YOUR MONEY, YOUR GOALS

A financial empowerment toolkit for community volunteers

Modules 6-7: Debt and credit reports

Consumer Financial Protection Bureau

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Table of contents

MODULE 6:

Dealing with debt

What is debt?

Debt is money you have borrowed from a person or a business. When you owe someone money, you have a liability. **When you owe money, you have to pay it back, sometimes in scheduled payments. You will often use money from your future income to make those payments.**

While borrowing money may give you access to something today, you may have monthly payments for months or years going forward. This obligation can decrease your options in the future.

Debt is different from credit. Credit is the ability to borrow money. Debt results from using credit. You can have credit without having debt. For example, you may have a credit card on which you don't currently owe money, because you paid the balance off and haven't made new purchases with it.

Good debt, bad debt?

Sometimes people label debt as "good" debt or "bad" debt.

Some debt can help you reach your goals or build assets for the future. People will often say that borrowing for your education, for a reliable car, to start a business, or to buy a home can be a good use of debt.

But it's not always that simple. For example, borrowing to further your education may be a good use of debt because earning a certification or a degree may lead to a better paying job and more job security. But if you take on the debt and don't earn the certificate or degree, this student debt has set you back instead of helping you reach your goals.

Taking out a loan to get a reliable car to get to and from your job can help you pay your bills and save for goals. However, if you borrow 100% of the car's value, you may end up owing more than the car is worth. Or if you buy a more expensive car than you need, you'll have less money for other bills each month. While it may get you to work, it might keep you from getting to your financial goals.

Borrowing money to start a business may help create income for yourself and others. If the business fails, however, you may end up owing money and not having any income you can use to make the payments.

Finally, taking out a loan to buy a home of your own may be a way to reach your personal goals. But if you are unable to keep up with the payments or you end up owing more than your home is worth, that debt may set you back for a long time.

Student loan debt

For many people, student loans make up a big portion of the debt they owe. Sometimes people borrow more than they will be able to afford given the likely pay they will earn in their profession. Sometimes people get into trouble because they do not understand the terms of their loans and the consequences of letting interest build up.

That's why even debt that many people consider "good" should be approached with caution.

Some people consider loans such as credit card debt, short-term loans, and pawn loans "bad" debt. This is because they may carry high fees and interest, and when they have been used for things you consume (like meals out, gifts, or a vacation) they don't help build assets. But, these sources of debt can help cover a gap in your cash flow if you have a way to repay them.

So, there is no one type of debt that is "good" or "bad." That's why it's important to first understand your goal or your need. Then you can shop for the credit you need, especially for large purchases like a car or a home, before you make your final decision on your purchase.

Secured and unsecured debt

Another way to understand debt is whether it is secured or unsecured.

Secured debt is debt that has an asset attached to it. When debt is secured, a lender can collect that asset if you do not pay. Here are examples of secured debt:

- A home loan. The debt is secured with the home you are buying. If you do not pay your loan, the lender can foreclose on your home, sell it, and use the money from the sale to cover some or all of your loan.
- An auto loan. The debt is secured with your car. If you do not pay your loan, the lender can repossess (repo) your car and sell it to cover some or all of the loan.
- A pawn loan. The debt is secured with the item you have pawned. If you do not make payment when it is due, the pawned item is eventually sold.
- A secured credit card. The debt is secured by funds you deposit at a bank or credit union. Your credit limit will generally equal your deposit. For example, if you deposit $300, your credit limit will be $300.

Rent-to-own versus installment plans

In a rent-to-own arrangement, consumers lease items such as furniture, electronics, or appliances and typically have the option to purchase.

This can be done by continuing to make payments for a set period of time or by paying off the balance during the term of the lease. If you don't make the payments made as agreed, the item can be taken back and you don't receive a refund for any of the rental payments.

Unsecured debt does not have an asset attached to it. Here are examples of unsecured debt:

- Credit card debt from an unsecured card
- Department store charge card debt
- Signature loans
- Medical debt
- Student loan debt

If these loans are not paid as agreed, since there is no asset to repossess, they often go directly to collections. For more information on student loan debt, see Tool 4: Student loan debt.

Using *Tool 1: Debt worksheet*, you can list all of your debts and determine whether they are secured or unsecured.

How much debt is too much?

One way to know if you have too much debt is based on how much stress your debt causes you. If you are worried about your debt, you may have too much.

A more objective way to measure debt is the debt-to-income ratio. The debt-to-income ratio compares the amount of money you pay out each month for debt payments to your income before taxes and other deductions. The resulting number, a percentage, shows you how much of your income is dedicated to debt—your debt load. The higher the percentage, the less financially secure you may be, because you have less left over to cover everything else. Everything else is all of the other needs, wants, and obligations you pay each month that are not debt. These include:

- Rent
- Savings
- Taxes
- Insurance
- Utilities
- Food
- Clothing
- Childcare
- Health care (that has not turned into debt)
- Child support and other court-ordered obligations

Debt-to-income ratio

The debt-to-income ratio is a simple calculation:

Total of your monthly debt payments ÷ Monthly gross income (income before taxes).

The result is a percentage that tells you how much of your income is going toward covering your debt. For example, if you have a debt-to-income ratio of 36%, you have 64 cents out of every dollar you earn to pay for everything else, including all of your living expenses and taxes.

- Charitable contributions and gifts
- Other family expenses

Using *Tool 2: Debt-to-income worksheet*, you will determine what your debt load is. And if you find out that it is higher than you want, you can use *Tool 3: Debt reduction worksheet* to make a plan to get out of debt.

Payday loans and deposit advance products

A payday loan – which might also be called a “cash advance” or “check loan” – is a short-term loan, generally for $500 or less.

Payday loans generally come due your next payday. You must give lenders access to your checking account or write a check for the full balance in advance that the lender has an option of depositing when the loan comes due.

Other loan features can vary. For example, payday loans are often structured to be paid off in one lump-sum payment, but interest-only payments – "renewals" or “rollovers” – are not unusual. In some cases, payday loans may be structured so that they are repayable in installments over a longer period of time.

Some ways that lenders might give you the loan funds are providing cash or a check, loading the funds onto a prepaid debit card, or electronically depositing the money into your checking account.

The cost of the loan (finance charge) may range from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an annual percentage rate (APR) of almost 400%. By comparison, APRs on credit cards can range from about 12 percent to 30 percent.

State laws and other factors can influence how much you can borrow and the fees you are charged. Some state laws do not permit payday lending and in other states lenders may choose not to do business rather than abide by the state’s regulations.

There are special protections through the Military Lending Act for active duty servicemembers and their dependents who use certain payday loans and other small dollar credit products.

How do payday loans work?

Here is an example of how a 14-day payday loan generally works:

Borrower visits a storefront payday lender and completes an application (there is generally no credit check or consideration of ability to repay the loan; the borrower only needs a personal deposit account so he can write a post-dated check). Loans can also be taken out online.

↓

Borrower gets loan (the median loan amount is $350) and pays $10-$20 per $100 borrowed ($15 per $100 is the median fee).

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The borrower provides the lender with 14-day post-dated check for the amount of the loan + the fee or $350 + $52.50 = $402.50 or authorization to present a debit against the borrower's account.

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In 14 days, the loan is due. Often, the borrower does not have $402.50 to satisfy the debt. Instead he will pay the fee ($52.50) and renew the loan for another 14 days. *(Note: 14 days is used for example purposes only. Repayment may fall on the next payday or another minimum period as specified by state law.)*

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Every 14 days, the borrower must pay the full amount or renew the debt for $52.50. The average borrower has 10 transactions a year. Applied to this loan, that would mean a fee of $525 to borrow $350.

Deposit advance loans are short-term loans made by banks. The loan is secured by the borrower's deposit account to which the bank has access. The loan is limited to a percentage of the recurring direct deposit. For example, the loan may be limited to the lesser of $500 or 50% of the scheduled direct deposit based on the amount from the previous deposit into the account.

Repayment is due the next time the direct deposit is made into the account. The bank sweeps the amount of the loan plus the fees from the account before any transactions can be made from the account. In some instances, this puts the borrower into overdraft (where she is charged more fees for any subsequent draws on the account).

Many financial institutions began discontinuing this product in 2013, but clients may still find them at some institutions.

If you are considering these products, it's important to be aware of common misunderstandings and the facts about payday and deposit advance loans.

- The money is borrowed for emergencies.

  Fact: Most borrowers do not use their first loans for emergency expenses. The Pew Charitable Trusts' *Payday Lending in America*[1] found that 69% of first-time borrowers use the loan to pay for regular bills, while only 16% use them for emergencies such as a car repair.

- The borrowers can pay back the loan.

  Fact: While they may pay it back on time, many borrowers have to either immediately take a new loan or take another one in the same pay-period. A CFPB study[2] found that payday borrowers are in debt for a median of 199 days (nearly seven months) of the year and pay a median of $458 in fees (not including the principal). The Pew Charitable

[1] The Pew Charitable Trust State and Consumer Initiatives. Payday Lending in America. October 2013. http://www.pewstates.org/research/featured-collections/payday-lending-in-america-85899405692.

[2] Consumer Financial Protection Bureau. Consumer Financial Protection Bureau Study Finds Debt Trap Concerns with Payday and Deposit Advance Loans. April 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-factsheet.pdf.

Trust[3] found similar results – that on average, payday borrowers are in debt for five months out of the year and pay an average of $520 in fees on top of the money they have borrowed.

The CFPB study also found that more than half of deposit advance borrowers end up taking out $3,000 in advances in a year. When they paid off their loan, those borrowers tended to take out a new loan in 12 days or less and were in debt more than 149 days in the year.

Avoiding debt traps

If you are considering short-term loan products that meet an immediate need, it's important to know how to avoid debt traps on your path to your goals. Short-term loans that have to be paid back in just one payment or a couple of payments may lead to a debt trap.

A debt trap is a situation where people take a loan and have to repeatedly take new loans to make the payment on the first loan. For many people, it can become difficult to escape the cycle of borrowing to cover the loan payment and still be able to pay for other expenses like food, rent, and transportation.

