

# WE Master Money: Credit

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CLIENT'S BOOKLET



## WE Master Money: Credit

### Module I. Financial Goals

**Activity 1.** What is your financial dream? For what reason would you like to save money? Draw, write, or imagine what it is that your heart desires.



Now think about:

Why is this important to you?

What is motivating you to reach this dream?

By when would you like to achieve this goal?

**Action Plan**

Think and write down an action that you could take this week to get you closer to your dream.

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This action will be taken:

One time only

Once a week going forward

Once in a while

How will this action help you to get closer to your goal?

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Now think of an action that you could take this month to help you achieve your goal.

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This action will be taken:

One time only

Once a month going forward

Once in a while

How will this action get you closer to your dream?

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Who in your life can help keep you accountable in completing these actions?

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## Module II. Good Credit

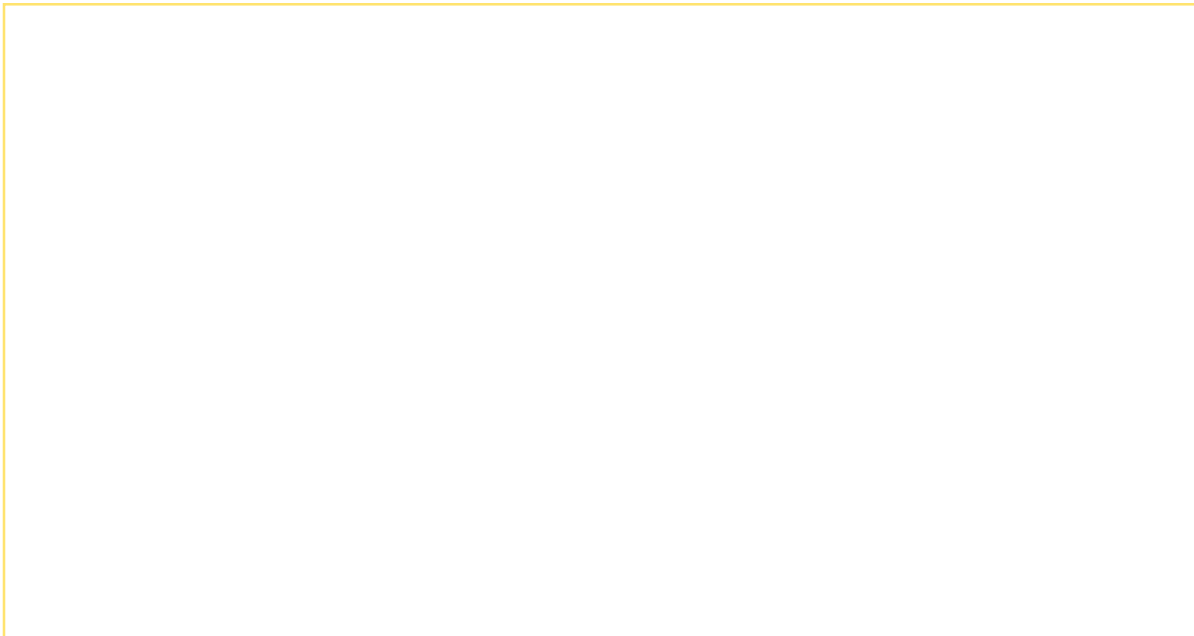
### What is good credit and what purpose does it serve?

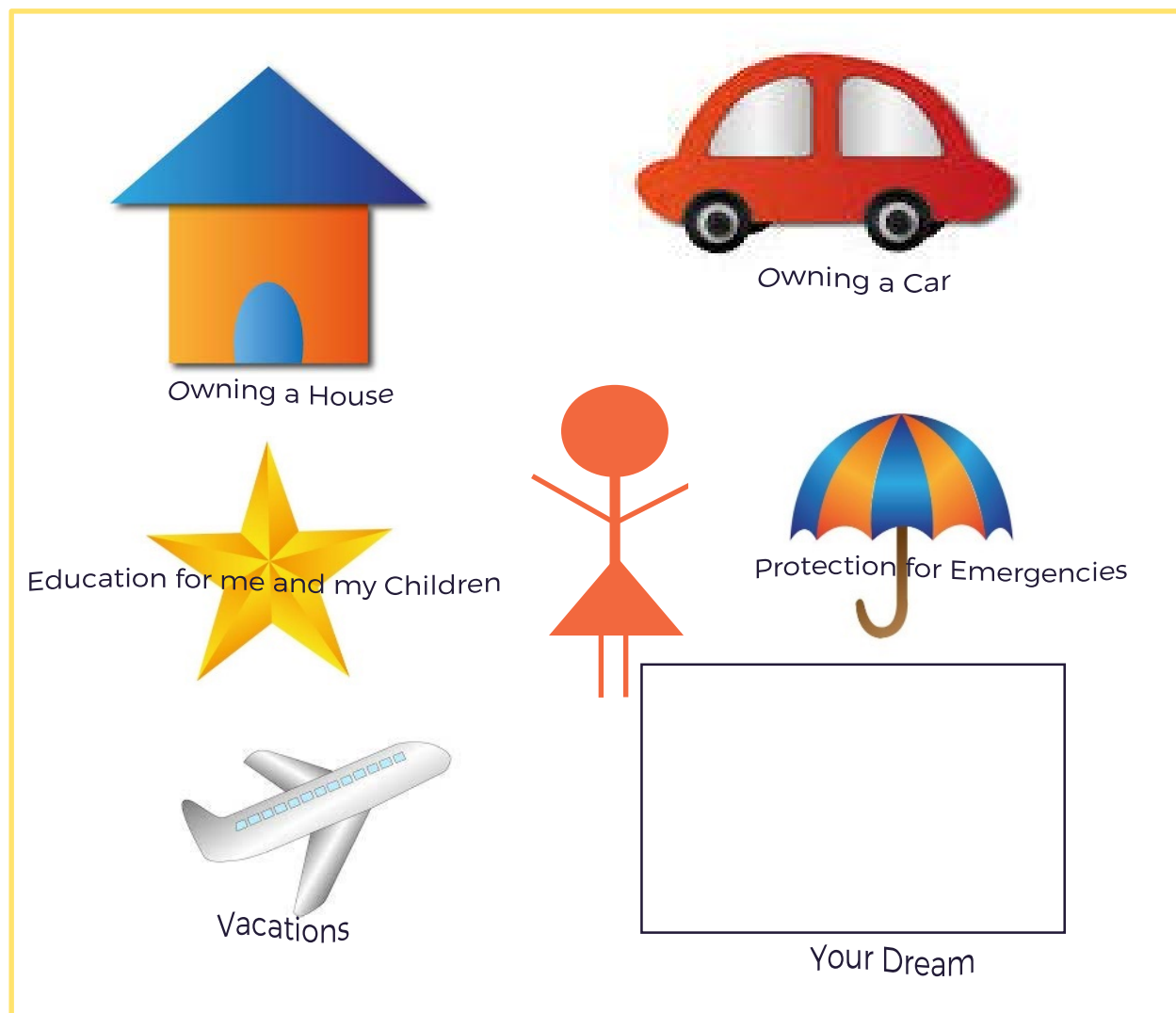
To have good credit means that you have a positive history of managing your debts. The creditors consider that if you have paid off money that you borrowed in the past, then you will continue to be a trustworthy borrower in the future.

