



Getting Smart *About Credit*

Credit...

HOW TO ESTABLISH IT

HOW TO USE IT WISELY

HOW TO DEAL WITH
PROBLEMS




Since 1966
CONSUMER CREDIT
COUNSELING SERVICE[®]
Serving Santa Clara through Ventura Counties

THE PEOPLE BEHIND THIS PAMPHLET

Consumer Credit Counseling Service of Santa Clara through Ventura County (CCCS) offers you this information as part of our ongoing effort to educate the public about credit issues. You have certain rights regarding credit, as well as responsibilities, and a thorough understanding of both is essential. It is especially important in today's economy, where credit is used so frequently.

Who is CCCS? We are a nonprofit organization dedicated to advancing consumer financial literacy. Founded in 1966, we provide counseling and education services on credit, debt, housing, and budgeting.

Everyone who contacts CCCS to seek help has a choice of phone, in-person, or online [www.gotdebt.org] counseling and education. Each consumer receives a comprehensive money management counseling session including a Money Action Plan (MAP)[™] with options and solutions for dealing with a financial crisis. One option may be enrollment in our Debt Solver Plan[™], a debt management plan under which CCCS adminis-

ters creditor payments on behalf of our customer. As a HUD certified agency, CCCS provides housing counseling on pre-purchase, reverse mortgage, and mortgage/rent delinquency. We also provide pre-bankruptcy counseling and pre-discharge education.

Providing sound advice about credit (and providing needed help to people in crisis) is what CCCS is all about. We are People Who Care.

To use our Online Credit Tools visit www.gotdebt.org and select Financial Tools & Education. You may also access your free credit reports at <http://www.freeannualcreditreports.us/>

Contents

<i>Do you need credit?</i>	3
<i>Using credit</i>	8
<i>Your credit report</i>	15
<i>Credit problems</i>	18
<i>Reestablishing your credit</i>	21
<i>Credit repair scams</i>	25
<i>Keeping financially fit</i>	28

DO YOU NEED CREDIT?

Every day, you decide whether to pay for goods and services with cash or credit. Either way, it's a choice that will reduce your income. If you pay cash, you spend money on hand, possibly money you saved until you were able to afford an item. If you use credit, you are, in effect, borrowing money to make your purchase. Your cost may include an interest charge and payments must be made with future income.

No universal formula can determine your need for credit or how much you can safely handle. Everyone has different wants and needs.

How does credit affect you?

It's important to establish a solid credit history. Your credit worthiness will not only affect your ability to get a loan or purchase goods and services on credit.

It also affects:

Convenience. Renting a car, making hotel reservations and hundreds of other transactions are much easier if you have a credit card.

Interest rate. Individuals with better credit records pay less interest on loans than those who are considered greater credit risks.

Employment. Some employers require a credit bureau report. Poor credit could mean that you are not offered the job.

Living accommodations. Landlords regularly request credit bureau information for applicants seeking apartments. Landlords do not want tenants who are late paying rent.

How do you qualify for credit?

When you make a purchase, you expect quality goods and services. A creditor expects a consumer to pay as promised. In order to establish credit, you need to show that you are "creditworthy" —in other words, that you can handle credit responsibly.

When you apply for credit, creditors consider:

Ability to repay. The creditor wants to know whether your income will enable you to meet credit obligations. Past income and obligations are part of the equation. How many other credit commitments do you have? Will another monthly bill strain your budget?

Assets. The creditor will be interested in what you own. What is the value of your home, car, savings account, life insurance, etc.? Your total financial situation will be considered. For a secured loan, the creditor will want to know what items you have of value that will be available to the creditor in the event you do not repay the loan.

History. If you have used credit previously, a creditor will want to know whether you paid as promised. Did you pay on time and pay the full amount? If you have never used credit, a creditor must make an assumption as to whether you will be an acceptable credit risk.

Stability. Creditors have found that people who change jobs and addresses frequently represent greater risks than people who do not. Stability in employment and residence is extremely important when creditors evaluate applications from people without credit history.

It's important that your credit application provides accurate and honest information concerning employment, income, and other items. The information may be verified with local credit bureaus, your employer, and your landlord.

How do you establish credit?

If you have had trouble getting credit or have not yet applied, here are steps you can take:

Maintain a checking account in good standing. This also indicates stability. Also, choose a financial institution that offers credit cards.

Make regular deposits into a savings account. If the institution allows, use your savings as collateral to secure a small loan.

