

# Financial Empowerment Curriculum

## Moving Ahead Through Financial Management



## Module Three:

## Mastering Credit Basics

Reviewing, Understanding and  
Improving Your Credit



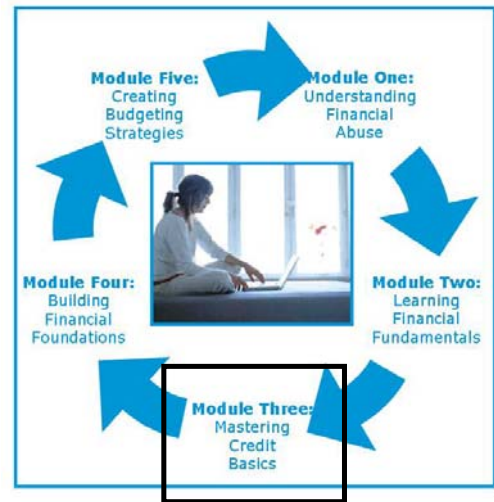
## MODULE THREE: Mastering Credit Basics

This module explains how to access and read your credit report and better understand your credit score. In addition, it will share strategies on how to improve your credit score.

Please note that the information in this curriculum is intended to be general advice for individuals involved in an abusive relationship. However, not everyone's situation is the same. So, if you need specific advice regarding your particular situation, you should contact a domestic violence advocate, financial adviser or attorney.

The objectives of this module are:

- Explain how to access and review your credit report.
- Identify the factors that control your credit report and credit score.
- Recall strategies that will help you increase your credit score.
- Describe the impact of bankruptcy.



Key topics covered in this module include:

- [Reviewing Your Credit Report](#)
- [Understanding Your Credit Score](#)
- [Improving Your Credit Score](#)
- [Understanding Bankruptcy](#)



**National Domestic Violence Hotline: 1-800-799-SAFE (7233)**



## Story of Survival

Lynn, a domestic violence survivor who has left her abusive partner, is a low-income working mother on public assistance. She cannot afford childcare or rent. Her 40-hour work week often expands to 50 hours when she factors in time for commuting and running errands. In addition, she cooks, cleans and cares for her family which is a full-time job in itself. To qualify for financial aid, she is required to attend a minimum of 12 credits of coursework (about 20 hours a week with commuting time and homework).

Lynn is uncertain about how to manage the money she earns or the debt she has accumulated. She is considering filing for bankruptcy.

Lynn's story is one of many domestic violence survivors, but there is hope and there are people, programs, and organizations willing and ready to help Deanna.

The bright-side to this story is that Lynn did seek help and worked with an advocate through her local domestic violence program (who she learned more about after contacting the National Network Domestic Violence Hotline). Lynn and her advocate worked closely together to review her credit report, create strategies to reduce her debt and save money. After much worry and contemplation, Lynn did not file for bankruptcy and was able to seek financial independence by using the resources available to her and taking action.

If your situation is similar to Lynn's in any way, read this module to learn how to review and improve your credit, manage your debt and avoid bankruptcy. It may take time, but you can achieve your goals.

The Allstate Foundation's Financial Empowerment Curriculum, along with support partners like the National Network to End Domestic Violence (NNEDV) will help you do just that: gain personal and financial independence.

## Reviewing Your Credit Report

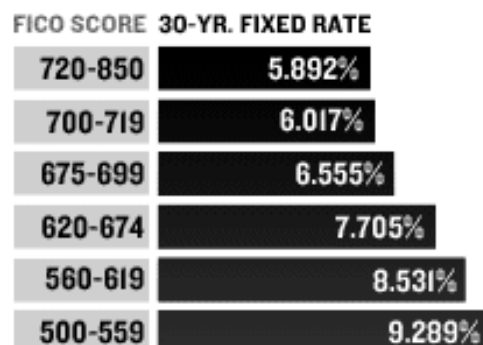
The first step to mastering credit basics is to access and review your credit report. A credit report provides information about you, your ability to pay your past debts, and assigns you a credit score based on those factors.

Upon request, each of the three credit reporting agencies (Equifax, Experian and TransUnion) must provide you with a free copy of your credit report every 12 months. A central website handles requests for the three agencies and you may order your reports online, by phone or by mail. Be aware that while you can obtain a copy of your credit report for free, the free report does not give you your credit score. To obtain your credit score, you will have to pay a small fee. Even if your resources are limited, consider paying this fee, as the information can save considerable time and money in the long-run. The contact information for the website and three credit reporting agencies is below. You can contact them directly or work with your local domestic violent advocate to request a copy of your report.

