

HOW TO USE CREDIT

Latino Community Credit Union & the Latino
Community Development Center



www.latinoccu.org

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WHAT IS CREDIT?

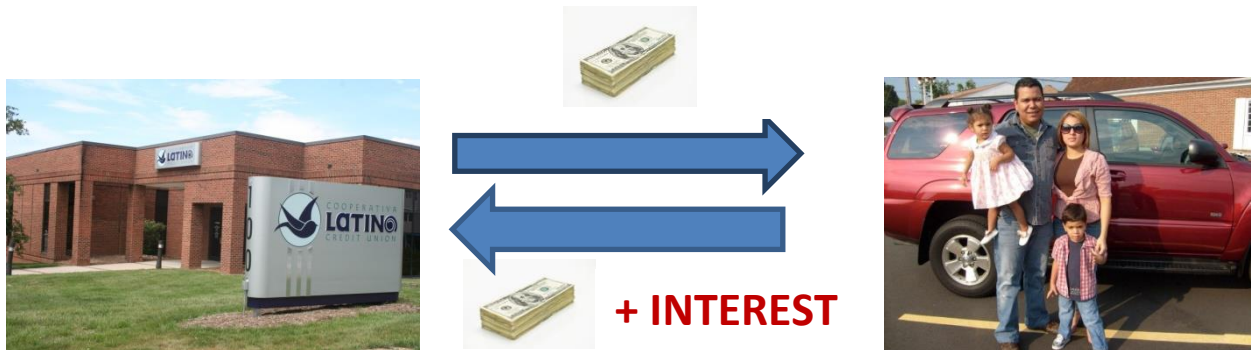


DISCUSSION TOPIC: What is your experience, if any, with credit? Positive or negative?

Credit is defined as the ability to obtain goods and services before paying for them, and in return paying an additional charge known as interest. The most common types of credit are credit cards and loans.

If you have credit, you may be in debt. This means that you owe money to the person or company that gave you the money.

The Villalobos family obtained a loan from their financial institution to purchase a car:



Most people in the United States have some kind of credit with financial institutions or companies. All of your payments are reported and, as a result, it is possible to know whether or not your loans are paid on time. When you build a good credit history, it will be easier for you to secure important savings in rates when you receive a loan. On the other hand, bad credit history, prevents you from accessing credit or would limit your access to very expensive (high interest) loans.

WHY IS CREDIT IMPORTANT?



DISCUSSION TOPIC: For what things might you need to have credit? Can you think of a time when you needed credit, or when credit would have been useful?

Credit is very important! Here are some examples of what you can do with your credit:



Self-improvement. Pay for things that will help you get a better job, such as college classes or job training.



To buy a home. It may take you too long to save enough money to buy a home without a loan.



When traveling, it may be easier and safer to carry a credit card instead of cash. If you lose your credit card, or it is stolen, you may call your credit card company immediately to put a stop on the card.



To make purchases over the phone or the internet, such as airline tickets, car rentals or hotel rooms.



Credit is often checked during the **application process for an apartment, or even a job.** If you have a bad credit history or do not have a credit history at all, you may not be hired or get to lease the apartment that you want.



For emergencies or unexpected expenses, that may happen.

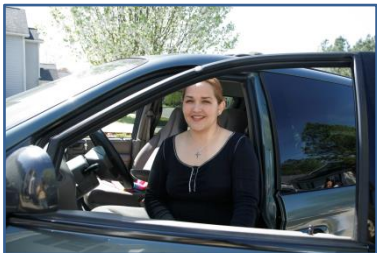
You can track your spending by using your monthly account statements, and if you pay off your balance in full and on time each month, you will not pay interest.

WHEN TO USE CREDIT

It is important to think carefully about when to use credit to pay for things. There are three kinds of debt that explain the use of credit at different times: investment debt, convenience debt and consumer debt:



INVESTMENT DEBT is when you borrow money to pay for something that will increase in value, like a home. Home prices usually increase over time. You may be able to sell the house for more than you paid. Other examples of investment debt are college loans or job training and home improvement loans. College loans and job training are a way of investing in yourself. Your job will usually pay you more if you have more education. Home improvements increase the value of your house, so you can sell it for more money later. Investment debt is the best kind of debt.



