

# Credit and Debt Management Participant Manual

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## **Chase Financial Literacy Workshops**

This workshop is one of four different consumer-related financial education workshops developed and sponsored by Chase. Workshops being offered as part of Chase's financial education curriculum include:

- Basic Banking Principles**
- Personal Financial Management**
- Credit and Debt Management**
- Understanding the Mortgage Process**

For more information on any of these workshops, call 1-888-CHASE11 (option #4) to speak to the Chase Community Development Group Community Relations representative in your market.

We would also like to acknowledge that portions of material covered in this workbook were replicated with permission from:

- “Building Wealth: A Beginner’s Guide to Securing Your Financial Future,” a financial literacy publication written and circulated by the Federal Reserve Bank of Dallas.
- “Money Smart,” an adult education program developed and published by the FDIC.

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Note that certain terms that are used in this workbook are **highlighted** the first time they appear and can be looked up in the glossary for easy reference.





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# Understanding Credit

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# What is Credit?

- Credit is an arrangement to receive cash, goods or services now and pay later.
- Credit is usually referred to as a loan.

Notes/Comments

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# Types of Credit

## ▶ Revolving Credit (Unsecured Loans)

- **Credit Cards**
- Lines of Credit

## ▶ Installment or Term Loans (Secured and Unsecured)

- Education Loans (unsecured)
- Automobile Loans (secured)
- Home Equity Loans (secured)

## ▶ Mortgages (Secured)

Notes/Comments

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# Importance of Credit

▶ **Having credit and establishing a good credit history are important in order for a person to get approved for certain business or financially-related activities, including:**

- Obtaining other types of credit:  
Car loan, mortgage, student loan
- Telephone service
- Insurance benefits
- Apartment Rental
- Employment

Notes/Comments

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# The Five 'C's of Credit

▶ When a person is applying for credit, the lender reviews five main factors to decide whether he or she is a good credit risk:

- Credit
- **Capacity**
- **Capital**
- **Collateral**
- **Character**

Notes/Comments

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# How to Establish Credit

- Open a credit card account.
- Apply for a student loan.
- Have another person co-sign or guarantee your loan.
- Ask your local department store, bank or credit union for credit.
- Apply for a secured credit card.
- Pay your bills on time.

Notes/Comments

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# 2

## Credit Reports and Your Credit History

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# What is a Credit Report?

- ▶ **A credit report includes:**
  - Identifying Information
  - Credit History
  - Public Record Information
  - Inquiries

Notes/Comments

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# Sample Credit Report

## **Credit Reporting Agency**

Please address all future correspondence to:

Credit Reporting Agency

P.O. Box 0000

City, State Zip Code

(800) 000-0000

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## **Sample Credit File**

### Personal Identification Information

Your Name

Social Security #: 000-00-0000

123 Current Address

Date of Birth: January 1, 1967

City, State 00000

Previous Address(es):

234 Any Road, New York, New York 00000

P.O. Box 0000, Middletown, Texas 00000

Last Reported Employment: City of New York

Previous Place of Employment: Texas State Hospital

# Sample Credit Report – cont.

## Public Record Information

**Lien** filed 02/95: Big CTY; Case or other ID number – 00000; amount - \$27,045; Class-state; Released 07/95; Verified 02/95;

**Bankruptcy** filed 10/94; U.S. District Court; Case or other ID number – 000AB00; Liabilities - \$13,072; Personal Individual; Discharged; Assets-\$790.

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## Collection Agency Account Information

Any Collection Agency (800) 000-0000  
Collection Reported 07/99; Assigned 09/99 to Any Collection Agency (800) 000-0000 Client – ABC Hospital; Amount - \$878; Paid collection account.

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## Companies that Requested your Credit File

08/06/00 XYZ Bureau Disclosure	12/27/01	ABC
Department Store		
03/01/01 QRS Bankcard	01/23/01	UVW
Bankcard		

## Credit Account Information

Company Name	Acct. #	Ind. Or Joint Acct?	Date Opened	Months Review	Date of Last Activity	High Credit	Terms	Bal.	Past Due Amt.	Status	Date Reported
ABC Bank	1234	I	4/98	24	4/1	\$750	NA	\$0	\$0	I1	3/1
Shop & Save Store	5678	J	8/00	36	12/01	\$1000	NA	\$0	\$0	R1	1/01
Ford Auto Finance	9101	I	5/97	48	12/00	\$2400	\$50	\$300	\$200	I5	4/01

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late.

# Credit Scores

## ▶ **What is a Credit Score?**

- A credit score is a numerical representation of a borrower's credit worthiness. It measures the relative degree of risk of delinquency or default that a borrower represents to a creditor or lender.
- The score, also called a "risk score," is based on information in the borrower's credit report and also on information about how other borrowers with similar information have repaid their bills.
- Credit scores are widely used by lenders in evaluating loan applications.

