

Managing Your Personal Finances



CREDIT



*Good credit can open doors for you. Bad credit can close them.
It's that simple and that important.*

THREE STEPS TO CREDIT

Credit is a privilege that comes with responsibility. Credit is a tool that can help you take control of your personal finances.

1 Borrow only what you need and can afford to repay.

- ✓ Most lenders will suggest that your debt be limited to 38% of your income.
- ✓ A budget helps ensure that you can pay your living expenses and other obligations in addition to loan payments.

2 Start small and perform as promised.

- ✓ Your local banker is a good place to start for a small loan.
- ✓ You are responsible for your credit. You can reap generous rewards or pay a heavy price. The choice is up to you.

3 Repay loans on time and as quickly as possible.

- ✓ Budget, plan, and make payments on time.
- ✓ Good credit management means keeping your commitments.

GETTING STARTED

This booklet will explain credit in general, identify some of the ways you can borrow money and manage debt, and offer some warning signs of too much debt.

"Use credit wisely as a tool to help you reach your goals."

Whether you are just getting started or already use credit, it is always best to have a plan:

- ? Do you know how you are spending your money now? Our BUDGETING booklet can help. It includes worksheets so you can write down your income and expenses.
- ? Are you saving part of your income? Our SAVINGS booklet can help you set goals and make a plan.

Budgeting, saving and the wise use of credit are the tools needed to achieve your personal financial goals.

CREDIT IS A PRIVILEGE

Credit is a privilege and should be used to enrich your life, not impoverish it. Reputable lenders review the following items when extending credit. These are referred to as the "Three C's of Credit".

- > CHARACTER - is defined as moral integrity and reputation. Lenders look for signs of stability and reliability. They review past bills and how they were paid. They also look for stability in employment.
- > CAPACITY - Lenders take into account your current debt. They need to be certain that, based on your income, you are able to take on more debt.
- > CAPITAL - A lender may require that your capital (assets) secure the loan. Capital may be any property that you own, such as your house, your car, or your savings bonds.

YOUR RESPONSIBILITIES

Credit provides an opportunity to buy now and pay over time. For the use of this convenient tool, lenders will charge interest that must be paid in addition to any money (principal) you may borrow.

It is your responsibility to manage your debt and keep your commitments. If you use credit, it is critical to understand the reality of repaying your debt until you fulfill your obligation.

For most people, credit provides an opportunity to purchase a car or home. It is important to understand that a poor or unsatisfactory credit history can mean being denied a loan for these and other important purchases.

Being responsible means choosing the right type of credit tool that best meets your needs. Interest rates, terms, and conditions will vary and depend on many factors. It is your responsibility to gather information and make decisions that are best for you.

Let's look at some general information about credit.

SECURED CREDIT

Secured credit is protected and backed by the value of your property (collateral). If you fail to repay a secured loan, the lender has the right to repossess and sell the collateral to recover what is owed. This type of loan usually carries a lower interest rate than unsecured credit.

◆ SECURED LOANS

An **automobile loan** is typically offered for 36, 48, or 60 months, with a fixed interest rate and a fixed payment schedule. The interest is not tax deductible.

A (first) **mortgage** is a loan secured by a home. Typically these are 15-30 year loans and have either fixed or adjustable interest rates.

Normally, interest paid on a mortgage is tax-deductible. A mortgage is the largest and most important loan that most of us obtain in our lifetime! It is very important to discuss with your local banker the kind of mortgage that's best for you, and the amount you can afford.

A **home equity loan** (sometimes called a second mortgage) is a way of borrowing money against the equity in your home, that is, the difference between the value of your home and the amount you owe on your mortgage. Interest rates on home equity loans are usually higher than on first mortgages and the interest is tax deductible.

Many people use this type of loan to consolidate and pay off other debts, make college tuition payments, or remodel or renovate a home. Remember that because this loan is secured by your home, if you fail to repay this loan, your home may be at risk.

Some banks offer a **secured credit card**, which allows you to use a credit card that is backed by a savings account. Once you build up a credit history, you might switch to an unsecured credit card.

◆ ABOUT SECURED LOANS

- ✓ Most loans are offered for fixed amounts and the loan amount is given to you in one lump sum.
- ✓ The length of time you will be given to repay the loan is usually determined at the time the loan is given. This amount of time is called the "life" or term of the loan and is expressed in months or years.
- ✓ Payments are normally set at a fixed amount for the "life" of the loan until the loan is repaid in full. Your payments will include interest charges plus part of the balance (principal) due.
- ✓ Normally you can pay off a loan early. But check first, some may have an early payoff penalty fee.

"Your local banker is a good place to start for a small loan.

If you are not able to obtain credit in your name only, your banker may suggest that a relative or friend with a good credit history co-sign a loan agreement with you.

The co-signer guarantees that he will repay the loan if you do not. "

UNSECURED CREDIT

Unsecured credit is not backed by collateral. Because risk to the lender *is higher*, (they have no way to recover a loss if the loan isn't repaid), the interest rate is usually higher than the rate for a secured loan.

The most common type of unsecured credit is a credit card. In general, interest rates are higher for credit cards than for loans. Credit card interest is not tax-deductible.

