Volunteer Financial Coaching

Credit Counseling Training Manual

Updated 10/2014

Contents:

Foundation Communities

www.foundcom.org/get-financially-stable

Foundation Communities' financial programs facilitate a pathway to economic stability for individuals and families of limited resources through education, optimization of resources, and support as they work towards financial goals.

Consumer Rights

The Federal Trade Commission (FTC) enforces credit laws that protect a borrower's right to obtain, use and maintain credit. These laws do not guarantee credit; they give the consumer the right to fair and equal opportunity.

More information about these and other laws that protect consumers can be found on the Federal Trade Commission web site (www.ftc.gov) and the Consumer Financial Protection Bureau web site (www.consumerfinance.gov).

Full texts of the laws can be found on the FTC's enforcement page: http://www.ftc.gov/enforcement/statutes.

Truth in Lending Act
This Act (Title I of the Consumer Credit Protection Act) vests the Commission with responsibility for assuring compliance by most non-depository entities with a variety of statutory provisions. Specifically, the Act requires all creditors who deal with consumers to make certain written disclosures concerning finance charges and related aspects of credit transactions (including disclosing an annual percentage rate).

Fair Credit Reporting Act
The Act protects information collected by consumer reporting agencies such as credit bureaus, medical information companies and tenant screening services. Information in a consumer report cannot be provided to anyone who does not have a purpose specified in the Act. Companies that provide information to consumer reporting agencies also have specific legal obligations, including the duty to investigate disputed information. Also, users of the information for credit, insurance, or employment purposes must notify the consumer when an adverse action is taken on the basis of such reports.

Equal Credit Opportunity Act
This Act (Title VII of the Consumer Credit Protection Act) prohibits discrimination on the basis of race, color, religion, national origin, sex, marital status, age, receipt of public assistance, or good faith exercise of any rights under the Consumer Credit Protection Act. The Act also requires creditors to provide applicants, upon request, with the reasons underlying decisions to deny credit.

Fair Credit Billing Act
This Act, amending the Truth in Lending Act, requires prompt written acknowledgment of consumer billing complaints and investigation of billing errors by creditors. The amendment prohibits creditors from taking actions that adversely affect the consumer's credit standing until an investigation is completed, and affords other protection during disputes. The amendment also requires that creditors promptly post payments to the consumer's account, and either refund overpayments or credit them to the consumer's account.

Bankruptcy Reform Act
This act allows a consumer the following options:

- Chapter 7 straight bankruptcy
- Chapter 13 a plan which allows payment on all or some of the debt, sometimes referred to "wage earner" bankruptcy

Bankruptcy Abuse Prevention and Consumer Protection Act
This Act amends the Truth in Lending Act in various respects, including requiring certain creditors to disclose on the front of billing statements a minimum monthly payment warning for consumers and a toll-free telephone number, established and maintained by the Commission, for consumers seeking information on the time required to repay specific credit balances.

Fair and Accurate Credit Transaction Act
This Act, amending the Fair Credit Reporting Act (FCRA), adds provisions designed to improve the accuracy of consumers' credit-related records. It gives consumers the right to one free credit report a year from the credit reporting agencies, and consumers may also purchase for a reasonable fee a credit score along with information about how the credit score is calculated. The Act also adds provisions designed to prevent and mitigate identity theft, including a section that enables consumers to place fraud alerts in their credit files.

Fair Debt Collection Practices Act
Under this Act (Title VIII of the Consumer Credit Protection Act), third-party debt collectors are prohibited from employing deceptive or abusive conduct in the collection of consumer debts incurred for personal, family, or household purposes. Such collectors may not, for example, contact debtors at odd hours, subject them to repeated telephone calls, threaten legal action that is not actually contemplated, or reveal to other persons the existence of debts.

Texas' Debt Collection law

This law prohibits certain debt collection methods, including:

- threats or coercion
- harassment or abuse
- unfair or unconscionable actions, including attempting to collect interest, charges, fees or expenses unless they are authorized by the agreement with the original creditor
- fraudulent, deceptive or misleading actions

The state law does allow collection agencies to continue to charge interest on an account in collections, up to the percentage of interest that original creditor was charging.

Credit CARD Act

The Credit Card Accountability, Responsibility and Disclosures Act of 2009, also known as the Credit CARD Act, was enacted in May 2009.

WHAT YOU NEED TO KNOW: New Credit Card Rules

The Federal Reserve Board
www.federalreserve.gov

The Federal Reserve's new rules for credit card companies mean new credit card protections for you. Here are some key changes you should expect from your credit card company beginning on February 22, 2010.

What your credit card company has to tell you

- **When they plan to increase your rate or other fees.** Your credit card company must send you a notice 45 days before they can
  - increase your interest rate;
  - change certain fees (such as annual fees, cash advance fees, and late fees) that apply to your account; or
  - make other significant changes to the terms of your card.

  If your credit card company is going to make changes to the terms of your card, it must give you the option to cancel the card before certain fee increases take effect. If you take that option, however, your credit card company may close your account and increase your monthly payment, subject to certain limitations.

  For example, they can require you to pay the balance off in five years, or they can double the percentage of your balance used to calculate your minimum payment (which will result in faster repayment than under the terms of your account).

  The company does not have to send you a 45-day advance notice if
  - you have a variable interest rate tied to an index; if the index goes up, the company does not have to provide notice before your rate goes up;
  - your introductory rate expires and reverts to the previously disclosed "go-to" rate;
  - your rate increases because you are in a workout agreement and you haven't made your payments as agreed.

- **How long it will take to pay off your balance.** Your monthly credit card bill will include information on how long it will take you to pay off your balance if you only make minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years. For example, suppose you owe $3,000 and your interest rate is 14.4%—your bill might look like this:

New balance	$3,000.00
Minimum payment due	$90.00
Payment due date	4/20/12

Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a $35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.

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	11 years	$4,745
$103	3 years	$3,712 (Savings = $1,033)

New rules regarding rates, fees, and limits

- **No interest rate increases for the first year.** Your credit card company cannot increase your rate for the first 12 months after you open an account. There are some exceptions:
  - If your card has a variable interest rate tied to an index; your rate can go up whenever the index goes up.
  - If there is an introductory rate, it must be in place for at least 6 months; after that your rate can revert to the "go-to" rate the company disclosed when you got the card.
  - If you are more than 60 days late in paying your bill, your rate can go up.
  - If you are in a workout agreement and you don't make your payments as agreed, your rate can go up.

