

# Personal Credit

## Winning the Credit Race!



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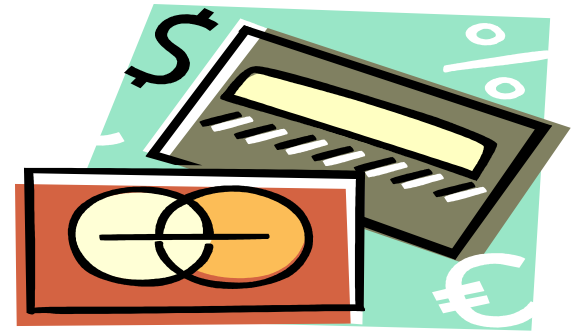
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# Aspects of credit covered today

- Overview
- Your financial life
- Responsible credit card use
- Maintaining good credit
- Lifting the credit burden
- Protecting yourself

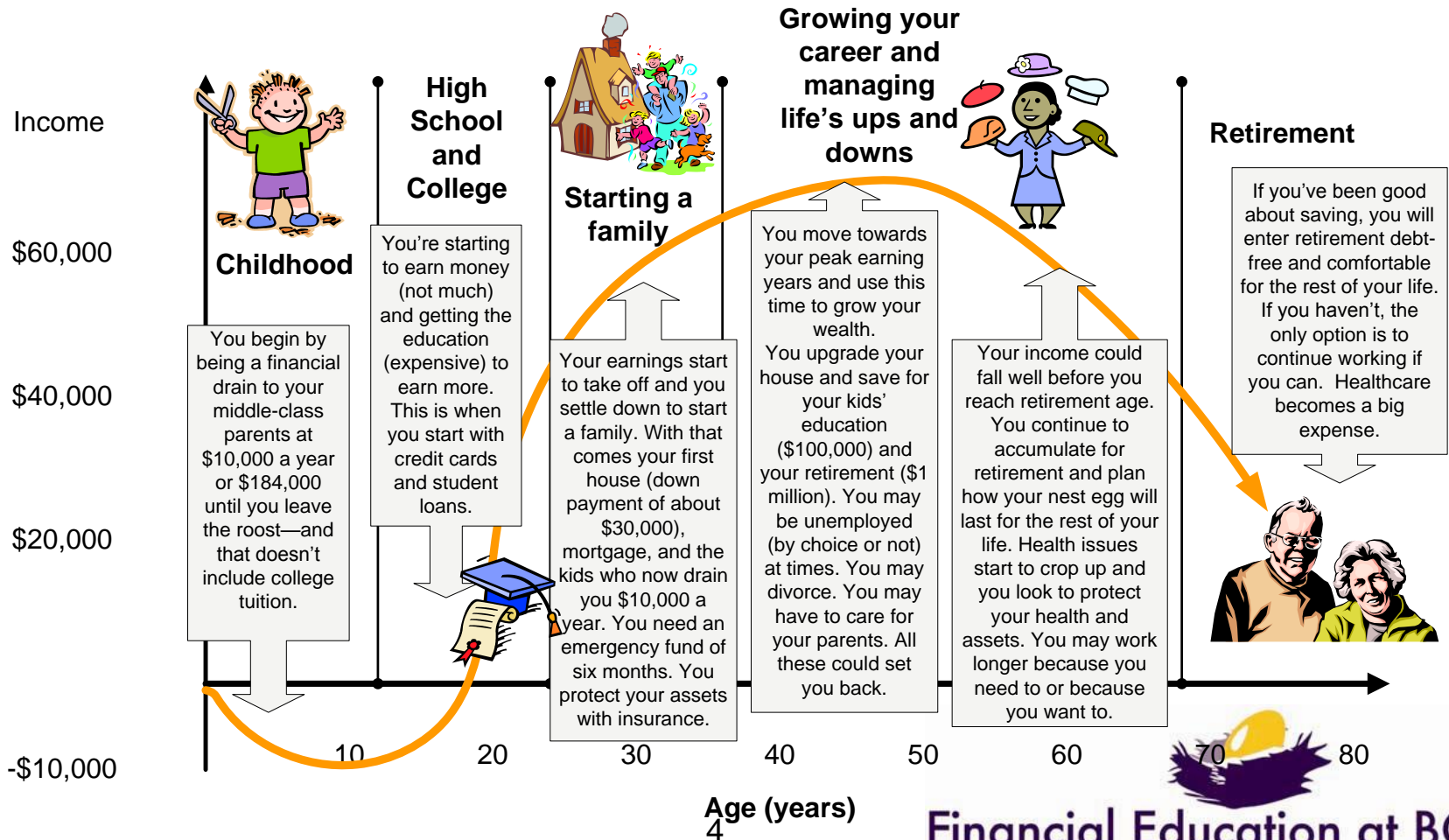


# Activity: Financial dreams/Financial nightmares

- List all your financial dreams
- List all your financial nightmares

# Your (financial) Life

## Your Financial Life

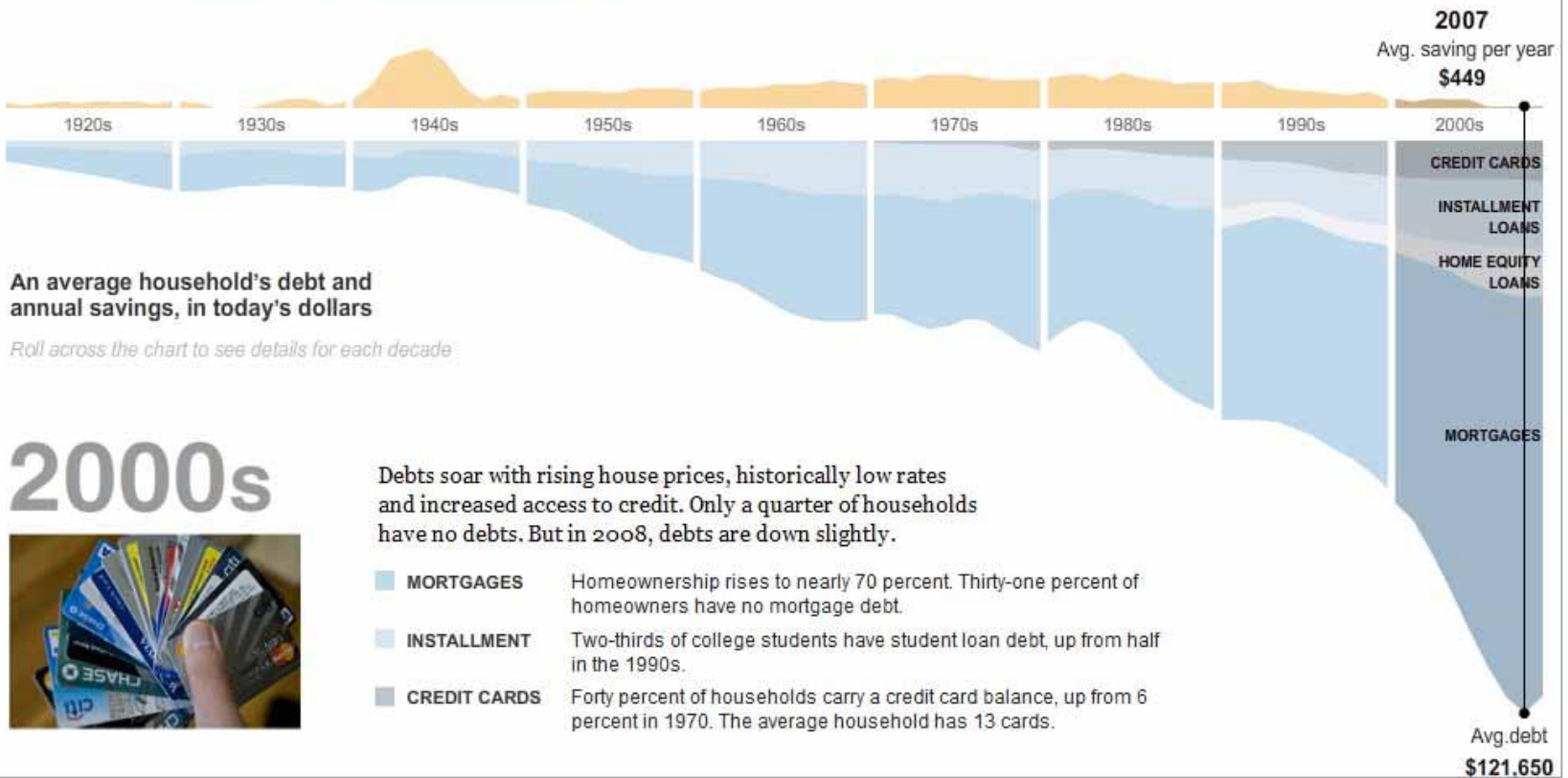


# The savings/debt squeeze

The American Way of Debt By Amy Schoenfeld and Matthew Bloch

