Credit Management

Print Course

Print Handouts

COURSE DESCRIPTION

Credit Management is a 60-minute course to help learners establish and maintain good credit and avoid excessive debt. This instructor's guide contains more information than can be presented in the session. This additional content and information is included to deepen the facilitator's knowledge of the topic and prepare them to answer learners' questions. Facilitator information for an optional, shortened version of this course is provided at the end of the course content. The shortened version can be used when there is less than 60 minutes to facilitate the course or to customize a course to meet command needs.

LEARNING OBJECTIVES

Terminal: Upon completion of this course, learners should be able to establish and maintain good credit and determine a safe debt load.

Enabling:

- During the *Credit Quiz* activity, learners will correctly answer questions to review content material about qualifying for credit, establishing a credit history and wise uses of credit.
- Participating in the *Take Five* activity, learners will list five ways to reduce the cost of credit.
- Learners will correctly calculate a debt-to-income ratio using the *Debt-to-income Ratio* handout.

REFERENCES

Department of the Navy. (2005). *SECNAV Instruction 1754.1B: Family Support Programs.* Office of the Secretary of the Navy, Washington, D.C.

Department of the Navy. (2010). *OPNAV Instruction 1740.5B Change Transmittal 2, United States Navy Personal Financial Management (PFM) Education, Training, and Counseling Program.* Chief of Naval Operations, Washington, D.C.

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"Consumer's Guide: Credit Cards." *Board of Governors of the Federal Reserve System*, Nov. 10, 2010. Web. July 9,2014. www.federalreserve.gov/creditcard/

"Co-signing a Loan." *Federal Trade Commission*, October 2012. Web. July 8, 2014. www.consumer.ftc.gov/articles/0215-co-signing-loan

"Credit Repair: How to Help Yourself." *Federal Trade Commission*, November 2012. Web. July 10, 2014. www.consumer.ftc.gov/articles/0058-credit-repair-how-help-yourself

Detweiler, Gerri. "What is a Good Credit Score?" Credit.com. *Credit.com Inc.*, Aug. 8, 2013. Web. July 13, 2014. www.credit.com/credit-scores/what-is-a-good-credit-score/

Garman, E.T., and R.E. Forgue. (2011). *Personal Finance*, 11th ed. Boston, MA: Houghton Mifflin Company.

Useful Websites:

American Bankruptcy Institute: www.abiworld.org

Association of Independent Consumer Credit Counseling Agencies: www.aiccca.com

Free annual credit reports from the three major agencies: www.annualcreditreport.com

Bankrate, for comparison shopping of rates: www.bankrate.com

Consumer Financial Protection Bureau: www.consumerfinance.gov

National Consumer Law Center: www.consumerlaw.org

Credit card industry ratings: www.creditcards.com

Federal Reserve System: www.federalreserve.gov

Federal Trade Commission: www.ftc.gov

Bankruptcy information: www.legalconsumer.com

COURSE PREPARATION

Handouts:

- *Choosing Credit Cards*

- *Credit Quiz*
- *Credit Reports*
- *Debt-to-income Ratio*
- *Take Five*
- *Warning Signs of Credit Abuse*

Materials (vary depending on activities chosen):

- Chart paper or whiteboard
- Pens, pencils, paper
- Internet access (optional)
- Markers
- Note cards
- *Credit Management* PowerPoint slides

SUMMARY OF LEARNER ACTIVITIES

- *Calculating Your Debt-to-Income Ratio:* A worksheet exercise in which learners calculate their debt-to-income ratio and evaluate their current debt load.
- *Credit Quiz:* Quiz activity to review the content.
- *Take Five:* Learners list five ways to apply the course material to save on the cost of credit.

CONTENT OUTLINE

1. Welcome and Introduction (5 minutes)
    a. The Impact of Credit
    b. Agenda
2. Getting and Using Credit (10 minutes)
    a. Qualifying for Credit
    b. Establishing Credit
    c. Wise and Unwise Uses of Credit
    d. Credit Reports
    e. Your Credit Score

3. Reducing the Cost of Credit (10 minutes)
    a. Learner Activity: *Take Five* (Part One)
    b. The Cost of Credit
        i. Where You Borrow
        ii. How Much to Borrow
        iii. How Long to Repay
        iv. Minimum Monthly Payments
        v. Minimizing Interest Charges
4. Choosing and Using Credit Cards (10 minutes)
    a. Credit Card Features
    b. Credit Card Costs
    c. Cutting Credit Costs
    d. Learner Activity: *Take Five* (Part Two)
    e. Government Cards
5. Managing Your Debt (10 minutes)
    a. Calculating a Debt-to-Income Ratio
    b. Learner Activity: *Calculating Your Debt-to-Income Ratio*
    c. Warning Signs
    d. Recovering From Debt
    e. Use With Caution
6. Summary (15 minutes)
    a. Sources of Help
    b. Learner Activity: *Credit Quiz*

CONTENT MATERIAL

WELCOME AND INTRODUCTION

SLIDE 1

Credit has become a normal part of everyday personal financial management for most Americans. Used appropriately, it can be an excellent tool; poor credit management, though, can devastate a person's financial health.

The Impact of Credit

Trainer's note: Below are some general areas where poor credit can be detrimental. You may wish to add other points based on what you see at your base or installation.

SLIDE 2

Credit can influence almost every aspect of your life, not just your finances. If you have good credit, it can help you to be successful and reach your financial goals. If you have poor credit, it may prevent you from making your goals a reality. Most people realize that poor credit can affect their ability to obtain credit at a reasonable rate, or at all. But there are other adverse effects of poor credit and poor credit management that you may not be aware of, such as:

- inability to qualify for a mortgage or rental lease.
- inability to get insurance or paying much higher insurance rates.
- being unable to qualify for certain jobs.
- loss of or inability to qualify for security clearances.
- failure to qualify for overseas orders.
- possible discharge.

SLIDE 3

Agenda

To increase your credit knowledge and skills, this course will cover:

- getting and using credit wisely.
- reducing the cost of credit.
- managing your debt.

GETTING AND USING CREDIT

Credit can be a building block to your financial success. However, success or failure with your finances depends much more on knowledge and appropriate behavior than it does on the amount of money you have. If you do not have credit, your first step is to establish credit. If you already have an established credit history, you should aim to use it wisely to reach your financial goals.

SLIDE 4

Qualifying for Credit

So, what does it take to qualify for credit? When deciding to extend credit to a consumer, creditors look for both the ability and willingness to repay debts. The factors they use to evaluate a borrower are summarized by the three C's of credit: character, capacity and collateral.

Character: Will you repay the debt? Creditors will look at your credit history: how much you owe, how often you borrow, whether you pay bills on time and whether you live within your means. They will also look for signs of stability: how long you have lived at your present address, whether you own or rent your home and the length of your present employment.

Capacity: Can you repay the debt? Creditors ask for employment information: your occupation, how long you have worked at your present job and how much you earn. They also want to know about your expenses: how many dependents you have, whether you pay alimony or child support, and the amount of your other financial obligations.

