

Financial Education for Worker Cooperative Members

Topic 3: Credit

Introduction

This curriculum was created as part of a project between the New York City Department of Consumer Affairs Office of Financial Empowerment and Make the Road New York, with the support of Citi Community Development to integrate financial empowerment tools and training into the cooperative development process.

It consists of 5 two-hour-long workshops:

- Topic 1: Basic Money Management & Budgeting
- Topic 2: Banking & Basic Financial Transactions
- **Topic 3: Credit**
- Topic 4: Creating a Profitable Business
- Topic 5: Basic Financial Statements

Questions to Think About

What is credit and is it important?

How do I obtain a credit report and a credit score?

How do I build, maintain or repair credit that is damaged?

When I should use credit vs. making payments from my checking or savings accounts?

How do I choose the right credit card?

What is predatory lending and how does it affect clients?

What is Credit?

- Credit is a **trust** relationship.
- A party such as a lender, a bank, merchant or credit card company (the **creditor**), gives you (the **debtor** or **borrower**) funds or makes a payment on your behalf so that you can make a purchase or payment, with expectation that you will pay the creditor back in accordance with your agreement.

Why Credit is Important and Impacts on Your Financial Goals

Credit is used to judge character and level of risk

- **By landlords**
 - Affects whether you will be able to rent
- **By lenders**
 - Affects ability to obtain a mortgage, credit cards, car loans, or small business loans (look at the credit of the owners)
- **By service providers**
 - Affects whether you can open a cell phone account, utilities (gas and electricity), amount of deposit required

Why Credit is Important and Impacts on Your Financial Goals, cont'd

Employer's Use of Credit Reports for Hiring Decisions in NYC

- Effective September 15, 2015, employers may not use or request “credit history” for purposes of employment application or post offer hiring decisions, from the individual, background check or credit reporting **agency—except as set forth (next slide)**
- “Credit history” means: credit worthiness, standing or score; bankruptcies, judgments or liens; late payments, amount of debt, number of accounts. May not obtain from applicant or third party
- Cannot advertise jobs with direct or indirect caveat on criminal or arrest records

Why Credit is Important and Impacts on Your Financial Goals, cont'd

- **Exceptions to prohibition:**
 - Law enforcement personnel
 - Federal, state law or regulations require use of employee's credit history
 - NYC DOI requires background check
 - Employee must be bonded under city, federal or state law
 - Job requires security clearance
 - Signatories over third party assets of \$10k or more
 - Employees with right to modify digital security systems to prevent access to systems
 - Fiduciaries to employers with right to enter into contracts \$10k or more on behalf of employer

Employer's Inquiry on Pending Arrest or Criminal Convictions Prior to Hiring Decisions in NYC

Fair Chance Act:

- **Effective October 27, 2015**
- **Employers are prohibited from making an “inquiry”** about pending arrests and criminal convictions **prior** to making a conditional job offer to the applicant
- **“Inquiry means”**: written or other questions to an applicant, and any searches of publicly available records or consumer reports that are conducted for the purpose of obtaining an applicant's criminal background information

Employer's Inquiry on Pending Arrest or Criminal Convictions Prior to Hiring Decisions in NYC, cont'd

- **Once conditional offer is made- cannot deny job based on pending arrest or criminal conviction unless:**
 - Provide a written copy of the inquiry to the applicant based on NYC Human Rights Commission guidelines;
 - Analyze various factors under [New York Correction Law Article 23-A](#) to determine if applicant should be disqualified from employment;
 - Provide copy of analysis and any supporting documents to the applicant per NYC Commission on Human Rights guidelines; and
 - Give applicant at least 3 business days to respond and must hold the position open for the applicant during that period

Why Credit is Important and Impacts on Your Financial Goals, cont'd

Lack of credit

- Inconvenience
- No emergency options

Bad credit

- Everything costs you more (higher risks means higher interest rates)
- Fewer loan options

Money management tool

- Can help with cash flow management

What Does Credit Actually Cost You?

The following is from an actual credit card invoice on which the balance is \$3,510.93, and interest rate of 9.24% (relatively low interest rate)

If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about	And you will end up paying an estimated total of...
Only the minimum payment	18 years	\$5,829.00
\$112	3 years	\$4,032.00 (Savings=\$1,797.00)

Credit card companies are required to tell you what your total payments would be if you only pay the minimum payment each month vs. how much you must pay each month to pay off the debt in three years.

Real Cost of Credit

Terminology

- **Interest:** The amount a borrower pays to use someone else's money
- **Annual Percentage Rate (APR):** The percentage cost of using the credit for the year. This is the charge when a borrower carries a balance
- **Annual Fee:** The cost of having the use of a credit card, or having access to the use of the credit per year

Real Cost of Credit

Terminology

- **Finance Charge:** This is the actual amount the borrower pays for using the credit for the year
- **Origination Fee:** The cost of setting up a loan; this usually applies in the case of a mortgage or real estate loan
- **Loan Term:** The period of time over which the borrower has to repay the loan
- **Late Fees:** The penalty that a borrower must pay if a payment is made late. This is in addition to the interest that is calculated.

