

Successful Start and the Office of Student Services Present:

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# **CREDIT 300: REBUILDING CREDIT**

# PATH TO GOOD CREDIT

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- ✕ Credit Counseling
- ✕ Rebuild Credit
  - ✕ Financial Plan
  - ✕ Credit Report
  - ✕ Repayment Plan
- ✕ Develop a Plan
- ✕ Debt Management Options
- ✕ Living Debt-Free

# CREDIT COUNSELING

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- ✕ Agencies

- + Free or very low cost
- + Non-profit

- ✕ Ask

- + Effect on credit report and score
- + Can agency help with student loan?

- ✕ You can do what an agency does

- + You are in control
- + Less cost

# REBUILD CREDIT

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- ✕ Start a financial plan
  - + Track spending and develop a budget
- ✕ Check your credit report
  - + [www.annualcreditreport.com](http://www.annualcreditreport.com)
  - + Review for accuracy
- ✕ Lists accounts needing attention
  - + Debt level
  - + Interest rate
  - + Minimum payment



# REBUILD CREDIT

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- ✖ Add personal statement to credit report
  - + Contact each credit agency in writing
  - + Explain information
  - + Correct inaccuracies
- ✖ Ask for help
  - + Explain situation and your budget constraints
  - + Ask each lender for a new repayment plan
  - + 56% received lower interest rate by asking<sup>1</sup>

<sup>1</sup>2002 U.S. Public Interest Research group study

# DEVELOP A PLAN

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## ✕ Develop a Repayment Plan

- + Lists debts
- + Prioritize repayment by highest rate or lowest balance

## ✕ Manage Credit

- + Limit new accounts
- + Identify and keep most favorable credit card
- + Consider closing accounts during repayment or when fully repaid

# DEVELOP A PLAN

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- ✖ Identify Past Due Accounts
  - + Accounts with late payments
  - + Charged-off accounts
  - + Collections accounts
- ✖ Talk to each past-due company
- ✖ Reduce high-balance accounts
- ✖ Don't open new credit accounts
- ✖ Close unused accounts



# REESTABLISHING CREDIT

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## ✖ Secured Credit Card

- + Credit card is backed by a savings account
- + Available from credit unions and banks
- + Look for no fees and reasonable interest rates

## ✖ Co-Signer

- + Promises to repay your loan if you fail to pay
- + Repayment affects your credit and credit of co-signer
- + Co-signer must have good credit



# DEBT MANAGEMENT OPTIONS

- ✕ Prevent debt
- ✕ Work out a repayment plan with lenders
- ✕ Make a plan to avoid future debt
  - + Use a budget
  - + Eliminate temptation
  - + Cut up cards and close credit accounts
- ✕ Bankruptcy
  - + Expensive and stressful
  - + Doesn't apply to student loans
  - + Doesn't change behavior

# BANKRUPTCY

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- ✕ Chapter 7

- + Discharge all debt (except student loans)
- + Qualify for Chapter 7 based on income limits

- ✕ Chapter 13

- + Work out a debt repayment plan

- ✕ Court Decides

- + Debt repayment amount
- + Future purchases

- ✕ Can be expensive

# CONSEQUENCES OF BANKRUPTCY

- ✘ Employment
  - + Reduces employment opportunities
- ✘ Auto Insurance Rates
  - + Some insurers raise rates based on credit score
- ✘ Apartment or House Rental
  - + Higher deposits and limited choices
- ✘ Student Loans
  - + Federal and private loans are not dischargeable
- ✘ Future Purchases
  - + More expensive due to higher interest costs



# AVOID BANKRUPTCY

Debts	Before Bankruptcy	After Bankruptcy	Added Cost	Additional Earnings Required <sup>1</sup>
Car	\$377	\$530	\$153	\$228
Home	\$1,499	\$2,381	\$882	\$1,316
Credit	\$200	\$250	\$50	\$75
Total	\$2,076	\$3,161	\$1,085	\$1,619

**Hourly: \$9.42**

**Weekly: \$374**

**Annually: \$19,428**

<sup>1</sup>Based on income taxes of 33%. Car amount of \$20,000 at 5% interest vs. 20%. Home amount of \$250,000 at 6% interest vs. 11%. Credit amount of \$5,000 at 10% vs. 20%.

# LIVING DEBT-FREE

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- ✕ Discover how your situation developed
  - + Track your expenses for a week or month
  - + Limit and/or reduce debt
- ✕ Start a financial plan
  - + Make and use a budget
- ✕ Check your credit report to track progress
- ✕ If you have debt, determine for each debt:
  - + Amount owed, interest rate and monthly payment
- ✕ Work with lenders to repay all debt

**TRANSITION SLIDE TITLE**



# SLIDE TITLE

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✕ Slide details