

# Taking Control of Your Financial Health

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# Understanding Credit



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*A practical guide to  
understanding the ins and outs of credit use and abuse*



Institute of Gerontology



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Healthier Black Elders Center

## What is credit?

Credit is established when a person borrows money and agrees to pay it back. The money can be obtained through a bank or other institution, as well as through friends and family. There is usually a set agreement outlining a repayment schedule and setting the amount the individual will be charged for using the money (interest and fees). In most lending situations the borrower pays back more than was borrowed.

### To whom would you extend credit?

The facilitator wants to borrow money from you. What information would you need before lending this person money?

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

Would you loan someone money who:

Doesn't pay their bills on time?

Had their car repossessed six months ago?

Doesn't have a Job

Makes \$15,000 per year and owes \$20,000

What would be your concerns about loaning this person money?

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## The Five C's of Credit

**Capital:** The amount of money you have to finance your investment. Lenders will require that you contribute a certain percentage total of the investment. The amount of capital you contribute will also affect the interest rate you receive.

**Capacity:** Capacity is the ability to repay a loan in terms of regular income. Lender's use a formula called "debt to income" ratio to determine if you have enough regular income to support monthly debt payments.  
*(We will review debt to income ratios in a later section.)*

**Credit:** Credit here refers to the experience of paying back what you have borrowed. Lenders use your credit report and score to understand your credit situation.

**Collateral:** Collateral is something you own that you pledge to the lender should you not pay back the money you have borrowed. In some cases the object financed is the collateral, for example houses and cars.

**Character:** The likelihood that you will pay back the money you borrow. Since creditors do not know you personally, they use your credit report to determine your character.

# Types of credit

## Revolving Credit

A revolving credit arrangement allows you to borrow up to your credit limit without having to reapply each time you need cash. As you repay the money you have borrowed, it is available to be borrowed again. (Credit cards and home equity lines of credit)

## Installment Credit

This type of credit allows you to borrow a set amount of money one time, for a specific purpose. The lender, in this case, sets up a repayment schedule. The fees and interest rate are determined in advance by the lender and calculated into the repayment schedule. The principal and interest are repaid in equal installments at fixed intervals (usually every month). (Mortgages, Auto loans)

## Secured Credit

This type of credit can be revolving or installment credit. In this type of credit arrangement the lender will ask you to provide them with something of value (collateral) as a promise to repay your debt.

## Unsecured Credit

This type of credit can be revolving or installment credit. In this type of credit arrangement the lender will loan you money without any guarantee of repayment outside of the repayment contract.

## Traditional Credit

Creditors who offer this type of credit report to the credit bureaus on your payment status whether you are current with agreed upon payments or not. Four types of credit are considered traditional credit: ***Auto loans, Mortgages, Student Loans and Credit Cards.***