- ❖ Good credit allows you to obtain services and products without having to pay for them beforehand.
  - Money that you are lent with the promise of paying back in the future is called a loan, and it usually comes with an additional fee while being paid back. This additional fee is called interest.
  - Interest – is the amount that you are charged for borrowing money. It is calculated as a percentage of the money that you were lent.
- ❖ If you have good credit, then creditors will be more motivated to lend you money, because you are less of a risk than someone with bad credit history.
- ❖ Good credit allows one to borrow money and take out loans, with lower interest rates, meaning you will pay less to borrow money over time.

### How can good credit help your family?

**Activity 2.** Draw 3 things that are important to you and which you could more easily acquire with good credit.



**Some of our financial dreams:**

Credit influences many aspects of your life. You will need to have a good credit history to achieve your financial dreams for you and your family.

- ❖ Good credit is necessary to obtain a mortgage or to buy a house.
- ❖ With good credit, you can acquire financing to buy a car.
- ❖ Good credit will allow you to obtain student loans to invest in education for yourself and/or your children.
- ❖ Having good credit means having access to credit cards or bank loans that you can utilize in emergencies such as sickness, job loss, or accidents.
- ❖ Good credit is necessary to rent an apartment, obtain a cell phone, and/or internet plan.

## How can good credit help your business?



- ❖ All entrepreneurs/business owners need to have good credit, even small business owners, in the interest of interacting with lenders.
- ❖ Having good credit will provide you with more flexibility in running your business. For example, you will be able to choose from a greater variety of products from different vendors at more competitive prices.
- ❖ Good credit will give you the opportunity to access capital so that your business can grow.

## How can you prepare to start growing your business?



Because you are a small business owner, many of the opportunities that you will have to grow your business, especially at the beginning, will depend on your personal credit. Having good control of your personal finances will help you to take advantage of future opportunities to obtain capital and to expand your business.

## Things to consider when trying to obtain financing for your business

- ❖ Accessing capital for business depends greatly on other factors that are not required in order to obtain personal credit.
- ❖ Each bank has their own ways of measuring risk which can include, among other factors: your personal credit, the profitability of your business, the length of time that you have had the business, and whether or not you have a business plan. Traditional Banks and non-traditional Banks will also measure risk and weigh these factors in different ways.
- ❖ You also must consider factors that are outside of your control, such as the risk of each industry. For example, the restaurant industry is notoriously volatile and difficult to manage.
- ❖ We recommend that you focus on factors that are in your control, which include: building your personal credit, knowledge of your industry, and a strong plan that demonstrates that you know your business in and out.
- ❖ We also recommended that you grow your credit in a sustainable way. For example, when you begin don't acquire a very big loan that you won't be able to manage in the future.
- ❖ When you obtain access to loans for the business, ensure that you are utilizing that money for your business.

**Today is the best day to start getting ready to grow your business.**

## What happens when you have no credit or bad credit?

If you need to utilize credit and have not yet begun building credit or you have bad credit, then your options are more limited. Borrowing money becomes more expensive, and you may become vulnerable to high-risk vendors and credit products, such as:

1. Loan Sharks
2. Informal Loan Club (often referred to as susus or tandas)
3. Pre-paid credit cards
4. Predatory lenders who target small businesses specifically

**1. Loan sharks** – Are people who generally lend money with extremely high levels of interest.

**WATCH OUT** – The actions carried out by loan sharks are usually illegal. They sometimes threaten their borrowers with violence to cover their loans.

Loan sharks tend to charge borrowers weekly, in the form of interest or a percentage of the principle.

Example:

If you ask a loan shark for a loan of \$1,000, they will probably ask you to pay \$50 each week in interest.

The loan finishes when you pay the \$1,000 in full. However, the \$50 dollars a week will not be discounted from the principal, so the total extra amount of interest you will end up paying depends on how long it takes to finish paying the \$1,000.

If you take 10 months to put together the money, you will have to pay \$2,000, in interest in addition to the \$1,000 in principal.

**2. Informal Loan Clubs** – Also known as susus or tandas, are most likely organized between people who know one another. Each person contributes a specific amount of money at a specific time (weekly, bi-weekly, monthly) for a specific length of time (10 months, 6 months). At the end of each month, a person in the group receives the money accumulated by the group during the previous month.

Example:

Ana is the leader of a susu of 10 people. Every two weeks, all of the participants have decided to put in \$100, at the end of the first month, Ana will receive \$2,000. The following month, another member of the susu will receive \$2,000. The susu will finish in 10 months when all of the members have received a \$2,000 monthly reimbursement. Ana received the \$2,000 as credit, and she has to pay \$100 every two weeks until she pays the \$2,000. Rosa was the last participant to receive \$2,000. For Rosa, the susu essentially served as a savings account that helped her save \$200 every month.

**WATCH OUT** – The primary risk associated with these clubs is that one of the first people who receives a reimbursement ends up disappearing or leaving the group. Other risks are that the leader of the group (who presumably holds the money) runs off with everybody's contribution.



**3. Pre-paid Credit Cards** – With these products, you must deposit money onto the card before you use it. Pre-paid cards can be used at most places that accept credit cards and debit cards.

Pre-paid cards end up being quite expensive, due to a variety of extra fees: an activation fee, recharge fee, checking balance fee, fees for removing cash from ATM, and charges for using the card to pay bills. Some pre-paid cards also charge monthly or annual maintenance fees.

