



# FINANCIAL MANAGEMENT IV

## Understanding Credit

**2012 C.A.S.H. Program**



# CREDIT SCORE

## Handout 1

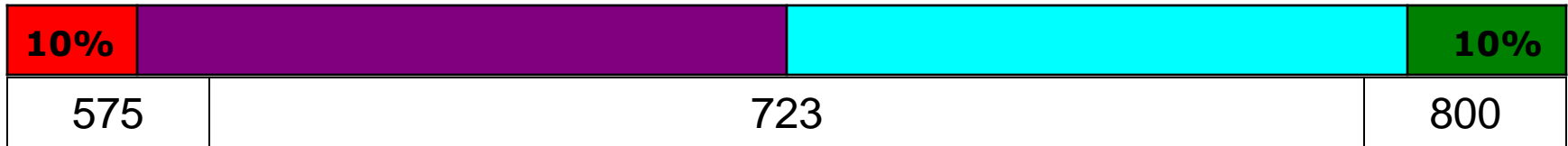


### What is a **BAD** credit score? What's a **GOOD** one?

Usually, credit scores are on a scale from 350 to 850, with higher scores being better.

With the most commonly used scoring systems...

- If your [credit score](#) is over 800, you're in the top 10% of the populace.
- If your score is about 723, you're right in the middle. (Half of the US population is better, and half is worse.)
- If your score is below about 575, you are in the bottom 10%.



### Credit score Decisions

There are many kinds of decisions based on credit scores...

- Approve or decline.
- Require a big deposit, little deposit, or no deposit.
- Require a big down payment, little down payment, or nothing down.
- Offer a high, moderate, or low interest rate.
- Fund your "paper" though *this, that, or the other* source of funding
- Offer *this or that* product, *this or that* credit card.

# CREDIT SCORE

## What Factors Affect a Score?

Many different formulas are used to calculate credit scores, but most are based on the following factors, which each scoring model weighs differently:

**Payment history.** A record of late payments on your current and past credit accounts will lower your score.

**Public records.** Matters of public record such as bankruptcies, judgments, and collection items may lower your score.

**Amount owed.** Owing too much will lower your score, especially if you're approaching your total credit limit.

**Length of credit history.** In general, a longer credit history is better.

**New accounts.** Opening multiple new accounts in a short period of time may lower your score.

**Inquiries.** Whenever someone else gets your credit report -- a lender, landlord, or insurer, for example -- an inquiry is recorded on your credit report. A large number of recent inquiries may lower your score.

**Accounts in use.** The presence of too many open accounts can lower your score, whether you're using the accounts or not.



# Which Credit Card would YOU choose? If Any?

## Handout 2



### 1 Citi Driver's Edge Mastercard for College Students

- No Annual Fee
- 0% Intro APR for 6 months, 17.74% APR thereafter
- Balance Transfer offer 0% APR for 6 months
- Earn 3% rebate on purchases at supermarkets, drug stores and gas stations
- \$35 over-the-credit limit fee
- Late payment fee of \$15 on balances up to \$100; \$29 on balances of \$100 up to \$1000; and \$39 on balances of \$1000 and over



### 2 Macy's Card

- 21.6% APR or 24.9% APR if you don't qualify
- Late payment fee of \$29 per account
- No Annual Fee
- Advance notice of sales
- Flexible payment plans
- Exclusive offers by mail 4 times per year
- Earn 1.5% on purchases toward Reward Certificate when you shop at Macy's



### 3 CapitalOne Platinum Card

- No Annual Membership Fee
- Variable APR on purchases, currently 19.8%
- Choose your own card design
- \$0 fraud liability for lost or stolen cards
- Credit limit up to \$5000 (minimum \$300)
- No balance transfer fees
- Over-the-credit limit fee of \$29



### 4 One from American Express

- The APR for purchases is a variable APR of 13.74%, 14.74%, 15.74% depending on our review of your credit history. Default rate of 29.74%
- Grace period of 30 days for repayment of balance due
- First year fee free then \$35, additional cards free
- Late payment fee \$29
- Contribution of 1% of eligible purchases into and FDIC-insured high yield savings account in your name
- \$25 to jumpstart your savings after your 1<sup>st</sup> purchase

## COSTS OF CREDIT

How much can credit cost? If you make only the minimum payment for an item (a loan, a credit card or some other credit vehicle), here are some examples of what you might “actually” pay and how long it will take you to pay it.

Balance	APR	Minimum Payment	True Cost making just minimum payment on time	Number of years to pay for the item
\$500	15%	\$11.89 per month	\$713.69	5 years
\$1,000	15%	\$16.13 per month	\$1,936.02	10 years
\$2,500	15%	\$32.92 per month	\$7,900.74	20 years

# COSTS OF CREDIT

## Handout 3



Measuring the seriousness of credit warning signs is important. Check the box that indicates how serious you believe the particular warning sign is.