- **Increased rates apply only to new charges.** If your credit card company does raise your interest rate after the first year, the new rate will apply only to new charges you make. If you have a balance, your old interest rate will apply to that balance.

- **Restrictions on over-the-limit transactions.** You must tell your credit card company that you want it to allow transactions that will take you over your credit limit. Otherwise, if a transaction would take you over your limit, it may be turned down. If you do not opt-in to over-the-limit transactions and your credit card company allows one to go through, it cannot charge you an over-the-limit fee.
  - If you opt-in to allowing transactions that take you over your credit limit, your credit card company can impose only one fee per billing cycle. You can revoke your opt-in at any time.

- **Caps on high-fee cards.** If your credit card company requires you to pay fees (such as, an annual fee or application fee), those fees cannot total more than 25% of the initial credit limit. For example, if your initial credit limit is $500, the fees for the first year cannot be more than $125. This limit does not apply to penalty fees, such as penalties for late payments).

- **Protections for underage consumers.** If you are under 21, you will need to show that you are able to make payments, or you will need a cosigner, in order to open a credit card account.
  - If you are under age 21 and have a card with a cosigner and want an increase in the credit limit, your cosigner must agree in writing to the increase.

Changes to billing and payments

- **Standard payment dates and times.** Your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. In addition
  - Your due date should be the same date each month (for example, your payment is always due on the 15th or always due on the last day of the month).
  - The payment cut-off time cannot be earlier than 5 p.m. on the due date.
  - If your payment due date is on a weekend or holiday (when the company does not process payments), you will have until the following business day to pay. (For example, if the due date is Sunday the 15th, your payment will be on time if it is received by Monday the 16th before 5 p.m.).

- **Payments directed to highest interest balances first.** If you make more than the minimum payment on your credit card bill, your credit card company must apply the excess amount to the balance with the highest interest rate. There is an exception:
  - If you made a purchase under a deferred interest plan (for example, "no interest if paid in full by March, 2012"), the credit card company may let you choose to apply extra amounts to the deferred interest balance before other balances. Otherwise, for two billing cycles prior to the end of the deferred interest period, the credit card company must apply your entire payment to the deferred interest-rate balance first.

- **No two-cycle (double-cycle) billing.** Credit card companies can only impose interest charges on balances in the current billing cycle.

Useful terms...

"go-to" rate
interest rate you are charged after the introductory rate

index
an economic indicator used to calculate interest-rate adjustments (e.g. the Cost of Funds Index)

opt-in
giving your credit card company permission to include you in a particular service

workout agreement
a type of debt management plan

Other resources...

Visit the Federal Reserve's website at www.federalreserve.gov/consumerinfo to get more information about

bank accounts and services

consumer credit

identity theft

leasing

mortgages

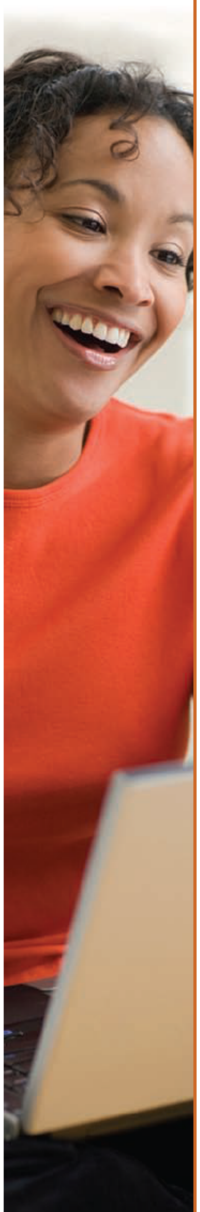
personal finance

federal agency contacts

Need more direction...

To learn more about how these new rules directly apply to you, contact your credit card company by calling their toll-free number

WHAT YOU NEED TO KNOW:
New Credit Card Rules Effective Aug. 22



More new rules from the Federal Reserve mean more new credit card protections for you. Here are some key changes you should expect from your credit card company beginning on August 22, 2010:

Reasonable penalty fees

Let's say you are late making your minimum payment.

- **Today:** Your late payment fee may be as high as $39, and you likely pay the same fee whether you are late with a $20 minimum payment or a $100 minimum payment.
- **Under the new rules:** Your credit card company cannot charge you a fee of more than $25 unless:
  - one of your last six payments was late, in which case your fee may be up to $35; or
  - your credit card company can show that the costs it incurs as a result of late payments justify a higher fee.

In addition, your credit card company cannot charge a late payment fee that is greater than your minimum payment. So, if your minimum payment is $20, your late payment fee can't be more than $20. Similarly, if you exceed your credit limit by $5, you can't be charged an over-the-limit fee of more than $5.

Additional fee protections

- **No inactivity fees.** Your credit card company can't charge you inactivity fees, such as fees for not using your card.
- **One-fee limit.** Your credit card company can't charge you more than one fee for a single event or transaction that violates your cardholder agreement. For example, you cannot be charged more than one fee for a single late payment.

Explanation of rate increase

- If your credit card company increases your card's annual percentage rate (APR), it must tell you why.

Re-evaluation of recent rate increases

- **Today:** Your credit card company can increase your card's APR with no obligation to re-evaluate your rate increase.
- **Under the new rules:** If your credit card company increases your APR, it must re-evaluate that rate increase every six months. If appropriate, it must reduce your rate within 45 days after completing the evaluation.

This set of rules is the latest in a series of regulations that implement the Credit Card Accountability, Responsibility, and Disclosure Act (the Credit Card Act). For information on protections under the Federal Reserve's other credit card rules, see "What You Need to Know: New Credit Card Rules Effective Feb. 22."

Useful terms...

annual percentage rate (APR)
for credit cards, the APR is the cost of credit expressed as a yearly interest rate. Each billing period (usually about a month), the company charges a fraction of the annual rate, called the periodic rate.

penalty fees
fees charged if you violate the terms of your cardholder agreement or other requirements related to your account. For example, your credit card company may charge a penalty fee if you make a late payment or if you exceed your credit limit.

