

# Credit

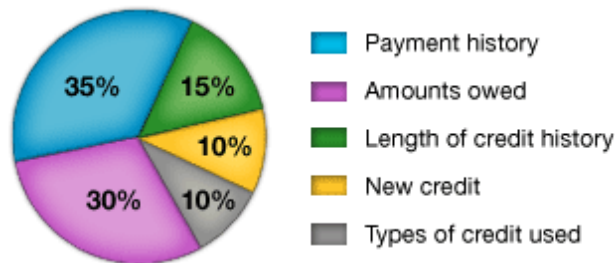
## Financial Stability

### Credit Reports and Scores

A credit report affects many aspects of a person's life that they may not be aware of. Based on credit reports and scores, lenders determine whether or not individuals are approved for loans or credit cards, the interest rate they will receive, and may even determine whether or not they will get the apartment or job they applied for.

A credit report is a collection of information regarding an individual's credit history that includes personal information, public records, credit account information, collection agency account information, and companies that have recently requested his or her credit profile.

A credit score is a numerical value ranging from 300-850 calculated based on information from an individual's credit report. The higher your credit score, the lower your perceived risk from a lender. The following graph illustrates what information is figured into your credit score:



Fair Isaac Corporation (FICO) 2009



**Missed payments, debt collections, and foreclosure or bankruptcy can remain on a client's credit report for 7 to 10 years.**

### Resources

Consumer Credit Counseling Service  
[www.cccs-inc.org](http://www.cccs-inc.org)

Federal Reserve System  
[www.federalreserve.gov](http://www.federalreserve.gov)

Federal Trade Commission  
[www.ftc.gov](http://www.ftc.gov)

My FICO  
[www.myfico.org](http://www.myfico.org)

National Foundation for Credit Counseling  
[www.nfcc.org](http://www.nfcc.org)

So how can clients pull their credit reports? They can simply go online to [www.annualcreditreport.com](http://www.annualcreditreport.com), or call 1-877-322-8228. Under the Fair & Accurate Credit Transactions Act (FACT Act) the nation's 3 largest consumer reporting agencies, TransUnion, Equifax, & Experian, must each provide at least 1 free credit report every 12 months by request. If you are a Maryland resident then state law requires these agencies to send an additional free report at your request, for a total of 6 free credit reports per year.

Make sure to notify clients that these consumer reporting agencies are not responsible for providing a free numerical credit score, and often charge a fee for those results.

Clients may act as their own credit monitors by requesting one free report every 2 months from a different agency, instead of pulling all 6 reports at once. If they find discrepancies on any report they have the right to request that misinformation be removed from that report.

## Financial Stability

### Credit Cards

Though credit cards offer a fast and easy method of payment, clients should understand that how they use their cards affects their credit reports and scores. Remember, using a credit card is borrowing real money that has to be paid back with interest.

With several different types of credit cards available, clients should consider what card is most appropriate for them. Whether they choose a standard credit card, charge card, rewards card, or prepaid card, it is important to shop around and compare interest rates and fees (try [www.bankrate.com](http://www.bankrate.com)).

#### Some important questions to ask before applying for a credit card:

- Is there an introductory, or *teaser*, interest rate? How long does it last? What is the rate after the introductory period ends?
- What fees may apply? Is there a processing, application, annual, late, termination, or balance-transfer fee?
- What is the grace period for payment before the interest rate is applied?
- What happens if I go over my credit limit? Will I be notified?
- What can I do if I have difficulty paying my bills?

#### Tips for Credit Card Consumers:

- Only charge what you can afford to pay each month
- Pay the full balance on time each month, or at least the minimum payment
- Keep your account balance below 35% of your credit limit
- Do not use a credit card to pay off other debts

### Establishing and Maintaining Credit

One basic rule for maintaining credit is to always pay at least the minimum payment on time every month. A helpful tool is to use a spending plan so that clients know how much they can afford to charge. If situations arise where clients cannot make a payment they should contact their lenders immediately.

Follow the 20/10 rule. Credit card balances should not be more than 20% of clients' annual income, and monthly balances should not be more than 10% of their monthly paychecks.

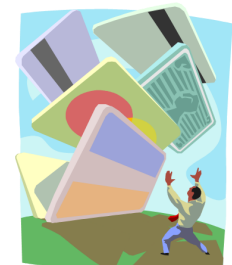
#### Here are some further tips for establishing and maintaining credit:

- Open a checking or savings account, it helps demonstrate financial responsibility
- Pay bills on time, including rent, utilities, cell phone, etc.
- Use prepaid cards that report to credit bureaus
- Apply for a retail card or gas card, but be sure to inquire about the terms
- Get a credit card and keep monthly charges small



**Don't burn up money on finance charges, pay the full balance each month to avoid interest fees.**

**To improve credit: pay bills on time, keep debt to less than half of the credit limit, pay more than the minimum balance, and try not to keep too many credit cards.**



**Credit cards may be convenient, but misuse can dig you into debt.**