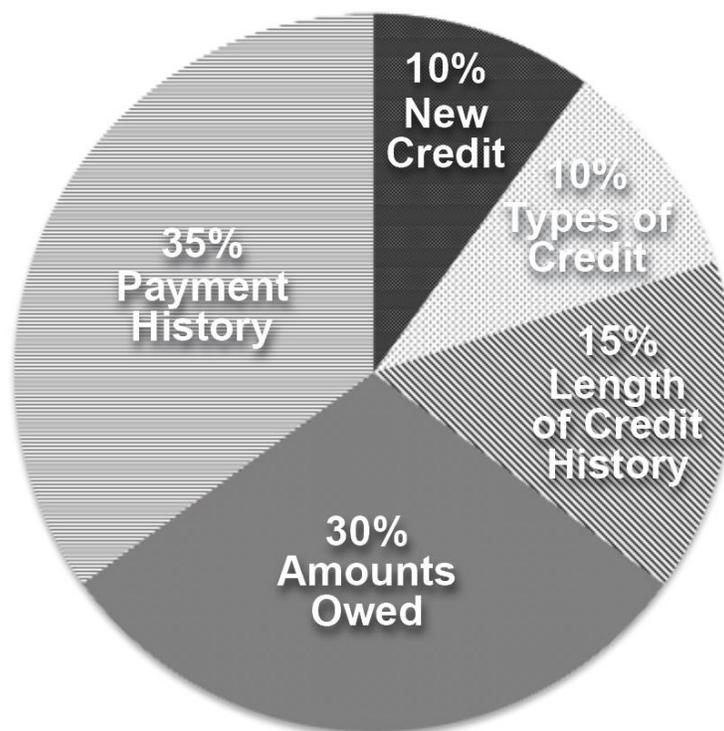
## Alternative or Nontraditional Credit

Rent, utility payments, cell phones are forms of nontraditional credit. Non-traditional credit does not usually show up on a credit report, unless it is in default. However it can be used to credit worthiness when an individual asks a landlord, utility companies, etc. for credit reference letters to present to prospective creditors. This will show their commitment to paying their bills.

## What is a credit score?

A credit score is a snapshot of the contents of your credit report. It is a three digit number, generally between 300 and 850, that allows lenders evaluate your credit worthiness based on how you have managed debt and the repayment of credit in the past. This number often determines what you can borrow and on what terms (interest rates, repayment schedules, etc). This score allows lenders to evaluate credit applications in a faster, fairer and more consistent manner.

### Credit Score Formula (FICO Model)



**Payment History:** How you pay your bills makes up the biggest portion of your credit score. On time payment history is around 35% of your total score.

- Has the person paid his/her obligations on time?
- How often does the person pay late?
- How late is the person?
- How much has he/she been delinquent in the past?

**Tip:** Always pay traditional credit bills on time. If you cannot pay on time, try to pay them prior to 30 days late. There is nowhere for a creditor to note on your credit report that a payment was less than 30 days late.

**Amounts Owed:** Thirty percent of your score is based on how much you owe. This is especially applicable to revolving account (credit card) balances.

- On all of a person's credit sources, how much debt is he/she carrying?
- What is the person's credit utilization rate? How much credit is he/she using in relation to the credit limit?

**Tip:** *Don't take out too much debt and keep your credit card balances below 30% of your limit.*

**Length of Credit History:** This refers to how long you have had credit history and comprises 15% of your score. Three factors are used in evaluating your length of credit history.

- How long accounts have been open.
- How long specific account types have been open.
- How long it's been since those accounts were used. *(It's generally a good idea to make sure you show some amount of activity on your revolving credit accounts).*

**New Credit:** The opening of too many new accounts within a 12 month period makes a borrower seem a higher risk and will typically have a short term effect of lowering your credit score. The credit scoring companies have research findings to support borrowers who have recently taken on new debt are more likely to become delinquent or miss loan repayments.

- How many accounts have been opened in the past six to 12 months, as well as the proportion of accounts that are new, by account type?
- How many credit inquiries have been made recently?
- How long it's been since the opening of any new accounts, by account type.
- How long it's been since any credit inquiries.
- The re-appearance on a credit report of positive credit information for an account that had earlier payment problems.

**Types of Credit Used:** Your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans will be considered in your FICO score. It is not necessary to have one of each, however you want



## FICO Score Chart

<b>300-450</b>	<b>500-550</b>	<b>600-650</b>	<b>700-750</b>	<b>800-850</b>
Bad Credit	Poor Credit	Fair Credit	Good Credit	Excellent Credit

**What Does Your Credit Score Affect:** Your credit score has the ability to affect multiple areas of your life. Your credit score can affect:

- Interest rates on installment loans
- Interest rates on credit cards
- Your ability to rent a house or apartment
- Your ability to purchase a house
- Employment Premiums on insurance products

### Interest

In relation to credit, the interest rate is the amount of money you pay a lender for using their money upfront on the purchase of your item.

Interest rates are based on credit scores. The lower your credit score, the higher your interest rate usually. Some people can end up paying double the price of an item based on the interest rate at which they are financed.