**4. Predatory lenders who target small businesses** – Some companies give loans with the objective of preying on small businesses owners, who are often minorities or immigrants. They know small business owners have less access to capital.

What makes these institutions predatory?

- ✓ The interest rates are extremely high, and they are not clearly indicated in the paperwork.
- ✓ They have a lot of hidden costs that also may not be clearly communicated.
- ✓ The contracts are very difficult to understand, making them quite confusing when compared with other offers.
- ✓ A lot of these loans and institutions are found on the internet.
- ✓ Often the only payment method for these loans are automatic monthly withdrawals from your bank account.

There are not a lot of regulations that protect the small businesses from predatory loans. What can you do to protect yourself?

- ❖ If something sounds too good to be true, it probably is not a good loan product.
- ❖ Search for help from trustworthy institutions that can help you find financing. Ask the facilitator about the program, WE Master Money: Funding.
- ❖ Make sure you understand all the interest rates (APR) and all of the different charges. For example: application fees, distribution fees, late fees, etc.
- ❖ Utilize loans granted by institutions that are committed to the “Small Business Borrower’s Bill of Rights<sup>i</sup>.”
  1. The Right to Transparent Pricing and Terms.
  2. The Right to Non-Abusive Products.
  3. The Right to Responsible Underwriting.
  4. The Right to Fair Treatment from Brokers.
  5. The Right to Fair Collections Practices
  6. The Right to Inclusive Credit Access.

### Module III. How do creditors know if you have good credit?

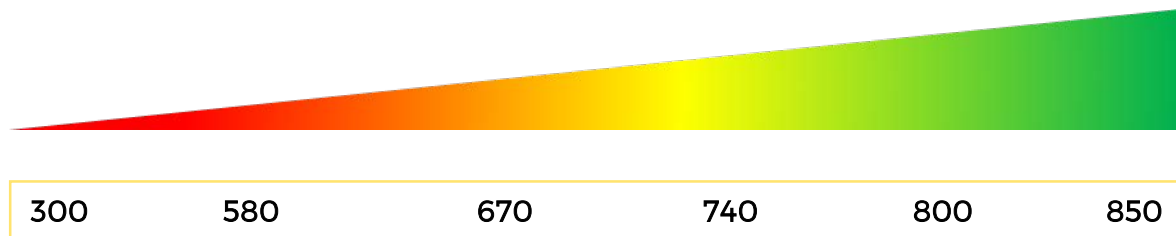
When you apply for credit, companies will review your score to decide whether or not they will offer you money. That score allows them to evaluate your credit risk. Many different products that rate credit scores exist, but the most utilized score is FICO.

#### FICO Score<sup>ii</sup>

The most used FICO score range is 300 to 850. Higher scores represent less risk for giving credit to a borrower.

#### Categories of FICO Score<sup>iii</sup>

Having a good credit score depends on the risk that each creditor is willing to take. However, there is a range of FICO scores that compares a snapshot of your credit with the FICO scores of the rest of the U.S. population.



Under 580	From 580 to 669	From 670 to 739	From 740 to 799	From 800 and upwards
Risky credit score, would be very difficult to be accepted for most types of credit.	Acceptable credit score. Will begin to be accepted for credit, but the interest rates will be high.	Good credit score.	Very good credit score.	Excellent credit score.  Will receive the best offers of credit.

- ❖ Having a good credit score will help you obtain credit and financing with lower interest rates and better overall terms.
- ❖ Your credit score influences the credit line that card companies will grant you or in the case of loans, how large the loan will be.
- ❖ Your credit score is also evaluated when you apply for a lease, or by a telephone, cable, or internet provider.

**How is the credit score calculated?**

Your credit score is determined from the information that is in your credit report.

**What is a credit report?**

The credit report is a history of your credit information reported by creditors to the credit agencies.

**Who are the Credit Agencies? <sup>iv</sup>**

You should be aware of the three different versions of your credit report, from the three most important credit bureaus in the market:

- ❖ Equifax
- ❖ Experian
- ❖ Transunion

**Module IV. The Credit Report**

**Activity 3.** In groups of four, analyze the credit report in pages 11-14, and identify what type of information is being reported. You can utilize the boxes below to write information that you found. Select a person in your group to share what you found with the class.

Source: Experian on [https://www.experian.com/credit\\_report\\_basics/pdf/samplecreditreport.pdf](https://www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf)

Sample Credit Report | Free Annual Credit Report | Experian Credit Report | Experian Credit Score



### Online Personal Credit Report from Experian for

Experian credit report prepared for  
**JOHN Q. CONSUMER**  
Your report number is  
**1562064065**  
Report date:  
**04/24/2012**

#### Index:

- [Potentially negative items](#)
- [Accounts in good standing](#)
- [Requests for your credit history](#)
- [Personal information](#)
- [Important message from Experian](#)
- [Contact us](#)

#### Report number:

You will need your report number to contact Experian online, by phone or by mail.

#### Index:

Navigate through the sections of your credit report using these links.

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

To return to your report in the near future, log on to [www.experian.com/consumer](http://www.experian.com/consumer) and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

### Potentially Negative Items

#### Public Records

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit items listed later in this report.

#### MAIN COUNTY CLERK

Address:  
123 MAINTOWN S  
BUFFALO, NY 10000

Identification Number:  
1

Plaintiff:  
ANY COMMISSIONER O.

Status:  
Civil claim paid.

Status Details:  
This item was verified and updated in Apr 2012.

Date Filed: 10/15/2012  
Date Resolved: 03/04/2012  
Claim Amount: \$200  
Liability Amount: NA

Responsibility:  
INDIVIDUAL

#### Potentially negative items:

Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

#### Status:

Indicates the current status of the account.

### Credit Items

For your protection, the last few digits of your account numbers do not display.

#### ABCD BANKS

Address:  
100 CENTER RD  
BUFFALO, NY 10000  
(555) 555-5555

Account Number:  
1000000....

Status: Paid/Past due 60 days.

Date Opened: 10/2012  
Reported Since: 11/2012  
Date of Status: 04/2012  
Type: Installment  
Terms: 12 Months  
Monthly Payment: \$0

Last Reported: 04/2012  
Responsibility: Individual

Credit Limit/Original Amount: \$523  
High Balance: NA  
Recent Balance: \$0 as of 04/2012  
Recent Payment: \$0

Account History:  
60 days as of 12-2012  
30 days as of 11-2012



If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at:

[www.experian.com/disputes](http://www.experian.com/disputes)

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

**MAIN COLL AGENCIES**

Address: PO BOX 123  
ANYTOWN, PA 10000  
(555) 555-5555  
Account Number: 0123456789  
Original Creditor: TELEVISE CABLE COMM.  
Status: Collection account, \$95 past due as of 4-2012.

