



The Importance of Good Credit



We make home possible®

Introduction

- The importance of good credit
 - ✓ What is credit?
 - ✓ The importance of credit history when applying for a loan
 - ✓ How to build and maintain good credit
 - ✓ Credit and its importance in homeownership

Good Credit: A Gift for the Future

- Why is good credit important?
 - ✓ Good credit helps you realize your dreams
 - Buying a home
 - Starting a business
 - Sending your children to college
 - Leasing a car
 - Renting an apartment
 - ✓ Good credit can mean lower rates
 - Car insurance
 - Homeowner's insurance

Good Credit: A Gift for the Future

- What is credit?
 - ✓ The ability to borrow tomorrow's money to pay for something you get today.
 - ✓ A promise to repay a debt and it reflects on your reputation

Good Credit: A Gift for the Future

- Two Types of Credit
 - ✓ Revolving Credit – allows you to borrow up to a pre-established limit repeatedly, as long as you keep the account in good standing.
 - Examples: credit cards and home equity lines of credit
 - ✓ Installment Credit – a loan provided to a borrower by a lender to be repaid over a specified term.
 - Examples: car loans and mortgage loans

Good Credit: A Gift for the Future

- Interest Rates vs. Annual Percentage Rate (APR)
 - ✓ Interest Rates – A charge you pay to borrow money from your lender
 - ✓ APR – The total annual cost you pay (including the interest rate, points, and fees) as the borrower on your loan