CONVENIENCE DEBT is when you use credit to buy something expensive and pay over a long period of time. A car loan is an example of convenience debt. Instead of paying for the car at one time, you can pay a little bit each month. You have to pay interest for this convenience. Another example is using your credit card to pay for emergencies like doctor bills or car repairs. If you are careful, convenience debt can help you manage your money. If you know your monthly expenses now, you can set up a budget that includes paying off your debt as soon as possible.



CONSUMER DEBT is when you use credit to pay for daily things that do not last a long time. Using your credit card to pay for things like groceries or going to the movies is an example of consumer debt. You should try to avoid consumer debt, unless you pay your credit card bill in full and on time every month.



EXAMPLE

Using the above mentioned concepts, write out your goal and determine if it is a short, mid, or long term goal.

MY GOAL IS

WHAT IS CREDIT HISTORY?

WHAT IS CREDIT HISTORY?

Credit history is **a record of all the loans you have had**. It tells if you pay your loans on time. If you build up good credit, it will be easier to be approved for loans to help you reach your most important goals, such as buying a car or a home.

WHAT IS A CREDIT REPORT?

A credit report has all of the information about your credit history including a detailed record of all of the payments you have made on the debts that you owe, such as your credit cards, loans, and mortgage. If you make a late payment, it will be included on your credit report. Lenders will use this report to determine your **credit score** (often called a Beacon or a FICO score). Generally, people with higher scores are more likely to get a loan, have access to credit, and receive better interest rates.





DISCUSSION TOPIC

What do you think matters most for your credit score? The amount owed, your payment history, or how long has the account been active?

According to FICO(Fair Isaac Corporation) these are the most important items:



HOW DO I ACCESS MY CREDIT REPORT?

It is important to review your credit report every year to correct any errors or detect identity theft. Check the reports from all three major credit bureaus - TransUnion, Equifax, and Experian. The information on each report may vary. You may receive a free report from each company once per year from Annual Credit Report Request Service, or you may obtain a report from each bureau once a year for free.

Annual Credit Report Request Service

877-322-8228

www.annualcreditreport.com

Equifax

P.O. Box 740241, Atlanta, GA 30374

To order credit report: 800-685-1111

To report fraud: 888-766-0008

www.equifax.com

Experian

P.O. Box 2104, Allen, TX 75013

888-397-3742

www.experian.com

TransUnion

P.O. Box 2000, Chester, PA 19022

To order credit report: 800-888-4213

To report fraud: 800-680-7289

www.transunion.com



EXAMPLE

With the credit report below, identify the parts described below

HOW DO I READ MY CREDIT REPORT?

There are four basic sections on a credit report:

1. Personal

information: an overview of your personal information such as name, date of birth, current and former addresses, and phone numbers, and Individual Tax Identification Number or Social Security Number.

2. Public records:

This section tells if you have gone to court for liens, judgments, repossessions, foreclosures, or bankruptcies.

1. PERSONAL INFORMATION

Names: María Luz Ortega María L. Ortega	Date of birth: 03/25/1967	Social Security Number: 999-99-9999
Employers: ABC COMPANY CORP La Herradura, Inc.	Telephone numbers: (999)999-9999 (777)777-7777	Address: 123 Main Street, City, MM 11223 321 Broad Street Apt. 2B, City, MM 11224

2. PUBLIC RECORDS

Main County Clerk 123 Court Street, City, MB 11002	Plaintiff: LOAN COMPANY B Status: Civil claim paid.	Date filed: 10/10/2010 Date resolved: 04/04/2011 Claim amount: \$300
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3. CREDIT INFORMATION

1. Creditor: Loans, Inc.		Type: Automobile Auto Finance	
Date Opened: 01/2010	Terms: 65 months	Credit limit/Original Amount: \$10,355	30/60/90: 0/2/0
Reported since: 01/2010	Monthly payment: \$210	Recent balance: \$7,984 as of 04/2011	Past due: \$210
2. Creditor: Mortgage, Inc.		Type: Automobile Auto Finance	
Date Opened: 08/2007	Terms: 80 months	Credit limit/Original Amount: \$78,000	30/60/90: 0/0/0
Reported since: 08/2007	Monthly payment: \$902	Recent balance: \$26,880 as of 04/2011	Past due: \$0