Date Opened: 01/2005  
Type: Installment  
Reported Since: 04/2012  
Terms: NA  
Date of Status: 04/2012  
Monthly  
Payment: \$0  
Recent Payment: \$0  
Last Reported: 04/2012  
Responsibility: Individual  
Credit Limit/Original Amount: \$95  
High Balance: NA  
Recent Balance: \$95 as of 04/2012  
Recent Payment: \$0

Your statement: ITEM DISPUTED BY CONSUMER

Account History:  
Collection as of 4-2012

**Accounts in Good Standing****5****AUTOMOBILE AUTO FINANCE**

Address: 100 MAIN ST E  
SMALLTOWN, MD 90001  
(555) 555-5555  
Account Number: 12345678998...  
Status: Open/Never late.

Date Opened: 01/2006  
Type: Installment  
Reported Since: 01/2012  
Terms: 65 Months  
Date of Status: 04/2012  
Monthly  
Payment: \$210  
Recent Payment: \$0  
Last Reported: 04/2012  
Responsibility: Individual  
Credit Limit/Original Amount: \$10,355  
High Balance: NA  
Recent Balance: \$7,984 as of 04/2012  
Recent Payment: \$0

**MAIN**

Address: PO BOX 1234  
FORT LAUDERDALE, FL 10009  
Account Number: 1234567899876  
Status: Closed/Never late.

Date Opened: 03/1997  
Type: Revolving  
Reported Since: 03/2012  
Terms: 1 Months  
Date of Status: 08/2012  
Monthly  
Payment: \$0  
Recent Payment: \$0  
Last Reported: 08/2012  
Responsibility: Individual  
Credit Limit/Original Amount: NA  
High Balance: \$3,228  
Recent Balance: \$0 /paid as of 08/2012  
Recent Payment: \$0

Your statement:  
Account closed at consumer's request

**Accounts in good standing:**

Lists accounts that have a positive status and may be viewed favorably by creditors. Some creditors do not report to us, so some of your accounts may not be listed.

**Type:**

Account type indicates whether your account is a revolving or an installment account.



## Requests for Your Credit History

7

## Requests Viewed By Others

We make your credit history available to your current and prospective creditors and employers as allowed by law. Personal data about you may be made available to companies whose products and services may interest you.

The section below lists all who have requested in the recent past to review your credit history as a result of actions involving you, such as the completion of a credit application or the transfer of an account to a collection agency, application for insurance, mortgage or loan application, etc. Creditors may view these requests when evaluating your creditworthiness.

**HOMESALE REALTY CO**

Address:  
2000 S MAINROAD BLVD STE  
ANYTOWN CA 11111  
(555) 555-5555

Date of Request:  
07/16/2012

## Comments:

Real estate loan on behalf of 3903 MERCHANTS EXPRESS M. This inquiry is scheduled to continue on record until 8-2014.

**M & T BANK**

Address:  
PO BOX 100  
BUFFALO NY 10000  
(555) 555-5555

Date of Request:  
02/23/2006

## Comments:

Permissible purpose. This inquiry is scheduled to continue on record until 3-2008.

**WESTERN FUNDING INC**

Address:  
191 W MAIN AVE STE 100  
INTOWN CA 10000  
(555) 555-5555

Date of Request:  
01/25/2006

## Comments:

Permissible purpose. This inquiry is scheduled to continue on record until 2-2008.

## Requests Viewed Only By You

The section below lists all who have a permissible purpose by law and have requested in the recent past to review your information. You may not have initiated these requests, so you may not recognize each source. We offer information about you to those with a permissible purpose, for example, to:

- other creditors who want to offer you preapproved credit;
- an employer who wishes to extend an offer of employment;
- a potential investor in assessing the risk of a current obligation;
- Experian or other credit reporting agencies to process a report for you;
- your existing creditors to monitor your credit activity (date listed may reflect only the most recent request).

We report these requests only to you as a record of activities. We do not provide this information to other creditors who evaluate your creditworthiness.

**MAIN BANK USA**

Address:  
1 MAIN CTR AA 11  
BUFFALO NY 14203

Date of Request:  
08/10/2012

**MYTOWN BANK**

Address:  
PO BOX 825  
MYTOWN DE 10000  
(555) 555-5555

Date of Request:  
08/05/2006

**INTOWN DATA CORPS**

Address:  
2000 S MAINTOWN BLVD STE  
INTOWN CO 11111  
(555) 555-5555

Date of Request:  
07/16/2006

*Requests for your credit history:*

Also called "inquiries," requests for your credit history are logged on your report whenever anyone reviews your credit information. There are two types of inquiries.

i. Inquiries resulting from a transaction initiated by you. These include inquiries from your applications for credit, insurance, housing or other loans. They also include transfer of an account to a collection agency. Creditors may view these items when evaluating your creditworthiness.

ii. Inquiries resulting from transactions you may not have initiated but that are allowed under the FCRA. These include preapproved offers, as well as for employment, investment review, account monitoring by existing creditors, and requests by you for your own report. These items are shown only to you and have no impact on your creditworthiness or risk scores.

## Personal Information

8

The following information is reported to us by you, your creditors and other sources. Each source may report your personal information differently, which may result in variations of your name, address, Social Security number, etc. As part of our fraud prevention efforts, a notice with additional information may appear. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

## Names:

JOHN Q CONSUMER

Name identification number: 15621

JONATHON Q CONSUMER

Name identification number: 15622

J Q CONSUMER

Name identification number: 15623

## Social Security number variations:

999999999

## Year of birth:

1959

## Spouse or co-applicant:

JANE

## Employers:

ABCDE ENGINEERING CORP

## Telephone numbers:

(555) 555 5555 Residential

Address: 123 MAIN STREET

ANYTOWN, MD 90001-9999

Address identification number:

0277741504

Type of Residence: Multifamily

Geographical Code: 0-156510-31-8840

Address: 555 SIMPLE PLACE

ANYTOWN, MD 90002-7777

Address identification number:

0170086050

Type of Residence: Single family

Geographical Code: 0-176510-33-8840

Address: 999 HIGH DRIVE APT 15B

ANYTOWN, MD 90003-5555

Address identification number:

0170129301

Type of Residence: Apartment complex

Geographical Code: 0-156510-31-8840

## Personal information:

Personal information associated with your history that has been reported to Experian by you, your creditors and other sources.

