



Understanding Credit

Credit is your ability to borrow money. Any time a bank, finance company, or business lends you money and you agree to pay it back at a later date, you are using credit. In most cases, there is a charge for borrowing the money, either in the form of fees or interest or both. There are both advantages and disadvantages to using credit.

ADVANTAGES OF USING CREDIT:

- Credit allows you to purchase large items that you might not have enough cash to pay for, such as a house, car, or college education.
- Credit can be a good tool for emergency situations.
- Credit is convenient. Using a credit card is a way to pay for things without having to carry large amounts of cash. Also, your monthly credit card statement provides you with a record of your purchases.
- Some credit card companies may offer protection against your liability in the event that someone uses your card number to make unauthorized purchases.

DISADVANTAGES OF USING CREDIT:

- Credit costs money. There is usually a charge for spreading payments over a period of time.
- Credit can tempt you to spend more than you can afford to repay. You are more likely to purchase items that you do not need.
- Lenders, employers, and landlords often request a copy of your credit report. If you mismanage your credit, it can affect your ability to get additional credit, get a job, rent an apartment, or buy a house in the future.
- When you make a purchase using credit, you commit to using your future income to repay the loan.
- Lenders will report all missed credit payments to the credit bureaus. This will affect your ability to get additional credit in the future.
- If you mismanage credit and are unable to repay the lender, they may repossess, or take back, the item you purchased.

OBJECTIVE

To understand how credit affects our financial life and to learn ways to improve credit.

Ask yourself these questions before obtaining and/or using credit:

1. Do I need this or want this?
2. Can I buy this later instead of now?
3. Can I wait until I have cash to pay for it?
4. What does this purchase really cost, with interest?
5. Can I afford the monthly payments?
6. What is the total cost of credit?
7. Are there any fees?
8. What is the annual percentage rate?



Credit Affects Your Ability to Borrow Wisely

Your credit is one of the factors that will determine what interest rate you will qualify for with most lenders. In general, a higher credit score rating will mean greater access to lower interest rate loans. Homewise will work with you to help you qualify for the best interest rate possible for your mortgage loan.

PROTECT YOUR INTEREST!

Whether you are shopping for a mortgage loan to buy a home or considering refinancing or a home equity loan on your existing home, you need to protect your interest. When shopping for a loan, make sure to find the product with the lowest interest rate and most favorable terms.

Don't borrow trouble!

INTEREST RATE COMPARISON CHART

The following compares loans at different interest rates for a \$175,000 loan, with a 30-year Fixed-Interest-Rate Mortgage Loan.

RATE	PAYMENT
4%	\$836
5.75%	\$1,021
7.25%	\$1,194
10%	\$1,536

A higher credit score rating will help you get the lower interest rate loan and save \$700/month or \$252,000 over the life of your loan!

ESTABLISHING CREDIT

You may not have a credit rating, simply because not enough information is available about you. It is important to meet with a Homewise Home Purchase Advisor to see what you should do to establish credit to purchase a home. Here are some general ideas for building a credit history over time:

1. Start by opening a checking account and do not overdraw it.
2. Make regular deposits into a savings account.
3. Visit your bank to open a secured credit card. They will ask for a deposit or they can freeze funds you may already have in your bank account to secure the card. This deposit amount will be the same as your credit limit. It works just like a normal credit card. After you have paid on time for a few months, they will unsecure the card and un-freeze the deposit.
4. Make sure your rent, utilities, and other bills are in your name and that you pay them on time each month.

Credit Basics

KEY TERMS:

Creditor: The financial institution or business who extends you credit with the agreement that you pay them back with interest (they also have terms and conditions that you agree to meet). Examples are VISA, MasterCard, car loans, retail stores, etc.

Credit Bureaus: Companies that collect information on consumers' credit histories.

ORDERING YOUR CREDIT REPORT

www.annualcreditreport.com

Under the Fair Credit Reporting Act, all consumers can obtain one **FREE** copy of their credit report every 12 months from each of the three credit bureaus at this website.

If you don't have access to the Internet, you can also get your free copy by calling toll free 877-322-8228 or by writing to:

Annual Credit Report Request Service
PO Box 105281
Atlanta, GA 30348-5281

You can also pay for a copy of your report by contacting one of the following credit bureaus*:

www.equifax.com: 800-685-1111

www.transunion.com: 800-916-8800

www.experian.com: 888-397-3742

**A credit report will cost between \$9-\$18 through the bureaus, so do get the free ones instead!*

WHAT INFORMATION DO CREDIT BUREAUS COLLECT ON A CONSUMERS' CREDIT REPORT?

- Name, previous names, and employment history
- Installment loans (such as car loans, student loans, etc.)
- Revolving accounts (such as credit cards)
- Unpaid medical bills or other bills that have been referred to a collection agency or charge off
- Public records
- Bankruptcy
- Any accounts where you are a co-signer (these are considered your debts)
- Inquiries
- Credit Score

Credit Score Information

Your credit history is used by lenders to determine your ability and willingness to pay back a mortgage loan. The lender will review your credit report to see how you use credit and if you pay your bills on time. Lenders usually concentrate on your most recent one- to two-year history unless you've had repeated and serious financial trouble in the past.

