

CREDIT

ACTIVITY 4



Maintaining Good Credit

RECOMMENDED TIME

Allow 50-60 minutes. Required time may vary depending on the audience.

OBJECTIVES

Participants will:

- Recognize credit-reporting agencies.
- Understand the significance of credit reports, credit ratings, and credit scores. Understand the process of establishing good credit.
- Understand credit safeguards to protect consumers.

MATERIALS NEEDED

- Overhead projector and screen*
- Overhead (or other appropriate) markers
- Overhead transparencies and handouts for the activity

ADVANCE PREPARATION NOTES

Review the activity plan. Think about the audience, and decide whether to present the total activity or to use parts of this activity in combination with other activities.

The wording in the delivery notes does not always mirror the wording on a transparency. Try to vary the dialogue, rather than reading transparencies verbatim.

This activity uses handouts. Have sufficient copies for all participants; a few extras provide good insurance.

Credit is of great interest to everyone. Facilitators cannot be expected to know everything about credit. Be honest with all questions. If you don't know the answer to a question, be up front and explain, *"I'm sorry, I do not know the answer to your question. However, I will find the answer and get back with you."* Be sure to write down the question, and follow through when you commit to finding the answer to a question.

* If an overhead projector isn't available, consider making photocopies of the overhead transparencies for handouts instead.

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ACTIVITY 4 - DELIVERY NOTES



Maintaining Good Credit

Presentation Opening

Welcome the participants.

- Introduce yourself briefly.
- If this is the first meeting with the class or group, do a brief round of introductions by everyone.
- When introducing yourself, print your name where participants can see and refer to it during the session. Some people may be a little nervous and may not remember your name. Just as you want to use their names, encourage them to call you by your name.

Activity Overview

Review the topics for discussion in this activity:

- The Debt-to-Income Thermometer
- Credit Agencies
- The Credit Process
 - Credit Report
 - Credit Rating
 - Credit Score
- Credit Safeguards for Consumers
- Establishing a Credit History

Explain that it is not difficult for anyone to become overwhelmed by debts, especially with the rising costs of groceries, housing, gasoline, and clothing. All of these are very basic costs but don't include providing for emergencies or even the opportunity for a special dinner, a trip to the movies, etc.

Display **"Overhead 1: Debt-to-Income Thermometer."** Walk participants through each stage of the debt-to-income thermometer, explaining how to determine whether or not you may have too much debt. Refer to the following example of a family with an annual income of \$40,000. Explain that this is an example only and actual effects vary depending on a variety of circumstances. These scenarios should include housing payments.

Annual household income:	\$40,000		
	Debt	Percent	Comment
If their annual debt is:	\$24,000	60%	Danger
	\$16,000	40%	High
	\$12,000	30%	Fair
	\$8,000	20%	Good
	\$6,000	15%	Great

Visual Aids

Overhead 1
Debt-to-Income
Thermometer

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ACTIVITY 4 - DELIVERY NOTES



Visual Aids

Overhead 2
The Credit Process

Handout 1
Outline of the
Credit Process

Handout 2
Sample Credit Report

Handout 3
Credit Safeguards for
Consumers

Continue to the next topic by explaining that credit is often discussed from the creditor's viewpoint—what will protect the creditor when granting credit to individuals. Despite this, consumers have historically received substantial protection.

Use **“Overhead 2: The Credit Process”** to introduce the idea that many things in the credit process are interrelated when it comes to an individual's credit records. Descriptions and discussions of each item will come later in the activity.

- Ask participants whether they recognize the terms on the overhead.
- Keep **Overhead 2** where participants can see and refer to it.

Distribute **“Handout 1: Outline of the Credit Process”** to each participant.

- Move through the handout to discuss each category, and encourage questions with each point.
- After reviewing all categories on the page, return to the Credit Report category for a more detailed review of credit reports.

Distribute **“Handout 2: Sample Credit Report”** to each participant. Move through the sample report, discussing the purpose of the following areas on the report:

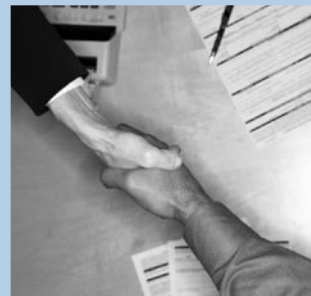
- Individual personal information (name, address, birth date, Social Security Number, etc.)
- List of creditors
- Date credit opened with each creditor
- Most recent reporting date
- Type of credit received from each creditor
- Credit limit
- High balance
- Current balance
- Status of payment (never late, missed payments, etc.) Stress that errors do happen; therefore, participants should maintain oversight of their credit reports. If they find an error, which is not uncommon, they should have it corrected as soon as possible.