May include name and Social Security number variations, employers, telephone numbers, etc. Experian lists all variations so you know what is being reported to us as belonging to you.

## Address information:

Your current address and previous address(es)

## Personal statement:

Any personal statement that you added to your report appears here.

Note - statements remain as part of the report for two years and display to anyone who has permission to review your report.

## Your Personal Statement

10

No general personal statements appear on your report.

## Important Message From Experian

By law, we cannot disclose certain medical information (relating to physical, mental, or behavioral health or condition). Although we do not generally collect such information, it could appear in the name of a data furnisher (i.e., "Cancer Center") that reports your payment history to us. If so, those names display in your report, but in reports to others they display only as MEDICAL PAYMENT DATA. Consumer statements included on your report at your request that contain medical information are disclosed to others.

## Contacting Us

Contact address and phone number for your area will display here.

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## What information do you find on the credit report?

- ❖ **The creditors disclose the following information on your report:**
  - ✓ What type of credit you use (for example: cards, car loans, mortgage)
  - ✓ Have you made your payments on time or not
  - ✓ When was the account open/closed
  - ✓ The credit limit(s) on your card(s) or the initial amount of your loan(s)
  - ✓ What is the balance on each of your accounts
- ❖ **Personal Information that you have reported to the creditors:** your name (and if you have used other names), your address (present and past), social security number, date of birth and current and past employers.
- ❖ **Credit Inquiries:** Every time that you apply for credit it is reported to the credit bureaus. This occurs regardless of whether you were accepted or denied for credit.
- ❖ **Collection Accounts:** The credit report will show the original amount of the debt when it was sent to the collection agency, the current balance of the debt, and the date that the debt was acquired by that collection agency.
- ❖ **Public Records:** Judgements from creditors, garnishments, tax liens, foreclosures, and bankruptcy.

The creditors can choose to report to one, two, or three agencies. For that reason, the three credit reports can have different information on them. Your credit score will also vary across the three agencies.

**ATTENTION** – Your report and score do **not** have information about your income, checking or saving accounts, immigration status, criminal record, race, color, religion, country of birth, gender, marital status, or whether or not you receive public assistance.

## Module V. Obtain your credit report

### Some of the reasons why you should review your credit report include:

- ❖ To know your current situation with regards to credit and to be able to make financial decisions that are realistic.
- ❖ To know what information is being reported about you.
- ❖ To ensure that the information reported about you is correct. You have the right to correct erroneous information.
- ❖ To protect yourself from identity theft.



## How do you obtain a credit report?

In accordance with federal law, you have the right to obtain your credit report every 12 months from each one of the three major credit bureaus. You can obtain your report in three different ways:<sup>v</sup>

- a. By mail
  - You need to fill out the Annual Credit Report Request Form, which can be found at [www.annualcreditreport.com](http://www.annualcreditreport.com)
  - Enclose in the envelope the necessary documents.
- b. On the internet: **[www.annualcreditreport.com](http://www.annualcreditreport.com)**
  - To make the request online you must have a social security number.
- c. By calling 1-877-322-8228
  - The phone service request is only available in English.
  - You must go through a process of identity verification on the phone.

## How do you obtain the report without a social security number?

If you don't have a social security number, the best way to obtain your credit report is through the mail. The credit agencies use all the basic information that is available to identify you. This includes your complete name, current and past addresses and date of birth. If you have utilized a Tax ID number or ITIN number (Individual Taxpayer Identification Number) to open credit, you should also include it.

**In the one-on-one financial counseling session your financial counselor can help you access your credit report and score. Make your appointment today. All services are free!**

**ATTENTION** – Obtaining your own credit report through the three agencies (Transunion, Experian or Equifax) does not hurt your credit. Viewing your credit with a Financial Counselor from Ariva doesn't hurt your credit either because Ariva is an organization authorized to obtain credit reports for educational purposes.

## Other ways to obtain your credit report:

- ❖ There are other internet sites that allow you to obtain free credit reports and scores (they usually require a social security number). If you decide to utilize these services, keep in mind that they will try to sell you additional services.
- ❖ Other sites promote credit reports and free credit scores, but they require you to register a credit card. This means that you will get the service for free, but only temporarily; eventually the company will begin charging your card.

## Module VI. Reading your credit report

**Activity 4.** Together let's read the credit report on pages 11-14.

### For how long will negative information remain in your credit report?

- ❖ Late payments remain on your credit report for 7 years.
- ❖ Collection accounts remain on the report for 7 years.
- ❖ Bankruptcy remains on your report for 7 to 10 years, depending on the type of bankruptcy.
- ❖ Judgements remain on your credit report for 7 years.
- ❖ Foreclosures remain for 7 years.
- ❖ Tax liens can remain on your credit indefinitely.
- ❖ Credit inquiries remain on your credit report for 2 years.

**ATTENTION** – As time goes on, the effect of the negative information on your credit score will diminish.

### What can you do if there is incorrect information on your credit report?

If you find incorrect information on your report, we recommend that you:

- ❖ Initiate a dispute with all three of the credit agencies: Equifax, Experian and Transunion.
- ❖ In writing, contact the company that reported the information incorrectly (whether it be the original creditor, or the collection agency that bought the debt).
- ❖ Save copies of all the documentation that you have sent and received regarding the dispute.
- ❖ The credit agencies and creditors must investigate your dispute and correct any errors.

**WATCH OUT** – Errors on your credit report could be a sign of identity theft. The first step in protecting your identity is checking your credit report. Your financial counselor can help you take the necessary steps in resolving identity theft during the one-on-one sessions.

**In the one-on-one session, your financial counselor can help you dispute errors and take the necessary actions to protect yourself from identity theft. Make your appointment today. All the services are free!**

## **Module VII. How to establish a credit history and score?**

### **Requirements to have a FICO score<sup>vi</sup>**

FICO has some minimum requirements to produce the three-digit number (FICO score) using your credit history.

You must have a credit card or loan open and active for at least 6 months (there cannot be disputes on this account).

