



February 2015 Wednesday Webinar
Credit Matters - Resources to Educate
Students About Credit and Debt



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About CARE

- A national program affiliated with the American Bankruptcy Institute.
- Seeks to educate high school and college students on
 - responsible use of credit
 - fundamentals of financial literacy
 - potential consequences of poor money management and credit card abuse.
- In Maine, the CARE Committee is comprised of bankruptcy professionals – judges, lawyers, and court staff – all of whom travel around the state on a volunteer basis to discuss responsible use of credit and the pitfalls related to debt with students.





USING CREDIT AND MANAGING DEBT RESPONSIBLY

Presented by the Maine Credit Abuse
Resistance Education "CARE" Program

Using Credit and Managing Debt Responsibly



The Debt Dilemma

- Installment loans and credit cards are often bad debts, but home mortgages and college loans generally are **good debts** (if they are affordable!) because they have lasting value.

But ...

- In order to qualify for loans for “good debts” like a home mortgage or student loans, you need to establish your creditworthiness.



Managing Debt and Using Credit Responsibly

- It is important to establish a credit history and demonstrate that you use credit and manage debt responsibly.



Establishing Credit

- The easiest way to establish credit is to open up a credit card account.
- Choose a card with a low credit limit (this saves you from succumbing to the urge to spend more than you can afford!)
- Look for the best “deal” – not the bells and whistles, but the lowest A.P.R.
- Keep it to one card!
- Maintain a long-term relationship with your credit card.



Using Credit Wisely

- Make sure to pay your bill in full each month. If you don't have the money to pay for an item now, you probably won't have it after the credit card bill arrives.
- Paying the bill in full each month saves your money and bolsters your credit report.
- A solid credit report is the key to securing a mortgage or car loan, often at a lower rate!



MONEY MANAGEMENT

So what can you do to ensure that you continue to use your credit responsibly and manage your bills and debt?



DEBT MANAGEMENT TIPS

- Make list of all of your debts, including:
 - The name of the creditor;
 - The total amount of the debt owed;
 - The monthly payment amount;
 - The due date.

This list should include all of your debts, such as rent, utilities, car payments, credit card bills, student loans, etc., and should be updated periodically (every couple of months) as the amount of the debt you owe changes.



DEBT MANAGEMENT TIPS

- **PAY YOUR BILLS ON TIME EACH MONTH!**
 - Late payments make it harder to pay off your debt since you'll have to pay a late fee. Miss two payments in a row and your interest rate and finance charges may increase.



Try out one of these recommended budgeting and money management websites and/or apps!

www.goodbudget.com

www.mint.com

www.levelmoney.com

LearnVest (for iphone and ipad users)

Bill Tracker Lite (for iphone users)

Bills Reminder from Handy Apps (for Android users)

BillMinder (for iOS users)

Manilla



MAINTAIN A MONTHLY CALENDAR TO KEEP TRACK OF WHEN BILLS ARE DUE.



DEBT MANAGEMENT TIPS

- Use a calendaring system on your computer or smartphone, enter your payments there and set an alert to remind you several days before your payment is due. If you miss a payment, don't wait until the next due date to send your payment, by then it could be reported to a credit bureau. Instead, send your payment as soon as you remember to.



DEBT MANAGEMENT TRICKS

- Track your spending.
- Keep receipts for a month or so, including those small grocery, drugstore and fast food purchases, and highlight items bought as "extras" or treats -- the non-essentials. After finding your personal weak spots or spending trends, limit these types of buys to once a month so they become a real treat. Money saved can go to larger debts.



DEBT MANAGEMENT TIPS

- Develop a budget.
 - Start by listing your income from all sources.
 - Then, list your “fixed” expenses (housing, food, health care, insurance, education).
 - The goal is to make sure you can make ends meet and cover your fixed expenses, and to understand what you have available each month for “extras.”
- Many websites and apps contain helpful budgeting programs.



DEBT MANAGEMENT TIPS

- Spend **ONLY** what you can pay for. It helps to use cash when shopping!
- If you use a credit card, do not purchase an item if you cannot afford to pay for it in full when the bill comes due.
- If you get in over your head, pay as much as you can each month.
- Minimally, pay the minimum payment each month.
- Remember: there are real, financial consequences to only paying the minimum payment.



