

Homebuyer  
Education  
Section 3  
Understanding  
Credit





# Understanding Credit

## How to Use Your Credit Wisely

### **American Economy Runs on Credit**

- When lots of goods and services are sold
- You are encouraged to make payments over time so you will buy more now

### **Lenders Make Loan Decisions Based on Credit History**

- Your creditors report your payment history to Credit Reporting Agencies
- CRA's assign a Credit Score (or Risk Score) based on a mathematical formula
- Loan Underwriters use credit scores and other factors in deciding to give loans



# Understanding Credit

## How to Use Your Credit Wisely

### **Credit Regulations and Legislation**

- The Equal Opportunity Act (ECOA)
- Consumer Credit Protection Act (1968)
- Fair Credit Reporting Act (1971)
- Fair Credit Billing Act (1975)
- Fair Debt Collection Practices Act (1978)
- Fair and Accurate Credit Transaction Act (FACT Act or FACTA) (2003)
- Credit Card Accountability, Responsibility, and Disclosure (CARD) or Credit CARD Act of 2009

# Sources of Credit

## Traditional sources:

- Banks and credit unions
- Credit cards
- Major finance corporations: GMAC, GE Credit

## Non-Traditional sources:

- Check cashing
- Payday loans
- Rent to own businesses
- Pawnshops
- Car title loans
- Quick refund tax services



# Establishing a Credit Record

## Types of transactions that are reported to credit bureaus for your credit record

- Bank loans
- Most car loans (From major lending companies- not companies that self finance- where you make payments to the car salesman)
- Loans from credit unions
- Credit cards

## **Things that usually do not show up on your credit bureau report**

- Rent payments
- Utility payments
- Non- traditional sources of credit
- Cash payments

## **-Some lenders will consider additional information if your credit record isn't established**

- Letters from landlord
- Letters from other places where you have made regular, timely payments
- Letters from nontraditional lending sources- if you can get one
- Rent-to-own store car title loans

## **Correcting and Improving Your Credit Score**

- Your credit report may be wrong, or you may be able to improve it
- Common mistakes on Credit Records
- Steps to rebuilding your Credit Score
- Ask your bank for a passbook savings loan



# Correcting and Improving Your Credit Score

- **Your credit report may be wrong, or you may be able to improve it**
  - 1 in 4 credit reports contain an error
  - Obtain your free annual copy of your file and check it periodically
  - Credit counselors will help you obtain your credit history and rebuild your credit
- **Common mistakes on Credit Records**
  - Information in your file is from someone else with the same name
  - Former spouses appear on credit record
  - The balance listed is incorrect
  - Unauthorized inquiries into your credit are listed
- **Steps to rebuilding your Credit Score**
  - Request copy of credit record
  - Review record and make sure everything is accurate
  - Pay off all past due accounts
  - Write an explanation letter to become part of your permanent file
  - Negotiate with the creditors to get negative information cleared
  - Add positive information to the file. Not all info gets in your file
  - Establish credit in your own name
  - Start making payments on time
  - Work with local merchants to see if they are willing to establish an account for you



## **Ask Your Bank for a Passbook Savings Loan**

- Put some of your savings in passbook savings account
- Ask bank for a loan using savings account as collateral
- Make the payments on time
- Make sure the bank reports the loan to the CRAs