Be Credit Wise

Credit is a way of having something now and paying for it later. Many of us want to take advantage of flexibility in our spending plans by using credit. Credit isn't free; it's paid for by interest. When used wisely, credit can be a great tool.

GreenPath™ debt solutions ✦ www.greenpath.com ✦ 888-893-2713

BENEFITS OF CREDIT

Credit can offer you many benefits when it is handled responsibly. Credit allows you to spread out payments for costly goods such as computers and cars, make purchases over the phone or Internet and pay for things in an emergency. Credit can also make it easier to return unwanted merchandise. And, unlike cash, if a credit card is lost or stolen, it can easily be replaced by contacting the issuer immediately.

Credit itself is neither a positive nor a negative thing; it can either be used wisely or poorly. Unwise use of credit can lead to serious financial problems. Therefore, consider the advantages and disadvantages of credit transactions.

Some of the advantages of credit include:

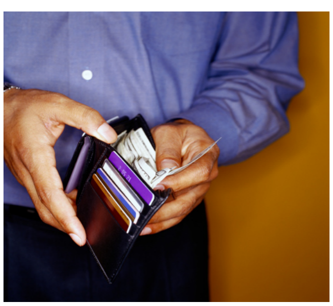
- Helps improve one's general way of living
- Gives ability to take advantage of sales
- Enables the purchasing of large or expensive items and paying for them over time
- Replaces need for carrying large sums of cash
- Makes managing overall expenditures more effective
- Provides establishment of a credit rating
- Can help beat inflation
- Helps handle financial emergencies
- Provides method for keeping savings intact

Some of the disadvantages of credit include:

- Commits future earnings
- Provides a false sense of financial security
- Decreases cash savings
- May include paying finance charges and/or interest in addition to the cost of the product or service
- Promotes temptation to overspend
- Presents opportunity for credit cards to be lost or stolen

CONSIDERATIONS BEFORE APPLYING FOR CREDIT

Here are some things to think about before you apply for credit.



1. Do you currently have a spending plan or budget?
2. How much credit can you afford?

➔ No more than 20% of your monthly net (take-home) income should be committed to consumer installment debt. The 20% includes car payments, installment loans, credit card payments and personal loans. It does not include your mortgage/rent payments or utility bills.

➔ Do not take on additional credit until you are sure you can afford to.

TYPES OF CREDIT - SO MANY CHOICES

Once you have determined that you can afford credit, familiarize yourself with the various credit opportunities available to decide which best fits your needs.

You will use different types of credit for different purposes. For example, you might need a secured loan that requires collateral, a valuable possession that the lender may take if you fail to repay your loan. Or, you might need an unsecured loan, which doesn't require collateral, but usually charges a higher interest rate.

Here is a list of the most common types of credit:

1. **Borrowing from a friend or family member** – may be your only chance for an interest-free form of credit.

2. **Credit cards** – are a type of unsecured credit issued by stores and other financial institutions that can be used to make purchases or to obtain cash advances. The issuer sets a credit limit which is the maximum amount you can borrow and may charge an annual fee and interest on balances carried over from one month to another.

3. **Charge cards** – require you to pay back in full what you charge each month.

4. **Debit cards** – allow you to withdraw money from a cash machine or issue a charge against an account.

5. **Secured credit cards** – allow you to charge up to a specified amount you've placed in a savings account as collateral.

6. **Installment credit** – is an arrangement offered by some stores that allows you to pay for something over a set period of time with interest.

7. **Consumer loans** – offered by financial institutions can help you pay for larger items such as a car or college tuition. The lender gives you a check for the full amount borrowed, but requires you to pay it back with interest over a period of time.

8. **Mortgage loans** – are usually the largest secured consumer loans that people ever obtain. A mortgage loan is the most common method of financing a home.

9. **Home equity loans** – let homeowners borrow against equity (the difference between the market value of the home and the balance owed on the loan) they have in their homes. These secured loans usually offer competitive interest rates, and you can generally deduct the interest expense on your tax return.

SHOPPING FOR CREDIT

Just as you shop for the best buy on jeans or sports equipment, you can shop for the most affordable credit as well. For example, credit cards generally give you a choice between a lower interest rate with an annual fee and a higher interest rate with no annual fee. If you plan to pay off your bill each month, take the no-annual-fee card with the higher interest, since you won't be paying the finance charges anyway. If you plan to carry a balance, you can minimize your interest expense by getting the lower-interest-rate card with the annual fee. Ideally, look for a card that has no annual fee and a low interest rate – the best of both worlds.