In the example below, James, Betty and Eula are looking to purchase a vehicle. James, Betty and Eula decide to purchase the same car and all three get the car at the same price. However, each has a different credit score. Look at the chart below to see how each individual's credit score determined how much they paid for the car in total.

	<b>Price of Vehicle</b>	<b>Credit Score</b>	<b>Interest Rate</b>	<b>Monthly Payment</b>	<b>Loan Term</b>	<b>Interest Paid</b>	<b>Total Price</b>
James	\$16,000	800	3%	\$287	60 Months	\$1250	\$17,250
Betty	\$16,000	620	14%	\$372	60 Months	\$6338	\$22,338
Eula	\$16,000	525	22%	\$442	60 Months	\$10,514	\$26,514

## **Obtaining Your Credit Score**

You are entitled to one free credit report per year under the law, however you are not entitled to a free score. The report you will receive from the credit bureaus, should you request it, will not include a score.

You can obtain your score by:

- Contacting the credit bureaus and paying for the score \$5 - \$12.
- Asking a lender for the score when they are pulling your report to assess credit worthiness.

## **The Credit Report**

### **Obtaining Your Free Credit Report**

You are entitled under federal law to one free credit report per year from each of these three credit reporting agencies:

***Transunion • Experian • Equifax***

Annual Credit Report.Com is the only source of your free credit report authorized by federal law. Visit: [www.annualcreditreport.com](http://www.annualcreditreport.com)

It is good idea to view your credit report frequently to monitor for any mistakes, inaccuracies, and evidence of any possible fraud or identity theft.

### **Sections of a Credit Report**

- Personal Identification Information
- Public Record Information
- Collection Agency Account Information
- Credit/Trade Account Information
- Inquiries — Made as a result of a consumer's actions or made by businesses without a consumer's knowledge.

## Small Group Work - Reading a Credit Report

*Use the following questions to read the credit report on the following pages.*

1. Whose credit report is this?
2. Where does the person live?
3. How many places has the person lived?
4. Has the person had a bankruptcy?
5. Has the person had a lien?
6. Has the person had an account in collections? If yes, what is the account?
7. How many credit accounts does this person have open?
8. What is the balance on each account?
9. How many are late?
10. Overall, do you think this person's credit looks good or does it look like it needs work?
11. Would you extend more credit to them? Why or why not?

**Online Personal Credit Report from Experian for**

Experian credit report prepared for  
**JOHN Q CONSUMER**

Your report number is  
**1562064065** 1

Report date:  
**04/24/2012**

**Index:**

- [Potentially negative items](#)
- [Accounts in good standing](#)
- [Requests for your credit history](#)
- [Personal information](#)
- [Important message from Experian](#)
- [Contact us](#)

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**Report number:**  
You will need your report number to contact Experian online, by phone or by mail.

**Index:**  
Navigate through the sections of your credit report using these links.

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

To return to your report in the near future, log on to [www.experian.com/consumer](http://www.experian.com/consumer) and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

**Potentially negative items:**  
Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

**Potentially Negative Items** 3

**Public Records**

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit items listed later in this report.

**MAIN COUNTY CLERK**

Address: 123 MAINTOWN S BUFFALO, NY 10000	Identification Number: 1	Plaintiff: ANY COMMISSIONER O.
Status: Civil claim paid.	Status Details: This item was verified and updated in Apr 2012.	
Date Filed: 10/15/2012	Claim Amount: \$200	
Date Resolved: 03/04/2012	Liability Amount: NA	
Responsibility: INDIVIDUAL		

**Status:**  
Indicates the current status of the account.

**Credit Items**

For your protection, the last few digits of your account numbers do not display.