Collateral: Is the creditor fully protected if you fail to repay? Creditors want to know what possessions you may have that could be used to back up or secure your loan. They also want to know about other resources you have for repaying the debt, other than income, such as savings, investments or property. Creditors use combinations of these factors to reach a lending decision. Different creditors may reach different conclusions based on the same set of facts. One may find a borrower an acceptable risk, while another may deny the same borrower. Collateral is sometimes called "capital." Whichever term is used, both refer to a borrower's assets that can be used to secure the loan.

Establishing Credit

SLIDE 5

Consumers should start building their creditworthiness early so they will be able to get credit when they need it. As we just mentioned, lenders look for evidence of financial responsibility and stability when extending credit. For someone who does not have a credit history, the first step is to properly maintain a checking and/or savings account and pay existing bills (e.g., rent, utilities) on time. Next, check out options that can help establish a credit history. Here are some you may wish to consider.

Share-Secured Loan

A share-secured loan is secured by money in your savings or share savings account. Credit unions and banks will grant a loan up to the amount of money in your account. The money in your account is frozen until a portion or the entire loan is paid off. Since the repayment is already guaranteed, even if the borrower defaults on the payments, the interest rate on the loan is usually very low. In a way, the borrower is paying to borrow their own money, but the idea is to help establish a credit history, and a share-secured loan is an excellent tool with which to do that.

Co-Signed Loan

A co-signed loan is good option for borrowers with little credit history, but they will need someone with an established credit history who is willing to co-sign for the loan. If you already have a good credit history, be cautious about co-signing a loan for a friend or a relative. When you co-sign a loan, you are guaranteeing the loan's repayment even if the other signer defaults. Additionally, the loan will show on both signers' credit reports. If the loan repayment is mismanaged or goes into arrears, this could reflect poorly on your credit report and hurt your creditworthiness.

Retail Cards

Another option is to get a charge card from a retail store or oil company. These often are the easiest types of credit cards to get. Start small, using just one card to make small purchases and pay the bill in full at the end of the month. Be careful about overspending, because these cards typically carry high interest rates.

Major Credit Cards

After establishing a credit history, consumers can usually qualify for a Visa or MasterCard from a major bank or credit union. Be aware that terms and rates for bank credit cards will vary considerably, from "secured" cards that often require a cash deposit, have low credit limits and high rates and hidden fees or "membership" costs, to the "premium" cards (often called gold or platinum) targeted at consumers with the best credit ratings.

Wise and Unwise Uses of Credit

SLIDE 6

Once you have established credit it is important to use it wisely. Good credit management is the result of understanding your options and planning effectively for how you will use credit. The best use of credit is for a planned purchase of assets – things that will grow or increase in value over time, such as a home or an education. You may use credit for convenience to avoid having to carry large amounts of cash or as a financial management tool. Of course, this assumes that you do not carry a balance from month to month or, if you do, that you have planned for the monthly payments. Using credit to take advantage of sales or discounts when you do not have immediate access to your cash may also be a wise way to use credit. Finally, credit can be useful for emergency travel and or in the event of a major repair to your home or car.

SLIDE 7

Unwise uses of credit revolve around behavior: poor or no planning, or emotional spending. Unwise uses include:

Impulse buying: Easy access to credit often leads to a "buy now, pay later" mentality. Impulse buying can occur when we are bored, nervous, sad, angry or happy. During these times, consumers will often charge items they might never buy if they had to pay in cash. In addition, consumers buying an item on impulse tend to pay more than they would if they shopped around for the best price. By nature, impulse items are not planned expenses.

Spending to feel good: Using spending as a temporary fix to feel better can become addictive. Like other addictive behaviors, the good feelings are temporary, while the debt can last a long time. You should always decide – before charging any purchase – whether you are buying an item because you really need it or because you are stressed and want to feel better.

Spending for status: Many people believe they need to spend money to impress others. Advertising appeals to these emotions. Ads for credit cards often portray the person using the card as having power or status. The message the ads send is that if you use their card, you will be able to do great things, have more fun, attract others and be more successful. In truth, spending to impress others may only result in large credit payments that put a strain on your monthly budget.

Retaliatory spending: In a family where there is not a clear spending plan on which partners agree, each person may have a common tendency to spend on themselves first. After all, they work hard, so why should they not treat themselves to something nice occasionally? This can spin off into retaliatory spending: each partner buying (charging) more for themselves to even the score with the other.

Everyday living expenses: Meeting everyday living expenses is perhaps the most dangerous use of credit. If you do not have the cash to pay for regular living expenses today, what makes you think you will be able to pay for it next month? If you find yourself in a situation where using credit for living expenses is a necessity, you should see a Fleet and Family Support Center (FFSC) financial counselor or your Command Financial Specialist (CFS) to help you establish a plan to provide for these expenses.

Credit Reports

Trainer's note: Refer learners to the *Credit Reports* handout. Much of the information covered in this section is included on the handout. If a classroom Internet connection is available, you can show learners how to access the site for their free credit report. If time allows, you may also want to go to the Federal Trade Commission (FTC) website to show learners information on how to use their credit report to defend against identity theft. You can also refer to the *Consumer Awareness* course for more information on identity theft and tips to protect against it. You can get free credit report handouts from the FTC website (https://bulkorder.ftc.gov/publications/free-credit-reports).

SLIDE 8

A credit report is a detailed account of the credit, employment and residence history of an individual. Credit reports are used by a prospective lender to determine the person's creditworthiness. The report also lists any judgments, tax liens, bankruptcies or similar matters of public record entered against the individual.

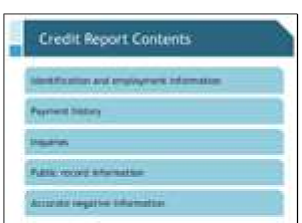
The credit industry is dominated by three credit reporting agencies: Equifax, Experian and TransUnion. These agencies maintain independent databases and compete with one another to sell information to lenders, insurance companies and employers. For the most part, they do not share information with one another and may not have identical information about an individual. If you have moved a lot, your information may be incomplete with one agency, so you might want to request a copy from all three agencies to compare information.

It is important to review your credit report at least once a year to verify that your credit information is correct and complete. Mistakes happen and, if undetected, they could prevent you from getting future credit. Many times, instances of identity theft can be uncovered by reviewing your credit report. By federal law, every American with a credit history can get one free credit report a year from each of the big three credit reporting agencies. The reports are available at www.annualcreditreport.com or by calling (877) 322-8228.

You are also entitled to a free report if you are denied credit, insurance or employment based on information in your report. You must ask for your report within 60 days of receiving notice of the denial. The notice will give you the name, address and phone number of the credit reporting agency used to make the decision, and you contact them directly. The major credit bureaus all have websites and toll-free numbers through which you can request a copy of your credit report. Information on how to do this is included in your *Credit Reports* handout.

You can also request one free report a year if your report is inaccurate due to identity theft or fraudulent use. Otherwise, a credit reporting agency may charge you a reasonable amount for another copy of your report within a 12-month period.

Credit Report Contents



SLIDE 9

No matter which credit reporting agency you use to request your report, all will include the following information in one form or another:

Identification and employment information: Your name, date of birth and Social Security number are always included. Your employer and spouse's name may also be included, as well as information about your employment history, home ownership and previous address, if a creditor requests this type of information.

Payment history: Your accounts with different creditors (also called trade lines) are listed, showing how much credit has been extended and whether you have paid on time. Related events, such as referral of an overdue account to a collection agency, can be included, too.

