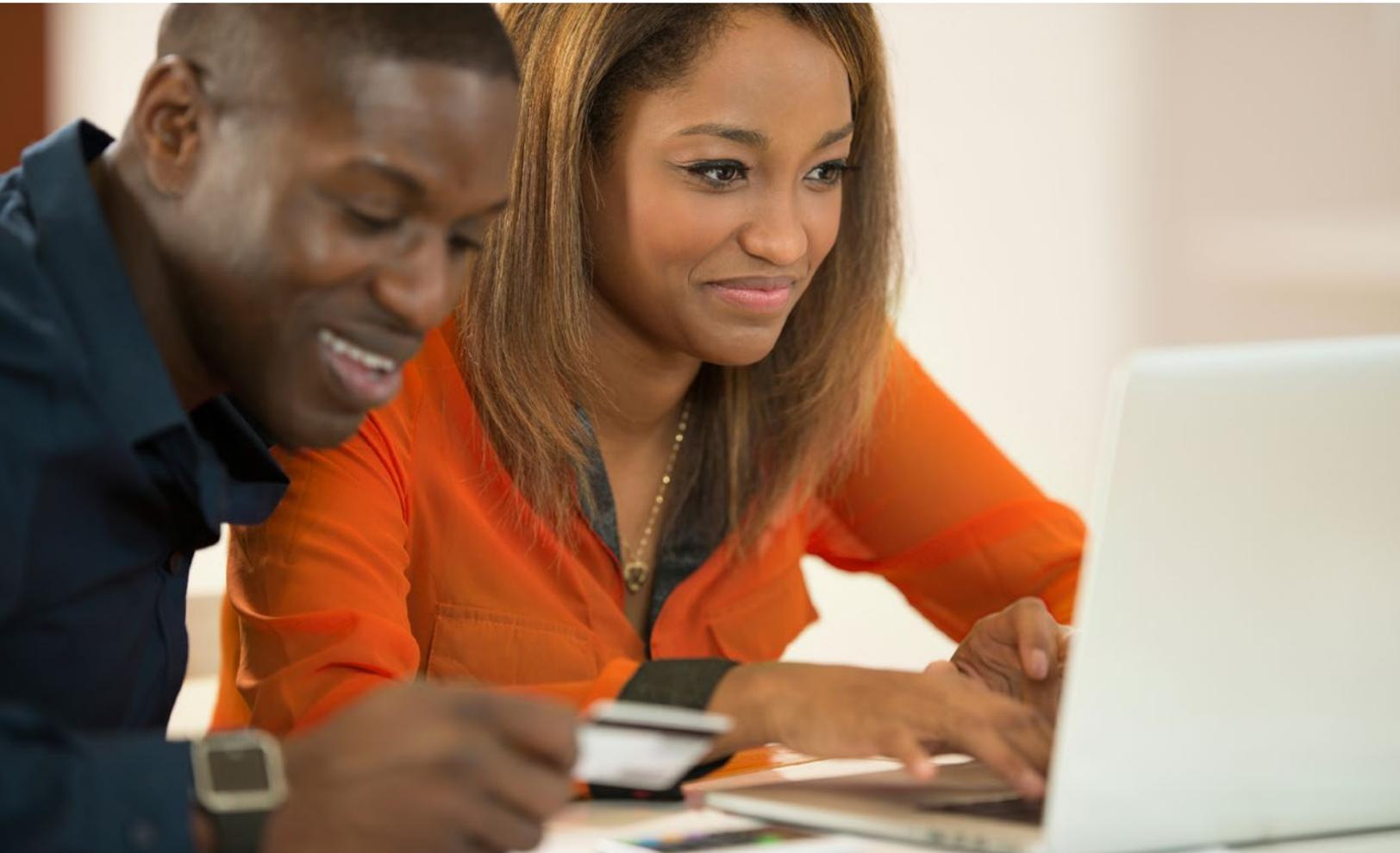


PNC **Financial Education**
FINANCIAL OPS
Banking Solutions for Military Personnel



CREDIT: SELF STUDY GUIDE

UNDERSTANDING CREDIT

We all have financial goals, some of which require more money than we have on hand or can save for in a reasonable amount of time – like a new car, a house or a college education. For these goals, borrowing can help you access the money you need.

But, before you make a large purchase or investment, it's important to think through your decision to ensure you're making the best choice for you. Consider asking yourself some questions:

- Which things are truly important to me? Does this purchase match my values?
- Why do I want this? How would things be different if I made the purchase?
- Am I making this purchase just to keep up with everyone else?
- Is there a less expensive alternative? Do I need to do this now?
- If I make this purchase, what will be the consequences of future loan repayments?

When you decide you're ready to make a large purchase that requires a loan, it's important to understand the basics of credit. To start, when determining whether to offer you credit, potential lenders will look at your credit history, among other factors. Good credit, with consistent payments and manageable debt levels, is an indication that you are likely to repay debt in the future. As a result, lenders may be more likely to approve you for credit, and they may charge you lower interest rates, which means lower costs over the life of the loan.