### **Options for establishing a credit history**

- ❖ Apply for a credit card, go over the different options that you have and choose the one that fits you best.
- ❖ If you don't have a credit history, then one option is to apply for a secured credit card or a secured loan.

**REMEMBER** – Pre-paid cards and debit cards do not help you build credit.

### **Requirements for obtaining credit**

- ❖ Financial institutions usually ask for two types of identification that are not expired.
- ❖ They also may ask for your income and a verification of your income.
- ❖ They will check your credit report and your credit score.

### **Building credit without a social security number**

There is no legal requirement stating that you must have a social security number to access credit. However, the financial institutions can ask you for a Tax ID, also known as an ITIN number (Individual Taxpayer Identification Number). Each financial institution has the right to decide what documents to accept.

## Explanation of Credit Card Terms<sup>vii</sup>

**Credit Limit:** Is the maximum amount of money that you can use on the card.

**Annual Interest Rate (APR):** The percentage of interest that the company will charge if you leave a balance on the card.

**Grace Period:** The time period between the end of a billing cycle and the due date. Paying your balance in full during the grace period will help you avoid to get charged interests in your purchases.

**Maintenance Fees:** Fees for maintaining your account. Those charges can be monthly or annually. Some credit cards do not have maintenance fees.

**Penalty Fees:** Charges or fees for paying late, going over your credit limit, or making payments on the cards without having funds.

**Special Offers:** The credit card companies have special offers made to attract customers. Understand the benefits and changes once the offer expires.

In the one-on-one session, your financial counselor will help you analyze credit card offers that you receive. Make your appointment today. All services are free!

### Tips for comparing credit cards:

- ❖ Review and compare several offers.
- ❖ Review the contracts, especially the fine print.
- ❖ Don't feel pressured into signing any document.
- ❖ Compare the interest rates.
- ❖ Make sure you know the interest and annual charges.
- ❖ Make sure you are aware of the late payment penalties.

**WATCH OUT** – Be careful with the fine print on credit card offers. If you don't understand what the offer states, find someone you trust to help you read the technical language. Don't sign or apply for a card without understanding everything that you are signing.

**Activity 5.** In groups of four, compare the credit card offers on pages 21 and 22. Choose which one is most convenient.

Card Terms	Credit Card 1	Credit Card 2
Credit Limit		
Annual Interest Rate		
Interest Rate for Cash Advances		
Grace Period		
Annual Maintenance Charges		
Charges for Late Payments		
Penalties for going over the limit		
Special Offers		

Reasons why you chose this card:

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## Card 1 - Terms

<b>Annual Interest Rate (APR)</b>	<p><b>0% Introductory APR for the first 15 statements following the opening of your account.</b></p> <p>After that, <b>12.99% to 22.99%</b>, based on your credit risk.</p>
<b>Interest Rate (APR) for Balance Transfers</b>	<p><b>0% Introductory</b> for the first 15 statements following the opening of your account.</p> <p>After that, <b>12.99% to 22.99%</b>, based on your credit risk.</p>
<b>Interest Rate for Cash Advances (APR)</b>	25%
<b>Penalty APR and When It Applies</b>	<p>Up to 29.99%, based on your creditworthiness.</p> <p>The penalty will be applied if you:</p> <ul style="list-style-type: none"> <li>• Make a late payment;</li> <li>• Exceed your credit limit;</li> <li>• Make payments without funds.</li> </ul>
<b>How to Avoid Paying Interest on Purchases</b>	Your due date is at least 21 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date of each month. We will begin to charge interest for balance transfers or for cash advances the day of the transaction.
<b>Membership fees</b>	\$0 for the first year and \$99 for each year afterwards.
<b>Additional Fees:</b>	
Balance Transfer Fees	\$5 or 3% of the amount, whichever is greater.
Cash Advance Fees	\$10 or 5% of the amount, whichever is greater.
<b>Penalty Fees</b>	
Late payments	Up to \$35.
Overdraft	Up to \$35.
Returned Payments	Up to \$35.
Returned Checks	Up to \$35.

\*You will lose the introductory interest rate if you make a payment more than 60 days late and the late penalty will also be applied.

## Card 2 - Terms

### Interest Rates

<b>Interest Rates (APR)</b>	<b>16.99%</b>
<b>Interest Rates for Balance Transfers</b>	<b>16.99%</b>
<b>Interest Rate for Cash Advances</b>	<b>24.9%</b>
<b>Interest Rates for Penalty Charges</b>	<b>29.4%</b>
<b>Paying Interest</b>	Your due date is 25 days after the cycle closes. We will not charge any interest if you pay your balance in full by the due date.

### Charges

<b>Annual Charge</b>	<b>\$39 Annual</b>
<b>Charges for Transactions</b>	
Balance Transfers	None
Cash Advances	\$10 or 5% or whichever amount is greater.
<b>Charges for Penalties</b>	
Late Payments	Up to \$35
Overdraft charges	Up to \$29
Returned Payments	Up to \$35

## Secured Credit Card and Secured Loan

If you have no credit or bad credit, there are options available to help you to establish or improve your credit. These products offered by financial institutions are known as secured credit cards or secured loans.

### Secured Credit Card

- ❖ You must put a deposit as a collateral to be able to obtain the card.
- ❖ The deposit serves as your line of credit. On some cards, the deposit that you put down will be equal to 100% of the credit line. In other cases, that deposit can be lower, for example putting a deposit of \$300 and getting a \$500 credit limit.

### Secured Loan

- ❖ With a secured loan you make monthly payments to the bank or credit union, for a particular length of time, usually 6 or 12 months.
- ❖ Each monthly payment is deposited into a savings account that will be available for you at the end of the length of the loan.

### What do you need to know about secured products?

- ❖ What are the requirements for being eligible?
- ❖ Do you have the documentation required by the lender?
- ❖ For a secured credit card, how much do you need to put down for the security deposit?
- ❖ For a credit builder loan, how much is the monthly payment and for how long?
- ❖ What is the interest rate?
- ❖ What are the charges for the application and for maintenance?
- ❖ Are there additional fees?
- ❖ Does the security deposit gain interest?