Inquiries: Credit reporting agencies must maintain a record of all creditors who have asked for your credit history within the past year, as well as a record of people or businesses requesting your credit history for employment purposes for the past two years.

Public record information: Events that are a matter of public record, such as bankruptcies, foreclosures or tax liens, may appear in your report.

Accurate negative information: When negative information in your credit report is accurate, only the passage of time can assure its removal. An agency can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you applied for more than $150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date the event took place or the date of the last activity on an account.

Correcting Inaccurate Information

Trainer's note: Refer learners to the *Credit Report* handout. If time is short, do not spend a lot of time on this information.

Under the Fair Credit Reporting Act (FCRA), both the credit reporting agency and the information provider (the person, company or organization that provides information about you to an agency) are responsible for correcting inaccurate or incomplete information in your report. To take advantage of your rights under the FCRA, contact the credit reporting agency and the information provider if you see inaccurate or incomplete information. Dispute forms are available on credit reporting agency websites, or you can request a hard copy from the agency.

1. Tell the agency, in writing, what information you believe is inaccurate. Include copies (not originals) of documents that support your position. Send your letter by certified mail, return receipt requested, so you can document what the agency received. Keep copies of all documents, including correspondence.
2. Credit reporting agencies must investigate the items in question – usually within 30 days – unless they consider your dispute frivolous. They also must forward all relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the agency, it must investigate, review the relevant information and report the results back to the agency. If the information provider finds the disputed information is inaccurate, it must notify all three credit reporting agencies so the agencies can correct the information in your file.
3. When the investigation is complete, the agency must give you the written results and a free copy of your report, if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the agency cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The agency must also send you written notice that includes the name, address and phone number of the information provider.
4. If you request it, the agency must send notices of any correction to anyone who received your report in the past six months. A corrected copy of your report can be sent to anyone who received a copy for employment purposes during the past two years.
5. If an investigation does not resolve your dispute with the credit reporting agency, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the agency to provide your statement to anyone who received a copy of your report in the recent past. Expect to pay a fee for this service.

Your Credit Score

Credit scoring is a system creditors use to help determine whether to extend credit to you and how much to charge you for it.

Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, 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 who are a good credit risk have higher credit scores.

You can get your credit score from the three credit-reporting agencies, 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. The Fair Isaac Corporation (FICO) score is the most popular credit-scoring model and will be used for our discussion in this course. However, there are others that are frequently used, such as VantageScore, TransRisk, and PLUS Score.

The FICO score takes into account five areas of information and weights each category:

- Payment history: 35 percent
- Amounts owed: 30 percent
- Length of credit history: 15 percent
- Types of credit in use: 10 percent
- New credit accounts: 10 percent

What is a Good Score?

SLIDE 11

Credit scores vary depending on the product offered and the range of scores the creditor is using. A "good" score is a subjective term, because it really depends on how much credit you are applying for, from whom and for what. For example, a "good" credit score to buy a house may be very different than a "good" score to get approved for a rental lease. Generally, however, the following is true for FICO scores:

750 and higher: Considered excellent. People in this range will get the best credit rates.

700 to 749: Considered very good credit. Individuals may or may not qualify for the very best interest rates and terms, depending on what they are applying for.

650 to 699: Considered good credit. Individuals may still qualify for a loan but will pay more for credit than those in the excellent or good ranges.

600 to 649: Considered fair credit. These individuals may find it difficult to get credit and will likely end up paying high interest rates.

599 and below: Considered poor credit. These individuals usually have some negative activity or adverse action on their report, such as foreclosures, liens and/or credit judgments. Individuals in this category will probably have to pay the maximum interest rates allowed by law, if given credit at all.

REDUCING THE COST OF CREDIT

Credit is a privilege, and the cost of that privilege is the interest you pay on your debt. As you saw from the discussion on credit scores, if you have good credit, you typically pay less in interest. But there are other ways to reduce the overall cost of credit. For starters, paying your existing bills on time and maintaining a spotless credit record can improve your creditworthiness and lower the overall cost of credit.

Credit is a product for which you should shop, as you would for a car, computer or home appliance. Because the amount of interest that can be charged on different types of credit can vary considerably, it is important to compare offers carefully. Try to get preapproved for large items by arranging financing before you go shopping. This will help you get a firm idea about what you can afford to pay and how much that credit will cost you.

LEARNER ACTIVITY: *Take Five* (Part One)

Time: Two minutes

Materials: *Take Five* handouts

Procedure: Distribute the *Take Five* handouts. Explain to learners that as you review the information on reducing the cost of credit, they should list five ways they can apply it to their own financial situation. Note: Give learners a few examples to get started, such as:

- I will save money by putting a down payment on my car purchase.
- I will look for a credit card that does not require an annual fee.

The responses will be reviewed at the end of the section.

SLIDE 12

THE COST OF CREDIT

Besides your personal creditworthiness, the cost of credit is determined by factors such as where you borrow, how much you borrow, how long you take to repay, how much you pay each month and how interest is calculated. We will look at each of these in more detail.

SLIDE 13

Where You Borrow

> ***Trainer's note:*** When reviewing the following information, warn learners to avoid predatory lenders as a place to borrow. Explain that when their own bank or credit union denies them credit, it should be considered a warning sign of poor creditworthiness. The situation will not be improved by getting involved with a predatory lender. Additional information on predatory lending can be found in the *Consumer Awareness* course.

Where you borrow will affect your cost. Here are the most common places to borrow:

Credit unions: Credit unions are nonprofit organizations owned by its members. They lend to members only and normally offer some of the most attractive rates.

Commercial banks: Banks are for-profit financial institutions that offer a wide variety of products. Banks typically lend to lower-risk applicants and rates are usually competitive.

Savings and loan associations: These associations are similar to banks, but they generally focus on mortgages or similar services.

Consumer finance companies: These companies normally deal with higher-risk applicants. Therefore, rates are higher than most of the other options mentioned.

Retail merchants: Retail merchants can be an expensive place to finance any consumer purchase. Rates are often relatively high, because you are paying for the convenience of on-site financing. This applies to both in-store loans and credit cards that have promotional introductory rates that rise rapidly after 90 to 180 days.

Predatory lenders: Predatory lenders cater to very high-risk applicants who cannot get approved for credit elsewhere. This type of lender includes advance-fee loans, payday loans, subprime mortgages, title loans, refund-anticipation loans, pawn shops and rent-to-own stores. These lenders charge excessive interest rates and fees, may wrap in unnecessary insurance and often have pre-payment penalties. This is the most expensive money to borrow. If you are considering borrowing from these lenders, you should talk to an FFSC financial counselor or your CFS first.

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How Much You Borrow

How much you borrow has a big influence on the total cost. A down payment often can result in substantial savings. The larger the down payment, the less the total cost.

How Long to Repay

Borrowing for a longer period lowers your monthly payment but results in a higher cost. The shorter your repayment period, the less interest you pay, which reduces the total cost.

Minimum Monthly Payments

Beware of making only minimum payments. Base your payment on what you can afford, but always try to pay as much as possible.