On the other hand, if you have bad credit, you may have had problems paying bills in the past. This can make it harder for you to get credit, whether it's a credit card or a car loan. And, if you are approved for credit, lenders may charge you higher interest rates. In some cases, bad credit can make it difficult to get a new cell phone or rent an apartment. Keep in mind that even potential employers can look at your credit, if you provide authorization.

Good Credit — consistent payments and manageable debt levels

- More likely to approve you for credit.
- Lower interest rates, which means lower costs over the life of the loan.

Bad Credit — not paying bills on time or at all

- Harder to get credit, get credit at higher rates.
- Harder to get a cell phone, rent an apartment or get a job.

CHECK YOUR CREDIT REPORT

How do lenders get information about your credit history? Credit bureaus are organizations that collect information about your credit habits, including how much you have borrowed, how many credit cards and loans you have, your outstanding balances and your payment history. All this information is compiled into a credit report, which is then used by banks and other lenders when evaluating whether to give you credit.

You have the right to receive a free copy of your credit report every 12 months from each of the 3 major credit bureaus: Experian™, Equifax® and TransUnionSM. It's important for you to review your credit report regularly to assess your progress and to ensure that the information is accurate.

You can visit annualcreditreport.com to request your free credit reports. Keep in mind that this website is the only legitimate site that provides free credit reports from all three agencies. Be wary of other sites that make you sign up for a service or charge you a fee for your “free” report.

What happens if you find inaccuracies on your credit report?

You have the right to file a dispute with the credit reporting agencies and with your creditors if you think information in your credit report is incorrect. When you address errors on your credit report, do so in writing. Be sure that your correspondence is complete with all relevant details. Double check with all three national agencies to ensure the mistake has been corrected.

What if you find something on your report that doesn't fully reflect your existing situation?

You also have the right to add your own explanations to your credit report if any dispute is not settled to your satisfaction. You may also want to add a summary explanation about the circumstances behind something on your credit report. Say, for example, you went through a divorce or a significant illness and your credit suffered for a period of time but is now back on track. You could indicate these situations on your report through a letter of explanation.

In some cases, you may be able to add an alert to your file if you suspect that you have been the victim of fraud or identity theft. As a result, creditors are required to verify your identity before issuing new credit, an additional card on an existing account or increases in the credit limit of an existing account. As a member of the military, you may also place an “active duty alert” to help minimize the risk of fraud and identity theft while you're deployed.

What about my credit score?

Your credit score is a number calculated by the credit reporting agencies that tells lenders how likely you are to repay your debts as agreed, when compared to other people. Generally, the higher your score, the more likely it is that your credit application may be approved. There are no hard-and-fast rules on which score is high enough. It all depends on the type of loan you're looking for and the unique borrowing criteria of the lender.

Since there are three major credit reporting agencies, you'll likely have three different scores. To estimate your score, you can visit whatsmyscore.org/estimator.

Your credit score is based on several different factors, including payment history and amounts owed. To find out more about how a credit score is determined, you can visit whatsmyscore.org/howdetermined.

It's also crucial to understand how to build and improve credit over the long term, as well as why you should care about doing so. To find out more about credit facts, you can visit whatsmyscore.org/facts.

PROTECTING YOUR CREDIT

The most important way to protect your credit is to always take actions that build good credit and avoid actions that undermine your good credit. Here are some general tips:

- Use your budget to determine how much you can afford to borrow before you spend on your credit card or get a loan.
- Make at least the minimum payment requested by your lender by its due date; if possible, make more than the minimum payment.
- Contact your creditors if you're having trouble making payments. There may be options to help you avoid missing payments.

As you're working to establish a good financial reputation, it's important to protect yourself and your good name from identity theft. Here are additional tips to help combat identity theft:

- Monitor your bank accounts and credit reports, and report suspicious activity immediately.
- Keep your valuables in a secure location, and don't share your bank cards or credit cards with other people.
- Look for secured websites (begin with https) when you bank or shop online.
- As a member of the military preparing for deployment, you can add an "active duty alert" on your credit report, which we talked about earlier. You can also establish a limited power of attorney to authorize a trusted family member or friend to handle your finances while you are deployed.

CREDIT THOUGHT BUBBLES EXERCISE

Directions: As you read each of the scenarios below, think about whether they have a positive or negative impact on a person's credit, and why.

"I've signed up for a credit card at 8 of my favorite retail stores. Each time I get a new card, I receive 10% off my purchase, which is a pretty good deal."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"I charge everything to my credit card each month to earn as much free gas as I can (sometimes nearing the card's credit limit), but I always pay my balance in full."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"I recently paid a collections account."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"I wasn't using it, so I decided to close an old credit card account."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"I have significant savings, which I use to make all purchases instead of taking on debt."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"I filed for bankruptcy about five years ago. But last year, I qualified for a low limit credit card, which I now use for small purchases and pay in full every month."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

"My credit report shows a past due balance on a card I paid in full."

