



The Importance of Good Credit



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

Many of us, or maybe our parents, originally came from countries that have very different financial systems and different attitudes about how we manage money and credit. Many Asian Americans avoid debt by paying cash for all purchases. They think that no credit is good credit. Do you think this is true?

(Have people raise their hands for yes or no.)

If you are in the process of buying a home, whether it's six months or six years from now, you will discover the answer is no. A good credit history is very important, especially when you're trying to get the best financing option to purchase your home.

This presentation will address the importance of establishing a positive credit history to obtain better interest rates and loan options.

Throughout the presentation, please feel free to ask questions at any time.

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

The single most effective way to prepare for homeownership and other financial goals – such as sending your children to college or starting a business – is to educate yourself about the importance of using credit wisely.

- Good credit helps you realize your dreams.
- Buying a home, financing your business, buying a car, leasing an apartment, getting a job – all these events may require a credit check.
- All these important life events are made easier if you have good credit.
- Once you establish good credit, you will receive lower interest rates on other transactions, such as lower premiums on auto and 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

What is credit?

- Credit is the ability to borrow tomorrow's money to pay for something you get today, such as a home, furniture or a car.
- It is a promise to repay a debt, and it reflects on your reputation.
- Credit may be extended through credit cards, personal loans, car loans, and home mortgages.

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

There are 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. Some examples are credit cards and home equity lines of credit.
- **Installment Credit** is a loan provided to a borrower by a lender to be repaid over a specified term. Some examples are 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

When you apply for a loan, you will receive an interest rate and an annual percentage rate. But, what is the difference?

Interest Rates is a charge you pay to borrow money from your lender. It is usually expressed as a percentage of the amount borrowed.

Annual percentage rate, or APR, is the total annual cost you pay, including the interest rate, points, and fees as the borrower on your loan. According to the federal law, lenders must report the APR to you for a home mortgage loan. In fact, the APR is a good tool for comparing rates on different loans.

For example, if you receive a credit card offer in the mail that says, “0% APR,” you will need to look at the fine print. What is your actual interest rate?

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

Can Debt Ever Be Good?

- When it comes to establishing good credit, “good” debt will help you.
- “Good debt” is money borrowed for an asset that retains value, or even builds value (also called equity).

Here are some examples:

- Home mortgage on your principal residence
- Loan to help start or expand your business
- Car loan so you have a vehicle to get to and from work or school
- Home equity loan to improve and add value to the residence you own

One thing you should remember is that you want to avoid borrowing money for incidental items that do not retain their value. For example, electronics like a personal computer.

Later in this presentation we will discuss the true cost of minimum payments.

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 allows you to receive lower interest rates and pay lower fees. And, with early preparation, you can buy a home for your family which allows you to build equity.

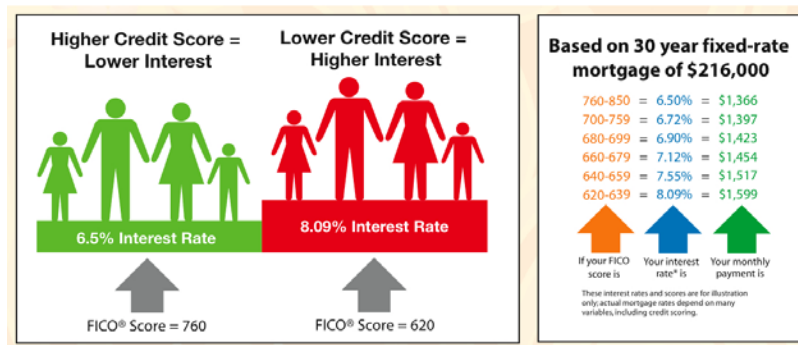
A home equity is the positive difference between what you owe and what the property is worth. Your home's equity will help you build wealth for the future of your family.

You also receive great tax benefits as a homeowner because you may be able to deduct your mortgage interest payments.

There are also advantages to using credit cards for your regular purchases:

- Most credit cards offer some form of protection if your card is reported stolen or missing.
- They also offer a way to track your purchases via your monthly statement, giving you an effective way to track expenses for your household or small business.

