MANAGING CREDIT WISELY

LIFE SKILLS SERIES: BASIC SKILLS FOR LIFELONG SUCCESS
A PROJECT OF REENTRY ESSENTIALS

THIS PROJECT WAS MADE POSSIBLE THROUGH THE GENEROUS SUPPORT OF MARTY SOKOLOFF OF GOOD GROCERIES

MANAGING CREDIT WISELY

REENTRY
ESSENTIALS, INC.

Life Skills Series
Basic Skills for Lifelong Success

Please read:

Talk to a professional! This workbook is not a substitute for the advice of a qualified expert.

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This workbook belongs to:

____

You may find it helpful to keep important names and phone numbers handy.

Write them below.

Bank/credit union

Name ____

Phone ____

Website ____

Credit card companies

Name ____

Phone ____

Website ____

Name ____

Phone ____

Website ____

Mortgage lender

Name ____

Phone ____

Website ____

Credit/debt counselor

Name ____

Phone ____

Other important numbers

____

____

____

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____

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USED WISELY. CREDIT CAN BE A HELPFUL TOOL.

Credit comes in different forms.

These include:

- credit cards
- auto and personal loans
- home mortgages

Credit allows you to borrow money, with the promise to repay the loan over time or at a later date.

Credit isn't free money. In addition to paying back what you borrowed, you will likely have to pay interest and fees.

Managing credit is a skill.

The keys are to:

- understand credit
- know when to use credit and when not to use it
- manage debt the right way
- get help if you need it

Having good credit can help you reach your goals.

Having credit problems can hurt your chances of getting the things you want most.

This workbook can help you take control of credit.

CONTENT

HAVING CREDIT HAS ADVANTAGES.

Credit can help if you are:

Planning to buy a home

For many people, buying a home is an important long-term goal. A mortgage loan lets you pay for a home over a long period of time. This can help you enjoy the benefits of owning a home sooner than if you had to save for the whole home price. For example, you can:

- avoid paying rent
- build equity (ownership) in your home as you make regular payments
- deduct interest payments from your taxes

Making large purchases

Paying with a loan or credit card can make sense when you plan to purchase large items that will be useful for a long period of time. These items can include:

- a vehicle
- a major appliance

Paying for an education

Education can be a smart investment in a person's future. You may choose to borrow money to pay educational expenses for:

- your child
- your spouse
- yourself

Starting or investing in a business

Borrowing money to make a business investment, or to start a business, can help you or your spouse reach your financial goals.

Facing an emergency

Credit can help you pay for events you don't plan for, such as:

- fixing a vehicle
- replacing an appliance

Traveling

If you travel, a credit card can offer convenience and security. For example, you can:

- avoid carrying a lot of cash
- pay for items and services at businesses that don't accept checks
- keep track of purchases you've made
- get the best exchange rate when traveling out of the country

Shopping online or by phone

Paying with a credit card can be faster and easier than paying by check.

MISUSING CREDIT CAN COST YOU.

Credit is not a tool for living beyond your financial means. Misusing credit can lead to:

Overspending

Credit is not meant to pay for everyday expenses. You may end up spending more than you make if you use credit for:

- clothing and household goods
- car payments
- groceries
- eating out and entertainment

If you don't pay your entire credit card balance each month, you will have to pay interest charges, which could be very high.

Budget trouble

Having to make regular payments on credit cards and loans may mean you have less money to:

- pay necessary monthly expenses, such as utility bills and insurance premiums
- build your savings

Debt problems

Misusing credit can lead to debt that is difficult or impossible to control. For example:

- If you get behind on payments, you may have to pay penalty fees and higher interest charges. This can make it even harder to pay off what you owe.
- You may have to choose between making payments for regular expenses or for debt.
- You may find it hard to get more credit from reputable sources.

Problems like these can lower your credit score. (See pages 18-20 for information on credit scores.)

Difficulty reaching your goals

A credit problem can get you off track from reaching long-term goals, such as:

- an emergency fund
- home ownership
- a secure retirement

Stress

For example, you may:

- worry about how to provide for your family
- fear that you will lose your home or vehicle
- be forced to deal with creditors asking you to pay your bills

Stress can lead to physical illness and emotional problems.

Strained family relationships

You and your spouse may disagree about how to best handle money matters.

Career problems

For example:

- Stress about money matters can make it hard to focus on your job.
- Some employers look at credit reports before making job offers or promoting employees.

CREDIT IS ONE TOOL—BUT NOT THE ONLY ONE— THAT CAN HELP YOU REACH YOUR GOALS.

Think about your goals and how you plan to reach them. Consider:

Short-term vs. long-term goals

- A short-term goal may be something you want or need within a year or so.
- A long-term goal may be something you plan for many years down the road.

Wants vs. needs

Decide whether something is a necessity or a luxury. This may help you decide whether it is a priority—and what is the best method to pay for it.

Avoid buying something because it feels good at the moment. You may regret it later.

Your financial options

Think about how much your goal will cost. Then, consider your options for getting there. For example, you could consider:

- saving to reach your goal
- paying with a credit card
- taking out a loan

Use this worksheet to help organize your goals—and plan the best way to reach them.

Goal: ____________________

Short-term or long-term? ____________________

Want or need? ____________________

Pay with savings, credit or a loan? Note a positive and negative of each: ____________________

____

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Short-term or long-term? ____________________

Want or need? ____________________

Pay with savings, credit or a loan? Note a positive and negative of each: ____________________

____

GIVE YOURSELF CREDIT.

Building a good credit history can help you make sure credit is available when you need it. Having good credit can also help you get lower interest rates on loans.

