



Understanding Credit & Building a Strong Financial Future

Tell us your name

Answer the question that corresponds to your Starburst

Pink: You need a car loan? What car are you buying?

Yellow: What is your Dream Job?

Red: You just won the lottery! What would you buy?

Orange: Would you buy an apartment in the city or a house in the country?

**Empower Yourself With Financial
Knowledge by Getting Smart About Credit.**





You Need to Know!

- How borrowers manage credit can significantly impact their financial health.
- Responsible use of credit can help build a positive credit history and improve credit scores.
- Conversely, late payments, high credit card balances and defaulting on loans can harm creditworthiness

CREDIT ADVANTAGES



- Use to buy needed items now
- Helpful in emergency situations
- Helps develop a good credit score
- Good credit helps you save money with lower interest rates
- Some credit cards offer benefits

CREDIT DISADVANTAGES



- Potential for misuse
- Negative impact on credit score
- High interest rates
- Increased debt
- Fees



Types of Credit

Single Payment Charge:

Charges are paid in-full each billing cycle. Payments are not spread over time.

- American Express
- Utilities, medical services
- Some retail businesses

Revolving Credit:

Goods and services can be paid using revolving credit, such as credit cards, as long as the amount does not exceed the credit limit. Repayment is made at regular intervals and includes interest and a portion of the principal.

- MasterCard, Visa, Discover
- Retail credit cards
- Financial institutions

Revolving Credit vs Installment Credit

- Revolving credit, as seen with credit cards, allows borrowers to repeatedly access and repay funds, up to the credit limit.
- Installment credit, like personal loans or mortgages, involves borrowing a lump sum and repaying it in fixed installments over time.





The Responsibility of Debt

- Only borrow what you can repay
- Understand the credit contract
- Pay on-time
- Notify your creditor if your situation changes and you cannot pay on-time
- Report lost or stolen cards immediately
- Don't share your personal information unless you know the purpose is legitimate (e.g., card or account numbers, identification numbers)

What is a Credit Report?



Credit Score Values

800 or higher

- Well above the average score
- Usually, an easy loan approval process
- Only 1% of these borrowers are likely to become seriously past due

740-799

- Very good score
- Borrowers may qualify for lower interest rates
- About 2% of these borrowers are likely to become seriously past due

670-739

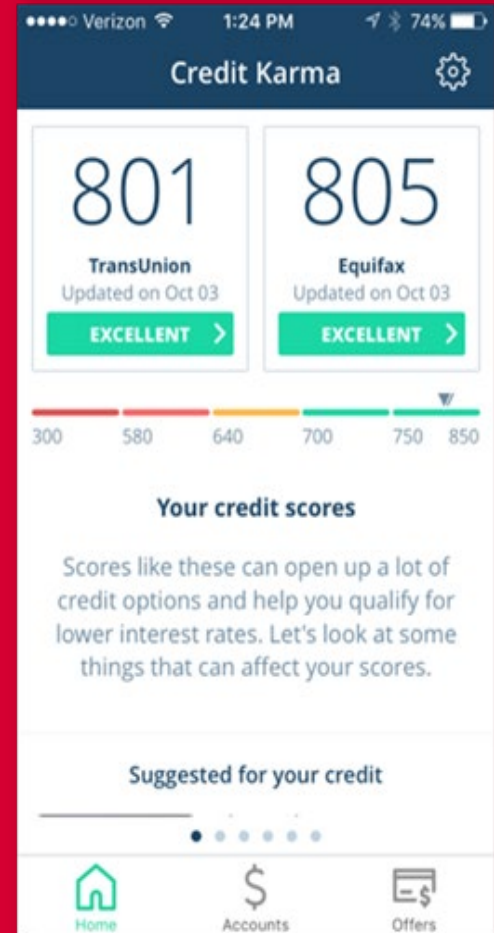
- Good score
- Lenders consider this score “acceptable”
- Around 8% of these borrowers are likely to become seriously delinquent

580-669

- This score is below average
- These borrowers are considered “sub-prime”
- About 28% of these borrowers are likely to become seriously past due

579 or lower

- Very low score
- Likely to have prior past due accounts or bankruptcy
- Around 61% of these borrowers will likely become seriously delinquent



Let's Talk About Strategies To Build Credit!



