

Choosing and Using Credit and Loans

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What is Credit?

Pros and Cons of Credit

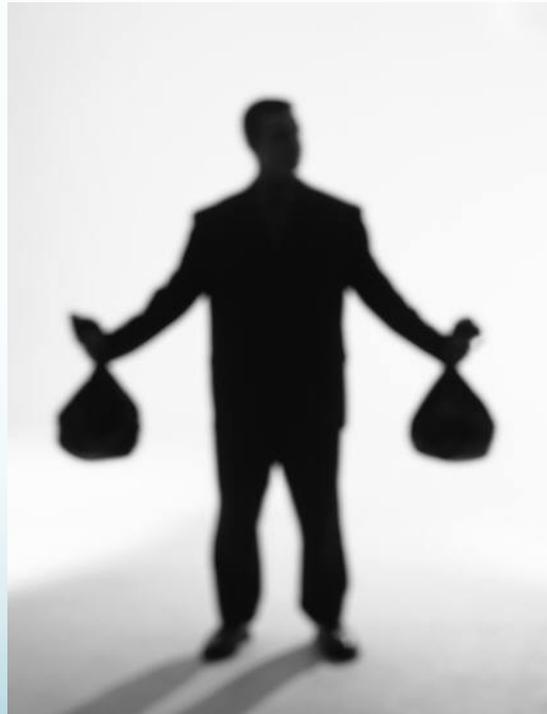
Money or service given with the expectation of repayment, usually with interest.

Pros

Purchases

Builds Credit

Emergencies



Cons

Interest

Too Easy

4 C's of Credit

- Character
- Capacity
- Collateral
- Capital



"Well, your morals seem to check out. Now we just need to run your credit report..."

What is a Credit Report and Score?

- Credit Report: a report that is compiled by credit reporting bureaus on an individual's history of debt, credit and borrowing behavior
- Credit Score: a number based on the analysis of an individual's credit reports that represents the creditworthiness of that person

What's on Your Credit Report?

- Personal Information
- Account Information
- Inquiries
- Collections
- Public Record Information
- Creditor's Contact Information

How is Credit Measured?