Good Credit is Worth It



Good credit is a valuable asset. Consider this example of two families trying to get a 30-year fixed-rate mortgage for \$216,000:

The first family, with a high credit score of 760, is pleased to receive a 6.5% interest rate. The second family, with a lower credit rating of 620, is offered a rate of 8.09%. The 1.59% difference may not seem like a lot now, but it will cost the second family \$2,796 a year more – \$83,880 over the life of the loan – for their mortgage.

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

Establishing and maintaining good credit is essential for building a sound financial future. Now that you can see the value of building a strong credit history, you are ready to begin building your own good credit. With patience and a little time, you will have a credit history to build your future upon.

Here are some things you can do to start establishing your good credit:

- Open checking and savings accounts.
- Apply for a credit card.
- If you borrow money from a family member or friend, keep good records of your repayment.
- Keep your pay stubs.
- If you are self-employed, keep detailed records of your income and expenses.
- Apply for an open, 30-day credit account.
- Find a friend or family member to be a co-signer.

The Importance of Your Income Tax Returns

A mortgage lender will need documentation of your income and income history to determine whether you can repay the loan. Once you own your home, you will want to deduct your mortgage interest (and your mortgage insurance premiums for eligible borrowers*) on your tax return—one of the primary advantages of being a homeowner.

** Eligible borrowers (who receive a mortgage between 2007 and 2010) can deduct all or part of the mortgage insurance premiums. Borrowers with gross adjusted income up to \$100,000 can deduct 100% of its mortgage insurance premium and a partial deduction for borrowers up to \$109,000. Consult your professional tax advisor for more details.*

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 as a consumer at every step of the credit and loan application processes. To ensure your rights as a consumer, legislative acts have been passed that cover the issues of equal opportunity, credit reporting, billing and other issues. Here are four examples:

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 have been denied credit based on information obtained from your credit profile, under the Equal Credit Opportunity Act the lender is required to inform you why you were denied credit. You are also allowed to receive a free copy of your credit report within 60 days from the date the report was pulled.

You should get your free credit report that is available to you at no charge once every 12 months. There are three different credit agencies that you can obtain your credit report from: Equifax, Experian, and TransUnion. Visit www.annualcreditreport.com or call the toll free number to request your free credit report.

You Have Rights

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

Under the Fair Credit Reporting Act, you have the right to know what information credit reporting agencies are distributing about you, and you are entitled to that information being correct.

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.

Under the 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 can enter into the transaction.

You Have Rights

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

Under the 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.

What if something is wrong?

- If you find an error in your credit report, you have the right to correct it. It is crucial that you address the problem as soon as possible, since errors can affect your ability to obtain a loan or affect how much you will have to pay to get a loan in the future.
- There are procedures for alerting the credit reporting agencies about mistakes on your report. On your report, you will find detailed information on the steps you should take to correct any errors. Write the credit reporting agency to report the problem, and keep a record of what you send.
- You can also call the credit reporting agency and they will instruct you regarding any additional steps you must take to resolve your issue. You may be required to send copies of statements or payments to the agency to explain your concern. Additionally, you may be asked to send an explanation of the matter in writing.
- By law, a credit reporting agency must respond to your complaint within 30-45 days. If the credit reporting agency agrees with you, and the item is determined to be inaccurate, your creditor must notify the other credit reporting agencies about the issue so they can correct your credit history.
- If the credit reporting agency is unable to resolve your complaint, you should contact the specific creditor in question. Keep accurate records of your contact and conversations, and ask that they correct their error and report their correction to the credit reporting agency. If they refuse, you have the right to place a brief explanation in your credit file. Limited to 100 words, your statement can explain an unusual situation, such as one in which you refused to pay a bill because an item was defective or not delivered. In this case, the negative item will still appear on your report, but your explanation will accompany it.

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.

Not only do credit reporting agencies review your credit history to determine your creditworthiness, they look at your credit score. Credit reporting agencies use a credit score which uses statistical data to evaluate information contained in your credit report. The most common credit score used today is called a FICO score. When you apply for a loan, you should ask your lender to explain how your credit score was factored into the lending decision. Remember, your credit score will determine the interest rate, terms, and fees associated with your loan.