Distribute **“Handout 3: Credit Safeguards for Consumers”** to each participant.

- Move through the handout, and review the legal protections that consumers have when using credit.
- Encourage everyone to keep the handout as a reference for future credit use.

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ACTIVITY 4 - DELIVERY NOTES



Distribute "**Handout 4: The Fair and Accurate Credit Transaction Act**" to each participant.

Discuss the following points:

- One of the objectives of the Fair and Accurate Credit Transaction Act (the FACT Act) is to help combat identity theft.
- This act provides consumers with a free credit report each year. Credit scores are available for a fee.
- Consumers who have been victimized by identity thieves can place an alert in their credit file so creditors will be cautious about issuing new credit.
- Over the next few years, account information, such as complete account numbers, will no longer be printed on receipts.
- Financial institutions are adopting procedures to spot identity theft.
- Policies have been developed for businesses to properly dispose of consumer reports.

Closing

Use "**Overhead 3: Things to Do to Establish and Maintain Good Credit**" as a closure.

Responses may vary but should include items such as:

- Always pay your bills on time.
- Have checking and savings accounts that are current.
- Avoid late fees.
- Get a copy of your credit report every year. Check to make sure it is accurate, and report any problems with it immediately.
- Do not live off credit or be tempted to use credit to spend beyond your means.
- Use credit card numbers only when you are sure the transaction is secure.

Thank everyone for their participation, and encourage them to return for additional sessions. If such sessions are planned, you might provide a "sneak preview" of any activity to come.

Visual Aids

Handout 4

The Fair and Accurate Credit Transaction Act

Overhead 3

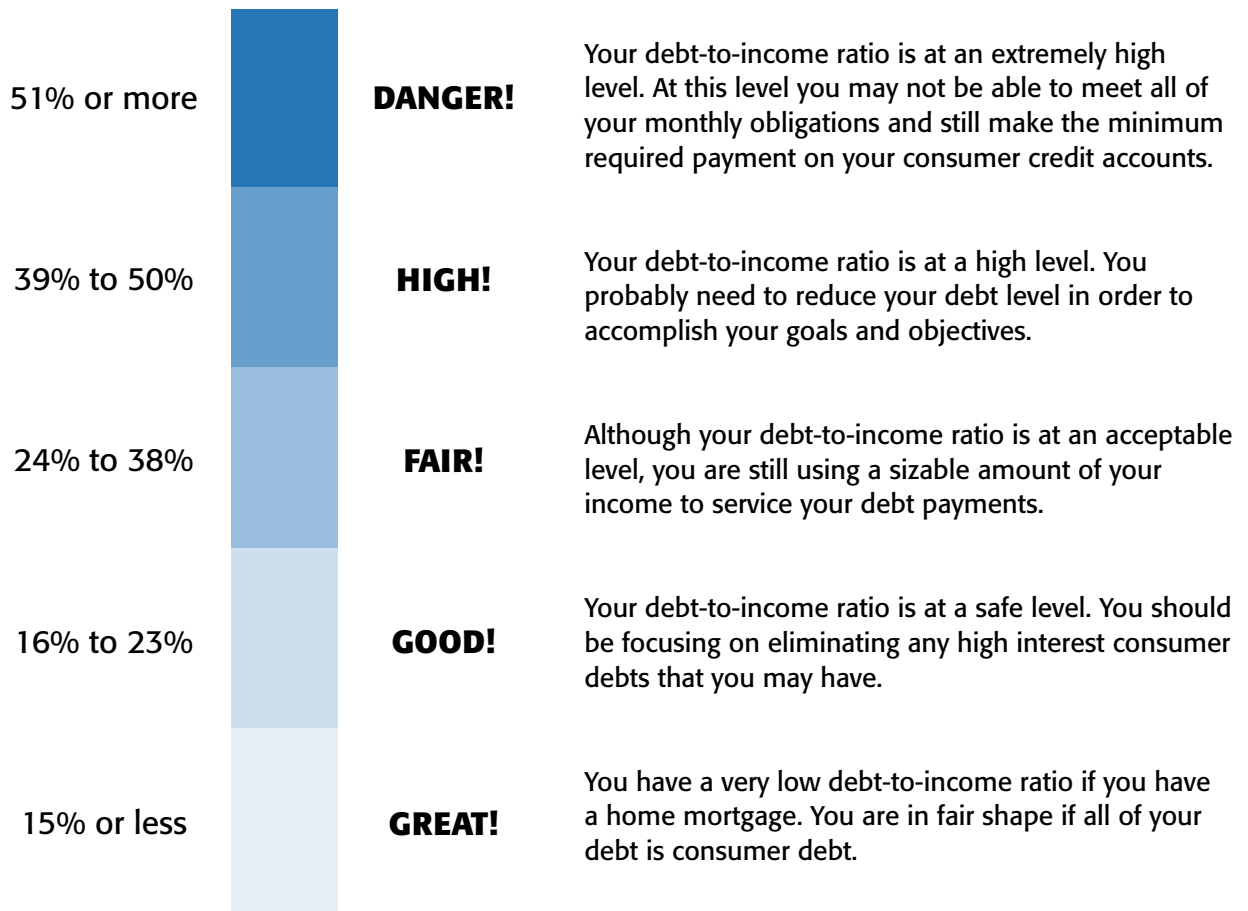
Things to Do to Establish and Maintain Good Credit