# Determination of Credit Scores

▶ **Credit scores generally rely on the following factors:**

- Past payment performance.
- Credit utilization.
- Credit history.
- Inquiries into and applications for credit.
- Types of credit in use.

Notes/Comments

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# Credit Score Ratings

- Credit scores generally range between 300 and 850.
- Higher credit scores are considered better scores. That is, the higher your score, the more favorably lenders look upon you as a credit risk.
- The credit scores are guidelines. Different credit bureau agencies have different score ranges and different lenders have different policies on how scores are utilized in the credit decision.

Notes/Comments

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# Maintaining a Good Credit Score

## ► Tips for maintaining a good credit score:

- Do not open new revolving accounts needlessly.
- Do not fill out credit applications needlessly.
- Do not keep your credit cards at or near the maximum limit.
- Make sure you do use your credit occasionally.
- Pay your bills on time.

Notes/Comments

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# Obtaining Your Credit Report

**The three major credit reporting agencies are:**

Equifax, Inc. P.O. Box 105873 Atlanta, Georgia 30348-5496 1-800-997-2493 <a href="http://www.equifax.com">www.equifax.com</a>	Experian P.O. Box 2002 Allen, Texas 75013 1-888-397-3742 <a href="http://www.experian.com/consumer/index.html">www.experian.com/ consumer/index.html</a>	TransUnion P.O. Box 1000 Chester, Pennsylvania 19022 1-800-888-4213 <a href="http://www.transunion.com">www.transunion.com</a>
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Notes/Comments

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# When Your Credit Report is Free

- ▶ **Your credit report is free if you:**
  - Have been denied credit recently based on your credit history.
  - Have been denied employment or insurance recently based on your credit history.
  - Suspect someone has been fraudulently using your account.
  - Are unemployed and intend to apply for employment within 60 days.
  - Receive public welfare assistance.
  - Live in certain states.

# Credit Report Accuracy

▶ **It is your responsibility to make sure your credit report is accurate.**

- Contact the agency if you think there is an error.
- If the matter remains unresolved, provide a letter of explanation to the credit agency that becomes part of your credit report.
- Review your credit report regularly.

Notes/Comments

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# Repairing Your Credit History

## ▶ **To repair credit on your own:**

- Start by contacting the credit reporting agencies to get a copy of your credit report.
- If there are errors on your report, you can contact the credit reporting agency to request an investigation.
- Contact your lenders to renegotiate payment plans.

## ▶ **Consider getting help from a credit counseling agency.**

Notes/Comments

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# Choosing a Credit Counseling Agency

► **For assistance in finding a credit counseling agency in your area, you can contact one of the following national credit counseling services:**

- National Foundation for Credit Counseling 1-800-388-CCCS (2227) [www.nfcc.org](http://www.nfcc.org)
- Association of Independent Consumer Credit Counseling Agencies (AICCA) 703-934-6118 [www.aiccca.org](http://www.aiccca.org)
- American Consumer Credit Counseling [www.consumercredit.com](http://www.consumercredit.com)
  
- Myvesta.org 1-800-680-3328 [www.myvesta.org](http://www.myvesta.org)

► **When choosing a credit counseling agency, make sure you:**

- Interview several different agencies first.
- Do your research to see if consumers have filed any complaints about the agency that you are considering.
- Ask questions.

# Questions to Ask

## ► In choosing a credit counseling agency, you might ask the following questions:

- What services do you offer?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly or ongoing fees?
- Will I have a formal written agreement or contract?
- Who regulates, oversees or licenses your agency?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- How does your debt repayment plan work?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- Is a debt repayment plan my only option?
- How often can I get status reports on my accounts?
- What if I can't maintain the agreed-upon plan?
- Can you get my creditors to lower or eliminate **interest** and **finance charges** or waive **late fees**?



A large, bold, black number '3' is centered within a light orange circle. The circle has a thin, double-line border.

# Debt Management

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# How Debt Accumulates

- Not paying your bills on time.
- Paying only the minimum amount due each month.
- Late fees and interest rates that accrue over time.
- Spending more than your income.
- Taking on too many loans or having too many credit cards.
- Not having enough money in savings.
- Unforeseen circumstances such as unemployment, illness, etc.

Notes/Comments

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# Danger Signs of Accumulating Debt

- You are using credit more often.
- You are frequently reaching the maximum credit limit on your credit availability.
- You are borrowing to pay current bills.
- You are regularly late paying bills.
- You have to choose which bills to pay and which to put off until later.
- You often pay only the minimum amount due.
- Your standard of living has remained the same while your checkbook and savings balances have gone down and credit balances have gone up.
- You are contacted by creditors.
- You gave up on paying some bills.