Open checking and savings accounts.

This helps show that you can manage money responsibly. In addition, some banks and credit unions make better loan offers to their account holders. Here are some tips:

- Shop around at different banks and credit unions. Ask about account options and the benefits of each. Be sure you understand what the fees are, whether you must keep a minimum balance and other requirements.
- Add to your accounts on a regular basis. Consider having money automatically deposited to your accounts each time you get paid.
- Keep careful track of your checking account. Record all deposits and withdrawals as they happen. Balance your checkbook each month by comparing your statement to your register. Understand that "bouncing" a check can hurt your credit record! (You may also want to use your bank's online banking services.)

Consider applying for a store card.

If you have no credit history, this type of card may be easier to get than a bank-issued credit card. You can use the card to make small purchases that you pay for in full right away. Once you have a history of making payments on time, you may be approved for a bank credit card.

Keep in mind that many store cards:

- carry higher interest rates than bank-issued cards
- start off with a low interest rate that quickly changes to a much higher rate
- offer coupons and other discounts to try to get you to use your card more often

That's why it's so important to charge only what you can afford to pay for in full each month.

Learn about secured credit cards.

Secured credit cards may help you build a credit history in a short time. Here's how they work:

- You deposit a certain amount of your own money in an account. This is your credit line.
- You get a credit card and can buy things up to the amount in your account.

Consider getting someone to cosign.

If you have no credit history, you may be able to get a credit card or loan by asking a friend or relative to cosign for it. Beware that if you make late payments, this will hurt both of your credit scores.

See pages 18-20 to learn about credit scores— and how to improve a poor credit record.

CHOOSING A CREDIT CARD

Plan how to use the card.

- It's best to pay off the balance in full each month. If this is your plan, look for a card with a long grace period (the length of time you are given to pay in full before being charged interest) and a low, or preferably no, annual fee.
- If you know you will carry a balance, look for a card with a low-interest rate.

Consider "perks" carefully.

Many credit card companies offer rewards to get people to sign up for and use credit cards. For example, some cards offer:

- cash back on purchases
- points that can be used for goods or services
- discounts at certain businesses

These offers may seem like a good deal. But consider the possible downside. The offers may also come with higher interest rates and annual fees. Avoid these if you think you may carry a balance from month to month.

Shop around.

Read the offers you get carefully so you understand all fees, rates and payment terms. (Companies must post standard credit card pricing and terms online, too.) Be aware that some credit card companies may try to lure you with offers, such as:

- a low introductory rate
- the chance to transfer balances from other credit cards

It's important to ask questions before choosing a card. The list of questions on this page can help you compare offers.

Don't assume that "pre-approval" means a better deal.

You may get many credit card offers. Being pre-approved simply means that you may have met certain credit standards. It doesn't automatically mean you'll get a lower interest rate or no annual fee.

Ask these questions.
When comparing credit card offers, get answers to the following questions:

- Is there an annual fee? If so, how much is it and when is it billed?
- What is the grace period before interest is charged?
- What is the grace period for making a payment?
- Do you offer an introductory interest rate? What is it and how long does it last? What will the rate be when this period ends? (See page 11 for more information about how finance charges may be calculated.)
- Is the interest rate fixed or variable? Will it go up if I pay late? How will I find out about rate changes?
- Are there any other situations in which the rate can go up?
- Is there a late payment fee?
- What other fees do you charge (for example, fees for balance transfers, cash advances, going over the credit limit or closing an account)?

OTHER TYPES OF CARDS

Some cards may look like regular credit cards, but there are important differences.

Travel and entertainment cards

These are sometimes called charge cards. Here's how they work:

- When you first use them, they work like a credit card. Instead of paying with cash or a check, you can use the card.
- When the statement arrives, you must pay the entire balance by the due date.
- If you don't pay on time, you may face very high interest rates and your card may be canceled.
- Unlike credit cards that may offer no annual fee, these cards usually have high annual fees (which may be called membership or service charges).

Debit cards

A debit card is not a credit card. It may be issued by a bank or credit union and is linked to a checking account. When you use the card to buy something, the amount is taken out of your account right away. A debit card may be a good option if you:

- want the convenience of a credit card but want to avoid paying a bill at the end of each month
- don't want to carry cash with you

Many businesses accept debit cards in addition to cash, credit cards and checks.

To manage debit cards wisely:

- Subtract the amount of each transaction from your checkbook register.
- Compare your statement with your receipts to make sure there were no mistakes. Report any unauthorized transactions or errors immediately. (You may be able to check your account online or by phone. Ask your bank or credit union for more information.)
- To avoid paying fees, use an automated teller machine (ATM) that is owned by your financial institution or is part of its network.
- Consider an overdraft protection plan if you're worried about overdrawing your account. This is a line of credit that allows you to use more money than what's in your account—but you have to pay the bank interest on that amount.

MANAGING CREDIT CARDS

Responsible credit card use can help you avoid debt—and keep your budget in check.

Limit credit card use.

Don't charge items you can't afford. Only charge items and services that you can pay for in full when the credit card bill comes. Carrying a balance can cost you a lot in interest charges. (See page 12 for more information.) It may help to set a monthly limit for charge purchases.

Be wary of sales and discounts.

Shopping for bargains makes sense. But if you charge items that you can't afford, the amount you save may be less than the finance charges you must pay.

Write down all of your charges.

This can help you:

- track spending and know when you're reaching your limit
- avoid being surprised by a large credit card bill
- spot any incorrect or false charges on your bill

You can use the chart on the next page to keep track. (You may also be able to track charges online.)