1 = Not Serious; 4 = Very Serious

Warning Signs	How Serious?			
	1	2	3	4
1. Delinquent Payments				
2. Default Notices				
3. Repossessions				
4. Collection Agencies				
5. Lien				
6. Garnishment				
7. Lawsuit				

# Top 10 Tips For Good Credit

1. Save money each payday for emergencies.
2. Don't take on monthly credit payments unless you're certain you can meet them.
3. Pay bills promptly and in full to keep finance charges low.
4. Shop around for the best credit terms.
5. Shop as carefully with credit as you do with cash.
6. Understand the terms of the agreement before you accept loan or a credit card.
7. Set a monthly limit for charges and stick to it.
8. If you charge day-to-day expenses, pay them in full each month.
9. Keep credit card information (including phone number of issuer) in a safe place in case your cards are lost or stolen.
10. Keep copies of sales slips and compare charges when bills arrive. If there's a mistake, call your issuer right away.

# NEW TO CREDIT?

**If you're using a credit card for the first time, these tips will help you take charge of your finances...and use your credit card wisely!**

## KNOW THE RULES

- **Pay at least the minimum due every month**

The minimum amount due is the least you can pay every month to keep your account in good standing. Pay more than the minimum and you'll pay off your balance faster or reduce the interest you pay over time.

- **Avoid late payments**

If you miss a due date, you may be charged a late fee. And, a late payment may be recorded on your credit history. Be sure your payment arrives on time by sending it 5-7 days before the due date, even if you use online banking.

## SPEND RESPONSIBLY

- **Don't exceed your credit limit**

If you exceed your credit limit, a fee may be assessed. Over-the-limit fees are charged every month the amount of money you owe exceeds your credit limit.

- **Use cash advances with discretion**

Taking frequent cash advances becomes expensive. Your card issuer may charge an extra fee for each cash advance and charge a higher Annual Percentage Rate (APR) than for purchases.

## BE PROTECTED

- **Prevent fraud**

Be careful about how and when you use your credit cards. Never loan your card to anyone—even if you know them very well. Always check receipts against your monthly statements and report errors right away.

- **Safeguard your identifying information**

Minimize your risk for theft by keeping items with personal information in a safe place at home. Notify your bank and other card issuers when you change your address or phone number and be sure to report all lost or stolen cards immediately.

# KEEP YOUR CREDIT SAFE

**It's important to be careful about how and when you use your credit cards. Never lend them to anyone, and never leave cards or receipts lying around, no matter where you live. Heeding a few simple rules can save you from being a victim of credit card fraud or identity theft.**

- Always know where your cards are and keep them in a safe place.
- Don't give your account number over the phone unless you know the company and you made the call.
- Get a card that has added security features, like a photo.
- Draw a line through the blank space above the total on charge slips to prevent changes and tear up carbons from slips.
- Don't sign blank charge slips.
- Always check receipts against your monthly statements. Errors must be reported within 60 days of the statement mailing date.
- Record card numbers, expiration dates and phone numbers. Keep this record in a safe place separate from your cards. Use it if you need to report lost or stolen cards.
- Never put your account number or personal identification number (PIN) on the outside of an envelope or postcard. Never put your PIN on the card or in your wallet.
- Carry only cards you need, especially when traveling.

## MONEY-SAVING IDEAS

- If you get items because they're on sale, you aren't saving. Its not a bargain if you don't need it.
- Reconsider luxuries. They have a tendency to become necessities. If you live a little below your means, your money will go further.
- Check bills for errors.
- Do things for yourself that you used to pay for (ironing your own shirts or mowing your lawn, for example).
- Make shopping lists and stick to them.
- Compare prices at three stores before making a major purchase. Buy used items and seconds when practical.
- Treat everything you own as valuable. Make things last. Don't throw things out until they wear out.



# CREDIT BUREAUS

## Handout 4



### **EQUIFAX**

P.O. Box 740241

Atlanta, GA 30374-0241

1-800-685-1111

[www.equifax.com](http://www.equifax.com)

For a credit report, call 1-800-685-1111.

To report fraudulent activity, call 1-800-525-6282

### **EXPERIAN (formerly TRW)**

National Consumer Assistance Center

P.O. Box 200

Allen, TX 75013

1-888-397-3742

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

For a credit report, call 1-888-397-3742

To report fraudulent activity, call 1-888-397-3742

### **TRANS UNION, LLC**

Consumer Disclosure Center

P.O. Box 390

Chester, PA 19022

1-800-888-4213

[www.transunion.com](http://www.transunion.com)

For a credit report, call 1-800-916-8800

To report fraudulent activity, call 1-800-680-7289