A debt trap can happen when people use short-term loans that have to be paid back in just a couple of payments and do not have the money to repay the loan and the finance charges when they are due. These loans have many things in common. They:

- Are small dollar loans— generally under $500
- Must be repaid quickly—14 days is the median term of payday loans, for example
- Require the borrower to give creditors access to repayment through an authorization to present a check or debit a borrower's deposit account

Make sure you understand how your loan will be repaid and how much the loan could ultimately cost you before agreeing to use this form of credit. If you find that you cannot make your loan

[3] The Pew Charitable Trust State and Consumer Initiatives. Payday Lending in America. October 2013. http://www.pewstates.org/research/featured-collections/payday-lending-in-america-85899405692.

payment and cover your other expenses without taking a new loan, talk with the provider about repayment options that can allow you to pay over a longer period of time.

Here is an example scenario using different options for taking care of emergency expenses. The example examines the costs of paying for an unexpected expense with emergency savings, a credit card, or a payday loan.

COST TO REPLACE SPARK PLUGS IN YOUR AUTOMOBILE = $350

	Emergency savings	Credit card	Payday loan
Amount	$350	$350	$350
APR[4]		21.99% annual percentage rate (APR)	$15 for every $100 borrowed for 14 days. This means a 391% annual percentage rate (APR).[5]
Payment		Must pay at least a certain amount each month.[6] (For the purposes of the example, the individual is choosing a fixed monthly payment of $50.)	Must pay back loan amount ($350) plus fee ($52.50) within 14 days. If entire loan cannot be paid within 14 days, it can be rolled over (or extended) for another 14 days for an additional fee of ($52.50).[7]
Total additional	$0	You would pay $28.11 in interest in addition to the	The total cost depends on how long it takes you to save up to pay back the

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4 These are for example purposes only. Actual credit card and payday loan terms vary, and some states restrict payday loans. The CFPB notes that, APRs on credit cards can range from about 12 percent to 30 percent. For payday loans, the CFPB notes that the cost of the loan (finance charge) may range from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an APR of almost 400%. See CFPB, *What is a payday loan?* November 6, 2013. See http://www.consumerfinance.gov/askcfpb/1567/what-payday-loan.html.

5 Some states have adopted laws that limit the amount of loan above a certain amount and/or limit the interest rates of these loans.

6 Most credit card companies allow customers to pay a percentage of the amount owed, which makes the minimum payment vary from month to month. For the purposes of this example, we are showing a fixed monthly payment.

7 These numbers and terms are for example purposes only. Actual costs and terms of payday or signature loans will vary. *See* Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings*, April 24, 2013. See http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

cost and time to repay	principal borrowed. It will take just over eight months[8] to pay back the full amount.	entire loan. If you renew or roll over this loan seven times, you would be in debt for 14 additional weeks and could pay up to $367.50 in fees.[9]

Dealing with a debt collector

Often people find out they have a debt in collection when they receive a letter or phone call from a debt collection agency. Sometimes, they don't remember owing a debt, so they are surprised when they're told a debt has gone to collections.

Debt collectors use persuasive techniques to get you to send in money to pay your debt. Before you send in money, you should confirm that:

- You actually owe the debt.
- The collection isn't fraudulent and is legitimate.

You may be able to confirm this information during an initial or follow-up discussion with the debt collector, but be careful of fraudulent debt collectors. You should ensure that you recognize the debt and know that you owe it and have not paid it before.

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[8] To pay off this credit card balance in full, the individual will have to make $50 payments for seven months, and then pay just over $28 in the eighth month.

[9] Two–thirds of repeat payday borrowers take more than seven loans in one year. Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products*.

Many people know they do owe the debt and are able to confirm that the collector is the right person to pay when they receive the first phone call or letter. Paying right away can benefit you because it allows you to resolve the matter and take advantage of a settlement offer if one has been made. If you pay the debt, it's important to request confirmation of payment or a payment receipt so that you have a record of it.

If you are uncertain that the debt is yours or that the collector has the authority to collect it, you can ask the debt collection agency to verify the debt. You can do this by sending a letter within 30 days of the debt collector's providing you with certain information regarding the debt. That information includes the name of the creditor, the amount owed, and statements concerning how to dispute and seek verification of the debt. Use the sample letters in *Tool 5: When debt collectors call* to get started.

When the phone rings…

Sometimes it's hard to know if a caller is really a debt collector. To avoid falling victim to a scam, ask for the name, number and address for the debt collector and request information about the debt *in writing*.

Be wary of sharing your personal information by phone. If a stranger asks for your Social Security number, date of birth or bank account information, this can be a "red flag."

Even if the debt may be yours, you have the right under the Fair Debt Collection Practices Act (FDCPA) to ask the debt collector to stop contacting you. Once you make this request, they can contact you to tell you that they won't contact you again. Or they may notify you that they or the creditor could take other action (for example, filing a lawsuit against you). Otherwise they must stop contacting you.

Stopping them from contacting you does not cancel the debt. You still might be sued or have debt reported to the credit reporting agencies (Equifax, Experian, and TransUnion).

You can ask a debt collector to stop contacting you at any time, so keep in mind that you could ask them for more information before deciding whether to tell them to stop contacting you.

Your rights in debt collection

The Fair Debt Collection Practices Act (FDCPA) says what debt collectors can and cannot do. This law covers businesses or individuals that collect the debt of other businesses. These are often called “third party debt collectors.” This law does not apply to businesses trying to collect their own debts.

The law states that debt collectors may not harass, oppress, or abuse you or any other people they contact. Some examples of harassment are:

- Repeated phone calls that are intended to annoy, abuse, or harass you or any person answering the phone.
- Obscene or profane language.
- Threats of violence or harm.
- Publishing lists of people who refuse to pay their debts (this does not include reporting information to a credit reporting company).
- Calling you without telling you who they are

The law also says debt collectors cannot use false, deceptive, or misleading practices. This includes misrepresentations about the debt, including the amount owed, that the person is an attorney if they are not, threats to have you arrested if you cannot be, threats to do things that cannot legally be done, or threats to do things that the debt collector has no intention of doing.

Keep a file of all letters or documents a debt collector sends you and copies of anything you send to them. Also, write down dates and times of conversations along with notes about what you discussed. These records can help you if you have a dispute with a debt collector, meet with a lawyer, or go to court.

Alternatives to high-cost credit

There are ways to avoid the risk of a debt trap if you're in a situation where you need money quickly.

If you are short on cash, consider other alternatives, including:

- Using your own emergency savings
- Using lower-cost short-term loan alternatives from a credit union or bank
- Borrowing from a friend or family member
- Using a credit card – while it will increase your monthly card payment, it may prove cheaper in the long run.
- Negotiating for more time to pay if the loan is for a bill that is due
- Bartering for part or all of what you are borrowing the money to cover
- Determining whether the item or circumstance you are borrowing the money for is a need, an obligation, or a want. If it's a want, consider whether it's possible to spend less money for it, not purchasing it, or waiting until you have the money for it.

Medical debt[10]

For many Americans, medical debt comprises a large amount of the money they owe. Forty one percent of working age adults in America reported having trouble paying for medical bills in 2012.

Medical debt has increasingly been a major factor in decline in credit scores for some individuals. And medical debt is becoming a greater factor in the reason people file for

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[10] For more information on medical debt and its impact on consumers see the CFPB's *Consumer Credit Reports: A study of medical and non-medical collections* at http://www.consumerfinance.gov/reports/consumer-credit-reports-a-study-of-medical-and-non-medical-collections/

bankruptcy—they could make ends meet were it not for their medical debts.[11] The majority of individuals who filed for bankruptcy due to medical debt had health insurance.[12]

Finally, once people have medical debt, they are much less likely to seek medical care—whether preventative or prescriptive.[13] This can increase the amount they have to spend on treatment, because by the time they get medical care, the situation has become more acute and, therefore, more expensive to address.

What are the factors that can lead to medical debt?

Medical debt is almost always the result of an unplanned event—someone becoming ill or injured. Even with health insurance, co-pays and deductibles can add up. This is one reason that emergency savings is important for building financial stability.

Secondly, the costs of the care are almost never fully known upfront. Unlike the cost of a house or car, where you should know what you will pay when you sign the loan agreement, when you accept responsibility for payment of your treatment at a hospital or other medical provider, you generally have no idea how much the treatment will cost. You may also not know your share of the cost.

Invoices and bills may be confusing. Rather than one itemized bill, you may receive several bills over a period of weeks or months with hospital stays or situations that involved multiple health care services providers. Because of this confusion, people may be more likely to not recognize the information contained on the invoice or hesitate or delay paying a medical bill. They may have questions about whether the amount was already paid by insurance, whether the correct amount was billed, or whether they actually received the billed treatment. [14]

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[11] Associated Press, *New Medical Billing Standards*, February 13, 2014. See http://bigstory.ap.org/article/new-billing-standards-help-patients-debt

[12] http://www.cnn.com/2009/HEALTH/06/05/bankruptcy.medical.bills/

[13] Kalousova, Lucie and Burgard, Sarah A. ***Debt and Forgone Medical Care***, University of Michigan Institute for Social Research. July 2012.

[14] See Consumer Financial Protection Bureau, *Consumer credit reports: A study of medical and non-medical collections*, December 2014. See http://www.consumerfinance.gov/reports/consumer-credit-reports-a-study-of-medical-and-non-medical-collections.

And without knowing how much the total cost should be, how much the insurer will cover, and how much of the cost will be passed on to you, it becomes difficult to determine whether you are being charged the right amount. That leaves consumers in a position where they need to review each medical bill carefully and contact providers or insurers when they have questions. [15]

Uninsured individuals are generally charged more for services. Insurance companies negotiate discounts for services. This means that if you are uninsured, your bill will likely be higher than the bill that someone who has insurance receives for the same procedures and care.

So what can you do to avoid medical debt?

While there are no easy answers, there are specific things you may be able to do to lessen the impact of medical debt:[16]

- **Get cost estimates up front**—then you can decide whether to proceed or delay elective procedures.
- **Find out whether there is a prompt payment discount**, which can be substantial. This may mean cutting back in other areas for a few months in order to pay the bill and secure the discount.
- **Ask for a discount on the treatment.**
- **Ask about "charity care"** from the hospital and government before or immediately following treatment.
- **If you are asked to put a hospital bill on a credit card, watch out.** Many hospitals have some obligation to provide for charity care for those who can't afford treatment. Once you put your hospital bill on a credit card, you won't be considered for a

[15] See Consumer Financial Protection Bureau, *Consumer credit reports: A study of medical and non-medical collections*, December 2014. See http://www.consumerfinance.gov/reports/consumer-credit-reports-a-study-of-medical-and-non-medical-collections. The Healthcare Financial Management Association (HFMA) notes "There is confusion among healthcare consumers about how to obtain clear, understandable pricing information. The differences among healthcare charges and prices and the widespread variations in service, quality, and outcomes all are shrouded in an air of uncertainty and complexity. The all-too-common result is misunderstanding." (Brian Workinger, *Front-Line Perspectives on price Transparency and Estimation*, HFM Magazine, Sept. 2014).