BACK TO MENU X

[HTTP://WWW.NYTIMES.COM/INTERACTIVE/2008/07/20/BUSINESS/20DEBT-TRAP.HTML](http://www.nytimes.com/interactive/2008/07/20/business/20debt-trap.html)



# Summary

- Consider your entire financial life and be aware of all the twists and turns
- Choose a good career and engage in lifelong learning
- Don't borrow to spend
- Save – even if you think you've saved all you can, save more

# Debt should be reduced as you age

Age	Total Debt to Income
30	1.7
35	1.5
40	1.25
45	1
50	0.75
55	0.5
60	0.3
65	0

Source: **Journal of Financial Planning, January 2006**  
Personal Financial Ratios: An Elegant Road Map to Financial Health and Retirement by  
Charles J. Farrell, J.D., LL.M.

# 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?

# Commonly Used Persuasive Tactics

- **Authority** – Experts recommend that you buy.
- **Social Proof** – Everyone is getting in on the offer
- **Scarcity** including product scarcity (only three left) and time scarcity (offer good only today)
- **Comparison** – Inflated “regular” price
- **Profiling** – Targeted sales pitches to you
- **Friendship** – Changes the relationship from salesperson to friend
- **Reciprocity** – Does favor so you will return favor (gifts, free lunch, etc.- with gift response rate goes from 17% to 36%)
- Resist persuasive tactics that get you to buy what you don't need.

# Activity: Needs and wants

- List your last two 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?