**ABCD BANKS**

Address: 100 CENTER RD BUFFALO, NY 10000 (555) 555-5555	Account Number: 1000000....	
Status: Paid/Past due 60 days. <span style="border: 1px solid black; padding: 2px;">4</span>		
Date Opened: 10/2012	Type: Installment	Credit Limit/Original Amount: \$523
Reported Since: 11/2012	Terms: 12 Months	High Balance: NA
Date of Status: 04/2012	Monthly Payment: \$0	Recent Balance: \$0 as of 04/2012
Last Reported: 04/2012	Responsibility: Individual	Recent Payment: \$0
Account History: 60 days as of 12-2012 30 days as of 11-2012		

  
If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at:

[www.experian.com/disputes](http://www.experian.com/disputes)

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

**MAIN COLL AGENCIES**

Address: PO BOX 123 ANYTOWN, PA 10000 (555) 555-5555  
Account Number: 0123456789  
Original Creditor: TELEVISE CABLE COMM.  
Status: Collection account. \$95 past due as of 4-2012.

Date Opened: 01/2005  
Type: Installment  
Reported Since: 04/2012  
Terms: NA  
Date of Status: 04/2012  
Monthly Payment: \$0  
Last Reported: 04/2012  
Responsibility: Individual  
Credit Limit/Original Amount: \$95  
High Balance: NA  
Recent Balance: \$95 as of 04/2012  
Recent Payment: \$0

Your statement: ITEM DISPUTED BY CONSUMER

Account History:  
Collection as of 4-2012

**Accounts in Good Standing**

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*Accounts in good standing:*

Lists accounts that have a positive status and may be viewed favorably by creditors. Some creditors do not report to us, so some of your accounts may not be listed.

**AUTOMOBILE AUTO FINANCE**

Address: 100 MAIN ST E SMALLTOWN, MD 90001 (555) 555-5555  
Account Number: 12345678998....  
Status: Open/Never late.

Date Opened: 01/2006  
Type: Installment  
Reported Since: 01/2012  
Terms: 65 Months  
Date of Status: 04/2012  
Monthly Payment: \$210  
Last Reported: 04/2012  
Responsibility: Individual  
Credit Limit/Original Amount: \$10,355  
High Balance: NA  
Recent Balance: \$7,984 as of 04/2012  
Recent Payment: \$0

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*Type:*

Account type indicates whether your account is a revolving or an installment account.

**MAIN**

Address: PO BOX 1234 FORT LAUDERDALE, FL 10009  
Account Number: 1234567899876  
Status: Closed/Never late.

Date Opened: 03/1997  
Type: Revolving  
Reported Since: 03/2012  
Terms: 1 Months  
Date of Status: 08/2012  
Monthly Payment: \$0  
Last Reported: 08/2012  
Responsibility: Individual  
Credit Limit/Original Amount: NA  
High Balance: \$3,228  
Recent Balance: \$0 /paid as of 08/2012  
Recent Payment: \$0

Your statement:  
Account closed at consumer's request

Requests Viewed By Others

We make your credit history available to your current and prospective creditors and employers as allowed by law. Personal data about you may be made available to companies whose products and services may interest you.

The section below lists all who have requested in the recent past to review your credit history as a result of actions involving you, such as the completion of a credit application or the transfer of an account to a collection agency, application for insurance, mortgage or loan application, etc. Creditors may view these requests when evaluating your creditworthiness.

**HOMESALE REALTY CO**

Address: 2000 S MAINROAD BLVD STE ANYTOWN CA 11111 (555) 555-5555	Date of Request: 07/16/2012
Comments: Real estate loan on behalf of 3903 MERCHANTS EXPRESS M. This inquiry is scheduled to continue on record until 8-2014.	

**M & T BANK**

Address: PO BOX 100 BUFFALO NY 10000 (555) 555-5555	Date of Request: 02/23/2006
Comments: Permissible purpose. This inquiry is scheduled to continue on record until 3-2008.	

**WESTERN FUNDING INC**

Address: 191 W MAIN AVE STE 100 INTOWN CA 10000 (559) 555-5555	Date of Request: 01/25/2006
Comments: Permissible purpose. This inquiry is scheduled to continue on record until 2-2008.	