◆ **ABOUT UNSECURED CREDIT (CREDIT CARDS)**

- ✓ A credit card comes with a credit limit. You may use this amount over a period of time, you may use it all at once, or you may choose to keep the credit as "buying power" to be available as needed.
- ✓ Most credit cards offer a period of time (a "grace period") when you may use the credit before interest is charged.
- ✓ You may pay the full amount due at any time. If you do not pay the full amount, monthly payments ("minimum monthly payments") are usually required, based on a percentage of the full amount.
- ✓ You may pay more than the minimum payment due, which will reduce your remaining balance and lower the amount of interest you will be charged on your remaining balance.
- ✓ If no payment is made by the due date, you will be charged a "late fee."
- ✓ Fees and interest charges vary between credit card issuers. Some cards charge annual fees for the privilege of having the credit card or higher interest rates for special benefits and programs. (Choosing the card that best meets your needs is your responsibility).

◆ **A CREDIT TIP:**

"Obtaining a gasoline company card is a good way to start using credit. Because most gasoline companies require that you pay your balance in full each month, you will not be charged interest, and you will be establishing a good payment history."

YOUR CREDIT REPORT

When you use credit or borrow money, your payment information may be reported to one or more of three national credit bureaus. Credit bureaus use this information to create a credit report (or credit history) about you. The three major credit bureaus are:

1. Equifax - (800) 685-5000
2. Experian - (888) 397-3742
3. Trans Union - (800) 888-4213

- ❖ Only people with legitimate business need may obtain a copy of your credit report.
- ❖ When you apply for a loan, request more credit, or apply to rent an apartment, a credit report will be requested from a credit bureau.
- ❖ When you apply for a job, an employer may obtain a copy of your credit report -- but only if you give them permission in writing to do so.
- ❖ You may pay a small fee and obtain a copy of your credit report at any time. As of 2004, you may request a free credit report annually from each bureau.
- ❖ By law, if you are denied credit because of information in your credit report, you must be told the reason for denial. Within 60 days of being denied credit, you are entitled to a free copy of your credit report.
- ❖ Negative information remains on your credit report for seven years, bankruptcy remains on your report for ten years, positive information remains on your report forever.
- ❖ If you report an error on your credit report, the credit bureau has 30 days (as a rule) to correct the information. Remember, accurate information cannot be removed from your report.

TAKE CARE OF YOUR CREDIT

Seven years is a long time to have negative information on your credit report, and it is often difficult to re-establish credit. Choosing credit tools that best fit your needs and maintaining a good record of repayment is important.

*"A good credit report can open doors
for you. A bad credit report can close them.
It's that simple and that important."*

WARNING SIGNS

The following types of behavior are warning signs that you are not managing your debt responsibly:

- ☞ Making only minimum payments.
- ☞ Paying rent or mortgage late.
- ☞ Using money from one lender to pay another.
- ☞ More than 20% of your paycheck is used for paying charge cards.
- ☞ Using cash advances or pay day loans.
- ☞ Applying for or accepting new credit cards because the credit limits on your existing cards have been exhausted.
- ☞ Transferring balances to new accounts to avoid paying off debt.

TAKE CONTROL

If your financial life is getting out of control you could benefit from professional advice and counseling.

- ✓ Talk to your local banker about managing your money and reducing debt.
- ✓ Remember that most creditors are almost always willing to work out alternate payment plans, especially in emergency situations such as job loss or major illness.
- ✓ Be wary of anyone who claims they can "fix" your credit for you. Accurate information can not be removed from credit reports. Use only reputable organizations as recommended by a trusted source.

"Remember, your goal is financial security and peace of mind."

PERSONAL FINANCES QUIZ

Take our quiz to see how well you are managing your credit and personal finances.

- Never (0 points)
- Sometimes (1 point)
- Frequently (2 points)

	Points
1. I set goals and make plans to save for large purchases I want to make.	_____
2. I have a budget that I follow closely.	_____
3. I save a fixed percentage of my salary every paycheck.	_____
4. I increase my savings when I receive a raise.	_____
5. I pay off my credit card balances each month.	_____
6. I keep track of how I spend the cash I withdraw from the ATM.	_____
7. I reconcile my monthly checking account statements.	_____
8. I have automatic payroll deductions from my paycheck to a savings or retirement account.	_____
9. I reconcile my monthly charge card statements.	_____
10. I pay all my bills on time and avoid paying late fees.	_____
Total Points	_____

Check your score.

PERSONAL FINANCES QUIZ ANSWERS

Check your score to see how well you are managing your credit and personal finances.

✧ 0-6 points

You need to take control of your personal finances by setting up a budget and establishing a regular savings plan.

✧ 7-13 points

You have a good foundation for taking control of your personal finances. Some additional effort to budget and save can reap big rewards.

✧ 14-20 points

Congratulations! You are taking control of your personal finances and are well on your way to reaping the rewards.

FINAL THOUGHTS

Creating a budget, making a savings plan, and managing credit are all pieces of a financial plan. Your banker can work with you to fit the pieces together to help you build your own financial future.

Remember our three steps for using credit responsibly:

- 1) Borrow only what you need and what you can afford to repay.
- 2) Start small and pay as promised.
- 3) Repay loans and credit on time and as quickly as possible.

Using credit responsibly is a critical part of managing your personal finances and impacts many other aspects of your life. We encourage you to build a strong relationship with your local banker to discuss these issues in more detail ... and make certain that you are doing the best that you can to take control of your personal finances.

Good luck!