

Credit “Basics”

1. What is credit?

Credit is your financial trustworthiness. Good credit means that your history of payments, employment, and salary make you a good candidate for a loan. If you have good credit, those who lend money will be more willing to work with you. Habitat for Humanity DOES look at your credit when deciding if they will lend you money.

2. What is a credit report?

A credit report is a financial history of your lending and spending habits. It contains information on where you live, how you pay your bills, whether you’ve been sued or have filed for bankruptcy. Credit reporting companies sell the information in your report to creditors, insurers, employers, landlords and lenders like Habitat for Humanity that use it to approve or deny your application.

3. Why should I care about my credit?

Your credit report can affect how much you pay for car insurance, your interest rates on borrowed money, your ability to get any kind of loan, whether you can rent an apartment, whether you can open a bank account, even something as small as whether you’ll be denied services like cell phone coverage. Errors on a credit report are not uncommon. **Having good credit will save you a lot of money.**

4. Get a FREE copy of your credit report.

Under the Fair and Accurate Credit Transaction Act (FACTA), each of the nationwide credit reporting companies (Equifax, TransUnion & Experian) are required to provide you with a free copy of your credit report once every 12 months, **if you ask for it.**

www.annualcreditreport.com or Call 1-877-322-8228

5. How do I read my credit report?

- Identification Information—Name, social security number, current and past addresses
- Employment Information—Present and past jobs
- Credit Scores—will not show up on the free report, you must pay to get this

- Public Record Information—Bankruptcies, foreclosures, judgments, or tax liens may appear in your report along with how much money you owe or whether you’ve paid off that debt
- Payment History—Your accounts with different creditors will be listed, showing how much credit has been extended, whether you’ve paid on time and how much is still due. If a bill (phone, medical, utility, etc.) was not paid it may have been sold to a Collection Agency. The Collection Agency will most likely report your account to the Credit Bureau as “Seriously Past Due.”
- Inquiries—Credit reporting companies must maintain a record of all creditors who have asked for your credit history within the past year, and a record of individuals or businesses that have asked for your credit history for employment purposes for the past two years.

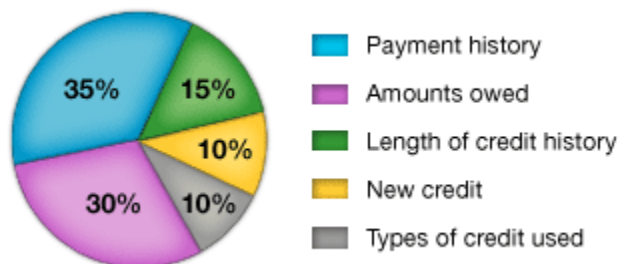
6. How do businesses look at my credit report?

- Credit Scores
- Your bill-paying history
- How many accounts you have and what kind
- Late payments
- How long your accounts have been open
- The amount of credit available to you that you are not using
- Collection actions
- Outstanding debt

7. What is a Credit Score?

A score is a “snapshot” of your risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current score when you submit a credit application, so they have the most recent information available. Therefore by taking the time to improve your score, you can qualify for more favorable interest rates. <http://www.myfico.com/CreditEducation/FactsFallacies.aspx>

Credit Scores are based on the following items:



8. How does Habitat look at my credit report?

- We do not use credit scores!
- We look at open judgments or tax liens, bankruptcy within the last 2 years, foreclosures in the last two years, payment history, any collections, and any outstanding debt.
- Habitat uses your credit report to determine your debt-to-income ratio.

9. Debt to Income Ratio

- A percentage that shows how much of your gross monthly income is going towards paying off debt each month.
- Formula: Total Debt Payments per Month (based on credit report) ÷ Gross Monthly Income=Debt to Income Ratio
- Your Debt to Income Ratio can be no greater than 30% not including rent or a Habitat Mortgage
- Your Debt to Income Ratio can be no greater than 41% including a Habitat Mortgage.

10. How can I improve my Credit Score?

Only time, a thoughtful effort, and a plan to re-pay your bills will improve your credit report and score.

11. What if there are mistakes on my credit report?

Dispute errors on your credit report by sending a written dispute (in the mail or online) to each reporting agency that has inaccurate information. They must investigate and respond to you within 30 days. Confirm the correction with a new credit report.

12. How do I clean up problems on my credit report?

- Contact your creditors and work with them to pay part or all of the debt either immediately or in installments. Get confirmation of your repayment plan in writing along with a statement that the negative information will be removed from your credit report.
- If you are in default on your student loans visit www.studentloanborrowerassistance.org for details on getting your student loans current.
- Always verify corrections on your credit report. Just because you have paid off an account doesn't mean it will be updated on your credit report. Once you've paid off an account, get written certification that it is settled. If they do not change your credit report then dispute it as directed in #11.