Requests Viewed Only By You

The section below lists all who have a permissible purpose by law and have requested in the recent past to review your information. You may not have initiated these requests, so you may not recognize each source. We offer information about you to those with a permissible purpose, for example, to:

- | other creditors who want to offer you preapproved credit;
- | an employer who wishes to extend an offer of employment;
- | a potential investor in assessing the risk of a current obligation;
- | Experian or other credit reporting agencies to process a report for you;
- | your existing creditors to monitor your credit activity (date listed may reflect only the most recent request).

We report these requests only to you as a record of activities. We do not provide this information to other creditors who evaluate your creditworthiness.

**MAIN BANK USA**

Address: 1 MAIN CTR AA 11 BUFFALO NY 14203	Date of Request: 08/10/2012
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**MYTOWN BANK**

Address: PO BOX 825 MYTOWN DE 10000 (555) 555-5555	Date of Request: 08/05/2006
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**INTOWN DATA CORPS**

Address: 2000 S MAINTOWN BLVD STE INTOWN CO 11111 (555) 555-5555	Date of Request: 07/16/2006
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*Requests for your credit history:*

Also called "inquiries," requests for your credit history are logged on your report whenever anyone reviews your credit information. There are two types of inquiries.

i. Inquiries resulting from a transaction initiated by you. These include inquiries from your applications for credit, insurance, housing or other loans. They also include transfer of an account to a collection agency. Creditors may view these items when evaluating your creditworthiness.

ii. Inquiries resulting from transactions you may not have initiated but that are allowed under the FCRA. These include preapproved offers, as well as for employment, investment review, account monitoring by existing creditors, and requests by you for your own report. These items are shown only to you and have no impact on your creditworthiness or risk scores.

## Personal Information

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The following information is reported to us by you, your creditors and other sources. Each source may report your personal information differently, which may result in variations of your name, address, Social Security number, etc. As part of our fraud prevention efforts, a notice with additional information may appear. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

### Names:

JOHN Q CONSUMER  
Name identification number: 15621

JONATHON Q CONSUMER  
Name identification number: 15622

J Q CONSUMER  
Name identification number: 15623

Social Security number variations:  
999999999

Year of birth:  
1959

Spouse or co-applicant:  
JANE

Employers:  
ABCDE ENGINEERING CORP

Telephone numbers:  
(555) 555 5555 Residential

Address: 123 MAIN STREET  
ANYTOWN, MD 90001-9999  
Address identification number:  
0277741504  
Type of Residence: Multifamily  
Geographical Code: 0-156510-31-8840

Address: 555 SIMPLE PLACE  
ANYTOWN, MD 90002-7777  
Address identification number:  
0170086050  
Type of Residence: Single family  
Geographical Code: 0-176510-33-8840

Address: 999 HIGH DRIVE APT 15B  
ANYTOWN, MD 90003-5555  
Address identification number:  
0170129301  
Type of Residence: Apartment complex  
Geographical Code: 0-156510-31-8840

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### Personal information:

Personal information associated with your history that has been reported to Experian by you, your creditors and other sources.

May include name and Social Security number variations, employers, telephone numbers, etc. Experian lists all variations so you know what is being reported to us as belonging to you.

### Address information:

Your current address and previous address(es)

### Personal statement:

Any personal statement that you added to your report appears here.

Note - statements remain as part of the report for two years and display to anyone who has permission to review your report.

## Your Personal Statement

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No general personal statements appear on your report.

## Important Message From Experian

By law, we cannot disclose certain medical information (relating to physical, mental, or behavioral health or condition). Although we do not generally collect such information, it could appear in the name of a data furnisher (i.e., "Cancer Center") that reports your payment history to us. If so, those names display in your report, but in reports to others they display only as MEDICAL PAYMENT DATA. Consumer statements included on your report at your request that contain medical information are disclosed to others.