Pay with cash, when possible

Paying in cash can

make it easier to:

- avoid buying things you don't really need
- stay within your budget

Limit yourself to one card, if possible.

Making charges to multiple cards can make it harder to:

- keep track of how much you're charging
- stay within your budget, since you'll have to make payments on each account

Also, avoid using your entire credit limit. Just because it's there doesn't mean you can afford it.

Avoid cash advances.

Cash advances from credit card companies may allow you to get cash from an automated teller machine (ATM) or write a check on your credit card account. They may seem like an easy way to get cash quickly. However, these transactions can cost you in the long run. Cash advances may be subject to:

- a higher interest rate than the rate you are charged to buy things
- interest charged beginning on the day you take the advance (in other words, there is no grace period)
- a fee, sometimes a percentage of the amount you take in cash

Compare your receipts with your monthly statement.

If you spot an error, be sure you know:

- how long you have to report the mistake
- the process for fighting a charge

Pay your bill on time.

Mail your payment 7-10 days before the due date to be sure it arrives in time. This can help you:

- avoid interest rate increases (late payments can trigger rates of 20-30% and higher!)
- avoid late payment fees
- raise your credit rating or keep it high

You may also be able to pay your bill online.

Pay the entire balance, if possible.

If you pay the entire balance within the grace period, you can avoid paying any finance charges.

Report address changes in advance.

Even if you don't receive a bill, you are still responsible for making payments on time.

Help prevent credit card fraud

- Don't give your credit card information in response to an e-mail or a telephone call unless you asked the business to contact you.
- When shopping online, only buy from trusted Web sites that use security features. If you see "https://" in your browser's address bar, the site is secure.
- Don't loan your card to anyone.
- Keep your copy of every receipt.

Credit Card Purchase Record

Write down the month and the charge limit you have set for yourself. Also, list when the payment is due. Keep track of all credit card purchases and total them up at the end of the month.

Month: ________________ Monthly charge limit: ________________ Payment due date: ________________

Date	Description of Items/Services	Amount
	Total amount:	

UNDERSTAND CREDIT CARD INTEREST CHARGES.

In general, the interest charge on your credit card is your unpaid balance multiplied by your interest rate. But creditors may use any of the following methods to calculate your balance:

Average daily balance

This is the most common method used by credit card companies. To calculate a balance, the creditor:

1. Takes each day's beginning balance and then subtracts payments (credits) made to your account on that day.
2. Adds up all the daily balances for the billing period (for example, 1 month.)
3. Divides the total by the number of days in the billing period.

Some creditors include new charges (purchases and/or cash advances) in your daily balance. Others do not.

Previous balance method

This method uses the balance owed from the last billing period. It does not subtract payments or credits or add in new charges. This is typically the most expensive method.

Adjusted balance method

This method is usually the best for credit consumers. This method:

1. Takes the balance on your account from the last billing period.
2. Subtracts payments or credits made during the billing period.

The amount left over is your balance.

Calculating your monthly interest charges

Once you know how your balance is calculated, you can figure your monthly interest charges based on your annual percentage rate (APR). Find the APR listed on your statement. Then:

1. Divide your APR by 12 months. This gives you a monthly percentage rate.

   For example, suppose you have an APR of 18%: 18% + 12 months = 1.5%

2. Multiply your balance by this monthly interest rate. The result is your interest charge.

   On a balance of $500, your interest charge would be: $500 X .015 = $7.50

3. Add the interest charge to your balance to determine your new balance.

   So, your new balance would be: $500 + $7.50 = $507.50

CARRYING A BALANCE CAN REALLY COST YOU.

Credit card companies usually require that you make a minimum payment each billing period. If you pay only this amount:

You will pay a lot in interest charges.

Remember that your interest is charged according to your balance. Each billing period, the interest is charged on your new balance (the original amount plus interest).

It can take years to pay off your balance.

With only a small reduction in your balance and the added interest charges each billing period, your balance may go down very little—even if you don't make any more charges to the account.

Here's an example:

You get a new credit card with the following terms:

- 18% APR (1.5% per month)
- minimum payment = 2.5% of total balance
- balances calculated using the adjusted balance method

You decide you want to purchase an HDTV with your card. After shopping around, you find the TV you want. Better yet, it's on sale for $1,000. This is $100 off the regular price. You believe you've found a great deal.

When your credit card statement arrives, you see that the minimum payment is only $25 (remember, that's just 2.5% of your balance). Instead of paying the entire bill, you decide just to pay the minimum amount to spread out the cost of the TV. Each month, you continue to pay only the minimum amount due. (Keep in mind that the minimum payment due will go down each month.)

Do you think this plan is a good one?

Take a look at the numbers. If you make only the minimum payment each month:

- It will take 153 months—or nearly 13 years—to pay for your TV.
- You will pay $1,115.41 in interest. That makes the total cost of the TV $2,115.41.

Your $100 savings is not worth it with this plan.

What happens if you decide to pay more?

Suppose you look over your budget and decide you can pay $50 each month instead of just the minimum. If you make this adjustment:

- It will take 24 months to pay for your TV.
- You will pay $197.83 in interest, making the total cost of the TV $1,197.83.

Paying more than the minimum amount due would save you $917.58 in interest.

The lesson: if you can't pay the entire balance, always pay more than the minimum amount due.

LOANS CAN HELP YOU FINANCE LARGE PURCHASES.

Before applying for a loan:

Think about what it's for.

For example, you may consider borrowing to:

- combine high-interest debt into a loan with a lower interest rate
- pay for an education
- buy a home or vehicle

Learn about different types of loans.

