



# Understanding, managing, and rebuilding your credit





# Objective



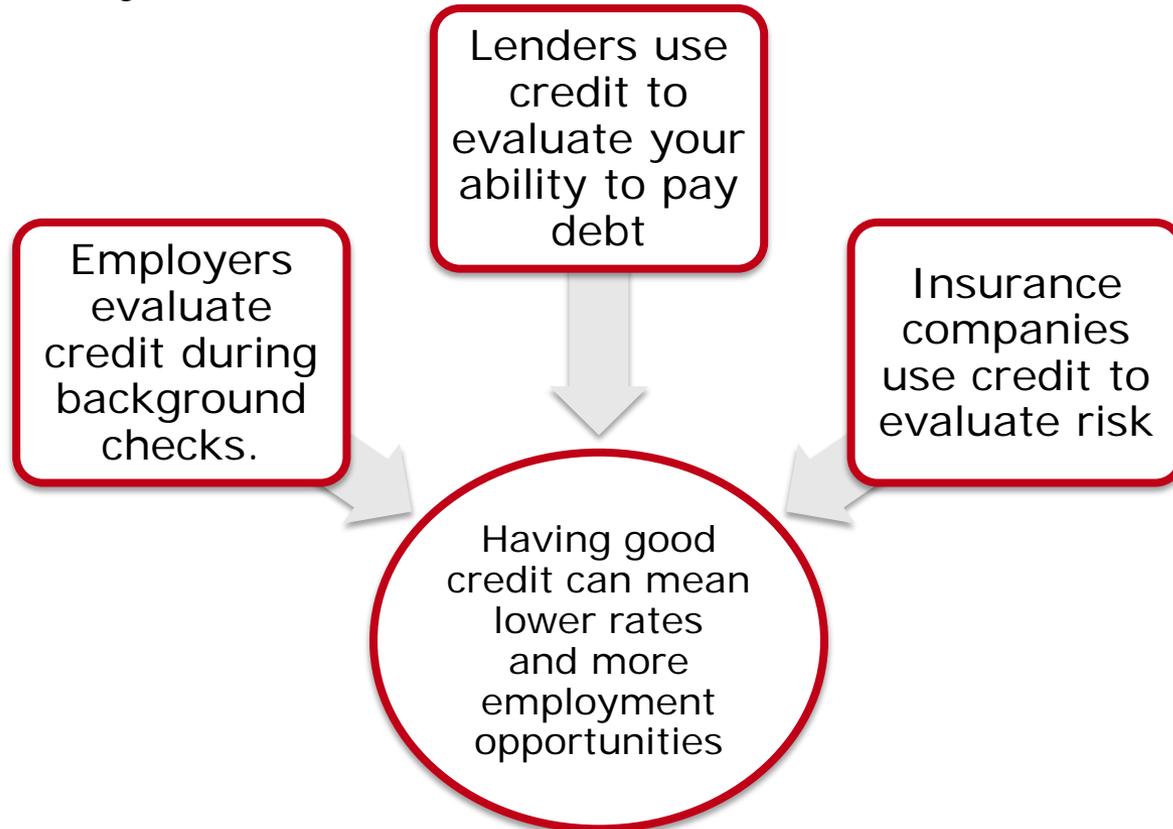
Bank of America is committed to providing information that will help you understand the effect credit can have on lending, and what you can do to help manage, rebuild and maintain good credit.

- Importance of credit
- Understanding and assessing your credit
- Understanding credit scores
- Steps to building and managing good credit
- Resources

# Why is credit important?

## What is credit and why is it important?

- Credit is the act of borrowing money with the promise to pay it back in the future.
- Your credit report is your financial **"Report Card"** and documents your credit history.



# How does good credit save you money?



Lower credit score = Higher loan interest rate

- \$300,000
- 30-year home loan
- 5% Interest Rate
- \$279,767 interest paid



Higher credit score = Lower loan interest rate

- \$300,000
- 30-year home loan
- 4% Interest Rate
- \$215,608 interest paid

**\$64,159 savings!**



# Assessing your current credit

## Good Credit

- No derogatory/late credit issues reported in the past two years
- Minimum of 3 open current credit accounts, established for 6 months or more (home loan, auto loan, bank loan, revolving debt such as a credit card)

## Derogatory Credit

- Late payments
- Collections and/or charge-offs
- Court judgments: bankruptcy, tax liens, unpaid child support or alimony
- Excessive credit: too many inquiries, high balances

# Understanding your credit report

## Credit information and estimated time reported

\* Information provided by the three credit reporting agencies

Type of credit information	Estimated amount of time it can be reported
Positive information – such as timely payments	As long as it continues to be reported to the credit reporting agencies
Open lines with balance greater than \$0, if no updates received within 3 years	3 years
Late payments of 30 days or more	7 years from the date delinquency is reported
Credit and collection accounts	7 years from the date of the last entry
Court records	7 years from the date filed
Chapter 13 bankruptcy	7 years from the date filed
Chapter 7 and 11 bankruptcies	10 years from the date filed, even if eventually dismissed or discharged
Public record – unpaid liens	15 years
Negative credit information – such as late payments and delinquent accounts	7 years from the original delinquency date, except for bankruptcies and other exclusions noted above

\***Note:** Some judgments can be renewed and therefore may remain on your credit report for a longer period of time than noted in this chart.

