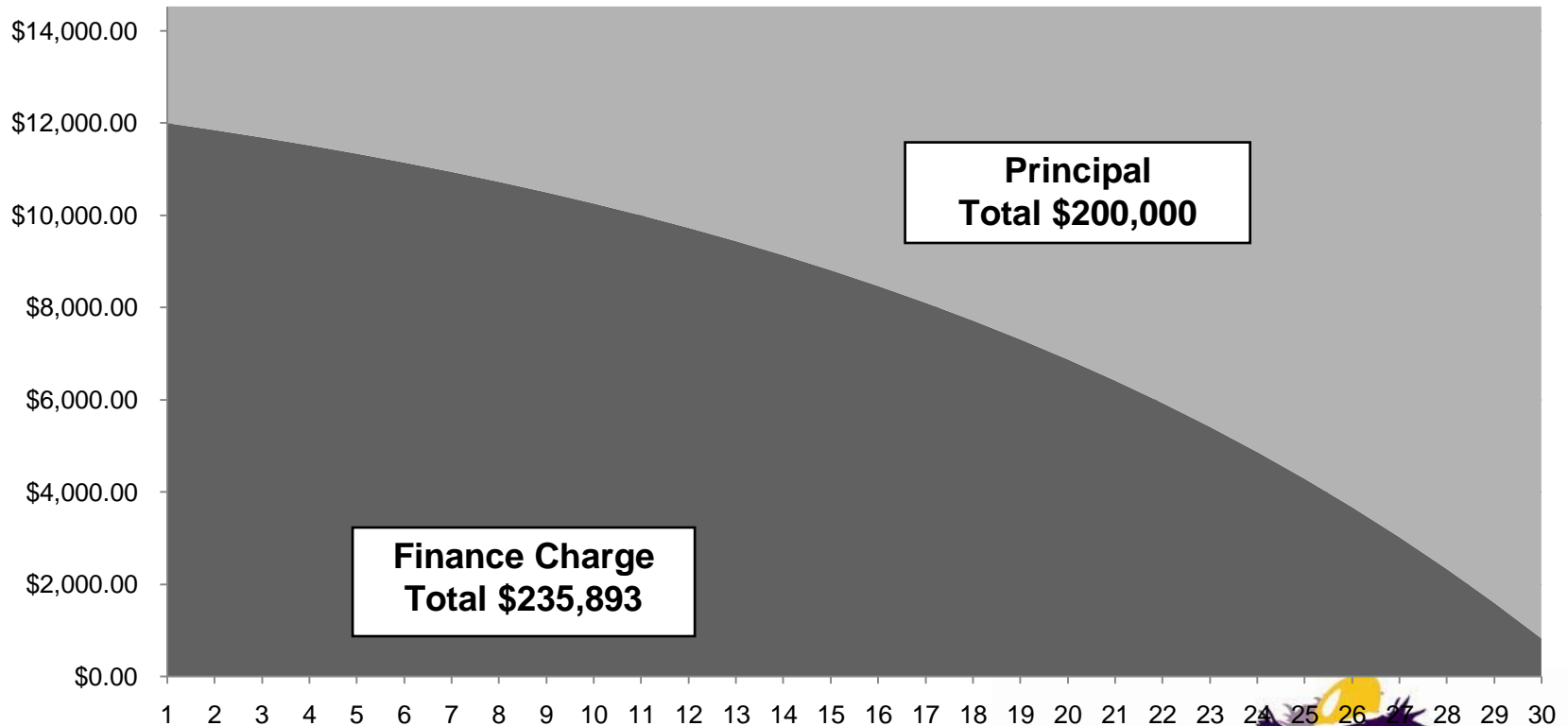
- A = Total all your housing expenses (mortgage, insurance and taxes)
- B = Total all your debt payments A + others (car, education and credit card)
- C = Total all your monthly income
- Debt-to-income ratio
A/C and B/C determines how much you can afford

Try it at:

<http://www.ginniemaegov>

How do mortgages work?

