

THE DEPARTMENT OF THE TREASURY

KEYS TO
GOOD CREDIT



The
BAD CREDIT HOTEL

ControlYourCredit.gov



PERSONAL BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years, and can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. Still, it is a legal procedure that offers a fresh start for people who can't satisfy their debts. People who follow the bankruptcy rules receive a discharge — a court order that says they don't have to repay certain debts. The consequences of bankruptcy are significant and require careful consideration. Other factors to think about: Effective October 2005, Congress made sweeping changes to the bankruptcy laws. The net effect of these changes is to give consumers more incentive to seek bankruptcy relief under Chapter 13 rather than Chapter 7. Chapter 13 allows you, if you have a steady income, to keep property, such as a mortgaged house or car, that you might otherwise lose. In Chapter 13, the court approves a repayment plan that allows you to use your future income to pay off your debts during a three-to-five-year period, rather than surrender any property. After you have made all the payments under the plan, you receive a discharge of your debts.

Chapter 7, known as straight bankruptcy, involves the sale of all assets that are not exempt. Exempt property may include cars, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official — a trustee — or turned over to your creditors. The new bankruptcy laws have changed the time period during which you can receive a discharge through Chapter 7. You now must wait eight years after receiving a discharge in

Chapter 7 before you can file again under that chapter. The Chapter 13 waiting period is much shorter and can be as little as two years between filings. Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments and utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary by state. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or security lien on it. Another major change to the bankruptcy laws involves certain hurdles that you must clear before even filing for bankruptcy, no matter what the chapter. You must get credit counseling from a government-approved organization within six months before you file for any bankruptcy relief.

You can find a state-by-state list of government-approved organizations at www.usdoj.gov/ust. That is the website of the U.S. Trustee Program, the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. Also, before you file a Chapter 7 bankruptcy case, you must satisfy a "means test." This test requires you to confirm that your income does not exceed a certain amount. The amount varies by state and is publicized by the U.S. Trustee Program at www.usdoj.gov/ust. For more information, see *Before You File for Personal Bankruptcy: Information About Credit Counseling and Debtor Education*, *Knee Deep in Debt*, and *Fiscal Fitness: Choosing a Credit Counselor* at ftc.gov/credit.



BUILDING A BETTER CREDIT REPORT

If you've ever applied for a credit card, a personal loan, or insurance, there's a file about you. This file is known as your credit report. It is chock full of information on where you live, how you pay your bills, and whether you've been sued, arrested, or filed for bankruptcy. Consumer reporting companies sell the information in your report to creditors, insurers, employers, and other businesses with a legitimate need for it. They use the information to evaluate your applications for credit, insurance, employment, or a lease.

YOUR ACCESS TO FREE CREDIT REPORTS

The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies – Equifax, Experian, and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. The FCRA promotes the accuracy and privacy of information in the files of the nation's consumer reporting companies. The Federal Trade Commission (FTC), the nation's consumer protection agency, enforces the FCRA with respect to consumer reporting companies.

WAYS TO OBTAIN YOUR CREDIT REPORT

The three nationwide consumer reporting companies have set up a central website, a toll-free telephone number, and a mailing address through which you can order your free annual report. To order, visit annualcreditreport.com, call 1-877-322-8228, or complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

The form is on the back of this brochure; or you can print it from ftc.gov/bcp/online/edcams/credit. Do not contact the three nationwide consumer reporting companies individually. They are providing free annual credit reports only through annualcreditreport.com, 1-877-322-8228, and Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You may order your reports from each of the three nationwide consumer reporting companies at the same time, or you can order your report from each of the companies one at a time. The law allows you to order one free copy of your report from each of the nationwide consumer reporting companies every 12 months.

HOW LONG DOES IT TAKE TO GET MY REPORT AFTER I ORDER IT?

If you request your report online at annualcreditreport.com, you should be able to access it immediately. If you order your report by calling toll-free 1-877-322-8228, your report will be processed and mailed to you within 15 days. If you order your report by mail using the Annual Credit Report Request Form, your request will be processed and mailed to you within 15 days of receipt.



1. What Is a Credit Report?

A credit report is a record of your credit activities. It lists any credit-card accounts or loans you may have, the balances, and how regularly you make your payments. It also shows if any action has been taken against you because of unpaid bills.

2. What is a credit score, and how does it affect my ability to get credit?

Credit scoring is a system creditors use to help determine whether to give you credit, and how much to charge you for it. Information about you and your credit experiences, like your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report. Using a statistical formula, creditors compare this information to the credit performance of consumers with similar profiles.