# Credit Cards

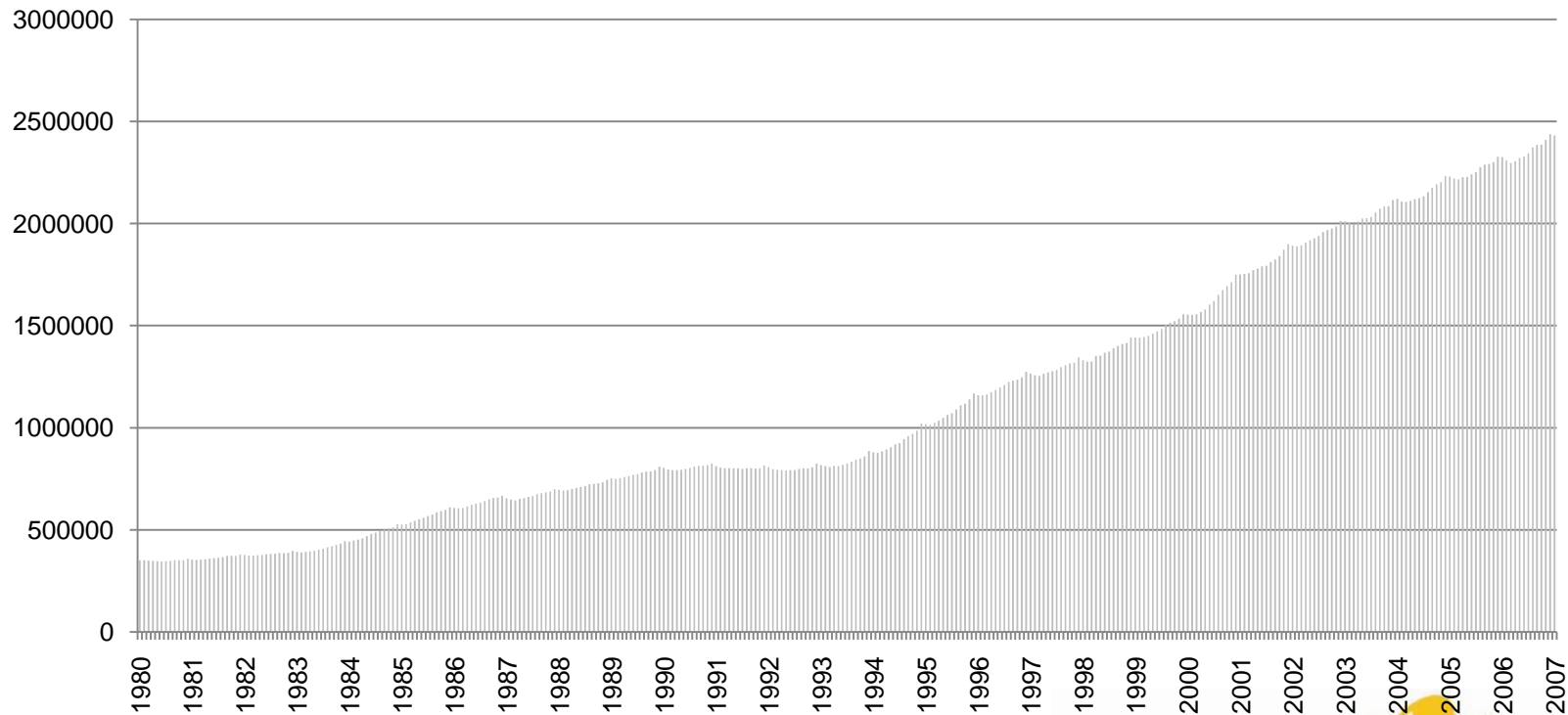
How should you use *credit cards*?