Breakdown of Annual Mortgage Payment by Year of Payment
\$200,000 at 6% for 30 years

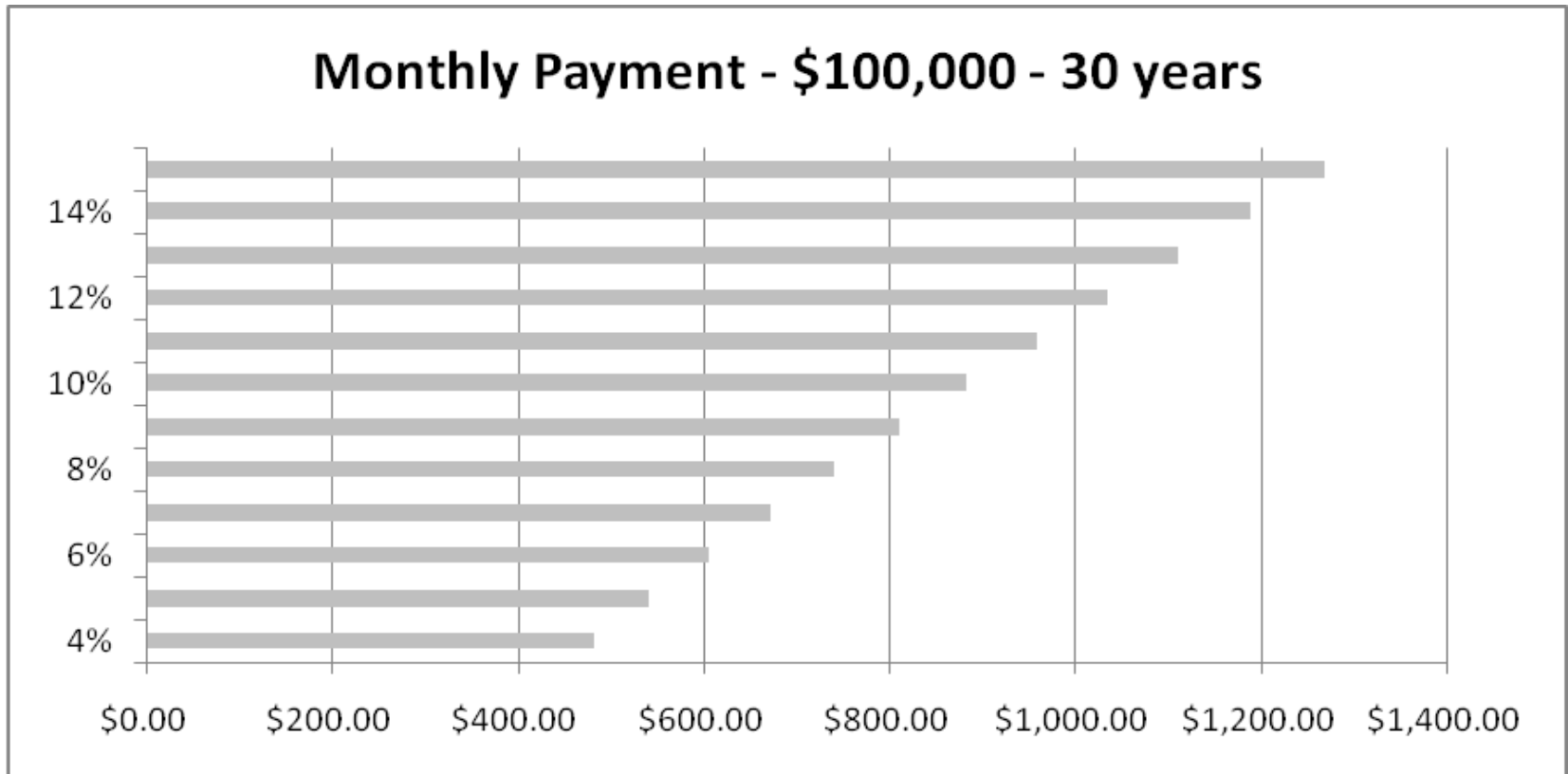


Adjustable-rate Mortgages

Per \$100,000	Monthly Payment
5%	\$542.10
6%	\$605.41
7%	\$671.55
8%	\$740.23
9%	\$811.14
10%	\$883.99
11%	\$958.54
12%	\$1,034.53
13%	\$1,111.76
14%	\$1,190.02
15%	\$1,269.17

You have an adjustable-rate mortgage for \$200,000 that resets after a year. The rate is set at 2% above the 90-day treasury bill. When you assumed the mortgage a year ago, you were given the rate of 4.97%. The treasury bill rate is now 5.03%. What will your rate be? What increase will you see in your monthly payments?