Credit Card Statement

ACCOUNT SUMMARY

Account Number: 41

Previous Balance
 Payment, Credits
 Purchases
 Cash Advances \$0.00
 Balance Transfers \$0.00
 Fees Charged \$0.00
 Interest Charged \$0.00
 New Balance

Opening/Closing Date 03/12/13 - 04/11/13
 Credit Access Line
 Available Credit
 Cash Access Line
 Available for Cash

PAYMENT INFORMATION

New Balance
 Payment Due Date 05/08/13
 Minimum Payment Due \$25.00

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a late fee of up to \$35.00 and your APR's will be subject to increase to a maximum Penalty APR of 29.99%.

Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...
Only the minimum payment	6 years	\$1,882
\$43	3 years	\$1,552 (Savings=\$330)

If you would like information about credit counseling services, call 1-866-797-2885.



Consider this ...

- If you have a \$1,500 balance on your credit card at the age of 18 and you repay only the minimum amount each month, and your minimum is 4 percent of the outstanding balance ...
- You'll start with a \$60 payment and ...
- It will take you more than 8 years to pay off the debt.
- You will make 106 payments, and you will have paid more than \$889 extra in interest ...
- **ASSUMING** you make no further charges on the card!



PRIORITIZING YOUR DEBTS

- Failure to pay any debt may result in the creditor making a report to a credit reporting agency.
- If you fail to pay a secured debt, you may jeopardize your home or your car.
- Certain debt is non-dischargeable in a consumer bankruptcy case.



Failure to pay any debt may result in the creditor making a report to a credit reporting agency.

- 3 credit-reporting agencies:

Equifax

TransUnion

Experian

- Visit AnnualCreditReport.com for a free copy of your credit report.
- **80%** of credit reports contain mistakes!



Managing Debt and Using Credit Responsibly

- It is important to establish a credit history and demonstrate that you use credit and manage debt responsibly.
- The way you use credit, and your spending habits, are all recorded by the 3 credit reporting companies and maintained in your credit report.



What is a FICO credit score?

- Your FICO credit score influences the credit that's available to you and the terms (interest rate, etc.) that lenders offer you. It's a vital part of your credit health.
- When you apply for credit – whether for a credit card, a car loan, or a mortgage – lenders want to know what risk they'd take by loaning money to you. When lenders order your credit report, they can also buy a credit score that's based on the information in the report. A credit score helps lenders evaluate your credit report because it is a number that summarizes your credit risk, based on a snapshot of your credit report at a particular point in time.



What makes a “good” FICO Score?

- FICO credit scores have a 300–850 score range. The higher the score, the lower the risk. But no score says whether a specific individual will be a “good” or “bad” customer.
- While many lenders use FICO credit scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single “cutoff score” used by all lenders and there are many additional factors that lenders use to determine your actual interest rates.



Establishing a FICO credit score

- For your FICO score to be calculated, your credit report must contain enough recent information on which to base your credit score. Generally, that means you must have at least one account that has been open for six months or longer, and at least one account that has been reported to the credit reporting agency within the last six months.



What actions will hurt the score?

- Missing payments (regardless of amount missed, it will take 24 months to restore credit with one late payment)
- Maxing out your credit cards
- Closing out your credit cards
- Opening up numerous trades in a short period of time
- Having more revolving loans in relation to installment loans
- Loans at finance companies



Section 1: Summary of Personal Information.

Sample Credit Report

Date of Report: 12/15/1999

Consumer Info

Name	Jane Doe
Also Known As	
Address(es)	123 Apple Lane Anywhere, OH 12345 456 Dove Street Flying High, CA 55443
Current Employer	Pretend Manufacturing
Previous Employer(s)	Not Reported



Section 1: Personal Information.

- Personal information including your name, address, and place of employment is used to identify you. Previous addresses and places of employment might also be included.
- It's not uncommon to have variations or misspellings of your name. Most credit reporting agencies leave these variations to maintain the link between your identity and the credit information. Having different variations of your name and old addresses won't hurt your credit score as long as it's actually your information.
- **Make sure personal information is identifying you and not someone else.**



Section 2: Credit Summary

Credit Summary

Revolving Accounts	
Count	4
Balance	5678
Current	3
Delinquent	1
Other	
Total Accounts	
Count	6
Balance	127,428
Current	5
Delinquent	1
Other	
Accounts Summary	
Open	6
Closed	0
Public Records	0
Inquiries (Prev 2 Yrs)	4



What is included in the credit summary?