SLIDE 15

Here is an example of how paying more each month can benefit you. If you have a $1,000 balance on an 18 percent credit card and pay only the minimum, for example 2 percent of the balance, it will take 150 months (12.5 years) to pay off and cost you a total of $2,396.77 with interest. However, paying a fixed payment of $50 per month results in a two-year payoff and only $197.83 in interest. By paying more each month in this scenario, you would save $1,198.94 and more than 10 years of payments. (source: www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx)

Under the Credit Card Accountability, Responsibility and Disclosure (CARD) Act, your monthly credit card bill includes information on how long it would take to pay off your balance if you only made minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years. This makes it important that you read your bill each month, since this information may save you a great deal of money.

Minimizing Interest Charges

Trainer's note: If time allows, you can reinforce the concept that paying extra works for all types of debt (not just revolving credit) by providing the following example of a fixed-rate car loan. For a $12,000 fixed-rate car loan, financed at 9.9 percent for 60 months, the monthly loan payment would be $254.37 and the total loan price (including interest) would be $15,262.47. If you added $45.63 a month to your payment (rounded the payment up to $300), you would save $646.25 on the loan interest and pay the loan off in 48 months (an entire year early).

SLIDE 16

Interest on loans can be calculated in different ways. Be sure you know what you are being charged and how it is calculated.

Simple interest: With simple interest, the finance charge is computed by applying a percentage rate to the balance outstanding during each payment period. As you make payments, the interest charged decreases along with the loan balance due. Credit unions always charge simple interest; banks normally do as well. This calculation method ends up costing you the least amount of money.

Add-on interest: With add-on interest, the finance charge is calculated on the amount financed and then added on to it at the beginning of the loan. The sum total has to be repaid. No matter how many payments you have made, or how quickly you repay the debt, the interest charged always stays the same.

Read all financing contracts carefully before signing. Example: $1,000 at 12 percent for one year. Using simple interest, you will pay $66 in interest. Using add-on interest, you will pay $120 in interest.

CHOOSING AND USING CREDIT CARDS

Trainer's note: Give each learner a copy of the *Choosing Credit Cards* handout. Note that a lot of the information you are about to cover is on this handout, including many helpful websites. If time is short, you can skip or spend less time on any of the information included in the handout.

SLIDE 17

There are many choices when shopping for a credit card. Credit card companies, like the credit cards they offer, vary in products, services, charges and fees. Here are some of the terms and facts about credit cards that you should know before you choose a company and a card:

Credit Card Features

When considering a credit card, think about how you plan to use it. If you plan to pay off the balance monthly, look for a card with no annual fee and check for a grace period during which no interest is charged on outstanding balances. If you routinely carry a balance, look for a card with a low annual percentage rate (APR).

As someone associated with the military, you most likely want a card that is accepted worldwide. You should have a sufficient credit limit to meet your needs, and you may be interested in the additional services and features offered by your credit card issuer.

Here are some common features you may wish to consider:

Affinity programs: Affinity cards are all-purpose credit cards sponsored by professional organizations, alumni associations, etc. An affinity-card issuer often donates a portion of the annual fees or charges to the sponsoring organization and/or offers free services or other bonuses.

Reward programs: Reward programs give you points or cash back for making purchases with your credit card. There may be stipulations for specific purchase types to get rewards and conditions under which you can use your rewards. Cards with great reward programs sometimes have annual fees and higher interest rates. If, however, you are someone who pays your card off each month, reward cards are a great way to get extra benefits (cash, items or points towards travel) for using your card.

Balance transfer offers: Many credit card companies offer incentives for balance transfers (i.e., moving your debt from one credit card to another). All offers are not the same, and their terms can be complicated. Many credit card issuers offer transfers with low introductory rates that rise significantly after the introductory period, and some issuers also charge balance transfer fees. However, if the card to which you are transferring has a lower interest rate overall, the balance transfer may save you money in the long run.

Credit Card Costs

SLIDE 18

The terms associated with credit products can be confusing. If you are unfamiliar with the terminology, it could end up costing you in interest, charges and fees. Being knowledgeable is a key component to making wise decisions concerning your credit. Here are some terms you should understand:

Annual Percentage Rate (APR): APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you obligate yourself to the debt and it must show on your account statements. The card issuer also must disclose the "periodic rate," the rate applied to your outstanding balance to calculate the finance charge for each billing period.

Variable rates: Some credit card plans let the issuer change the APR when interest rates or other economic indicators change. These changes can raise or lower the finance charge on your account. If you are considering a variable rate card, the issuer must tell you that the rate may change, how much it may change and how frequently, and how the rate is determined.

Grace period: The grace period lets you avoid finance charges by paying your balance in full before the due date. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

Average daily balance: If you do not have a grace period, this is the most common finance charge calculation method. This calculation uses the average of your balance during the billing cycle to calculate your finance charges for the month.

Fees: There are numerous fees that can be related to your credit account. Some fees are charged for services (e.g., balance transfer, international transactions), some are charged for your actions (e.g., over-the-limit fees, late payment fees), while other fees are simply tacked on as part of your account. Issuers have names for these fees, including "annual," "activation," "acceptance," "participation" and "monthly maintenance" fees. These fees may appear monthly, periodically or as one-time charges and can have an immediate effect on your available credit. For example, a credit card with a $250 limit and $50 in fees leaves you with $200 in available credit. However, by law these fees cannot total more than 25 percent of the initial credit limit. (This limit does not apply to penalty fees, such as penalties for late payments.) Be sure to find out the fees associated with your account.

Delinquency rates: Some cards offer low rates with on-time payments but will apply a very high APR if you are late a certain number of times in any specified time period. In some cases, this could be one late payment. Information about delinquency rates should be disclosed in credit card applications and in solicitations that do not require an application.

Cash advance rates: Cash advances allow you to draw cash from a preset cash limit on your account. Most cards charge a higher interest rate for cash advances, and the interest starts to accrue immediately.

Cutting Credit Costs

SLIDE 19

To save on the cost of credit cards, ask the credit issuer about issues such as these, so you can make comparisons:

- Is there an annual fee? If so, how much? Can it be waived?
- What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?
- What is the grace period on purchases?
- What are the terms for balance transfers and cash advances?
- What additional fees apply, such as late payment, over the limit and others? Are there other hidden charges, such as an increase in the interest rate in the event of a late payment?
- Are other there other "services" tacked on to your account for which you will have to pay? (Avoid high-priced add-ons such as credit life, credit disability or credit unemployment insurance.)

One easy way to save money is to call your existing credit-card company, tell them you plan to switch to a card with a lower interest rate, and ask what they can do for you. In many cases, they will lower your interest rate to keep you as a customer. This can be effective if you have been a customer with an account in good standing for a year or more, have good credit, carry a balance and are being charged a higher interest rate.

Additionally, you could be eligible to lower your interest rate through provisions in the Servicemembers Civil Relief Act (SCRA). The SCRA is a federal law that provides protections for service members as they enter active duty. One of the provisions provides credit-rate reductions to 6 percent if a service member's military obligation makes it difficult to pay on financial obligations such as credit cards, loans, mortgages, etc. Qualifying debts are debts that were incurred by the service member, or the service member and their spouse jointly, before coming on active duty. Debts entered into after going on active duty are not protected by this provision of the law. For information on rate reductions under the SCRA, contact your Legal Service Office.