## Contacting Us

Contact address and phone number for your area will display here.

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## **How Long Items Remain on Your Credit Report**

All information on your credit report, both positive and negative, is reported to the three national credit reporting agencies by lenders who have granted you credit. Credit reporting agencies only compile the information and list it in your credit report. There are limits to how long certain debts can remain on your credit report.

### ***Credit Accounts***

- Accounts Paid as Agreed: Remains on credit file for ten years from the Date of Last Activity.
- Accounts Not Paid as Agreed: Remain on credit file for seven years from the date the account first became past due.
- Late Payments: Generally remain on your file for seven years. However, late payments have a smaller negative effect on your credit score as time passes. You must bring the debt current and establish a good payment history moving forward for this to be true.

### ***Collection Accounts***

An account that goes into collections remains on your credit file for seven years from the date the account became first past due, or Date of Last Activity.

### ***Public Records***

A public record is county, state or federal materials that are accessible to the general public. The types of public records that would be on your credit report are bankruptcies, civil judgements, tax liens, foreclosures and wage garnishments.

- Court Judgments: Generally remain on your credit file for seven years from the date filed.
- Paid Tax Liens: Remain for ten years from the date released (paid)
- Unpaid Tax Liens: Remain indefinitely.

## ***Bankruptcy***

- Chapter 7, 10 or a non-discharged Chapter 13 remain on your credit report for ten years from the date filed.
- Chapter 13 discharged remains on your credit report for seven years from the date filed.

## ***Inquiries***

Inquiries by creditors remain on your credit report for two years.

## **DISPUTING ITEMS ON YOUR CREDIT REPORT**

To dispute items on your credit report, you must first obtain a copy of your free credit report and use the following checklist to evaluate your report.

Read through the entire credit report

- Is your name correct?
- Is your social security number correct?
- Is your current address correct?
- Are the previous addresses they have listed for you correct?
- Is there anything listed in the collection agency account information? Is it correct? Highlight the information you think may not be correct.
- Is there anything listed in the public record information? Is it correct? Highlight the information that you think may not be correct.
- Review each item under the credit account information. Do you have these accounts reported open? Did you once have the accounts reported closed?
- Are all of the balances correct? Are the account numbers correct? Is the reported payment pattern correct?
- Is the negative information reported on each credit account where applicable correct? Look for late payments and missed payments highlight those items you think are incorrect.

Once the agencies received the dispute information from you, they will contact the creditors of the accounts you are disputing and request them to verify the information on your credit report. If the creditor does not verify the information in 30 days it will be removed from your credit report. However, verified account information will not be removed. You can dispute items online, by mail or by telephone.

### ***Transunion***

Online: <https://dispute.transunion.com>

Phone: 1-800-916-8800

Mail:

TransUnion LLC

Consumer Dispute Center

P.O. Box 2000

Chester, PA 19022

### ***Equifax***

Online: <https://www.ai.equifax.com/CreditInvestigation/home.action>

Phone: 866 349-5191

Mail:

Equifax Information Services LLC

P.O. Box 740256

Atlanta, GA 30374

### ***Experian***

Online: <https://www.experian.com/disputes/main.html>

Mail:

Experian

P.O. Box 4500

Allen, TX 75013

**For online disputes all information can be input into the online form.** The following letter template can be used to write letters to dispute inaccurate information on your credit report.

## SAMPLE DISPUTE LETTER

[Your Name]  
[Your Address]  
[Your City, State, Zip Code]

[Date]

Complaint Department  
[Company Name]  
[Street Address]  
[City, State, Zip Code]

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item **[identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.]** is **[inaccurate or incomplete]** because **[describe what is inaccurate or incomplete and why]**. I am requesting that the item be removed **[or request another specific change]** to correct the information and send me a new copy of my credit report.

Enclosed are copies of **[use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents]** supporting my position. Please reinvestigate this **[these]** matter[s] and **[delete or correct]** the disputed item[s] as soon as possible.