# What is a credit score and how is it created?

## A credit score:

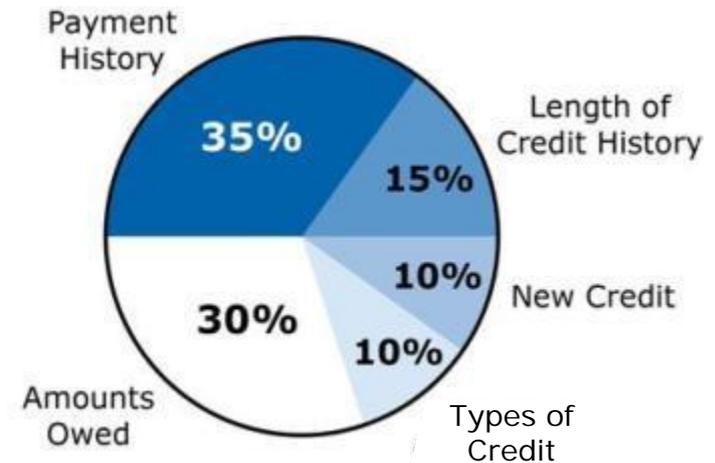
- Is a numerical interpretation of your credit ranking
- Rates your credit risk, which is your ability to pay debt in a timely manner

## Three things are needed to create a score:



# Factors that can affect your credit score

FICO® score component	Approx. score weight	Tips to help improve credit
Payment history	35%	Pay bills on time
Amounts owed	30%	Decreasing your credit balances (how much you owe) improves your credit utilization ratio
Length of credit history	15%	Keep old accounts open, don't swap accounts constantly
New credit	10%	Apply for new credit only when really needed
Types of credit	10%	Have a sensible mix of credit
<b>Total</b>	<b>100%</b>	



Source: FICO

# Mistakes that can affect your credit

Certain credit mistakes can negatively affect your credit score. Make sure to manage your credit responsibility and avoid the following:

<b>Credit mistake</b>	<b>If your score is 680</b>	<b>If your score is 780</b>
<b>Maxed-out credit card</b>	Down 10 to 30 pts.	Down 25 to 45 pts.
<b>30-day late payment</b>	Down 60 to 80 pts.	Down 90 to 110 pts.
<b>Debt settlement</b>	Down 45 to 65 pts.	Down 105 to 125 pts.
<b>Foreclosure</b>	Down 85 to 105 pts.	Down 140 to 160 pts.
<b>Bankruptcy</b>	Down 130 to 150 pts.	Down 220 to 240 pts.

Source, FICO: [http://www.myfico.com/crediteducation/questions/Credit\\_Problem\\_Comparison.aspx](http://www.myfico.com/crediteducation/questions/Credit_Problem_Comparison.aspx)

# Steps to help build good credit



**Step 1 – Avoid the common slip-ups and mistakes discussed on slide 9**

**Step 2 – Obtain a copy of your credit report and review your report**

**Step 3 – Correct any mistakes or inaccuracies in your credit report**



# Steps to help build good credit – Step 1

## Obtaining a copy of your credit report

There are three ways to order your credit report. Once you order your credit report you must pay to get your credit score.

- **Online:** Visit [annualcreditreport.com](http://annualcreditreport.com)
- **By phone:** Call 1.877.322.8228
- **By mail:** Credit Report Request  
P.O. Box 105281  
Atlanta, GA 30348-5281

There are three national credit reporting agencies:

- **Experian®** — [experian.com](http://experian.com) / 1.888.397.3742
- **Equifax®** — [equifax.com](http://equifax.com) / 1.800.685.1111
- **TransUnion®** — [transunion.com](http://transunion.com) / 1.800.888.4213

**Note:** Be cautious about websites that offer free credit reports, make sure to read all the disclosures and fine print; many free credit reports do not include a credit score, and there is usually a fee to obtain your actual credit score.