- The credit summary section of your credit report summarizes information about the different types of accounts you have, including:
 - Real estate accounts (mortgages, home equity loans)
 - Revolving accounts (credit cards and lines of credit)
 - Installment accounts (student loans, car loans)
 - Other accounts
 - Collection accounts
- Your credit summary will also summarize the number of accounts you have open, the number of closed accounts you have, how many public records are in your name (bankruptcies or court judgments), and the number of inquiries made against your credit by third parties within the past two years.



Section 3: Account History

Account History

Creditor Name													
Account Number	1234-xxxx-xxxx-xxxx												
Account Type	Revolving												
Responsibility	Individual												
Monthly Payment	\$55												
Date Opened	9/1998												
Date Reported	12/1999												
Balance	\$2750												
Credit Limit	\$5000												
High Balance	\$3500												
Past Due	\$0												
Remarks	Current, was 90 days past due												
Payment Status	Current												
Payment History													
Year One													
1998>												1999>	
1	2	3	4	5	6	7	8	9	10	11	12	1	2
Ok	Ok	Ok	Ok	Ok	30	Ok	Ok	Ok	Ok	30	60	90	Ok



What is included in the Account History section?

- The **account history** section of your credit report contains the bulk of the information. This section includes each of your credit accounts and details about how you've paid. Your account history will be very detailed, but it's important that you read through to make sure the information is being reported correctly.



For each account, the following information will be included:

- The creditor's name;
- The account number;
- The type of account;
- Whether you are individually or jointly liable or an authorized user;
- The minimum monthly payment;
- The month and year the account was open;
- The last date the creditor reported to the credit bureau;
- The account balance;
- The credit limit or loan amount;



More information ...

- The credit limit or loan amount;
- The high balance or high credit;
- The amount past due;
- Remarks;
- Payment status (current, past due, charge-off);
- Payment history.



Section 4: Public Records.

Public Records

Bankruptcy	
Type	Chapter 7 Bankruptcy
Status	Discharged
Date Filed	3/25/1996
Reference Number	B350578609
Closing Date	5/25/1996
Court	County
Liability	65,700
Exempt Amount	0
Asset Amount	0
Remarks	



PUBLIC RECORDS INCLUDE:

- Bankruptcies, judgments, tax liens, state and county court records, and, in some states, overdue child support.
- Depending on the type of record, a public record can remain on your credit report between 7-10 years.



Section 5: Credit Inquiries.

Credit Inquiries

Creditor	Date of Inquiry
Bank of USA	9/7/1999
Orange Mortgages	8/15/1998



What are credit inquiries?

- **Credit inquiries** list all parties (other than you) who have accessed your credit report within the past two years.



Who can access your credit report?

The Fair Credit Reporting Act requires businesses to have an acceptable reason for accessing your credit report, which include:

- Considering an application for credit;
- Debt collection;
- Underwriting insurance;
- Employment (but you must consent!);
- Issuance of a license by a governmental entity;
- “Legitimate” business transaction.



How inquiries can impact your credit score.

- Too many inquiries may make you appear to be a risky borrower.
- Are you taking on too much debt?
- Are you in some kind of financial trouble and therefore looking for credit to bail you out?
- “Hard” credit report inquiries stay on your report for two years, but only those made in the last year impact your credit score.



ANNUALCREDITREPORT.COM

- The Fair Credit Report Act requires each of the three national credit reporting companies to provide consumers with a free copy of their credit report every twelve months, upon request.
- If you stagger your requests to each of the companies, you can get a free copy of your credit report every four months.



Some parting advice on using credit ...

- Save your receipts and reconcile them with your monthly statement.
- Plan to pay balance in full each month.
- Avoid late charges by paying on time.
- Don't use credit for routine purchases.
- If you exceed your credit limit, call the bank immediately to make arrangements to pay it down to get below limit.
- Protect your personal information.
- Use a credit card to build or rebuild your credit history.



Helpful Websites & Apps

- www.famemaine.com
- www.consumer.ftc.gov
- www.annualcreditreport.com
- www.goodbudget.com
- www.mint.com
- www.levelmoney.com
- www.projectonstudentdebt.org
- www.saltmoney.org
- LearnVest (for iphone and ipad users)
- Bill Tracker Lite (for iphone users)
- Bills Reminder from Handy Apps (for Android users)
- BillMinder (for iOS users)
- Manilla



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