For example:

- Installment loans require you to make regular monthly payments—usually with interest—for a certain length of time. Mortgage and vehicle loans are often installment loans.
- Single payment loans require you to pay the full amount plus interest on a future date.
- Combination loans may require you to make regular payments followed by one large payment at the end of your repayment period.

Understand secured and unsecured loans.

- An unsecured loan lets you borrow without having to provide any collateral (something of value that acts as security if you fail to pay). An education loan is one example.
- A secured loan means that you have some collateral, such as equity in your home or the vehicle you purchased, to offer as security. These loans typically have lower rates than unsecured loans.

Compare sources of loans and terms being offered.

Be sure you understand:

- interest rates
- fees, prepayment penalties and other costs

Look for a reputable lender that will offer you reasonable rates and low fees.

Consider how a loan will fit into your budget.

Be sure you know:

- what your monthly payment will be, including interest charges
- how long it will take to pay off the loan

Can you afford to add the debt payment to your budget?

Be prepared.

The lender may ask for a number of documents, including:

- an application
- several recent pay statements
- a list of your credit card debt
- tax records from the last year or two

Don't make any untrue statements.

See pages 15-17 for details about mortgage and vehicle loans.

AVOIDING PROBLEM LOANS

Predatory lenders target consumers by advertising easy-to-get short-term loans. But the loan terms may be very expensive and financially risky—and are sometimes illegal. To protect yourself, avoid:

Payday loans

These are short-term cash loans that are based on:

- a personal check that is held for deposit in the future
- electronic access to the borrower's bank account to repay the loan

Payday loans typically have very high interest rates, high fees and short terms before payment is due. If you are unable to pay back the loan, you will face more fees. These loans may be offered by pawn shops, check cashers or loan stores.

Vehicle title loans

These are short-term loans that typically charge very high interest. With this type of loan, your vehicle serves as collateral. If you are unable to repay the loan, the loan company may take your vehicle or sell it to cover the amount of your loan.

Tax refund anticipation loans

These are loans based on expected tax refunds. Instead of having to wait for the refund in the mail, a person can borrow the expected amount. However, the loan usually carries very high-interest charges and fees. Plus, you have to repay the whole loan plus interest if all or some of your refund is withheld to pay an old debt.

Rent-to-own

Rent-to-own arrangements for items such as furniture, appliances and electronics can end up costing you much more than the item itself costs. This is true even if you do not intend to purchase the item.

Advance-fee loans

These loan scams often target people who have credit problems. The loan offer may guarantee that you will get a loan before you have applied. You may also be required to pay a fee ahead of time. This type of loan could put your personal information in the hands of identity thieves. Some of these loans are illegal.

If you are thinking about a short-term, high-interest cash loan, think again.

Lenders may try to convince you that this is a quick and easy way to get the cash you need. But their practices can be deceptive— and are sometimes illegal. Before taking a risk with this type of loan:

- Decide if you really need the money right away.
- If you do, contact one of the sources on page 29 for advice.

ABOUT MORTGAGE LOANS

If you are thinking of buying a home, here are some issues to consider:

Renting vs. buying

This is a very big decision that may be based on your long-term goals, current financial situation, lifestyle and other factors. For example:

- Owning a home can be a good investment that increases in value over time.
- Renting may make sense if home prices are very high or your finances are limited.

Your budget

Buying a home may be the biggest financial decision you make. Take a close look at your budget to see if you can afford the monthly expense of a mortgage. If so, how much can you afford? Remember to consider the additional costs of home-ownership, such as taxes, insurance, utilities and maintenance.

Mortgage types

Mortgage lenders offer different types of loans. The two most common types are fixed-rate mortgages and adjustable-rate mortgages. Here are the basics:

- A fixed-rate mortgage offers a fixed interest rate and a regular monthly payment amount. The borrower does not have to worry about rising interest rates that may result in a higher monthly payment. Fixed-rate mortgages are typically offered for a 15-year or 30-year loan period.
- An adjustable-rate mortgage (ARM) provides a loan with an interest rate and a payment amount that may vary many times over the life of the loan. Many ARMs combine a fixed rate with a variable rate. For example, a 5/1 ARM offers a fixed interest rate for the first 5 years. After that, the rate is changed depending on rising or falling interest rates. The initial rate may be lower than the rate of a fixed-rate mortgage. However, the adjustable rate may rise higher than fixed rates.

Lenders

There are many types of mortgage lenders, including banks, credit unions, mortgage companies and Internet lenders. Before making a decision, be sure to:

- Ask friends and family members to recommend lenders.
- Check up on lenders to be sure they're reputable. (Some states regulate lenders. You can also contact the Better Business Bureau to see if there are complaints about certain lenders.)

Rates

Mortgage rates vary depending on the lender, loan amount, loan type and length of the loan. Here are some tips for comparing rates:

- Get a list of current rates from several lenders. Be sure you know whether the rate is for a fixed-rate mortgage or ARM.
- Find out the loan's APR, which takes points, fees and other charges into account.

Special loan programs

For example:

- FHA (Federal Housing Administration) mortgages are loans backed by the U.S. government. These loans may make it easier for first-time home buyers to qualify for a loan. FHA loans offer competitive rates and typically require a smaller down payment than other loans.
- VA (Department of Veterans Affairs) mortgages are also backed by the U.S. government. They are offered to veterans and their spouses. They usually do not require a down payment.

Paying discount points

A discount point is a fee paid to lower the interest rate of the loan. A point is 1% of the loan amount. Whether to pay a point or not depends on your specific situation.

Amount of down payment

If you have less than 20% of the home's sale price for a down payment, you may have to buy private mortgage insurance (PMI). PMI protects the lender in case you can't pay your mortgage. It can cost about 1% of the amount of the loan.

