

lesson seven

about credit

advantages and disadvantages of credit

advantages:

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

disadvantages:

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur

character—will you repay the debt?

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

capital—what if you don't repay the debt?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

capacity—can you repay the debt?

Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

- Do you have a steady job? What is your salary?
- How many other loan payments do you have?
- What are your current living expenses? What are your current debts?
- How many dependents do you have?

- Borrow only what you can repay.
- Read and understand the credit contract.
- Pay debts promptly.
- Notify creditor if you cannot meet payments.
- Report lost or stolen credit cards promptly.
- Never give your card number over the phone unless you initiated the call or are certain of the caller's identity.

truth in lending act (1968)

Ensures consumers are fully informed about cost and conditions of borrowing.

fair credit reporting act (1970)

Protects the privacy and accuracy of information in a credit check.

equal opportunity act (1974)

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

fair credit billing act (1974)

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

fair debt collection practices act (1977)

Prevents abuse by professional debt collectors, and applies to anyone employed to collect debts owed to others; does not apply to banks or other businesses collecting their own accounts.

- Establish a steady work record.
- Pay all bills promptly.
- Open a checking account and don't bounce checks.
- Open a savings account and make regular deposits.
- 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.

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

Social Security #: 123-45-6789
Date of Birth: April 10th, 1940

Previous Address(es)
456 Former Rd. Atlanta, GA 30000
P.O. Box XXXX Savannah, GA 40000

Last Reported Employment:
Engineer, Highway Planning

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 Judgement Filed 07/94; Fulton CTY; Case or Other ID Number-888872; Defendant-
Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/96; Verified 05/96

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
Collection Reported 05/96; Assigned 09/93 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/93; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

COMPANY NAME	ACCOUNT NUMBER	WHOLE ACCT	DATE OPENED	MONTH REVIEWED	DATE OF LAIT ACTIVITY	HIGH CREDIT	TERM	ITEMS AS OF DATE REPORTED			DATE REPORTED
								BALANCE	PMT DUE	STATUS	
Department St.	32514	J	10/86	36	9/97	\$950	X	\$0	X	R1	10/97
Bank	1004735	A	11/86	24	5/97	\$750	X	\$0	X	I1	4/97
Oil Company	541125	A	6/86	12	3/97	\$500	X	\$0	X	O1	4/97
Auto Finance	529776	I	5/85	48	12/96	\$1100	\$50	\$300	\$200	I5	4/97

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/97 - I2; 02/97 - I3; 03/97 - I4

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/97 Equifax-Disclosure
07/29/97 PRM Bankcard
04/10/97 AR Department Store

08/27/97 Department Store
07/03/97 AM Bankcard
12/31/96 Equifax - Disclosure ACIS 123456789

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status type of account code

- O** Open (entire balance due each month)
- R** Revolving (payment amount variable)
- I** Installment (fixed number of payments)

status timeliness of payment

- 0** Approved not used; too new to rate
- 1** Paid as agreed
- 2** 30+ days past due
- 3** 60+ days past due
- 4** 90+ days past due
- 5** Pays or paid 120+ days past the due date; or collection account
- 6** Making regular payments under wage earner plan or similar arrangement
- 7** Repossession
- 8** Charged off to bad debt

single-payment credit

Items and services are paid for in a single payment, within a given time period, after the purchase. Interest is usually not charged.

- Utility companies, medical services
- Some retail businesses

installment credit

Merchandise and services are paid for in two or more regularly scheduled payments of a set amount. Interest is included.

- Some retail businesses, such as car and appliance dealers

Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments.

- Commercial banks
- Consumer finance companies
- Savings and loans
- Credit unions

revolving credit

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance.

- Retail stores
- Financial institutions that issue credit cards

how much can you afford? (the 20-10 rule)

never borrow more than 20% of your yearly net income

- 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

- 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.

lesson eight

credit cards

costs:

1. Annual Percentage Rate (APR)
2. Grace period
3. Annual fees
4. Transaction fees
5. Balancing computation method for the finance charge

features:

1. Credit limit
2. How widely the card is accepted
3. What services and features are available

1. average daily balance:

You pay interest on the average balance owed during the billing cycle. The creditor figures the balance in your account on each day of the billing cycle, then adds together these amounts and divides by the number of days in the billing cycle.

2. adjusted balance:

You pay interest on the opening balance after subtracting the payment or returns made during the month.

3. previous balance:

You pay interest on the opening balance, regardless of payments made during the month.

4. past-due balance:

No finance charge is added if the full payment is received within the grace period. If it is not received, a finance charge for the unpaid amount is added on to your next bill.

examples of finance charges

	average daily balance	adjusted balance	previous balance
monthly	1.5%	1.5%	1.5%
rates	18%	18%	18%
previous balance	\$400	\$400	\$400
payments	\$300	\$300	\$300

On 15th day (new balance = \$100)

average daily balance	\$250*	N/A	N/A
finance charge	\$3.75 (1.5% x \$250)	\$1.50 (1.5% x \$100)	\$6.00 (1.5% x \$400)

* To figure average daily balance:
 $(\$400 \times 15 \text{ days}) + (\$100 \times 15 \text{ days}) = \$250 \times 30 \text{ days}$

- 1. Type of account**
- 2. Annual fee**
- 3. Grace period**
- 4. Annual Percentage Rate (APR)**
- 5. Credit limit**
- 6. Minimum monthly payment**
- 7. Finance charge calculation method**
- 8. Late payment fee, other fees**
- 9. Other features**

risks associated with decision making

1. if you think the reasons for the denial are valid:

- Ask the creditor if you can provide additional information or arrange alternate credit terms.
- Apply to another creditor whose standards may be different.
- Do the things you need to do to improve your credit worthiness (pay bills on time, increase income, reduce spending, obtain a secured card, etc.) and then reapply.