Here are some items to consider when you shop for credit.

For installment loans:

1. Annual Percentage Rate (APR) – this is the standardized interest rate you must pay the lender each year for the use of borrowed money.

2. Finance charge – this is the total dollar amount the loan will cost you. It includes fees, interest plus other charges.

3. Loan maturity – a longer repayment period lowers your monthly payments, but increases the total amount of interest you pay.

For credit cards:

1. Grace period – this is the time between the date of the credit card purchase and the date the company starts charging you interest.

2. Transaction fees and other charges – most creditors charge a fee if you don't make a payment on time. Other common credit card fees include those for cash advances and going beyond the credit limit. Some credit cards charge a flat fee every month, whether you use the card or not.

For both:

1. Customer service – customer service is something most people don't consider until there's a problem. Look for a 24-hour toll-free telephone number.

APPLYING FOR CREDIT

If you are 18 or older, you can apply for credit on your own. If you are younger, your parents will need to co-sign for you.

Everyone has a right to apply for a loan under the Equal Credit Opportunity Act. A lender can't discriminate on the basis of race or gender or on the basis of age, once you're legally old enough to sign a contract. To be eligible to get a loan all you need to be is credit worthy.

When you apply for credit, you complete an application that includes information about income from your job, savings account balances and any debts that you have. After reviewing your completed application, the lender will check with a credit bureau, an organization that keeps track of your credit worthiness. If your credit history meets the required criteria, the lender may approve your application and ask you to sign a contract binding you (and your co-signer, if you have one) to certain terms.

THE "C's" OF CREDIT

Qualifying for credit and proving that you are credit worthy will involve your ability to repay, your assets that serve as security and your attitude toward responsibility. In reviewing your application for credit, a creditor may use a point system called credit scoring or more commonly will look for what is called the C's – capacity, capital, and character. The items help creditors analyze their risk for approving the application for credit.

Capacity - Capacity looks at whether you have the financial capacity to take on the credit you are seeking. Creditors look at your income and your financial obligations to determine if you can handle the additional debt.

Capital - Creditors will look for what assets and resources you have. Do you have equity in a home? What is the value of your car? When evaluating capital, creditors will not only look at means of payment, they will also seek assurance that a debt could be paid from your assets if needed.

Character - Character is the most important aspect to the majority of creditors. What has been your responsibility in paying your other debts according to the term of the contract? Creditors rely on credit bureau reports to determine your character. They also verify information provided by you on your application to determine if you have given accurate information.

ESTABLISHING CREDIT

Many people want to know how they can establish or re-establish their credit history. This is an important issue because credit records are essential to obtain credit. The information in your credit report is used by potential creditors to determine if you are a good risk.

You can help yourself establish or re-establish a good credit history by doing the following:

1. **Open a checking and savings account** to establish a relationship with your financial institution. Make sure you show a savings habit and do not overdraft your checking account. Many credit applications request banking information. Lenders want to be able to research your handling of daily finances.

2. **Apply for a loan that has collateral.** For example, a car loan is many times easier to obtain because it is a secured loan. In the event you can't pay, the creditor can take the security (car). Unsecured loans, for example credit cards, are of more risk to creditors because there is rarely merchandise to take back in the event you can no longer make the payments.

3. **Obtain a co-signer for your first loan or charge card.** A co-signer is someone who will guarantee that the note will be paid if you, the borrower, does not repay. The co-signer must have a good credit history and qualify for the loan as if he or she was the original applicant. Keep in mind that your payment history on the new loan will be reflected on your credit report and the co-signer's credit report.

4. **Apply for a secured credit card.** With a secured card, the issuer allows you to deposit a certain amount of money, say $300, and in return they provide you a credit card with a limit of $300. Make sure you have investigated the institution before you send any money. Be cautious of anyone who guarantees a card but requires up-front money to process your application. A secured credit card may have a higher interest rate or annual fee, so be cautious when carrying balances over from month to month.

5. **Use your savings account as collateral** and obtain a small loan from your financial institution. Deposit the loan amount in your checking account and use it to make payments on the loan. Prompt repayment of at least six months will indicate responsibility.

6. **Open a charge account at a local department store** with a small credit limit until your payment history proves your worthiness for an increased limit. Make sure that the retailer reports to the credit bureaus.

7. **Don't apply for credit too often.** If you are not approved for the credit, the repeated inquiries on your credit report may indicate risk to the next creditor you apply to.