Fees

There are a lot of costs involved with a home purchase. These could include:

- application and appraisal fees
- recording fees
- attorney fees
- title insurance
- escrow (deposits for future tax payments)

Be sure you have a clear understanding of these costs and how they may affect your loan amount and monthly payments.

About home equity loans A home equity loan or line of credit is a type of secured loan that uses your home as collateral. The money borrowed may be used to:

- pay off high-interest credit card debt
- pay educational expenses
- purchase a vehicle or another expensive item
- make improvements on a home

Because the loan is secured, the borrower may be charged a lower interest rate than the rate charged for a personal loan. Also, the interest paid may be tax deductible.

ABOUT VEHICLE LOANS

If you need to buy a vehicle:

Know what you can afford.

Look at your budget and consider how much you can really afford to pay for a vehicle. When you consider the costs of buying a new or used vehicle, be sure to take into account:

- insurance premiums— the cost of insurance can vary greatly depending on the make and model
- fuel costs—a large car, truck or SUV will use more gas than a small or mid-sized sedan
- maintenance costs—some foreign vehicles cost more to maintain and repair than American-made models
- other costs—such as taxes and title fees

Choose the vehicle that's right for you.

Compare various makes and models to find a vehicle that will meet your needs.

Here are some tips:

- Choose the right size and type of vehicle. For example, if you have a family, you may want to choose a sedan over a pickup truck or small sports car.
- Look for models that can save you money. Think about how much gas a car may use per mile and the costs of keeping it running. A used vehicle, for example, may cost less to buy. However, it may cost more to maintain than a new one.
- Consider extras and options carefully. Avoid getting talked into buying anything you don't really need.

Shop around for the best deal.

- Use the Internet to research the true value of a vehicle before agreeing on a price.
- When you talk with vehicle sellers, avoid talking only about the monthly payment. Be sure you know the total price of the car. Then work out the financing.

Consider your payment options.

For example:

- Vehicle dealers may advertise discounted interest rates. However, not every customer will qualify for the low advertised rate.
- Banks and credit unions may offer competitive vehicle loan rates.
- If you get a good interest rate from one lender, ask if another lender will match or beat it.

Read the warranty.

Understand the terms of the warranty—how long it's good for and what it covers. If there are any options you don't want, such as an extended service contract, don't sign for them.

THE IMPORTANCE OF CREDIT REPORTS

Information on your credit report helps determine whether you will get a loan or credit—and how much it will cost you.

What is a credit report?

Three separate credit reporting agencies collect and organize information about you into a file called a credit report. Your credit report includes:

- your name and the name of your spouse (if you're married)
- your Social Security number
- your birth date
- your current and past addresses
- your current and past employers
- account information, such as loans and credit cards— and whether you have made payments on time
- bankruptcy, tax liens and other public records
- a listing of others who have asked for a copy of your report

The report also includes a credit risk score. A higher score means you are a better credit risk.

Your credit score is more than just a number.

It helps lenders decide how likely you are to make timely payments and repay a loan. They use the number to help decide:

- whether to give you credit (a loan or credit card)
- how much you may borrow or what your line of credit will be
- what interest rate you will be charged

Credit reports are used for other purposes too.

For example:

- Insurance companies may use the information to decide if they will insure your home or vehicle.
- A rental group or landlord may decide whether or not to give you a lease based on your report.
- Some employers check an applicant's credit reports before making a job offer. (They must get your written consent to get copies of your reports.)

You can get a free copy of your credit report.

The law requires each of the 3 credit reporting agencies to give you a free copy of your report once every 12 months upon your request. You should ask for a copy of your credit report:

- if you're planning to buy a home or vehicle
- if you've been denied credit and are not sure why
- once a year to check for mistakes or identity theft

Remember, you won't automatically receive your report. You have to ask for it. And your credit score is not included in the free report—you have to pay for it. See page 29 for contact information.

HOW DOES YOUR CREDIT RATE?

When you get your credit report:

Read the report carefully.

Check to be sure the information included is correct and up-to- date.

Look for:

- any misspelling of your name or other personal information
- false information about your current accounts
- information about accounts you have cancelled or no longer use
- accounts you did not set up

Errors on your report could hurt your chances of getting credit and good rates. In some cases, "errors" may alert you that someone is using your personal information to commit fraud.

(See pages 27-28 to learn more about identity theft and what you can do to protect yourself.)

Understand factors that could lower your score.

These may include:

- a short credit history
- having a lot of debt
- a lot of requests for your credit report in a short period of time
- having a lot of available credit, such as cards with no balances—even if you are not planning to use them
- your payment history— even a few late payments can work against you
- a spouse's bad credit score

Know what doesn't affect your score.

Information about your age, sex, education and race, and other personal information is not considered in your score. See page 26 to learn more about rights that can protect your ability to receive credit.

If you spot any errors on your credit report, take action. See page 20 for information about fighting something on your credit report.

WORKING TO IMPROVE YOUR CREDIT SCORE

Take steps to get back on track.

Here are a few ideas:

- Pay off your debt.
- Pay bills on time. Consider signing up for automatic bill payment to help you pay bills on time.
- Avoid applying for more credit cards.

Dispute mistakes.

