

Debt & Credit

ALWAYS pay more than the minimum each month!

The cost of only paying the Minimum

Calculator at www.bankrate.com/calculators/credit-cards/minimum-payment-calculator.aspx

Balance	% Rate	Minimum payment	Months to pay off	Total Interest Paid		OR	Minimum payment + Plus	Months to pay off	Total Interest Paid	
\$1500	7%	\$45	83	\$298.99			+ \$30	22	\$99.65	
\$2000	9%	\$60	100	\$577.55			+ \$30	25	\$196.13	
\$4000	10%	\$120	135	\$1,434.39			+ \$30	31	\$542.58	

Find more Credit & Debt Calculators: www.incharge.org/Credit_Counseling/Resources/DebtRelief/SimpleStrategies.aspx

ATTACK PLAN: Collect all your credit card statements and paperwork. On a separate piece of paper, write down the following information for each card:

- Name of card
- Card # & inf.
- Phone #
- Late Fees
- Other Fees
- Grace Period terms
- Minimum Payment
- Interest Rate
- Balance

Next, using the above list, organize your debts **HIGHEST TO LOWEST** by **INTEREST RATE** on the chart below. i.e. the HIGHEST interest credit card should be listed on the "Debt A" line.

High to low list	Interest %	Credit Card name	Minimum payment	Late fee charge	Balance	Minimum payment + \$ _____ extra
Debt A						
Minimum Monthly Payment on the cards below						
Debt B						
Debt C						
Debt D						

1. On your highest interest rate debt (Debt A), pay the minimum payment **plus a lot extra**.
2. Pay only the minimum amount due on all other debts.
3. Once Debt A is paid off, go to your next highest interest rate debt "Debt B". **Use the same amount of money you were paying on Debt A and now add it to your minimum payment on Debt B.** Keep paying the minimum due on the other debts.
4. When Debt B is paid off, again, use the same monthly payment amount from Debt A + Debt B toward the next highest interest rate loan "Debt C".

BE ORGANIZED WITH YOUR FINANCES:

- Keep the lists you just created and all financial paperwork TOGETHER and in a safe place.
- Know the terms, conditions and fees for all the cards (and loans) you own.
- READ the terms and condition changes ---- as they arrive in the mail.
- **Schedule a date & time EACH MONTH** to review statements and plan for upcoming bills.
- Develop a SPENDING PLAN (also called a Budget)

CREDIT CARD ISSUES IMPORTANT TO KNOW

GRACE PERIOD is usually 20 to 25 days before interest is charged. BUT, if you already have a balance, **you may not be given a grace period**. This means you are paying interest from the moment you charge an item. Read and know the “terms” for each card!

TRANSFERRING BALANCES Beware, even if the interest rate is ZERO, a transfer FEE still applies. The fee is usually 3% to 5% of the transfer amount.

IS YOUR BANK AN OPTION?

- **SIGNATURE LOANS** have much lower interest than credit cards.
- **HOME EQUITY LOAN** - Consider a Home Equity Loan as an option to consolidate debt. Interest rates on a Home Equity Loan are MUCH cheaper than credit card interest rates.

CREDIT RATE INCREASE? By law, you have the right to **NOT accept the change in terms** and CANCEL the card. This will freeze the interest rate at the lower rate until the debt is repaid. READ YOUR TERMS because some companies will require you to cancel the card IN WRITING.

IS A COMPANY TAKING ADVANTAGE OF YOU? This long page (and website) is filled with useful information regarding your rights, your complaint options, and specifics regarding steps to take. **Be sure to include all the required information before sending a complaint to a regulatory agency.** Sample letters are also on the site. http://consumeraction.gov/caw_credit_cards.shtml

RIP OFF = CREDIT CARD PROTECTION By law, you are liable for a **maximum of \$50** on a credit card (or card number) that has been lost or stolen. Most credit card companies never charge you a dime. Why would anyone pay a monthly fee for what you can get FOR FREE? Also Note: you must report the card stolen as soon as you know. This is true of both the law & protection plans.
IMPORTANT TO KNOW: This law DOES NOT APPLY TO DEBIT CARDS (using PIN) & CHECKS. Your liability may be \$500 or more. Protect your PIN and checkbook. Use the Visa or MasterCard “Credit” option on your check card/debit card to make purchases.

