



Member
FDIC

LESSON SEVEN: CREDIT



First Bank
make life better

Financial Literacy Program

ADVANTAGES OF CREDIT

- Able to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

DISADVANTAGES OF CREDIT

- Interest (higher cost of items)
- May require additional fees
- Financial difficulties may arise if one loses track of how much has been spent each month
- Increased impulse buying may occur





THE FIVE C'S

CHARACTER—WILL YOU REPAY THE DEBT?

From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

CAPITAL—WHAT IF YOU DON'T REPAY THE DEBT?

Do you have any valuable assets such as real estate, savings, or investments that could be used to repay credit debts if income is unavailable?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?



THE FIVE C'S

CAPACITY—CAN YOU REPAY THE DEBT?

-Have you been working regularly in an occupation that is likely to provide enough income to support your credit use?

COLLATERAL—DO YOU HAVE ASSETS THAT CAN BE LEVERAGED AGAINST THE DEBT?

-What assets do you have, such as a car or property?

CONDITIONS—ARE THERE CONDITIONS THAT MAY AFFECT YOUR ABILITY TO REPAY?

-Have you been working regularly in an occupation that is likely to provide enough income so that you can repay?

Responsibilities

READ AND
UNDERSTAND
THE CREDIT
CONTRACT.

BORROW ONLY
WHAT YOU CAN
REPAY.

PAY DEBTS
PROMPTLY.

NOTIFY
CREDITOR IF
YOU CANNOT
MEET
PAYMENTS.

REPORT LOST
OR STOLEN
CREDIT CARDS
PROMPTLY.

NEVER GIVE
YOUR CARD
NUMBER

LAWS THAT PROTECT YOUR RIGHTS



TRUTH IN LENDING ACT (1968)

Ensures consumers are fully informed about cost and conditions of borrowing.

FAIR CREDIT REPORTING ACT (1970)

Protects the privacy and accuracy of information in a credit check.

EQUAL CREDIT OPPORTUNITY ACT (1974)

Prohibits discrimination in giving credit.

FAIR CREDIT BILLING ACT (1974)

Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

Building Credit



1

ESTABLISH A
STEADY WORK
RECORD.

2

PAY ALL BILLS
PROMPTLY.

3

OPEN A
CHECKING
ACCOUNT AND
DON'T BOUNCE
CHECKS.

4

OPEN A
SAVINGS
ACCOUNT AND
MAKE
REGULAR
DEPOSITS.

Building Credit



5

APPLY FOR A LOCAL STORE CREDIT CARD AND MAKE REGULAR MONTHLY PAYMENTS.

6

APPLY FOR A SMALL LOAN USING YOUR SAVINGS ACCOUNT AS COLLATERAL.

7

GET A CO-SIGNER ON A LOAN AND PAY BACK THE LOAN AS AGREED.

Reading a Credit Report

Your Credit Report

Please address all future correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name
123 Current Address
City, State 00000
SSN #: 123-45-6789
Date of Birth: July 1, 1993
Telephone Number: (555) 555-5555

EMPLOYMENT DATE REPORTED

Employer Name: Employer 1
Date Reported: 06/2014
Position: Job/Occupation
Hired: 04/2014

PUBLIC RECORD INFORMATION

Lien Filed 03/13; Fulton CTY; Case or Other ID Number-32114; Amount-\$26,667
Class-State; Released 07/13; Verified 07/13

Bankruptcy Filed 12/12; Northern District Ct; Case or Other ID Number-673HC12;
Liabilities-\$15,787; Personal; Individual; Discharged; Assets-\$780

Satisfied Judgment Filed 07/14; Fulton CTY; Case or Other ID Number-898872; Defendant-
Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/15; Verified 05/15

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX

Collection Reported 05/17; Assigned 09/17 to Pro Coll (800)XXX-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/16; Individual
Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

| COMPANY NAME | ACCOUNT NUMBER | WHOSE ACCT. | DATE OPENED | MONTHS REVIEWED | DATE OF LAST ACTIVITY | HIGH CREDIT | TERMS | BALANCE | PAST DUE | STATUS | DATE REPORTED |
|----------------|----------------|-------------|-------------|-----------------|-----------------------|-------------|-------|---------|----------|--------|---------------|
| Department St. | 32514 | J | 10/12 | 36 | 9/18 | \$950 | X | \$0 | X | R1 | 10/18 |
| Bank | 1004735 | A | 11/13 | 24 | 5/18 | \$750 | X | \$0 | X | I1 | 4/18 |
| Oil Company | 541125 | A | 06/16 | 12 | 3/18 | \$500 | X | \$0 | X | O1 | 4/18 |
| Auto Finance | 529778 | I | 05/15 | 48 | 12/17 | \$1100 | \$50 | \$300 | \$200 | I5 | 4/18 |

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/18 - I2; 02/18 - I3; 03/18 - 14

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/18 Equifax-Disclosure
07/29/18 PRM Bankcard
04/10/18 AR Department Store
08/27/18 Department Store
07/03/18 AM Bankcard
12/31/17 Equifax-Disclosure ACIS 123456789

MANNER OF PAYMENT (MOP) CODES

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status timeliness of payment

- 0** Approved not used; too new to rate
- 1** Paid as agreed
- 2** 30+ days past due
- 3** 60+ days past due
- 4** 90+ days past due
- 5** Pays or paid 120+ days past the due date; or collection account
- 6** Making regular payments under wage earner plan or similar arrangement
- 7** Repossession
- 8** Charged off to bad debt

STATUS TYPE OF ACCOUNT CODE

O OPEN (ENTIRE BALANCE DUE EACH MONTH)

R REVOLVING (PAYMENT AMOUNT VARIABLE)

I INSTALLMENT (FIXED NUMBER OF PAYMENTS)

Types and sources of credit



SINGLE-PAYMENT CREDIT

ITEMS AND SERVICES ARE PAID FOR IN A SINGLE PAYMENT, WITHIN A GIVEN TIME PERIOD. INTEREST IS USUALLY NOT CHARGED.

INSTALLMENT CREDIT

MERCHANDISE AND SERVICES ARE PAID FOR IN TWO OR MORE REGULARLY SCHEDULED PAYMENTS OF A SET AMOUNT. INTEREST IS INCLUDED.

- SOME RETAIL BUSINESSES, SUCH AS CAR AND APPLIANCE DEALERS

REVOLVING CREDIT

MANY ITEMS CAN BE BOUGHT USING THIS PLAN AS LONG AS THE TOTAL AMOUNT DOES NOT GO OVER THE CREDIT USER'S ASSIGNED DOLLAR LIMIT. REPAYMENT IS MADE AT REGULAR TIME INTERVALS FOR ANY AMOUNT AT OR ABOVE THE MINIMUM REQUIRED AMOUNT. INTEREST IS CHARGED ON THE REMAINING BALANCE.

HOW MUCH CAN I AFFORD? THE 20-10 RULE

Never borrow more than 20% of your yearly net income

- If you earn \$400 a month after taxes, then your net income in one year is:
 $12 \times \$400 = \$4,800$
- Calculate 20% of your annual net income to find your safe debt load.
 $\$4,800 \times 20\% = \960
- So, you should never have more than \$960 of debt outstanding.
- Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%, but other debt should be included, such as car loans, student loans and credit cards.

Monthly payments shouldn't exceed 10% of your monthly net income

- If your take-home pay is \$400 a month:
 $\$400 \times 10\% = \40
- Your total monthly debt payments shouldn't total more than \$40 per month.
- Note: Housing payments (i.e., mortgage payments) should not be counted as part of the 10%, but other debt should be included, such as car loans, student loans and credit cards.