[16] Ibid.

later write-down of your bill under the charity care program. Some medical providers even offer a credit card for you to use at the provider's office. Healthcare credit cards can have tricky terms, so make sure you know what you're getting into. For tips on healthcare credit cards see: http://www.consumerfinance.gov/blog/whats-the-deal-with-health-care-credit-cards-four-things-you-should-know/

- If you can't afford to pay for the care even after charity care and discounts have been applied, **take steps to work with the provider to set up a reasonable repayment plan.** As you negotiate, ensure that as long as you pay as agreed, reports made to credit reporting agencies will reflect that you are making payments as required by the plan. Be sure to get your repayment plan agreement in writing. Also, consider asking for the following terms:

  No interest on the debt

  Monthly statements showing the amount paid and the outstanding balance

  Request that the debt *not* be turned over to a third party collection agency – that the debt servicing stays in-house

  Be sure you do not sign an agreement that states you will make full payment of the debt if you are late or miss a payment on your plan.

- **Check your credit report** to make sure resolved bills are reported accurately or any errors are removed from your credit history. If the credit reporting agency doesn't respond, contact you state's consumer protection agency, attorney general, or the CFPB.

- **If you do get sued by a medical service provider or hospital, *respond*.** Get legal assistance from the legal aid organization in your community or a lawyer.

Be sure you do not jeopardize your ability to earn income or pay for your shelter or food because you have paid more income than you can afford to cover a medical debt.

Tool 1:

Debt worksheet

Before you can make a plan for your debt, you have to know where you stand. You can start by making a list of **who you owe money to and how much you owe them**. This is the first step in managing and reducing your debt.

Be sure to include debts to friends and family, credit card companies, banks, department stores, payday lenders, and the federal government (for student loans and income taxes, for example).

On the debt management worksheet, you will include:

- The person, business, or organization you own money to
- The amount you owe them
- The amount of your monthly payment, which includes the principal, interest payments, and any fees you may owe
- The interest rate you are paying and other important terms

To complete this worksheet, you may need to get all of your bills together in one place.

Debt worksheet

Use this worksheet to list who you owe money to and how much you owe them. This is the first step in managing and reducing your debt.

Lender	Total amount borrowed	Amount outstanding	Total payment amount	Payment due date	Secured? If yes, by what.	Interest rate	Other important terms
Mortgage							
Vehicle loan							
Appliance/furniture loan							
Student loan							
Credit card/Charge card debt							
Payday loan							
Car title loan							
Other							
Total monthly debt payment							

Tool 2:

Debt-to-income worksheet

Your debt-to-income ratio is like your blood pressure. Your blood pressure measures the amount of pressure on your heart; your debt-to-income ratio measures how much pressure debt is putting on your budget.

Your debt-to-income ratio is a simple calculation. It is the total of your monthly debt payments divided by your monthly gross income. Gross income is the amount of your income before any taxes or other deductions are taken.

The result is a percentage that tells you how much of your income is going toward covering your debt.

Another way of seeing the debt-to-income ratio is that it represents how much of every dollar you earn goes to cover your debt.

For example, if your debt-to-income ratio is .45, or 45%, then 45 cents out of every dollar you earn goes toward your debt. This leaves you with 55 cents of every dollar to cover your rent, taxes, insurance, utilities, food, clothing, child care, and so on.

In addition to using the debt-to-income ratio to measure how much pressure debt is putting on your budget, you can also use it as a benchmark if you take steps to reduce your debt. As you pay down your debts, your debt-to-income ratio will also decline. This means money is being freed up to use on other things like saving for your goals, unexpected expenses, and emergencies.

Figure out your debt-to-income ratio

Your total monthly debt payment (from Tool 1)	
DIVIDED BY	
Your monthly gross income (Income before taxes)	
EQUALS	
Your current debt-to-income ratio	

Understanding your debt-to-income analysis

If your debt-to-income ratio is higher than certain percentages, it could be difficult to pay all your monthly bills because so much of your income will be going to cover debts. A high debt-to-income ratio may also impact your ability to get additional credit, because creditors may be concerned that you wouldn't be able to handle their debt on top of what you already owe.

The following debt-to-income ratio ranges are guidelines, not rules. In fact, many creditors set their own rules. What is an acceptable level of debt to one creditor may not be to another.

- **For renters: Consider maintaining a debt-to-income ratio of 15% - 20% or less.**
  - This means that monthly credit card payments, student loan payments, auto loan payment, and other debts should take up 20% or less of your gross income.
- **For homeowners: Consider maintaining a debt-to-income ratio of 28% - 35% or less <u>just for the mortgage (home loan), taxes, and insurance.</u>**
  - This includes the monthly principal, interest, taxes, and insurance (called PITI).
- **For homeowners: Consider maintaining a debt-to-income ratio for all debts of 36% or less.**
  - This means that if you have a mortgage and other debts—credit card payments, student loan payments, auto loan payment, and payday loan payments–your debt-to-income ratio should be below 36%.

- If you have court-ordered, fixed payments, such as child support, count these as debt for this purpose.

- Some lenders will go up to 43% or higher for all debt.[17]

If your debt-to-income ratio is above these limits, you may want to use the following tool to develop a plan to reduce your debt and lower your debt-to-income ratio.

This Tool is included in the Consumer Financial Protection Bureau's toolkit. The CFPB has prepared this material as a resource for the public. This material is provided for educational and information purposes only. It is not a replacement for the guidance or advice of an accountant, certified financial advisor, or otherwise qualified professional. The CFPB is not responsible for the advice or actions of the individuals or entities from which you received the CFPB educational materials. The CFPB's educational efforts are limited to the materials that CFPB has prepared.

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[17] See http://www.fha.com/fha_requirements_debt.

Tool 3:

Debt-reduction worksheet

When it comes to reducing your debt, there are two basic strategies:

Highest interest rate method

Focus on the unsecured debt with the highest rate of interest, and eliminate it as quickly as possible, because it is costing you the most. Once it is paid off, focus on the next most expensive debt.

PRO	CON
You eliminate the most costly debt first. In the long-run, this method can save you money.	You may not feel like you are making progress very quickly, especially if this debt is large.

Snowball method

Focus on the smallest debt. Get rid of it as soon as possible. Once you have paid it off in full, continue with the payment, but now dedicate it to the next smallest debt. This is called the "snow ball method." You create "a snow ball of debt payments" that keeps getting bigger as you eliminate each debt. How? You keep making the payments, but you are redirecting them to the next debt as each debt is paid off.

PRO	CON
You may see progress quickly, especially if you have many small debts. For some people, this creates momentum and motivation.	You may pay more in total because you are not necessarily eliminating your most costly debt.

There are other things you can do, too.

- Call your creditors to see if they will lower your interest rates. If you have paid all of your bills on time, they may lower it to maintain your loyalty. If you are in a difficult position, you could explain your hardship and ask them to lower the rate.
- Get another job in the short-term. Use all of your additional earnings to eliminate debts.
- Sell something, and use the income to pay off a debt or debts.
- If you are eligible, file for tax credits, and use your refund to pay down or eliminate debts.

✎ Debt reduction worksheet

Check the method you are going to use, and then follow the instructions.

- **Highest interest rate method**
  - List your debts from highest rate to lowest rate.
  - In the column labeled Extra Payment, list the extra payment you will dedicate to the debt with the highest interest rate until you have it paid off.
  - When this debt is paid off, allocate the entire payment (monthly payment + extra payment) you were making to the next debt on the list.
- **Snowball method**
  - List your debts from smallest to largest in terms of the amount outstanding.
  - In the column labeled *Extra payment*, list the extra payment you will dedicate to the smallest debt until you have it paid off.
  - When this debt is paid off, allocate the entire payment (monthly payment + extra payment) you were making to the next debt on the list.

Lender	Total amount borrowed	Amount outstanding	Monthly payment	Extra payment	Monthly Due date	Date paid off in full

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Tool 4:

Student loan debt

The CPFB has a section on its website dedicated entirely to helping you plan for ways to pay for postsecondary education. In fact, the tool will help you think through the entire process of planning for and paying for school including:

- Researching schools
- Filling out the Free Application for Federal Student Aid (FAFSA), a first step in figuring out how to pay for college
- Choosing a loan
- Comparing financial aid packages and college costs across more than one school
- Managing your money while in college
- Repaying your student loans

If you have student loan debt, start with the Repaying Your Student Loans section of the tool, which can be accessed at: http://www.consumerfinance.gov/paying-for-college/repay-student-debt/#Question-1.

Repaying federal student loans

There are two general kinds of student loans: federal student loans and private student loans. **Federal student loans** are loans that are funded by the federal government. **Private student loans** are nonfederal loans made by a lender such as a bank, credit union, state agency, or a school. In both federal and private student loans, delinquent payment will impact your credit history and scores and may result in collections. Private student loans do not offer the flexible repayment terms or borrower protections featured by federal student loans.

There are many options for paying back federal student loans. **Do not ignore student loan paperwork—**nonpayment and delinquency reduces options for payment plans as many require loans in good standing to qualify. A summary of some of the repayment options includes:

- **Standard repayment.** Most borrowers start with this payment plan. This repayment plan has fixed payment of at least $50/month for up to 10 years.
- **Graduated repayment.** The payment is lower the first year and then gradually increased every 2 years for up to 10 years.
- **Extended repayment.** The payment is fixed or graduated for up to 25 years. The monthly payments are lower than the standard or graduated repayment plans, but you will pay more interest over the life the loan(s).
- **Income-Based Repayment (IBR).** Payment is limited to 15% of discretionary income, which is the difference between your adjusted gross income and 150% of the Federal Poverty Guidelines. Payments change as income changes and the terms can last up to 25 years. After 25 years of consistent payment (you have missed no payments or caught up with payments), the loan will be forgiven. You will have to pay income tax on the portion of the loan that is forgiven. To qualify for IBR, you must be able to show partial hardship.
- **Pay as you earn.** Payment is limited to 10% of discretionary income as defined above, payment changes as income changes, and the loan term is 20 years. After 20 years of payments, the loan is forgiven as described above, and taxes will be owed on the amount forgiven. To qualify for pay as you earn, you must be able to show partial hardship.
- **Consolidation loan.** You pay off all of your existing federal student loans with a new loan. This simplifies paperwork and payment for you—you go from monthly payments on multiple loans to one payment per month on the one new loan. Your loans must be in good standing to qualify. This results in lower monthly payments as the term is 30 years; however, you will pay more interest over the life of the loan.

