

Module 9
Restoring Your Credit



Module

Module 9: Restoring Your Credit



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Module 9 Introduction

The primary purpose of this module is two-fold. It will help to prepare you for the unexpected by offering some tips on how to most effectively deal with financial difficulties.

Additionally, if you have experienced financial difficulties or credit problems either in the past or at present, this module will provide several useful tools to help you to build back your credit and credit rating.

Consumer Workbook Materials for Module 9: Restoring Your Credit

- *Tips for Coping With a Financial Crisis* (page 154)
- *Fraudulent Use of Your Credit* (page 155)

These materials are also available in *Your Credit, Your Home, and Your Future* for Module 9: Restoring Your Credit

- *Tips for Coping with Financial Crisis* (page 51)



Major Reasons for Financial Difficulties

- Loss of income (job loss, divorce, death).
- Emergency and/or unexpected expenses (medical expenses, etc.).
- Poor money management (overspending, compulsive buying, purchasing things that you cannot afford).
- Defective goods and services (car repair, house repair, etc.).
- Fraudulent use of your credit card—identity theft.

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Major Reasons for Financial Difficulties

If you remember in Modules 1 and 6, we discussed some of the items that may negatively impact your credit history. You will find most of the same primary causes listed on this slide.

As you know, life can be full of surprises. How many times have you wondered when something bad is going to happen because everything in life seems to be going too well?

All of the items listed on the slide, except poor money management, may not always be within your control. Therefore, you always need to be as prepared as possible to deal with the unexpected.

Refer to the Consumer Workbook:

Fraudulent Use of Your Credit (page 155)

► **Fraudulent Use of Your Credit**

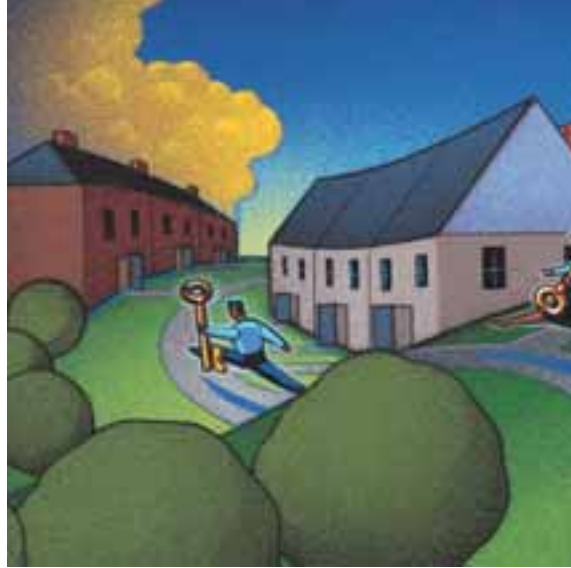
It is important to note that if your ID cards and credit cards are lost or stolen:

- 1) Thieves can use your information to impersonate you.
- 2) Someone can use your credit card.

In the event that your your ID cards or credit cards are lost or stolen, you should immediately notify your creditors (e.g. credit card companies) to prevent their future unauthorized use. Additionally, you should also:

- 1) File a police report.
- 2) Call the three major credit reporting agencies (Equifax, Experian, and TransUnion) and ask them to place a **fraud alert** on your name and Social Security number.

This alert means that any company that checks your credit after your cards are reported as lost or stolen, will be aware of possible identity theft. Therefore, they must contact you by phone to authorize the extension of any new credit. This will prevent anyone from illegally using your credit.





Warning Signs of Credit Problems

- Inability to pay your bills on time and paying late fees.
- Difficulty deciding which bills to pay each month.
- Forced into using credit cards for routine purchases for which you would normally make with cash or checks.
- Spending more than 20% of your monthly net income to pay back credit cards and other loans (excluding a mortgage).

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Warning Signs of Credit Problems

You should be aware of and able to recognize the numerous warning signs that may signal pending financial and credit problems.

