Project Pro$per

Presents

Credit Reports and Credit Scores

Participant Guide

www.projectprosper.org

www.facebook.com/projectprosper

Based on Wells Fargo’s Hands on Banking ®

The Hands on Banking® program is a free public service provided by Wells Fargo. You may also access the program anytime at www.handsonbanking.org & www.elfuturoentusmanos.org
## Contents

What is Credit? ................................................................................................................................. 1

The Basics ........................................................................................................................................ 1

The Benefits—and Risk—of Credit ..................................................................................................... 1-2

The Five Cs of Credit .......................................................................................................................... 3

How to Establish a Good Credit History .......................................................................................... 3

Your Credit History and Credit Score ............................................................................................... 4

Your Credit Report ............................................................................................................................... 4

How to Obtain Your Credit Report ..................................................................................................... 5

An example of a good credit account ................................................................................................ 6

Your Credit Score ................................................................................................................................. 9

Improve Your Credit Score ................................................................................................................ 10

What is Bankruptcy ............................................................................................................................ 10

Credit Repair Resources .................................................................................................................... 11

Glossary ............................................................................................................................................... 12

Post Test ........................................................................................................................................... 15

---

For more information about our small No-interest loan program for immigrants and refugees you can reach us at:

www.projectprosper.org
727-538-4179
facebook.com/projectprosper
Join Our Facebook Group- Project Prosper: Money Talks
I. WHAT IS CREDIT?

1. The Basics
   A. Credit is the ability to borrow money.
   B. Earning the trust and confidence of banks and other businesses to lend you money is called establishing credit. By showing them you’re trustworthy, you strengthen your ability to borrow again the next time. This is called having a good credit record or a good credit rating.
   C. The money you owe is called DEBT.
   D. When you borrow money, you must make monthly payments on the loan or credit card. Also, you usually have to pay additional costs like INTEREST and fees.
   E. Failure to make payments will turn your loan or credit account to DEFAULT status.

2. Good Credit vs. Bad Credit
   • Good credit is earned when you make full payments (or at least the minimum payment) on time until the debt has been repaid.
   • Bad Credit is earned when you forget to make payments on time, and don’t pay at least the minimum amount due.
   • It’s important to use credit responsibly and avoid having too much debt.

   ✓ Good Credit Signs
     a. Paying at least the minimum required payment
     b. Paying on time
     c. Never missing a payment
     d. Staying within your credit limit

   ✓ Results of Good Credit:
     a. Easier to borrow money
     b. No additional penalty fees
     c. More money you’ll keep in your pocket

   ✓ Bad Credit Signs
     a. Paying too little
     b. Paying too late
     c. Missing payments
     d. Going over your credit limit
     e. Having too much debt

   ✓ Results of Bad Credit
     a. Difficult to borrow money
     b. You lose money on late fees
     c. More money spent on finance charges

3. The Benefits—and Risk—of Credit

   A. Credit Benefits
     1. Having the ability to buy something today and pay the money back over time, can help you be more financially flexible.
     2. Easier to rent an apartment and to get service from local utility companies
     3. Using credit wisely can help you to reach your financial goals.
B. Credit Risks

4. Overdoing it; borrowing more than you can afford to repay.
   - Borrowing too much money and being unable to pay it back is a serious
     problem in the United States.

5. If you don’t make your payments on time, you’ll damage your credit record.

6. Losing money on late fees, and having to pay
   additional interest.

7. Poor credit history can cause difficulty getting
   loans or credit in the future.

4. Credit Purpose Activity
Which of these life examples will your credit history effect? Put an X by the correct answers.

<table>
<thead>
<tr>
<th>Turning on the utilities in your home</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing a Home/Mortgage</td>
<td></td>
</tr>
<tr>
<td>Obtaining a Credit Card</td>
<td></td>
</tr>
<tr>
<td>Renting a house or an apartment</td>
<td></td>
</tr>
<tr>
<td>Your savings account interest rate</td>
<td></td>
</tr>
<tr>
<td>Buying a cell phone/plan</td>
<td></td>
</tr>
<tr>
<td>Your car insurance premium</td>
<td></td>
</tr>
</tbody>
</table>
II. THE “FIVE CS” OF CREDIT

1. Here’s what creditors consider when deciding to make a loan:

   A. Character
   1) When lenders evaluate character they look at stability of a person. For example, how long you’ve lived at your current address, how long you’ve been in your current job, and whether you pay your bills on time and in full.
   2) If you want a loan for your business, the lender may consider your experience and track record in your business and industry.