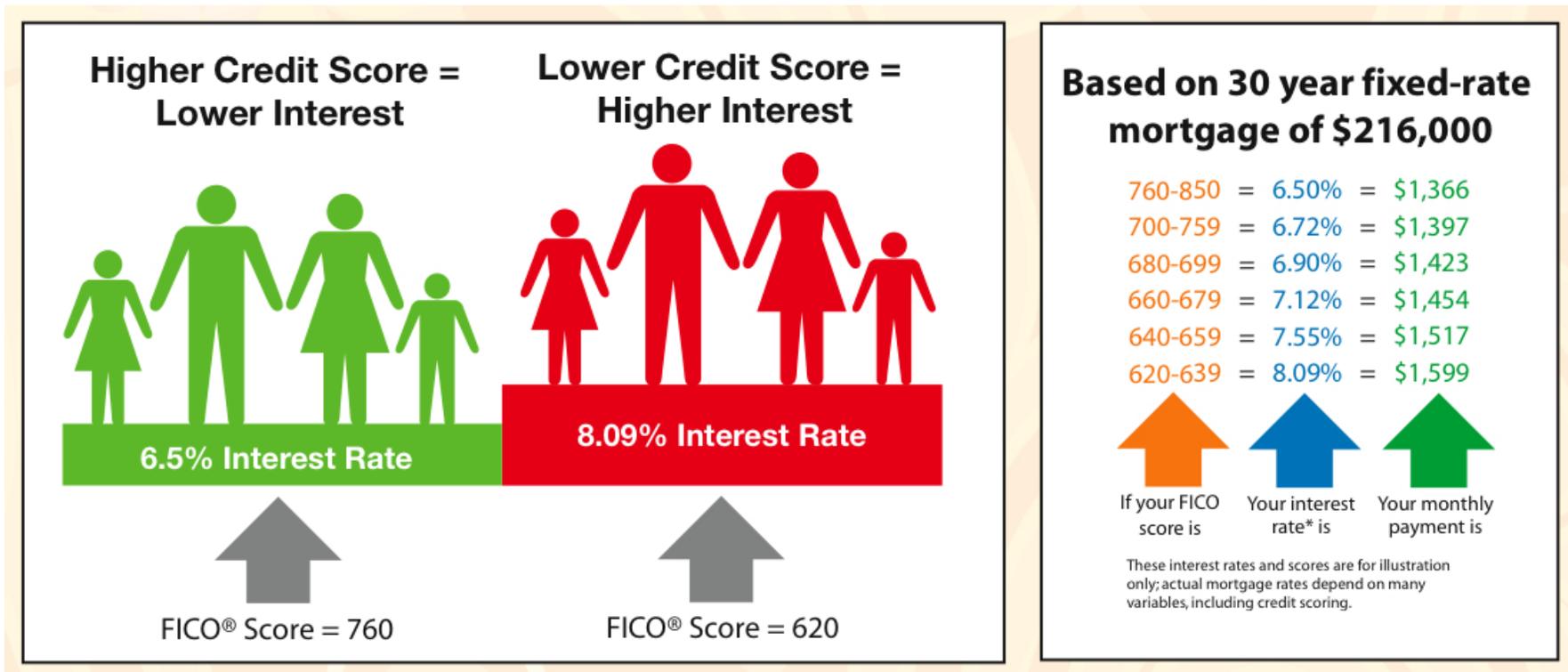
Good Credit: A Gift for the Future

- Can debt ever be good?
 - ✓ YES, if money is borrowed for an asset that retains or builds value.
 - ✓ Examples:
 - Home mortgage
 - Business loan used for expansion

Good Credit is Worth It

- Good credit allows you to have:
 - ✓ Lower interest rates and fees
 - ✓ Home equity
 - ✓ Advantages of tax benefits
 - ✓ Advantages of using a credit card

Good Credit is Worth It



Building Good Credit

- Things to do to establish good credit
 - ✓ Open checking and savings accounts
 - ✓ Apply for a credit card
 - ✓ Keep good records of borrowed money
- Income Tax Returns

You Have Rights

- Equal Credit Opportunity Act
 - ✓ You cannot be declined credit or given a different rate because of your race, gender, marital status, religion, age, national origin, or the receipt of public assistance.
 - ✓ If you are denied credit:
 - Federal law requires the creditor to inform you with a reason why you were denied credit
 - For more information, visit www.annualcreditreport.com or call 877-322-8228.

You Have Rights

- Fair Credit Reporting Act
 - ✓ You have the right to know what information credit reporting agencies are distributing about you.

You Have Rights

- Truth-in-Lending Act
 - ✓ Lenders are required to provide you with written disclosures about the cost of credit and the terms of repayment before you enter into the transaction.

You Have Rights

- Fair Credit Billing Act
 - ✓ Procedures are provided for resolving billing errors on your credit card account.

You Have Rights

- What if something is wrong?
 - ✓ You have the right to correct any errors on your credit report by writing a letter or calling the credit reporting agency.
 - ✓ Credit reporting agency must respond within 30-45 days of your inquiry.

Understanding Credit Scoring

- Knowing your score