8. **Make a larger down payment than required** to indicate an interest in a purchase or to use as collateral. If you have a limited credit history or are trying to re-establish your credit history, you might use a paid-off car, land, rental property, stock, CDs or other savings as security for a loan. Creditors are more willing to take a risk when you have a vested interest.

9. **Avoid trying to establish credit through a rent-to-own company.** You will usually pay two to three times the value of the merchandise and the rent-to-own company may not report to credit bureaus.

10. **Prepare to pay a higher interest rate.** Financing vehicles or other large-ticket items may require you to pay a much higher interest rate because of past credit problems or lack of credit history and the increased risk to the lender.

11. C**onsider payroll deducted loans or automatic bank drafts.** While these methods of payment are not "security" for a loan, your lender may be more willing to extend credit if these methods are used especially if you have a long employment history and a good payment history on previous loans.

COST OF CREDIT

Credit can be expensive if it is not used wisely. As the illustrations below show, if you make a large purchase on a credit card and you make only minimum payments each month, the actual cost of the item you purchase will be significantly higher than the original purchase price. In order to minimize the cost of credit, save before making a purchase to put a larger down payment on the item and/or make larger than minimum payments each month after the purchase.

Cost of Making the Minimum Payment on Credit Cards

Item	Price	APR	Interest Paid	How Much You Really Pay for the Item	Total Years to Pay Off
TV	$500	18%	$439	$939	8
Computer	$1,000	18%	$1,899	$2,899	19
Furniture	$2,500	18%	$6,281	$8,781	34

Benefit of Making More than the Minimum Payment

Original Balance	APR	Monthly Payments	Total Number of Monthly Payments	Total Years to Pay Off	Total of Pmts
$2,500	18%	Min Pmt	404	34	$8,781
$2,500	18%	Min Pmt + $50	94	8	$4,698
$2,500	18%	Min Pmt + $100	32	3	$3,163

Here is another way to look at the cost of credit. The following chart shows the interest you will pay each year at specific rates if your average daily balance is $1,000, $3,000 or $5,000.

Annual Percentage Rate (APR)	Average Daily Balance		
	$1,000	**$3,000**	**$5,000**
12.0%	$120	$360	$600
13.0%	$130	$390	$650
14.0%	$140	$420	$700
15.0%	$150	$450	$750
16.0%	$160	$480	$800
17.0%	$170	$510	$850
18.0%	$180	$540	$900
19.0%	$190	$570	$950
20.0%	$200	$600	$1,000
21.0%	$210	$630	$1,050

USE CREDIT WISELY

Here are a few suggestions to use your credit wisely:

- **Budget** what you can charge or borrow each month, just as you budget what you spend in cash. If you won't be able to pay off your bills next month or meet monthly loan payments, you are over budget.

- **Keep all charge receipts** so you can check them against your monthly statements. If there is an error on the statement, contact the card issuer immediately.

- **Pay on time and preferably, in full.** Remember, if you pay only the minimum balance due on credit cards, finance charges will continue to accumulate and add considerably to the cost of your purchase.

KEEP DEBT LOW

Credit adds flexibility to your financial planning and allows you to have the things you need and want by buying now and paying later. It allows you to buy big-ticket items like a car or a house more easily. When treated as a privilege, credit can help you have and enjoy more. However, you need to control credit or it can control you!

If your goal is to reduce your debt load, here are some helpful hints to plan your strategy:

- **Reduce interest** – by requesting an interest reduction, transferring balances, or using a home equity loan
- **Shorten repayment period** – by increasing your monthly payments
- **Aggressively pay most expensive debt** – by reviewing finance charges and annual fees and sending excess income to the most expensive account

HOW MUCH DEBT IS TOO MUCH?

Too much debt is like playing with fire. As a rule of thumb, your debt, excluding your home, should not exceed 20 percent of your take-home pay. Second mortgages and home equity loans should be included in the 20-percent rule. This is because they are usually used to pay off unsecured debt, while a first mortgage is an investment in property that, in most cases, is appreciating in value.

Even if your debt percentage is only in the high teens you may still have too much debt. A financial counselor can often help you understand your finances and learn the appropriate limits. Here are some signs that could indicate it's time to seek assistance:

- Your credit card balances are rising but your income is decreasing
- You are only paying the minimum amounts required on your accounts
- You consistently charge more each month than you make in payments
- You are using new credit or cash advances to pay bills
- You are using your credit cards to buy necessities like food or gasoline
- You are over the limit on any of your credit cards
- You have received phone calls or letters about delinquent bill payments
- You are hiding the true cost of your purchases from your spouse
- You are working overtime to keep up with your credit card payments
- You are dipping into savings to pay your monthly bills
- You have just lost your job, or are fearful that you are about to, and are concerned about how you will pay all your bills

Look for patterns and be aware. If it is something temporary, don't panic. If it is more serious, be honest with yourself and seek financial advice. A financial counselor can provide a thorough analysis of your family's personal finances which will help you assess how much trouble you're in and how much help you need. For many people, a financial counselor can help them get organized and lend support. For those who need more personal assistance a Debt Management Program can help.