This slide and the following two slides will provide a list of some of the primary signals that financial trouble may be knocking at your door.

Warning Signs of Credit Problems

- Borrowing money to make payments on existing loan obligations.
- Frequently at, near or over your credit card limit.
- Paying only the minimum payment due on your credit card bills.

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Warning Signs of Credit Problems



Warning Signs of Credit Problems

- Paying bills late or putting off necessary things, like visits to the doctor, because you don't have enough money.
- Working overtime or a second job just to cover food, housing and other basic living expenses.
- Thinking your financial condition is beyond help.

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Warning Signs of Credit Problems

As we went through the list of warning signs, did any of you think to yourself, “Yes, that’s me,” or, “I can relate to that!” Or, how many of you thought of friends or family members who have struggled their whole lives dealing with these kinds of issues? Well, if you did, you are not alone.

It is so easy to fall into the trap of any one of these items. And once you are in the hole, digging out (or catching up) oftentimes seems impossible.

Therefore, the rest of this module will focus on providing some sound advice on how to put the pieces back together and hopefully keep your credit intact.

Coping With a Financial Crisis

- Try to pay yourself first.
- Don't wait until it's too late to seek help.
- Call the lender/creditor.
- Be prepared to work with the lender/creditor.
- Don't make promises that you can't keep.
- Be honest and don't give up.
- Talk to a local nonprofit credit counseling agency.

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Coping With a Financial Crisis

The tips listed on this slide may seem overly simplified. However, if you really think about it, they apply to just about every aspect of life. To summarize all of the tips in another way, one could say, 1) take care of yourself, 2) seek help as needed, 3) communicate and cooperate with others, and 4) be honest and persevere.

Let's take a closer look at each one of the tips:

- ***Pay yourself first.*** Put yourself on “the payroll.” Always set aside money for savings.
- ***Don't wait until it is too late to seek help.*** When faced with difficulties, it is easier to put something off than to deal with it. However, seeking help early on, when the problem is still small, will always provide for easier, more manageable solutions.
- ***Call the lender/creditor.*** Don't be afraid to let your creditor know about your situation. They cannot read your mind, and will always respond better to a consumer who reaches out to them than to a consumer who avoids them.
- ***Be prepared to work with the lender/creditor.*** Working closely with creditors can oftentimes result in revised payment arrangements or possible restructuring of the debt.
- ***Don't make promises that you cannot keep.*** Be realistic!
- ***Be honest and don't give up.*** Being truthful and persistent with your creditors will help to ensure a good relationship and a positive resolution.
- ***Talk to a local non-profit credit counseling agency*** to help you rebuild your credit. A credit counselor can help you create a spending plan and provide you information on debt repayment programs and financial management education. Look in your own community for valuable resources.

Refer to the Consumer Workbook:

Tips for Coping with a Financial Crisis (page 154)

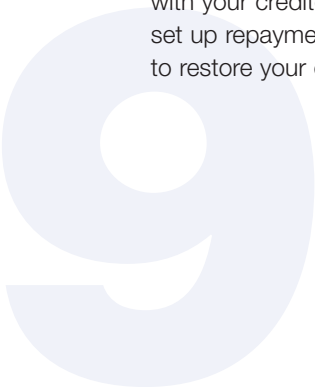
Your Credit, Your Home, and Your Future page 51)

► **Tips for Coping With a Financial Crisis**

- **Pay yourself first.** Put yourself on “the payroll.” Always set aside money for savings.
- **Do not wait until it is too late to seek help.** When faced with difficulties, it is easier to put something off than to deal with it. However, seeking help early on, when the problem is still small, will always provide for easier, more manageable solutions.
- **Call the lender/creditor.** Don’t be afraid to let your creditor know about your situation. They cannot read your mind, and will always respond better to a consumer who reaches out to them, than to consumers who avoid them.
- **Be prepared to work with the lender/creditor.** Working closely with creditors can oftentimes result in revised payment arrangements or possible restructuring of the debt.
- **Do not make promises that you cannot keep.** Be realistic!
- **Be honest and do not give up.** Being truthful and persistent with your creditors will help to ensure a good relationship and a positive resolution.
- **Talk to a local nonprofit credit counseling agency.** Credit counseling can help you improve and build back your credit. Look in your own community for some valuable resources.