You may also qualify for **deferment** or **forbearance** in certain circumstances. In deferment, payment of both principal and interest is delayed. If you have a subsidized federal loan, the government pays your interest during the deferment. Otherwise you must pay interest or it accrues, which means builds up. When interest builds up on student loans, it becomes part of what you owe. This means you ultimately end up paying interest on the interest. **Deferments are only granted for specific circumstances including:**

- Enrollment in college, a trade school, a graduate fellowship, or a rehabilitation program for individuals with disabilities

- During unemployment
- During military services
- During times of economic hardship, including Peace Corps service

Forbearance means that you stop paying or pay a lesser amount on your loan for a 12-month period. Interest accrues during forbearance.

When applying for a repayment option, be sure to continue making your loan payments until you receive written notification that you have been approved for IBR or forbearance, for example. This ensures your loan continues to be in good standing. Finally, you may also apply for **loan forgiveness**, **cancellation**, or **discharge** in the following situations:

- Total and permanent disability
- Death (someone would apply on your behalf)
- Closed school
- Teacher loan forgiveness (if you are a teacher working in certain educational settings)
- Public services loan forgiveness (if you work in a public service sector and have made 120 loan payments)

Except for the above circumstances, it is very difficult to eliminate federal student loan debt even in bankruptcy. If you are interested in filing bankruptcy to discharge your student loans, you may want to talk with a bankruptcy lawyer.

It's important to note that unpaid federal student loans can be collected in special ways. For instance, the Department of Education can garnish some federal benefits, such as Social Security and certain Veterans' Assistance benefits. If you are afraid that your federal benefits could be garnished to pay off federal student loans, you may want to consider talking to a lawyer.

Tool 5:

When debt collectors call

Debt collectors use persuasive techniques to get you to send in money to pay your debt. Before you send in money, you should confirm that:

- You actually owe the debt.
- The collection isn't fraudulent and is legitimate.

You may be able to confirm this information during an initial or follow-up discussion with the debt collector, but be careful of fraudulent debt collectors. You should ensure that you recognize the debt and know that you owe it and have not paid it before.

The letter you receive from the debt collector should contain a notice about your right to request more information about the debt.

If you are contacted by debt collectors, remember that federal law prohibits a debt collector from deceiving you by threatening to take actions they can't take or don't intend to take.

Ask for more information

If you have questions about the debt, ask the debt collection agency to verify the debt before you send money or acknowledge the debt. You can do this by sending a letter within 30 days of the debt collector's providing you with certain information regarding the debt. That information includes the name of the creditor, the amount owed, and statements concerning how to dispute and seek verification of the debt.

You can use the sample letter on the next page to ask for more information about this debt.

- Read the information below.
- Edit the letter as needed to fit your situation. Delete any bullets that don't apply to you, or isn't information you're looking for.
- Print and send the letter as soon as you can. Keep a copy for your records.

Send this letter as soon as you can and, if at all possible, within 30 days of when a debt collector provides you with certain information regarding the debt. That information includes the name of the creditor, the amount owed, and statements concerning how to dispute and seek verification of the debt.

Even if 30 days have passed, you can still ask for the information.

If you ask in writing before 30 days have passed, a debt collector has certain legal responsibilities to give you some information.

If the debt collector makes vague statements about what will happen if you do not pay, read their response to your letter carefully. **Debt collectors are prohibited from** deceiving you by threatening to take actions they can't take or don't intend to take. But if they tell you that they intend to sue you, you should take that seriously.

State laws have statutes of limitations, or limited time periods when creditors or debt collectors can file a lawsuit to collect a debt. These periods of time can be two years or longer; the period of time varies by state and by the type of debt. In some states, even a partial payment on the debt will restart the time period. You may want to consult an attorney or the applicable law in your state to know when the statute of limitations expires before making any payment on a debt.

Knowing whether or not a debt collector is licensed is useful (though not all states require licenses) because if the debt collector isn't conducting itself properly, you can contact the state licensing agency.

For additional sample letters you can use if you have been contacted by a debt collector and want to dispute the debt, to specify how you wish to be contacted, or to request that the collector contact you through your lawyer, visit http://www.consumerfinance.gov/askcfpb/1695/ive-been-contacted-debt-collector-how-do-i-reply.html.

Example letter to a debt collector asking to verify the debt

[Your name]
[Your return address]

[Date]

[Debt collector name]
[Debt collector address]

Re: [Account number for the debt, if you have it]

Dear [Debt collector name]:

I am responding to your contact about a debt you are trying to collect. You contacted me by [phone/mail], on [date] and identified the debt as [any information they gave you about the debt]. Please supply the information below so that I can be fully informed:

Why you think I owe the debt and to whom I owe it, including:

- The name and address of the creditor to whom the debt is currently owed, the account number used by that creditor, and the amount owed.
  - If this debt started with a different creditor, provide the name and address of the original creditor, the account number used by that creditor, and the amount owed to that creditor at the time it was transferred. When you identify the original creditor, please provide any other name by which I might know them, if that is different from the official name. In addition, tell me when the current creditor obtained the debt and who the current creditor obtained it from.
  - Provide verification and documentation that there is a valid basis for claiming that I am required to pay the debt to the current creditor. For example, can you provide a copy of the written agreement that created my original requirement to pay?

- If you are asking that I pay a debt that somebody else is or was required to pay, identify that person. Provide verification and documentation about why this is a debt that I am required to pay.

The amount and age of the debt, specifically:

- A copy of the last billing statement sent to me by the original creditor.
- State the amount of the debt when you obtained it, and when that was.
- If there have been any additional interest, fees or charges added since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each added amount. In addition, explain how the added interest, fees or other charges are expressly authorized by the agreement creating the debt or are permitted by law.
- If there have been any payments or other reductions since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each of them.
- If there have been any other changes or adjustments since the last billing statement from the original creditor, please provide full verification and documentation of the amount you are trying to collect. Explain how that amount was calculated. In addition, explain how the other changes or adjustments are expressly authorized by the agreement creating the debt or permitted by law.
- Tell me when the creditor claims this debt became due and when it became delinquent.
- Identify the date of the last payment made on this account.
- Have you made a determination that this debt is within the statute of limitations applicable to it? Tell me when you think the statute of limitations expires for this debt, and how you determined that.

Details about your authority to collect this debt.

- I would like more information about your firm before I discuss the debt with you. Does your firm have a debt collection license from my state? If not, say why not. If so, provide the date of the license, the name on the license, the license number, and the name, address and telephone number of the state agency issuing the license.

- If you are contacting me from a place outside my state, does your firm have a debt collection license from that place? If so, provide the date of the license, the name on the license, the license number, and the name, address and telephone number of the state agency issuing the license.

I have asked for this information because I have some questions. I need to hear from you to make an informed decision about your claim that I owe this money. I am open to communicating with you for this purpose. In order to make sure that I am not put at any disadvantage, in the meantime please treat this debt as being in dispute and under discussion between us.

In addition to providing the information requested above, please let me know whether you are prepared to accept less than the balance you are claiming is owed. If so, please tell me in writing your offer, with the amount you will accept to fully resolve the account.

Thank you for your cooperation.

Sincerely,

[Your name]

You can ask a debt collector to stop contacting you

The following example letter tells the debt collector to stop contacting you unless they can show evidence that you are responsible for this debt. Stopping contact does not cancel the debt. So, if the debt collector still believes you really are responsible for the debt, they could still take other action. For example, you still might be sued or have the status of the debt reported to one or all of the three credit reporting agencies—Equifax, Experian, and TransUnion.

You may not want to make a request to stop contact if the debt is your home mortgage. If you ask your mortgage servicer to stop contacting you, the servicer may not have to reach out to tell you about options that you may have to avoid foreclosure.

Example letter asking a debt collector to stop contacting you

[Your name]
[Your return address]

[Date]

[Debt collector name]
[Debt collector Address]

Re: [Account number for the debt, if you have it]

Dear debt collector,

I am responding to your contact about a debt you are attempting to collect. You contacted me by [phone/mail], on [date]. You identified the debt as [any information they gave you about the debt].

Please stop all communication with me and with this address about this debt.

Record that I dispute having any obligation for this debt. If you forward or return this debt to another company, please indicate to them that it is disputed. If you report it to a credit bureau (or have already done so), also report that the debt is disputed.

Thank you for your cooperation.

Sincerely,

[Your name]

Resources

CFPB.gov, Know Before You Owe:
http://www.consumerfinance.gov/knowbeforeyouowe

Consumer.gov, Coping with Debt:
http://www.consumer.ftc.gov/articles/0150-coping-debt

MyCreditUnion.gov, Pocket Cents:
http://www.mycreditunion.gov/what-credit-unions-can-do/Pages/paying-off-Credit-Cards.aspx

StudentAid.ed.gov, Repay Your Loans:
http://studentaid.ed.gov/repay-loans

Medicare.gov, Four Programs that Can Help You Pay Your Medical Expenses:
http://www.medicare.gov/Pubs/pdf/11445.pdf

If you have a medical need you cannot afford, visit your state department of health and human services listed here:
http://www.hhs.gov/recovery/statewebsites.html

If you would like help managing your debt or rebuilding credit, visit the National Foundation for Credit Counseling:
http://www.nfcc.org

Housing counselors can provide advice on buying a home, renting, defaults, foreclosures, and credit issues:
www.consumerfinance.gov/find-a-housing-counselor

For information on finding a lawyer to represent you in a lawsuit by a creditor or debt collector:
http://www.consumerfinance.gov/askcfpb/1433/how-do-i-find-lawyer-or-attorney-represent-me-lawsuit-creditor-or-debt-collector.html

For additional resources, visit the Consumer Financial Protection Bureau website:
http://www.consumerfinance.gov/AskCFPB

If you have a consumer complaint, visit:
http://www.consumerfinance.gov/complaint

MODULE 7:

Understanding credit reports and scores

People sometimes confuse the words *debt* and *credit* because they are both connected to borrowing money. *Credit* is your ability to borrow money if you want a loan or mortgage. *Debt* is the money you owe when you take on a loan.