# 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.



# 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](http://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.

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

# Reading the Credit Report

Look at the sample credit report

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

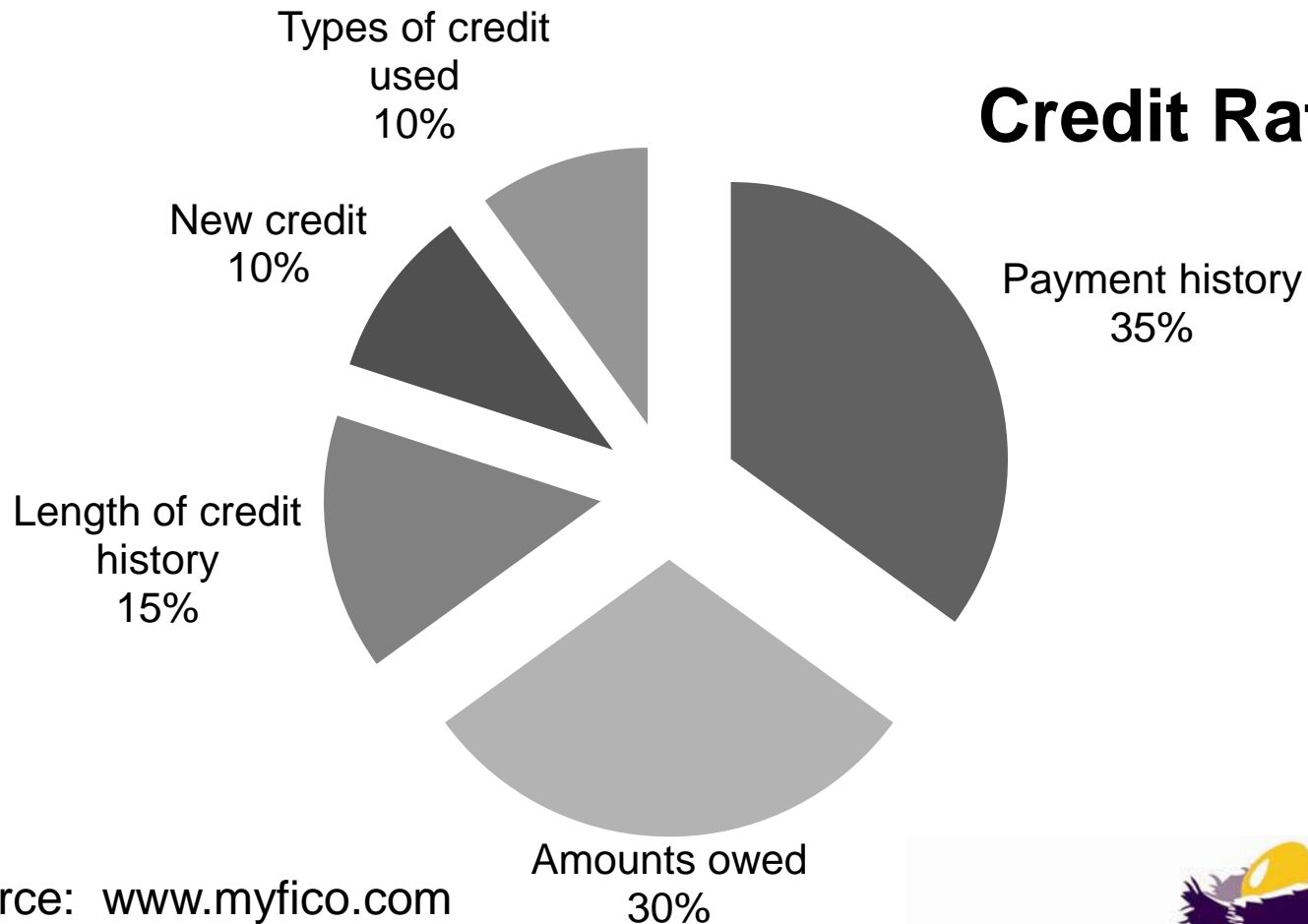
- Gender
- Age
- Childbearing plans
- Marital status
- Change in marital status
- Loans
- Public assistance
- Dependents
- How long you've lived at your house
- Alimony
- Race
- Color
- National origin
- People in the neighborhood where you want to buy
- How long you've had your job
- Salary