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“My spouse and I have a mortgage, home equity line of credit, two car loans and one credit card, and we pay all our bills on time.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“I am in the first year of my mortgage, and I don’t have any other debt.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“I co-signed a car loan for my son, who has three late payments in the last year.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“My spouse has significant debt from before we were married.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“I recently divorced, and my spouse and I had a number of joint accounts.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“I am listed as an authorized user on two of my mother’s credit card accounts.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“My significant other and I are planning to buy a house sometime next year. Right now, we lease an apartment.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

“I just paid off a big credit card debt.”

Positive _____ Negative _____ Not Sure _____

Credit Impact: _____

CREDIT THOUGHT BUBBLES – ANSWER KEY

“I’ve signed up for a credit card at 8 of my favorite retail stores. Each time I get a new card, I receive 10% off my purchase, which is a pretty good deal.”

Credit Impact: While retail store credit cards often provide discounts and promotions beyond the initial purchase, these cards tend to carry higher interest rates and low credit limits. A high number of retail store accounts opened in a short time may make you look like a risky borrower. In addition, if you tend to run up high balances compared to the available limit, this will show on your credit report as a high utilization of credit.

“I charge everything to my credit card each month to earn as much free gas as I can (sometimes nearing the card’s credit limit), but I always pay my balance in full.”

Credit Impact: Generally, the balance of a credit card reported to the credit reporting agencies is the same as the balance most recently billed to the card holder. So, maxing out a credit card or getting close to the limit (even if you pay it off right away) can be a negative, as it shows as a high utilization of available credit. Your credit report does not show that you subsequently pay the balance in full each month.

“I recently paid a collections account.”

Credit Impact: Paying a debt helps reduce the total amount you owe and shows your willingness to repay your obligations, but a negative record (such as a collections account and late payments) can remain on your report for up to 7 years from the date of first delinquency. The negative record will have some effect until it is purged from your report.

“I wasn’t using it, so I decided to close an old credit card account.”

Credit Impact: Closing an old account can be a negative because it reduces your overall available credit, which can cause your credit utilization to rise. If you need to close accounts, consider paying down any balances on your remaining cards at the same time.

“I have significant savings, which I use to make all purchases instead of taking on debt.”

Credit Impact: Savings strength does not show on your credit report. Further, choosing not to use credit prevents you from developing a solid credit history, which can make it difficult if you later wish to use credit for larger purchases like a car or home. It’s important to balance the need to build credit with smart purchase and debt habits.

“I filed for bankruptcy about five years ago. But last year, I qualified for a low limit credit card, which I now use for small purchases and pay in full every month.”

Credit Impact: Bankruptcy may appear on your credit report for up to 10 years. But, in the meantime, you’re working to rebuild your credit history, which can help improve your credit report in the future.

“My credit report shows a past due balance on a card I paid in full.”

Credit Impact: Under the Fair Credit Reporting Act, you have the right to file a dispute with the credit reporting agency and with the creditor, detailing the inaccuracy. If the dispute is not settled to your satisfaction, you can add your own explanation to your credit report.

“My spouse and I have a mortgage, home equity line of credit, two car loans and one credit card, and we pay all our bills on time.”

Credit Impact: Timely payments create a good track record on your credit report. You are also showing a commitment to maintaining multiple debt sources; however, lenders may be hesitant to extend additional credit if the total amount of your debt is high compared to your income. The calculation used to determine this is called a debt-to-income ratio.

“I am in the first year of my mortgage, and I don’t have any other debt.”

Credit Impact: As long as you’re making timely payments, it shows a good track record on your credit report.

“I co-signed a car loan for my son, who has three late payments in the last year.”

Credit Impact: If you co-sign on a loan, you are accepting full responsibility for the debt if the other person doesn’t repay. The loan and payment history will appear on your credit report.

“My spouse has significant debt from before we were married.”

Credit Impact: In most cases, your credit report will only show your credit and loan accounts, even if you are married. However, if you and your spouse have joint accounts, these will appear on your credit report. If your spouse adds you as an authorized user on a credit card account, the history—good or bad—will appear on both reports. Keep in mind that if you live in a community property state, all debt acquired during a marriage is considered a joint debt, regardless of whether the account is joint or in the name of an individual spouse.

“I recently divorced, and my spouse and I had a number of joint accounts.”

Credit Impact: Joint accounts remain the responsibility of both spouses after divorce. It is up to you to contact your creditor to close the accounts or convert them to individual accounts. If you held all accounts jointly during your marriage, you may need to re-establish credit history in your own name.

“I am listed as an authorized user on two of my mother’s credit card accounts.”

Credit Impact: Cards for which you are an authorized user will appear on your credit report, even though you have no responsibility to repay the debt. Whether this helps or hurts you depends on the history of each account and your other credit history. If needed, your mother can call her creditor to have you removed as an authorized user.

“My significant other and I are planning to buy a house sometime next year. Right now, we lease an apartment.”

Credit Impact: Leasing an apartment can be positive if your name appears on the lease and payments are made on time. But, this information will not appear on your credit report. As you prepare to take on debt with a mortgage, check your credit report and take any actions needed to improve your history.

“I just paid off a big credit card debt.”

Credit Impact: It’s always good to pay off debt. Paying off credit card debt is especially good because it lowers your credit utilization on unsecured debt, which is considered more risky than secured debt.