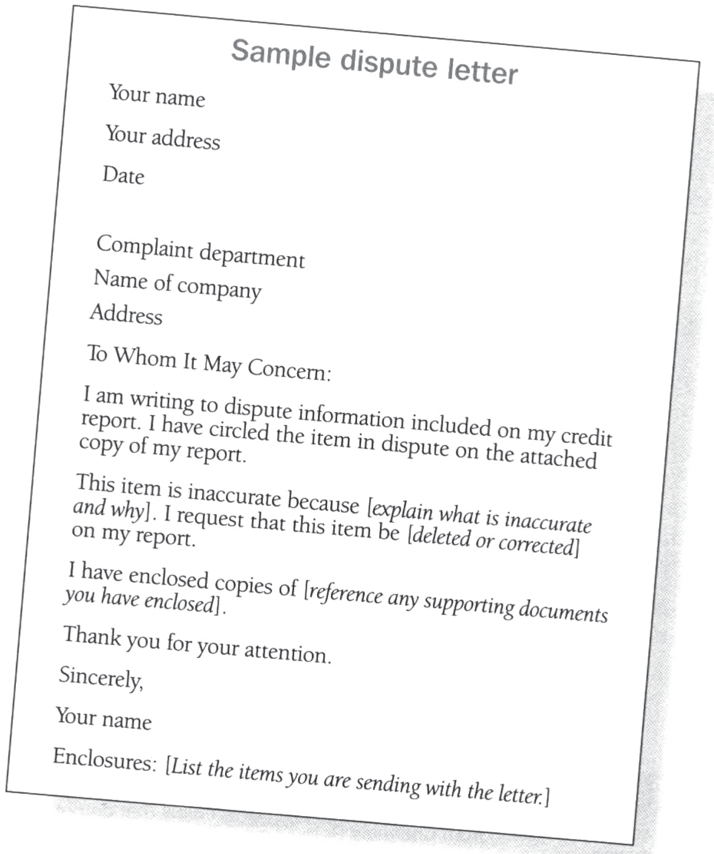
To correct an error:

- Write a letter to the credit reporting agency. Point out the mistake. (See the sample dispute letter on this page.)
- Send the letter and any information that supports your claim (such as a copy of a canceled check or receipt) via certified mail.
- Wait to hear back. The agency has 30 days to investigate and notify you of the results. If they correct the error, they can notify the other agencies for you if you ask.

If the agency determines that the information is not an error, you can complain to the lender you believe made the mistake.

Be wary of organizations that claim they can "fix" your credit rating.

These organizations may charge high fees and offer no help. Their practices may even be illegal. Instead, seek out help from reputable sources, such as those listed on page 29.



Sample dispute letter

Your name

Your address

Date

Complaint department
Name of company
Address

To Whom It May Concern:

I am writing to dispute information included on my credit report. I have circled the item in dispute on the attached copy of my report.

This item is inaccurate because [*explain what is inaccurate and why*]. I request that this item be [*deleted or corrected*] on my report.

I have enclosed copies of [*reference any supporting documents you have enclosed*].

Thank you for your attention.

Sincerely,

Your name

Enclosures: [*List the items you are sending with the letter.*]

ARE CREDIT PROBLEMS AND DEBT BRINGING YOU DOWN?

Check yes or no for the following statements about your debt and use of credit.

	Yes	No
1. I am at or near the credit limit on one or more credit card accounts	☐	☐
2. I continue to apply for new credit cards to try to get more credit	☐	☐
3. I often charge more than I can afford to pay in full each month	☐	☐
4. I need to use credit cards to pay for everyday expenses, such as groceries or gas	☐	☐
5. I can usually make only minimum payments on credit cards and loans	☐	☐
6. I sometimes skip payment on one bill in order to pay another	☐	☐
7. I have been charged late fees and other penalties because I can't pay what I owe	☐	☐
8. I have been forced to use savings to pay regular monthly expenses	☐	☐
9. Creditors have contacted me about past-due bills	☐	☐
10. I don't know how much I owe	☐	☐
11. I am not honest with my spouse about spending and paying off debt	☐	☐
12. I am worried about losing my home because I can't pay my debts	☐	☐
13. I am worried that I will never be able to pay back everything I owe	☐	☐

If you checked yes for any of these statements, you may have a serious credit and debt problem.

Use the worksheet on the next page to help get a better picture of your debt. Then see pages 23-25 for tips to get your debt under control.

EVALUATING YOUR CURRENT DEBT

Experts recommend that you keep debt payments (not including mortgage or rent) to 20% or less of your net income. This percentage is known as your "debt ratio." This worksheet can help you see where you stand.

Step 1: List credit card debt.
List the total amount you owe each month on every credit card you have. Then total the amount.

Card Name	Amount
Total	

Step 2: List monthly loan payments.
Include payments for all loans except your mortgage. Then total the amount.

Loan Type	Amount
Total	

Step 3: Calculate your total monthly debt payments.
Add the totals from Step 1 and Step 2.

Total Monthly Debt Payment	

Step 4: Determine your monthly net income.
This is your income after taxes and any other money automatically taken out of your paycheck.

Monthly Net Income	

Step 5: Calculate your debt ratio.
Divide your total monthly payments by your monthly after-tax income. The result is your debt as a percentage of income.

Total monthly debt payments + Monthly net income = Debt as a percentage of income	

If you are close to or over 20%, take steps to reduce your debt.

TAKE CONTROL OF YOUR DEBT.

You can work to reduce debt and take control of your finances.

Make a monthly budget.

This is your plan for where your money goes. Be sure to include:

- income (pay, bonuses, interest income and other income)
- savings, such as bank accounts and retirement plans
- fixed expenses (costs that are the same each month), such as rent or mortgage payments, insurance premiums and loan payments
- variable expenses (costs that may change each month), such as utilities, groceries, transportation, healthcare and entertainment

Remember, the amount going out should match the amount coming in. If there's more going out than coming in, look for ways to trim expenses. (See page 24.)

Once you have a budget, check it regularly to see if it's working.