Other resources...

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bank accounts and services

credit cards

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Need more direction?

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A Federal Reserve Board Consumer Publication
Get more information at www.federalreserve.gov/consumerinfo

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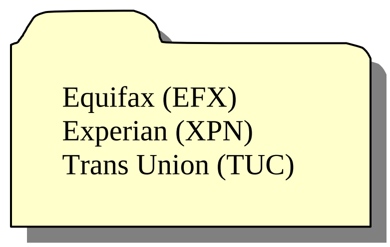
The Credit Report

Information included in credit reports:

Identifying personal information* (from creditors)

Social security number
Date of birth
Current and former addresses
Current and former employers
AKA information

Credit Report



*Identifying personal information has no impact on scores.

Public record information (from courts)

Bankruptcies
Judgments
Liens

Inquiry information (from creditors)

Trade line information, or account information (from creditors)

Type of account (see below for types)
Current Balance
Current Payment Status
Payment history
Credit limit/Loan amount
Does not include interest rates

Types of Trade lines

Revolving (credit cards)
Installment (loans)
Open credit (full amount due at set date)
Line of credit (such as credit at a store without a credit card)
Collection account
Mortgage

How long does information stay on your credit report?

Bankruptcy = 10 years from the date of entry of the order for relief (discharge)

Judgments = 7 years from the date of entry

Tax Liens = 7 years from the date of payment

Collections and Charge offs = 7 years, starting 180 days after payment was due to the original creditor (creditors have 180 days to submit an account to collections or charge it off).

Any other accounts = 7 years from the date they're closed or from the date of last activity

Notice that payment of an account does not immediately remove it from a credit report.

Inquiries All inquiries appear on the credit report for 12 months.

Hard Inquiries take points from a client's score. The number of points depends on what the score was before the inquiry, and can be between 3 and 15 points. The lower the score was before the inquiry, the more points are taken away. Most inquiries are hard inquiries, for example, applying for a credit card, a loan, insurance or an apartment will all result in a hard inquiry.

Soft Inquiries do not take points from a client's score. Soft inquiries occur when a client orders their own credit report, a prospective employer orders their report or a company orders their report as part of a large group to send marketing materials to.

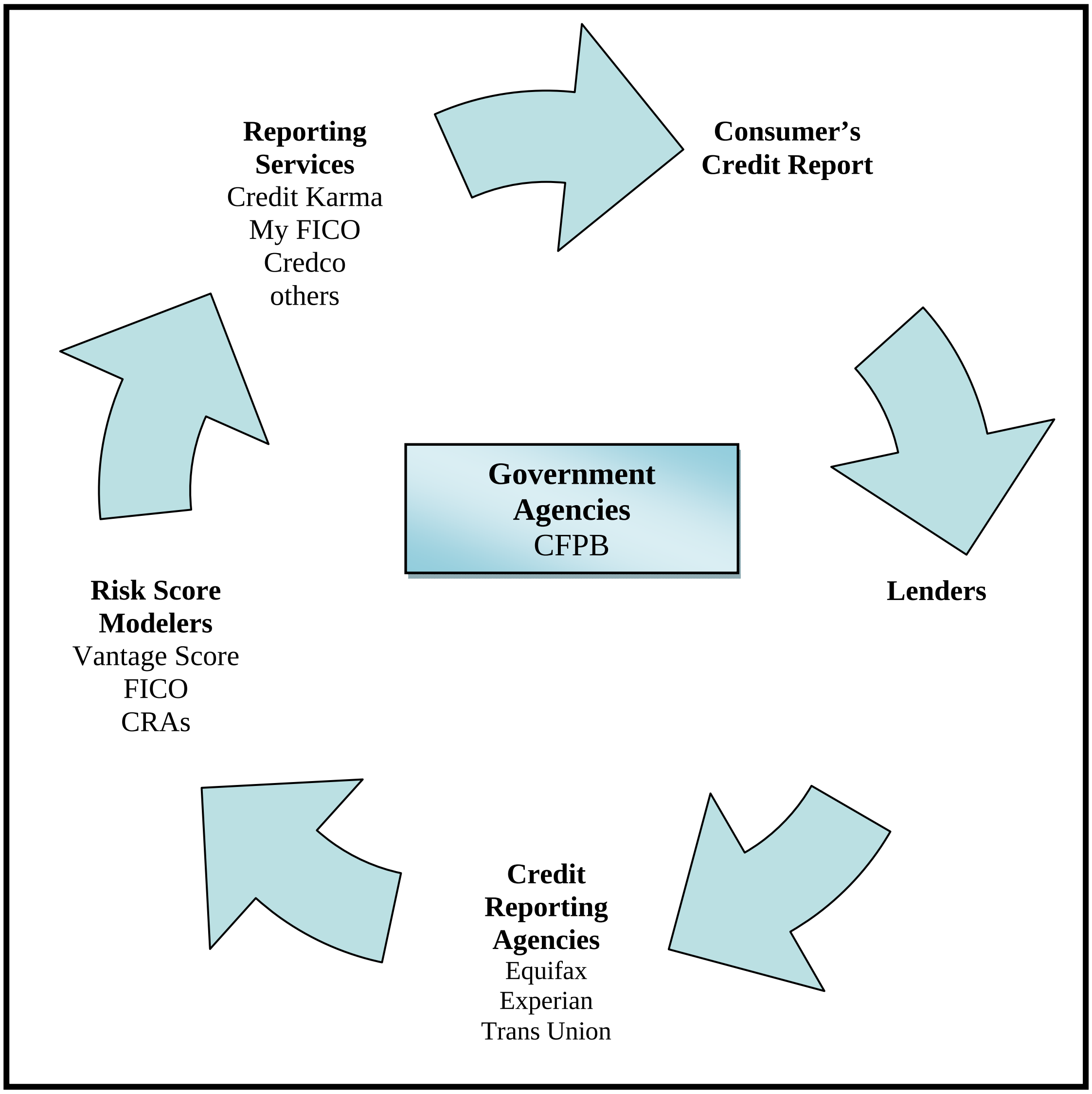
Foundation Communities' credit reports result in a hard inquiry. The client is given the option to get their credit report from www.annualcreditreport.com, which results in a soft inquiry.