Repaying the loan promptly will build your credit history.

Apply for a credit card at a department store or other retailer. Build your creditworthiness by repaying the account as required.

Join a credit union. All credit unions offer savings (share) accounts and most offer interest-bearing checking (share draft) accounts. Many have full-service loan departments, offering credit cards. With very competitive interest rates, these cards are designed to assist members in establishing credit. While a credit union will normally offer lower lending rates, it may not report to local credit bureaus.

How do you apply for credit?

A simple way is to apply at a department store. Generally, if you have not had credit previously, such a card is the easiest to obtain.

After you complete the application, the store will check the information you supplied to determine whether you are an acceptable credit risk.

If the store extends you credit, the store will give you a spending limit and send you a card. The information enclosed with the card is the credit agreement.

Instead of, or in addition to, a department store credit card, you may want to apply for a bank credit card, such as a Visa or MasterCard. While they may be more difficult to acquire, these cards can be used in numerous retail stores and restaurants. Applications are available through banks and credit unions, and through retail outlets that honor the cards.

Most bank credit cards require a minimum salary and several credit references. If you meet their requirements, you will be able to obtain the card. Travel and entertainment cards, such as American Express and Diner's Club, are more difficult to obtain without previous credit use.

You can also apply for a bank loan. When you don't have a credit record, the bank or other lending institution may require you to have a co-signer. A relative or friend will also be asked to sign the contract and be responsible in case you do not meet your payment.

What questions will you be asked?

- ▶ Full name
- ▶ Social Security number
- ▶ Address
- ▶ Length of stay at present residence
- ▶ Previous address
- ▶ Occupation
- ▶ Employer
- ▶ Length of employment
- ▶ Age
- ▶ Banking references
- ▶ Total monthly income and sources of income

▶ Preference for individual or joint account (the latter requires information on, and signature of, both individuals)

To avoid delays in processing, answer all questions. The creditor will use the information in your application to determine if you can handle the amount of credit you are requesting.

Why may you be denied credit?

If you are denied credit, the reason may be that you have little experience using credit or have only worked a short time. You may choose to apply at a few other stores, or wait six months and try again. Each creditor sets its own criteria. However, it is critical that you do not apply at every available store. These inquiries will be noted in your credit history on your credit report and could make it appear that you are seeking more credit than you need or could afford.

Equal Credit Opportunity Act

The Equal Credit Opportunity Act prohibits a creditor from discriminating against a consumer on the basis of age, sex, marital status, or reliance on income from a public assistance program.

In addition, a credit application cannot request information pertaining to a consumer's sex, race, color, religion, or national origin. It cannot inquire about birth control practices or intentions to have children. In the case of unsecured individual credit, the creditor may not inquire about marital status, or generally request information about a spouse or former spouse. If a creditor denies an individual's application for credit, the applicant must be notified within a 30-day time period. Included in the denial shall be a statement of the reason for the denial of credit, an explanation of the Equal Opportunity Act and the name and address of the agency that enforces the Act.

Other possible reasons for you to be denied credit are:

- ▶ Lack of credit references
- ▶ Insufficient income
- ▶ Irregular or temporary employment
- ▶ Too short a period of residency or employment
- ▶ A bad credit history

With the exception of a bad credit record, you can generally handle the other concerns within six months or a year. By law, you have a right to know why you were denied credit.

USING CREDIT

Understanding your rights, along with the costs and the benefits of using credit, is very important when you purchase goods or services with a credit card or obtain a loan.

What are the advantages of using credit?

- ▶ Establishes your credit history
- ▶ Lets you buy big items like a car or furniture
- ▶ Helps you track purchases with monthly statements
- ▶ Makes purchases more convenient
- ▶ Helps you take advantage of sales

What are the disadvantages of using credit?

- ▶ Future earnings committed for payment
- ▶ Finance charges may be added to purchase cost

▶ Possible to purchase beyond your means

▶ Misuse results in poor credit record

▶ Possibility of lost or stolen cards

What are the types of credit?

There are four main types of credit transactions:

▶ **Unsecured, open-ended credit**, most frequently in the form of a credit card purchase. For example, Tom goes shopping for a new suit and uses a credit card to pay for it. In this credit agreement, the borrower has a line of credit available for a specific limit, backed only by his or her creditworthiness. A borrower must make at least a minimum payment each month based on the outstanding balance. However, when a borrower pays the entire balance each month, it ensures that the individual has borrowed no more than can be repaid promptly.

