

Credit: American Dream or Nightmare?



Credit is a privilege that can make dreams come true. It also can be a nightmare if it is not used wisely. Without credit, most people never could achieve the American dream of owning their own home.

In American society today, you can hardly function without a credit card to make travel reservations or to rent a movie. Your credit history also can affect your ability to rent a place to live, to get a job, or to buy a car and insurance. Yes, what you do with credit today can keep coming back to haunt you, or it can help you for a long time.

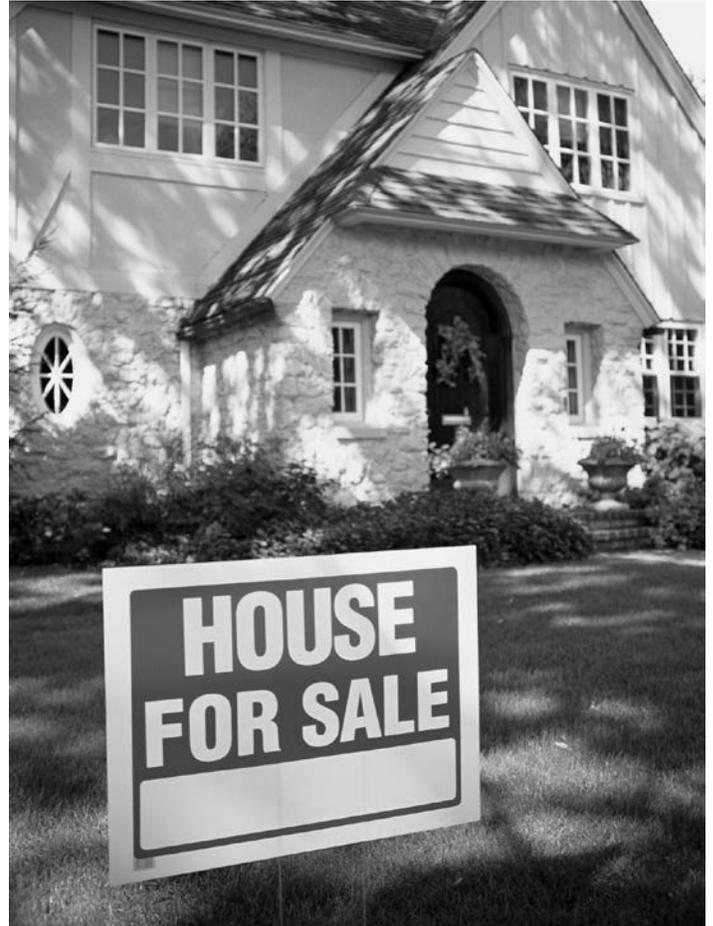
Take the time now to learn how to make credit work for you, and make your American dream come true.

Follow this guide to learn about

- **Credit history** — How your credit past can affect your financial future.
- **Credit reports** — How to find and read your credit report.
- **Credit scores** — How you rate when it comes to credit scoring and qualifying for credit.
- **Credit costs** — How to comparison-shop for credit and decide when to use credit.

Credit History: Do You Have One?

A credit history is a record of a person's credit accounts and payment habits. If you never have used credit, you may have no credit report. In addition, the Credit CARD Act of 2009 requires that young adults under age 21 who want to open a credit card account need to show that they can afford to make payments based on income unless they have a cosigner who is 21 or older.



Make History!

To establish or re-establish credit:

- Apply for an account with a local or hometown store or lender.
- Borrow against your savings account at a local bank.
- Take advantage of special offers for student or employee credit cards.
- Find someone who will cosign with you for a loan.
- Maintain steady employment at one job or occupation for 2 years.



Credit Reports: What's Hidden in Yours?

Equifax, Experian, and TransUnion credit bureaus are in the business of collecting and selling information. They sell credit-reporting services to creditors and, in turn, collect payment history data from their customers.

Credit reports contain four main types of information:

- **Personal identification information** — Name, social security number, present address and employer, former address and employer, number of dependents, and spouse.
- **Payment records** — Credit accounts, limits, payment terms, account balances, and past due status.
- **Public records** — Judgments filed against you in court, bankruptcies, foreclosures, and repossessions.
- **Inquiries** — A list of creditors who have requested your credit history recently.

Creditors look for stability and ability to repay in your credit history and application. Although information stays in your record for 7 years, your recent past—the last 2 years—is most important to lenders.

The Fair Credit Reporting Act gives you the right to learn what is in your credit report free if you have been denied credit in the last 60 days. Any error you find must be investigated and corrected at no charge to you.

As of June 2005, every consumer can get one free report from each credit bureau each year. There are three ways to get your free credit reports:

- 1) Follow the instructions at www.annualcreditreport.com.
- 2) Call (877) 322-8228.
- 3) Mail a request form to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Credit Scores: It All Adds Up!

Credit scores help lenders predict who will repay loans in full and on time to reduce their risk of losing money. Keep in mind that the more risk to the lender, the more the credit may cost you.

Credit scores usually range between 350 and 850. People who have high credit scores usually qualify for loans with the best terms and lowest interest rates. If your score is below 680, you may wind up paying more in loan costs.