# Steps to help build good credit – Step 2

## Understand what's in your credit report

### Biographical information

- Name
- Birth date
- Social Security number
- Address
- Employment

### Account information

- Dates when accounts were opened
- Current balances
- Credit limits
- Account terms
- Payment history

### Public information

- Liens
- Judgments

### Inquiries

- Who's been looking at your credit file

# Steps to help build good credit – Step 2

Did you know there are two types of credit inquiries?

## Hard inquiry

When you apply for credit  
When you apply with different lenders for the same type of credit within a given time frame, it may only count as one inquiry

## Soft inquiry

Creditors reviewing existing accounts or looking to extend a new offer  
HUD-approved counseling agencies



# Steps to help build good credit – Step 2



## Managing credit inquiries

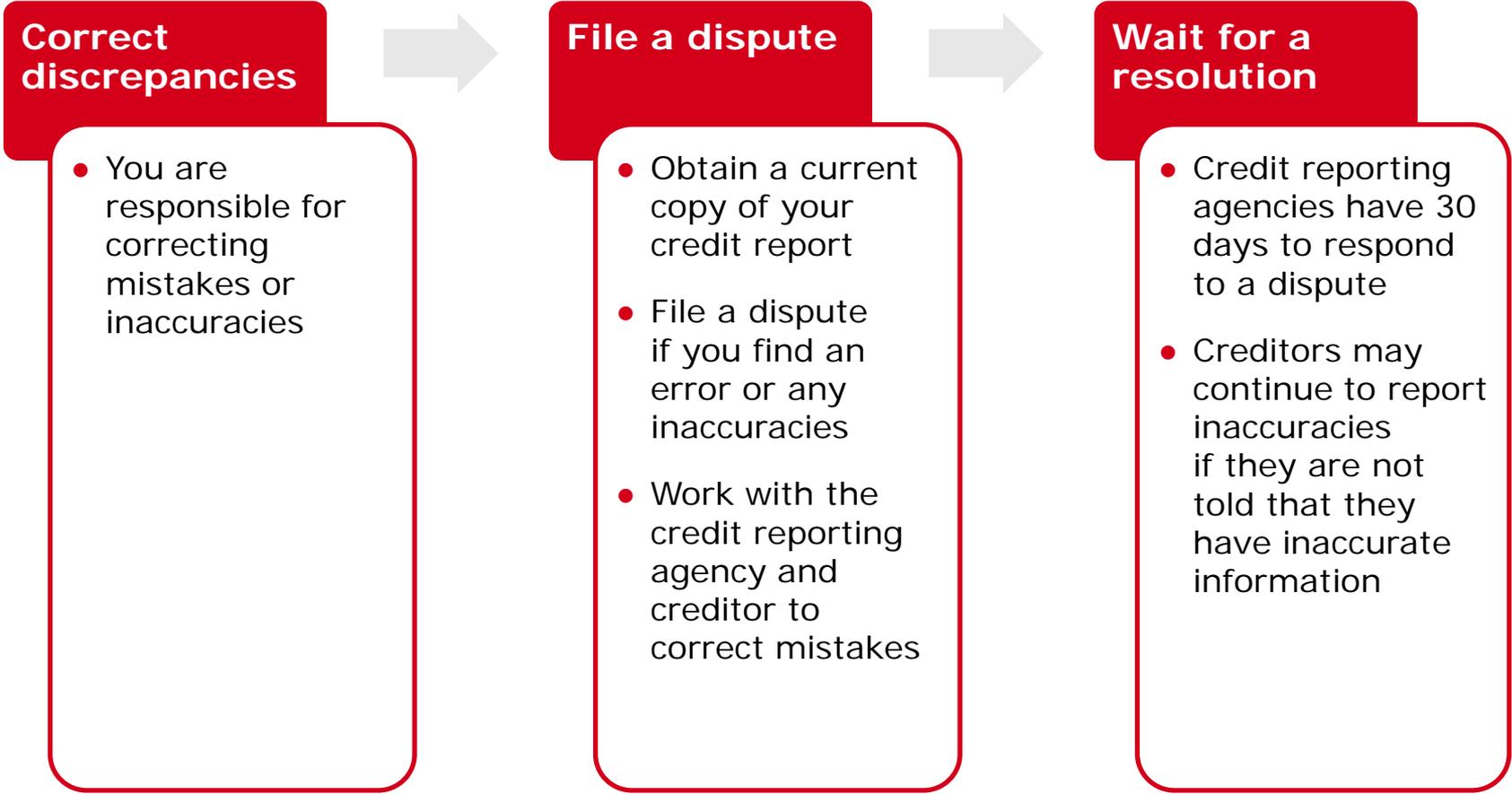
- Removing name from credit solicitations — 1.888.5.OPTOUT (567.8688)
- Regularly review your credit report
- Request that unauthorized inquiries be removed