Credit History section definitions

	Item Number: Accounts are listed in order by balance. Account #1 has the highest balance.
	Credit Grantor: The name of the company that currently holds the account.
	Account Number: The account number as assigned by the Credit Grantor.
	Category/Terms: The category describes the type of account, like student loan or credit card. The term describes how long the repayment schedule is in months, if any.
	Remarks: Any additional information the Credit Grantor wants to include in the listing. If the account is a collection account, this section will show the date when the account was submitted to collections. The original creditor that submitted it to collections will be in the "Creditor" section at the bottom of the Remarks section.
Date	**Rptd:** The most recent date that any activity was reported on this account.
	Open: The date this account was opened by the Credit Grantor.
Credit	**Highest:** The most the client has ever owed on that account. If the account is a loan, this is the original amount of the loan.
	Limit: This section lists the credit limit (for credit cards only).
Present Status	**Balance:** The current balance on this account.
	Monthly Pymt Amt: The current minimum monthly payment required by the Credit Grantor. Please note, this does not reflect if the client is making payments larger than the minimum.
	Account Type – MOP: Account Type tells the structure of the account is, like "I" for installment or "R" for revolving. MOP stands for Method of Payment and it's a number that tells the status of the most recent payment. The letters and numbers and their meanings are listed in the "Glossary and Sample Accounts from a Credit Report."
	Status: This tells in words what the status of the most recent payment is.
Historical Status	**MR:** This stands for Months Reviewed and it tells how many months the account has been on the credit report.
	Times Past Due: This tells how many payments on this account have been 30, 60 or 90+ days late
	Data Source: This tells which of the three credit bureaus is reporting this account – Equifax (EFX), Experian (XPN) and/or Trans Union (TUC).
	Subscriber info: Under one of the credit bureau names, there will be a code. This code is for internal use by the credit bureaus.
	ECOA: The ECOA code tells us the ownership status of the account. The list of ECOA codes is also in the "Glossary and Sample Accounts from a Credit Report."
	Appt. Ident.: This is how each person on the credit report is identified. If a single credit report is pulled, the client will always be identified as APP1, or Applicant 1. If a joint report is pulled, the first person entered into our system will be APP1 and the second person will be APP2.

Activity: This shows what the most recent activity was and the month and year in which it happened. PYMT = payment; CLSD = closed
Pymt Hist: The date of the most recent payment is shown first, followed by a row of up to 24 numbers. Each number represents a payment. The number closest to the date represents that month's payment, then they go backwards in time to the right. The meaning of the number is listed in the glossary.
Add'l Dates: This section normally repeats the last activity and/or the last payment.

The Credit Cycle



Lenders create the inquiries and lines of credit that appear on the credit report

Credit Reporting Agencies collect information from Lenders. Sometimes the Credit Reporting Agency is also the Risk Score Modeler and/or the Reporting Service.

Risk Score Modelers use the information from the Credit Reporting Agencies to calculate a score

Reporting Services take the information from the Credit Reporting Agencies and Risk Score Modelers to create a report for the consumer or for lenders.

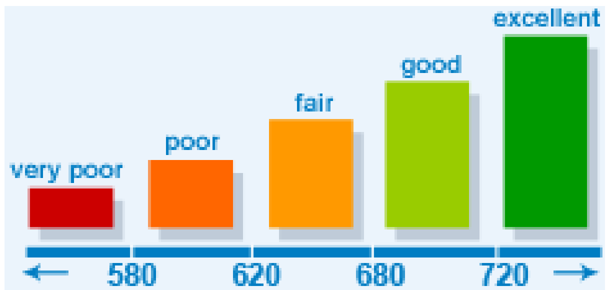
The Consumer's credit report is then used by lenders to determine if the consumer is eligible for new credit and under which terms.

Government Agencies enforce the laws that govern credit.

Credit Scores

What is a good credit score?

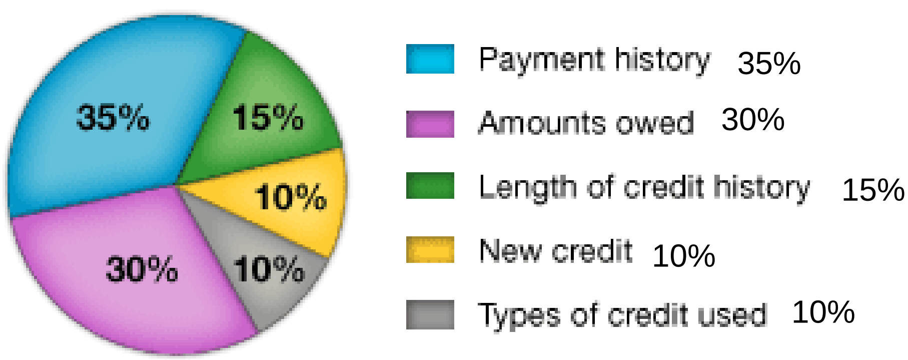
Credit Scores range from 300-850. Lenders use different criteria for determining what a "good" credit score is. Generally, what is considered to be a good score starts at 680.



How are credit scores calculated?

Source: www.myfico.com

FICO Scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your FICO score.



These percentages are based on the importance of the five categories for the general population. For particular groups - for example, people who have not been using credit long - the importance of these categories may be somewhat different.

Are all credit scores FICO scores?

Not necessarily. Many times, the FICO score is referred to as the "real" score. This score was created by Fair Isaac Corporation. Fair Isaac put a lot of effort to make sure FICO became the most commonly used credit scoring model. 90% of lenders base their decisions on consumers' FICO scores. The three credit bureaus and other companies offer credit scores based on their own scoring models. These scores can be different from FICO scores, meaning that the score a client looks at on their own can be different from the score their lender sees.

Fair Isaac's scoring models are most commonly known as FICO, but can go by the names

FICO
Beacon
Empirica

Where to get FICO scores	**Where to get other scores**
Credit reports from www.myfico.com will contain a FICO score.	Credit reports from one of the credit bureaus' direct web site (Equifax, Experian, Trans Union) will contain that credit bureau's scoring model.
Credit reports through Foundation Communities' Credco subscription will contain three FICO scores.	Credit reports from www.annualcreditreport.com will contain the credit bureaus' own scoring model.