Sincerely,  
Your name

Enclosures: **[List what you are enclosing.]**

## RESOLVING DEBT

Once you have pulled your credit report, reviewed it and requested the necessary information be corrected, the next step is resolving any out-standing debt on your credit report. There are three options to resolving debt on a credit report:

- **Paying it off in full**
- **Making a payment arrangement**
- **Offering a settlement amount for payment in full**

### **Paying off in full**

- Contact the company you owe the debt to find out where to send the payment and who to make the payment out to.
- Keep a record of the names and phone numbers of people you spoke with about paying the debt.
- Send a certified money order or cashier's check  
In the memo section write "for payment in full" and be sure to include the account number.
- Have the company send you a letter stating the account has been paid in full and that you have a zero balance once the payment is processed.
- Request a receipt for payment that shows a zero balance.
- Send copies of the receipt and letter showing a zero balance to the credit bureaus to ensure the account information is updated. The company should contact the credit bureau and update when they receive you payment, this is just an additional step to ensure your file is accurate.

### **Making a Payment Arrangement**

- Contact the company you owe the debt to make a payment arrangement
- Let them know you would like to take care of the account, but would not be able to pay in full at this time.
- Be sure you have looked at your monthly spending plan to determine the amount you can afford to pay each month. It is important you do not agree to pay an amount greater than you can afford to avoid another potentially harmful financial situation.

- Keep a record of the names and phone numbers of people you spoke with about paying the debt.
- Keep copies or electronic records of all payments you make.
- If you are able, after several months you can call and offer a settlement amount on the balance as payment in full.

## **Offering a Settlement**

- Contact the company by telephone
- Before you call, have the money on hand you wish to use to pay for a settlement agreement.
- Know how much you can afford to pay and would like to pay. Be sure to not settle for an amount you are not comfortable with paying. If you cannot reach an agreement that matches what you can afford, simply thank the creditor and hang up the phone.
- Use your negotiation skills to reach an agreement. Remember to always offer an amount much less than you can actually afford and you and the creditor will meet somewhere in the middle for a payment amount.
- Keep good records of the dates, times, and the names of people you spoke with.
- Send a cashier's check or certified money order for the amount you and the creditor have agreed upon.
- Make sure to write "For Payment in Full" or "Settled in Full" in the memo section along with the account number and to make a copy of the check or money order for your records.
- Ask the company to send you a letter stating the account has a zero balance once they receive the settlement amount.
- Send copies of the receipt and letter showing a zero to the credit bureaus to ensure the account information is updated. The company should contact the credit bureau and update when they receive you payment, this is just an additional step to ensure your file is accurate.

**Debt repayment chart for making payment arrangements:** You can use the chart below to lay out the debts you find on your credit report that need to be resolved and determine a strategy to resolve your debt. You can use the information found on your credit report to fill in the name of the creditor, amount owed and interest rate information. However, you must first complete your Monthly Spending Plan to know how much net income you have that can be used towards resolving old debt.

*Tip: List the debts with the highest interest rates first, as these are the ones that could eventually cost you more money. Don't feel obligated to pay off all debts at one time. Approach the amount that are comfortable for you and work on resolving those first. Once you have paid off debt, the money you were dedicating to paying that debt monthly can be used to address other debts. Remember: You did not accumulate this debt overnight and it will take time and patience to resolve it as well.*

<b>Name of Creditor</b>	<b>Amount Owed</b>	<b>Interest Rate</b>	<b>Monthly Amount You Can Afford To Pay</b>
Detroit Medical Center	\$2,300		\$100
Verizon Wireless	\$400		\$25

## DEBT TO INCOME RATIO

Debt to income ratio tells creditors how much more debt you can handle. You can use the debt to income ratio to keep your debt in check. Your debt to income ratio could be the determining factor in whether you are able to get the financing you request. Your debt to income ratio is your monthly debt payment amounts divided by your monthly gross income.