[Annual Credit Report Request Service](#)  
 P.O. Box 105281  
 Atlanta, GA 30348-5281  
 1-877-322-8228  
<http://www.annualcreditreport.com>

**Equifax: 1-800-525-6285; [www.equifax.com](http://www.equifax.com)**  
**Experian: 1-888-EXPERIAN (397-3742); [www.experian.com](http://www.experian.com)**  
**TransUnion: 1-800-680-7289; [www.transunion.com](http://www.transunion.com)**

Be cautious of companies or services that offer free credit reports, as many of them come with strings attached; such as a fee for credit/identify protection or issuing you a new credit card with a high interest rate and fees. Obtaining a copy of your credit report and monitoring your credit is very important because of the impact on your credit score (which is also referred to as your FICO score). Your credit score often determines the rate you pay on credit cards and loans, including a mortgage loan. A mortgage loan is a loan that allows you to purchase a home. Take a look at the bar chart below and notice that the interest rate on a mortgage loan is almost 3.5% lower for people who have excellent credit.



SOURCE: INFORMA RESEARCH SERVICES AND MYFICO.COM. INTEREST RATES AS OF 9/15/03

## Reviewing Your Credit Report (cont'd)

Initially, that 3.5 percent may not sound like very much. However, the difference between someone with a credit score of 720 (paying 5.892 percent interest on a mortgage loan amount of \$150,000) compared to someone with a credit score of 500 (paying 9.289) can be up to \$350 a month or \$125,000 in interest payments over the life of the loan.

Improving your credit score is not the only reason to maintain good credit. Many employers are now checking credit history and using it in the hiring process. Automobile and life insurance companies are also using FICO scores when figuring your monthly payments.

The best way to learn about a credit report is to look at an example. The following page provides an example of a credit report and reviews each section to help you understand how to read your credit report.

As you can see, the first page of a credit report provides a summary of all of the information contained within the detailed credit report. When reading your credit report, be sure to confirm that the name, address, and date of birth (DOB) is actually yours. If any of this is wrong, it means the credit reporting agency has your information wrong, or it could be a sign of identity theft (which we discussed earlier in Module One).

The summary section lists the different types of credit accounts, whether it be a mortgage (real estate), credit cards (revolving), installment (personal loans), or other. Next to the type of account, you can see how many of those types of account you have open, the total balance of accounts, the minimum monthly payment, whether the payment is current, and if the account is still opened or if it has been closed.

The example on the following page is from the very popular Web site [www.myFICO.com](http://www.myFICO.com). Visit this site to learn more about accessing and reviewing your personal credit score.

- Reviewing Your Credit Report
- Understanding Your Credit Score
- Improving Your Credit Score
- Understanding Bankruptcy

Check to see that your name, current address, former address, and date of birth are correct.

Refer to this number when making inquiries to your creditors.

Sums current credit accounts, balances, and notes delinquent or overdue amounts.

Indicates which of the three main credit reporting agencies (Equifax, Experian, TransUnion) reported the information.

Shows the number of public records (bankruptcies, tax liens, etc.) reported by the credit agencies.

Shows the total number of inquiries about your credit that were reported.

Shows the delinquent and derogatory information that has been reported by the credit agencies.

The creditor with whom you have or had an account with, the account number, and the type of account.

Displays the date when the account was opened.

This is the designation as to who is responsible for each account.

Shows your credit limit or the most you have ever charged on the account.

Indicates which of the three main credit reporting agencies reported the information.

Indicates the number of times the account was 30/60/90 days past due.

Shows the type of account (Real Estate, Installment, Revolving or Other).

Shows the total number of accounts reported for each type of account.

Shows the total balance of all types of accounts.

Shows the total number of account reported closed.

Shows the total number of current accounts.

Shows the total account type payments.

Shows the number of accounts that are currently delinquent or derogatory.

Shows the number of accounts ruined over to a collection agent.

Shows the total past due amount for all accounts.

Indicates whether the account is current or past due.

The last date the account was updated by the creditor.