Real Cost of Credit

Terminology

- **Minimum Payment:** Usually at least 2% of the outstanding balance. Most creditors will set a minimum of \$15 or \$20/month. Minimum payments have been rising recently
- **Grace Period:** The number of days that a borrower has before he or she will have to pay interest if the balance is paid in full. A good strategy is to pay off the balance within the grace period whenever possible

Real Cost of Credit

Terminology

- **Guarantor:** Someone who agrees to pay the loan or debt where the borrower or debtor does not. Often takes place in the form of a co-signer
- **Credit Score:** A number used by lenders and credit to decide whether to extend credit, i.e., your credit risk. Accounts for factors such as timeliness of payments, amount of debt outstanding, types of loans or credit, how much credit you have applied for recently, how long you have a credit history

Benefits of Credit

- **Tool** for managing your money
- **Emergencies**
- **Safety and convenience**
- **Extras:** bonus points/miles

Types of Credit

- **Credit Cards/Revolving Credit:** Credit limit decreases as account is used, and increases as balance is repaid.
- **Installment Loan:** Usually for larger purchases such as car loan or appliances. Payments are set at a fixed amount payable monthly until the full amount and interest are paid in full.
- **Mortgages:** A loan made in which the borrower's collateral securing the loan is real estate.
- **Student Loans**

Establishing Credit

- **Establish a Banking Relationship for the Long-Term**
 - Will products and services offered fit my future plans?
 - Handle your accounts responsibly
 - Get to know your branch manager
- **Retail card** – smaller retailers often offer cards with small credit limits
- **Credit builder cards**
- **Secured credit cards**
- **Become an authorized user**

Credit Report

- **Three primary credit reporting agencies:**
 - Equifax
 - Experian
 - TransUnion
- **Creditors may report to one or more credit reporting agencies;** prospective creditors and others may request a report from one or more of them when a consumer applies for credit
- **Entitled to a free copy of your report** from each of the 3 credit reporting agencies every 12 months
- **Credit scores are not free** (although many credit card companies offer free scores to customers—often based on a variation of FICO, for example, Experian composite score)

To obtain Free Credit Report

- **On-line:** www.annualcreditreport.com
 - Endorsed by the US Federal Trade Commission and the Consumer Financial Protection Board
 - All 3 are available (do not check box agreeing to pay for the credit score unless you want the score), just obtain the free credit report
- **By Phone:** for all 3 reports
 - 1 (888) 397-3742

To obtain Free Credit Report

- **By Mail:** for all 3 reports
 - **Annual Credit Report Request Service**
P.O. Box 105281
Atlanta, GA 30348-5281
 - **Download request form** at www.annualcreditreport.com
 - **Or write letter request**
 - Required proof of identity:
Social Security card, or Pay stub with Social Security Number, or W2 form
 - Required proof of address
Driver's license, or Rental or lease agreement/house deed, or Pay stub with address, or Utility bill (gas, electric, water, cable, residential phone)

Score Determines Interest Rates

- **FICO Score** – measurement of risk created by the Fair Isaacs Company
 - Scores range 300-850
- **Each credit bureau uses slightly different system**, but are generally based on FICO

Calculating Your Score

35% Punctuality of payment in the past (only includes payments later than 30 days past due)

30% The amount of debt, expressed as the ratio of current revolving debt (credit card balances, etc.) to total available revolving credit (credit limits)

15% Length of credit history

10% Types of credit used (installment, revolving, real estate)

10% Recent search for credit and/or amount of credit obtained recently

Maintaining Good Credit and Avoid Damaging Your Credit

- **Review credit reports** at least once a year
- **Pay bills on time** and automate payments if you have sufficient cash flow
- If you are going to be late, **don't wait until past the due date**: call for an extension; a one-time new due date means you're on time if payment is made by extension date
- **Avoid being a guarantor** on loans or credit for others
- **Avoid allowing an authorized user on your credit cards**

Correcting Errors and Clearing up Credit Report

- **To dispute or correct credit reports**, be sure to utilize your right to include 100-word statement of your side of the story (ex. goods were defective, the charge was incorrect)
- **Write to the Credit Bureau** that supplied the information
In your letter be sure to include:
 - Full name including middle initial and suffix (Jr., Sr., II, etc.)
 - Date of birth
 - Social Security number
 - Current mailing address
 - If applicable, the name and account number of the creditor and item in question
 - The specific reason for your disagreement with the disputed item
 - Your signature

Strategies for Credit Repair

- **Correct errors:** immediately report any errors
- **Remove items where reporting period has expired:**
 - Negative information reported for 7 years
 - Chapter 7 Bankruptcies reported for 10 years
 - Chapter 13 Bankruptcies reported for 7 years
 - Criminal records – no time limit
 - Other items covered in Consumer Debt Protection
- **Start paying on time**
- **Obtain secured credit card**
- **Credit builder loans** (offered by some credit unions or community banks)
- **Obtain an authorized user card** (risk for primary cardholder)
- **Obtain a guarantor** (risk for the guarantor)

What is a Credit Card?