There are also many different versions of FICO scores. It's nearly impossible to see a score that is exactly the same as your lender. Focus on the content, and taking the actions that will lead to higher scores regardless of what scoring model is used.

Don't buy useless credit scores

FAIR ISAAC, the company that invented FICO credit scores in 1958, derides its competitors as "FAKO" imitators because their scores aren't the ones used by lenders in their credit-making decisions.

But the FICO scores that millions of consumers buy each year for $20 a pop are also not the scores that car dealers, auto-finance companies, mortgage lenders, and others use. Moreover, after reviewing material that Fair Isaac provides only to lenders, we think the scores consumers can buy are inferior.

Legislation introduced in March would require the free annual disclosure of scores that lenders actually use, which are now typically kept secret. Consumers Union, the advocacy arm of Consumer Reports, endorses it, as do other consumer groups.

Getting the law passed isn't expected to be a slam dunk. So for now we recommend taking steps such as requesting the credit score an insurer or lender has used before agreeing to any deal. You can also press for proof of any credit problem that raised your cost of borrowing money or getting insurance, or insist on a refund if scores you've purchased prove to be wrong. Or you can just decide not to buy the scores in the first place. Here's what you need to know.

Unreliable information

Last fall, the Consumer Financial Protection Bureau concluded that "consumers should not rely on credit scores" when considering how lenders view their creditworthiness. That's because the agency found that in 20 to 32 percent of the cases it studied, the consumer and lender scores rated the same credit file differently enough that the scores were one or more credit-quality categories removed from each other. The discrepancies were much greater for the half of consumers with above-median scores.

A similarity rate of 68 to 80 percent seems like good odds, but "consumers can't know ahead of time whether the scores they purchase will closely track or vary moderately to significantly from a score sold to creditors," the CFPB report said.

Unfortunately, the study only scratched the surface of a perplexing problem. It examined just five scoring systems, some of which were already outdated. But "there are hundreds of different scores," says Steve Wagner, president of Experian, one of the three big credit bureaus. (Equifax and TransUnion are the others.)

VantageScore credit scores, created by the three credit bureaus in 2006, are used by 1,300 lenders, and that brand of score sold to consumers can be the same one that lenders use. But there are three versions of VantageScore, which can produce significantly different scores, concedes Sarah Davies, a VantageScore executive. That's a problem if you buy, say, the new version 3.0 and your lender is still using 1.0 or 2.0.

Experian mostly sells consumers a VantageScore and its own invention, a PLUS score, which has fine print that says it's "not the score used by lenders." Auto- and home-insurance companies use still other credit-based scores, usually designed from in-house models.

FICO or FAKO?

Fair Isaac alone sells 49 different FICO scores to lenders. But a subsidiary, myFICO.com, sells consumers only two of those, claiming that they're the "industry standard" used by 90 percent of the top lenders.

Isn't that misleading? No, says Anthony Sprauve, a Fair Isaac spokesman, because the variations among scores "are not as dramatic as you might think."

But that's not what Fair Isaac tells lenders. For example, its sales literature for creditors says the FICO Mortgage Score 1.0 is "more comprehensive and accurate" and "7.5 percent more predictive than the general-purpose FICO score." The difference is "substantial," Fair Isaac says.

The various scores carry the FICO brand name, but they're clearly not the same and produce significantly different results—according to their creators' own claims. Saying otherwise is like handing someone a Diet Coke and calling it Classic.

Protect yourself in the credit-score shell game

1 Demand to see the actual proprietary score used before you agree to a loan or an insurance policy. You have the most leverage to get the truth before the deal is sealed.

2 We see no point in buying any consumer credit scores, given that they're not the same ones used by lenders. But if you do, and a lender or insurer later tells you your real score is lower or higher, do what you'd do with any product that doesn't deliver: Demand a refund.

3 Always shop for credit at multiple lending sources to find the best rate. Even if lenders won't divulge their secret scores, getting rate quotes from several will reveal the best deal based on the numerous—and probably different—scoring systems used by prospective creditors.

4 Be sure to get your free annual credit report from each of the big three credit bureaus so you can look for and dispute errors. (Go to AnnualCreditReport.com.) We recommend that you stagger your requests and get one report from a different bureau every four months.

Helping Clients Improve Their Credit

Using the Credit Scoring Categories to Improve a Credit Score or Maintain a Good Credit Score

Source: www.myfico.com

Payment History Tips

Contributing 35% to your score calculation, this category has the greatest effect on improving your score, but past problems like missed or late payments are not easily fixed.

- **Pay your bills on time.**
  Delinquent payments, even if only a few days late, and collections can have a major negative impact on your FICO score.
- **If you have missed payments, get current and stay current.**
  The longer you pay your bills on time after being late, the more your FICO score should increase. Older credit problems count for less, so poor credit performance won't haunt you forever. The impact of past credit problems on your FICO score fades as time passes and as recent good payment patterns show up on your credit report. And good FICO scores weigh any credit problems against the positive information that says you're managing your credit well.
- **Be aware that paying off a collection account will not remove it from your credit report.**
  It will stay on your report for seven years.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**
  This won't rebuild your credit score immediately, but if you can begin to manage your credit and pay on time, your score should increase over time. And seeking assistance from a credit counseling service will not hurt your FICO score.

Amounts Owed Tips

This category contributes 30% to your score's calculation and can be easier to clean up than payment history, but that requires financial discipline and understanding the tips below.

- **Keep balances low on credit cards and other "revolving credit".**
  High outstanding debt can affect a credit score.
- **Pay off debt rather than moving it around.**
  The most effective way to improve your credit score in this area is by paying down your revolving (credit cards) debt. In fact, owing the same amount but having fewer open accounts may lower your score.

Keeping **80% or more** of your credit available is ideal.

If your available credit is **10% or less**, you are considered maxed out. Your credit score will suffer and you may be denied loans or credit.

- **Don't close unused credit cards as a short-term strategy to raise your score.**
  First of all, any late payments associated with old accounts won't disappear from your credit report if you close the account. Second, long established accounts show you have a longer history of managing credit, which is a good thing. Third, having available credit that you don't use does not lower your credit score. You may have

reasons other than your credit score to shut down old credit cards that you don’t use. But don’t just do it to get a better score.