► **Secured, closed-end credit**, such as a mortgage or car loan. When Tom and Martha decide to buy a house, they go to a bank or mortgage company to obtain mortgage financing. Mortgage loans are secured by real estate collateral; payments are scheduled over a specified period of time, typically 15 to 30 years. In the case of a car loan, the new or used vehicle being financed is the collateral or security.

► **Secured, open-ended credit**, also known as open-ended equity credit. In this instance, Martha and Tom already own a home and they apply for a home equity line of credit to obtain funds for home improvements, a vacation, college expenses, or home furnishings. These loans are secured by the borrowers' properties and the amount of the loans are based on home equity (the difference between the original mortgage and the market value of the property as determined by a professional real estate appraiser).

► **Unsecured, closed-ended credit**, the traditional bank or finance company loan. The bank makes Tom and Martha a loan without requiring collateral, bas-

ing their ability to repay solely on the basis of their creditworthiness. Often referred to as a "signature loan," payments are made over a fixed number of years.

How do you compare credit charges?

When choosing a credit card or obtaining a loan, shop for the best credit terms as you would with any other product or service. The interest or finance charges for credit cards and loans are based on an annual percentage rate, known as the APR. However, the methods to compute finance charges—which are based on how the balance is calculated—will result in different amounts.

The three main ways of figuring balance are:

1. **Average daily balance.** The credit card company averages your daily balances over a 30-day billing period and applies the APR to that average daily balance.

2. **Adjusted balance.** The auto finance company subtracts payments you made during the month from the total balance, then applies the APR to this adjusted amount.

3. **Previous balance method.** The furniture store figures the finance charge on the amount owed at the beginning of the billing period.

There are also variations on these methods. Some lenders provide a “grace period”—that is, a period free of interest charges—between the end of a billing cycle and the date you must pay to avoid a finance charge. Annual fees, late fees and fees for charging more than your credit limit are also common. In addition, some credit cards have variable rate provisions determined by purchase charges or cash advance charges.

Examine the range of credit terms carefully and select those that best fit your credit needs and payment habits.

How do you measure how much you can charge on credit?

To determine how much is safe for you to buy on credit, prepare a family or individual spending plan. This plan will help you prioritize how and where to spend the money you earn. In developing a spending plan, first provide for necessities such as food, clothing, and mortgage or rent. Then list major expenditures such as auto loans, insurance, utilities, and other fixed obligations.

A good guideline is to spend no more than 15% to 20% of your net income (after taxes) on short-term credit purchases. For example, an individual with an income of \$1,000 per month after taxes should spend no more than \$200 per month on credit purchases.

The 20% estimate is based on a typical family with normal expenses and does not take into account any major emergencies. You need to adjust this amount depending on your own expenses. If you are just beginning to use credit, you would be wise to limit your obligations to 10% to 15% of your net income.

Another good rule of thumb is to spend no more than you can afford to pay off in 12 months. This applies only to short-term debts and does not include car loans or college education expenses. If, for instance, you have two loans totaling \$2,000 at 18% interest on which you are paying \$100 per month, it would take 24 months to repay the loans. To pay them off within 12 months, you would need to increase the payments by \$83 a month to \$183.

In the final analysis, only you can determine the exact amount of credit you need and can handle responsibly. This requires taking into account your income, current obligations, and financial plans for the future. Each individual must be his or her own credit manager.

How do you maintain a good credit history?

Pay your bills on time. If for any reason you cannot pay, contact your creditors immediately to discuss your situation.

Creditors are generally flexible when changes in your life make it difficult to repay debts. In order to be paid, creditors may work out a repayment schedule to fit your circumstances that may not harm your credit record. If you ignore a creditor's attempts to contact you, it will result in damage to your credit record.

Once a creditor reports negative information to the credit bureau, it remains in your file for seven years. With the passage of time, however, negative information will become less damaging. Unless the information is wrong or has remained on your credit report for longer than the allowable period, there is no legitimate way to have it removed. The best way for you to minimize damage is for you to get the account up to date and start paying on time every month.

Truth in Lending Act

The Truth in Lending Act requires creditors to provide consumers with accurate and complete credit costs and terms. All terms must be disclosed in a clear and conspicuous manner and in a form available to the purchaser. The creditor must clearly display the finance charge and the annual percentage rate.