LEARNER ACTIVITY: ***Take Five*** **(Part Two)**

Time: 10 minutes

Materials: *Take Five* handouts

Procedure: Review the different ways that the learners can apply the content material by going around the room and asking for volunteers to share some of their ideas. Encourage learners to take note of good ideas from their classmates, which they might also want to use to reduce their credit costs.

Government Cards

SLIDE 20

In addition to commercial credit cards, you may also wish or need to acquire a military and/or government credit card.

Military Star Card

Some military cards, such as a Military Star Card, are credit cards that can be used at all military exchanges. The application and screening process is similar to the process for other credit cards, and finance charges will be assessed if the bill is not paid in full each month. Although the government does not run the Military Star Card program, these credit card debts are considered debts owed to the government. This means payment could be taken directly from your pay (i.e., garnishment of your wages) if you fail to pay your monthly payments.

Government Credit Cards

Unless otherwise exempted, all DoD personnel are required to use the government-sponsored, contractor-issued travel charge cards for all expenses arising from official government travel. Applicants undergo a credit check and will receive, depending on their credit score, a standard card, a restricted card or no card. This process is similar to when the applicant personally applies for credit, except that the only information subsequent credit grantors will see is that an inquiry was made. The application for a government travel card has little influence on a credit score.

Government travel cards are issued only for official travel-related expenses. Cardholders who misuse their DoD travel cards are subject to administrative or disciplinary action, as appropriate. Cardholders are responsible for making full payment of the balance on the monthly billing statement by the due date. Accounts are considered delinquent if they remain unpaid 60 days after the billing date and can affect the cardholder's credit report.

MANAGING YOUR DEBT

SLIDE 21

While credit can be a good thing, too much of a good thing can often be bad. If you are not using and managing your credit wisely, you could quickly become overextended. It is important that you are aware of how much debt you carry and find out what your acceptable debt load is. One means to determine debt load is to calculate your current debt-to-income ratio.

Calculating a Debt-to-Income Ratio

Trainer's note: Refer learners to the *Debt-to-Income Ratio* handout.

Calculating your debt-to-income ratio is an important part of avoiding excessive debt. This ratio tells you what portion of your income is used to pay debt each month. The *Debt-to-Income Ratio* handout helps you calculate the amount. Once you calculate your ratio, you can look at the scale (at the bottom of the handout) to see whether you are taking on too much debt. Lenders also use this figure before they decide whether to extend credit to you. We are going to look at an example of how to calculate a debt-to-income ratio and then do an exercise to allow you to practice performing this calculation.

SLIDE 22

Trainer's note: Read the scenario to the class and go through the calculations with them by reviewing the information on the slide.

Petty Officer Smith is an E-4 with dependents. His net income (after taxes) is $4,050 a month. The total of his minimum monthly payments is $810 a month. The debt-to-income ratio calculation would be:

810/4050 = .2
.2 x 100 = 20

Petty Officer Smith's debt-to-income ratio is 20 percent.

SLIDE 23

The following guidelines are used to determine a safe level of debt.

Less than 15 percent: Use caution when taking on more debt.

16 percent to 20 percent: Fully extended; refrain from taking on additional debt.

21 percent to 30 percent: Overextended; do not take on additional debt and establish a plan to pay down existing debt.

More than 30 percent: Seek help to reduce debt by using reputable debt-management tools and resources.

In this example, Petty Officer Smith is in the "fully extended" category and should refrain from taking on further debt payments.

Credit cards are often used for wants rather than emergencies or planned needs. This, along with impulse spending, can quickly get many people into the "overextended" debt range. If you find yourself with too much debt, there are resources available to you. These resources will be discussed at the end of the course.

LEARNER ACTIVITY: *Calculating Your Debt-to-income Ratio*

Time: 10 minutes

Materials: *Debt-to-income Ratio* handouts, pencils and calculators

Procedure: Distribute handouts and tell learners that they will now have an opportunity to calculate their own debt-to-income ratio. If learners do not know specific figures, instruct them to use estimated figures. When they get home, they can fill in the correct amounts and redo the calculations. Reinforce that lenders can use the debt-to-income ratio to help determine the learner's current debt load and whether it is manageable to take on additional debt in the future.

Step 1: Ask learners to estimate their net monthly income (all of their pays and allowances minus just their taxes).

Step 2: Next, ask learners to list each of their creditors and the monthly payment that goes to each creditor. Be sure they include any money owed to the government and any payments that are taken from their paycheck. Tell them not to include rent or mortgage amounts. Learners should put the total of all monthly payments in the space provided.

(Note: A different debt-to-income ratio is used when including mortgage debt, usually with 36 percent being the "safe" level. Assure learners that this nonmortgage debt scale is a valid financial planning ratio.)

Step 3: Using the formula in Step 3, ask learners to divide their total payments by net income ("big number into the little number"). The result is their debt-to-income ratio.

SLIDE 24

Warning Signs

Trainer's note: Refer learners to the *Warning Signs of Credit Abuse* handout and explain that the information you are covering is also on that handout.

Credit cards make spending easy and may encourage you to spend more than you can repay. The following are possible warning signs of too much credit:

- Less than one month's take-home pay in savings.
- Can only afford the minimum monthly payments on credit cards.
- More income committed to debt repayments each month.
- Falling behind on payments and receiving late notices.
- Using credit to pay regular living expenses.
- At or near credit limits on credit cards most of the time.
- Debt-to-income ratio more than 20 percent.

At this point, financial counseling is recommended to help initiate a plan of action to reduce debt.

Things are reaching the critical stage when an individual or family is:

- rotating bills – paying some this month, some next month.
- borrowing or getting cash advances to make payments – using credit to pay credit.

- being denied additional credit.
- hiding bills or being dishonest with family members about debts.
- seeking additional debt from predatory lending sources, such as payday loans or refund anticipation loans.
- having to rely on a debt-consolidation loan to reduce payments enough to meet monthly living expenses.

At the critical point, financial counseling is essential to establish a plan and/or to provide outside sources of help to reduce debt to a manageable level.

Recovering From Debt

SLIDE 25

> ***Trainer's note:*** Your local Legal Service Office should be the authority on dealing with collection agencies in all circumstances.

If you find yourself struggling with debt, here are some options that can help you better manage your current debt load:

Take charge: Develop a workable budget/spending plan. Do what is necessary to establish a positive monthly cash flow.

Prioritize debts: Major items, such as your mortgage and car payment, should be a top priority.

Use a power payment plan: After budgeting to get a positive cash flow, ensure that minimum payments are made on all monthly bills, and then apply all remaining available funds to whichever debt has the smallest balance. When the smallest balance is paid off, apply the money used for that payment to the next bill on your list and keep the others the same. Again, when that bill is paid off, apply all the money used for the payment to the next bill on your list. In this manner, you will "power pay" down your debt. FFSC financial counselors and CFSs have a computerized budgeting program and power payment plan that make setting up a personal debt payment plan easy and flexible.

Talk with your creditors: Stay in contact with your creditors; let them know whether there is a problem. Be honest about what you can or cannot pay. Be prepared to offer them a plan for paying your debt, but do not promise more than you can deliver. Once a plan is agreed upon, be committed to keeping your part of the agreement. Contact your local Legal Service Office for questions about dealing with collection agencies.