1. Open a Starter Credit Account
2. Pay Bills on Time
3. Use Credit Sparingly
4. Become an Authorized User
5. Apply for a Student Card
6. Build Utility and Rental Payment History
7. Regularly Check Your Credit Report
8. Be Patient



Remember that building a credit history is a gradual process, and you'll need to show consistent responsible credit behavior to establish a positive credit history over time.

Manage! Manage! Manage!



- Create a Budget
- Set Spending Limits
- Prioritize Debt Repayment
- Create Emergency Fund
- Monitor Your Credit
- Pay Bills on Time
- Avoid Unnecessary Credit
- Save for Future Expenses
- Seek Professional Advice

Remember that responsible credit management is a key component of a healthy financial life, and budgeting is a crucial tool to help you achieve that.

Rebuilding a Strong Credit History



Annual Get Smart About Credit Day
Third Thursday in October

Important to Note ! Things that don't go away!!

- If you run into a credit problem and you file bankruptcy

Child support

Spousal support obligations

Student loans

Judgments for damages resulting from drunk driving accidents

Most unpaid taxes.



***Chapter 7 (Bankruptcy) eliminates Credit Cards, Medical Bills and unsecured loans**

Strategies for Rebuilding Credit

1. Check Your Credit Report
2. Create a Budget
3. Pay Bills on time
4. Reduce Outstanding debt
5. Negotiate with creditors
6. Avoid New Debt
7. Diversify Your Credit
8. Seek Professional Help
9. Be Patient

Success stories of rebuilding Credit



Avoid Pitfalls/Scams

- *High Interest Pay Loans*
- *Title Loans*
- *Loan Flipping*
- *Hidden Fees and Penalties*
- *Advance Fee Loans*
- *Debt Relief Scams*
- *Ponzi Schemes*
- *Identity Theft*
- *Fake Credit Repair*
- *Online Shopping Scams*
- *Tech Support Scams*



Your Consumer Rights

- Truth-In-Lending Act of 1968
 - Ensures consumers are fully informed about the costs and conditions of borrowing
- Fair Credit Reporting Act of 1970
 - Protects privacy and accuracy of credit reports
- Equal Credit Opportunity Act of 1974
 - Prohibits discrimination in obtaining credit on the basis of sex, race, color, religion, national origin, marital status, age or receipt of public assistance
- Fair Credit Billing Act of 1974
 - Established a procedure for the quick correction of mistakes that appear on consumer credit accounts
- Fair Debt Collection Practices Act of 1977
 - Prevents abuse by professional debt collectors; applies to anyone employed to collect debts owed to others; does not apply to banks or others collecting their information.

How Much Can You Afford? (The 20/10 Rule)

- Never borrow a total of more than **20%** of your annual net income
 - For example:
 - If you earn \$400/month after taxes and other deductions, your annual net income is $\$400 \times 12 \text{ months} = \$4,800$
 - $\$4,800 \times 20\% = \960
 - In this example the safe amount of debt is \$960

NOTE: Housing, utilities, food, etc. are not part of debt for this calculation

- Monthly payments should not exceed **10%** of your monthly net income
 - For example:
 - If your monthly income after taxes is \$400, your debt payment should be
 - $\$400 \times 10\% = \40
 - The safe debt payment is no more than \$40/month

Credit Counseling and Resources

- Lawrence Community Works (Credit Counseling)
- Budgeting Apps
 - goodbudget.com
 - pocketguard.com
- Free Credit report
 - annualcreditreport.com
 - The 3 Credit bureaus in Mass must provide you with 1 free credit report a year
 - Experian.com
 - Equifax.com
 - Transunion.com

Questions?