### ***Here's an example***

Monthly Income = \$3000    Monthly Debt = \$652     $\$652/\$3000 = .217$  or 21.7%

**What Does this mean?**    For every dollar you earn 21% goes toward debt.

### ***Basic Debt to Income Ratio Scale***

0-15%	Great
16-23%	Good
24-38%	Fair
39-50%	Poor
51% or more	Very Poor

## WHAT YOU SHOULD KNOW ABOUT CREDIT CARDS

Whether shopping for a new credit card or understanding the ones you have, there is certain information you should know. The questions below are usually answered in a new card's agreement disclosure and in an existing card's billing statement and other communications (*some in the fine print*).

- Is the interest rate fixed or variable?
- If variable, what is the initial rate, how long is it good for and how much can it increase?
- What is the Annual Percentage Rate?
- Is there an annual fee?
- If the payment is late, how is it handled?
- What are late fees, over the limit fees and balance transfer fees?
- What kind of fraud protection is offered?
- What type of rewards program is offered?
- Do the rewards expire or are there other restrictions?
- What is the grace period?

## Common Credit Card Definitions

**Fixed Interest Rate:** The interest rate does not change during the period of the loan.

**Variable Interest Rate:** An interest rate that fluctuates over time.

**Annual Percentage Rate:** The annual rate of borrowing funds expressed as a single percentage. This percentage represents the yearly cost of the credit granted to you. It includes any fees or additional costs associated with the line of credit.

**Annual Fee:** A yearly fee charged by the credit card company in addition to the interest rate.

**Grace Period:** The amount of time you have to pay off your entire bill after receiving it without having to pay any interest charges.

**Rewards Programs:** Benefits that credit card companies offer users to encourage usage of the card. (Frequent flyer miles, cash back, etc).

**Credit Limit:** The maximum amount a person may borrow on a credit card.

### What's In Your Wallet?

The chart below can help you better manage your existing credit cards. You may have to search for the information in communications sent to you by the creditor, your credit card statements, or the company website. Having this information in one spot may help you determine the amount of debt you are willing to incur.

Name of Creditor	Card 1	Card 2	Card 3	Card 4
Fixed or Variable Interest Rate				
Annual Percentage Rate (APR)				
Annual Fee				
Grace Period				
Rewards Program				
Credit Limit				

## TO COSIGN OR NOT TO COSIGN

As an older adult many have an established credit history. Friends, family and loved ones often know and understand this and come to older adults for assistance with securing financing and credit. Many ask older adults to cosign loans for them. Many times older adults are eager to help their children and grandchildren gain valuable assets or realize their dreams. However, it is important to understand what you agree to when you become a cosigner for someone else's credit product.

### **What is a Cosigner?**

A person who signs for another person's debt. This involves a legal obligation made by the cosigner to make payment on the other person's debt should that person default. Having a cosigner is way for individuals with a low income or poor/limited credit history to obtain financing.

### **The Risks of Cosigning**

***You assume all liability as cosigner.*** Credit reports do not distinguish payments you failed to make on time to your own accounts and late payments made to accounts to which you are a cosigner. If you are concerned about keeping your credit repayment history clean, cosigning could negatively affect this.

***You won't find out about important account changes or information until it posts to your credit report.*** The person you cosign for could increase a credit limit on a revolving credit account without your permission. You also will not be notified of accounts missing payments unless you check your credit report or begin to receive calls from collection agencies concerning the account.

***You may not be able to take out more credit on your own behalf.*** Cosigning could affect the amounts owed calculation in your credit score through your credit utilization rate. Cosigning can increase your debt to debt to income ratio because it raises your overall amounts of monthly debt payment on your credit report, even though the payments are not coming from your own income.

***Should the person you cosign for default on the loan, you will not be able to remove your name from the account.*** This is precisely the reason banks agree to a loan because they have a back-up plan in place should the borrower not be reliable.





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For more information contact the Institute of Gerontology at 313-664-2600



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