- Card issued by lender or institution which allows the consumer to access a line of credit to purchase goods, services or obtain a loan (cash advance) based on a contractual agreement
- Cardholder must pay amount drawn on as agreed, e.g. in full, or over time with agreed upon interest and other costs or fees
- Not to be confused with a charge card where balance must be paid in full when invoiced (some cards allow you to select specific charges to pay over time)

Credit Card Protections

- **Credit card companies must provide a 45-day written notice before changing the interest rate** on future balances or making significant changes to the terms of a credit card agreement
- Notice gives consumers the right to cancel and avoid fee increase
- If the consumer cancels, he/she must repay the debt either over five years or by making monthly payments of up to twice the current minimum payment
- **Exceptions:**
 - 45-day notice is **not** required if change is due to a variable rate
 - The expiration of a promotional rate
 - Failure to comply with the terms of a “workout” or “hardship” agreement

Credit Card Protections

- **Credit card companies cannot raise interest rates on existing balances**
- **Exceptions:**
 - Does **not** apply when minimum payment is 60 days late
 - The change is due to a change in the index tied to a variable rate
 - A promotional rate expires
 - The consumer fails to comply with the terms of a “workout” – where the debtor and the creditor has negotiated a payment plan different than the one required by the card agreement or “hardship” agreement – where the creditor may extend time to pay, or lower payments due to a debtor’s hardship such as job loss, illness, catastrophe such as a hurricane, or unexpected setback making it difficult to pay

Credit Card Protections

- **Interest Rates in First Year of New Card:** Cannot raise the rates for future purchase for the first year the account is open
- **Exceptions:**
 - Does **not** apply when minimum payment is 60 days late
 - The change is due to a change in the index tied to a variable rate
 - A promotional rate expires
 - The consumer fails to comply with the terms of a “workout” or “hardship” agreement
- Introductory promotional rates **must** last at least 6 months and the go-to rate after expiration must be disclosed

Credit Card Protections

- **Reasonable Time to Make Payments:** Your bill must be sent within 21 days before the payment is due
- **Reasonable Payment Dates:** No weekend due dates, due dates that change each month, and payment deadlines that fall in the middle of the day

Credit Card Protections

- **Fees and Penalties:** Must be reasonable and proportional
- **Late fees:** Capped at \$25 or the minimum payment missed whichever is lower on the first payment, thereafter, can go to \$35 or minimum payment if that is lower.
- **Cure Penalty Interest Rates Triggered by Late Payments:** If a consumer was 60 days late making payments and a legal rate increase was made, the initial lower rate must be reinstated if the cardholder makes 6 consecutive on-time payments
- **Re-Evaluation of Other Rate Increases:** For accounts that have had rates increased after January 1, 2009, creditors must review accounts every 6 months to determine whether risk factors and market conditions have changed and determine whether to reduce the APR

Credit Card Protections

Protections for Young Adults Under Age 21

- **Credit card may not be issued to an applicant** unless he/she provides evidence of independent means to make payments or has a co-signer 21 years or older with demonstrated ability to repay
- **Cannot offer tangible items** (like Frisbees or t-shirts) on college campuses or at events sponsored by colleges to induce students to apply for credit cards
- **Colleges must disclose marketing relationships**
- **Credit bureaus are prohibited from providing credit card companies** with young people's credit reports unless they have had expressly consented

Identity Theft

What is Identify Theft and How Does it Apply?

- **Unauthorized use of another person's name** or other information for fraudulent purposes
- **Stealing wallets or purses** with identification such as driver's license and credit or ATM cards
- **Taking bank statements from mailbox**
- **Diverting mail** by filing a Post Office change of address form
- **Dumpster diving**
- **Stealing information** from workplace or school records
- **Intercepting or obtaining information transmitted electronically** via the internet or through fax

Identity Theft Prevention Tips

- **Never throw out papers with sensitive information.**
Shred documents containing personal information before discarding them
- **Be careful when receiving suspicious telephone and e-mail offers.** Personal information should never be given out over the phone; never click on unfamiliar e-mail links
- **Safeguard computer usage.**
Utilize antivirus and firewall software
- **Check credit report for unusual activity.**
Request a free annual credit report

Steps to Take if Your Client is Victimized

- **Place a fraud alert on the credit report** with one of the three major credit bureaus
- **Close all fraudulent accounts**
- **Notify the local police precinct**, the credit bureaus, and the local DA's office
- **Get a copy of the police report** to submit to creditors and others who may require proof of the crime
- **File a complaint with the Federal Trade Commission (FTC)**. You can visit www.consumer.gov/idtheft or call toll-free 1-877-ID-THEFT (438-4338)
- **Identity Theft Clearinghouse**, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580

Summary

- **Mismanaging credit** can impact your financial goals
- **Obtain and review free credit reports** every 12 months
- **Correct or dispute any errors** on report immediately
- **Remove negative information after 7 years** where permitted
- **Avoid being a guarantor**
- **Avoid allowing an authorized user**
- **Improper handling of credit results in products and services costing more** and, may impact employment and promotion opportunities
- **Limits options and ability** to find rental housing or purchase a home, or rent
- **Hampers ability to start business**, attract capital or investment
- **Affects cash flow and hampers ability to save and invest** more for the future