The issuer of a credit card or charge account must display:

- *The cost of credit*
- *How and when the interest will be charged for the account*
- *Any annual fee or service charge*
- *Statement of the consumer's billing rights*
- *Other terms and conditions of the credit agreement*

The creditor also must send statements on all credit accounts that have a debit or credit balance at the end of the billing cycle. This statement must show:

- *Previous balance*
- *Debits and credits in the billing month*
- *Periodic rate and corresponding annual percentage rate*
- *Finance charges imposed that month*
- *New balance*
- *Explanation of how the new balance was determined*

For a loan with a fixed term, creditors must display information that accurately explains:

- *Total amount financed (reflecting any down payment)*
- *Total dollar amount of payments*
- *Payment schedule*
- *Any required collateral in case of default*
- *Other terms and conditions of the loan*

Fair Credit Billing Act

The Fair Credit Billing Act allows consumers to correct errors on their credit cards, or charge accounts in a speedy and effective manner. Consumers must dispute changes in writing (other than on the bill) within 60 days. Payment should continue to be made for the part of the bill not in dispute. The creditor must acknowledge the written complaint within 30 days, and investigate and notify the consumer of the action taken within a maximum of 90 days.

Consumers cannot be billed or forced to pay the disputed amount until the investigation is finished. Nor do they have to pay any finance charges on the disputed amount while it is under investigation. However, if it is determined that the bill is correct, the consumer must pay the finance charges. During the investigation of a disputed charge, the creditor may not report the consumer as delinquent to a credit bureau.

What if you have a complaint?

If you have used credit and are withholding payment because of unsatisfactory service or products, be sure you communicate in writing with the creditor, explaining why you are withholding payment. Send a separate letter—that is, don't just write a note on the bill. Keep copies of correspondence. Also keep records of your telephone calls with the date, time and the person with whom you spoke.

There may be a valid reason for withholding payment, but unless the creditor is informed in writing, the assumption will be that you are not meeting your obligation.

GLOSSARY

ANNUAL PERCENTAGE RATE (APR). Rate of interest computed on a yearly basis and expressed in terms of a percentage.

BALANCE. Amount of loan remaining to be paid, sometimes known as the “outstanding balance.”

CHARGE ACCOUNT. Arrangement permitting the customer to buy goods and services now and pay for them later.

COLLATERAL. Item of worth that serves as security for a loan.

CREDIT. Based on trust, that goods and services received now will be paid for in the future.

CREDIT CARD. Plastic card issued by a creditor, representing a type of charge account which allows individuals to obtain cash, goods, and services according to and within the dollar limits of an established credit arrangement.

CREDIT UNION. Cooperative association which extends savings opportunities and credit to its members.

CREDITWORTHINESS. Creditor evaluation of your ability to incur and repay debts.

DEFAULT. Failure to fulfill a credit obligation.

DISCLOSURE STATEMENT. Statement giving all the terms and conditions of the credit transaction.

EQUITY. Money value of a property—or of an interest in the property—in excess of claims or liens against it.

FINANCE CHARGE. Amount charged for the use of credit services.

INTEREST RATE. Amount paid for the use of credit over a period of time, expressed as a percentage.

LINE OF CREDIT. Dollar amount lender makes available to the borrower.

MORTGAGE. Pledge of property accompanying a loan that acts as security for payment of the loan and its interest.

OVERLIMIT. Charging more on a line of credit than has been authorized.

PRINCIPAL. Original sum borrowed.

REVOLVING ACCOUNT. Repeated use of line of credit until a specified limit.

SECURITY. Something of value pledged to assure loan repayment and subject to seizure upon default.

YOUR CREDIT REPORT

When you apply for credit, the credit grantor reports this information to a credit reporting agency, which collects information on how consumers use credit. The agency establishes a file on you. As you use credit, your credit report provides a record of whether you paid as agreed (on time according to scheduled payments). Based on your payment record, other credit grantors determine whether to provide credit to you.

By law you have a right to see what is in your file. It is recommended you review your report every year to verify its accuracy, document any corrections and update items such as address, employer or marital status.

How do you obtain a copy of your credit report?

There are three major credit reporting agencies: Equifax, Experian, and Trans Union. To obtain your credit report from any of these three agencies, you must provide the following information:

- ▶ Full name
- ▶ Current address
- ▶ Previous address (if within five years)

- ▶ Social Security number
- ▶ Date of birth
- ▶ Signature

Each of these credit reporting agencies generally charges a small fee.