4. REQUESTS FOR YOUR CREDIT HISTORY

Banco BANK 100 Bank Street, City, MB 20200	Date of request: 01/28/2010
Comments: Permissible purpose. This inquiry is scheduled to continue on record until 02/2012	

3. Credit Account Information: This section lists every loan you have had and how you have paid. Each loan will have the date the account was opened, credit limits, late payments, and balances. It will mention if any of the accounts have been referred to a **collections agency**. These agencies try to get back the money you owe to the company. It is more difficult to get a loan if you have any collections.

4. Inquiries: A list of the companies that have looked at your credit report because you wanted to borrow money from them in the past six months. Important Note! If you apply for too many loans or credit cards, it can hurt your credit rating. Companies will think that you are trying to borrow too much money and will have too much debt.

HOW DO I CORRECT ERRORS ON MY CREDIT REPORT?

Credit Bureaus are required to have accurate information on your credit report. You have the right to have mistakes or old information corrected and updated on your report. Correcting your own credit report is usually quick and easy.

- 1. Review your credit report** once a year to find any mistakes, such as an account you never opened.
- 2. Also check your credit report for old information**, such as late payments or charge-offs. This type of negative information should be deleted after seven years.
- 3. If you find a mistake** on your credit report, write a letter or complete an online form with the specific credit bureau that issued the inaccurate report. For contact information on the three credit bureaus see page 8.
- 4. If the credit bureau does not correct the error**, write another letter to the creditor (the company that is listed as giving you the loan or credit card) to request that they report accurate information to the credit bureaus. Include documents to prove the error, if you have them.
- 5. If these steps do not work** to your satisfaction, you can always request that the credit bureaus add a brief statement (100 words) to your credit report. When you apply for credit, this statement will be available for creditors to read and consider.

Under the Fair Credit Reporting Act, credit reporting companies are required by law to investigate your inquiry or concern within 30 days. Be sure to enclose a copy of your report with the items in question circled. Just ahead, we have provided an example of a letter to the Federal Trade Commission (FTC). For more information, contact the FTC at www.ftc.gov or by phone at 1-877-FTC-HELP (1-877-382-4357)

Don't Lend Your Credit. Don't open utility, telephone, or other expense accounts unless you are personally responsible for the payments. If the person to whom you loaned your credit defaults, the company that issued the credit will hold you responsible for the debt and your credit history might be negatively affected.

Sample Dispute Letter

Date
Your Name
Your Address, City, State, Zip Code

Complaint Department
Name of Company
Address
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,
Your name

Enclosures: (List what you are enclosing.)

Source: Federal Trade Commission

STEPS TO START MY CREDIT HISTORY



Credit is built little by little. If you have never borrowed money in the United States, you probably do not have a credit history. Here are some steps to start building your credit history:

1. **Get an ITIN number** if you cannot obtain a valid social security number. You can use this number to open an account and start building a credit history.
2. **If you have a checking account**, be sure to track your payments and withdrawals so that you do not overdraw on your account.
3. **Pay all your bills on time.** This will help you build a positive payment history.
4. **Some financial institutions offer a secured loan or secured credit card.** This means that you get a loan for the same amount of money that is deposited in your savings account. The money in your savings account stays there until you have finished paying off the loan. If you pay your loan or credit card bill on time and in full each month, you can build your credit.

Not all institutions report your payments to the credit bureaus. Verify that the financial institution plans to report your payments to the credit bureau, so that you can begin building your formal credit history.

WHAT IS A CREDIT CARD?

A credit card is a useful tool that will allow you to buy things now and pay for them later. If you pay using credit, you acquire a debt. This means that the money will be owed to the company that issued the credit card. If you do not pay the full balance at the end of the month. You will have to pay a fee for the credit card called interest charge. If used correctly, the credit card could be a good way of building credit and handling money.

Sometimes people confuse credit cards with debit or prepaid cards. These are the main differences:



CREDIT CARD: You borrow money from the credit card issue and pay it later (with interest if not paid in full.)