When you use your credit and have loans to pay, your track record in making your payments becomes part of your *credit report*. A credit report is a consumer report that looks at some of your bill paying history, public record information, and a record of your applications for credit. Your credit reports show information about how you have used credit, such as how much credit you have, how much of your available credit you are using, whether you have made your payments on time, and whether anyone has sent a delinquent (late) debt you owe to a debt collector.

Credit scores are calculated using the information in your credit report, and many lenders use them to decide how much money they can lend you and how much interest to charge.

Why do credit reports and scores matter?

Some people say credit reports and scores don't matter to them, because they never plan to get a loan. But many different people and businesses use reports and scores to make decisions about you.

- A bank or credit card will use them to decide whether to give you a loan or offer you a credit card.

- A credit card company may use them to decide what interest rate you will pay on your future charges if you are approved.
- A landlord may use your reports or scores to determine whether to rent an apartment to you.
- In many states, an insurance company may use your reports or scores to determine whether to give you insurance coverage and the rates you will pay for coverage.
- Other service providers, like cell phone and utilities companies, may use them to screen you for deposit levels and cost of service.
- A potential employer may use your reports to determine whether you will get a job or a security clearance for a job. (Note: According to the credit reporting agencies, credit scores are not used by employers. Instead, a special version of the credit report is used by employers. Some states do not allow employers to use these reports in their hiring decisions unless credit history is relevant to the job's duties.)
- An existing employer may use your reports to determine whether you will get or keep a security clearance.

Having a positive credit history and good credit scores can open doors for you. Not having a positive credit history or good credit scores can create obstacles for you and end up costing you more money in terms of the price you will pay for loans, credit cards, and other services.

That's why it's important to pay bills on time and pay attention to what's in your credit report. The score is calculated based on the information in the report – so at least once a year, take the time to make sure the information in your report is accurate.

What is in a credit report?

Companies collect information about consumers from many sources, some of which are called information furnishers. Credit reporting agencies organize this information into reports and sell these reports to businesses so they can make decisions about you. The biggest nationwide credit reporting agencies or credit bureaus that make credit reports include Equifax, Experian, and TransUnion. Each of these companies is likely to have a file on you. Your files at all three are likely to be *similar*, but there may be differences.

A credit report contains five sections. These sections include:

- **Header/identifying information**—This includes your name and current address, as well as other information that can be used to distinguish or trace your identity, either by itself, like your Social Security number, or when combined with other personal information, including date and place of birth. This information may not be complete—all of the jobs you have held, for example, may not be listed. But what is listed should be accurate. A credit report does not include some personal information such as race or ethnicity.
- **Public record information**—This section includes public record data of a financial nature, including consumer bankruptcies, judgments, and state and federal tax liens. Records of arrests and convictions generally do not appear on your credit file, but other types of consumer reporting agencies, such as employment background screening agencies, often include them. Other public records that usually do not appear in credit reports are marriage records, adoptions, and records of civil suits that have not resulted in judgments.
- **Collection agency account information**—This section will show if you have or have had any accounts with a collection agency and the status of those accounts.
- **Credit account information**—This section may include accounts you have now or that you had before with creditors. This may include:
    - The company name
    - Account number
    - Date opened
    - Last activity
    - Type of account and status
    - Date closed if the account is no longer open
    - Credit limit
    - Items as of date (any amount currently owed and whether you are current or late with payments) and the balance

    - Whether you have a past due amount and the number of payments that were 30, 60, and 90 days late
    - Whether the account was charged off
    - The date information was reported to the credit bureau.

- Some accounts may not be listed, especially older accounts or those you have closed. So there may be inconsistencies across credit files and credit reporting agencies in the contents of this section. It is important to make sure what is listed, however, does or did belong to you.
    - **Inquiries made to your account**—Companies look at your credit report when you apply for credit, when they review your account, or when they offer you a special promotional rate. When you apply for credit and a lender reviews your credit report, it is listed as an "inquiry" on your report. You will see promotional inquiries, periodic reviews of your credit history by one of your creditors, and your requests for a copy of your report when you obtain your own report, but these aren't listed as an "inquiry" when your report is provided to others.
    - Consumer reporting agencies collect this information and sell it to other businesses, which use it to make decisions about you. How do they use this information to make decisions? Businesses that use this information believe that how you have handled credit in the past is a good predictor of how you will handle it in the future. If you have struggled with managing your credit in the past (especially the recent past), they believe you are likely to struggle again.

Negative information

In general, negative information can be reported to those who request your credit report for only a specified period of time—seven years for most items. A bankruptcy can stay on your credit report for 10 years, and certain other court records can be reported on your credit report for longer than seven years. For civil suits and judgments, as well as arrest records, the information can be reported on your credit report for seven years or for the duration allowed by the statute of limitations, whichever is longer. For criminal convictions, there's no time limit. There is no legal limit to the length of time that positive information can stay on your credit report.

Even though consumer reporting agency cannot include information that is beyond the limits provided in the Fair Credit Reporting Act in most consumer credit reports, they may continue to keep the information in your file. Why? Because there is no time limit in terms of reporting information (positive or negative) when you are:

- Applying for credit of $150,000 or more
- Applying for life insurance with a face value of $150,000 or more
- Applying for a job with an annual salary of $75,000 or more

Example credit report

Each of the three major credit reporting agencies—Equifax, Experian, and TransUnion—has its own presentation format. This example of a credit report that highlights the key sections you will find in all three agencies' credit reports. It is an example credit report and not based on the format of any one credit reporting agency. Each agency's format varies in layout, look, and level of detail reported.

Example document:

This includes your name, current address, as well as other information that can be used to distinguish your identity by itself like your Social Security number, or when combined with other personal information, including date and place of birth.

	File number: 12345678 **Date issued: 9/30/2013**
Personal information	
Name: Miguel Smith	**SSN:** XXX-XX-1234
Other names: Miguel S Smith Miguel Simon Smith	**Date of birth:** 12-1-1980 **Telephone number:** 555-555-1000
Addresses reported: 457 First Street, Littletown, MI 09876 13476 Avenue A, Big City, WI 43526	
Employment data reported	
Employer name: Riviera Restaurants	**Position:** Manager
Date reported: 3/2013	**Hired:** 11/2010
Employer: Freer Chiropractic College	**Position:** Food services
Date reported: 6/2008	**Hired:** 3/2008

Public Records This section includes public record data of a financial nature, including consumer bankruptcies, judgments, and state and federal tax liens.	
Big City Wisconsin Court Docket# 200900001467 515 C St, NE, Big City, WI 43528	
Date filed: 8/3/2009	**Type:** Chapter 7 Bankruptcy
Amount: $11,987	**Responsibility:** Individual
Big City Municipal Court Docket# 200700056712 4326 Fourth Street, SW, Big City, WI 43530	
Date filed: 4/14/2007	**Type:** Civil Judgment
Amount: $4,763	**Responsibility:** Individual
Plaintiff: Bank of Big City	**Plaintiff attorney:** Lisa Perry
Collections This section will show if you have any accounts with a collection agency and the status of those accounts.	
Reliable collections (Y76381): Account# 3629	
Original creditor: ABC Megastore	**Amount placed:** $2,500
Opened: 7/2/2009	**Account type:** Open
Balance: $1,000	**Responsibility:** Individual

Account information This section includes accounts you have now or that you had before with creditors.	
Littletown Bank (B62391), Account# 2010004637	
Balance: $14,285	**Pay status:** 30 days past due
Date updated: 8/30/2013	**Account type:** Automobile
High balance: $16,500	**Responsibility:** Individual
Past due: $395	**Date opened:** 2/5/2013
Terms: $395/month 48 months	**Payment received:** $349
Account type: Automobile	**Last payment made:** 7/5/2013

	8/5/13	7/5/13	6/5/13	5/5/13	4/5/13	3/5/13
Balance	$14,285	$14,680	$14,988	$15,294	$15,598	$15,901
Scheduled Payment	$395	$395	$395	$395	$395	$395
Amount Paid	$0	$395	$395	$395	$395	$395
Past Due	$395	$0	$0	$0	$0	$0
Rating	30	OK	OK	OK	OK	OK

Bank of Wisconsin (B42394), Account# 543298760192XXXX[18]		
Balance: $3,603	**Pay status:** Paid or paying as agreed	**Date updated:** 8/30/2013
Account type: Revolving; Credit Card	**High balance:** $9,869 12/09	**Responsibility:** Individual
Credit limit: $10,000	**Past due:** $0	**Date opened:** 6/1/2008

	8/2013	7/2013	6/2013	5/2013	4/2013	3/2013	2/2013	1/2013	12/2012
Balance	$3,683	$3,764	$3,848	$3,933	$4,020	$4,109	$4,200	$4,293	$4,388
Scheduled Payment	$147	$151	$154	$157	$161	$164	$168	$172	$176
Amount Paid	$147	$151	$154	$157	$161	$164	$168	$172	$176
Past Due	$0	$0	$0	$0	$0	$0	$0	$0	$0
Rating	OK	OK	OK	OK	OK	OK	OK	OK	OK

Continued…

[18] This example is fictional. The credit card payment schedule is based on a credit card with a 22% APR. In this example, the individual is paying down a high balance of $9,869, paying the minimum payment each month calculated at 4% of the balance. He is not using the card to make additional purchases. While credit card companies use a variety of methods to determine finance charges, a simple interest calculation was used for the purposes of this example. Amounts were rounded to the nearest dollar. According to the credit card payment calculator on Bankrate.com, making the minimum payment of 4%, it will take the consumer 15 years and 3 months to pay off this credit card debt. He will also pay $8,165 in interest assuming no late fees.