 - ✓ Credit reporting agencies use statistical data to evaluate information within your credit report.
 - ✓ Credit score is based on information from your credit report and determines the interest rate, terms, and fees associated with your loan.
 - ✓ The better the credit report, the higher the credit score.

Understanding Credit Scoring

■ Credit Score Breakdown

✓ Payment history	35%
✓ Amounts owed	30%
✓ Length of credit history	15%
✓ New credit	10%
✓ Types of credit in use	10%

- For more information, visit www.myfico.com

Source: FairIsaac Co.

Sample Credit History

E C O A	W H O S E	Creditor Name	Date Opened	Date Reported	High Credit	Present Status		Historical Status				Current Status
		Account Number	Credit Limit	Last Activity	Terms	Balance Owing	Amount Past Due	Mos Rev	30-59 Days	60-89 Days	90-120 Days	
I	B	US Bank	04/03	01/04	\$3700	\$2700	\$0	9	0	0	0	I1
		101010			30M140							TU
		INSTALLMENT SALES CONTRACT										
		DLA: 12/03										
		<i>Account with no adverse information</i>										
		<i>Account types can include installment loans, credit cards, mortgage loans, auto loans, retail accounts and finance company accounts</i>										
I	B	ABC	09/00	05/01	\$500	\$500						O9*
		Collect			\$500							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING CORP.										
		AGENCY: ABC COLLECTION										
		<i>Account with Adverse Action</i>										
I	B	XYZ	11/00	02/00	\$300	\$300						O9*
		Collect			\$300							TU
		PLACED FOR COLLECTION										
		CREDITOR: FUNDING										
		AGENCY: XYZ COLLECTION										

Sample FICO Scoring Summary

CREDIT BUREAU CONSUMER RELATIONS CENTER

(TU) TU SETTLEMENT SOLUTIONS, PO 31423, INDEPENDENCE, OH 44131
(866) 871-0390

Date Ordered: 01/20/2008

Date Released: 01/20/2008

Date Reissued:

01/20/2008

The point scoring shown is derived from the original infile data compiled from each repository used, prior to the elimination of duplicate tradelines.