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: Fair Isaac Co.

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What's in a credit score?

The FICO credit score looks at five main characteristics of credit. Of those 5, your payment history and outstanding debt carry the most weight. In fact, those two characteristics comprise more than half of your total score. Your income is not a factor. In fact, someone with a high income may have a lower credit score than someone with a low level of income.

It is important to remember that your credit score is a snapshot of your situation at that moment and won't last forever. It is updated constantly to reflect the changes in your credit activity. For that reason, it's important to act in ways that will continue to increase your credit score over time. If you'd like to improve your credit score, please understand that it takes time. Credit scoring utilizes data contained in your credit report; therefore, the scoring system is actually analyzing your credit patterns over an extended period of time. Unfortunately, there is no quick fix. Only diligently managing your credit responsibly will help to ensure that your credit score will not be a barrier to future opportunities.

You can obtain a copy of your FICO credit score online for a small fee at www.myfico.com. The Web site provides additional information on credit scoring, factors, and credit tips.

Always ask your lender or creditor to explain what your credit score means in relation to the final credit decision. Never assume that your credit score is good or impaired until it's fully explained to you by a credit industry professional. The scoring systems and numerical ratings vary.

Sample Credit History

E C O N O M I C S E	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	11
		101010			30M140							TU
		INSTALLMENT SALES CONTRACT DLA: 12/03 Account with no adverse information Account types can include installment loans, credit cards, mortgage loans, auto loans, retail accounts and finance company accounts										
I	B	ABC	09/00	05/01	\$500	\$500						09*
		Collect			\$500							TU
		PLACED FOR COLLECTION CREDITOR: FUNDING CORP. AGENCY: ABC COLLECTION Account with Adverse Action										
I	B	XYZ	11/00	02/00	\$300	\$300						09*
		Collect			\$300							TU
		PLACED FOR COLLECTION CREDITOR: FUNDING AGENCY: XYZ COLLECTION										



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Once you apply for and establish your own credit, many lenders or creditors report your history of payments to one or more of the nation's three largest credit reporting agencies: Equifax, Experian, and Transunion.

In general, a credit report lists the following:

- Your name, address, Social Security number, and date of birth
- Your credit information — your creditor information, your payment history with each creditor, and how much debt you currently have with each creditor
- Information from public records such as bankruptcy or liens
- A list of recent inquiries into your credit

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 EMPIRICA **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

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Every consumer has a credit history, however everyone may not have a credit score. Credit scores are generated when there's recent credit activity, e.g., payments made to your creditors, open active accounts and/or recent charges. Credit scores are used extensively by creditors, and if you're trying to obtain a mortgage, car loan, credit card, or auto insurance, the rate you receive is heavily influenced by your credit score. The higher the number, the better you look to lenders. Remember, those with high scores get the lower interest rates.

In addition to the credit score, you should also know what the factors are impacting the score. Under the FICO scoring model you will usually also be given four reason codes. The reason codes gives you the top four factors that have the greatest impact on your score. Knowing the reason codes related to your score is important when considering ways to improve your score. Understand that the reason codes will change as information in the credit file changes. The reason codes provide guidance to improving your score and direction on steps you should take when correcting errors.

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

Now that you have established credit, you must work diligently to keep it in good standing. Here are some things that will jeopardize your good credit if you are not careful:

- Late payments
 - If you miss your due date, you could face costly late fees in addition to the negative credit implications.
- Borrowing more than the credit limit
 - You are required to pay the overage plus your normal minimum payment.
 - You may also pay a penalty fee.
- Insufficient funds to pay for checks
 - In addition to incurring expensive bank fees, your returned checks due to insufficient funds may be reported to a credit reporting agency and may be reflected on your credit rating.
- Defaulting on a loan
 - An unpaid loan balance reflects negatively on your credit report because it shows you have a history of not paying back the money you borrow.