Change your behavior: Remember that overcoming debt is more about behavior than financial knowledge. Spend some time thinking about how you got into debt to begin with. Are you living beyond your means? Are you satisfying all your wants and sacrificing all your needs? Are you an emotional spender or an impulse shopper? An FFSC financial counselor or your CFS can help you figure out what to change so that your behavior moves you in the direction of building wealth, not drowning in debt.

Use With Caution

> ***Trainer's note:*** Please note that questions beyond basic information on debt management should be referred to local, reputable debt management programs and or financial institutions who offer debt management plans. Bankruptcy questions should be referred to the local Legal Service Office. When discussing financial counseling services, note that many Consumer Credit Counseling Services (CCCS) offices have changed to Money Management International.

SLIDE 26

Debt-consolidation loans: In a consolidation loan, you take out one loan large enough to pay off several (or all) smaller loans and and/or debts. Consolidation loans may reduce the total amount of money expended each month on indebtedness, but the cost of credit (the interest paid) may increase because the repayment time has been extended, possibly at a higher interest rate. If indebtedness can be managed without a consolidation loan, it may save money in the long term. Note especially that behavior modification is critical for consolidation loans to work. Studies have shown that the majority of people who take out a consolidation loan have a higher debt-to-income ratio 18 months after getting the loan than before they took out the loan.

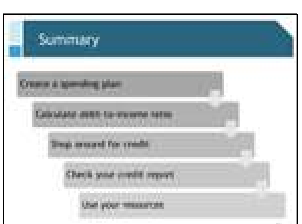
Debt-management programs: A debt-management program aims to help people reduce their debt using a creditor-approved payment plan. The program is personalized to your repayment capabilities and allows you to repay unsecured debt at reduced interest rates. You must agree to take on no new debt and to make one monthly payment to the debt management company, which will then send the approved payments to your creditors. Debt management programs ultimately benefit both the debtor and the creditor. The debtor has a realistic plan to repay their debt, and the creditor does not have to write off debt that may otherwise not get paid or be dismissed through bankruptcy. There are a lot of organizations that promote themselves as debt-management programs. You should look for an agency whose ultimate goal is a debt-management plan and not a consolidation loan or other extension of credit. There may be a nominal fee to participate in a debt-management program because they have some administrative costs, but the fee should be affordable.

Credit clinics/credit-repair services: Many of these services charge up-front fees promising to "clean up your credit report" fast and get you out of debt. These services cannot do anything you cannot do for yourself. It is illegal for a company to charge a fee (up front) for this service. Violations should be reported to the Federal Trade Commission at www.ftc.gov or to the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Debt-settlement companies: Debt-settlement companies promise they will negotiate with your creditors, on your behalf, and get your debt reduced. Debt settlement occurs when the company or lender holding a delinquent account offers to settle the amount (i.e., they take less than the actual amount owed and charge off, or settle, the rest). Debt-settlement companies advise you to stop making payments on current debt and have you send them payments, which they hold until they have enough that they can negotiate with your creditors, hoping to get them to settle. This is rarely a viable option to resolving debt issues. Your better option is to talk with a reputable, professional credit counselor. The U.S. Justice Department has a website (www.justice.gov/ust/eo/bapcpa/ccde/index.htm) that lists approved credit-counseling services, as does the National Foundation for Credit Counseling (www.nfcc.org).

Bankruptcy: Bankruptcy is often the last-resort option for protection from bill collectors, lawsuits and foreclosures. Bankruptcy does not allow you to walk away from problems and it may severely affect your ability to get credit in the future. It could also have a potential negative influence on your career. For service members, bankruptcy can make it difficult to get and/or retain your security clearance. If your military position requires a security clearance, loss of your clearance (or the failure to obtain or retain it) could result in having to change rates and could affect your ability to reenlist. A consultation with your local Legal Service Office is highly recommended before you make any decisions concerning bankruptcy.

SUMMARY



SLIDE 27

Trainer's note: If you are using the *Credit Quiz*, omit this review and use the quiz responses to review the course material.

Considering the money companies stand to make by extending credit, it is no wonder it has become a regular part of our financial life. When managed correctly, credit, whether loans or credit cards, can be a great tool. When abused, they can lead to higher costs, credit denials and even bankruptcy. Keep in mind these healthy tips for using credit wisely:

- Have a working budget or spending plan, keep it up-to-date and live within your means.
- Calculate your current debt-to-income ratio and keep monthly payments at 15 percent to 20 percent of your net income or less.
- Plan all credit purchases; make sure they fit into your budget.
- Shop around for credit; it is just like any other product you would buy. Look for the best deal.
- Check your credit report annually and keep it spotless.
- Use all of your available resources to help you manage your debt wisely and ultimately get out of debt.

Sources of Help

SLIDE 28

For help with your credit-related questions or concerns, you have a variety of resources at your disposal:

- Command Financial Specialists
- FFSC financial counselors
- Legal Service Office can provide assistance in a dispute over a bill or contract. They strongly encourage service members who are considering any major purchase to come in with a copy of the contract before signing it. They can also help you with any defenses you may have under federal or state laws.
- Your local military credit unions often have financial counselors available who provide a range of services to members, up to and including full-scale debt management programs.
- Nonprofit consumer credit counseling agencies also provide low- or no-cost financial counseling and debt management.
- The Consumer Financial Protection Bureau (CFPB) can be a valuable resource to address credit reporting agency issues.
- Military OneSource is a 24/7, online information-and-referral service funded by the DoD. All services are provided at no cost and are available to military personnel and their immediate family members.

Remember, financial success is more about behavior than it is about money. Be sure to use your available resources so you can build wealth, not debt, and achieve financial success!

LEARNER ACTIVITY: *Credit Quiz*

Time: 10 minutes

Materials: *Credit Quiz* handout

Procedure: Distribute the quiz to learners. Allow them a few minutes to answer the questions and then go over the answers to review the material.

1. Which one of the following is not one of the three C's of qualifying for credit?
   a. Character
   b. Collateral
   c. Capability
   d. Capacity
2. Which one of the following is considered a wise use of credit?
   a. Purchasing everyday living expenses
   b. Purchasing to relieve stress
   c. Purchasing consumables
   d. Purchasing assets
3. Which of the following is likely to have the best credit rates?
   a. Retail merchants
   b. Credit unions
   c. Consumer finance companies
   d. Rent-to-own companies
4. Debts accrued using a Military Star Card are owed to the government and can result in garnishment of a service member's pay.
   a. True
   b. False
5. By federal law, you are entitled to one free copy of your credit score annually.
   a. True
   b. False
6. Which of the following is the most commonly used credit-scoring model?
   a. VantageScore

b. TransRisk Score
c. FICO Score
d. PLUS Score

7. If your debt-to-income ratio is 30 percent, you should be fine to take on additional debt without concern.
   a. True
   b. False
8. What is interest calculated on the full amount of the original principal and then immediately added to the original principal for a sum total?
   a. Simple interest
   b. Compound interest
   c. Add-on interest
   d. Adjusted interest
9. As a rule, you always should pay only the minimum payment on a loan or credit card, because that frees up your cash to spend on other important things.
   a. True
   b. False
10. The various fees often associated with credit cards are billed separately and do not affect your available balance.
    a. True
    b. False

Answer Key

1. c) Capability
2. d) Purchasing assets
3. b) Credit unions
4. a) True
5. a) True
6. c) FICO Score
7. b) False
8. c) Add-on interest
9. b) False

10. b) False

OPTIONAL SHORT COURSE

The following instructions and topics allow you to facilitate this course in 15 to 30 minutes. This shortened course content can be used as a marketing brief or when presentation time is limited. The instructions note what parts of the content to use for this shortened course and how to modify existing content. If you are using the PowerPoint slides as part of your brief or presentation, you may wish to hide unused slides.