## Steps to help build good credit – Step 2

- Order your credit report at least one time per year or whenever you are denied credit
- Review your report for errors or inaccuracies
- Correct any errors or inaccuracies

# Steps to help build good credit – Step 3





# Things to keep in mind when rebuilding your credit



- Be patient — it could take up to two years to rebuild your credit
- Develop a budget
  - To help keep you on track
  - To help you pay your bills on time
  - To help you pay down your debt
- Don't apply for unnecessary credit and don't over extend yourself
- When declined for a loan, understand the exact reasons

# Wisely managing your credit



Check credit annually



Consider signing up for a credit monitoring service



Correct errors and follow up with creditor to ensure error is permanently corrected



Develop a budget and stick to it



# Wisely managing your credit



## **Be aware of the responsibilities of cosigning on a loan**

- Cosigning on a loan makes you legally responsible for the payment if the primary borrower is unable or unwilling to pay
- Don't cosign on a loan unless you can afford to make the payment on this loan yourself

# Wisely managing your credit

## Working with a HUD-approved counseling agency

- Evaluate your current credit situation
- Work with a HUD-approved counseling agency that provides budget and credit counseling
- It is important to evaluate your needs at the initial meeting with the counselor
- Basic questions to ask yourself to help define your credit goals:
  - Do I want to increase my credit score?
  - Do I need to rebuild my credit in order to make a major credit purchase such as buying a home or auto, or financing a college education?

<b>Setting Goals</b>	<b>Setting Expectations</b>
Set attainable, specific and concrete goals	The road to recovery will not be easy, so be patient
Set short, medium and long-term goals	Expect to experience hurdles along the way
Revisit the goals periodically to assess progress or re-evaluate	Rebuilding or improving your credit takes time and patience
Analyze results and make necessary adjustments	



# Wisely managing your credit



## Identity theft

- What is it?
  - Illegal use of your personal information (such as your name, Social Security number, credit card number) without your knowledge or permission
- Most identity theft occurs offline and is conducted by someone known by the victim
- Identity theft is considered fraud and a crime, and can severely damage your credit history
- What to do if you suspect your identity has been stolen
  - Order your credit report to review your accounts
  - Contact the creditor immediately to start an investigation
  - Consult with your creditor to freeze or close the account
  - Place a fraud alert on your credit report
  - File a police report
  - Contact the Federal Trade Commission website & download the ID Theft Report
    - [ftc.gov](http://ftc.gov)
    - 1.877.382.4357



# Wisely managing your credit



## Five important points to remember:

1. Credit scores provide a quick snapshot of your credit risk.
2. Credit reports that you order yourself do not affect your score.
3. The higher your credit score, the lower the credit risk.
4. A low credit score may affect your ability to obtain a loan, employment or insurance.
5. Protect your credit by knowing what's on your report.



# Resources



## **There are many consumer protection laws; here is a partial list:**

- **The Equal Credit Opportunity Act**
  - Ensures all consumers are given an equal chance to obtain credit. Lenders cannot discriminate based on sex, race, marital status, religion, national origin, age or receipt of public assistance.
- **Fair Credit Billing Act**
  - Applies to open-end credit accounts, such as credit cards and lines of credit. Protects consumers from unfair billing practices and provides dispute settlement procedures for resolving billing errors and unauthorized charges.
- **Fair Credit Reporting Act**
  - Regulates the collection, dissemination and use of consumer credit information. Designed to promote accuracy and ensure the privacy of the information in your credit report.
- **Fair Debt Collection Practices Act**
  - Requires that debt collectors treat you fairly and prohibits unfair, deceptive and abusive debt collection practices.



# Resources



- Bank of America Home Loan Guide
  - English  
[bankofamerica.com/homeloaneducation](http://bankofamerica.com/homeloaneducation)
  - Spanish  
[bankofamerica.com/guiadehipotecas](http://bankofamerica.com/guiadehipotecas)
- Other resources
  - FICO®  
[myFICO.com](http://myFICO.com)
  - National Foundation for Credit Counseling  
[nfcc.org](http://nfcc.org)  
1.800.388.2227
  - U.S. Department of Housing & Urban Development  
[hud.gov](http://hud.gov)



## Your credit – next steps



- Congratulations, you have taken the first step in understanding and managing your credit
- Use the tools and resources covered in this course to help you rebuild your credit
- Contact a HUD-approved counseling agency for assistance with budget and credit counseling, if needed
- Continue to manage your credit wisely



Credit and collateral are subject to approval. Terms and conditions apply. This is not a commitment to lend.  
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