You can receive free annual credit reports from the three nationwide consumer reporting companies. They have set up a central website, a toll-free telephone number, and a mailing address through which you can order your free annual report. To learn more about getting a free report you can visit the website of the Federal Trade Commission at <http://www.ftc.gov/bcp/online/pubs/credit/freereports.shtm>

To order your free report, visit www.annualcreditreport.com, call 1-877-322-8228, or complete the Annual Credit Report Request Form and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

[Do not contact the three nationwide consumer reporting companies individually. They are providing free annual credit reports only through annualcreditreport.com.

If for any reason you want to contact the bureaus separately, their contact information follows:

- ▶ Equifax at 1-800-684-1111 (www.equifax.om)
- ▶ Experian at 1-800-682-7654 (www.experian.com)
- ▶ Trans Union at 1-800-916-8800 (www.transunion.com)

When you obtain your credit report, it includes an explanation of how to read it. If you have a problem understanding its contents, a certified credit counselor will be able to help you. To schedule a Credit Report Review, contact CCCS at (800) 540-2227.

What can you do if there is negative information in your report?

If you discover negative information in your credit report--and the information is correct--you can:

- ▶ Pay any balances so that creditors can update your file
- ▶ Wait the required length of time for negative information to be taken off. Credit agencies must automatically delete negative information which is more than seven years old, with the exception of bankruptcies which may remain for 10 years
- ▶ Write a brief statement to be

included in future reports. While the law limits this information to disputes, most credit agencies will include explanations, such as unemployment, divorce, or medical emergencies

What can you do if there is incorrect information in your report?

If you find there is incorrect information in your credit report, you can:

- ▶ Request, in writing, an investigation that will usually be made within 30 days.
- ▶ Contact the creditor in writing. If the problem is not resolved, the creditor must report your dispute to the credit reporting agency.
- ▶ If any deletion or notation is made regarding the incorrect information, you may request that the new information be sent to an employer who has received a credit report during the past two years and anyone else who has requested credit information in the previous six months.

Fair Credit Reporting Act

When a credit grantor denies credit to a consumer, the creditor must provide the reason for the denial. If a credit report has been obtained, you must also be given the name, address, and telephone number of the agency that provided your credit history.

If credit was denied because of negative information in the credit report, the applicant may obtain a copy of the file from the credit reporting agency—at no charge—within 60 days.

Upon contacting the credit reporting agency, the consumer has the right to know the nature and substance of all information contained in the credit report. The consumer also has the right to be informed about the sources of information, as well as the names of employers, creditors, and others who have recently received a copy of the credit report.

The consumer may make a written request for an investigation of any inaccurate information. If the credit reporting agency learns that the information is inaccurate or cannot be verified within 30 days, the information must be corrected or deleted. However, if the information is verified at a later date, it can again be included on the credit report. The consumer may also write an explanatory statement of no more than 100 words to be included in all future reports.

If a deletion or notation is made regarding the information, the consumer may ask for the new information to be sent to any employer who has received a credit report during the past two years along with anyone else who has requested credit information in the previous six months.

Credit reporting agencies must automatically delete information which is more than seven years old. Exceptions are:

Bankruptcy declarations, which may be reported for ten years

Default judgments, which may be reported for 10 years and remain on the credit record until satisfied.

Any organization with a legitimate business reason for needing the information can request a consumer's credit history from the credit reporting agency to which it subscribes.

What if you have a poor credit report?

If you do not pay your bills on time, you will have a poor credit history. While negative information cannot be removed, it will become less damaging with the passage of time. You can help yourself by getting your account up to date and continuing to pay on time. In order to ensure a good credit history, take on only

as much debt as you can handle. If you are not sure how to determine this amount, you can get help from a certified counselor at CCCS. This counselor will work with you to set up a realistic budget, help you manage your money, and improve your handling of credit.

CREDIT PROBLEMS

For some individuals and families, purchases with credit cards result in overdue bills because of overspending or unexpected expenses. To find out if you have credit problems, take this quiz:

QUESTION:

Place a check next to your answers.

1. Do you only make the minimum payments on your credit cards?

Often *Sometimes* *Never*

2. Are you late in paying your bills?

Often *Sometimes* *Never*

3. Do you pay with credit for groceries and other items for which you should pay cash?

Often *Sometimes* *Never*

4. Do you put off medical or dental visits because you can't afford them right now?

Often *Sometimes* *Never*

5. Are you getting calls or letters from creditors?

Often *Sometimes* *Never*

6. Do you worry about how much money you owe?

Often *Sometimes* *Never*

If you answered “often” or even “sometimes” to any of the questions, you could be in financial difficulty. You should take steps to reexamine your priorities and set up a budget to repay your debt.