TransUnion

01-NEW EMPIRICAL **700**

TransUnion's personal credit score. The range is from 150-934, and scores are formulated based on the amount of credit information reported and the types (adverse or satisfactory) of information that is reported. High scores reflect a long and positive credit history.

The factors that most significantly affect the credit score

REASON 1:

Derogatory public record or collection filed

REASON 2:

Length of time accounts have been established

REASON 3:

Too many inquiries in last 12 months

REASON 4:

Proportion of balances to credit limits is too high on bank revolving or other revolving accounts

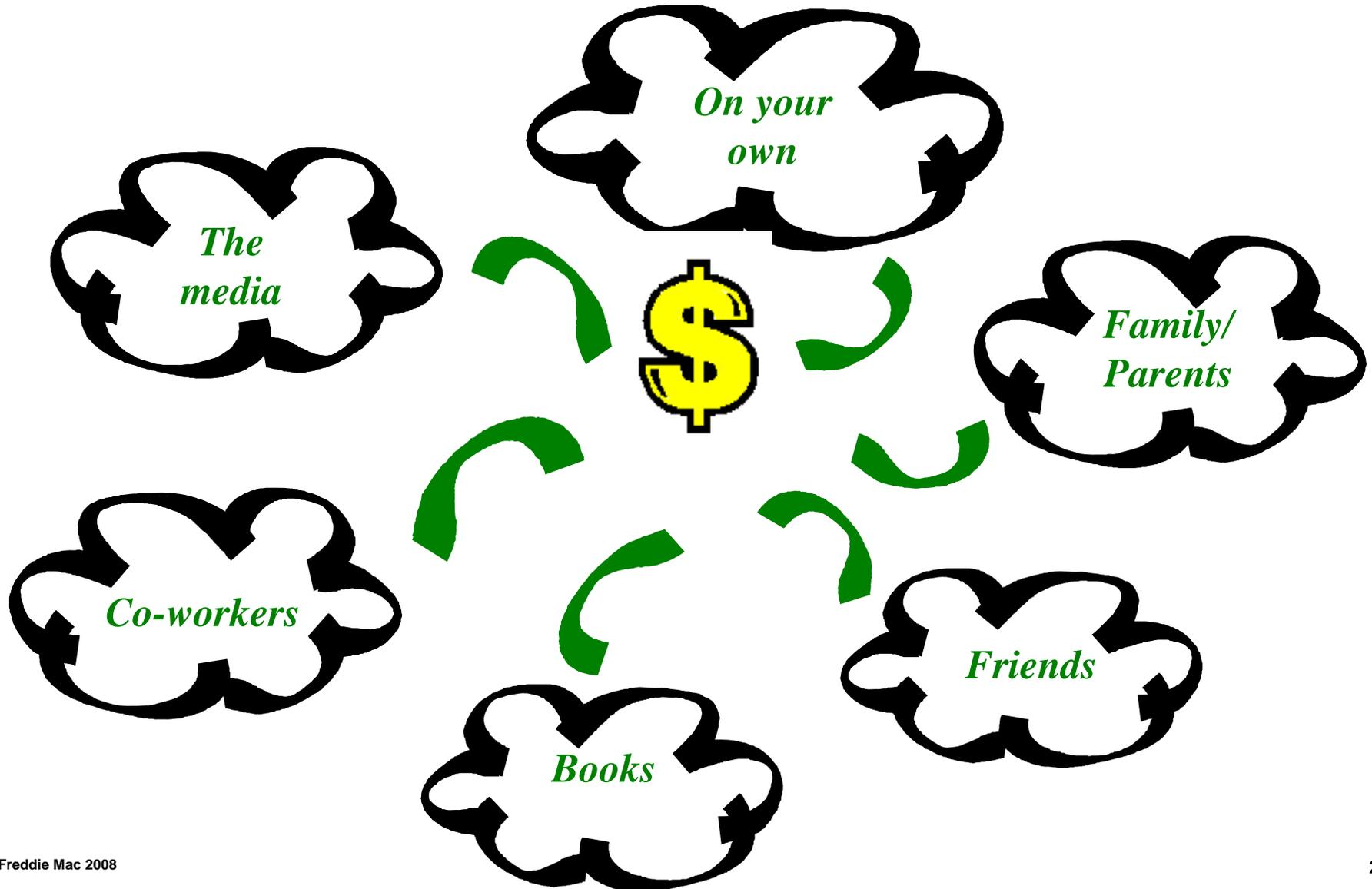
Understanding Credit Scoring

- Here are some reasons that will jeopardize your good credit if you are not careful:
 - ✓ Late payments
 - ✓ Borrowing more than the credit limit
 - ✓ Insufficient funds to pay for checks
 - ✓ Defaulting on a loan

Understanding Credit Scoring

- Other reasons to be careful of:
 - ✓ Unpaid liens
 - ✓ Co-signing for a loan
 - ✓ Excessive credit inquiries
 - ✓ Too much debt
 - ✓ Job/income instability

Where did you learn about Money?



Credit Quiz

- 1) Excluding rent or a mortgage, you should not use more than _____% of your take-home pay for repaying your debts.
- A) 10%
 - B) 20%
 - C) 50%
 - D) 1%
- 2) If married, it is only essential for _____ partner(s) in the relationship to apply for credit.
- A) One
 - B) Both
 - C) Neither

Credit Quiz

- 3) Length of employment, stable income, length of residence, and savings all help demonstrate stability.
- A) True
 - B) False
- 4) If I pay a bill late it won't show up on my credit report.
- A) True
 - B) False

Credit Quiz

- 5) Credit reporting agencies have the right to deny you credit.
- A) True
 - B) False
- 6) As long as you pay your share on a joint account, you cannot receive negative credit regardless of what the other person does.
- A) True
 - B) False
- 7) You should always pay more than the minimum amount on your monthly credit card bills.
- A) True
 - B) False

Credit Quiz

- 8) You can be turned down for a loan if you do not have a credit history.
- A) True
 - B) False
- 9) Accurate negative information such as late payments can stay on a credit report for _____ years.
- A) 5
 - B) 7
 - C) 13
 - D) Does not show up on credit reports
- 10) If your credit report has errors, the law puts the responsibility on the credit reporting agency to conduct an investigation and correct any errors.
- A) True
 - B) False