Information that figures into your statistical credit score includes the following:

- **Payment history** — Delinquent payments hurt your score.
- **Amounts owed** — Charging up to your credit limit can lower your score, too.
- **Length of credit history** — Lenders look for good old accounts.
- **New credit** — Applying for credit too often can lower your score.
- **Types of credit** — Do you have a good mix? Lenders like to see that you can handle a variety of types of credit. For example, a mortgage, a store or gas card, and a bank card account.

Sample Credit Report

John P. Consumer
3505 Lone Pine
Starkville, MS 39759

Social Security Number: 022-22-2222
Renting Since: 6/5/2008

Date of Birth: 1/11/1976
Spouse: Jane
Dependents: 2

Former Address: 133 Third Avenue, Baton Rouge, LA 70802 1/3/1996 to 6/5/2008

Current Employment: City Café Restaurant, Starkville, MS Since: 6/2008
Former Employment: Good Eats Cafeteria, Baton Rouge, LA Dates 6/1994-6/2008

BUSINESS & ACCT #	REPORT DATE	DATE OPEN	PAYMT DATE	CREDIT LIMIT	PRESENT BALANCE	TERMS PAY/MO	PAST DUE	HISTORY 30	60	90
BANKCARD CO. 1234567	8/10	5/00	8/10	\$1,000	0	\$10	0	0	0	0
GOLD JEWELRY, INC. 111223	7/10	8/99	7/10	\$800	\$75	\$25	0	1	1	0
AUTO FINANCE CO. 9087	8/10	2/09	8/10	\$9000	\$6000	\$250	0	2	0	0
CITY HOSPITAL 87654	1/08	Assigned to Capital Collection Agency								

PUBLIC RECORD:
Bankruptcy Chapter 13 Discharged 02/2008

INQUIRIES:
Ford Credit Co. 1/10 MSU Visa 12/09
GM Credit 1/10 LSU MasterCard 12/09
Chrysler Co. 1/10 USM Discover 12/09

INCOME INFORMATION COLLECTED FROM CREDIT APPLICATION:
Application income \$1,000 / month Spouse income \$700 / month

Note income information you would collect from the credit application your customer completed at your store.

You Are the Lender Activity

Answer the questions below using the sample credit report as you would if you were the owner of a small store being asked to approve a \$500 credit account to buy an inexpensive washer and dryer set.

- Consumer's name?
- Stable address?
- Stable job?
- Past due accounts?
- Bank card balance?
- Bank card limit?
- Balance due on car?
- Monthly car payment?
- Times one month late on car payment?
- Times two months late at jewelry store?
- What is one good reason why the hospital bill might have been turned over to a collection agency?
- Are there any other public records or derogatory information that would look bad to you if this customer applied for a credit account at your store?
- How many inquiries are listed in a 90-day period? For what other types of credit has this consumer applied?
- Add up all monthly payments and use the following formula to calculate this consumer's debt-to-income ratio:

Total monthly payments	\$ _____
divided by total family income	/ \$ _____
equals debt-to-income ratio	= _____%
- Would you approve a \$500 credit account for this customer to buy an inexpensive washer and dryer set at your store to be paid in 12 monthly payments of \$50 each? Explain why or why not.
- What is the debt-to-income ratio when the new credit account is added? (Keep in mind that a 20% debt-to-income ratio is usually the maximum debt most families can afford.)

1. John P. Consumer 2. Yes 3. Yes 4. None 5. 0 6. \$1,000 7. \$6,000 8. \$250 9. 2 10. 1 11. insurance 12. bankruptcy 13. 6 car/cards 14. \$25+\$250=\$275/\$1,700 = .16 or 16% 15. Answers will vary. 19% with the new account added.

Credit Costs: Choose and Use Credit Wisely

Always read and understand all contracts completely before signing credit applications. The Credit CARD Act of 2009 requires that credit card companies print specific information on the billing statement that includes the time and total interest it would take to pay off the current card balance if you make only the minimum payment. The bill must also disclose the monthly payment required to pay off the card balance in 3 years. This statement is designed to show cardholders how they can get out of debt more quickly by paying more than the minimum. The disclosure also must include a toll-free number for credit counseling and debt management services.

Compare Credit Costs

Consider these costs when comparing credit offers:

- Total finance charges (dollar amount)
- Annual percentage rates (APR)
- Annual fees (\$0 to \$75 or more each year)
- Security deposits (savings for collateral)
- Cash advance fees
- Early pay-off penalties
- Late fees
- Add-on insurance, protection, or other services and penalties

To view an online video companion to this publication, visit <http://extension.msstate.edu/family/family-financial-management/credit>.

Choose from Several Types of Credit

- Revolving
- Bank cards, like Visa or MasterCard
- Store cards
- Charge cards
- Oil company cards
- Entertainment cards
- Credit union loans
- Bank loans
- Mortgages
- Finance company loans
- Installment loans

Use Credit Wisely

Ask yourself these questions before you apply for credit or make a purchase with credit:

- Will more payments fit into my current budget?
- Will this item last longer than the payments?
- Will I want this item as much when I am making payments as I do right now?
- Will this item increase my income, save time, or improve my health?
- How much will using credit add to the cost?
- If I lost my income, how would I make the payments?
- Am I using credit for convenience with a plan to pay the balance later, or am I using credit because I do not have enough money for the item?

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