The balance owed when the credit report was pulled or obtained.

Indicates whether the account was past due or current during past 24 months.

Reference #: 0-00027-0000000-00 Date of Report: 02/11/2002

Name: Bob Buyer Address: 2204 First Avenue, San Diego CA 92122 DOB: 08/14/1966

### SUMMARY

Account Type:	Count	Balance	Payment	Current	Closed
Real Estate					
4 XPN	1	\$0	\$1200	0	1
Installment					
XPN	1	\$1247	\$200	1	0
Revolving					
XPN	1	\$684	\$25	1	0
Other					
XPN	1	\$181	\$10	1	0

	Inquiries	Public Records	Collection Accounts	Delinquencies
	Now	Prior		
XPN	6	1	0	4

### DEROGATORY INFORMATION

See Contact Information to contact creditor

#### Account Information

Account: Citibank Acct#: 123456789 XXXX Type: Revolving

Bureau Code	Date Open	High Limit	Monthly Payment	Account Balance	Last Reported	Account Status	Past Due Amount
XPN	I	0/92	75	N/A	Closed	10/01	Current

Bureau	Days Past Due	History	Date	24 Month History
	30	60	90+	
XPN	2	2	1	10/01

Your monthly payment for each account.

Date which credit history began.

# Reviewing Your Credit Report (cont'd)

Having good credit is important if you plan to build your own financial independence and future. In addition to learning how to read your credit report, below are the most popular credit reporting questions and answers.

## Why is good credit important?

As you learned, good credit allows you to obtain loans and credit cards with the best interest rates. Having a good credit history is also important if you want to rent an apartment, buy insurance coverage or a cell phone, get a job, obtain a mortgage, etc. Landlords, insurance companies and employers can check your credit report and obtain your credit score. They can view your personal spending habits, payment history and whether you've been sued or declared bankruptcy.

## How do I know if I have good credit?

The only way to know whether or not you have good credit is to review your credit report. As you know, your credit report shows whether or not you've paid credit card bills and loans on time, how much you owe to creditors and whether you have unpaid loans. Remember to review your credit report annually.

## Does checking your credit report lower your credit rating?

Checking your credit score or pulling your own credit report does not hurt your credit rating. The credit scoring system is set up so that inquiries made by a consumer checking his or her own credit score or credit report do not count in any way whatsoever towards lowering or raising one's credit score. In addition, credit inquiries made by credit card companies or mortgage lenders checking your credit report to send you pre-approved offers do not count either. If they did, every American would have a very low credit score.

However, if you respond to those offers, and the credit card company or mortgage lender pulls your credit report to do a more thorough investigation, it does count. It also counts every time you apply for any sort of financing, housing, insurance, employment, etc., and your credit report is pulled.

## How much does it affect your credit score?

Each credit inquiry can lower your score by five points. Five points for each credit inquiry sounds harsh, and it would be harmful to someone who applied for many mortgage loans with many different mortgage lenders. However, the FICO scoring system counts multiple inquiries made in a 14-day period as just one inquiry, and all inquiries made within 30 days of the credit score being calculated are ignored. Therefore, if you are shopping for a mortgage or car loan, apply with various lenders within the same week to protect your credit score.

## Reviewing Your Credit Report (cont'd)

### Where can I get help to improve my credit?

Work with a reputable, not-for-profit, community-based credit counseling organization that provides one-on-one assistance. Don't confuse expensive credit-repair clinics with legitimate, not-for-profit credit counseling organizations and be careful of organizations that charge upfront fees, make unrealistic promises or lack accreditation credentials. Using non-reputable organizations can actually harm your credit. This topic will be further discussed later in this module.

### What are some credit issues that are unique to domestic violence survivors?

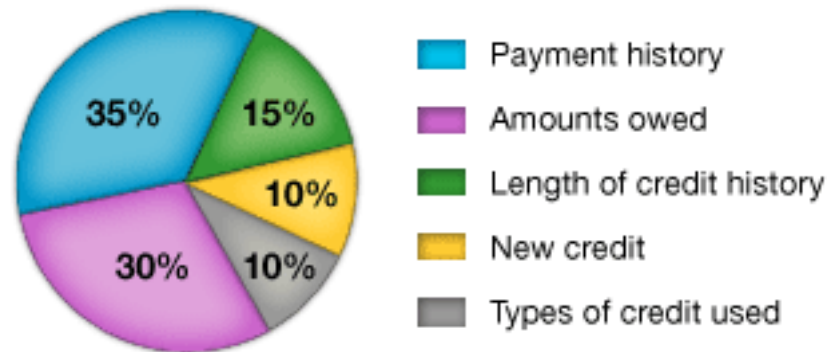
Anytime you open a new line of credit (open a new credit card, agree to purchase something 'same-as-cash', etc) it will be reflected on your credit report. If your partner still has access to your SSN, he may be able to get your contact information through a credit report.