What if you cannot meet a credit payment?

Work with your creditors to find a way to pay off your debts.

Generally, creditors are willing to assist you in a difficult situation.

There are four steps:

1. **Call the credit manager,** merchant, or lender. Explain your circumstances. Perhaps you have had a job loss, illness, or other family emergency that prevents you from keeping up with your payments.
2. **Discuss** your future financial situation with your creditors to work out a plan for repaying the debt. Make sure your plan is realistic. Don't make false promises that you will be unable to keep.
3. Do your best to **follow** that plan.
4. **Keep in contact** with your creditors until the problem is resolved.

If you want help, what can you do?

A certified credit counselor at CCCS can assist you. In a confidential counseling session, your counselor will analyze your personal financial data, such as monthly income, spending priorities, and savings patterns, and will advise you about successful money management methods. You will receive a customized Money Action Plan (MAP)[™] to help you. With proper budgeting, you may be able to pay off your debt as scheduled.

If there is no way you can make your payments as currently scheduled, the counselor may propose a Debt Solver Plan[™] under which the counselor contacts your creditors to work out repayment. The Debt Solver Plan has a dual role: helping you repay your debts, and helping creditors receive the money owed to them.

With a Debt Solver Plan, you make consistent monthly payments to the counseling agency, perhaps with a small monthly fee to cover administrative costs. The agency, in turn, negotiates with your creditors for terms you can meet (extended time for payment and/or less interest) and handles paying the creditors.

You will learn to track spending and set aside money for future expenses and emergencies while managing repayment of your previous debt. You may also take classes on managing your money to prevent credit problems in the future.

How CCCS is financially supported.

The majority of funding consists of voluntary contributions from creditors who participate in Debt Solver Plans. Since creditors have an interest in getting paid, most are willing to make a contribution to help fund counseling agencies.

Contributions are usually calculated as a modest percentage of payments made under Debt Solver Plans. Rest assured that your accounts with creditors are always credited with 100% of the amount you pay through an NFCC member agency. Also, CCCS works with all of your creditors, regardless of whether they make a contribution. CCCS also receives some funding from the U.S. Department of Housing and Urban Development (HUD), and from bankruptcy counseling fees paid by consumers.

Fair Debt Collection Practices Act.

When a creditor employs an outside collection agency to obtain the money outstanding on a delinquent loan, the Fair Debt Collection Practices Act outlines legal debt collection practices. Therefore, the collection personnel **cannot**:

- ▶ Use abusive language to coerce a consumer into making a payment
- ▶ Call at unreasonable hours (which are considered to be before 8:00 a.m. or after 9:00 p.m.) or make excessive calls
- ▶ Threaten to notify an employer or friends that a consumer has not paid his or her bills
- ▶ Use false pretenses to gain entry to a home with the intent to identify or take something of value
- ▶ Attempt to collect more than is owed
- ▶ Send a consumer misleading letters that appear to be from a government agency or court of law

REESTABLISHING YOUR CREDIT

The ability to obtain credit heavily influences an individual's participation in our economy. It affects not only whether you can obtain a loan or purchase goods and services on credit, but may also affect employment, living accommodations, or ability to obtain insurance.

If you have a poor credit history, it will take time for you to regain your credibility with credit grantors. You must be able to show that in spite of previous debt problems, you will not handle credit in a financially irresponsible manner. Here are six steps you can follow to assist in this process:

1. Develop a budget to repay and reduce your debts.

To start improving your credit record, repay your debts. Determine how much you can repay each month until you have paid off what you owe. Then, pay your bills on time. Lenders generally will look more favorably on individuals who have solved debt problems than those who ignore them.

It will help to restore your credit if you can bring your debt balance to zero.

Create a budget that allows you to reduce your debt. If you would like help in budgeting or assistance in developing a realistic repayment

schedule, you may wish to contact CCCS.

Helping you deal with debt is the fundamental service offered by our agencies. To find the office closest to you, call our toll-free number at 1-800-540-CCCS (2227) or visit us online at www.gotdebt.org

2. Design a plan to manage your money.

Often people develop financial problems because they overextend their obligations by using credit. In order to reduce the likelihood that you will have trouble paying your bills again and to help you reduce debt, you must analyze your spending habits, create financial goals, and set spending priorities.