UNWANTED CREDIT CARD OFFERS? If you decide that you don't want to receive offers of credit and insurance, you have two choices: You can **OPT OUT** of receiving them for five years or opt out of receiving them permanently. Call 1-888-567-8688 or visit www.optoutprescreen.com.

IS YOUR CREDIT CARD BUILDING YOUR CREDIT HISTORY? Checking accounts, debit cards (even with the Visa or MasterCard logos), and Secured credit cards are usually NOT reported to any of the three credit reporting agencies. Check with your issuing institution. They MAY report, if requested. If not, sign up for a card with a low credit limit to start. USE IT MONTHLY for small purchases that you will pay off IN FULL. Once you have used the card for 6 months, you can ask for a credit limit increase.

Note: If your bank will not issue you a card; try a department store card and use it as described above. After 6 months of charges and PAYMENT IN FULL, try for a standard credit card again.

ARE YOU PAYING YOUR CREDIT CARD BALANCE IN FULL EVERY MONTH? 😊

Consider getting a credit card that pays REWARDS. i.e. – getting 1% to 5% back of every purchase adds up to a nice amount over a year of spending. Pay gas, groceries, utilities and all other bills using the credit card. Set up automatic payments to the card. This all increases your rebate amount. i.e. – all purchases and bills placed on a REBATE card could produce a monthly total of \$1000. This times 1% = \$120 in annual rebate. A 5% annual rebate would equal \$600.

No one website lists ALL Reward card offers. It is recommended to compare cards using a number of sites such as: www.creditcardsearchengine.com/reward.php and www.cardoffers.com and www.lowcards.com
SELF CONTROL & Organization – PAYS! You must have good credit to qualify for these cards!

CREDIT ISSUES

Get your FREE CREDIT REPORT AT:

www.annualcreditreport.com

NOT freecreditreport.com 

Get one credit report per 12 months from each one of the three credit agencies.

To Request your Credit Report by Phone: 1-877-322-8228

You will go through a simple verification process over the phone.

Your reports will be mailed to you within 15 days. Please, allow 2-3 weeks for delivery.

Individuals with visual impairments may request their free annual credit reports in Braille, Large Print or Audio Format by telephone, toll free, 877-322-8228.

Review your CREDIT REPORT(s) Look for errors such as:

1. Making sure only “your” social security number is referenced along with other information that does not belong to you.
2. Making sure dates are correct is very important; especially account opening dates and **dates of resolved debts**. You want negative information to disappear AT that 7 year timeframe, not later.
3. Other incorrect information. Account balances and **credit limits** (especially if you’ve consolidated accounts) should be double checked.
4. Update your address and contact information – eliminate wrong addresses
5. Update any missing credit information.

Aggressively and actively correct any negative errors.

- **Building a Better Credit Report:** See Section 2 on the link’s page. Sample letter also included.
<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.shtm>
- **Written disputes** are legally bound to be investigated – not phone calls.
- Keep copies of your correspondence and record the dates of conversations and letters.

Your FICO score is calculated by mathematically evaluating your CREDIT REPORTS.

You never really need to know your score.....Put your energy & money into debts and budgeting.

Please note: A Credit Report and “Score Report” do not contain the same information. A Credit Report is much more detailed.

BUYING a Score Report..... may not give you the right number/SCORE. Some creditors use an average of all three, while most only use one agency’s scoring. You would need to know what/who’s score each creditor uses. **It’s just a ridiculous waste of time and money.**

DON’T BE A T.V. MARKETING VICTIM

Credit SCORE services (i.e. monthly memberships) are mostly **MONEY MAKING SCAMS.**

If you want a good and FREE SCORE ESTIMATE, go to:

<http://www.bankrate.com/calculators/credit-score-fico-calculator.aspx> NOTE: As you answer the questions in this Credit-Score-Calculator, you will learn many of the factors (behaviors) which influence your score.

Paying for ID protection? Of the hundreds out there, we will only choose one article to list here.

Please read: (and note the class action suit against Lifelock for fraud and federal law breakage).

<http://20somethingfinance.com/why-pay-for-lifelock-when-you-can-prevent-monitor-identity-theft-for-free>

WHAT CREDITORS LOOK AT... THE BIG 3

CREDIT PROFILE: When a lender evaluates whether or not to risk lending money to you, they look at your credit report(s) and score(s). Keep in mind, the contents of the REPORT produces your score. Poor report – poor score. Your report reflects your past level of responsibility with financial matters regarding loans. The mathematical “scoring” of your credit report(s) produces FICO score(s). The national average for a FICO score is about 723. The best loan rates are given to individuals with a score of at least 750.