Be smart about extra money.

Use a pay raise, bonus or any other income you weren't expecting to help pay off current debt.

Talk about money as a family.

Talk with your partner. Be sure you agree on:

- the monthly budget you've created
- the importance of reducing your debt

If possible, ask children to pitch in and find ways to save money. However, avoid making them worry about your family's finances.

Talk to your creditors.

If you have any trouble making payments, contact the creditors right away. You can tell them:

- if a payment will be late
- if you can't make a payment or can't pay the full amount
- you plan on paying what you owe

Your creditors may be able to help. But don't wait until you've already missed making payments.

Don't buy things you can't afford.

This will only make your debt problem worse. If you don't have the money to pay for something, then don't buy it.

Target high-interest debt.

Look over your credit card and loan statements to find the ones that have the highest interest rates. (In most cases, credit cards charge the highest interest rates.) Then try to pay off these debts first.

- Call the creditor and ask for a lower rate. Some creditors may be willing to give you a better rate, especially if your credit rating is good.
- Find out whether you can make payments more than once a month.
- Pay more than the minimum due whenever possible. (See page 12 for more information.)

Shop for a lower rate.

Compare credit card offers and loan options to see if you can find one with a lower rate. Then consider transferring higher interest balances. Remember:

- Don't think of the new credit line as a way to spend more.
- Some credit card companies charge balance transfer fees. Find out ahead of time what transferring a balance will cost you. Decide if the cost is worth it.
- Make sure the low-interest rate applies to balance transfers. Also, be sure the low rate is not just an introductory rate that will go up to a much higher rate in a few months.
- Once you've transferred balances, cancel credit card accounts you no longer plan to use.

Save money on everyday expenses.

Here are some tips:

- Buy generic or store brands. They're usually cheaper.
- Avoid shopping when you are hungry or bored. You may spend more.
- Don't fall for a good sale or buy something without thinking it through first.
- Pack lunches and snacks. Try not to use vending machines.
- Eat out less often.
- Rent movies instead of going to the theater.
- Look for free or inexpensive entertainment. Visit parks, libraries and museums.
- Tum off lights and appliances when you're not using them.

Keep track of how much you save. Small steps such as these can make a difference!

Cutting your expenses
Use the spaces below to write down your ideas for cutting everyday expenses to save money and reduce debt

Shopping	Entertainment	Utilities
______________________________	______________________________	______________________________
______________________________	______________________________	______________________________
______________________________	______________________________	______________________________
Estimated saving:_______________	Estimated saving:_______________	Estimated saving:_______________

IF MANAGING DEBT IS A PROBLEM FOR YOU. GET HELP.

You may want to think about:

Credit counseling

Nonprofit credit counseling organizations are available to help with:

- budgeting
- debt management
- credit report and credit score issues

Credit counseling may be available at:

- a local credit union
- the cooperative extension office at a state university
- a family service center at a military base

Ask your financial institution or family and friends to suggest an organization. You can also check with the Better Business Bureau to see if there have been any complaints about the organization.

Debt consolidation

You may be able to use a home equity loan or second mortgage to combine high interest debt into one monthly payment you can afford. Talk with a credit counselor about the benefits and drawbacks.

A debt management plan

If your debt problem seems out of your control, a credit counselor may recommend that you sign up for a debt management plan. With this type of plan:

- you make a monthly deposit to the credit counseling organization
- the organization uses the money to pay your debts
- a credit counselor may be able to get you lower interest rates or fees

About bankruptcy

Bankruptcy is a legal procedure that frees a person from having to repay some debts. It is usually considered a last resort because the information stays on your credit report for 10 years. During that time, it may be difficult to:

- buy a home or get credit
- get life insurance
- get a job

If you are thinking about filing for bankruptcy, get advice from a qualified legal expert.

Questions to ask a credit counseling organization

- What services do you offer?
- What fees will I have to pay?
- Do you offer any free information?
- Is your organization accredited or certified?
- Will I receive a written contract or agreement?

UNDERSTAND YOUR RIGHTS.

There are a number of federal laws set up to help consumers make smart credit choices, get credit if they are qualified and keep a good credit rating. These include:

The Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009

This law protects credit card customers in several ways. For example:

- It requires that contract terms be clearly spelled out.
- It puts limits on how and when APRs (annual percentage rates) can be raised and requires earlier warning of changes—generally, 45 days. Customers have the right to cancel the credit card and repay the balance over time at the old rate.
- Statements must be mailed out to customers at least 21 days before the payment due date. The due date cannot change each month.
- Statements must show the payment amount needed to pay off the balance, including interest, in 36 months.
- Certain practices that led to higher costs for customers are banned. These include applying payments to balances with lower interest rates first and double-cycle billing.

The Truth in Lending Act

This law requires creditors to:

- state the interest rate as an APR
- tell you about all finance charges

You have the right to this information before making an agreement. The law makes it easier to compare interest rates and the real cost of borrowing.

The Fair Credit Billing Act

This law applies mainly to credit card companies. It requires them to record payments on the day they are received. The law also offers certain protections if you have a problem with your bill for example, if:

- your credit card is lost or stolen and charges are made to it without your permission
- you buy an item or service that is not delivered or that you do not accept upon delivery
- you find other billing problems, such as a math error or a missing payment

If you spot an error or need more information about a charge, write to your credit card company right away.

The Equal Credit Opportunity Act

This law states that you cannot be denied credit based on certain factors, including your sex, marital status, race, age and religion. It also protects you if you get public assistance or have used credit laws to protect your rights. If you are not given credit, you have the right to know the specific reasons why.