**ATTENTION** – Ensure that the credit accounts you apply for are reported to the three major credit agencies.

### Before opening a secured credit product, review:

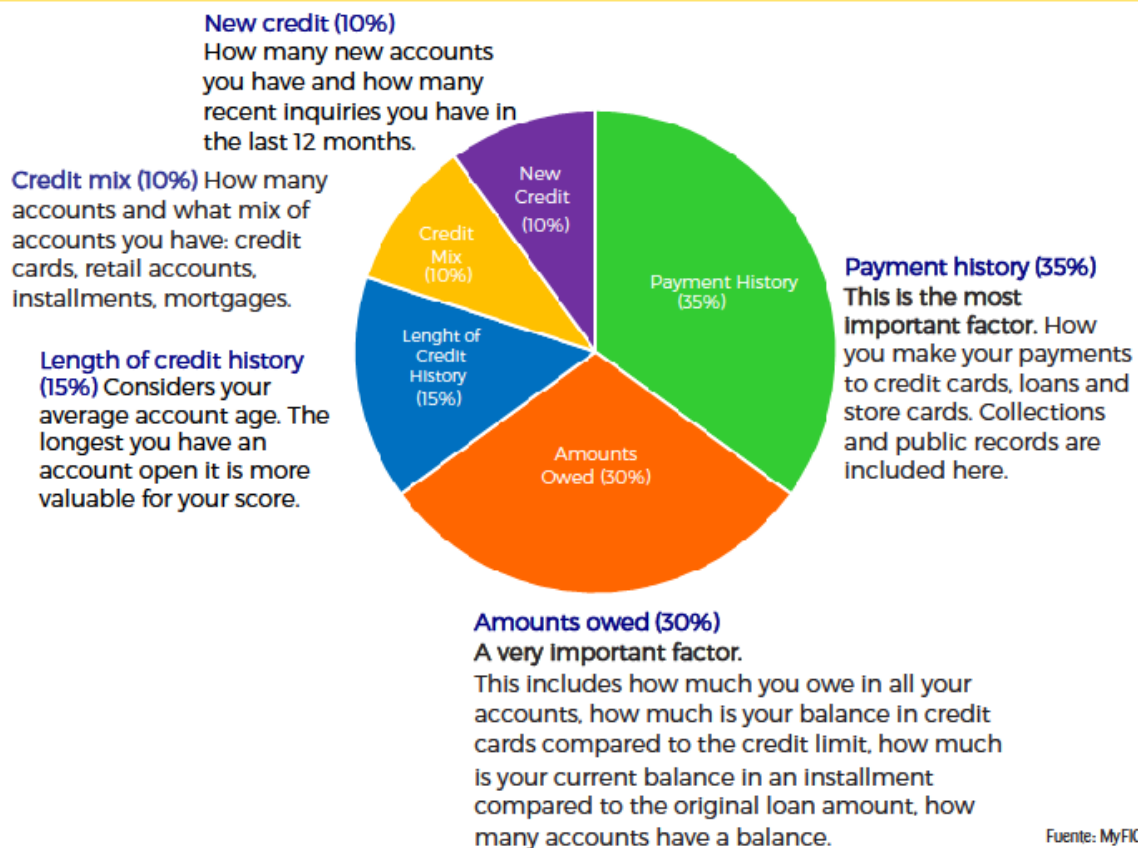
Your current and future financial situation	Your savings
Do you have a stable income and will you maintain your current income in the next 6 months?	Have you had extra money at the end of the last 6 months?
	Have you contributed to your savings in the past 6 months?
Have you been able to cover your basic expenses in the last 6 months?	After you put the security deposit, will you still have money in case of an emergency?



**WATCH OUT** – Secured credit products help you to build and improve credit, but if you don't manage them correctly you will hurt your credit. You can also lose the deposit that you have put down if you fall behind on payments.

## Module VIII. Factors that influence your credit score<sup>viii</sup>

### Factors Included in your FICO Score



**Activity 6.** Select a partner, we will assign a case for each pair. One person will represent the bank and the other will represent a client that is looking for a loan.

Step 1: The client will present the information to the bank. The bank will decide to lend the money or not.

Step 2: For those who give out the loan, walk to the right side of the classroom. For those who decide to deny the loan, please walk to the left side of the classroom. Write on the assigned poster, the number one reason why you accepted or denied the clients' application for the loan.

Step 3: For the clients, share with the class how you felt to be accepted or denied the loan.

Let's talk and reflect.

**Case 1:** Julia has an income of \$12,000 per year. She works part time for a cleaning company and is assigned 3 houses per week. She is known in her neighborhood for the delicious tacos that she takes to parties and events in the community. Motivated by the positive feedback from her friends and loved ones regarding her cooking, she has decided that she wants to sell her tacos from a truck. She researched and discovered that she will need \$5,000 to invest in a truck. She only has \$1000 saved up.

When the banker obtained Julia's credit report she found that Julia did not have a credit score. The only things that appeared in her credit report were two credit inquiries for cards that she was denied for. Would you give a loan of \$5,000 to Julia? What would be your recommendations to her?

**Case 2:** Margarita makes \$25,000 per year as a babysitter. Her favorite hobby is looking at fashion magazines and sewing her favorite pieces for her and her daughter, who is 7 years old. Margarita wants to utilize her hobby to make money and had the idea of sewing and selling clothes. Margarita wants to start as a saleswoman that travels, offering her products to neighbors and friends, so her business would not require a storefront. Margarita needs a loan of \$1,000 to buy materials and a better sewing machine than the one she has now.

When the banker obtains her credit report, she finds a credit card with Capital One, which she got 9 months earlier. The card has a limit of \$1,000 and a balance of \$200. Her credit score is 690. All of her payments have been made on time. There is not negative information on the report. Would you give a loan to Margarita? What are your recommendations?

**Case 3:** Antonia works full time as a waitress and helps out at a bar in Midtown Manhattan. She has an annual income of \$45,000. Antonia has worked at restaurants for more than 10 years. She wants to start her own restaurant and needs a loan of \$15,000. She has \$2,000 saved up.

Upon obtaining her credit report, the banker found that Antonia has three credit cards that are open and active. The combined limit of these cards is \$10,000 and in total she owes \$7,000 between her three accounts. Additionally, she has an account that is in collections. This is a medical debt from the hospital worth \$2,000 from an accident at work that occurred over a year ago. The report also showed a Capital One credit card that is closed and which has a debt of \$325 that she never finished paying off. This card is closed but has not yet been passed onto collections. In sum, Antonia's total debt is \$9,325. Her credit score is 600. Would you give a loan to Antonia? What are your recommendations?