Being Credit Wise

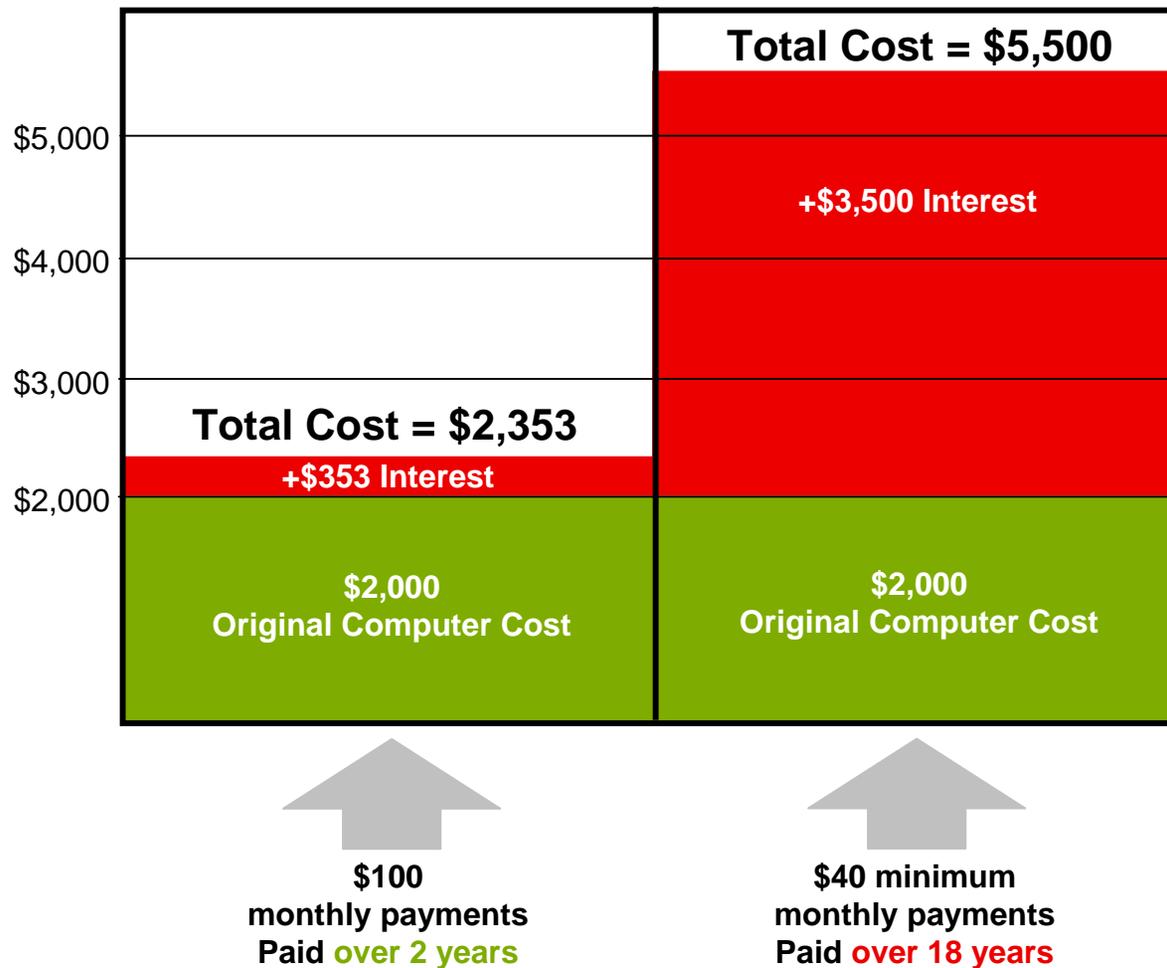
- Tips to follow when using credit
 - ✓ Don't buy what you cannot afford.
 - ✓ Pay your balance in full — before your grace period ends.
 - ✓ Pay more than the minimum payment.
 - ✓ Evaluate your needs versus your wants.

Being Credit Wise

- Tips to follow when using credit:
 - ✓ Be savvy about credit industry tactics
 - ✓ Be wary of special offers
 - ✓ Be aware of fees, fees, fees
 - ✓ Remember your debt-to-income ratio

Being Credit Wise

True Cost of Minimum Payments



Being Credit Wise

- Getting the Credit You Deserve
 - ✓ There are many sources of credit in today's marketplace
- Reading the Small Print
- Home Equity Lines of Credit

Being Credit Wise

■ If You Get Into Trouble

✓ Warning signs of payment problems

- Not paying your bills on time, not even your minimum payment
- Incurring frequent late fees
- Difficulty deciding which bills to pay each month
- Being at or near your credit limit

Goal Setting

- Tips on Setting Goals
 - ✓ Express goals as positive statements
 - ✓ Be specific - set time frames or a target date
 - ✓ Write down your goals
 - ✓ Distinguish between short and long-term goals
 - ✓ Establish priorities
 - ✓ Set goals that are realistic and attainable

Exercise: Goal Setting

Example

Michael is 27-years-old and currently lives with his parents. He is a manager at the local bookstore earning \$50,000 a year. Due to paying his bills late for the past year and retaining high credit card balances, his credit score has significantly dropped. He recently purchased a new car and dreams of one day owning his own home.

Exercise: Goal Setting

- Short-term Goal Examples (1 year or less)
 - ✓ Pay bills on time every month.
 - ✓ Request a credit report every year.
 - ✓ Create a spending plan within 3 weeks.
- Mid-term Goal Examples (1- 3 years)
 - ✓ Pay off car loan.
 - ✓ Continue to pay bills on time every month.
 - ✓ Pay off credit card balance.
- Long-term Goal Examples (5+ years)
 - ✓ Purchase a house one year after saving \$15,000 for a down payment.

Conclusion

- Good credit is an ASSET.
- You have rights as a borrower.
- You must be a responsible user of credit.
- Establishing and maintaining your good credit history is the first step to buying your own home.