Effect of interest rates



Understanding APR

Month	APR 10%		APR 18%	
	Principal	Interest	Principal	Interest
1			\$7.96	\$1.50
2			\$8.02	\$1.38
3			\$8.09	\$1.27
4			\$8.16	\$1.15
5			\$8.23	\$1.03
6			\$8.30	\$0.91
7			\$8.36	\$0.78
8			\$8.43	\$0.66
9			\$8.50	\$0.53
10			\$8.58	\$0.40
11			\$8.65	\$0.27
12	\$ 100.00	\$ 10.00	\$8.72	\$0.14
	\$ 100.00	\$ 10.00	\$100.00	\$10.02



Which is the best APR?

Company	Interest rate	Points	Down payment	APR
A	5.75	0	0 – 20%	
B	5.875	1	0 – 20%	
C	4.875	5.875	0 – 20%	
D	5.25	2.875	0 – 20%	

– <http://www.dinkytown.net/java/MortgageApr.html>

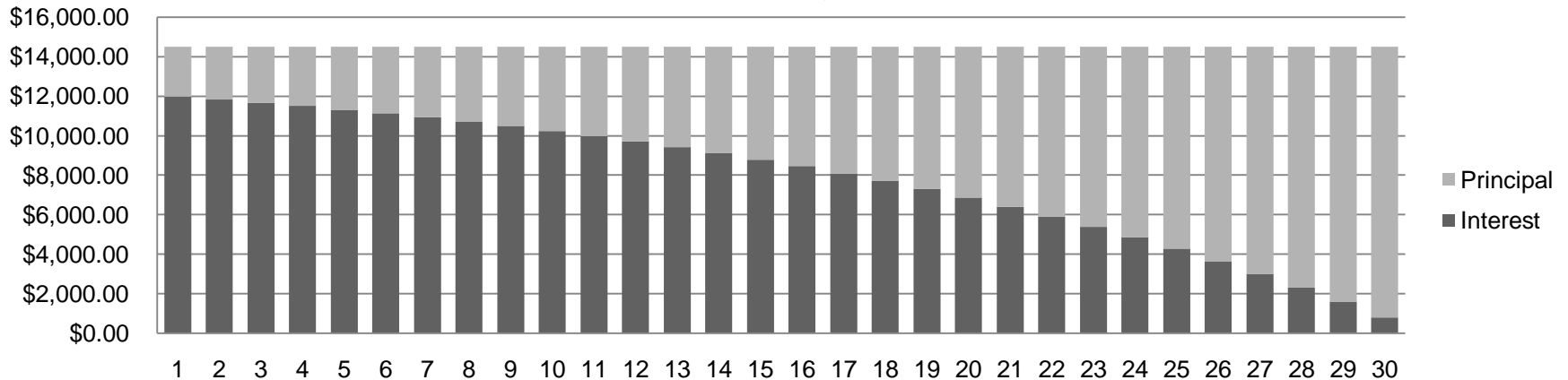
What is the best APR?