Additionally, if your partner uses one of your credit accounts without your permission, you can file charges with law enforcement. Although they may not be able to go forward with a criminal case, having a police report filed may assist you in repairing any damage done by the unauthorized use.



# Understanding Your Credit Score

As we shared earlier, your credit score is 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 credit 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.

## 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 a specific type of balance, in some cases
- Number of accounts with balances

# Understanding Your Credit Score (cont'd)

## Amounts Owed (cont'd)

- Proportion of credit lines used (proportion of balances 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.)

Your credit score takes into consideration all these categories of information, not just one or two. No one piece of information or factor alone will determine your score. The importance of any factor depends on the overall information in your credit report. For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of the different factors in determining your credit score.

It's impossible to say exactly how important any single factor is in determining your score, even the levels of importance shown here are for the general population.

What's important is the mix of information, which varies from person to person, and for any one person over time; which is why it's so important that you know what your credit report and score looks like.

- [Reviewing Your Credit Report](#)
- [Understanding Your Credit Score](#)
- [Improving Your Credit Score](#)
- [Understanding Bankruptcy](#)

## Understanding Your Credit Score (cont'd)

Your credit score is based on the information in your credit report. However, lenders look at many things when making a credit decision including your income, how long you have worked at your present job and the kind of credit you are requesting.

Your score considers both positive and negative information in your credit report. Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will raise your score.

# Improving Your Credit Score

It's important to note that raising your FICO credit score is a bit like losing weight, it takes a lot of time and there is no quick fix. The best advice is to manage credit responsibly over time.

Below are some strategies to help improve your credit score.

## Payment History Tips

### **Pay your bills on time.**

Delinquent payments and collections can have a major negative impact on your FICO score.

### **If you have missed payments, get current and stay current.**

The longer you pay your bills on time, the better your credit score. Be aware that paying off a collection account will not remove it from your credit report and it will stay on your report for seven years.

### **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**

This won't improve your credit score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.

## Amounts Owed Tips

### **Keep balances low on credit cards and other "revolving credit."**

High outstanding debt can affect a credit score.

### **Pay off debt rather than moving it around.**

The most effective way to improve your credit score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.

### **Don't close unused credit cards as a short-term strategy to raise your score.**

Consider following the 30% rule (i.e. if your limit is \$1,000, try to keep your balance below \$300). You don't want to close accounts to reduce your score because they also look at all your accounts and total balance on all of them, which means, if you have two cards one with \$1,000 limit and 0 balance and one with \$2,000 limit and \$1,000 balance, if you close the 0 balance card you will show your 50% ratio, if you keep it open, you show a total ratio of limit-to-balance of 30%.

### **Don't open a number of new credit cards that you don't need, just to increase your available credit.**

This approach could backfire and actually lower your credit score. Be leery of stores that offer a discount on a purchase if you apply for their credit card. The short-term savings may have long-term, negative impact on your credit.

# Improving Your Credit Score (cont'd)

## Length of Credit History Tips

**If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**

New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

## New Credit Tips

**Shop for a loan within a specific period of time.**

Credit scores distinguish between a search for a single loan and a search for many new credit lines, and the time over which inquiries occur.

**Re-establish your credit history if you have had problems.**

Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.

**Note that it's OK to request and check your own credit report.**

This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.

## Types of Credit Use Tips

**Apply for and open new credit accounts only as needed.**

Don't open accounts just to have a better credit mix - it probably won't raise your credit score.

**Use credit cards but manage them responsibly.**

In general, having credit cards and loans (and paying timely payments) will raise your credit score. Someone with no credit cards, for example, is a higher risk than someone who has managed credit responsibly.

**Note that closing an account doesn't make it go away.**

A closed account will still show up on your credit report, and may be factored into your credit score.