   B. Capacity
   1) Creditors evaluate your DEBT-TO-INCOME RATIO, that is, how much you owe other creditors and monthly expenses compared to how much you earn.
   2) The lower your ratio, the more confident creditors will be in your ability to repay the money you borrow.

   C. Capital
   1) This refers to your NET WORTH – the value of your assets minus your liabilities. In simple terms, how much you own (for example, car, real estate, cash, and investments) minus how much you owe.

   D. Collateral
   1) This term refers to any asset of a borrower (for example, a home) that a lender has a right to take ownership of and/or use to pay the debt if the borrower defaults on the loan.
   2) Some lenders may require that another person signs a document promising to repay the loan if you can’t (i.e. co-signor)

   E. Conditions
   1. Lenders might consider a number of outside circumstances that may affect the borrower’s financial situation and ability to repay, for example what’s happening in the local economy.
   2. If the borrower is a business, the lender may evaluate the financial health of the borrower’s industry, their local market, and competition.

   Good credit management over time is key to building your credit and determining whether you can obtain credit for large future purchases, such as a car, a home, or college education.

2. How to Establish a Good Credit History

   A. Open a savings account or checking account and manage it well.
   B. Get a secured credit card by opening a savings account with a balance equal to the card’s limit.
   C. Never spend more than you have in the account. This reflects on your ability to repay loans.
   D. Get one gasoline or department store credit cards and pay your bill on time, every month.
E. Take out a small loan for an appliance or a computer, and repay it monthly – in full and on time.
F. Put your apartment and utilities in your own name and always pay your bills on time.
G. Don’t use cash advances from one credit card to pay off balances due on others

III. YOUR CREDIT HISTORY AND CREDIT SCORE

1. The Basics
   A. Lenders always want to know the credit history of people who ask them for credit cards and loans. To find out, they turn to credit bureaus.
   B. The three largest credit bureaus in the United States are:
      o Equifax
      o Experian
      o TransUnion
   C. Credit bureaus keep track of everybody’s credit history information – things like how many credit cards you have and how much you owe; whether you pay your bills on time; where you work and how long you’ve worked there.

IV. YOUR CREDIT REPORT

1. The Basics
   a. Your credit report is the complete written version of your credit history.
   b. You can review your own credit report and you give others permission to look at it when you apply for a loan or fill out a credit card application.
   c. Employers can also check your credit report.
   d. Review your credit report at least once a year to check for errors or fraud.
   e. If you need assistance, consider contacting a credit counselor – an experienced credit professional.
2. **How to Obtain Your Credit Report**
   
   a. **Where can I get my credit report?**
      
      1) To get a **free** report online, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) and follow the directions. This is the web site that provides your free annual report. It is run jointly by Equifax, Experian, and TransUnion.

   b. **How often can I receive a copy of my credit report?**
      
      1) A federal law called the Fair Credit Reporting Act allows you to receive one free copy of your credit report from each of these three companies once a year.

   c. **What should I look for when I receive my credit report?**
      
      1) When you receive your report, check for mistakes in your name, social security number, former addresses, accounts you didn't open, and errors in your history.

   d. **What about all these Web sites advertising free credit reports?**
      
      1) Be wary of the many Web sites that advertise free credit reports! Many people get tricked into paying for reports and services they don't really need.

   e. **What information will I need to provide to receive the credit report?**
      
      1) You will need to provide all of the following:
         
         - Full Name
         - Social Security Number
         - Birth Date
         - Current Address
         - Previous Address (You will only need to provide this if you have lived at your current address for less than 2 years.