DEBIT CARD: Your money is taken directly from your checking account to make a payment. It works just like a check, but faster.



PREPAID CARD: You can load money on this card to make purchases. It works just like a gift card.

These are some of the advantages and disadvantages of credit cards:

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• It is convenient, since it can be used in many places, businesses, over the phone, or online.• You may handle you finances better, by having a monthly statement with a detailed list of your purchases.• It is safer than carrying a lot of cash around.• You will not be responsible for the charges if your card is stolen, as long as you report it immediately.• It will build up you credit history.• You may get certain perks, such as airline miles, points, and discounts.• You will need a credit card to make reservations on rental cars, hotel rooms, and airplane tickets.	<ul style="list-style-type: none">• There are penalties for late payments.• If not used correctly, it may lead to debt and a negative credit history.• You may be charged additional interest if you exceed your credit limit.• You will be charged interest if you do not pay your full balance each month.• If you do not track your expenses it may be difficult to know how much you have spent before your monthly statement arrives.• The terms and conditions might be confusing, and are usually only in English.

TYPES OF CREDIT CARDS

STANDARD CREDIT CARDS

- **SECURED CREDIT CARD** – With a secured credit card, you deposit a certain amount of money in your savings account and get a line of credit for the same amount. This way, if you do not make your payments, the company issuing the credit could keep the money in this account. With this credit card you can build up your credit history. (Warning! Make sure that the company issuing the credit card reports your account information to the credit bureaus, that way you can start building your credit history.) If you make your payments on time for a while, the card issuer could offer you an unsecured credit card.
- **UNSECURED CREDIT CARDS** – This is the most common kind of credit card. You will get a determined amount of money lent on the condition of paying, at least, the minimum payment each month. Before issuing a credit card, the majority of credit card companies will review your credit history and your income. An unsecured credit card could be very useful, as long as you use it carefully and make your payments timely.

If you have never had credit or are trying to repair it, a secured credit card could be your best choice.

BUSINESS CREDIT CARDS

These credit cards are used at a specific business (or gas station.) Be careful, since these cards usually charge a higher interest than standard credit cards.

CHARGE CARDS

These cards work like standard credit cards, but you have to pay the full balance each month. These cards usually have higher credit limits, but if the balance is not paid in full each month, you may be charged a fee and higher interest rates.



HOW TO CHOOSE A CREDIT CARD?

There is a great variety of credit cards with many different characteristics. It is important to be informed about the different options before choosing a credit card. When you are deciding on a credit card, look out for the following:

ANNUAL PERCENTAGE RATE (APR)	This is the interest rate that you will pay on the unpaid balance at the end of the month. Of course, it is better if you pay your full balance each month to avoid these charges, but in case you cannot, it is better to look for the lowest interest possible. Beware! Some credit card companies will offer a lower interest rate for a few months, but then will change it to one that is much higher.
FEES	Review carefully any fees before choosing a credit card. The fees will vary greatly between credit card companies and financial institutions; look for what will be better for you. The most common fees are:
Annual fees	Fees that you will pay yearly for using your card. Some companies will not charge an annual fee.
Application fee	A fee charged when applying for a credit card . Some companies will not charge this.
Finance fee	A fee charged when you do not pay your full balance off . Paying late might also negatively affect your credit report.
Over-the-limit-fee	A fee charged when you spend more than your credit limit (this includes all of the purchases and fees charged to your card.)
PENALTY RATES	Avoid credit card offers that have penalty rates. This means that the credit card company will charge you a higher interest rate if you pay late or exceed your credit limit, even if it happens only once.
CREDIT LIMIT	The total amount that you may spend with your card. For example, if you have a credit limit of \$1,000 you may not spend more than that amount. You will have to pay a fee if you go over the limit.
GRACE PERIOD	The time period that you have to pay your credit card's balance before any interest is charged. Look for a credit card that offers a grace period. But remember that if your balance has been building up, you may not have a grace period.
ADVANTAGES	Bonuses or perks that you get for using your credit card. For example, a discount for spending a certain amount, or discounts on plane tickets.