Time: 15 to 30 minutes

Handouts:

- *Choosing Credit Cards*
- *Credit Quiz (optional)*
- *Credit Reports*
- *Debt-to-income Ratio*
- *Take Five*
- *Warning Signs of Credit Abuse*

Topics:

Welcome and Introduction

Slide 1: Start with a brief introduction of yourself and the topic. Pass out the course handouts and tell learners that the handouts provide a review of content covered in this course (or brief) as well as additional content not covered in detail.

Getting and Using Credit

Slides 4 to 7: Discuss what is needed to qualify for credit and how to establish credit wisely. Briefly cover wise and unwise uses of credit on slides 6 and 7.

Slides 8 to 9: Use the *Credit Reports* handout to cover basic information about credit reports. Be sure to point out how they can receive their free credit reports annually. Encourage learners to keep this handout as a reference.

Slides 10 and 11: If time permits, cover this content as written in the full course. If time is short, facilitate the content for Slide 10 and omit Slide 11.

Reducing the Cost of Credit

Slides 12 to 16: For this section, provide a short overview of the content for these slides. Delete the *Take Five* activity but recommend that learners do the activity at home to establish ways they can reduce their own credit costs.

Choosing and Using Credit Cards

Slides 17 to 20: Use the *Choosing Credit Cards* handout to explain credit card features and how to choose and use them wisely. On Slide 20, provide a very brief explanation of the different types of government cards. Omit the remaining *Take Five* activity.

Managing Your Debt

Slides 21 to 23: Distribute the *Debt-to-income Ratio* handout and facilitate information on Slide 21 to 23 as written in the original course. Delete the *Calculating Your Debt-to-income Ratio* activity but instruct learners on the importance of using a debt-to-income ratio to avoid excessive debt and recommend that they complete their own calculations at home using the handout.

Side 24: Refer learners to the *Warning Signs of Credit Abuse* handout instead of facilitating this information.

Slides 25 to 26: Facilitate Slide 25 as written in the original course. On Slide 26 only provide a brief explanation of the different debt management and recovery options listed.

Summary

Slides 27 to 28: If time allows, use the *Credit Quiz* activity to review the course content. For a shorter review option, provide a brief summary on Slide 26. Cover sources of help on Slide 27 and refer learners to resources listed on the *Warning Signs of Credit Abuse* handout. End the course/brief by inviting learners to the full *Credit Management* course and to visit their CFS or FFSC financial counselor for additional information and assistance.

Choosing Credit Cards

INFORMATION YOU SHOULD KNOW:

- Is there an annual fee? If so, how much? Can it be waived?
- What is the interest rate on any balances? If there is a low introductory rate, how long is it in effect? What rate will be charged after the introductory period?
- What is the grace period on purchases?
- What are the terms for balance transfers and cash advances?
- What additional fees apply, such as late payment, over the limit and others? Are there other hidden charges, such as an increase in the interest rate in the event of a late payment?
- Are other there other "services" tacked on to your account for which you will have to pay? (Avoid high-priced add-ons such as credit life, credit disability or credit unemployment insurance.)
- How widely is the card accepted and what are the overseas transaction rates?
- Does the card have a rewards program?

MANAGING YOUR CARD:

- Pay on time.
- Aim to pay more than the minimum amount due.
- Keep your balance low.
- If you have a high balance, consider a plan to pay off or reduce your credit card debt by using a power payment schedule.
- Call the credit card company and request that they lower your interest rate and eliminate your fees. It costs nothing to ask.
- Are you eligible for rate-reduction benefits under the Servicemembers Civil Relief Act?
- Check your statements monthly and report suspicious or fraudulent charges to your credit card company immediately.

CREDIT TERMS:

Annual Percentage Rate (APR): APR is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you become obligated on the account and shown on your account statements. The card issuer also must disclose the "periodic rate," the rate applied to your outstanding balance to calculate the finance charge for each billing period.

Average Daily Balance: If you do not have a grace period, this is the most common finance charge calculation method. This calculation uses the average of your balance during the billing cycle to calculate your finance charges.

Balance Transfers: Many credit card companies offer incentives for balance transfers (i.e., moving your debt from one credit card to another). Many credit card issuers offer transfers with low introductory rates that rise significantly after the introductory period, and some issuers also charge balance-transfer fees.

Delinquency Rates: Some cards with low rates for on-time payments apply a very high APR if you are late a certain number of times in any specified time period. Information about delinquency rates should be disclosed in credit card applications.

Grace Period: The grace period lets you avoid finance charges by paying your balance in full before the due date. Without a grace period, the card issuer may impose a finance charge from the date you use your card or from the date each transaction is posted to your account.

Variable Rates: Some credit card plans let the issuer change the APR when interest rates or other economic indicators change. These rate changes also can raise or lower the finance charge on your account. If you are considering a variable-rate card, the issuer must tell you that the rate may change, how much it may change and how frequently, and how the rate is determined.

USEFUL WEBSITES:

Bankrate.com: www.bankrate.com (comparison shopping of rates)

Consumer Financial Protection Bureau: www.consumerfinance.gov

Consumer Reports: www.consumerreports.org/cro/credit-cards/buying-guide.htm (card buying guide)

Creditcards.com: www.creditcards.com (credit card industry ratings)

Federal Trade Commission: www.consumer.ftc.gov/topics/credit-and-loans

Credit Quiz

Choose the correct option for each question.

1. Which one of the following is not one of the three C's of qualifying for credit?
   a. Character
   b. Collateral
   c. Capability
   d. Capacity

2. Which one of the following is considered a wise use of credit?
   a. Purchasing everyday living expenses
   b. Purchasing to relieve stress
   c. Purchasing consumables
   d. Purchasing assets

3. Which of the following is likely to have the best credit rates?
   a. Retail merchants
   b. Credit unions
   c. Consumer finance companies
   d. Rent-to-own companies

4. Debts accrued using a Military Star Card are owed to the government and can result in garnishment of a service member's pay.
   a. True
   b. False

5. By federal law, you are entitled to one free copy of your credit score annually.
   a. True
   b. False

6. Which of the following is the most commonly used credit-scoring model?
   a. VantageScore
   b. TransRisk Score
   c. FICO Score
   d. PLUS Score

7. If your debt-to-income ratio is 30 percent, you should be fine to take on additional debt without concern.
   a. True
   b. False

8. What is interest calculated on the full amount of the original principal and then immediately added to the original principal for a sum total?
   a. Simple interest
   b. Compound interest
   c. Add-on interest
   d. Adjusted interest

9. As a rule, you always should pay only the minimum payment on a loan or credit card, because that frees up your cash to spend on other important things.
   a. True
   b. False

10. The various fees often associated with credit cards are billed separately and do not affect your available balance.
    a. True
    b. False

Credit Reports

WHAT IS A CREDIT REPORT?