Understanding Credit Scoring

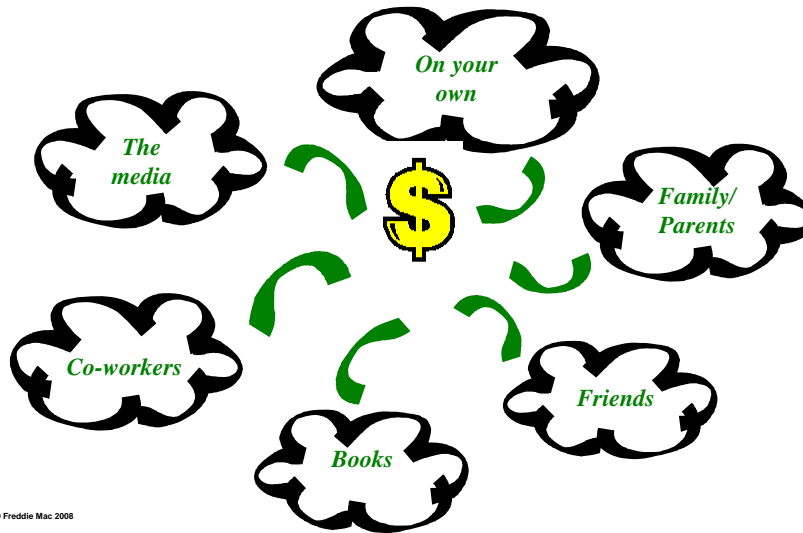
■ Other reasons to be careful of:

- ✓ Unpaid liens
- ✓ Co-signing for a loan
- ✓ Excessive credit inquiries
- ✓ Too much debt
- ✓ Job/income instability

Here are some other reasons to be careful of:

- Unpaid liens
 - If you owe money because of a legal judgment, it can be reported on your credit history.
- Co-signing for a loan means you are guaranteeing that a loan for another person will be paid back.
 - Earlier we talked about finding someone who can co-sign on a loan with you. If you will be the one co-signing, you should be careful because it can negatively impact your own credit if payments aren't made on time or the loan defaults. Any loan you co-sign for another person means the creditor can hold you responsible if your co-borrower does not pay back the loan as agreed. Consider these consequences before you co-sign for a friend or relative.
- Excessive credit inquiries
 - If you apply for credit with many lenders over a short period of time, it can hurt your credit score.
 - Many inquiries for credit with different lenders over a short period of time may look like you are being denied for credit or that you are looking for too much credit and will not be able to manage it all.
- Too much debt
 - Banks and lenders consider your total debt when deciding if you qualify for a mortgage loan.
 - Although it depends on the mortgage, as a guide 28% of your gross monthly income can be used for your principal, interest, property taxes and insurance (also known as PITI).
 - If your debt-to-income ratio is above 36%, you need to increase your income or reduce the amount you owe--or both.
- Job/Income instability
 - Lenders look for borrowers' employment or income stability for at least two years.

Where did you learn about Money?



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Instructor:

Ask the group to share how they learned about money. If people do not feel comfortable sharing, start with your own experiences or have each person write it down. Alternatively, draw the above illustrations on a flip chart. Give each participant a couple of stickers and ask everyone to place a sticker next to the two items that they select.

The purpose of this exercise is to determine how they have learned their spending and saving habits and what they can do to correct bad habits and reinforce good ones. Each student can list good and bad habits and the instructor can work with each person individually for a few minutes to determine goals and if they are on the right track.

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

Good credit is essential if you want to be financially secure and achieve financial success. By understanding how to establish and maintain good credit, you will be closer to your financial dreams. The objective of this exercise is to help you become more familiar with credit.

Choose one answer for the following questions.

Answers:

1) B- 20%

The credit industry has determined that your expenses excluding a home mortgage or rent should not exceed more than 20% of your take-home pay. This will allow a manageable amount of credit.

2) B- Both

Both partners in a relationship should establish credit to protect the family from unforeseen circumstances like death or divorce.

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

3) A- True

By showing that you are employed, have a stable income, have lived in the same location for a period of time, and have a savings proves to lenders and creditors that you are stable and will repay your obligations on time.

4) B- False

Failure to pay bills on time is the number one factor that negatively affects your credit! In fact, it makes up 35% of your credit score!