Company	Interest rate	Points	Down payment	APR
A	5.75	0	0 – 20%	5.75
B	5.875	1	0 – 20%	5.967
C	4.875	5.875	0 – 20%	5.31
D	5.25	2.875	0 – 20%	5.5

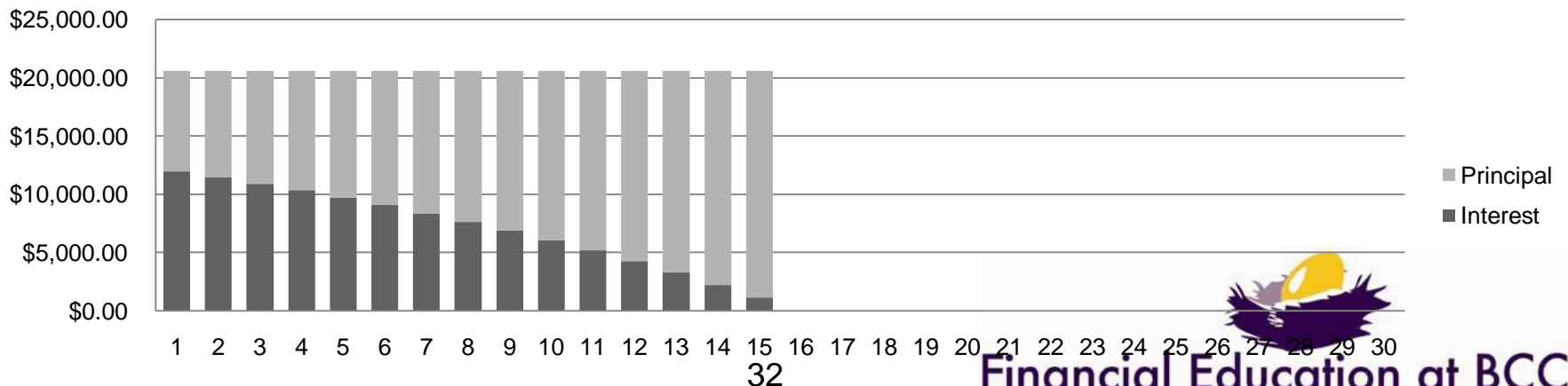
- Be sure to do the calculations:
- <http://www.dinkytown.net/java/MortgageApr.html>

Effect of term of mortgage

30-year mortgage \$200,000
Total Interest \$235,894



15-year mortgage \$200,000
Total interest \$108,888



What do you mean I didn't get the job? The low-down on *credit reports*.

Which of the following factors can a lender use to evaluate your credit?