	11/2012	10/2102	9/2012	8/2012	7/2012	6/2012	5/2012	4/2012	3/2012
Balance	$4,485	$4,585	$4,686	$4,790	$4,896	$5,005	$5,115	$5,227	$5,345
Scheduled Payment	$179	$183	$187	$192	$196	$200	$205	$209	$214
Amount Paid	$179	$183	$187	$192	$196	$200	$205	$209	$214
Past Due	$0	$0	$0	$0	$0	$0	$0	$0	$0
Rating	OK	OK	OK	OK	OK	OK	OK	OK	OK

Inquiries made to your account This section includes a record of any time a company requests information from a credit reporting agency about you.	
Inquiries that display to others The following companies have received your credit report.	
Auto Loan Store 90 President Lane, Big City, WI 43529	**Requested on:** 6/2013
Super Store 100 First Street, Anytown, IA 78691	**Requested on:** 12/2012
Promotional inquiries The following companies received your name, address and other limited information about you so they could make a firm offer of credit or insurance. They did not receive your full credit report. These are not displayed to others and do not affect your credit scores.	
Dress for Success Fashion House 31 Fashion Lane, Big City, WI 43530	**Requested on:** 7/2012
EZ Loan Store 220 4th Avenue, Littletown, MI 09876	**Requested on:** 4/2013
Account review inquiries The companies listed below obtained information from your consumer report for the purpose of an account review of business transaction. These are not displayed to others and do not affect your credit scores.	
Bank of Wisconsin 457 State Street, Big City, WI 43532	**Requested on:** 3/2013

Terms used on credit reports can be confusing. Here are the definitions of some key terms used on credit reports:

Term	Explanation
Authorized user	A person permitted to use a credit card account, but who is not responsible for the account. The payment status of the account (positive or negative) is usually shown on the credit report of both the authorized user and the account's owner.

Payment status	The history of the account including on-time payments as well as delinquencies and other negative items.
Delinquent	An account that has not been paid on time and is late. Generally delinquencies are expressed as being 30, 60, 90, or 120 days or more delinquent.
Default	Default means that the consumer is not meeting the requirements agreed to when they took out the loan. An account that has been delinquent (late) for several 30 day billing cycles is generally considered to be in default.
Charge off	A debt is charged off when it is so delinquent that the lender can no longer consider it as something that it is likely to be able to collect. <u>This doesn't mean that the debt itself is erased</u> – the consumer still legally owes the debt and it can be collected. In many cases the right to collect the debt is taken over by a collection agency.
Closed date	The date an account is closed. An account can be closed by the business or the consumer. If there is still a balance when the account is closed, the consumer is still responsible for paying this.
Discharge	When the court releases a consumer of responsibility for a debt as part of the bankruptcy process.
Chapter 7 bankruptcy	A legal process in which the consumer's assets are used to pay off creditors. Any eligible debts not paid through the assets are discharged. This will be in the public records section of the credit report.
Chapter 13 bankruptcy	A legal process in which a consumer enters into a payment plan to pay off creditors using future income. These are arranged by the courts. Once the payment plan is complete, remaining eligible debts are discharged. This will be in the public records section of the credit report.
Dispute	A right consumers have to challenge and require investigation of information they believe is incorrect on their credit reports. Consumers must initiate the dispute process.
End user	The business or individual that receives a credit report.
Information provider or furnisher	A business or individual that reports information to a credit reporting agency.

Disputing errors on credit reports

If you find something wrong on your credit report, you should dispute it. You may contact both the credit reporting agency (most often TransUnion, Equifax, or Experian) and the company that provided the incorrect information (the information furnisher).

You will need to explain what you think is wrong and why. If you have evidence (a receipt for payment, copy of a cancelled check, etc.) you can include a copy of this and a copy of your credit report with the incorrect information highlighted.

If you submit your dispute in writing rather than online, never send original documents—only send copies. You may want to send this information with your letter using certified mail *return receipt requested*. This will give you notification of when the credit reporting agency and information furnisher receive your dispute letter. *Tool 2: Credit report review checklist* includes an example of a dispute letter.

The credit reporting agency generally has 30 - 45 days to respond to your request from the time it receives it.

You can also submit a complaint to the Consumer Financial Protection Bureau.

What are credit scores?

Credit scores sum up key pieces of your credit history in a number at a moment in time—like a photograph. Companies that make credit scores each use their own complicated mathematical formulas to do this. The information used in this formula comes from your credit reports – such as information on the number and type of loans and other forms of credit you have used and are currently using, whether you're making your payments on time, and whether you're 30 days or more late (delinquent) on any of these accounts. The formulas are created by looking at how other people whose credit file looks like yours have paid their bills over time.

Credit scores provide a standardized way for businesses that offer credit to understand the risk that you may have difficulty paying back a loan. The current common credit scoring formulas are designed to predict whether someone is likely to fall behind on loan payments for 90 days or more. For these scores, the higher the number, the less risky you are predicted to be.

These scores can make it easier for businesses to make decisions about whether to offer you credit and how much interest they will charge. Without scores, they would have to take more time to read and interpret both your credit application and your credit report.

There are multiple companies that calculate and sell credit scores. Credit scores vary because different score companies use the information stored by the three large credit bureaus in different ways. Scores produced by different companies may also vary because they don't always share the same score range. Sometimes the three large credit bureaus store slightly different information used to calculate the score, which can also contribute to differences.

As a result, you have more than one credit score. Each company generates its own scores, and they may differ from each other, sometimes significantly. And, each company that creates credit scores generates different scores for different kinds of users—they may sell educational scores to consumers, but provide different scores to lenders. This can make deciding which credit score to purchase, if any, confusing for consumers.

How are scores calculated?

FICO scores (calculated using formulas made by Fair Isaac Corporation) are the most commonly used scores. These scores range from 300 to 850. A FICO score above 700 is considered good by most businesses, and the scores considered the best are 750 and higher.

The actual way that FICO scores (and other scores) are calculated is considered a trade secret. But FICO makes some information available to the public on what goes into its scores.[19]

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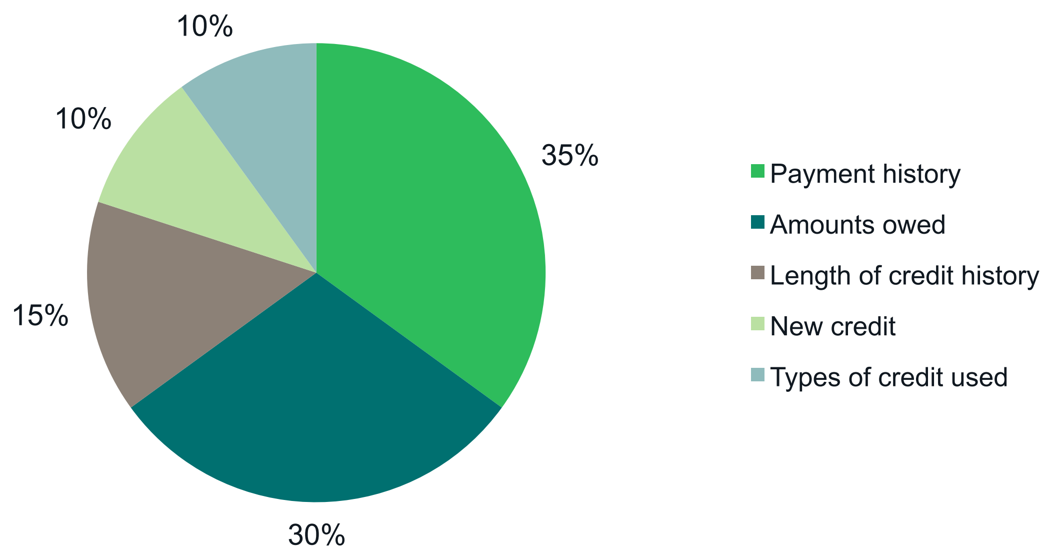
[19] Pie chart values are from FICO. See http://www.myfico.com.

FIGURE 1: WHAT GOES INTO FICO SCORES?[20]



Payment history tracks whether you are paying your bills on time and as agreed. This is the biggest factor in your FICO Scores. Paying bills late, not paying bills at all, and having bills that go to collections will cause your scores to drop. The impact on a score from a single late or missed payment decreases over time. Paying your bills on time can help increase your score, and debts that go to collections and to judgment will cause it to fall.

Amounts owed include the amount you are paying down on loan balances as agreed. It also includes your credit utilization rate. Your credit utilization rate is how much of your available credit you are using. As your revolving balance relative to the credit limit increases, your score will drop.

Length of credit history is the next factor that impacts your scores. Your score increases the longer you have a credit history. The more established credit accounts you have, the "thicker" your credit file will be. This is a credit record with strong evidence of how you use credit and your payment behavior. If you have just one or only a few credit accounts, you will have a "thin file."

[20] "Amounts owed" relates to the percentage of a revolving credit limit that is being used and the percentage of an installment loan that remains to be paid off.

