

Credit Reporting

Presented by *Trinity Debt Management*



Credit Score Overview

- ▶ The first step to getting out of debt and improving your credit score is to establish a budget so that you know how much you can afford to apply toward your debt each month (budget worksheet enclosed).
- ▶ Once you know what you can afford to pay toward your debt, the next step is to locate all of the accounts that you have. If you do not have letters or bills for the debts that you have, you need to get a recent copy of your credit report. You're entitled to one free copy of your credit report every 12 months from each of the three nationwide credit reporting companies. Order online from www.annualcreditreport.com, the only authorized website for free credit reports, or call 1-877-322-8228.

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- ▶ Once you have your credit report, organize the accounts that have an outstanding balance. List the name of each account, account number, balance, phone number and address. Once you have all of your account information organized, you can see how many accounts you can focus on compared to the amount you established to pay in your budget. We suggest that you send a minimum of \$25 to each account or 3% of the total outstanding balance.
- ▶ Once you have decided which account you want to focus on, call the creditor and request that they send you a letter or bill so that you have all of the account details in writing. (The credit report will most likely only show you a portion of the full account number. A letter from the creditor will show the full account number.) By contacting the creditor you will also get verification that they still have the account. (Accounts that are in collection can transfer from one collection agency to the next fairly frequently).

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- ▶ Once you receive the letter from the creditor with all of the account information, you are ready to send them their first payment. We recommend sending a letter with the first payment that you send that outlines your intentions.
- ▶ Continue sending a monthly payment until the account is paid in full. Once the final payment has been made, call the creditor to request that they update your credit report that the account has been paid in full.
- ▶ If you can afford to offer a settlement to any of your creditors, there are a few things to consider. Settling debt means that you pay back less than the full balance. If the balance is \$2,000, you may offer to pay back only \$1500. This approach will allow you to pay less than what is owed, but it will not allow you to set up a monthly payment plan.

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- ▶ If a collector agrees to reduce your balance, they will require that the amount to be paid within 1–3 installments. Make sure that your budget will allow for this before you attempt any settlements. If it is affordable for you to do settlements, you want to make sure that you receive confirmation in writing from the creditor on the agreed upon terms.
- ▶ We recommend that you send a money order and not a personal check. Another thing to remember when settling debt is that any savings you get can be considered income and taxable. The creditor may report settled debt to the IRS, which the IRS consider income.

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Debt Relief Services

- ▶ If you're struggling with significant credit card debt, and can't work out a repayment plan with your creditors on your own, consider contacting a debt relief service like credit counseling or debt settlement. Depending on the type of service, you might get advice on how to deal with your mounting bills or create a plan for repaying your creditors.
- ▶ Before you do business with any debt relief service, check it out with your state Attorney General and local consumer protection agency. They can tell you if any consumer complaints are on file about the firm you're considering doing business with. Ask your state Attorney General if the company is required to be licensed to work in your state and, if so, whether it is.

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- ▶ If you're thinking about getting help to stabilize your financial situation, do some homework first. Find out what services a business provides, how much it costs, and how long it may take to get the results they promised. Don't rely on verbal promises. Get everything in writing, and read your contracts carefully.

Use Caution When Shopping for Debt Relief Services

- ▶ Avoid any debt relief organization — whether it's credit counseling, debt settlement, or any other service — that:
 - Charges any fees before it settles your debts or enters you into a DMP plan
 - Pressures you to make "voluntary contributions," which is really another name for fees
 - Touts a "new government program" to bail out personal credit card debt
 - Guarantees it can make your unsecured debt go away
 - Tells you to stop communicating with your creditors, but doesn't explain the serious consequences
 - Tells you it can stop all debt collection calls and lawsuits
 - Guarantees that your unsecured debts can be paid off for pennies on the dollar
 - Won't send you free information about the services it provides without requiring you to provide personal financial information, like your credit card account numbers, and balances
 - Tries to enroll you in a debt relief program without reviewing your financial situation with you
 - Offers to enroll you in a DMP without teaching you budgeting and money management skills
 - Demands that you make payments into a DMP before your creditors have accepted you into the program

Bankruptcy

- ▶ Personal bankruptcy also may be an option, although its consequences are long-lasting and far-reaching. People who follow the bankruptcy rules receive a discharge — a court order that says they don't have to repay certain debts. However, bankruptcy information (both the date of the filing and the later date of discharge) stay on a credit report for 10 years and can make it difficult to get credit, buy a home, get life insurance, or sometimes get a job. Still, bankruptcy is a legal procedure that offers a fresh start for people who have gotten into financial difficulty and can't satisfy their debts.
- ▶ There are two main types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. Filing fees are several hundred dollars. For more information visit the United States Courts. Attorney fees are extra and vary.

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- ▶ **Chapter 13** allows people with a steady income to keep property, like a mortgaged house or a car, that they might otherwise lose through the bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to use your future income to pay off your debts during three to five years, rather than surrender any property. After you make all the payments under the plan, you receive a discharge of your debts.
- ▶ **Chapter 7** is known as straight bankruptcy; it involves liquidating all assets that are not exempt. Exempt property may include automobiles, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official, called a trustee, or turned over to your creditors.
- ▶ Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments and utility shut-offs, as well as debt collection activities. Both also provide exemptions that let you keep certain assets, although exemption amounts vary by state. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or security lien on it.