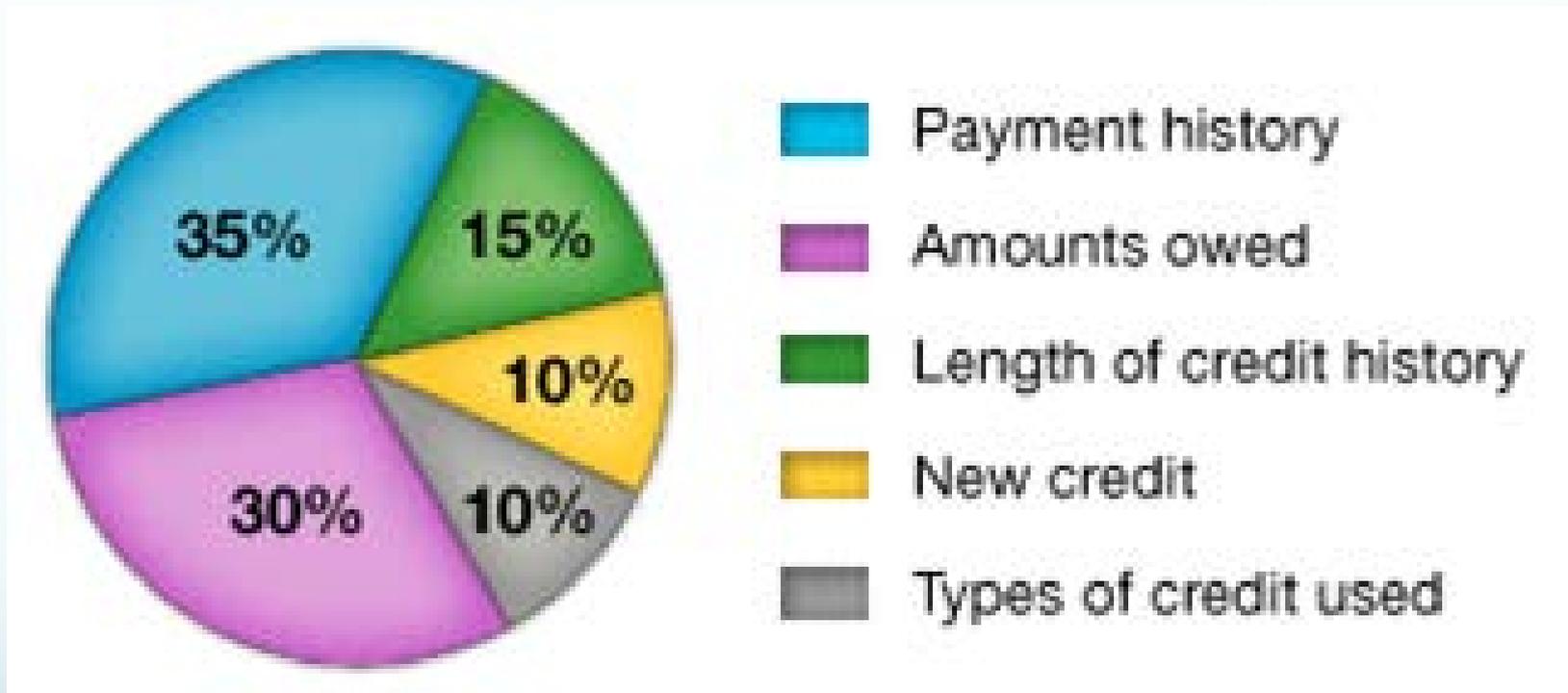


Chart is available at www.myfico.com

Why is Credit Important?





Credit Reports & Scores

- Three major credit reporting bureaus:
 - Experian
 - Equifax
 - TransUnion
- Retrieving your credit report
 - www.annualcreditreport.com
 - Call 1-877-322-8228

Disputing Incorrect Information

Sample Dispute Letter

Date
Your Name
Your Address, City, State, Zip Code

Complaint Department
Name of Company
Address
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,
Your name

Enclosures: (I list what you are enclosing)

Inform the credit reporting company, in writing, what information you think is inaccurate. Include copies of supporting documents.

Clearly identify each item in your report you dispute, state the facts and explain why you dispute the information, and request that it be removed or corrected.

Enclose a copy of your report with the items in question circled.

Send your letter by certified mail, “return receipt requested.”

Keep copies of your dispute letter and enclosures.

Pre-Approved Credit Offers

To stop receiving pre-approved credit offers:

Call 1-888-5OPTOUT

About Credit Monitoring Services

- Businesses who claim to check your credit for you-allow you access to your credit report & score at all times and alert you if there are any changes in your credit. Some companies offer help if ID theft occurs.
- Costs-\$10-15 a month
- "Credit monitoring is grossly overpriced," says Gail Hillebrand, Senior Attorney for Consumers Union which publishes Consumer Reports. Adds John Ulzheimer, President of Consumer Education for financial-information web site Credit.com: "I can think of a lot of other ways to spend \$150 a year " (Source: Smart Money)

Types of Credit

1. Installment
2. Revolving
3. Single Payment
4. Alternative or Non-traditional



How to Attain Credit

- Open a bank checking and savings account
- Secured Credit Account
 - Secured credit card
- Credit Builder Account
- Installment Credit Account
 - Department store cc
- Co-Signer/Authorized User

Terms You Should Know

- **APR (Annual Percentage Rate)** = the annual cost of using credit, expressed as a percent
- **Interest** = the cost of using credit
- **Balloon Payments** = A loan with a balloon payment requires that a single, lump-sum payment be made at the end of the loan.
- **Lien** = Legal document used to create a security interest in another's property.
- **Repossession** = A creditor's taking possession of property pledged as collateral on a loan contract on which a borrower has fallen significantly behind in payments.
- **Security (aka "collateral")** = Real or personal property that a borrower pledges for the term of a loan. Should the borrower fail to repay, the creditor may take ownership of the property by following legally mandated procedures.