- **Don't open a number of new credit cards that you don't need, just to increase your available credit.**
  This approach could backfire and actually lower your credit score.

<u>Length of Credit History Tips</u>

- **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**
  New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

<u>New Credit Tips</u>

- **Do your rate shopping for a given loan within a focused period of time.**
  FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- **Re-establish your credit history if you have had problems.**
  Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.
- **Note that it's OK to request and check your own credit report.**
  This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.

<u>Types of Credit Use Tips</u>

- **Apply for and open new credit accounts only as needed.**
  Don't open accounts just to have a better credit mix – it probably won't raise your credit score.
- **Have credit cards – but manage them responsibly.**
  In general, having credit cards and installment loans (and paying timely payments) will rebuild your credit score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.
- **Note that closing an account doesn't make it go away.**
  A closed account will still show up on your credit report, and may be considered by the score.

> **Inquiries** have a negative effect on credit scores because they represent an unknown potential new debt, therefore, unknown new risk. The effect is small and short-lived.

To summarize, "fixing" a credit score is more about fixing errors in your credit history (if they exist) and then following the guidelines above to maintain consistent, good credit history. Raising your score after a poor mark on your report or building credit for the first time will take patience and discipline.

Please note that:

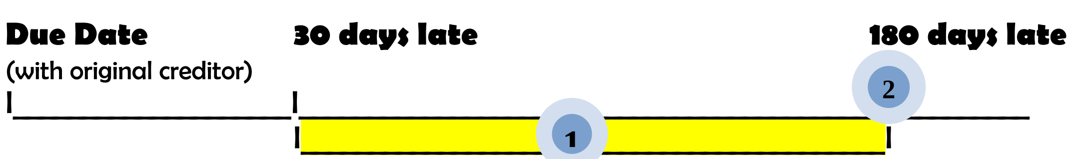
- A FICO score takes into consideration all these categories of information, not just one or two.
  No one piece of information or factor alone will determine your score.
- The importance of any factor depends on the overall information in your credit report.
  For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your FICO score. Thus, it's impossible to say exactly how important any single factor is in determining your score - even the levels of importance shown here are for the general population, and will be different for different credit profiles. What's important is the mix of information, which varies from person to person, and for any one person over time.
- Your FICO score only looks at information in your credit report.
  However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.
- Your score considers both positive and negative information in your credit report.
  Late payments will lower your score, but making payments on time will raise your score.

For more information about managing credit scores, go to http://www.myfico.com/CreditEducation/.

Disputing Errors to Improve Credit Scores

Studies show that more than 70% of all credit reports contain errors. The following are some of the most common errors that Financial Coaching clients have faced:

- **Collection accounts being reported as being submitted to collections more recently than they actually were.** This causes the credit scores to be lower than they should be because the negative collection account appears to be more recent. A client should dispute the date of collection with the credit bureaus.



1. Sometime between 30 and 180 days after the original due date, the original creditor submits the account to collections
2. 180 days after the original due date, the seven-year reporting period on the credit report starts

- **Duplicate accounts.** Sometimes the same account is reported more than once by one credit bureau by mistake. It can be the error of the creditor or the credit bureau. Duplicate accounts often look almost identical, with just one or two small differences. Keep in mind that an account is only a duplicate if it is reported more than once *by the same credit bureau.* A client should dispute duplicate accounts with the credit bureaus.

    - For an account in collections, the original creditor and the collection agency can both report the same account. The original creditor must report a zero balance and note that it was transferred to another lender.

- **Mistaken identity with someone with a similar name.** This mostly happens among relatives, such as fathers and sons with the same name. However, it happens with others as well. A client should verify that all identifying information at the credit bureau is correct, including social security number and date of birth, then dispute incorrect information with the credit bureaus.

How to Dispute Errors on credit reports

Clients can write a letter or go online to dispute inaccuracies on their credit reports. The disputes should be directed to the three credit bureaus: Equifax (EFX), Experian (XPN) and Trans Union (TUC).

- A template of the dispute letter is included in this training manual and on the volunteer resource web page. It should be sent to the addresses of the credit bureaus listed in the credit report.
    - This option is ideal when there is documentation that needs to be included as part of the dispute, such as a letter or bill.

- A client can visit www.credco.com/disputes and submit a dispute through Core Logic Credco, the company that provides our credit reports.
    - The client will be notified if further documentation must later be provided by mail.

If an error is in the client's favor, he or she can decide whether they want to dispute it or not. For example, if an account that is older than seven years, and it is still on the credit report, the client may choose to dispute it. However, if it is one of only a few with a positive payment history, the client may decide not to dispute it at the time.

Products Available for Establishing or Improving Credit

Secured credit cards

Secured credit cards require a cash collateral deposit that becomes the credit line for that account. For example if a client puts $500 in the account, he or she can charge up to $500 on the credit card. Secured cards are sometimes the only option for people who are just starting out or rebuilding credit. Many credit unions and banks offer secured credit cards.

Like any other service, there are good and bad secured credit cards. The good treat their customers fairly. The bad take advantage of clients because of their situations. Some even put excessively burdensome stipulations on their clients like requiring them to sign up for an insurance policy and charge the monthly premium on the credit card. It is essential to read the fine print.

The best strategy for all credit cards is to spend a small amount on the card each month, and pay it off every month. Secured credit cards should be used as a stepping stone, not a permanent solution for credit issues. If a client has enough discipline to use a secured card responsibly, he or she has enough discipline to use an unsecured card. Many credit card companies will start sending pre-approved credit card offers after a client has been responsible for a secured card for a while.

Questions that clients should ask when considering a secured credit card:

What kind of charges will there be? Every secured card charges an annual fee, and they vary dramatically. Read the fine print. Some people have gotten secured credit cards and found their entire limit consumed with fees before they ever use the card. Some cards also charge an application fee. It will pay to shop around.

How much money does a client have to deposit? The amount will vary by card. Most are $300-$500.

Does the credit card company report to all three credit bureaus? The reason for having a secured card is to build a good credit history. If the issuer doesn't report monthly payments, the client is not building any more credit. The client should also ask if the issuer will flag the account as a secured card on the credit report. A credit card that is reported as secured is less advantageous than one that is simply listed as a credit card.