# Too Deep in Debt?

- Re-assess your financial situation (income and expenses).
- Reduce your expenses by paying off the balance on your highest rate loans (but make sure any mortgage payments are covered first).
- Discuss your options with your creditors before you miss a payment.
- Pay for future purchases using cash or a check.
- Seek expert help.

Notes/Comments

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# How To Avoid Too Much Credit Card Debt

- Pay cash instead of using your credit card.
- If you must use your credit card, set a monthly limit on charging that is based upon your budget, and keep a written record.
- Limit the number of credit cards you have.
- Choose the card with the lowest interest rate and no (or very low) annual fee.
- Beware of blank checks for cash advances, because they might carry very high interest rates.
- Don't apply for credit cards just to get a free gift or a discount on a purchase.
- Pay bills on time to avoid late fees or charges.





# 4

## Additional Information

Resources & Glossary of Terms  
Evaluation Form

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# Resources

## ► Additional Information:

- Federal Deposit Insurance Corporation (FDIC)  
Division of Compliance and Consumer Affairs  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429  
1-877-ASK-FDIC (1877-275-3342)  
[www.fdic.gov](http://www.fdic.gov) Email: [consumer@fdic.gov](mailto:consumer@fdic.gov)
- FDIC Money Smart Financial Literacy Program  
[www.fdic.gov/consumers/consumer/moneysmart](http://www.fdic.gov/consumers/consumer/moneysmart)
- Dallas Federal Reserve Building Wealth Program  
[dallasfed.org/hm/wealth/intro.html](http://dallasfed.org/hm/wealth/intro.html)
- Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551 Phone: (202) 872-7565  
[www.FederalReserveEducation.org](http://www.FederalReserveEducation.org)
- New York State Banking Department  
[www.banking.state.ny.us](http://www.banking.state.ny.us)
- Credit Expert Free Credit Report  
[www.creditexpert.com/creditexpert/creditmanager/financial.jsp](http://www.creditexpert.com/creditexpert/creditmanager/financial.jsp)

► **To obtain a copy of your credit report:**

<p>Equifax, Inc  P.O. Box 105873  Atlanta, GA 30348-5496  1-800-997-2493  <a href="http://www.equifax.com">www.equifax.com</a></p>	<p>Experian  P.O. Box 2002  Allen, TX 75013  1-888-397-3742  <a href="http://www.experian.com/consumer/index.html">www.experian.com/consumer/index.html</a></p>	<p>TransUnion  P.O. Box 1000  Chester, PA 19022  1-800-888-4213  <a href="http://www.transunion.com">www.transunion.com</a></p>
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**Credit Counseling Services:**

- National Foundation for Credit Counseling  
1-800-388-CCCS (2227) [www.nfcc.org](http://www.nfcc.org)
- American Consumer Credit Counseling  
[www.consumercredit.com](http://www.consumercredit.com)
- Association of Independent Consumer Credit Counseling Agencies (AICCA) 703-934-6118 [www.aiccca.org](http://www.aiccca.org)
- Myvesta.org  
1-800-680-3328 [www.myvesta.org](http://www.myvesta.org)

# Glossary of Terms

- **Annual Percentage Rate, or APR:** Represents the rate of interest the customer is charged plus fees, expressed as a yearly rate. If the customer expects to keep a balance on his or her account each month, he or she will want to look for a low APR. If the customer expects to pay his or her bills in full each month, it will be more advantageous to compare the annual fee and other charges.
- **Annual Fee** - A yearly fee that a credit card company charges for using the card. Many cards charge no annual fee.
- **Average Daily Balance** – The most common method of calculating interest and due on card purchases. It is calculated using the credit card's APR. If a customer's card has an APR of 16%, he or she will actually be charged a daily interest rate of .044% (16% divided by 365 days), If the customer keeps a balance on his or her card and does not pay it off, he or she will actually pay a bit more than the APR offered, because his or her balance will increase daily and thus the interest will go up.
- **Balance Computation Method:** This will determine how a customer's interest is calculated. There are a variety of methods. The most common is average daily balance.
- **Balance Transfers** – Transferring the balance on one (higher interest) credit card to a new card offering lower interest. As an enticement to new customers, credit card companies will often allow a customer to transfer his or her existing balance to the new card at an extremely low interest rate (sometimes as low as 0%) for a specified period of time.