2. If you are not sure whether the reason for the denial is valid:

- Ask the creditor to explain why you were denied.
- Review your credit history.
- If you find your credit history contains errors, take steps to correct the errors.

3. If you believe the reason for the denial is invalid and that the creditor has discriminated against you:

- Notify the federal enforcement agency whose name you were given by the creditor. The federal enforcement agency will investigate and report back to you.
- If you can afford it, hire an attorney to file suit against the creditor. If the court determines the creditor did discriminate, the creditor will be required to pay you actual damages plus punitive damages.

reading a credit card statement



CREDIT CARD STATEMENT

SEND PAYMENT TO
Box 1234
Anytown, USA

ACCOUNT NUMBER	NAME	STATEMENT DATE	PAYMENT DUE DATE
4125-239-412	John Doe	2/13/01	3/09/01
CREDIT LINE	CREDIT AVAILABLE	NEW BALANCE	MINIMUM PAYMENT DUE
\$1200.00	\$1074.76	\$125.24	\$20.00

REFERENCE	SOLD	POSTED	ACTIVITY SINCE LAST STATEMENT	AMOUNT
483GE7382		1/25	PAYMENT THANK YOU	-168.80
32F349ER3	1/12	1/15	RECORD RECYCLER ANYTOWN USA	14.83
89102DIS2	1/13	1/15	BEEFORAMA REST ANYTOWN USA	30.55
NX34FJD32	1/18	1/18	GREAT EXPECTORATIONS BIG CITY USA	27.50
84RT3293A	1/20	1/21	DINO-GEL PETROLEUM ANYTOWN USA	12.26
873DWS321	2/09	2/09	SHIRTS 'N SUCH TINYVILLEUSA	40.10

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Previous Balance</td> <td style="width: 5%;">(+)</td> <td style="width: 30%;">168.80</td> </tr> <tr> <td>Purchases</td> <td>(+)</td> <td>125.24</td> </tr> <tr> <td>Cash Advances</td> <td>(+)</td> <td></td> </tr> <tr> <td>Payments</td> <td>(-)</td> <td>168.80</td> </tr> <tr> <td>Credits</td> <td>(-)</td> <td></td> </tr> <tr> <td>FINANCE CHARGES</td> <td>(+)</td> <td></td> </tr> <tr> <td>Late Charges</td> <td>(+)</td> <td></td> </tr> <tr> <td>NEW BALANCE</td> <td>(=)</td> <td>125.24</td> </tr> </table>	Previous Balance	(+)	168.80	Purchases	(+)	125.24	Cash Advances	(+)		Payments	(-)	168.80	Credits	(-)		FINANCE CHARGES	(+)		Late Charges	(+)		NEW BALANCE	(=)	125.24	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Current Amount Due</td> <td style="width: 35%;">125.24</td> </tr> <tr> <td>Amount Past Due</td> <td></td> </tr> <tr> <td>Amount Over Credit Line</td> <td></td> </tr> <tr> <td>Minimum Payment Due</td> <td>20.00</td> </tr> </table>	Current Amount Due	125.24	Amount Past Due		Amount Over Credit Line		Minimum Payment Due	20.00
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FINANCE CHARGE SUMMARY	PURCHASES	ADVANCES	For Customer Service Call:
Periodic Rate	1.65%	0.54%	1-800-XXX-XXXX
Annual Percentage Rate	19.80%	6.48%	For Lost or Stolen Card, Call:
			1-800-XXX-XXXX
			24-Hour Telephone Numbers

Please make check or money order payable to Your First Bank. Include account number on front.

fair credit billing act (1974)

1. Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.
2. You can challenge a billing statement for errors such as charges for unauthorized purchases, charges for items that were never delivered, failure to credit a payment, etc.
3. You must notify the creditor of a disputed item within 60 days.
4. Creditor must investigate and, within two billing periods, either correct the mistake or explain why the charge is not in error.
5. You cannot be billed for or forced to pay the disputed amount until the creditor has finished the investigation.
6. If it is determined that you are responsible for the bill, you must be given the usual amount of time to pay it.
7. Your credit history is protected during the dispute process.
8. Creditor must supply customers with a statement of their rights at the time the account is opened and at least twice a year thereafter.

1. prompt credit for payment

- A card issuer must credit your account on the day the issuer receives your payment, unless the payment is not made according to the creditor's requirements.

2. refunds of credit balances

- When you return merchandise or pay more than you owe, you have the option of keeping the credit balance on your account or receiving a refund.

3. unauthorized charges

- If you report your card lost before it is used, you cannot be held responsible for any unauthorized charges.
- If your card is used before you report it lost, you are liable for \$0 if reported within two business days. After that, you're liable for no more than \$50.00.

4. disputes about merchandise or services

- In some circumstances, you have the right to withhold payment for unsatisfactory merchandise or services.

1. shop around

- Look at various sources.

2. read and understand the contract

- Read the contract carefully.
- Don't rush into signing anything.
- Once a contract is signed, get a copy of it.
- Know the penalties for missed payments.

*** Know your cost**

1. Figure out total price when paying with credit.
2. Make the largest payments possible.
3. Know the penalties for missed payments.
4. Buy on installment credit only after you have evaluated all other possibilities.
5. Don't be misled into thinking small payments will be easy.