# 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

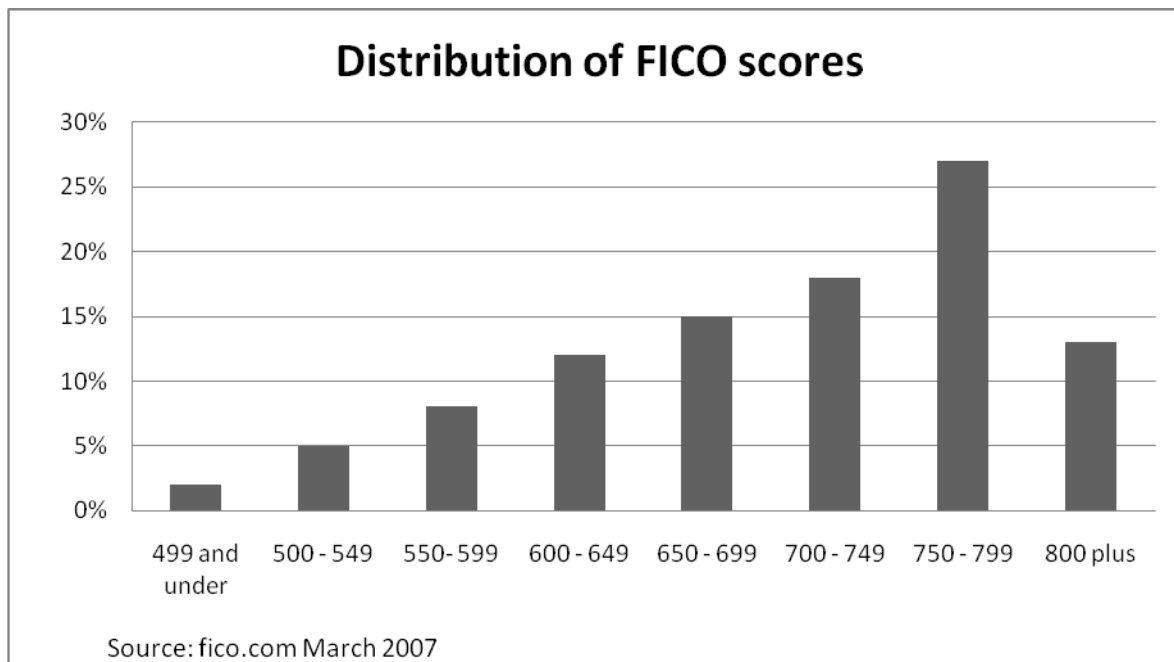
## Credit Rating



Source: [www.myfico.com](http://www.myfico.com)



# Credit Scores



# Credit ratings and cost of credit

<b>FICO® score</b>	<b>APR</b>	<b>Monthly payment for 36 month car loan</b>
720-850	6.078%	\$761
690-719	7.617%	\$779
660-689	8.686%	\$791
620-659	11.025%	\$819
590-619	14.341%	\$859
500-589	15.217%	\$869

Source: [www.myfico.com](http://www.myfico.com) 8/11/08

# Credit ratings and cost of credit

<b>FICO® score</b>	<b>APR</b>	<b>Monthly payment for 30-year mortgage</b>
760-850	6.234%	\$1,844
700-759	6.456%	\$1,888
660-699	6.740%	\$1,944
620-659	7.550%	\$2,108
580-619	9.454%	\$2,513
500-579	10.310%	\$2,702

Source: [www.myfico.com](http://www.myfico.com) 8/11/08

# Credit Check-up

- Get a free credit report every year  
[www.annualcreditreport.com](http://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 work 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](http://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

# Watch out for companies that:

- Want you to pay for credit repair services before they provide any services.
- Do not tell you your legal rights and what you can do for yourself for free.
- Recommend that you not contact a credit reporting company directly.
- Suggest that you try to invent a “new” credit identity.
- Advise you to dispute all information in your credit report or take any action that seems illegal, like creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.
- You can find a state-by-state list of government-approved organizations at [www.usdoj.gov/ust](http://www.usdoj.gov/ust).

# Safeguard your wealth

- Check and balance all credit card, bank, and investment statements every month. Make sure that they are correct. Report any errors right away.
- Be careful with your personal information, credit card numbers and account numbers. Keep your financial records locked away.
- Do not disclose your social security number unless it is absolutely necessary.
- Shred or burn any financial statements that you want to discard. Do not just throw them into recycle or the garbage.
- Delete emails that ask you for personal information. Keep your computer secure with anti-virus software. Do not store any financial information on web-based storage that can be hacked into.



# Safeguard your wealth

- Keep all passwords to your bank and brokerage secure and change them at least every six months.
- Check your credit report at least once a year. Go to [annualcreditreport.com](http://annualcreditreport.com).
- Opt out of credit card offers by going to [optoutprescreen.com](http://optoutprescreen.com) 1-888-567-8688.
- Sign up at the do not call registry at [donotcall.gov](http://donotcall.gov) 1-888-382-1222.
- If you have been a victim of fraud, report it immediately to [www.dfi.wa.gov](http://www.dfi.wa.gov) 1-877-RING-DFI.



# Take-aways

- Reflect on how and why you buy
- Use your credit cards responsibly by paying outstanding balances on time
- Maintain good credit
- Lifting the credit burden with action and a debt management plan
- Protect yourself against fraud