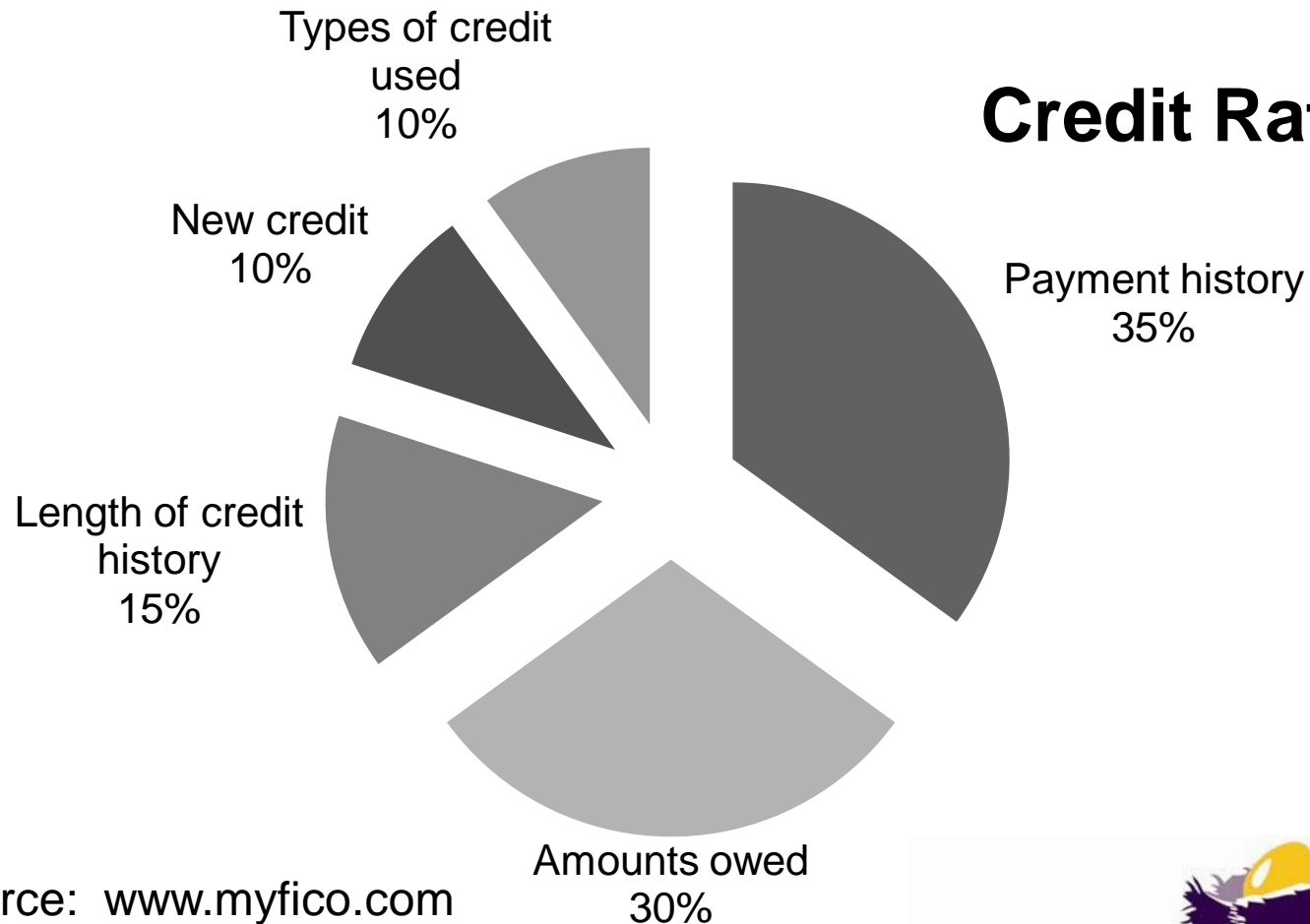
- Gender
- Age
- Childbearing plans
- Marital status
- Change in marital status
- Loans
- Public assistance
- Dependents
- How long you've lived at your house
- Alimony
- Race
- Color
- National origin
- People in the neighborhood where you want to buy
- How long you've had your job
- Salary

What does your credit report affect?

- Interest rates
- Job opportunities - Can your prospective employer check your credit report?
- Insurance
- Ability to assume debt