      2) You may have to answer some additional security questions. Make sure you read each question carefully and answer each question truthfully. If you fail to answer the questions correctly, you may be required to request your report via the mail.
3. How to Read Your Credit Report

<table>
<thead>
<tr>
<th>Personal Identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is all the information that uniquely identifies you from another person who may have the same name.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Records</th>
</tr>
</thead>
<tbody>
<tr>
<td>These listings show any legal information that may affect your credit ranking.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any collection agencies assigned to recover outstanding debts will be listed here.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment loan accounts will be listed here, such as school loans, auto loans and mortgages. Revolving credit amounts will also be listed. These may include credit cards, store cards and gas cards. This gives credit issuers information on payment history.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requested Credit Files</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is a list of any companies who have requested information on your credit history. On this example Equifax may have requested information in response to a credit application.</td>
</tr>
</tbody>
</table>

![Credit Report Image]

**Your Credit Report**

**PERSONAL IDENTIFICATION INFORMATION**
- Your Name: [Name]
- Address: [Address]
- City, State: [City, State]
- SSN #: [SSN]
- Date of Birth: [Date]
- Telephone Number: [Number]

**EMPLOYMENT DATE REPORTED**
- Employer Name: [Name]
- Date Reported: [Date]
- Position: [Position]
- Hired: [Date]

**PUBLIC RECORD INFORMATION**
- Lien Filed: [Date]; Fulton CTY; Case or Other ID Number-32114, Amount-$26,667
- Class-State; Released [Date]; Verified [Date]
- Bankruptcy Filed: [Date]; Northern District CT; Case or Other ID Number-673HC12; Liabilities-$15,787; Personal; Individual; Discharged; Assets-$780
- Satisfied Judgment Filed: [Date]; Fulton CTY; Case or Other ID Number-88887; Defendant-Consumer; Amount-$8,984; Plaintiff-ABC Real Estate; Satisfied [Date]; Verified [Date]

**COLLECTION AGENCY ACCOUNT INFORMATION**
- Pro Coll (800)XXX-XXXX
  - Collection Reported: [Date]; Assigned [Date] to Pro Coll (800)XXX-XXXX Client-ABC Hospital; Amount-$978; Unpaid; Balance $978; Date of Last Activity [Date]; Individual Account; Account Number [Number]

**CREDIT ACCOUNT INFORMATION**
- [Company Name]: [Number]
  - Account Number: [Number]
  - Name: [Name]
  - Date Opened: [Date]
  - Months with Payment: [Number]
  - Days of Last Activity: [Number]
  - Amount Due: [Amount]
  - Balance: [Balance]

**Previous Payment History:** 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late

**Previous Status:** 01/08 - (2); 02/08 - (1); 03/08 - (4)

**COMPANIES THAT REQUESTED YOUR CREDIT FILE**
- [Company Name]: [Date]
- [Company Name]: [Date]
- [Company Name]: [Date]
4. An example of a good credit account

![Credit Account Example](image)

**Important terminology**

1. **Name of Account** - This is the name and address of the credit account.
2. **Loan or Account Type** - Refers to the type of credit that is being reported.
3. **Pay Status of Account** - It states whether the account is currently open, and provides a comment on the account's payment history.
4. **Balance** - States how much debt remains that you need to repay.

If you find an error on your credit report, contact the credit bureau immediately!
5. Credit Report Activity

### Account History Information

<table>
<thead>
<tr>
<th>Creditor Name</th>
<th>Experian</th>
<th>TransUnion</th>
<th>Equifax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Number:</td>
<td>7462****</td>
<td>0.7462****</td>
<td>7462****</td>
</tr>
<tr>
<td>Type:</td>
<td>Real Estate Mortgage</td>
<td>Real Estate</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Condition:</td>
<td>Open</td>
<td>Open</td>
<td>Open</td>
</tr>
<tr>
<td>Responsibility:</td>
<td>Individual</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td>Pay Status:</td>
<td>60 Days Late</td>
<td>Charge Off</td>
<td>30 Days Late</td>
</tr>
<tr>
<td>Date Opened:</td>
<td>02/2004</td>
<td>02/2004</td>
<td>02/01/2004</td>
</tr>
<tr>
<td>Date Reported:</td>
<td>02/2005</td>
<td>02/2005</td>
<td>02/2005</td>
</tr>
<tr>
<td>Balance and Limit:</td>
<td>Balance of $105,400</td>
<td>Balance of $105,400</td>
<td>$105,400</td>
</tr>
<tr>
<td>Payment and Terms:</td>
<td>$1250 for 360 months</td>
<td>$1250 for 360 months</td>
<td>$1250</td>
</tr>
<tr>
<td>High Balance:</td>
<td>$108,000</td>
<td>$108,500</td>
<td>$108,500</td>
</tr>
<tr>
<td>Past Due:</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