Below you can see an example of a disclosure summary for a credit card:

DISCLOSURE SUMMARY: Important Information About Your Credit Card Account

†Details of Rate, Fee and Other Cost Information

As required by law, rates, fees, and other costs of this credit card offer are disclosed here. All account terms are governed by the Credit Card Agreement. Account and Agreement terms are not guaranteed for any period of time; all terms, including fees and the APRs for new transactions, may change in accordance with the Agreement and applicable law. We may change them based on information in your credit report, market conditions, business strategies, or for any reason. You should thoroughly review all the materials in this package so that you are fully informed about your credit card loan.

**Annual
Percentage
Rate (APR)**

Interest Rates and Interest Charges	
Annual Percentage Rate (APR) for Purchases	0% Introductory APR for the first 15 statement Closing Dates following the opening of your account. See footnote ¹ for explanation. After that, your Standard APR will be 10.99% . This APR will vary with the market based on the Prime Rate as set out in the Variable-Rate Information section of your Agreement.
APR for Balance Transfers	10.99% Standard APR. This APR will vary with the market based on the Prime Rate.
APR for Cash Advances	24.99% Standard APR for Direct Deposit and Check Cash Advances, and 24.99% Standard APR for Bank Cash Advances. See footnote ² for explanation. These APRs will vary with the market based on the Prime Rate.
Penalty APR	None
How to Avoid Paying Interest on Purchases	Your due date is at least 25 days after the close of each billing cycle. We will not charge you any interest on purchases if you pay your entire balance by the due date each month.
Minimum Interest Charge	If you are charged interest, the charge will be no less than \$1.50.
For Credit Card Tips from the Federal Reserve Board	To learn more about factors to consider when applying for or using a credit card, visit the website of the Federal Reserve Board at http://www.federalreserve.gov/creditcard .

**Grace
Period**

Fees

Fees	
Annual Fee	None
Transaction Fees	
• Purchases	Purchases of wire transfers from a non-financial institution: Either \$10 or 4% of the amount of each transaction, whichever is greater.
• Balance Transfers	Either \$10 or 4% of the amount of each transaction, whichever is greater.
• Cash Advances	Either \$10 or 4% of the amount of each transaction, whichever is greater (except as noted below). Overdraft Protection Cash Advances (if enrolled): \$10 for each transaction (not assessed if checking account overdrawn by less than \$10).
• Foreign Transactions	Transactions made in a foreign currency and transactions made in U.S. Dollars that are processed outside the United States: 3% of the U.S. Dollar amount of each transaction. This fee will be in addition to any other applicable fee.
Penalty Fees	
• Late Payment	Up to \$35
• Returned Payment	Up to \$25

Penalty Fees

STEPS TO IMPROVE MY CREDIT


If you have problems with your credit history, here are some simple steps to begin rebuilding a positive credit history:

300

Minimum
score

Maximum
score

850

- 
- **Check your credit report** to detect any problems or errors. If there are errors, correct them as soon as possible.
 - **Develop a plan** to pay off any outstanding collections, judgments, or overdue taxes. Contact each of your creditors and try to negotiate a discount on your charges.
 - **Open a secured loan or credit card** to reestablish positive credit history.
 - **Develop a plan to reduce your existing debt.** When it is paid off, begin paying your bills on time and in full every month.
 - **Limit your applications for new credit.** Too many credit inquiries can have a negative effect on your credit score.
 - **Do not close your older accounts.** It is important to have stability in your credit lines.
 - **Do not exceed your credit limit.** This is a sign that your ability to pay your debt is diminishing and therefore represents a high credit risk for your creditors.

Beware!

Do not use companies that promise to improve your credit report! Most of them charge you a lot of money for things you can do yourself **or it might be a fraudulent company.**

DO I HAVE TOO MUCH DEBT?

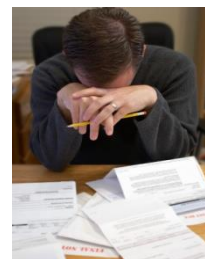


EXAMPLE

Mark the boxes if the statements are true. Share your answers with the group.