HANDLING DEBT PROBLEMS

Are you having trouble paying your bills? Are you getting dunning notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car?

You're not alone. Many people face financial crises at some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or simple overspending, it can seem overwhelming, but often can be overcome. The fact of the matter is that your financial situation doesn't have to go from bad to worse.

If you or someone you know is having financial difficulty, consider these options: realistic budgeting, credit counseling, or debt consolidation. How do you know which will work best for you? It depends on your level of debt, your level of discipline, and your prospects for the future.

Develop a Budget

The first step toward taking control of your financial situation is to do a realistic assessment of how much money comes in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses - those that are the same each month - such as your mortgage payments or your rent, car payments, or insurance premiums. Next, list the expenses that vary, such as entertainment, recreation, or clothing. Writing down all your expenses - even those that seem insignificant - is a helpful way to track your spending patterns, identify the expenses that are necessary, and prioritize the rest. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education.

Contact Your Creditors

Contact your creditors immediately if you are having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector. At that point, the creditors have given up on you.

If you are having financial difficulty and need a change in payment terms, use the Tough-times Letter to Creditors located on the next page to communicate with creditors.

Tough-times Letter to Creditors

Your Address
Date letter was written

SAMPLE

Creditor Name
Address

RE: **Account Number**

Dear **(Creditor Name)**:

I am writing this letter to request a temporary change in the repayment terms of my account. Since I have become unemployed, I have had to make some financial adjustments.

I do have some income from (unemployment, spouse's employment, severance, etc.). However, when I carefully examined my financial situation and made a strict budget for my basic expenses, it also became necessary to ask each of my creditors to accept reduced payments for ______ (number of) months.

I would appreciate your cooperation in making this payment plan work. In place of my regular monthly payments of $ __________ due on the _________, I am requesting that you accept payments of $ __________ paid on the __________. I assure you that I will add no further debt until my financial situation improves.

I will begin making normal payments again as soon as possible. I regret that I have to ask for this consideration and hope that you will understand. When there is a change in my situation, I will notify you immediately and in any event, I will re-contact you in 60 days.

Your understanding during this difficult time is most appreciated.

Sincerely,

(signature)

Name Printed

Deal With Debt Collectors

The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or at work if the collector knows that your employer doesn't approve of the calls. Collectors may not harass you, make false statements, or use unfair practices when they try to collect a debt. Debt collectors must honor a written request from you to stop further contact.

See a Credit Counselor

If you aren't disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling service. Your creditors may be willing to accept reduced payments if you enter into a debt repayment plan with a reputable organization. In these plans, you deposit money each month with the credit counseling service. Your deposits are used to pay your creditors according to a payment schedule developed by the counselor. As part of the repayment plan, you may have to agree not to apply for - or use - any additional credit while you're participating in the program.

A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Ask the credit counseling service for an estimate of the time it will take you to complete the plan.

PROTECT YOUR CREDIT HISTORY

Once you begin using credit, you must follow the rules. The most important rule is to protect your credit history. If you don't pay your bills responsibly, your credit history will be tarnished. That could make it difficult to obtain additional credit in the future, rent your own apartment or even get a new job.

REVIEW YOUR CREDIT REPORT

If you've ever applied for a credit card, a personal loan, or insurance, there's a file about you. This file contains information on where you work and live, how you pay your bills, and whether you've been sued, arrested, or filed for bankruptcy.

A credit report is a record of data or information regarding the credit history of an individual. Credit Reporting Agencies (CRA) keep and organize this information as a service to their clients.

A credit bureau is essentially a clearinghouse of consumer credit information. Credit bureaus compile information from many sources including:

- You when you apply for credit
- Creditors with whom you do business
- Public records such as judgments, bankruptcy, etc.

Subscribers, or users, of the information in your credit report include creditors, banks, credit unions, department stores, leasing and financing companies, insurance companies, landlords and employers. Credit bureaus provide a very clear way for users of credit information to obtain information on how you've paid your bills in the past.