Installment Loans

Examples:

- Car Loans
- Mortgages
- Furniture
- Jewelry
- Electronics
- Student Loans

Installment Loans

- Things to consider:
- Shop around for rates
- Be wary of variable rates
- Be wary of balloon payments
- Check for pre-payment penalties
- Check fees—points
- Check lender out carefully

Revolving Credit – Credit Cards

- APR-how long
- Fees
- Grace Period
- Cash Advances
- Rewards
- Secured vs. Unsecured



New Credit Card Laws

- Under 21 years old – need co-signer or prove ability to pay
- 45 days notice for most changes
- Payoff information
- Interest rate set for a year
- Have to opt-in for over-the-limit charges
- Payments directed to higher interest balance first

Alternative or Non-Traditional Loans

- Pawn Shop Loans
- Payday Loans (aka "cash advance loans" and "deferred deposit loans")
- Refund Anticipation Loans
- Rent-to-Own stores
- Stored Value Debit Cards (aka pre-paid debit cards)
- Vehicle Title Loans

Pawn Shop Loans

- Also known as a "collateral loan broker"
 - Loan offer based on the value of an item to be held as security.
 - Examples of security = electronics, video games/DVDs, jewelry, lawn equipment, musical instruments, firearms, etc.
- Customers receive a 30 to 45-day loan based on the value of his collateral/security - loan amount up to 33% of the value of the collateral.
- If customers do not repay the loan, they may extend the loan or the lender will sell the item to recoup the costs of the defaulted loan.
- Additional fees include: storage, insurance and maintenance.

Payday Loans

- Loans granted based on your anticipated income
- From the Consumer Federation of America:

"Payday loans are short-term cash loans based on the borrower's personal check held for future deposit or on electronic access to the borrower's bank account. Borrowers write a personal check for the amount borrowed plus the finance charge and receive cash. In some cases, borrowers sign over electronic access to their bank accounts to receive and repay payday loans.

Lenders hold the checks until the next payday when loans and the finance charge must be paid in one lump sum. To pay a loan, borrowers can redeem the check by paying the loan with cash, allow the check to be deposited at the bank, or just pay the finance charge to roll the loan over for another pay period."

- More payday lenders than McDonalds in the U.S.
 - Does not include online payday lenders
- In Maryland, loan rates are capped at 2.75% per month (33% APR)

Rent-to-Own Stores

- Not a loan/credit product; a lease agreement
- You make weekly, bi-weekly or monthly payments for household items (ex. appliances, electronics, furniture, jewelry, etc.)
- Cost of purchasing items through this arrangement is extremely costly.
 - Example: Mitsubishi 65" DLP HDTV - Medallion Series
 - \$4,678.96 at a RTO store
 - \$44.99/week for 104 weeks (26 months)
 - \$2,598 purchased online or at an electronics vendor
 - \$44.99/week for approx. 58 weeks (just over 14 months)

Stored Value Debit Cards

- More than 2,000 stored value programs are available, with roughly 7 million Visa- or MasterCard-branded stored value cards in the marketplace.
- Watch for fees!
 - Application/activation fee, transaction fee, ATM fee, maintenance fee, inactivity fee, reload fee, balance inquiry, customer service fee, etc.
- Lack of federal protections against negligence, fraud
- Can be less costly than check cashing services

Vehicle Title Loans

- A loan granted when a vehicle owner offers his title as collateral.
 - The vehicle must be owned outright (aka "clear title), with no other lien-holders and no current financing
- Loan amounts can be as high as 50% of the vehicle's value
- Characteristics
 - Usually 30 day loan-term
 - Lenders use GPS and automatic shut off devices
 - Depending on state law, interest rate can climb high into 3-digit APRs
- Prohibited in Maryland
- Online title lenders exist
 - DE & VA legislation does not prohibit the practice
- Also referred to as : "sales and leasebacks," "pawns," or even "motor vehicle equity lines of credit."

Rebuilding Your Credit

- “Bad credit, no problems” “We can erase your bad credit - 100% guaranteed”
- Avoid credit repair scams
- Carefully check any credit counseling service
- CCCS Money HelpLine 877-254-1097
- Self Help—dispute errors, contact creditors, create a budget, payment plans

Managing Debt

- Rip off the band aid—assessment of debt
- Create budget
- Emergency fund
- Call creditors
- Payment plan

Managing Debt

- How to choose what to pay first?
- Is putting credit card debt on HELOC good choice?
- Be wary of credit repair scams
- Choose a credit counseling agency carefully

Credit After Bankruptcy

- How long on credit report- 5 years; 7 years; 10 years?
- Assess behavior—and changes
- Budget—emergency funds; insurance
- Secured credit card
- Student loan repayment
- Installment loan

Credit Summary

- **Check your credit report**
- **Know your credit score**
- **Shop around for credit**
- **Pay bills on time**
- **Be in charge of debt**

Questions?