Are there any purchase requirements? The purpose of a secured credit card is defeated if a client has to purchase something they would not otherwise purchase on a monthly basis.

Where to find a Secured Credit Card

Bankrate.com is a great place to compare secured credit cards.

The client's current bank or credit union is also a good place to start the search for a secured credit card. It's a good way to keep their financial lives as simple as possible.

Savings and CD Secured Loans

Some banks and credit unions will offer a Savings/CD secured loan. This means that the client must secure the loan with a savings account or CD held at that bank or credit union. The amount borrowed cannot exceed the amount in the savings account or CD and there are normally restrictions on withdrawing from the savings account or cashing the CD during the loan term. Secured loans generally come with fewer fees and lower interest than secured credit cards. Secured loans generally have less strict credit requirements than unsecured personal loans.

Credit Builder Loan

Credit Builder LOAN

For assistance establishing credit or an opportunity to improve your existing credit, consider a Credit Builder Loan.

The money borrowed is secured in your Savings account for the term of the loan and dividends are paid on the money while you are establishing credit. Once successfully paid in full the money becomes available in your account. Maintaining scheduled payments for a minimum of six months will allow the payment history to be reflected on your credit report.

Higher credit scores combined with products and services from Randolph-Brooks Federal Credit Union can lead to lower rates and personal savings for you and your family.

Where to find a Credit Builder Loan

www.rbfcu.org is Randolph Brooks Federal Credit Union's web site. It has a screening tool to see if someone is eligible for Credit Union membership.

Client Form

Credit Action Plan

Goals for my credit:			
Creditor/Account	**Amount Owed**	**Action to be Taken**	**Priority**

Client Form

[Date]

Credit Reporting Agency Name
Address
City, State, Zip

RE: CORRECTIONS TO CREDIT REPORT

To Whom It May Concern:

I received a copy of my credit report and am disputing some items that need to be corrected. I have highlighted and numbered these disputed items on the attached copy. The reasons why these items should be corrected are indicated below:

Item #	Reason for Correction
{example:	
7. Chevron USA (EFX, XPN, TUC)	*This account is not mine.* *OR* *This account is paid in full.* *OR* *The payment status is incorrect. I did not make a late payment.* *OR* *This account is a duplicate of account #8.}*

These items should be noted on my credit record as "in dispute" until they are resolved. I am also requesting the names, addresses and telephone numbers of individuals you contacted so that I may follow up.

If it is determined through your investigation that the disputed items are inaccurate, please correct my file and send me notification that the information has been updated or deleted. I am requesting an updated copy of my credit report, which should be sent to the address listed below.

Thank you.

Sincerely,

Bruce Smith
Address
City, State, Zip
Social Security #
Date of Birth

Helping Clients Reduce Debt

PowerPay is a great place to start when helping clients deal with their debt. There are, however, some other things you can suggest for people in certain situations:

Credit card debt

Due to the overall economic environment, credit card companies have increased interest rates, reduced available credit lines and closed accounts for many of their existing customers. Even clients that have made all their payments on time in the past have experienced these things.

The best thing to do with credit cards at this time is to stop using them and pay them down in preparation for the possibility that the credit card company will decide to take one of these actions.

> *Negotiating with credit card companies should only be done if the client's credit scores and/or income have not decreased since the account was opened. The credit card company will review this information and use it to increase interest rates and reduce credit limits if possible.*

Student Loans

Figuring out what the options are for repaying student loans can be very difficult. Two tools that we recommend are:

- **National Student Loan Data System** (www.nslds.ed.gov/nslds_SA/). All student loan information is listed on this site. The FAFSA Pin number is needed to access this information. If a client does not have a Pin, the site includes directions for creating one.
- **Consumer Financial Protection Bureau's "Repay Student Debt"** (http://www.consumerfinance.gov/paying-for-college/repay-student-debt) is a great tool that guides the client through a series of questions to help him or her learn about the options available in his or her specific situation.

Medical Bills

Many clients have unpaid medical bills and medical collections. To help clients with medical collections, see the Collection Accounts sections below and in the Financial Coaching training manual. To help clients address unpaid medical bills (that have not gone to collections), encourage the client to:

- Pursue a private insurance claim, if they had it at the time of service
- Apply to public benefit programs, some will pay medical bills incurred before coverage starts
- Access Charity Care and Financial Assistance Programs
- Negotiating Payment Restructuring

For more detailed training on addressing medical bills, you are encouraged to create an account on the Asset Platform (www.assetplatform.org), a free resource for Financial Coaches. The Debt tab contains many useful training modules and information.

Collection Accounts

Collection accounts take special consideration. Refer to the debt section of your Financial Coach training manual and be sure that clients read through the entire "Tips for dealing with accounts in collections" form if they have accounts in collections.

Two timelines to consider with collections:

How long can a collection account be reported on a credit report?	How long does a collection company have to sue the debtor for the amount he or she owes?
7 years	4 years
When does the clock start	
180 days after default with the original creditor	The day the last payment on the account was made
What can reset the clock?	
Nothing. A collection account cannot be reported for more than seven years.	Making a payment that puts the account back in current status can re-start the 4 year time frame.
What law is used to determine this?	
The Fair Credit Reporting Act	The Texas statute of limitations on debts
If the debtor and the collector are in two different states, what state's rules apply?	
The Fair Credit Reporting Act is a Federal law that applies in every state.	The Fair Debt Collection Practices Act (Federal law) says that a collection company must file an action in the consumer's closest state court. The court decides which state's laws apply. A judge is likely to choose the familiar laws of the consumer's state, but the collection company may argue to use its home state's laws.

Resources for Clients

Considering a Debt Management Program

Debt management services can be an option for people with overwhelming credit card debt. If a client is interested in a Debt Management Program, or has questions about it, they should contact **Consumer Credit Counseling Services**, or **Cornerstone Financial Education**.

Considering Bankruptcy

The Financial Coaching program does not provide advice on bankruptcy. If a client wants to know whether they should file for bankruptcy, a Credit Counselor should give them suggestions for getting out of debt without going through bankruptcy. If the client still has questions, or feels like they want to file for bankruptcy, they should contact **Consumer Credit Counseling Services**, or **Cornerstone Financial Education**.