In the United States, there are three major credit bureaus. They are:

Experian PO Box 2002 Allen, TX 75013 1-888-397-3742 www.experian.com	***Equifax*** PO Box 740241 Atlanta, GA 30374-0241 1-800-685-1111 www.equifax.com	***TransUnion*** PO Box 1000 Chester, PA 19022 1-800-916-8800 www.transunion.com

Keep in mind that providers of information to credit bureaus don't always report to all three major bureaus. So, when you review your credit report, you may want to review all three.

Know what your credit report looks like before you apply for credit. Make sure the information is accurate and there are no surprises later. Viewing your report will allow you to see what the creditor sees and help you to explain something up-front that appears on your credit report that may be viewed as negative to a lender.

HOW CAN I OBTAIN A COPY OF MY CREDIT REPORT?

There are a number of ways that you can get a copy of your credit report.

Under the Federal Fair and Accurate Credit Transactions Act, every American is entitled to one free credit report from each of the three major bureaus per year.

A web site set up by the Federal Trade Commission where you can obtain a free copy of each report once a year is www.annualcreditreport.com. You can also order your free report by phone by calling toll-free 1-877-322-8228 or by writing: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You can order all three reports at one time or stagger your order over time.

For a fee, you can request a copy of your credit report directly from the credit bureau. Write a letter and mail your check or money order to the bureau from which you want a report. Include the following information in your letter:

- Your first name, middle initial and last name
- Your current address and previous addresses for the last five years
- Date of birth
- Social Security number
- Photocopy of your driver's license or current utility bill (for identification purposes)
- TransUnion requires your signature; Equifax needs your day and evening phone numbers

You will receive a copy within 30 days by mail or phone and immediately online.

You may receive a free copy of your credit report if one of the following applies to you:

- If a company takes adverse action against you, such as denying your application for credit, insurance or employment, and you request your report within 60 days of receiving the notice of the action. The notice will give you the name, address, and phone number of the credit bureau used.

- If you certify in writing that you're unemployed and plan to look for a job within 60 days, you're on public assistance or your report is inaccurate because of fraud.

Even if you have not been denied credit, you may want to find out what information is in your credit report. Financial advisors suggest that you review your credit report periodically for inaccuracies or omissions. This could be especially important if you're considering a major purchase, such as buying a home or a car. Checking in advance on the accuracy of the information in your credit report could speed the credit-granting process.

GET YOUR CREDIT SCORE

A credit score is a number lenders use to help them decide – "If I give this person a loan or credit card, will I get paid back on time?" It is one of several pieces of information that auto, mortgage, credit card and other lenders use when evaluating an application for credit. The credit choices you make impact your credit score.

There are different types of credit scores. Credit bureau scores are based solely on information in consumer credit reports. Other types of scores may also include information from credit applications or bank files. A credit score is provided by the credit bureaus to your lender.

A credit score is a snapshot of your credit risk picture at a particular point in time. It changes as new information is added to your credit bureau report. Only information that is proven to be predictive of future credit performance is used.

Your credit score is based on information in your credit report such as:

- Payment history - current and historical delinquencies
- Level of indebtedness - outstanding debt balances, both in terms of dollars owed and as a percent of available credit
- Age of credit history
- Pursuit of new credit - generally called inquiries
- Variety of credit in use

Your credit score is not based on factors prohibited under the Equal Credit Opportunity Act (ECOA) including:

- Race
- Age
- Gender
- Religion
- National origin
- Marital status

Other factors excluded are income, employment and where you live.

The most common model for credit scoring is the FICO score. FICO scores range from 300 to 850 with the higher the score, the lower the risk of default. Each of the major credit bureaus can produce a FICO score based on credit information in its files.

There is no legal requirement for a lender to reveal a credit score to an applicant. But if an application is denied, the lender must reveal the reason(s) for the denial.

People often wonder what a good score is. A "good" score is a number that matches the level of risk a lender is willing to accept for a particular loan or credit card. For example, a score of 750 may qualify you for a gold credit card, whereas a score of 675 may indicate you're a better match for a standard card. Scoring systems have varying numeric scales. A score of 725 could indicate high risk in one system and low risk in another. It's hard to say what a good score is – it varies from lender to lender.

While you can improve your future score, it is unlikely that any single action you take will have a large impact on your score immediately. That's because your score reflects your credit patterns over time.

You can take advantage of GreenPath, a financial education and counseling program. GreenPath counselors are available Monday through Thursday 8 a.m. to 10 p.m. (EST), Friday 8 a.m. to 7 p.m. and Saturday from 9 a.m. to 1 p.m. To use this service, simply call 1-888-893-2713.