### Two Year Payment History:

<table>
<thead>
<tr>
<th>Experian</th>
<th>TransUnion</th>
<th>Equifax</th>
</tr>
</thead>
</table>

### Seven Year Payment History:

<table>
<thead>
<tr>
<th>Experian</th>
<th>TransUnion</th>
<th>Equifax</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Days Late:</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>60 Days Late:</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>90 Days Late:</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

1. What type of account is being reported?
   - _____ Credit Card  _____ Mortgage  _____ Car Loan

2. Does this person pay on time? _____ Yes  _____ No

3. What is the monthly payment amount?

4. Do all three credit bureaus report the same thing? _____ Yes  _____ No
   4a. What are the differences?

5. What can this person do to report the inaccuracies?
   - _____ Nothing  _____ File a Dispute  _____ Call the Creditor
V. CREDIT SCORE

A. Credit Score is a __________ digit number that indicates how reliable you are at paying back your debts.
B. A computer program analyzes your entire credit history and generates a single number or score, usually ranging from ______ to ______.
C. This score helps lenders decide if you’re a good credit risk or not. The _______ the score, the _______ the risk, and the _______ the interest rate lenders are likely to offer you – which could mean more money in your pocket!
D. Most First Time Home Buyer programs require a credit score of _______ and above.

1. Credit Score Impact
   A. You Credit Score can impact:
      1) Your ability to get a credit card
      2) Your ability to purchase a home
      3) Whether a landlord will rent you an apartment
      4) The interest rate lenders are likely to offer you
      5) The amount of your insurance premiums
      6) Your ability to borrow money
      7) Whether you can get service from utility companies

   B. Your Credit Score will not impact:
      1) The interest rate on your savings account
      2) Whether you’ll be charged a fee if you pay your bills late
      3) Whether you’re allowed to participate in a company retirement plan
2. **Improve Your Credit Score**

   C. **Actions that improve your credit score:**
      1) Consistently pay your bills on time
      2) Keep credit cards balances that are 70% or less of your spending limit
      3) Only apply for and open new credit accounts when you need them
      4) Have high income relative to how much you owe
      5) Have a good credit history for a long period of time
      6) Have a mix of revolving credit (e.g., credit cards) and installment credit (e.g., a car loan)

   D. **Actions that lower your credit score:**
      1) Have a very brief credit history
      2) Apply for new credit cards frequently, whether you need them or not
      3) Exceed your credit card spending limit
      4) Pay some bills late
      5) Have credit cards balances near your maximum spending limit

---

VI. **WHAT IS BANKRUPTCY?**

   A. Bankruptcy is a legal process that involves seeking the help of the U.S. Federal Court to release or “discharge” some of your debts and get a fresh start financially. In recent years, bankruptcy filings have reached an all-time high.

   B. Bankruptcy is a serious matter that can have significant, long-lasting consequences. While it may be an option, it’s not an easy way out.

   C. Bankruptcy law is complicated and changing. It’s essential to get professional counseling about your options.

   D. Declaring bankruptcy may eliminate some of your debts or allow you to repay just a portion of each debt you owe, depending on your personal financial situation and the federal and state laws that apply.

   E. The court may allow you to keep some of your assets in the process.

   F. **Bankruptcy usually does not erase child support, alimony, fines, some taxes, and most student loan obligations.**

   G. If you file, you will have legal and court costs.
VII. IF YOU NEED CREDIT REPAIR.

A. First contact a credit counseling agency. Most agencies offer their services for free, or at a very low cost. These agencies will offer you guidance on how to best solve your credit problems. Also, they will give you the necessary tools needed to never experience credit problems again.

Here are some national organizations with local offices that may be able to assist you.