CCCS has a worksheet to compare how you spend your money now and how you should be spending. It is called Manage Your Money. Result: you begin to take control of your finances. An online course is also offered, called Better Fortunes, Control Your Money.

3. Pay with cash.

Even if you have credit available, you are more likely to change your spending habits by not using it. When you pay with cash or even a check, it forces you to recognize that the money you can spend is

limited to the amount of funds you have in your checking account.

Banks also issue “check cards” that also debit your checking account immediately. If you do use one of these check cards, make sure you keep track of all debits and deduct them promptly from your check-book balance to avoid overdrawing your account.

Again, only you can set the priorities and make the choices about what you can afford to buy with cash.

4. Obtain your credit report.

When you have developed a new, more responsible spending pattern, you may decide to obtain a copy of your credit report to see how this new pattern is reflected by the reporting agency. This will give you a sense of whether the time is right to apply for any new credit.

For more information on how to obtain your credit report:

SEE PAGE 15

When you obtain your credit report, it includes an explanation of how to read it. If you have a problem understanding its contents, often a certified credit counselor will be able to help you. To schedule a Credit Report Review, contact CCCS at 800-540-CCCS (2227).

If you believe there is an error in your file, you can dispute the information by writing the credit bureau or completing an online dispute form with the bureau. The bureau will investigate your claim with the creditor. If the creditor states that the information is accurate, and after you write to the creditor there is still a disagreement, you may submit a brief written statement for your credit record with your explanation of the dispute.

Review Your Credit Score

Your credit score is a snapshot of your credit history and most creditors use your credit score to determine credit worthiness. It is recommended that you review your credit score in addition to your credit bureau reports.

You can purchase your credit score and use the score simulator to learn what you can do to improve it. Go to:

www.gotdebt.org,

select “Your Credit,” and click on the “ScorePower” icon towards the bottom of the page. Use the simulator to learn what steps you can take to improve your score.

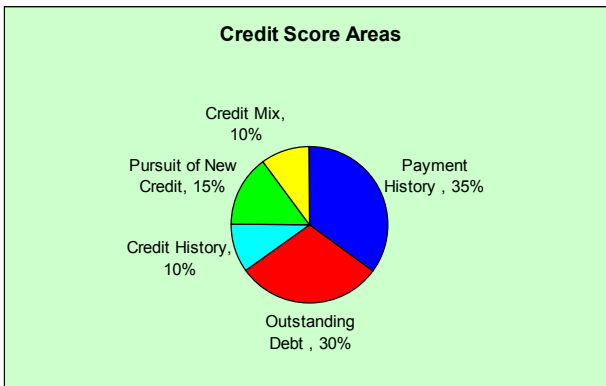
The better your score the better your interest rate. Also remember that good credit can save you tens of thousands of dollars in interest over your lifetime. The five areas that impact your credit score are in the graph below.

5. Apply for unsecured credit.

A local department store may be more likely to issue you a credit card than a national creditor. If you can offer a reasonable explanation for your past credit behavior and show that you are financially responsible, a local creditor may extend credit to you. Once you obtain a credit card and pay your bills promptly for a reasonable length of time, your credit line will probably be increased.

However, if you cannot get a department store card, you can begin by purchasing an item on a layaway plan. When you show you are a reliable customer, the store will be more inclined to provide you with a credit card.

Remember, you do not want to try more than a few stores to obtain credit because all creditor inquiries



will appear on your credit report. Too many inquiries may cause creditors to think you are applying for more credit than you can afford, and they may reject your application.

By providing a security deposit, you may be able obtain a signature loan – that is, borrow a small amount using the savings account as collateral.

6. Apply for secured credit.

Credit is secured when something of value is pledged to assure loan repayment. There are several alternatives for obtaining secured credit. Some financial institutions will issue you a secured credit card with a deposit. Generally, you will obtain a credit line equal to or one-and-a-half times your deposit. The deposit acts as collateral from which the institution can draw if you do not pay on time. However, as with any credit application, you often will be required to have a minimum salary and minimum length of residence to be accepted for secured credit.

Another alternative is to secure credit through access to credit cards maintained by your parents or spouse. You may also have a relative or friend who will co-sign a loan. Another option is to provide an “enhanced down payment” which might be as much as 50% of the purchase price.