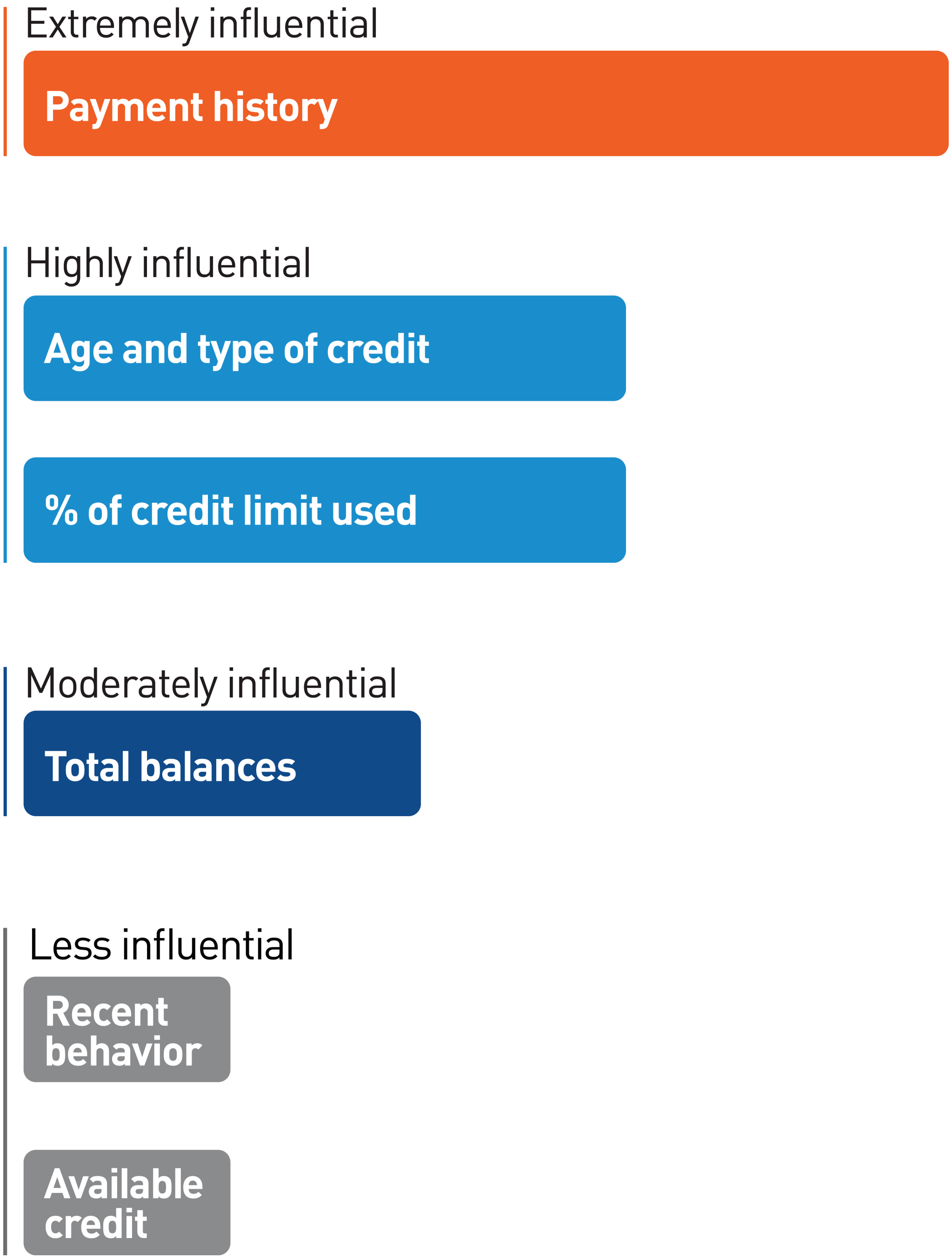
New credit is tracked by measuring your inquiries for credit. If you have too many inquiries, the model interprets this to mean you have a high demand for credit, which may be an indicator of risk, and your scores may drop. When you are shopping for credit, however, you can compare offers for a home, car, or student loan. FICO and most other models give you a short window of time – generally 30 days – when multiple inquiries for the same type of product will be considered as only one inquiry. And your score is not affected at all when companies “pre-screen” you for credit or when you check your credit report yourself (such as at annualcreditreport.com).

Finally, **types of credit used** are considered. Your FICO scores increase if you have both credit cards (revolving credit) and loans (installment credit such as a mortgage or car loan) in good standing. Generally, it is considered a positive to have a mortgage, an auto loan, and not too many credit cards.

Scores provided by VantageScore, another score provider, range from 300 to 850. Scores calculated with its earlier models ranged from 501 to 990.[21] Like the FICO Scores, the actual method used to calculate VantageScore credit scores is secret. But VantageScore provides information to the public like the graphic below, which explains how your credit history, credit usage, and other actions can influence the scores it calculates.

[21] See http://your.vantagescore.com/score-influences.

FIGURE 2: WHAT GOES INTO VANTAGESCORES?[22]



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[22] "Recent behavior" refers to recent credit behavior and inquiries. "Age of credit" refers to the length of time accounts have been open.

Credit utilization rate

If you want to maintain your credit score, many experts advise keeping your use of revolving credit low in relation to your credit limit.

That's because credit scoring formulas penalize you for using too much of the credit you have available to you. This means your credit score may drop if you use more than a certain percentage of the revolving credit you have available to you.

For example, you may have a high percentage of your credit limit charged on a card, and you want to qualify for better rates on new credit. In this case, you may want to lower the amount you are revolving from month to month by paying down your credit card before you apply for new credit.

The easiest way to understand credit utilization is through an example:

> *If someone had a credit card with a $5,000 credit limit, and she has charged $3,500 on this card, her credit utilization rate is calculated as follows:*
>
> *$3,500 (amount charged to credit card) divided by $5,000 (credit limit) = .7 or 70%*
>
> *If she sets a goal of lowering her revolving utilization of this card to 25% or less, her revolving balance should be no more than:*
>
> *$5,000 (the credit limit) multiplied by .25 (25%) = $1,250*

Does this mean that only the unpaid balance is counted toward the credit utilization rate? The answer is no. If at any time during the month your total charges are higher than the limit the credit scoring model is based on, you run the risk of lowering your credit score.

Tool 1:

Getting your credit reports and scores

Getting your reports

Getting your credit report is the first step to improving your credit. It is important to think about credit, because a good credit history can help you:

- Get and keep a job
- Get and keep a security clearance for a job, including a military position
- Get an apartment
- Get insurance coverage
- Get lower deposits on utilities and better terms on cell phone purchase plans
- Get a credit card
- Get loan from a bank or credit union including a loan for a house (a mortgage)
- Get a better credit score—all of the information used to calculate your score comes from credit reports

If any of these things are important to you, improving your credit report can help you get them.

Start with your free annual report

You can get a free copy of your report from each of three agencies every 12 months.

Some states and territories allow for an additional free report each year: Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, Vermont and Puerto Rico.

To order through the website, visit https://www.annualcreditreport.com. You will complete a form with basic information (your name, Social Security number, address, etc.). You will select the report(s) you want—Equifax, Experian, and/or TransUnion.

Then for each report, you will be asked a series of security questions such as: former addresses, amount of a loan you have, phone numbers that have belonged to you, counties you may have lived in, etc. If you are unable to answer these questions, you will have to use another method.

You will save a PDF version of your report, print the report, or both.

Be sure you do this in a safe and secure location. Avoid doing this on public computers such as those at a library.

Alternative methods

Order by phone: (877) 322-8228. You will go through a verification process over the phone.

Order by mail: Download the request form from https://www.annualcreditreport.com.

Print and complete the form. Mail the completed form to:
Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Track when you have printed or received your credit reports

Source of credit report	**Equifax** PO Box 740241 Atlanta, GA 30374 www.equifax.com	**Experian** www.experian.com	**TransUnion LLC** PO Box 1000 Chester, PA 19022 www.transunion.com
Date report printed or received			

Beware of imposter websites offering free credit reports. Some companies offer free credit reports, but you may have to buy another product or service to get it.

DO NOT use a search engine (Google or Yahoo, for example) to find the annual credit report site. Go directly to: https://www.annualcreditreport.com or go through http://www.consumerfinance.gov.

You can get an additional free report if you:

- Are unemployed and plan to look for employment in the next 60 days
- Are receiving public assistance
- Have been the victim of fraud including identity theft
- Have had adverse action taken (you have been denied credit, employment, insurance, etc.) because of information in your credit report. In this case, you have 60 days to request your report

If you are under 18, you should not have a credit report unless:

- You are an authorized user or joint owner on an account
- You are an emancipated minor
- Your state law allows you to enter contracts at 17, and your have done so
- You have student loans
- You have been the victim of identity theft and credit or financial fraud

Currently, only Experian allows minors (once they reach the age of 14) to obtain their own credit reports. Call (888) 397-3742 to get your file.

With TransUnion, you can send an email to childidtheft@transunion.com to see if a credit file exists. Or you can visit the TransUnion website and complete the Child Identity Theft Inquiry Form. If the minor has a legitimate credit history (he or she is the joint owner of or an authorized user on an account), then a parent or guardian must order the report.

For the Equifax report, call (877) 784-2528. Currently, an adult—the parent or legal guardian—must order the credit report on behalf of the minor.

Getting your credit scores

Unlike your credit report, which you can get at no cost to you, you usually have to pay for your credit score. There are certain instances in which you are entitled to your credit score for free, for example if you are denied a loan on the basis of your credit score.

There are many credit scores you can purchase in the marketplace. The type of credit score most used by lenders is a FICO score. Another score also used by lenders is the Vantage Score, which you can purchase through TransUnion.

Credit scores offered online are approximations of your scores. They are not the actual scores businesses will use to make decisions about you. However, some people find they can be useful for education. You can generally see if your credit scores are moving up or down. But the actual number may not reflect your actual FICO Scores. So this may be confusing.

You cannot know ahead of time whether the scores you purchase will vary moderately or significantly from a score sold to creditors. You should not rely on credit scores you purchase exclusively as a guide to how creditors will view your credit quality. **Knowing what is in your credit report and fixing errors is more important to building your credit than buying a credit score that may not tell you what you need to know before you apply for a loan.**

Tracking when you ordered scores

<table>
<tr><td rowspan="3">To order your FICO score visit http://www.myfico.com

Each credit score will cost. This company also offers other credit reporting and monitoring services for a fee.</td><td>Equifax score:</td><td>Date:</td></tr>
<tr><td>Experian score:</td><td>Date:</td></tr>
<tr><td>TransUnion score:</td><td>Date:</td></tr>
</table>

You have the right to get a free credit scores if:

- You apply for a mortgage loan and the lender uses your credit score. The lender must send you a notice telling you this and include your score.

- Your application for credit is turned down and the lender used your credit score. You will get a notice (disclosure) from the provider explaining this with your credit score.

- You get less favorable terms from a lender than the terms available to most people who get credit from that lender, and the lender used your credit score. You will get a notice (disclosure) from the provider explaining this with your credit score.

Tool 2:

Credit report review checklist

Once you get your credit report, you will want to review it carefully. Ordering it is not enough—you have to read it. Credit reports may have mistakes. And if there are mistakes, you are the only one who is likely to find them.

Use the following worksheet to review each section of your credit report. Do this for each credit report you get throughout the year. Then, keep the completed checklist with your credit report.

Your credit report contains a lot of personal and financial information. Be sure to keep any hard copies of your credit reports in a safe and secure place. If you do not want to hang on to your credit reports, be sure to shred them before getting rid of them.

Credit report review checklist

Today's date: ___________ **Name of credit reporting agency** _____________

Check for "yes"	Checklist item
	Is your name correct?
	Is your Social Security number correct?
	Is your current address correct? Is your current phone number correct?
	Are the previous addresses they have listed for you correct?
	Is your marital status listed correctly?
	Is the employment history they have listed for you accurate?
	Is everything listed in the personal information section correct?
	Is there anything listed in the public record information? Is it correct? Highlight the information you think may **not** be correct.