FACTORS LENDERS CONSIDER WHEN EXAMINING YOUR CREDIT REPORT

- Derogatory credit (collections, charge-offs, late and slow pays - 30-60-90 days late)
- A "pattern and practice" of derogatory credit is evaluated more harshly than a period of time that can be explained by an unusual circumstance (loss of job, hospitalization, etc.)
- Credit score
- Lack of credit history
- Recent bankruptcy or previous foreclosure
- Public records (interest in pending legal disputes - divorce, lawsuit, etc.)
- Inquiries (alert for multiple inquiries within the last year)

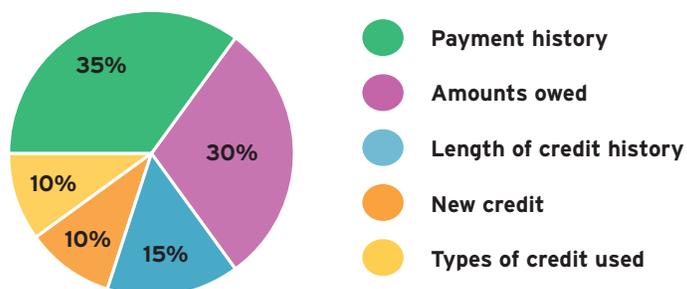
UNDERSTANDING YOUR CREDIT SCORE

A credit score is a number that tells a lender how likely you are to repay a loan, or to make credit payments on time. It is also referred to as a FICO or BEACON score. A credit score is a three-digit number between 350 and 850 that is generated by a computer. It is based on the information in consumer credit reports, including your debt profile and bill-paying history. Each lender will weigh your score in a slightly different way. The higher the score, the better your eligibility for a lower-interest loan.



HOW YOUR CREDIT SCORE IS CALCULATED

Credit scores are calculated from a lot of different credit data in your credit report. This data can be grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining your score.



These percentages are based on the importance of the five categories for the general population. For particular groups – for example, people who have not been using credit long – the importance of these categories may be somewhat different.

Credit Score Information

PAYMENT HISTORY

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since (recency of) past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

AMOUNTS OWED

- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balance to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

LENGTH OF CREDIT HISTORY

- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

NEW CREDIT

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

TYPES OF CREDIT USED

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

Correcting Credit Issues

REVIEWING YOUR CREDIT REPORT

Knowing and understanding what is in your credit report is one of your most important consumer rights. You should order a credit report each year to check for and correct any mistakes or problems. If you have any questions concerning a mistake or credit denial, contact that creditor immediately.

IF THERE ARE MISTAKES IN YOUR CREDIT REPORT OR YOU WOULD LIKE TO DISPUTE SOMETHING IN THE REPORT, TAKE THE FOLLOWING ACTIONS

Dispute Problem Online - In order to help consumers protect themselves from identity theft, the Federal Government has established a website, www.annualcreditreport.com, for you to obtain your free credit report from the three credit bureaus (Equifax, TransUnion, and Experian). No credit score will be provided, but you don't need it! At this site you can dispute any errors online; just follow the instructions for disputing errors. Each bureau has 30 days to resolve the issue for you.

Should you have a problem disputing errors through www.annualcreditreport.com, you can always dispute errors online by visiting the credit bureaus through their own websites: www.equifax.com, www.experian.com, and www.transunion.com. These sites provide directions on how to "dispute online." Depending on which bureau(s) your creditor reported the account error to, you might need to go to only one or two bureaus. In disputing your credit report, make sure you refer to the Reference Number on the first page of the credit report you obtained for free at www.annualcreditreport.com. After you are finished with the process, your request will be submitted in seconds. Each credit bureau has 30 to 45 days to investigate your request. The results of the investigation will be mailed to you, along with a copy of your credit report.

By Phone - Call 877-322-8228 to request a free credit report from any or all three credit bureaus. The report will arrive 7 to 15 days after requested. Once you have received a credit report, look for a phone number provided for investigations or filing a dispute. You will need the Confirmation Number or Report Number listed at the top of the report (this is an ID number unique to your report). You will be able to talk to a customer-service representative to place an investigation on any account that the report indicates has an incorrect status. That phone number will be good for only 30 days after the date of your request. As with disputing online, credit bureaus have 30 to 45 days to investigate and will send you the results by mail.

By Mail - You can send a request letter to the three different credit bureaus; your Homewise Home Purchase Advisor can give you a sample dispute letter and the addresses you should mail it to.



FITNESS TIP

It is important to build a good relationship with credit and not to overextend your borrowing practices. At the first sign of trouble with any creditor, contact the creditor and try to work out a reasonable payment plan to avoid late payments, fees, and referrals to collection agencies.

Sample Dispute Letter

Date

YOUR NAME
YOUR ADDRESS
Santa Fe, NM 87507

Complaint Department
Trans Union
PO Box 2000
Chester, PA 19022
800-916-8800

Complaint Department
Experian National Consumer Assistance
PO Box 2002
Allen, TX 75013
888-397-3742

Complaint Department
Equifax
PO Box 740241
Atlanta, GA 30374
800-685-1111

Dear Sir or Madam:

I am writing to dispute/correct the following information in my file. The items I am disputing/correcting also are circled on the attached copy of the report I received.

1. (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.)
2. **This/these item(s) is/are** (inaccurate or incomplete) **because** (describe what is inaccurate or incomplete and why.) (Or, **I do not know what these charges are for and have no record of owing this/these amount(s). Please provide more details on your investigation of the items in question.**) **I am requesting that the item(s) be deleted** (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, court documents) **supporting my position.**

Please investigate this/these matter(s) and (delete or correct) **the disputed item(s) as soon as possible. In addition, please send me a free copy of my updated credit report reflecting this/these change(s).**

Sincerely,

Your Name

Enclosures: (List what you are enclosing)