Though the Credit CARD Act of 2009 greatly restricts the ability of minors to get a credit card, it is still possible for a child to obtain one with parental consent. If your child already has a credit card or if you (or your partner) are considering obtaining one for a child, be extremely careful. Any mismanagement of this card can be devastating to the child's financial future (and to yours). This includes limiting the child's ability in adulthood to get a loan, other credit and possibly employment. And, the sole burden of cleaning up the credit record will rest solely upon the child when they are 18 years old. Entering adulthood is difficult enough and when financial options are limited it can be overwhelming. It can also do great damage to the relationship between parent and child.

- Reviewing Your Credit Report
- Understanding Your Credit Score
- Improving Your Credit Score
- Understanding Bankruptcy

# Improving Your Credit Score (cont'd)

## Types of Credit Use Tips (continued)

### Understand how to read your credit card statement.

According to blogoncherry.com, the new credit card law (card act) made some important changes. Card companies must now tell customers how long it would take to pay off the balance if they only make the minimum monthly payment. Customers can only exceed their credit limit if they agree ahead of time to pay a penalty fee. And unless a cardholder misses payments for more than 60 days, interest-rate increases will affect only new purchases, not existing balances.

**MINIMUM PAYMENT NOTICE:**  
Card issuers must disclose how long it will take to pay off your balance if only the minimum payment is made; also must say disclose monthly payments needed to pay off balance in three years.

**LATE PAYMENT FEE:**  
Due date must be the same every month; if it falls on a holiday, customers get an extra day.

**FEES AND INTEREST CHARGED:**  
No fees allowed for exceeding your limit unless a customer agrees to them

**INTEREST CHARGED ON PURCHASES:**  
Interest rate can't be increased because of a cardholder's trouble paying other bills

**INTEREST CHARGE CALCULATION:**  
Interest rates can't increase for 12 months on a new card

# Improving Your Credit Score (cont'd)

## The Credit CARD Act of 2009

The Credit CARD Act of 2009 became law in February 2010 and it contains some important protections for credit card users. Here is a summary:

### Greater Disclosure to Card Holders

- Credit card companies must now clearly show the total cost of interest and principal payments if the cardholder only makes the minimum payment each month.
- Additionally, the statement must clearly show on how long it will take to pay off the entire balance if cardholder makes only the minimum payment each month.
- Finally, the statement must clearly show the late payment deadline and postmark date of the statement.

### Greater Protections for Card Holders

- Statements must be sent out no later than 21 days before the due date.
- The credit card company cannot increase the interest rate within the first 12 months, and low promotional rates must be offered for a minimum of 6 months.
- The credit card company may not increase the interest rate unless the cardholder is more than 60 days late with a payment.
- The company is required to review the cardholder's account six months after increasing the interest rate, and return the APR to the previous lower level if the cardholder has been on-time with payments.
- The company must give 45 days advance notice of any major changes in the terms of the credit card.
- This includes any benefits or rewards offered with the credit card.
- Over the credit limit fees cannot be charged unless the cardholder specifically agrees to allow a transaction to go through instead of being denied.
- All payments received by 5 P.M. on the due date must be credited as on time.

# Improving Your Credit Score (cont'd)

## Correcting Errors Tips

If you discover errors on your credit report it is important to take action to correct these errors as soon as possible. Errors on your credit report are potentially very damaging to your credit score. To do this, follow these steps:

1. Make a copy of your credit report and circle every item you believe is incorrect.
2. Write a letter to the credit-reporting agency (the address is printed on the report). Tell the credit-reporting company, in writing, the information you feel is inaccurate. Include copies (NOT originals) of documents that support your position. Explain each dispute and request an investigation to resolve the issues.
3. Send a similar letter to the creditor you believe reported incorrect information.
4. Send all materials by certified mail, return receipt requested, so you have proof the information was received.
5. The reporting agency will initiate an investigation by contacting creditors to verify the accuracy of the information. If the creditor can't verify that the entry is correct, it must remove the error. If any changes result from the investigation, the credit-reporting agency must send you a free copy of your new report.
6. If the investigation reveals an error, you have the right to ask that a corrected version of your credit report be sent to everyone who received the report during the past six months.
7. If an investigation doesn't resolve your dispute, ask that a statement of the dispute be included in your file and in future reports. The credit-reporting agency must include this explanation in your report each time it sends it out.
8. Accurate negative information, such as a bankruptcy or delinquent account, typically remains on your credit report for at least seven years.