A credit scoring system awards points for each factor. A total number of points — a credit score — helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments on time.

Generally, consumers with good credit risks have higher credit scores. You can get your credit score from the three nationwide consumer reporting companies, but you will have to pay a fee for it. Many other companies also offer credit scores for sale alone or as part of a package of products. For more information, see Credit Scoring at ftc.gov/credit.

3: What Type of Information Is on Your Credit Report?

There are usually four types of information: Identifying Information: Your full name, any known aliases, current and previous addresses, social security number, year of birth, current and past employers, and, if applicable, similar information about your spouse.

Credit Information: The accounts you have with banks, retailers, credit-card issuers, utility companies, and other lenders (accounts are listed by type of loan, such as mortgage, student loan, revolving credit, or installment loan; the date you opened the account; your credit limit or the loan amount; any co-signers of the loan; and your payment pattern over the past two years). Public Record Information: State and county court records on bankruptcy, tax liens, or monetary judgments (some consumer reporting agencies list non-monetary judgments as well). Recent Inquiries: The names of those who have obtained copies of your credit report within the past year (two years for employment purposes).

How Long Does Information Stay on Your Credit Report?

Generally, all your credit history information, good or bad, remains on your report for seven years. If you file for personal bankruptcy, that fact remains on your credit report for 10 years.



CREDIT COUNSELING

If you're not disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling organization.

Many credit counseling organizations are nonprofit and work with you to solve your financial problems. But be aware that just because an organization says it's "nonprofit," there's no guarantee that its services are free, affordable, or even legitimate. In fact, some credit counseling organizations charge high fees, which may be hidden, or pressure consumers to make large "voluntary" contributions that can cause more debt.

Most credit counselors offer services through local offices, the Internet, or on the telephone. If possible, find an organization that offers in-person counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs.

Your financial institution, local consumer protection agency, and friends and family also may be good sources of information and referrals. Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Their counselors are certified and trained in the areas of consumer credit, money and debt management, and budgeting. Counselors discuss

your entire financial situation with you, and help you develop a personalized plan to solve your money problems. An initial counseling session typically lasts an hour, with an offer of follow-up sessions.



Annual percentage rate (APR)

The APR is a measure of the cost of credit, expressed as a yearly interest rate. Usually, the lower the APR, the better for you. Be sure to check the fine print to see if your offer has a time limit. Your APR could be much higher after the initial limited offer.

Grace Period

This is the time between the date of the credit card purchase and the date the company starts charging you interest.

Annual Fees

Many credit card issuers charge an annual fee for giving you credit, typically \$15 to \$55.

Transaction Fees and Other Charges

Most creditors charge a fee if you don't make a payment on time. Other common credit card fees include those for cash advances and going beyond the credit limit. Some credit cards charge a flat fee every month, whether you use your card or not.

Customer Service

Customer service is something most people don't consider, or appreciate, until there's a problem. Look for a 24-hour toll-free telephone number.

Other Options

Creditors may offer other options for a price, including discounts, rebates and special merchandise offers. If your card is lost or stolen, federal law protects you from owing more than \$50 per card - but only if you report that it was lost or stolen within two days of discovering the loss or

theft. Paying for additional protection may not be a good value.

Additional Costs

Some gold or platinum card promoters charge \$50 or more for their cards. Only after you agree to pay this fee are you told there's an additional fee, sometimes \$30 or more, to get the merchandise catalogues. Yet, these catalogues are the only places you can use the cards.

'900' or '976' Telephone Exchanges

Ads for 'gold' and 'platinum' cards may urge you to call numbers with '900' or '976' exchanges for more information. You pay for phone calls with these prefixes -- even if you never get the 'gold' or 'platinum' card. The cost for these calls can be high.

Misrepresented Price and Payments for Merchandise

You're not allowed to charge the total amount when you buy merchandise from 'gold' or 'platinum' card catalogues. Instead, you often must pay a cash deposit on each item you charge -- an amount usually equal to what the company paid for the product. Only after you pay your deposit can you charge the balance. Also, catalogue prices can be much higher than discount store prices.

Promises to Easily Get You "Better Credit"

Marketers of 'gold' and 'platinum' cards often claim its easy to get major credit cards after using their cards for a few months. In fact, the only major cards you usually can get through these marketers are secured. A secured card requires you to open and maintain a savings account as security for your line of credit. The required deposit may range from a few hundred to several thousand dollars. Your credit line is a percentage of the deposit, typically 50 to 100 percent.