

USING CREDIT WISELY – CREDIT HISTORY

Unit Overview

In this unit, the student will learn about credit and how to build a good credit history.

Building a Credit History

You will begin building a credit history when you are eighteen. A *credit history* is a record of your personal financial transactions. It is available to lenders in the form of a *credit report*, which contains information on how well you've managed credit in the past. This report lists any loans you may have as well as your credit card activity and payment history. Using information from the three major credit reporting agencies, a company called FICO generates **credit or FICO scores** that predict the ability of borrowers to repay debt. Depending on the source, scores range from about 300 to 850. The higher your score, the better your credit rating is. A score of 680 or above is considered good. There are three main credit reporting agencies in the United States – *Equifax, Experian, and TransUnion*. You are entitled to one free copy of your credit report every 12 months from each of the three agencies.



Equifax
www.equifax.com
800-685-1111



Experian
www.experian.com
888-397-3742



TransUnion
www.transunion.com
800-916-8800

Visit the web site www.annualcreditreport.com to access the different agencies.

Sample Credit Report

Your Credit Report

Please address all future
correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name
123 Current Address
City, State 00000

SSN #: 123-45-6789
Date of Birth: July 1, 1958
Telephone Number: (555) 555-5555

EMPLOYMENT DATE REPORTED

Employer Name: Employer 1
Date Reported: 06/2004

Position: Job/Occupation
Hired: 04/2004

PUBLIC RECORD INFORMATION

Lien Filed 03/93; Fulton CTY; Case or Other ID Number-32114; Amount-\$26,667
Class-State; Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-673HC12;
Liabilities-\$15,787; Personal; Individual; Discharged; Assets-\$780

Satisfied Judgment Filed 07/94; Fulton CTY; Case or Other ID Number-898872; Defendant-
Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/95; Verified 05/95

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
Collection Reported 05/07; Assigned 09/04 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/04; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HGH CREDIT	TERMS	BALANCE	PAST DUE	STATUS	DATE REPORTED
Department St. Bank	32514	J	10/96	36	9/08	\$950	X	\$0	X	R1	10/08
Oil Company	1004735	A	11/96	24	5/08	\$750	X	\$0	X	I1	4/08
Auto Finance	541125	A	6/96	12	3/08	\$500	X	\$0	X	O1	4/08
	529778	I	5/95	48	12/07	\$1100	\$50	\$300	\$200	I5	4/08

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/08 - I2; 02/08 - I3; 03/08 - 14

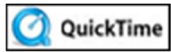
COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/08 Equifax-Disclosure
07/29/08 PRM Bankcard
04/10/08 AR Department Store

08/27/08 Department Store
07/03/08 AM Bankcard
12/31/07 Equifax-Disclosure ACIS 123456789

Why Should You Care About Your Credit History?

A good credit rating will guarantee that you can borrow money for major purchases, such as buying a house, getting a car or paying for college. A poor credit rating will prevent you from borrowing the money. Bankers, apartment managers, insurance agents and even some employers will review your credit report and make decisions based on this information. Your score could prevent you from obtaining the job, apartment or home you want.



Establishing Good Credit (03:59)

For a Good Credit Score

- Pay your bills on time – lenders will know you are responsible
- Open a savings account and make regular deposits – lenders look favorably on the ability to save money
- Open a checking account and don't bounce checks.
- Limit the number of credit cards you have. Too many cards (especially if they all carry a balance) indicate that you are spending above your ability to pay.
- Pay off your balances or at least keep them low. A high debt-to-credit limit ratio will result in a lower score.
- Maintain a favorable credit rating over a long period of time. Longevity results in a higher score.
- When you are ready to apply for credit:
 - Apply for a local store credit card and make regular monthly payments.
 - Apply for a small loan using your savings account as collateral.
 - Get a co-signer on a loan and pay back the loan as agreed.

A poor credit history is a serious liability. It could prevent you from buying a car or a home one day. Keep track of your credit history. Check your credit report. If there are mistakes, take the steps necessary to correct them. If you have not used credit wisely and the result is a low score, turn things around. It will take effort and determination to curb your spending habits, but it is well worth it.

Answer Assessment questions 1-7.

Read PDF document **Take Control of Your Credit Score**.

Based on the information presented in **Take Control of Your Credit Score**, answer *Assessment questions 8-20*.

Your Credit Rights and Responsibilities

The Following Legislative Acts Were Passed to Establish Your Rights as a Credit User

Act	Protection
Truth in Lending Act (1968)	Consumer must be fully informed about the cost and condition of borrowing. <ul style="list-style-type: none">• finance charge• APR• amount financed• total number of payments• total cost
Fair Credit Reporting Act (1970)	Established guidelines for credit reporting <ul style="list-style-type: none">• must provide consumer with a copy of their credit report• must correct errors• must remove past credit items• companies must provide accurate information• must notify consumer if negative information is to be placed in report• must investigate consumer reports of inaccurate credit
Equal Opportunity Act (1974)	Prohibits discrimination in giving credit on basis of: <ul style="list-style-type: none">• sex• race• color• religion• national origin• marital status• receipt of public assistance
Fair Credit Billing Act (1974)	Ensured fair billing. Protects the consumer against: <ul style="list-style-type: none">• billing errors• unauthorized charges• failure of creditor to post payments of returns• errors in interest charges
Fair Debt Collection Practices Act (1977)	Established guidelines for debt collecting. Protects the consumer against: <ul style="list-style-type: none">• harassment- excessive phone calls, abusive language, threats• disclosure of existing debts to others• contacting the consumer at inconvenient times, or at place of work

You Also Have Responsibilities Regarding the Use of Credit:

1. Borrow only what you can repay.

- Never borrow more than 20% of your yearly net income

For Example

If you earn \$400 a month after taxes, then your net income in one year is:

$$12 \times \$400 = \$4,800$$

Calculate 20% of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

So, you should never have more than \$960 of debt outstanding.

Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%, but other debt should be included, such as car loans, student loans and credit cards.

- Monthly payments shouldn't exceed 10% of your monthly net income

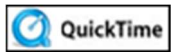
For Example

If your take-home pay is \$400 a month: $\$400 \times 10\% = \40

Your total monthly debt payments shouldn't total more than \$40 per month.

Note: Housing payments (i.e., mortgage payments) should not be counted as part of the 10%, but other debt should be included, such as car loans, student loans and credit cards.

- 2. Make sure you thoroughly read and understand any credit contract.**
- 3. Pay your debts on time.**
- 4. Notify the creditor if for some reason, you can not make your payments.**
- 5. Report lost or stolen credit cards promptly.**
- 6. Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.**



Take Notices Seriously (02:35)

Answer Assessment questions 21-25.

Now it is time to do a little research on your own. Do an Internet search about Credit History. For *Assessment question 26*, read an article and type a summary of what you found. List the keyword you used to conduct your search and the URL of the article you read so your teacher can review your information. Enjoy your Internet surfing!!