The Fair Debt Collections Practices Act

This law lists specific rules that debt collectors must follow when trying to reach you. For example, debt collectors may not:

- harass you or threaten to hurt you
- lie to you
- call you early in the morning or late at night
- call your employer, friends or relatives (except to ask where you live and work)

LEARN ABOUT IDENTITY THEFT.

Identity theft is a crime. It happens when someone uses another person's personal information to commit fraud or other crimes. It's important to know:

What information people look for

People trying to commit fraud or other crimes look for:

- your Social Security number
- credit card numbers
- checking and savings account numbers
- insurance information
- your name
- your address
- your date of birth
- your place of birth
- your mother's maiden name

Where they get personal information

They may:

- steal a purse or wallet
- steal mail, such as bank statements or credit card statements or offers
- copy credit card information when you use your credit card at a store
- steal the information from a website with poor security
- go through trash to find information on papers you have thrown away
- pretend to be a creditor or another person over the phone or in e-mails

What can happen

- Identity theft can hurt your credit rating. In turn, you may not be given a mortgage, or an educational or vehicle loan. You may also be charged higher interest on a loan.
- Fixing problems caused by identity theft can take a long time. You may feel angry, confused or stressed.

What they may do with the information they steal

Using your information, someone may:

- open a credit card account in your name
- change the billing address on your credit card and use the card to make charges on your account
- open a checking account in your name and use it to write bad checks
- set up phone service or other utilities
- get a driver's license using his or her picture and your name
- apply for a job, file a tax return or apply for government benefits

PREVENT IDENTITY THEFT.

Here are some tips:

Be careful with important information and documents.

- File your birth certificate, Social Security card, passport and other important documents in a safe place. Avoid carrying these items with you if you don't need to.
- Give out your Social Security number only when required. Don't write it on checks.
- Avoid carrying many credit cards in your wallet or purse.

Manage credit cards and bank accounts.

- Review credit card and bank statements to check for charges or deductions you did not make. Report any errors or possible fraud right away.
- Cancel credit card and bank accounts that you no longer use.
- Choose passwords and PINs (personal identification numbers) that don't include information that is easy to guess or find out.

Destroy documents.

Tear up or shred documents that include your personal information, including credit card offers and other mail offering you something.

Use the Internet and e-mail safely.

- If you enter credit card numbers or personal information online, be sure the Web site has steps in place to keep your information safe. Look for "https://" in your browser's address bar.
- Don't download any file or click a link from an e-mail unless you know and trust the sender.

Manage your mail.

- Mail letters at the post office or give them to a postal carrier.
- Get mail from your mailbox as soon as possible. Put a hold on your mail if you won't be able to pick up mail for a while.

Check your credit report.

Make sure the information on it is correct each year. (See pages 18-20 for more information.)

Take action right away if you are a victim of identity theft.

- Contact the Federal Trade Commission's Identity Theft hotline at 1-877-ID-THEFT (1-877-438-4338). You can file a complaint or ask for advice.
- Contact one of the 3 credit reporting agencies to have a fraud alert placed on your credit reports. (The agency you call is required to alert the other two.)
- Close accounts that were used or opened without your consent. Call the company. Make notes, including names and phone numbers of people you spoke with. Follow up with a letter and copies of papers that back up your claim.
- File a police report. Ask for a copy of the report to use as proof of the crime.
- Be smart when you set up new accounts. Choose new passwords and PINs.

SOURCES OF HELP AND INFORMATION

Federal Trade Commission (FTC)

To report possible fraud, file a complaint or seek advice about credit and debt issues:

- visit www.ftc.gov
- call 1-877-FTC-HELP (1-877-382-4357) or 1-866-653-4261 (TTY)

Federal Citizen Information Center (FCIC)

The FCIC offers information about many consumer issues, including credit and debt concerns and questions. Visit www.consumeraction.gov to get started.

National Foundation for Credit Counseling

To get the number of a local office that can offer low-cost or free credit and debt counseling information and services:

- visit www.nfcc.org
- call 1-800-388-2227

Your state or local government

Your state's Attorney General's office, a local consumer protection agency and other government offices may offer information and advice about lenders and credit and loan fraud. Check your phone book or visit your state's official Web site.

Better Business Bureau

You can check to see if lenders and other organizations have any complaints filed against them. Check the white pages of your phone book for the telephone number of your state's bureau, or visit www.bbb.org.

Credit reporting agencies

To order a free annual credit report from any of the 3 credit reporting agencies:

- Visit annualcreditreport.com
- Call 1-877-322-8228

This is the only source authorized by the Federal Trade Commission to provide free reports. Beware of look-alikes on the Web. You can buy a copy of your report by contacting:

- Equifax
  www.equifax.com
  1-800-685-1111
- Experian
  www.experian.com
  1-888-EXPERIAN
  (1-888-397-3742)
- TransUnion
  www.transunion.com
  1-800-916-8800

YOU CAN LEARN TO MANAGE CREDIT THE RIGHT WAY.

Be smart about credit cards.

Limit their use and pay off your entire bill on time.

Learn about loans.

Shop around to find a reputable lender with terms that fit your budget.

Take steps to build and keep a good credit rating.

Know your credit score—and understand why it matters.

Pay off debt.

Know the signs of trouble and get help if you need it.

Take control of your credit—and your future!

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This series of interactive workbooks is designed to provide readers with real-world guidance and support overcoming some of the most common challenges faced by returning citizens and their families. Developed for a wide-variety of age groups, reading levels and cultural backgrounds, each interactive workbook contains straightforward text to ensure readability. Fill-in sections, worksheets, and other interactive features make workbooks perfect for continued reference.

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