DEBT TO INCOME RATION: To find your **debt-to-income ratio**, the lender divides your monthly income by your monthly payments towards debts. A debt-to-income ratio between 20-25% is good, AS LENDERS HAVE BECOME MUCH MORE CONSERVATIVE SINCE 2009.

LOAN TO VALUE RATIO: The **loan-to-value ratio** is calculated by dividing the mortgage loan amount by the property's appraised value. A loan-to-value ratio under 80 percent will lower your interest rates.

Loan-to-Value GOAL = under 80%	Debt-to-income GOAL = 20-25%	Credit score GOAL = Above 750
What you can do: <ul style="list-style-type: none">→ Increase down payment on car or home to 20% of its value→ Negotiate for a lower price→ Select a less expensive car or home	What you can do: <ul style="list-style-type: none">→ Reduce card balances→ Pay off smaller loans→ Increase income or co-sign with someone who has additional income	What you can do: <ul style="list-style-type: none">→ Correct errors in all 3 credit reports→ Pay your bills on time→ Pay down debt on <u>each card</u> to below 45%→ Don't apply for credit 6 months before a large loan→ It's important to be “ACTIVE;” regular credit card activity in the last 6 months. Also, a loan that was closed 6 months ago is no longer active.
My Debt-to-income = _____ on _____ date		
My Debt-to-income = _____ on _____ date		

SCORE ESTIMATOR: <http://www.bankrate.com/calculators/credit-score-fico-calculator.aspx>

My Score Estimate range is = _____ on _____ date

My Score Estimate range is = _____ on _____ date

Debt Management Service

NHCO refers to the non-profit Advantage (or CCCS).

<http://www.advantageccs.org/dmp.cfm> 1-888-511-CCCS

Credit counselors can usually reduce high interest rates and eliminate late fees. Often, a small monthly fee is charged per credit card debt, but the interest reduction FAR outweighs the charge.

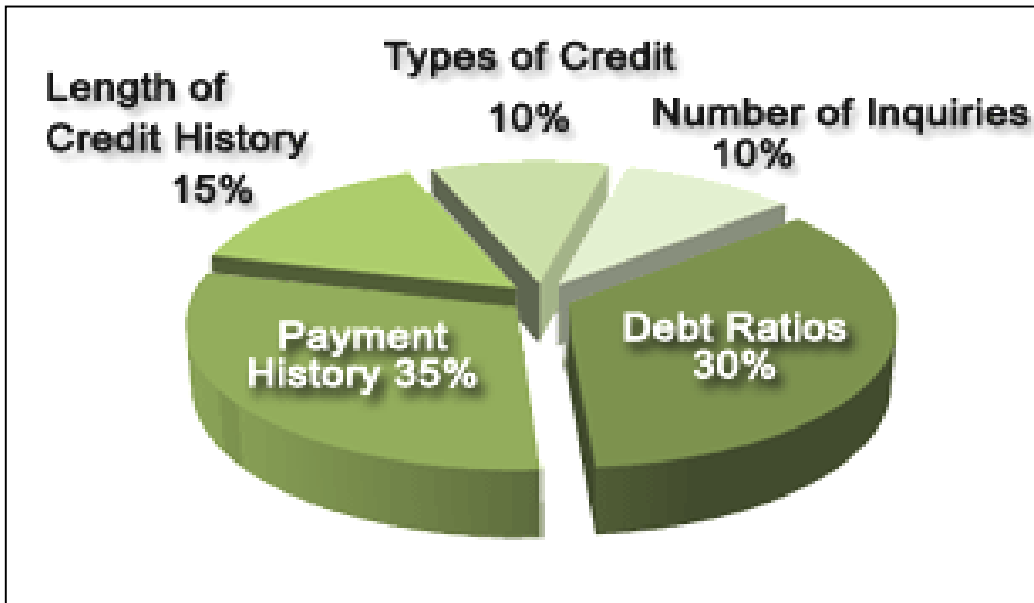
Source: http://myfico.custhelp.com/cgi-bin/myfico.cfg/php/enduser/std_adp.php?p_faqid=70

How does credit counseling affect my FICO® score?