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ACTIVITY 4 - OVERHEAD 1



DEBT-TO-INCOME THERMOMETER



Note: This example is for illustrative and educational purposes. Individual circumstances vary based on a variety of factors.

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ACTIVITY 4 - OVERHEAD 2



THE CREDIT PROCESS

CREDIT HISTORY

•

CREDIT BUREAU

•

CREDIT REPORT

•

CREDIT SCORE

•

CREDIT RATING

CREDIT

ACTIVITY 4 - HANDOUT 1



OUTLINE OF THE CREDIT PROCESS

CREDIT HISTORY

- History of an individual's record of paying debts.
- Reflects "The Five Cs of Credit" (Capacity, Capital, Collateral, Conditions, Character).
- One's credit behavior affects one's ability to get credit into the future.

CREDIT BUREAU

- A business that collects information on the credit history of individuals and sells that information to potential creditors, employers, and insurance companies.
- Receives information from various places where individuals do business.

CREDIT REPORT

- Financial information collected by businesses and used by lenders to determine creditworthiness of individuals.
- Contains personal and employment history on an individual.
- Includes payment history of all debts by an individual.
- Credit reporting companies do not make the decision about creditworthiness; they only supply the information. Lenders make the decisions.
- Individuals, potential employers, and potential landlords can contact credit reporting companies for a copy of their credit report.
- Credit Reporting Companies:
 - Equifax www.equifax.com 1-800-685-1111
 - Experian www.experian.com 1-888-EXPERIAN
 - TransUnion www.transunion.com 1-800-888-4213

CREDIT SCORE

A numerical rating based on credit report information that represents a person's level of creditworthiness.

CREDIT RATING

- A ranking, generally between A and F, given to an individual by a credit reporting agency, specifically as it relates to an individual's ability to pay debts.
- Reflects past performance in paying debts.
- Projects future performance in paying debts.
- Positive rating may allow an individual to receive favorable consideration in loans and credit cards, such as lower interest rates.

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ACTIVITY 4 - HANDOUT 2



SAMPLE CREDIT REPORT

John Doe
123 Home Address
City, State 00000

Please address all future
correspondence to the
address on the right:

Credit Reporting Office
Business Address
City, State 00000

Date: 03/04/06
Social Security Number: 123-45-6789
Date of Birth: 04/19/57

*List of both open
and closed
accounts*

*The type of account
and timeliness of
payment*

CREDIT HISTORY

Company Name	Account Number	Whose Account	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported			Date Reported
								Balance	Past Due	Status	
Store Card	1125151	J	05/96	66	12/03	3500	0	0		R	02/04
Your Bank	2953900	I	11/96	48	11/03	9388	48M	0		I	12/03
Master	3554112 51511	A	06/97	24	10/02	200		0		O	12/03
XYZ Bank	5422977	I	05/05	12	01/06	5000	340	3000	680	R60	

J = joint; I = individual; A = authorized user

O = open; R = revolving; I = installment

PRIOR PAYING HISTORY

>> 30 days(03) 60 days(04) 90+ days(01) 08/02-30 02/02-60 10/01-90

The number of times an account was over-due 30, 60, or 90 days

Dates of two most recent delinquencies plus date of most severe delinquency

COLLECTION ACCOUNTS

>> Collection Reported 06/00; Assigned 09/99 to PRO COLL; Client – ABC Hospital, Amount \$978; Stat Unpaid–06/00; Balance–\$978 06/00; Date of Last Activity 09/99; Individual; Account Number 787652JC <<
Collection Agency Telephone Number
PRO COLL (800) 555-1234