Also, if you do not have telephone, gas, or electricity service in your name, you may try to open accounts with these utility companies

CREDIT REPAIR SCAMS

You see the ads in newspapers, on TV, and on the Internet. You hear them on the radio. You get fliers in the mail. You may even get calls from telemarketers offering credit repair services. They all make the same claims:

- ▶ “Credit Problems? No problem!”
- ▶ “We can erase your bad credit—100% guaranteed.”
- ▶ “Create a new credit identity—legally.”
- ▶ “We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!”

Do yourself a favor and save some money, too. Don’t believe these statements. They’re just not true. Only time, a conscientious effort, and a plan for repaying your debt will improve your credit report.

The Warning Signs

If you should decide to respond to an offer to repair your credit, think twice. Don’t do business with any company that:

- ▶ Wants you to pay for credit repair services before any services are provided

- ▶ Does not tell you your legal rights and what you can do yourself—for free
- ▶ Recommends that you not contact a consumer reporting company directly
- ▶ Suggests that you try to invent a “new” credit report by applying for an Employer Identification Number to use instead of your Social Security number
- ▶ Advises you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

You could be charged and prosecuted for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. It’s a federal crime to make false statements on a loan or credit application, to misrepresent your Social Security number, and to obtain an Employer Identification Number from the Internal Revenue service under false pretenses.*

The Credit Repair Organizations Act

By law, credit repair organizations must give you a copy of the “Consumer Credit File Rights Under State and Federal Law” before you sign a contract. They also must give you a written contract that spells out your rights and obligations. Read these documents before signing the contract. The law contains specific consumer protections. For example, a credit repair company cannot:

- ◆ *Make false claims about their services*
- ◆ *Charge you until they have completed the promised services*
- ◆ *Perform any services until they have your signature on a written contract and have completed a three-day waiting period. During this time, you can cancel the contract without paying any fees.*

Your contract must specify:

- ◆ *The total cost of the services*
- ◆ *A detailed description of the services to be performed*
- ◆ *How long it will take to achieve the results*
- ◆ *Any “guarantees” they offer*
- ◆ *The company’s name and business address*

Where to Complain

If you’ve had a problem with any of these scams described above, contact your local consumer protection agency, state Attorney General (AG), or Better Business Bureau. Many AGs have toll-free consumer hotlines. Check with your local directory assistance.*

*[*Credit Repair Scams information provided by the Federal Trade Commission, “Building a Better Credit Report.” The Federal Trade Commission enforces a number of credit laws and has free information about them.]*

[About “Credit Repair Scams,” and other available materials from the Federal Trade Commission. The FTC enforces a number of credit laws and has free information about them.]

*The **Equal Credit Opportunity Act** prohibits the denial of credit because of your sex, race, marital status, religion, national origin, age, or because you receive public assistance.*

*The **Fair Credit Reporting Act** gives you the right to learn what information is being distributed about you by credit reporting companies.*

*The **Truth in Lending Act** requires lenders to give you written disclosures of the cost of credit and terms of repayment before you enter into a credit transaction.*

*The **Fair Credit Billing Act** establishes procedures for resolving billing errors on your credit card accounts.*

*The **Fair Debt Collection Practices Act** prohibits debt collectors from using unfair or deceptive practices to collect overdue bills that your creditor has forwarded for collection.*

The FTC works for the consumer to prevent and help consumers identify fraudulent, deceptive, and unfair business practices in the marketplace. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free: 1-877-FTC-HELP.

The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.]

KEEPING FINANCIALLY FIT

Solving credit and debt problems is a long and arduous process. There is no magic formula or easy way out. Recent studies show that bankruptcy sometimes touted as a quick fix to debt problems, does not always give consumers the “fresh start” they thought it would. In the final analysis, good personal financial management requires discipline and a responsible approach to spending income and using credit wisely.

If you’ve managed to work your way out of credit problems successfully, the last thing you want to do is end up in the same fix again! Remember CCCS is there for you whenever you need it. Our website www.godebt.org has an excellent money management education course called *Live a Richer Life*.

If you’ve started to get out of shape financially, give us a call. Remember, we’re the People Who Care in credit counseling.

NOTES



*Consumer Credit Counseling Service
Santa Clara through Ventura Counties*

*80 N. Wood Road, Suite 200
Camarillo, CA 93010*

*(800) 540-2227 (CCCS)
www.gotdebt.org*