<http://www.consumer.ftc.gov/articles/0150-coping-debt>



How the FICO Score is calculated:

- ▶ The FICO score is calculated from several different pieces of credit data in your credit report. This data is grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories are in determining how your FICO Score is calculated.
- ▶ Your FICO Score considers both positive and negative information in your credit report

How a FICO Score is broken down:

- ▶ -Payment history 35%
- ▶ -Amounts owed 30%
- ▶ -Length of credit history 15%
- ▶ -New credit 10%
- ▶ -Types of credit used 10%

Importance of Categories Varies Per Person

- ▶ Your FICO credit score is calculated based on these five categories. For some groups, the importance of these categories may vary; for example, people who have not been using credit long will be factored differently than those with a longer credit history.
- ▶ The importance of any one factor in your credit score calculation depends on the overall information in your credit report. For some people, one factor may have a larger impact that it would for someone with a much different credit history. It's impossible to measure the exact impact of a single factor in how your credit score is calculated without looking at your entire report.

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▶ **Payment history (35%)**

- The first thing any lender wants to know is whether you've paid past credit accounts on time. This is one of the most important factors in a FICO® Score.

▶ **Amounts owed (30%)**

- Having credit accounts and owing money on them does not necessarily mean you are a high-risk borrower with a low FICO® Score.

▶ **Length of credit history (15%)**

- In general, a longer credit history will increase your FICO® Score.

New credit (10%)

- Research shows that opening several credit accounts in a short period of time represents a greater risk – especially for people who don't have a long credit history.
- <http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx>

What practices are off limits for debt collectors?

- ▶ **Harassment.** Debt collectors may not harass, oppress, or abuse you or any third parties they contact. For example, they may not:
 - use threats of violence or harm;
 - publish a list of names of people who refuse to pay their debts (but they can give this information to the credit reporting companies);
 - use obscene or profane language; or
 - repeatedly use the phone to annoy someone.

- ▶ **False statements.** Debt collectors may not lie when they are trying to collect a debt. For example, they may not:
 - Falsely claim that they are attorneys or government representatives;
 - Falsely claim that you have committed a crime;
 - Falsely represent that they operate or work for a credit reporting company;
 - Misrepresent the amount you owe;
 - Indicate that papers they send you are legal forms if they aren't; or
 - Indicate that papers they send to you aren't legal forms if they are.

- ▶ **Debt collectors also are prohibited from saying that:**
 - You will be arrested if you don't pay your debt;
 - They'll seize, garnish, attach, or sell your property or wages unless they are permitted by law to take the action and intend to do so; or
 - Legal action will be taken against you, if doing so would be illegal or if they don't intend to take the action.
- ▶ **Debt collectors may not:**
 - Give false credit information about you to anyone, including a credit reporting company;
 - Send you anything that looks like an official document from a court or government agency if it isn't; or
 - Use a false company name.

- ▶ **Unfair practices.** Debt collectors may not engage in unfair practices when they try to collect a debt. For example, they may not:
 - Try to collect any interest, fee, or other charge on top of the amount you owe unless the contract that created your debt – or your state law – allows the charge;
 - Deposit a post-dated check early;
 - Take or threaten to take your property unless it can be done legally; or
 - Contact you by postcard.

Where do I report a debt collector for an alleged violation?

- ▶ Report any problems you have with a debt collector to your state Attorney General's office, the Federal Trade Commission, and the Consumer Financial Protection Bureau. Many states have their own debt collection laws that are different from the federal Fair Debt Collection Practices Act. Your Attorney General's office can help you determine your rights under your state's law.
- ▶ <http://www.consumer.ftc.gov/articles/0149-debt-collection>

Ways to Improve your Credit Score:

▶ Check Your Credit Report

- If you haven't already, request a free copy of your credit and check it for errors. Your credit report contains the data used to calculate your score and it may contain errors. In particular, check to make sure that there are no late payments incorrectly listed for any of your accounts and that the amounts owed for each of your open accounts is correct. If you find errors on any of your reports, dispute them with the credit bureau. (A dispute made with one bureau will get resolved with all three.)

▶ Setup Payment Reminders

- Making your credit payments on time is one of the biggest contributing factors to your credit scores. Some banks offer payment reminders through their online banking portals that can send you an email or text message reminding you when a payment is due. You could also consider enrolling in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account, but this only makes the minimum payment on your credit cards and does not help instill a sense of money management.

▶ Reduce the Amount of Debt You Owe

- This is easier said than done, but reducing the amount that you owe is going to be a far more satisfying achievement than improving your credit score. The first thing you need to do is stop using your credit cards. Come up with a payment plan that puts most of your available budget for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.

- ▶ Pay your bills on time. Delinquent payments and collections can have a major negative impact on a credit score.
- ▶ Keep balances low on credit cards and other "revolving credit." High outstanding debt can affect a credit score.
- ▶ Apply for and open new credit accounts only as needed. Don't open accounts just to have a better credit mix. It probably won't improve your credit score.
- ▶ Pay off debt rather than moving it around. Also, don't close unused cards as a short-term strategy to improve your credit score. Owing the same amount but having fewer open accounts may lower your credit score.
- ▶ Sign up for a company that reports your utilities, rent, other monthly payments to the credit bureaus.

Set Up a Monthly Budget:

Income:	
Net Income 1	
Net Income 2	
Retirement/Pension	
Social Security	
Other	

Housing:	
Mortgage	
Rent	
Taxes	
Housing Insurance	
Cable	
Cell Phone	
Electric	
Gas	
Water	
Internet	
Other	

Transportation:	
Car Insurance	
Car Payment 1	
Car Payment 2	
Gas	
Other	

Food:	
Groceries	
Dining Out	
Other	

Medical:	
Medical Bills	
Medication	
Health Insurance	
Life Insurance	

Miscellaneous:	
Personal Care	
Entertainment	
Pets	
Tithe/Donations	
Retirement/Savings	
Clothing	
Children	
Other	

Loan(s)/Credit Card(s)	
Name	
	1
	2
	3
	4
	5
	6
	7
	8
	9
	10

Record Your Totals Here:	
Total Monthly Income	
Total Monthly Expenses	
Difference	

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