Your credit score

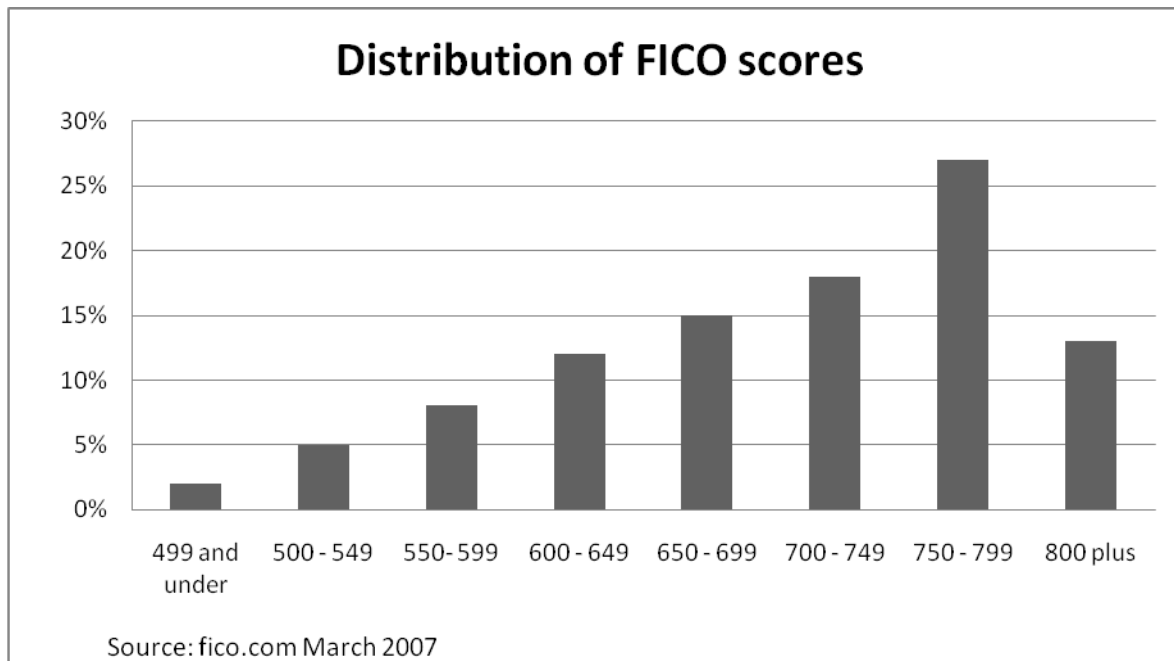
Credit Rating



Source: www.myfico.com



Credit Scores



Credit ratings and cost of credit

If your FICO score is	Your interest rate is	and your monthly payment is
760 - 850	5.78%	\$1,264
700 - 759	6%	\$1,295
680 - 699	6.18%	\$1,320
660 - 679	6.39%	\$1,350
640 - 659	6.82%	\$1,411
620 - 639	7.37%	\$1,491

Source: www.myfico.com 3/21/07

Credit Check-up

- Get a free credit report every year
www.annualcreditreport.com or call:
877-322-8228
- Correct any errors by contacting the company in writing – they must resolve the error in 30 days

Lifting the credit burden

Credit repair – helping yourself or others out of a tough spot.

Common causes of financial problems

- Reduction in income from job loss, divorce or death in the family
- Emergency and/or unexpected expenses (such as hospital bills)
- Defective goods and services, such as your car needing a new transmission or your house needing a new roof
- Fraudulent use of credit cards
- Poor money management from overspending, compulsive shopping and buying things you can't afford

Coping with credit problems

- **Stay calm and work your way slowly and surely through the problem. Don't delay. Take action now and make it a priority.**
- If you feel that an error caused your credit problem, tell the credit rating service. Be diligent about monitoring your credit report.
- Seek financial counseling right away. Use free counseling services that are listed in www.usdoj.gov/ust. Be aware of credit counseling services (even though they claim to be nonprofit) that charge you fees.
- Make a list of all the debts you owe with the creditor names and addresses. Call your lenders and creditors. Let them know you're having financial difficulties.
- Prepare a realistic spending plan to pay down your debt.
- If you have savings, consider using it to pay as many bills as you can. Consider selling some assets. Consider getting a second job to pay off your debt.
- It might take longer than you thought for your financial crisis to go away. Be persistent with your creditors and payment plan.
- As you start to pull yourself out of the financial crisis, remember to set aside money for savings.

Credit Repair

- Correct any inaccuracies in your credit report
 - Tell the consumer reporting company what information you think is inaccurate (they must respond within 30 days)
 - Provide copies (not originals) of documentation
- It is best to work with a free credit counselor to work out a debt management plan to pay off your debt
- Only the passage of time will remove accurate negative information from your report

Protect yourself

- Safeguard all your financial information. Shred or burn all old financial documents. Lock up your financial documents.
- Don't give out your social security number unless absolutely necessary. If you do, ask how they protect your financial information. Ask for another identification number for most routine things. Check to see if your social security number is on the internet at StolenIDSearch.com.
- Review all your credit card bills and reconcile with your receipts. Do the same with your bank statement. Check all your account statements to ensure that they are correct.
- Review your credit report annually and correct any errors.
- Report fraud or file complaints when you find financial service companies have violated the law.

Take-aways

- Reflect on how and why you buy
- Use your credit cards responsibly by paying outstanding balances on time
- Manage installment loans by borrowing less and paying fast
- Shop and evaluate your mortgage
- Maintain good credit
- Lifting the credit burden with action and a debt management plan
- Protect yourself against fraud

Q & A

What are your questions?