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

5) B- False

Credit reporting agencies do not deny or extend credit. They just collect and provide data to lenders and creditors for their review in determining whether or not to extend credit.

6) B- False

In a joint account, both parties are held completely responsible for the payment. If one person misses a payment, both parties will receive the same negative credit ratings.

7) A- True

You want to try and pay more than the minimum payment on your credit card bills. Paying more than enough each month improves your credit.

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

8) A- True

You can get turned down for credit if you do not have a credit history. Lenders need proof that the borrower is able to make payments on time. However, if you don't have a credit history you can ask the lender if they will consider a non-traditional credit file. Non-traditional credit files include any records that you have that show you pay your bills on time.

9) B- 7 years

Negative information will stay on a report for seven years, beginning at the point of delinquency. If you have a public record due to bankruptcy or foreclosure, it will stay on your credit report for up to ten years.

10) A- True

The Fair Credit Reporting Act requires that any information collected by credit reporting agencies must be accurate.

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.

Now that you have credit of your own, you must manage it wisely. It is only with careful management and persistence that you will establish and maintain your good credit history and good credit score.

- Don't buy what you cannot afford.
 - Each time you want to make a purchase with a credit card — no matter how large or small the item — consider that you are getting a loan to buy it.
- Pay your balance in full — before your grace period ends.
 - If you have the means, pay your entire balance due. If you cannot pay your entire balance, try to pay as much as possible.
- Pay more than the minimum payment.
 - If you only pay the minimum payment on your credit card every month, it will take you years to pay your balance if you do not make any additional purchases with the credit card.
- Evaluate your needs versus your wants.
 - Practice delaying nonessential purchases until you have enough cash to buy them and only use credit only for items you really need.

Being Credit Wise

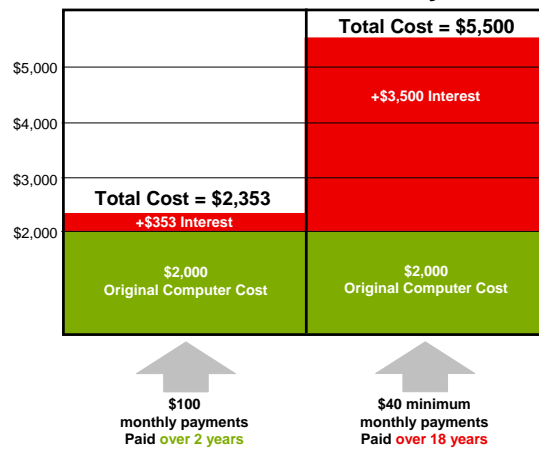
- Tips to follow when using credit:
 - ✓ Be savvy about credit industry tactics
 - ✓ Be wary of special offers
 - ✓ Be aware of fees, fees, fees
 - ✓ Remember your debt-to-income ratio

Here are a few tips to follow when using credit:

- Be debt savvy about credit industry tactics
 - Credit card companies use many techniques to get you to borrow more money than you need.
 - Although some offers say that your obligation for payment of this debt starts 6 months after your purchase, if you do not pay off the balance you may face hefty finance charges when your promotional period ends.
- Be wary of special offers
 - Once you establish credit, you will be offered more credit.
 - Be wary of offers or balance transfers or for new accounts that may contain hidden fees.
 - Be sure to read all the terms before you sign any new credit agreement.
- Be aware of fees, fees, fees
 - From fees for using convenience checks to cash advance fees, you may find yourself incurring fees on top of fees.
 - Always weigh the costs and benefits associated with these types of special services and consider whether you really need them.
- Remember your debt-to-income ratio
 - The credit industry has established a debt-to-income ratio to determine what is a manageable amount of credit for each individual. It recommends that your expenses (excluding a home mortgage or rent) should not exceed more than 20% of your take-home pay (net income). The formula is net monthly income x .20 = maximum monthly debt.
 - The less debt you have, the stronger your application, and the better your chances of securing credit at favorable terms.

Being Credit Wise

True Cost of Minimum Payments



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The True Cost of Minimum Payments

When you buy an item with credit, over time you pay far more than the purchase price.

