



Managing Credit and Debt in Today's Economy

April 2009



Agenda

- ◆ Activity
- ◆ Discussion of the top 10 credit mistakes made by adults
- ◆ Ways you can manage your credit and debt by:
 - ◆ Budgeting
 - ◆ Saving
 - ◆ Monitoring credit reports
 - ◆ Minimizing debt
 - ◆ Understanding your consumer rights
 - ◆ Taking control of your credit



Top 10 Mistakes



Top 10 Mistakes

1. Avoiding the "B" Word
2. Little to no safety net
3. Stranger to your credit report
4. Missing deadlines
5. Chasing after credit

Top 10 Mistakes, cont.

6. Maxing out
7. Paying small amounts
8. Rolling one debt into another
9. Not knowing your rights
10. Not taking charge

1. Avoiding the "B" Word

Create a budget and spending plan

- ◆ Use the four basic steps to budgeting
 - ◆ Set financial goals
 - ◆ Identify income
 - ◆ Track expenses
 - ◆ Evaluate and adjust

1. Avoiding the “B” Word, cont.

- ◆ Next, develop a plan for how you will spend your money
 - ◆ Identify your spending habits
 - ◆ Develop a buying process
 - ◆ Plan your expenses
 - Make purchases at the right time
 - ◆ Develop a strategy to control impulses

2. Little to No Safety Net

Build an emergency fund

- ◆ 6-9 months of basic living expenses is needed for today’s emergency fund
 - ◆ Determine your expenses
 - ◆ Place in a liquid, easily accessible account
 - ◆ Build it up
 - ◆ Look but don’t touch

3. Stranger to Your Credit Report

Check your credit report regularly

- ◆ Annualcreditreport.com
 - ◆ Jointly operated by the three major credit bureaus
 - ◆ Check your credit report every four to six months
- ◆ Free report also available if:
 - ◆ Denied credit
 - ◆ Suspicion of fraud or identity theft – fraud alerts
 - ◆ Unemployed

4. Missing Deadlines

Pay on time

- ◆ 35% of your credit score is payment history
- ◆ A late payment can decrease your credit score by almost 100 points
- ◆ Late payment factors that impact your credit score
 - ◆ How frequent are the late payments
 - ◆ How severe are the late payments
 - ◆ How recent are the late payments

Source: myfico.com

5. Chasing After Credit

Limit the number of credit cards

- ◆ Too many inquiries will decrease your credit score
 - ◆ 10% of your credit score is new credit
 - ◆ Inquires stay on your report for two years
- ◆ Too many lines of revolving credit will decrease your credit score
 - ◆ Too many of one type of an account creates an unhealthy mix of credit
 - ◆ The more cards you have, the bigger the risk for increasing debt

6. Maxing Out

Keep balances low on credit accounts

- ◆ 30% of your credit score is amount owed
- ◆ Account balance factors that impact your credit score
 - ◆ Amount owed on all accounts
 - ◆ Which accounts you owe balances on
 - ◆ How many accounts have balances
 - ◆ How much of the total credit line is being used on revolving credit accounts
 - ◆ How much of the installment loan is still owed compared with the original loan amount

6. Maxing Out, cont.

- ◆ Aim to keep your debt-to-credit-limit ratio below 30%
 - ◆ The percentage of debt you owe in proportion to your available credit
 - ◆ 50% debt utilization or higher could lower your credit score by 100 points

Source: myfico.com

7. Paying Small Amounts

Pay more than the minimum

- ◆ Most minimum payments are 1.5% - 2.5% of the balance
- ◆ Two strategies for reducing debt
 - ◆ Pay off high interest rate cards first
 - ◆ Pay off smallest balance cards first
- ◆ Use calculators to determine how long it will take to pay off credit card debt
 - ◆ Bankrate.com

8. Rolling One Debt Into Another

Know the disadvantages of balance transfers or home equity loans for reducing credit card debt

- ◆ Limit balance transfers
 - ◆ Fees range from 2-4% of transfer amount
- ◆ Be careful of using home equity loans to pay off credit card debt
 - ◆ Exchanging short-term for long-term and unsecured to secured debt
- ◆ Instead, pay off debt rather than move it around

9. Not Knowing Your Rights

Become familiar with your credit rights

- ◆ Under the Fair Credit Reporting Act, you are entitled to:
 - ◆ Receive a free copy of your credit report
 - ◆ Not have outdated negative information in your credit report
 - ◆ Dispute incorrect credit information in your credit report
 - Credit bureaus must respond within 30 days

9. Not Knowing Your Rights, cont.

- ◆ Be informed if information in your credit file has been used against you
- ◆ Give consent to provide your reports to employers
- ◆ Limit “prescreened” offers of credit you get based on information in your credit file
 - 888-567-8688 or optoutprescreen.com

10. Not Taking Charge

Become the boss of your credit

- ◆ Know your credit score – myfico.com
 - ◆ Pay to receive your scores
 - ◆ Receive free estimate with FICO Score Estimator
- ◆ Give your cards a thorough exam
 - ◆ Pay attention to:
 - Increasing interest rates
 - Decreasing credit limits

10. Not Taking Charge, cont.

- ◆ Ask for a lower interest rate
- ◆ Seek help if needed
 - ◆ National Foundation for Credit Counseling (nfcc.org)
 - ◆ Association of Independent Consumer Credit Counseling Agencies (aiccca.org)



Wrap Up



What You Can Do Now

- ◆ Some things are out of our control, however you can better weather today's economy by:
 - ◆ Developing a plan for saving
 - ◆ Minimizing credit card debt
 - ◆ Keeping a watchful eye on your credit reports and cards
 - ◆ Understanding your consumer rights
 - ◆ Taking control of your credit

Utilize Resources

- ◆ Annualcredit.com
 - ◆ Free credit report
- ◆ Bankrate.com
 - ◆ Money management calculators
- ◆ Myfico.com
 - ◆ Pay for credit scores
 - ◆ Free FICO score estimate
- ◆ Mint.com
 - ◆ Advice for managing your money

Thank you!