	Review each item under the credit account (trade account) section. Are the accounts on the list still open?
	Are all of the current balances correct?
	Are accounts where you are an authorized user or joint owner listed?
	Are zero balances recorded for debts discharged in bankruptcy? For debts paid in full?
	Are you listed as a co-signer on a loan? Is this correct?
	Are accounts that you closed listed as “closed by the consumer”?
	Is negative information reported on each credit account correct? Look for late payments and missed payments. Highlight those items you think are **not** correct.
	Are any accounts listed more than once? Check to make sure the same account is not listed multiple times in the collections section.
	Is old negative information still being reported? If yes, highlight the information that has exceeded the negative information reporting limit, which is usually seven years.
	Do you suspect that you have been the victim of identity theft after reviewing your credit reports?

If you find something wrong with your credit report, you should dispute it. You may contact both the credit reporting company and the creditor or institution that provided the information. Explain what you think is wrong and why.

To correct mistakes, it can help to contact both the credit reporting company and the source of the mistake. You may file a dispute not only with the credit reporting company, but also directly with the source of the information, and include the same supporting documentation. However, there are certain circumstances where creditors and furnishing institutions are not required to investigate.

You may file your dispute online at each credit reporting agency’s website.

If you file a dispute by mail, your dispute letter should include: Your complete name, address, and telephone number; your report confirmation number (if you have one); and the account number for any account you may be disputing.

In your letter, clearly identify each mistake, state the facts, explain why you are disputing the information, and request that it be removed or corrected. You may want to enclose a copy of the portion of your report that contains the disputed items and circle or highlight the disputed items. Include copies (not originals) of documents that support your position.

Send your letter of dispute to credit reporting companies by certified mail, return receipt requested, so that you will have a record that your letter was received. You can contact the nationwide credit reporting companies online, by mail, or by phone:

You can contact the primary nationwide credit reporting agencies online, by mail, or by phone:

Equifax
Online: http://www.ai.equifax.com/CreditInvestigation
By mail: Download and complete the dispute form:
http://www.equifax.com/cp/MailInDislcosureRequest.pdf
Mail the dispute form with your letter to:
Equifax Information Services LLC
P.O. Box 740256
Atlanta, GA 30374
By phone: Phone number provided on credit report or (800) 864-2978

Experian
Online: http://www.experian.com/disputes/main.html
By mail: Use the address provided on your credit report or mail your letter to:
Experian
P.O. Box 4000
Allen, TX 75013
By phone: Phone number provided on credit report or (888) 397-3742

TransUnion
Online: http://www.transunion.com/personal-credit/credit-disputes-alerts-freezes.page
By mail: Download and complete the dispute form:
http://www.transunion.com/docs/rev/personal/InvestigationRequest.pdf
Mail the dispute form with your letter to:
TransUnion Consumer Solutions
P.O. Box 2000,

Chester, PA 19022-2000
By phone: (800) 916-8800

Keep copies of your dispute letter and enclosures.

If you suspect that the error on your report is a result of identity theft, visit the Federal Trade Commission's ***Fighting Back Against Identity Theft*** website for information about identity theft and steps to take if you have been victimized. This will include filing a fraud alert and possibly filing a security freeze.

If the error is with a specific account, you can also choose to start the process by contacting the creditor or the debt collector to resolve the dispute.

Whether you file your dispute directly with the creditor (information furnisher) or the credit reporting agency, they generally have 30 - 45 days to investigate your claim and 5 days to send you written notice once their investigation is over.

If the dispute results in a business changing the information it reported about you, the business must notify the credit reporting agencies. And vice versa, if you filed your dispute with a credit reporting agency, it must fix your file and notify the creditor of the error.

You can also submit a complaint to the Consumer Financial Protection Bureau at https://www.consumerfinance.gov/complaint or by calling 877-411-2372.

Steps to filing a dispute checklist

Check for "yes"	Steps to filing a dispute
	Write a letter to the credit bureau that sent you the report.
	Provide the account number for the item you feel is not accurate.
	For each item, explain concisely why you believe it is not accurate.
	If you can, include copies of bills or cleared checks (money order stubs) that show you have paid them on time.
	Provide your address and telephone number at the end of the letter so the credit bureau can contact you for more information if necessary.

	Make a copy of your letter before you send it to the credit bureau.
	Send the letter. You may choose to use Certified Mail with Return Receipt to have proof of when the letter was received. The consumer reporting agency or the creditor generally has 30-45 days to investigate your claim.

You can use this example dispute letter from the Federal Trade Commission to a credit reporting agency as a guide for writing your own letter.

Example letter

[Your name]
[Your return address]

[Date]

Complaint Department
[Company Name]
[Street Address]
[City, State, Zip Code]

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute 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 removed [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 and court documents] supporting my position. Please reinvestigate this [these] matter[s] and [delete or correct] the disputed item[s] as soon as possible.

Sincerely,

[Your name]
[Phone number]
Enclosures: [List what you are enclosing.]

Be sure to keep copies of everything you send to the credit reporting agencies, including the dates you sent the items.

This Tool is included in the Consumer Financial Protection Bureau's toolkit. The CFPB has prepared this material as a resource for the public. This material is provided for educational and information purposes only. It is not a replacement for the guidance or advice of an accountant, certified financial advisor, or otherwise qualified professional. The CFPB is not responsible for the advice or actions of the individuals or entities from which you received the CFPB educational materials. The CFPB's educational efforts are limited to the materials that CFPB has prepared.

This Tool may ask you to provide sensitive personal and financial information. The CFPB does not collect any information from you or the organization using this Tool. The CFPB is not responsible and has no control over how others may use the information that you provide to them about your personal or financial situation. The CFPB recommends that you do not include names or account numbers and that users follow their organization's policies regarding retention, storage, and disposal of documents that contain personal information.

Tool 3:

Improving credit reports and scores

Your *credit report* shows information about how you have used credit, such as how much credit you have, how much of your available credit you are using, whether you have made your payments on time, and whether anyone has sent a loan you owe to a debt collector.

A *credit score* is a number that is used to predict how likely you are to pay back a loan. Your credit score starts with the information about you from your credit report. A mathematical prediction formula is applied to this information about you from your credit report. That prediction formula, which is called a scoring model, creates a number, and this number is your credit score.

To get and keep a good credit score:

- Pay all your loans and bills on time.
- Make sure information in your credit report is correct.
- Don’t use too much of the credit that is available to you.

If you want to qualify for credit, focus on improving your reports and scores now. Use this worksheet to ensure you are focusing on the areas that matter most.

You may want to talk with a specialized credit or housing counselor to build your plan to improve your credit report and scores. See the Resources list at the end of this tool for links to get you started in finding an accredited counselor.

✎ Strategies for improving credit reports and scores list

Check if you plan to implement	Strategy for improving credit reports and scores	Other information or resources you need
	Obtaining free credit reports annually Online at https://www.annualcreditreport.com By phone: Call (877) 322-8228 By mail: Go to https://www.annualcreditreport.com to print the form (Use *Tool 1: Getting your credit reports and scores*)	
	Reviewing the credit reports for accuracy (Use *Tool 3: Credit report review checklist*)	
	Disputing errors found on the reports (Use *Tool 3: Credit report review checklist*)	
	Understanding Credit Scores (Use *Tool 2: Getting your credit reports and scores*)	
	Paying bills on-time is the most effective way to improve your credit reports and credit scores.	
	Keeping the amount of credit available that you use low. (While there is not an "official" published limit, many financial experts recommend keeping the amount of credit used between 25% and 30%[23] of the credit available.)	

[23] For two examples, see http://www.chicagotribune.com/classified/realestate/sns-201204201830--tms--realestmctnig-a20120428apr28,0,222450.column and http://www.experian.com/blogs/news/2012/09/24/rebuild-your-credit.

	Keeping unused credit accounts open—credit card company may close account because of inactivity. (They are not allowed to charge fees if this occurs.) However, if your goal is paying down debt and you may be tempted to use the card, keeping the account open may not help you reach your goal. If you close some credit card accounts and put most or all of your credit card balances onto one card, it may hurt your credit score if this means that you are using a high percentage of your credit limit on that account.	
	Developing a plan to take care of outstanding judgments or liens. You may be able to negotiate with a collector (See Module 6).	
	Diversifying credit sources	
	If you have medical debt, you may be eligible for assistance with your bills or may be able to get on a payment plan.	
	Paying down old debt or debt in collections. This will improve your credit history – your report – but may not impact your credit score. Before you make a payment on debt that you have not paid for a long time, such as three or more years, you may wish consult with a credit specialist or attorney regarding the statute of limitations on the debt. If the statute of limitations period has passed, making a payment may re-start the clock on creditors' ability to file a lawsuit to collect the debt, depending on the debt and state law.	
	Using credit building products: *Secured credit cards*. This can be a way to build a positive credit history. But because credit limits tend to be low with these cards, be sure to watch your credit utilization rate and not get too close to using the full limit. *Credit building loans*. Visit a bank or credit union to find out about these products. With some credit builder loans, you make monthly payments first, and receive the loan amount when it is paid off. This helps you avoid taking on debt while you build a positive payment record. These loans can be very effective in creating new history and will have a positive impact on your reports and scores.	

	Other:	

This Tool is included in the Consumer Financial Protection Bureau's toolkit. The CFPB has prepared this material as a resource for the public. This material is provided for educational and information purposes only. It is not a replacement for the guidance or advice of an accountant, certified financial advisor, or otherwise qualified professional. The CFPB is not responsible for the advice or actions of the individuals or entities from which you received the CFPB educational materials. The CFPB's educational efforts are limited to the materials that CFPB has prepared.

This Tool may ask you to provide sensitive personal and financial information. The CFPB does not collect any information from you or the organization using this Tool. The CFPB is not responsible and has no control over how others may use the information that you provide to them about your personal or financial situation. The CFPB recommends that you do not include names or account numbers and that users follow their organization's policies regarding retention, storage, and disposal of documents that contain personal information.

Resources

If you would like help managing your debt or rebuilding credit, visit the National Foundation for Credit Counseling:
http://www.nfcc.org

Certified housing counselors can provide advice on buying a home, renting, defaults, foreclosures, and credit issues:
www.consumerfinance.gov/find-a-housing-counselor

FDIC.gov, Credit Repair:
http://www.fdic.gov/consumers/consumer/ccc/repair.html

Consumer.gov, Building a Better Credit Report:
http://www.consumer.ftc.gov/articles/pdf-0032-building-a-better-credit-report.pdf

For additional resources, visit the Consumer Financial Protection Bureau website:
http://www.consumerfinance.gov/AskCFPB

If you have a consumer complaint, visit:
http://www.consumerfinance.gov/complaint