A credit report is a detailed account of your credit, employment and residence history. It also lists any judgments, tax liens, bankruptcies or similar matters of public record entered against you. Lenders use credit reports to determine your creditworthiness.

HOW DO YOU GET YOUR CREDIT REPORT?

By federal law, you are entitled to a free copy of your credit report annually from each of the nationwide credit reporting companies: Equifax, Experian and TransUnion. To order your free credit report, visit www.annualcreditreport.com or call (877) 322-8228. You may also obtain a free credit report/score from your local FFSC financial counselor.

You are also entitled to a free report if you are denied credit, insurance, or employment based on information in your report. You must ask for your report within 60 days of receiving notice of the denial. The notice will give you the name, address and phone number of the credit reporting agency used to make the decision, and you contact them directly.

Experian	TransUnion	Equifax
(888) 397-3742	(800) 916-8800	(800) 685-1111
www.experian.com	www.transunion.com	www.equifax.com

You can also request one free report a year if your report is inaccurate because of fraud, including identity theft. Otherwise, a credit reporting company may charge you a reasonable amount for another copy of your report within a 12-month period.

HOW OFTEN SHOULD YOU CHECK YOUR REPORT?

Check your credit report at least once a year for errors, negative information that could prevent you from obtaining a security clearance or mortgage, and signs of identity theft.

WHAT DOES A CREDIT REPORT CONTAIN?

Credit reports contain the following information:

- Identifying information, such as your name, Social Security number, date of birth, current and previous addresses, employers, etc.
- Information about your credit accounts, such as your balance and payment history.

- Any bankruptcies, foreclosures, liens or judgments against you.
- Inquiries (i.e., when someone checks your credit report). This includes "hard" inquiries, where you applied for credit, or "soft" inquiries for background checks and pre-approved offers.

HOW DO YOU CORRECT INFORMATION ON YOUR CREDIT REPORT?

Under federal law, both the credit-reporting agencies and the information provider (the person, company or organization that provides information about you to an agency) are responsible for correcting inaccurate or incomplete information in your credit report and must investigate items in question, usually within 30 days of notification. Dispute forms are provided on the credit reporting agencies' websites, or you can request a hard copy.

Here are the basic steps for disputing inaccurate information:

- Write a letter to the credit reporting agency; explain each dispute and request an investigation to resolve issues. Send copies (not originals) of supporting paperwork.
- Send a similar letter of dispute to the creditor.
- Send all letters and materials by certified mail, return receipt requested.
- The reporting agency will initiate an investigation, contacting creditors to verify the accuracy of the information. If the information cannot be verified, it must be removed.
- When the investigation is complete, if changes were made, the credit reporting agency must send you a free copy of your credit report.
- If the investigation uncovers an error, you have the right to request that a corrected version of your credit report be sent to everyone who received the report in the past six months.

You can read additional information on how to correct information on your credit report at the Federal Trade Commission website: www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports.

WHAT DO I DO IF I SUSPECT IDENTITY THEFT?

If you find suspicious accounts or information on your credit report, it might be an indication of identity theft. If you suspect you are a victim of identity theft, contact the Federal Trade Commission at (877) IDTHEFT or www.consumer.gov. The FTC is the primary resource for information on identity theft.

For additional information on identity theft, see www.consumer.ftc.gov/features/feature-0014-identity-theft. You may also want to sign up for a *Consumer Awareness* course at your local Fleet and Family Support Center.

Debt-to-Income Ratio

Follow the instructions below to calculate your debt-to-income ratio.

1. Write down your net income (gross monthly pay minus taxes only; i.e., federal taxes, state taxes and Social Security). 1. ____________________

2. List your monthly installment credit payments. (Include charge accounts, car payments, advance pay, overpay, etc. Do not include rent, mortgage, utilities or insurance payments.)

Creditor Monthly Payment

A. ____________________________________ $ _______________

B. ____________________________________ $ _______________

C. ____________________________________ $ _______________

D. ____________________________________ $ _______________

E. ____________________________________ $ _______________

F. ____________________________________ $ _______________

G. ____________________________________ $ _______________

H. ____________________________________ $ _______________

I. ____________________________________ $ _______________

J. ____________________________________ $ _______________ 2. ____________________

Total Payments

Divide the total payments in Step 2 by the net income in Step 1 and multiply by 100.

(2) _________________________ ÷ (1) _________________________ x 100 = ________________ %

Total

Percent	Status
Less than 15%	Some additional credit may be used with caution.*
15–20%	Fully extended.
21–30%	Overextended.
Greater than 30%	Seriously overextended. Seek help!

* Will the additional monthly payment put you over 20 percent? Large families may have a difficult time with 16 percent or more.

Take Five

INSTRUCTIONS:

Credit is a privilege that often comes with some expensive charges and fees. We will discuss different ways that you can reduce the cost of credit. Take five concepts discussed and write five statements about how you might apply them. For example: "I will put a down payment on my car, because the larger down payment equals less total cost."

1. ______________________________

2. ______________________________

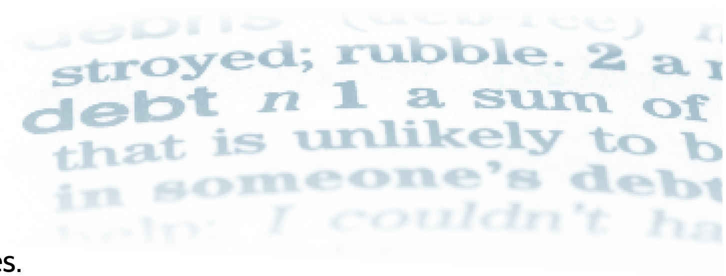
3. ______________________________

4. ______________________________

5. ______________________________

Warning Signs of Credit Abuse

Credit cards make spending easy and may encourage you to spend more than you can repay. The following are possible warning signs of too much credit:



- Less than one month's take-home pay in savings.
- Can only afford the minimum monthly payments on credit cards.
- More income committed to debt repayments each month.
- Falling behind on payments and receiving late notices.
- Using credit to pay regular living expenses.
- At or near credit limits on credit cards most of the time.
- Debt-to-income ratio more than 20 percent.

At this point, financial counseling is recommended to help initiate a plan of action to reduce debt.

Things are reaching the critical stage when an individual or family is:

- rotating bills – paying some this month, some next month.
- borrowing or getting cash advances to make payments – using credit to pay credit.
- being denied additional credit due to problems on credit reports.
- hiding bills or being dishonest with family members about debts.
- seeking additional debt from predatory lending sources, such as payday loans or refund anticipation loans.
- having to rely on a debt-consolidation loan to reduce payments enough to meet monthly living expenses.

At the critical point, financial counseling is essential to establish a plan to reduce debt to a manageable level.

Sources of Help

- Command Financial Specialists
- FFSC financial counselors
- Your local military credit union financial counselors
- Nonprofit consumer credit counseling agencies
- Legal Service Office
- The Consumer Financial Protection Bureau (CFPB)
- Military OneSource