According to the U.S. Public Interest Research Group, one in four credit reports contains errors serious enough to result in the denial of credit, a loan, apartment, mortgage or even a job.

On the following page is an example of a letter to a credit agency disputing an inaccuracy on a credit report.



## Improving Your Credit Score (cont'd)

Sample letter of dispute supplied by the federal trade commission:

Current Date  
Your Name  
Your Address  
Your 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. The items I dispute also are encircled 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 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.

Sincerely,  
Your Name

Enclosures: (list what you are enclosing)

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***NOTE: You can also submit an electronic dispute through the credit reporting agencies on-line; however make sure to save all communication in a secure location.***

# Improving Your Credit Score (cont'd)

## Obtaining Help Tips

It's not difficult to improve a credit record, but it does take time and requires patience. If you are unable to make a payment, contact your creditor as soon as possible (before the payment due date) to work out a payment plan. If you need help with this or with setting up a budget, contact a credit-counseling service. Also, take time to learn more by visiting the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)) to better understand your collection rights, and the National Consumer Law Center ([www.NCLC.org](http://www.NCLC.org)) or the Texas Center for Consumer Law ([www.TexasCCC.com](http://www.TexasCCC.com)) to learn more about your personal rights as a consumer.

Don't be fooled by counselors who claim they can erase bad credit. If a counselor suggests that you make false statements on a loan or credit application, misrepresent your Social Security number or obtain an Employer Identification Number from the Internal Revenue Service (IRS) under false pretenses, find a new counselor or you will be guilty of committing fraud.

Nonprofit organizations in every state offer credit guidance to consumers at little or no cost. Your employer, credit union or housing authority may also offer no-cost credit counseling programs.

If you need additional credit advice and assistance, the Federal Trade Commission suggests that you ask the following questions to a potential counseling service.

### What services do you offer?

Look for an organization offers a range of services, including budget and credit counseling and classes in savings and debt management provided by trained and certified counselors. Counselors should discuss your entire financial situation and help you develop a personalized plan to solve your current money problems and prevent future ones. The initial counseling session typically lasts an hour, with follow-up sessions. Avoid organizations that push debt management plans (DMPs). Sign up for a DMP only after a certified credit counselor has reviewed your financial situation thoroughly and has offered customized advice about managing your money. If you had a DMP with an organization that closed, ask new credit counselors how they can help you retain the benefits.

### Are you licensed to offer your services in my state?

Many states require that an organization register or obtain a license before offering credit counseling, debt management plans and similar services. Be sure to work with an organization that has met the state requirements.

## Improving Your Credit Score (cont'd)

### Do you offer free information?

Avoid organizations that charge for information about their services.

### Will I have a formal written agreement or contract with you?

Don't commit to participate in a DMP over the telephone. Get verbal promises in writing. Read documents carefully before you sign them. If you're told you need to act immediately, consider finding another organization.

### What are the qualifications of your counselors? Are they accredited or certified by an outside organization? If so, which one? If not, how are they trained?

Find an organization whose counselors are trained by a group that is not affiliated with the firm that provides credit.

### Have other consumers been satisfied with the service they received?

Once you've identified credit-counseling organizations that suit your needs, check them out with your state attorney general, local consumer protection agency and Better Business Bureau ([www.bbb.org](http://www.bbb.org)). These organizations can tell you if any consumer complaints are on file. Be aware that the absence of complaints doesn't guarantee legitimacy. However, if there are consumer complaints, be very careful.

### What are your fees? Do you have set-up and monthly fees?

Get a detailed price quote in writing and ask specifically whether all fees are covered in the quote. If you cannot afford to pay the fees, ask whether the organization waives or reduces fees to consumers in your situation. If an organization won't help you because you can't afford to pay, look for help elsewhere.

### How are your employees paid? Do the employees or the organization benefit if I sign up for certain services, pay a fee or make a contribution to your organization?

Employees who recommend that you purchase certain services may receive commissions. And many credit-counseling organizations receive compensation for enrolling consumers in DMPs. If the organization won't disclose whether it receives compensation from creditors, or how their employees are compensated, go elsewhere for help.