EXAMPLE

Mr. Nguyen wants to buy a \$2,000 personal computer. His children will use the computer for their schoolwork, and Mr. Nguyen and his wife will use the computer to keep in touch with family around the world. Mr. Nguyen decides to use his credit card to pay for the new computer. He knows the importance of paying his bill on time, and he faithfully makes his \$40 minimum payment each month. But at 18% interest, it will take Mr. Nguyen about 18 years and 5 months to pay for the computer — and that is only if he never adds another purchase to his credit card balance. Ultimately, Mr. Nguyen will have paid more than \$3,500 in interest alone. That means Mr. Nguyen will spend more than 18 years and more than \$5,500 for a \$2,000 computer, which most certainly will be obsolete within a few years of the purchase. By the time the computer is paid in full, Mr. Nguyen's children might even have their own children!

While this purchase was made with the best intentions, it was not a smart financial choice. Mr. Nguyen would have served his family better by saving \$2,000 and paying cash for the computer. Or, if he had to use credit, he should have made a plan to pay far more than the minimum payment each month. You see, by paying \$100 per month and not adding any more purchases to his balance, Mr. Nguyen would have paid for the computer in only two years, incurring just \$353 in interest.

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

There are many sources of credit in today's marketplace.

- Getting the Credit You Deserve
 - As a savvy consumer and borrower, you have more choices than ever before. Be sure to shop around for the best rates and services when you are ready to apply for a credit card account or loan. Your first stop should be the bank or credit union where you do business.
- Reading the Small Print
 - Before you accept any credit agreement, you should understand everything on the disclosure. Pay careful attention to any fees associated with extra services or conveniences.
- Home Equity Lines of Credit
 - Good use of a home equity loan or line of credit are to finance projects that increase the value of your home. You must remember that it's repayment is guaranteed by your home. Defaulting on a home equity line of credit may put your home at risk of foreclosure.

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

It is important to pay attention and look out for payment problems. The worst thing you can do is ignore this issue.

Here are some 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.

If you recognize these warning signs, you must be honest with yourself about the problem, since it will only get worse over time. But, be aware of the unscrupulous credit repair companies. You will want to avoid them at all costs.

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

- If you want to achieve financial security in your lifetime, you'll need to establish clear goals.
- If you set these goals and remain focused on attaining them, managing your finances will be less difficult
- To begin, make a list of the goals that are important to you.
- Next, decide which goals are most important and assign each goal a priority, based upon your values.
- Finally, look carefully to see if your goals and assigned priorities reflect what is important to you and your household

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.

Instructor Background

The primary objective of this activity is to ensure that participants understand how to develop SMART goals and how to implement them in their own life. Before asking each participant to write their own SMART short-, medium-, and long-term goals, ask them to give examples of a SMART goal based on a fictional scenario.

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.

Instructor Directions:

Ask for responses on short-, medium-, and long term goals based on Michael's scenario.

Once the class has a firm understanding of how to develop a SMART goal, give them the opportunity to write their personal goals. Direct them to write down their short-term, mid-term, and long-term goals on a piece of paper. Give the class 10 minutes to write their goals and offer guidance when solicited. Some participants may feel uneasy about writing their goals in class so reassure them that they will not be asked to share with the rest of the class.

Meet with each person individually to provide feedback and guidance.

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.

Here are some things to remember from today's presentation:

- Good credit is an ASSET.
 - It is a valuable tool for building wealth for you and your family for the long term. With good credit, you can make major purchases, you can buy or lease a car, you can get loans for higher education, and you can buy your family a home.
 - As you build a credit history, you will be eligible for the best rates and terms on other loans and on things such as cellular phone service and car insurance.
- You have rights as a borrower.
 - You have the right to have an accurate credit report; and you have the right for a creditor to treat you fairly, without consideration of race, gender, marital status or country of origin.
- You must be a responsible user of credit.
 - You must manage your credit cards, loans, and other obligations wisely, paying your bills on time and repaying your debts as promised.
- Establishing and maintaining your good credit history is the first step to buying your own home.
 - Yes, it is hard work and possibly time consuming, but ultimately it is well worth the effort.