Facing Foreclosure

A client who is facing foreclosure can do some work with a Financial Coach to reduce expenses and get caught up. However, the sooner a client can seek help from a housing counseling organization, the more options they will have. If a client is facing foreclosure, they should contact **Cornerstone Financial Education** or **Frameworks CDC**.

Consumer Credit Counseling Service
www.cccs.net
Building: One La Costa
1016 La Posada Dr, Suite 290
Austin, TX 78752
(512) 447-0711

Cornerstone Financial Education
www.csfedu.org
3011 N Lamar Blvd
Austin, TX 78705
(512) 263-0532

Frameworks Community Development Corporation
frameworkscdc.org
701 Tillery St
Austin, TX 78702
(512) 385-1500

Identity Theft

The Federal Trade Commission has extensive tools and resources about identity theft. Anyone experiencing identity theft should use the FTC web site as a resource:
http://www.consumer.ftc.gov/features/feature-0014-identity-theft

Resources for Credit Counselors

Credit Report Format

We strongly encourage credit counselors to view Credco's tutorial "Format" at www.credco.com/training/tutorials.aspx.

Periodically, Credco also hosts webinars, which can be found at www.credco.com/training/webinars.aspx. Some of the webinars to look out for are:

- Credco Instant Merge Report Format
- Basics of FICO Scoring

Credit Scoring

Learn more about how credit scores are calculated and how to manage credit at www.myfico.com.

You can also use the brochures and handouts in the Financial Coaching office for further guidance.

General credit and debt

The Asset Platform is available to all Financial Coaches. Access information, tools, resources, materials and training modules on a variety of financial topics any time with this great site. www.assetplatform.org

Client Form

Credit Report Authorization

Foundation Communities (FC) purchases credit reports from CoreLogic CREDCO. FC will cover the cost of my credit reports which will contain information and scores from the three major credit reporting bureaus: TransUnion, Equifax, and Experian.

- **Purpose:** I understand that FC intends to use the consumer credit report for the purpose of evaluating my credit during a one-on-one session between myself and the credit counselor.
- **Privacy:** I understand that my personal information will not be shared with any outside parties.
- **Effect on Credit Scores:** I understand that authorizing FC to access my credit report through CoreLogic CREDCO may negatively affect my credit scores.
- **Alternative:** I understand that the alternative to pulling my report through CoreLogic CREDCO is to access my report through www.annualcreditreport.com. The report accessed through this site will not affect my credit score. If I chose this alternative, I will be responsible for covering the cost associated with obtaining scores from www.annualcreditreport.com
- **Follow-up:** I understand that I may choose to authorize FC to pull a follow-up credit report through CoreLogic CREDCO six months after the date of this authorization, and that this may negatively affect my credit score at that time. I can request a copy of the follow-up credit report free of charge.

By signing below, I authorize Foundation Communities to obtain a consumer credit report through CoreLogic CREDCO.

____________________	__________	______________________
Participant Social Security #	Date	Participant Signature
____________________	__________	______________________
Co-participant Social Security #	Date	Co-participant Signature

____

Address

☐ I authorize Foundation Communities to pull a follow-up credit report six months after the date of this authorization.

☐ I DO NOT authorize Foundation Communities to pull a follow-up credit report six months after the date of this authorization.

Staff Use

Credit Counselor:____________________ Client:______________________

☐ Photo ID ☐ FC credit report has not been pulled in last six months

Client Form

EQUIFAX experian TransUnion

Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies - Equifax, Experian and TransUnion.

For instant access to your free credit report, visit www.annualcreditreport.com.

For more information on obtaining your free credit report, visit www.annualcreditreport.com or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. **Omission of any information may delay your request.**

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:
Annual Credit Report Request Service P.O. Box 105281 Atlanta, GA 30348-5281.

Please use a Black or Blue Pen and write your responses in PRINTED CAPITAL LETTERS without touching the sides of the boxes like the examples listed below:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 0 1 2 3 4 5 6 7 8 9

Social Security Number: ___ - __ - ____

Date of Birth: __ / __ / ____
Month Day Year

Fold Here Fold Here

First Name M.I.

Last Name JR, SR, III, etc.

Current Mailing Address:

House Number Street Name

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Previous Mailing Address (complete only if at current mailing address for less than two years):

House Number Street Name

Fold Here Fold Here

Apartment Number / Private Mailbox For Puerto Rico Only: Print Urbanization Name

City State ZipCode

Shade Circle Like This → ●

Not Like This →

I want a credit report from (shade each that you would like to receive):
- ○ Equifax
- ○ Experian
- ○ TransUnion

○ Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.

31238

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

Your request will be processed within 15 days of receipt and then mailed to you.

Credit Counselor Quiz

You will receive an email with the link to this quiz online. Completion of the quiz is required for the credit counselor qualification.

Using the credit report dated 04/19/2007 answer the following questions:

1. What are the applicants' total monthly debt payments? (Assume they are paying the minimum)
2. Find "All Other Accounts" on page one of the report, under "Instant Merge Credit Summary". What account types are included under this category?
3. What is applicant 2's credit score as reported by Experian?
4. How many accounts that are jointly held by applicant 1 and applicant 2 are on the report?
5. What month(s) was applicant 1 late on his/her Capital One Bank credit card?
6. When did applicant 1 open his/her GEMB/SAMS CLUB credit card?
7. When did applicant 1 close his/her account listed under item #8?
8. What was the amount of the auto loan obtained by applicant 2 in May of 2001?
9. Items number 14 and 15 are both loans originated by CONNS Credit. Is this a duplicate? Why or why not?
10. How much available credit do they have? Is this good or not-so-good?
11. According to the Instant Merge Credit Summary, what was the date of "last delinquency"? What kind of account was it (real estate, installment, revolving or other)?
12. How many months was applicant 1's GEMB/JCP account reported?
13. What was the highest balance on applicant 1's WFNNB/LANE BRYANT credit card?
14. What date did CONNCREDIT look at applicant 2's credit report?

15. App 1 and App 2 are a young couple. They want to buy a home one day and want to improve their credit enough to qualify for a home mortgage. What can they do to improve their scores?

16. On their first page of the report, the clients read "SERIOUS DELINQUENCY" and proceed to freak out. They are concerned because they pay their bills on time. Which accounts are causing this message to appear?