Beware of “Quick Fix” and/or “Credit Repair” companies. They will promise you the world, take your money, and may even further damage your credit.

Please note that trained credit counselors in your area can provide you with free or low-cost, confidential assistance in getting back on track financially. Additionally, they can oftentimes intervene with your creditors and help you to negotiate and set up repayment plans to help maintain, or work to restore your current and future credit opportunities.



Steps to Restoring Your Credit

- Don't wait for an emergency to contact creditors.
- Contact creditors where you have paid off accounts earlier.
- Accept offers for credit cards **only if** the terms are acceptable to you.

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Steps to Restoring Your Credit

If you have had problems in the past, practicing the tips listed on this and the next slide will help you to avoid additional pitfalls.

Remember communication and early intervention are key elements to success.

Former creditors with whom you have had a good payment record may be willing to extend you credit to re-establish credit.

Always carefully review credit card offers, and **DO NOT** acquire too many. Normally, one or two cards should suffice.



Steps to Restoring Your Credit

- Consider offering security on an account, i.e., car (**secured loans**) or a **secured credit card**.
- Consider a co-signer if required, but limit the time and amount for which the co-signer is liable.
- Avoid “Credit Repair” companies. There are no quick fixes; in fact, they can get you into more debt.

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Steps to Restoring Your Credit

Secured loans are loans whereby a tangible item, such as a car or a motorcycle, can be “attached” (taken if you don’t repay the loan).

Remember, in the event of default on a secured loan, the item that is attached may be repossessed in the event of non-payment.

A secured credit card is a card whereby you have funds available, say \$500, to secure a credit card with a \$500 credit limit. Because not all secured credit card issuers report to credit reporting agencies, always be sure to ask if they do before taking out a secured credit card to start restoring your credit.

Co-signers are persons who are willing to sign with you on a credit or loan application. Remember, in the event of non-payment on either party’s part, both persons are equally responsible. In the event of non-payment, both party’s credit rating is damaged. (*Refer back to Module 5 for more information on co-signing.*)

Do not use “credit repair” companies. They will promise the world, take your money and may even further damage your credit.

Together, all of these tips may help you to slowly, but surely, rebuild a good credit history. Be patient because it will take time and additional effort.

Steps to Restoring Your Credit

- Examine how much you owe and to whom.
- Prepare a spending plan.
- Contact creditors to whom payment is overdue.
- Consider possible sources of additional money.
- If you have money in a savings account, consider using it to pay off what you can.

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Steps to Restoring Your Credit

Now that you are familiar with several tips for restoring your credit, let's talk about the necessary action steps.

To begin, follow the points listed on this and the following slide.

As indicated by the first item listed, it is critical that you know exactly how much you owe and to whom. Then, given this information, prepare a realistic spending plan.

Once you have a handle on your debts and a spending plan in hand, begin contacting creditors to work out an agreement or payment arrangement.

Throughout the process, explore possible sources of additional money.



Steps to Restoring Your Credit

- If your delinquency is serious, such as faced with foreclosure, consider borrowing from your retirement account.
- Sell assets.
- Consider getting a second job.

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Steps to Restoring Your Credit

Don't give up. It's hard work, but it will be worth it in the long run.

SUMMARY

The warning signs of credit problems are a signal for the need to take control and improve your financial situation.

Additionally, be sure to routinely monitor your credit report and put into practice the necessary steps to positively impact and restore your credit history.

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SUMMARY





Key Terms to Remember

Refer to the Consumer Workbook:

Glossary of Terms (pages 213–222)

Your Credit, Your Home, and Your Future pages 73–83)