### What do you do to keep personal information including name, address, phone number and financial information confidential and secure?

Credit counseling organizations handle your most sensitive financial information and should have safeguards in place to prevent misuse.

## Improving Your Credit Score (cont'd)

### Make a list of your outstanding debts.

Figure out how much you owe. Include educational loans, home improvement loans, personal loans, rent-to-own agreements and other installment purchases. Use the chart that follows to document your debt. List the name of the creditor (e.g., ABC Bank), the amount you owe, the interest rate and monthly payment.

### Prioritize and decide which debts to pay first.

Sort your list by interest rate, putting the account with the highest interest rate at the top. Start paying more than the monthly payment for debts at the top of the list, which have the highest rate of interest, and then move down the list. If you have several accounts with smaller balances, you may want to pay off bills with the lowest balance due. While this may not make the most financial sense, it will help in a psychological sense as you'll begin to see immediate progress.

### Find credit cards and loans with the lowest interest rate.

Lower interest rates are available for good customers, but you must request them. Ask your credit card company if they would consider lowering your rate. If not, shop around for a card with a lower rate. Switching from a card with 21 percent interest to one with 14 percent could save you significantly per month. If you transfer your outstanding balance from a high-rate card to a low-rate card, ask the new bank to waive the transfer fee and be sure the new low rate applies for more than a few months.

Below is an example of a chart to help you manage and payoff your debt.

Creditor (list by interest rate, from highest to lowest)	Balance due	Interest rate	Current monthly payment
1.			
2.			
3.			
4.			
Total debt and monthly payments			

# Understanding Bankruptcy

Bankruptcy is a last resort. It cannot clean up a bad credit record and will be part of your credit record for up to 10 years. It usually does not eliminate child support, alimony, fines, past-due taxes and some student loan obligations. Unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not permit you to keep property when a creditor has an unpaid mortgage or lien on it. Before considering bankruptcy, consult a nonprofit credit counselor.

There are different forms of bankruptcy. Chapter 7 wipes out all allowable debts and provides certain personal-property exemptions (i.e. home, vehicle/s). The debtor gives up all property unless the state finds that the debtor needs it to support his or her dependents. Chapter 13 is a court-approved repayment plan. The debtor keeps all property and makes regular payments on the debts after filing for bankruptcy.

Declaring bankruptcy has long-term affects.

- It could determine whether or not you get the job you want.**  
Some businesses use credit reports to make employment decisions.
- Your insurance rates may increase.**
- It may be difficult to rent an apartment or qualify for a home loan.**
- Bankruptcies stay on your credit report for 10 years.**  
Phone companies and other utility and service providers may look at your credit history before providing service. According to legislation passed in 2005, many debtors will not be able to use Chapter 7 to wipe out debt. Instead, they must establish plans to repay debt within five years under Chapter 13.

Before you decide to file bankruptcy, try the strategies below.

## Reduce your spending.

Consider a smaller home or vehicle. If you reduce spending, you may be able to find the money to repay your debt.

## Talk with your creditors.

Creditors are often willing to work out a payment plan to help you pay off what you owe.

## Talk with a nonprofit counseling agency.

These agencies can help you create a plan to handle all of your debts.

## Understanding Bankruptcy (cont'd)

### [Talk to an attorney.](#)

Expert advice can help you understand the consequences of declaring bankruptcy.

### [Consider debt consolidation.](#)

To pay your debt, you may be able to borrow against your workplace retirement plan, stocks or other securities, or the cash-value of your life-insurance policy. Analyze the risks and consequences of this action thoroughly.

Each state has laws defining exempt and non-exempt property. Creditors cannot seize exempt property. Some property is entirely exempt, while the exemption for other property may be limited to a certain dollar amount. Examples of exempt property include:

- Household furniture and furnishings
- Clothing and jewelry
- Tools of a trade or business

Social Security and other such benefits, including life insurance, may also be exempt property. Some states exempt all or a portion of one's home and adjoining land. To learn more about which assets are protected in your state, contact a lawyer or local nonprofit legal organization.

As you have learned in this module, having a thorough understanding of your credit score will have a tremendous impact on your ability to gain financial independence. Remember to work with your local domestic violence advocate on securing your credit report and improving your score. Also, be sure to visit [www.myFICO.com](http://www.myFICO.com) to learn more about the impact of your credit score.