**Case 4:** Sonia is a cook at a restaurant in Brooklyn. Her annual income is \$27,000 after taxes. One of the managers of the restaurant wants to make Sonia a partner in the business. The manager would require an investment of \$5,000, and Sonia has \$2,000 saved up.

Upon obtaining Sonia's credit report, the banker saw that she had a credit card with a limit of \$900 and a balance of \$250. Sonia also just started a secured loan in order to improve her credit. The amount of the loan is \$500 and she already made her first payment of \$85, now she owes \$415. Her credit score is 720. Would you give a loan to Sonia? What are your recommendations?

## Module IX. Strategies for having good credit

**Activity 7.** Please share with us some strategies for how to build credit.

### Steps to follow to have good credit:

**Pay your accounts on time** – Paying your accounts on time is the most important factor in your credit score.

- ❖ Your payments should arrive to the creditor before the due date, to avoid penalties.
- ❖ Late payments of more than 30 days are reported to the credit agencies and hurt your credit score.
- ❖ Payments can be made by mail (with check or money order) or by telephone and over internet.
- ❖ You can establish automatic payments from your bank account, but you will be responsible for checking that the payments are correct each month. This strategy helps to simplify the payment process.

**ATTENTION** – If you are having difficulty in making payments, do not ignore the debts. Search for help through this program. A financial counselor will be available to meet with you individually.

**Maintain low balances on your cards** – The most recommendable action you can take is to pay your balance in full at the closing of every billing cycle (before the end of your grace period). This way, you will avoid paying any interest. You should also try not to use over 30% of your available credit limit, going over 30% of credit utilization will affect your credit score negatively.

**ATTENTION** – If you are having difficulty in paying your balance, pay at least the minimum balance required so that you avoid being late, which affects your score the most.

**Avoid applying for lots of credit** – You need to apply for credit in order to begin building it, but applying for many credit accounts will make you seem like a greater risk to creditors. Opening new accounts reduces the average amount of time of your existing accounts affecting your credit score.

We recommend that you only apply for credit when it is necessary and when you believe that you will be approved by the company. If you have no credit history, or a negative credit history, then you are best off applying for secured credit products.

**ATTENTION** – The FICO score counts credit inquiries from the last 12 months.<sup>ix</sup>

**Do not close credit cards** – This reduces the average time of your credit history. It also reduces the overall limit of your credit accounts.

Example: Imagine that you have the following cards

	Credit Limit	Balance	Percentage of debt compared with credit limit
Card 1	\$ 4,000	0	0%
Card 2	\$ 3,000	\$ 600	20%
Card 3	\$ 5,000	\$ 2,000	40%
Total	\$ 12,000	\$ 2,600	22%

Since you have not been using Credit Card 1, you decide to close it. Your debt does not change, but the total percentage of your debt compared with your credit limit will increase from 22% to 33%. The chart below shows the changes in your utilization rate:

	Credit Limit	Balance	Percentage of debt compared with credit limit
Card 1	0	0	Closed
Card 2	\$ 3,000	\$ 600	20%
Card 3	\$ 5,000	\$ 2,000	40%
Total	\$ 8,000 (less)	\$ 2,600 (the same)	33% (more)

**Diversify** – If you are managing your credit with success, then it may be time for you to diversify your credit profile. You can do this by acquiring another type of credit account. For example, if you have a credit card, you may open a secured loan. If you have a loan, you can open a credit card.

**Protect your credit** – Be careful not to co-sign for credit (loans) or to authorize other people to use your credit unless you are 100% confident that they will be financially responsible. Being a co-singer makes you legally responsible for the debt that the principal borrower accrues.

**Review your credit report** – Identify and correct errors that you find.

- ❖ Remember that information from collection accounts and public records generally will remain on your credit report for 7 years since the date that you stopped paying them. If you find incorrect information on your credit report you have the right to dispute the errors.

**Pay all your bills on time** (telephone, cable, internet, medical, rent, taxes, banks, etc.) – If you don't pay your accounts you run the risk of having the account sent to a collection agency. Having accounts in collections affects your credit score negatively.

Creditors can also bring a lawsuit against borrowers who owe them money. The reporting of judgments will seriously hurt your credit score.

- ❖ If you have an account in collections, try to negotiate a repayment plan.
- ❖ Be aware that paying a collection account will not improve your credit score. The report will show the account as paid, but the negative impact on your score will have already taken effect.
- ❖ Under state laws, debts expire after a certain period, and creditors lose the right to collect a debt.<sup>x</sup> In New York, the expiration of these debts is generally after 6 years but it depends on the type of debt.<sup>xi</sup>

**What to do if you have bad credit?**

- ❖ Begin by correcting information that should no longer be on your credit report.
- ❖ Keep in mind, that negative information that is correct cannot be erased from your credit report.
- ❖ Be careful with scamming companies that promise to fix your credit quickly and ask that you pay them upfront. These companies tend to ask for a signature of blank documentation to be used in the future. They also suggest that you do not contact the creditors directly.
- ❖ A secured credit card or secured loan are good options for rebuilding your credit.
- ❖ Develop a plan to pay back your debts over time.
- ❖ Attend a financial counseling session through this program.

**Participate in an individual financial counseling session, your counselor will help you create an action plan for improving your credit. Make your appointment today. All services are free!**

The content of this program was made possible thanks to the support of Citi.



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<sup>i</sup> <http://www.aspeninstitute.org/>

<sup>ii</sup> Information about the FICO credit score obtained from Fair Isaac Corporation.

<sup>iii</sup> Information about the FICO credit score obtained from Fair Isaac Corporation.

<sup>iv</sup> <https://www.consumer.ftc.gov>  
[www.annualcreditreport.com](http://www.annualcreditreport.com)

<sup>v</sup> <https://www.consumer.ftc.gov/articles/0155-free-credit-reports>

<sup>vi</sup> Fair Isaac Corporation

<sup>vii</sup> <http://www.consumerfinance.gov/askcfpb/47/what-is-a-grace-period-how-does-it-work.html>

<sup>viii</sup> Information about the FICO credit score obtained from Fair Isaac Corporation.

<sup>ix</sup> Information about the FICO credit score obtained from Fair Isaac Corporation.

<sup>x</sup> <https://www.consumidor.ftc.gov/articulos/s0117-deudas-prescriptas>  
<http://www.consumerfinance.gov/askcfpb/1447/what-best-way-negotiate-settlement-debt-collector.html>

<sup>xi</sup> <http://www.nycourts.gov>