<table>
<thead>
<tr>
<th>Credit Counseling Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Federal Trade Commission</strong></td>
<td><a href="http://www.consumer.ftc.gov">www.consumer.ftc.gov</a></td>
</tr>
<tr>
<td><strong>Clear Point Credit Counseling</strong></td>
<td><a href="http://www.clearpoint.org">www.clearpoint.org</a></td>
</tr>
<tr>
<td><strong>Tampa Bay Community Development Corporation</strong></td>
<td><a href="http://www.tampabaycdc.org">www.tampabaycdc.org</a></td>
</tr>
<tr>
<td><strong>National Foundation for Debt Management</strong></td>
<td><a href="http://www.nfdm.org">www.nfdm.org</a></td>
</tr>
</tbody>
</table>

Updated 8/2017
Glossary

Bad credit

A situation in which lenders believe that, due to a borrower's poor history of repaying his or her debts, further loans to this person would be especially risky.

Bankruptcy

To legally declare yourself unable to repay your debts. A bankruptcy remains on a person's credit history for up to seven years. Depending on the type of bankruptcy, it could stay on a person's credit history for up to ten years.

Character

The financial steadiness and stability of a borrower. For example, when reviewing your loan application, a lender may look at how long you've lived at your current address or worked at your current job.

Collateral

Any assets of a borrower (for example, a home) that a lender has a right to take ownership of if the borrower doesn't repay the loan as agreed.

Collection agency

A business that specializes in collecting past due debts.

Conditions

Eligibility requirements that may be considered by a lender to secure a loan or product e.g. local economy, competition, etc.

Credit

When a bank or business allows its customers to purchase goods or services on the promise of future payment. Also used to describe any item that increases the balance in a bank account. Deposits and interest payments are both examples of credits.

Credit bureau

A company that gathers information on consumers who use credit. These companies send this information to lenders and other businesses in the form of a credit report. The three largest bureaus are Equifax, Experian, and TransUnion.
Credit check
A lender, landlord, employer, or insurer's inquiry at a credit bureau for the purpose of evaluating the credit history of an applicant.

Credit counselor
A professional advisor who specializes in helping people with debt and credit problems.

Credit history
A written record of a person's use of credit, including applying for credit, and using credit or loans to make purchases. Also called a credit record.

Credit insurance
When you apply for a mortgage or personal loan you may be asked if you want to purchase credit insurance. Credit insurance will make your loan payments if you become unable to pay because of death, disability, serious illness or loss of your job. Credit insurance usually is optional, which means you don't have to purchase it from the lender.

Credit rating
An evaluation of an individual's or business's financial history and the ability to pay debts. Lenders use this information to decide whether to approve a loan. The credit rating is usually in the form of a number or letter.

Credit record
Also known as your credit history when provided by a credit bureau to a lender or other business.

Credit report
A report issued by an independent credit agency that contains information concerning a loan applicant's credit history and current credit standing.

Credit score
A numerical rating used by lenders in the loan approval decision process. (FICO)

Creditworthiness
A lender's measure of an individual or company's ability to pay debt.

Debt
Money, goods, or services you owe to others.

Default
Failure to repay a credit agreement according to its terms.

Equal Credit Opportunity Act (ECOA)
A federal law to ensure that all consumers are given an equal chance to obtain credit, regardless of their race, color, sex, marital status, religion, national origin, age or receipt of public assistance income. This doesn't mean all consumers who apply for credit get it; factors such as income, expenses, debt, and credit history are considerations for creditworthiness.

**Equity**

The value of your investment above the total of your lien (debt).

**Establishing credit**

Giving lenders the trust and confidence to make loans to you based on a good history of paying your debts.

**Fees**

Charges for services by a financial institution or lender.

**Good credit**

A situation in which lenders are willing to make loans to an individual, due to his or her good history of repaying debts.

**Past due**

A bill that is not paid by its due date is said to be past due.

For more information about our small no-interest loan program for immigrants and refugees you can reach us at:

[www.projectprosper.org](http://www.projectprosper.org)

Facebook.com/projectprosper

Facebook Group: Project Prosper: Money Talks
Credit Reports, Scores and Debt  
Post Course Survey

Please answer the following questions. When finished remove this paper and hand it to our instructor. Thank you for attending our class!

1. Which website securely provides you free credit reports once a year?
   
   □ A. annualcreditreport.com
   □ B. freecreditreport.com
   □ C. creditkarma.com

2. List the three major credit bureaus of the United States? I don't know □
   
   1) ________________  2) ________________  3) ________________

School Name ____________________________

Updated 8/2017