Public record items obtained from local, state, and federal returns

COURTHOUSE RECORDS

>> Lien Filed 03/02; Fulton Cty; CASE NUMBER – 32114; AMOUNT - \$26,667, Class – City/County; Released 07/02; Verified 09/03 <<
>> Bankruptcy Filed 12/98; Northern Dist Ct; Case Number 673HC12; Liabilities – \$15,787; Personal Individual; Discharged; Assets \$780 <<

ADDITIONAL INFORMATION

Former Address 456 Jupiter Rd., Atlanta, GA 30245

Former Address P.O. Box 2138, Savannah, GA 31406

Last Reported Employment Engineer, Space Patrol

Checking Account Opened 09/98
Closed 05/02 Reason: Nonsufficient funds
In the amount of \$400

COMPANIES THAT REQUESTED YOUR CREDIT HISTORY

03/04/06	Equifax	02/12/05	Dept. Store
12/16/05	ABC VISA	08/01/04	YOUR BANK
06/11/05	YOUR BANK	04/29/04	ABC BANK

List of businesses that have received your credit report in the last 24 months

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ACTIVITY 4 - HANDOUT 3



CREDIT SAFEGUARDS FOR CONSUMERS

Truth In Lending Act

Consumers must be fully informed about cost and conditions of borrowing.

Fair Credit Reporting Act

Protects the privacy and accuracy of information in a credit report. Makes an individual's credit files available to him or her.

Equal Credit Opportunity Act

Prohibits discrimination in giving credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

Fair Credit Billing Act

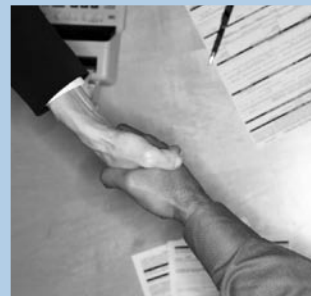
Sets up a procedure for the quick correction of mistakes that appear on consumer credit accounts.

Fair Debt Collection Practices Act

Prevents abuse by professional debt collectors; applies to anyone employed to collect debts. Generally does not apply to banks or other businesses collecting their own debts.

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ACTIVITY 4 - HANDOUT 4



THE FAIR AND ACCURATE CREDIT TRANSACTION ACT

One of the primary objectives behind the Fair and Accurate Credit Transaction Act (the FACT Act) is to help consumers fight the growing crime of identity theft. The following are some highlights of the Act.

- **Free Credit Reports** – The three major credit-reporting agencies are required to provide consumers with a free copy of their own credit report every 12 months. You may request your credit report by any of the three methods listed below.
Website: www.annualcreditreport.com
Telephone: 877-322-8228
Mail: Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281
- **Fraud Alerts and Active Duty Alerts** – Consumers who suspect they have been or may be victimized by identity theft can place an alert on their credit files. The alert will put potential creditors on notice that they must proceed with caution when granting credit. While on duty outside the country, military members are particularly vulnerable to identity theft. Active duty alerts allow active duty military personnel to place a notation on their credit report as a way to alert potential creditors to possible fraud.
- **Truncation: Credit Cards, Debit Cards, Social Security Number** – Thieves can steal important account information from receipts that include full account numbers and expiration. The FACT Act requires that over the next three years account numbers on credit card receipts will be shortened (also known as truncation) so that merchants, employees, or others do not have access to full credit card numbers.
- **Red Flags** – Financial institutions must adopt procedures designed to spot identity theft before it occurs. Certain events such as a change of address, a request for a replacement credit card, or efforts to reactivate a dormant credit card account may signal a potential fraud. Financial institutions and creditors now analyze identity theft patterns so that they can take action to prevent further incidences of identity theft.
- **Disposal of Consumer Reports** – Any business that uses a consumer report must adopt procedures for proper disposal, whether it involves printed documents, computer equipment, or other media that may contain personal information.
- **Credit Scores** – For a fee, consumers may request their credit score, including an explanation of the factors that went into computing the score.

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ACTIVITY 4 - OVERHEAD 3



**THINGS TO DO TO ESTABLISH
AND MAINTAIN GOOD CREDIT**

**What can everyone do to establish
and maintain good credit?**

1. Pay all bills on time.
2. Avoid late fees.
- 3.
- 4.
- 5.
- 6.