Using a credit counseling service and having this situation reported in your credit report should not have any negative impact to your FICO® score. However, the actions you take may affect your score. For example, choosing to make partial payments or agreeing to settle for less than the full amount on accounts may be regarded negatively by the FICO® scoring model. Additionally, any late payments occurring either after you began the plan may also be regarded negatively.

THE MATH BEHIND YOUR CREDIT REPORT(S)

Each line below is represented by a mathematical formula.



Source: www.myfico.com

5 Main Categories

For particular groups - for example, people who have not been using credit long - the importance of these categories may be somewhat different.

Payment History – 35%

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since past due items (delinquency), adverse public records, or collection items
- Number of past due items on file
- Number of accounts paid as agreed

Amounts Owed – 30%

- Amount owing on accounts
- Lack of a specific type of balance, in some cases
- Proportion and number of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

Length of Credit History – 15%

- Time since accounts opened, AND by specific type of accounts
- Time since account activity

New Credit – 10%

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

Types of Credit Used – 10%

- Number of (presence and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

OTHER DEBT & FINANCIAL ISSUES

STUDENT DEBT - Income-Based Repayment- IBR will cap monthly payments at a percentage of income. It is helpful for borrowers with heavy debt burdens or low incomes. This means that if you're underpaid, underemployed, or unable to work due to illness, your student loan payments won't break the bank, and could be as low as \$0 a month. The program covers almost all federal loans made to undergraduate and graduate students, whether your lender is a private company like Sallie Mae or Citibank, or the federal government. Help with student loan options: <http://www.studentloanborrowerassistance.org>

BANK FEES – Oh My! Fees for unauthorized overdraft “Loans” keep going UP. Yes, an “overdraft” is considered an “**unauthorized LOAN.**” Penalties are extremely high.

- The median overdraft fee is \$35 - **(with many banks charging multiple overdrafts in one day)**
- Many banks charge tiered overdraft fees, escalating the cost of more than one or two overdrafts over a year.
- Over 60% of the largest banks charge “**Sustained Overdraft**” fees when the OD + fees are not paid in a few days. This chart illustrates what a \$100 overdraft could cost when the overdraft remains unpaid for 7 days.

Bank	Overdraft Fee	Sustained Overdraft <small>7 days unless noted otherwise</small>	Total	Loan's Annual Percentage Rate
Bank of America	35	35	\$70	3,640%
Chase	35	12.50	\$47.50	2,470%
Citibank	34	0	\$34	1,768%
Citizens	39	35	\$74	3,848%
Fifth Third	37	4 x \$8=\$32	\$69	3,588%
PNC	36	3 x \$7=\$21	\$57	2,964%

- ATM surcharges rose 12.6% to an average of \$2.22

ConsumerAffairs.com suggests the following steps in avoiding fees:

- Find a bank that reimburses your ATM fees.
- Get cash when buying with your debit card.
- Join a credit union – fees are low
- Develop a Budget (spending plan) – AND FOLLOW IT. Good planning saves money.

EMERGENCY FUND - A MUST! Picture this: *You are driving to work and take a spin on the icy road – right into a post. You'll be fine. . . but have broken your arm, knocked out your front teeth, and must pay your insurance deductible. For most Americans, this is the beginning of 10 or more years in debt. Why? No Emergency Fund. Any “emergency” gets charged on a credit card.*

An emergency fund is a SEPARATE savings you can access in emergency situations. Most experts recommend **between 3 to 6 months of “regular take-home pay”** (or living expense) as a safe amount to build toward. This amount would cover unemployment periods and most emergencies. So, if your living expenses are \$1,500 each month, your emergency fund should range from \$4,500 to \$18,000.

Where to Keep Your Emergency Fund (EF): Open a separate savings account and have your EF amount direct deposited. A really great option is www.smartypig.com – the interest is higher than other savings accounts {as of Feb 2010 = 2.01% which is also higher than CD rates}.

As your account grows, and interest rates on CDs and Money Markets improve, you can move the funds. “CD laddering” is a good option. Try to find options which take one or two days to access. This will limit impulse spending.

Info on CD laddering is here: <http://ptmoney.com/2009/05/20/cd-ladder-strategy-certificate-deposit-save-money>

Building an EF requires discipline but **does** become automatic and easier over time. The rewards of accomplishment, safety, security and LESS STRESS make Emergency Funds a win-win choice. Besides, once your EF is fully established, reward yourself by spending the interest payments instead of rolling them over. (assuming interest rates will one day return a rate over 3%)