You could have too much debt if:

- ☐ **More than 45%** of your monthly gross income is used to pay my debts (including credit card, mortgage, car, and other debts).
- ☐ **I borrow money** to pay other debt.
- ☐ **I borrow money** from my retirement account or credit card to pay my monthly bills.
- ☐ **I don't know** how much money I owe.
- ☐ **I can only make the minimum payments** on my credit card.
- ☐ **I miss payments** or make payments after the due date.
- ☐ **Creditors** call my home.
- ☐ **I have been rejected** for a loan or other credit.
- ☐ **I write checks with a later date (postdate).**
- ☐ **I work an extra job just to pay my bills.**



If any of these statements are true for you, try to work on a plan to reduce your debt.

USING YOUR CREDIT CARD THE RIGHT WAY



DISCUSSION TOPIC: What are you doing to use your credit the right way?

Credit cards can be very useful when used correctly.

DO'S	DON'TS
<p>Pay your bills on time.</p> <p>Never spend all of your credit limit, or over it.</p> <p>Remember that credit cards are not free money!</p> <p>Apply for and use up to 3 credit cards at a maximum.</p> <p>Charge to your credit card only amounts that you will be able to pay at the end of the month. Pay it off, or as much as you can each month.</p> <p>Use your card for extended periods of time to show consistency.</p> <p>Review your monthly statement carefully and notify your credit card Company of any errors or fraud immediately.</p>	<p>Pay your bills late.</p> <p>Spend over your credit limit.</p> <p>Apply and use too many credit cards.</p> <p>Keep a high outstanding balance on your card.</p> <p>Change credit cards constantly.</p> <p>Forget to review your monthly statement.</p> <div> <p>The most important thing to remember is that credit cards are not free money!</p> </div>



If your credit card is lost or stolen, or if you find fraudulent activity, inform your credit card company immediately. By law, the most you will have to pay if your card is stolen and used is \$50. It is a good idea to have a photocopy of both sides of your credit card with the account number, and name and phone number of the card issuer, in case it is ever lost or stolen.

HOW TO GET RID OF CREDIT CARD DEBT?

1. **Stop spending!** This is the most important step when you are in debt.
2. **Get in touch with your financial institution or credit card company in advance to inform them that you will not be able to make your monthly payment on time.** Sometimes they will help you adjust your payment calendar and they even might cancel any late fees.
3. **Make a budget to calculate how to pay for your debt.** Try to find ways to cut back on expenses and put more money towards debt payments.
4. **Pay more than the minimum payment every month.**
5. **Pay off the credit card with the highest interest rate first.**
6. **You may transfer the balances from cards with a higher interest to those with a lower one.** Check to see if there are any fees for transferring balances.
7. **There are nonprofit organizations that will help you** consolidate your debt into a single loan. The interest rate for the new loan will be higher or lower depending on your credit history, so evaluate your options carefully.
8. **With a debt management plan** you may make a single payment that will be distributed to all accounts due. Get in touch with your local debt management nonprofit for more information.
9. **Be wary of companies that promise to get you out of debt fast.** They may promise to restructure your debt. In the end, you will be paying it for longer, and it is very likely that in the end you will have paid more in charges and fees.

Even more important still is to make sure you **do not spend more than you make**, that way you will stay out of debt in the future.

Some companies will suggest that you change your social security number or ITIN to avoid the debt. This is a **federal crime**. Also, be wary of anyone that promises to fix your credit quickly.

FRAUD ALERT!

Do not give your Social Security Number (SSN) or Individual Tax Identification Number (ITIN) to any individual or company you don't know.

Destroy papers that contain personal information before you throw them in the trash.

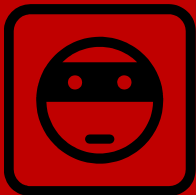
Sign your credit and debit cards to avoid fraudulent use of your card.

Look at your monthly statements to detect any mistakes or fraud.

Do not give your PIN number to anyone.

If your credit or debit card is stolen, report it to your financial institution or credit card company immediately.

Ask for your credit report once a year. If you find that someone has used your information to get credit, contact a credit bureau immediately.



Identity Theft occurs when someone accesses your money or credit cards, or uses your personal information to obtain loans or credit cards without your permission.