- **Bankruptcy** – A legal proceeding that can legally release a person from repaying debts. Bankruptcies remain on credit reports from 7 to 10 years and will have a negative impact on a person's credit score.
- **Capacity** – A person's present and future ability to meet payments.
- **Capital** – A person's accumulated savings and other assets that are available for use in producing wealth.
- **Cash Advance** – Allows a person to use his or her credit card in an ATM to get cash immediately. Credit cards offer no grace period on cash advances, and the APR on a cash advance is generally much higher than the APR on purchases.
- **Character** – shows how a person has paid his or her bills or debts in the past.
- **Closing Fee** – fee charged by some credit card companies if the card holder wants to close out his or her account.
- **Collateral** – Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default or bankruptcy. Also called security.
- **Convenience Checks** – A cash advance that is used like a regular check. However, the money is charged against the customer's credit limit. There is usually no grace period, and the finance charge is usually higher than for purchases.
- **Credit** - An arrangement to receive cash, goods or services now and pay for them later. Usually referred to as a loan.
- **Credit Available** - The amount of credit remaining on the card holder's card after his or her balance and current charges are subtracted from his or her total credit line.

# Glossary of Terms – cont.

- **Credit Card** - A revolving line of credit that allows the customer to make an unlimited number of purchases, up to a pre-approved dollar limit. The customer can continue to “revolve” that line of credit or draw down on it repeatedly as long as he or she continues to make minimum payments on that bill each month and as long as he or she does not exceed his or her credit limit.
- **Credit Limit** – The maximum dollar amount a customer can borrow at one time on a revolving account, such as a credit card.
- **Credit Report** – A report containing detailed information on a person's credit history, including identifying information, credit accounts and loans, bankruptcies and late payments, credit score, and recent inquiries. It can be obtained by lenders to which an applicant has applied for credit to determine his or her creditworthiness.
- **Debt** - Money owed; also known as a liability.
- **Finance Charges** – The amount charged to a card holder's credit card account if his or her monthly balances are not paid off in full. Calculated using Average Daily Balance and APR.
- **Fixed Rate** – An APR that will not change. If a loan offers a fixed rate, the rate will remain the same for the length of the agreement.
- **Grace period** - The grace period is the number of days a customer has to pay his or her balance before a creditor starts charging interest on the outstanding balance.

- **Interest** – The cost of borrowing money, or the price the lender charges the borrower for the use of the lender's money.
- **Installment or Term Loan** - Loans which are repaid through regular periodic payments or installments, usually over a period of one to 10 years.
- **Judgment** –A decision by a court of law ordering someone to pay a certain amount of money. It may permit placing a lien on a debtor's property as security for a debt owed to a creditor.
- **Late Fee** – A fee a customer must pay if his or her payment is not received by due date of the payment.
- **Lien** – a creditor's claim against property (e.g. a mortgage is a lien against a house).
- **Line of Credit** – See Revolving Credit.
- **Minimum Payment** – The smallest amount which can be paid on a revolving charge account to avoid a penalty. This is usually two to three percent of the amount owed and is often based on the balance at the billing date.
- **Mortgage** – A debt instrument by which the borrower gives the lender a lien on property as security for the repayment of a loan.
- **New Balance** - A customer's previous balance plus any purchases, cash advances, and late fees, minus any payments and credits. If the customer pays his or her credit card bill in full each month, the new balance will be equal to his or her new purchases and cash advances.

# Glossary of Terms – cont.

- **Payday Loans** – Short term loans people take out to tide them over until they receive their paycheck. These loans usually carry very high interest rates and can get people deep in debt.
- **Payment Due Date** - The date a customer's payment must be received by the lender – not the date the payment is postmarked.
- **Periodic Rate** – An interest rate applied to a customer's balance to calculate the finance charge.
- **Previous Balance** - The amount a customer owed at the end of the previous billing period. Any payments, credit to the customer's account or new purchases are not included.
- **Prime Rate** – The interest rate announced by banks from time to time. This rate is often used as a benchmark by which to measure a loan rate – e.g. Prime plus 2.
- **Principal** – The total dollar amount of purchases made on a credit card or the amount of a loan, not including interest or other fees.
- **Revolving Credit or Line of Credit** - Credit that allows a customer to make an unlimited number of purchases, up to a pre-approved dollar limit. The customer can continue to “revolve” that line of credit or draw down on it repeatedly as long as he or she continues to make minimum payments on that bill each month and as long as he or she does not exceed his or her credit limit.

- **Secured Loan** - a loan where the borrower offers collateral for a loan. The borrower gives up his or her right to the collateral if the loan is not paid back as agreed.
- **Subprime Lending** - Loans intended for people whose credit or other circumstances prevent them from obtaining a loan at the interest rate offered more creditworthy borrowers. Subprime loans are at higher interest rates.
- **Tax Lien** – A claim against property or assets, filed by the taxing authority for unpaid taxes.
- **Unsecured Loan** – A loan where the lender does not require collateral.
- **Variable Rate** – An APR that changes as published interest rates change.