

# Save Money By Using Credit Wisely



---

by

Paul Egide

Department of Financial Institutions

March 14, 2006



# Department of Financial Institutions

---

- Regulates and/or licenses

banks

credit unions

stockbrokers

loan companies

seller of checks

auto dealers

financial planners

savings and loans

investment advisers

collection agencies

currency exchanges

sales finance companies

insurance premium finance

adjustment service com.

mortgage bankers

franchises



# What is credit ?

---

Allows you to  
buy now and pay later



# Forms of Credit

---

- loans
- credit cards
- motor vehicle leases
- credit sales
- rent-to-own transactions



# Instant Gratification

---

- Pay Cash
- Finance Sale
- Lease
- Rent-To-Own



# Interest Rates

---

What is the maximum allowable interest rate in Wisconsin?



# Credit granting decision based on:

---

- Information from application and credit bureau file
- Debt to income ratio
- Payment history
- Assets (collateral)
- Having a phone
- Length of employment
- Judgments
- Bankruptcies
- Creditor's standards
- Number of recent credit inquiries
- Etc, Etc.



# Credit Reports

---

- What is a credit report?
- What type of information is on report?
  - identifying, credit, public records, inquiries
- How are credit reports used?
  - credit, insurance, employment, gov't, legitimate need



# Credit Reports

---

**March 1, 2005**



# Credit Reports

---

- One free report every 12 months
- Central location for one or all reports
  - [www.annualcreditreport.com](http://www.annualcreditreport.com)
  - 877-322-8228
  - Mail Form at [www.ftc.gov/credit](http://www.ftc.gov/credit) to:
    - Annual Credit Report Request Service
    - PO Box 105281
    - Atlanta GA 30348-5281



# Credit Reports

---

- Obtaining a copy of your credit report

Trans Union	800-916-8800 <a href="http://www.transunion.com">www.transunion.com</a>
Experian	888-397-3742 <a href="http://www.experian.com">www.experian.com</a>
Equifax	800-685-1111 <a href="http://www.equifax.com">www.equifax.com</a>

Denied (60 days), unemployed, welfare,  
inaccurate due to fraud



# Credit Reports

---

- Credit Report Errors
- Disputing Data
  - 100 word statement
- Credit Repair Scams
- Fraud (ID Theft)

Trans Union  
800-680-7289

Experian  
800-301-7195

Equifax  
800-685-5000



# Credit Reports

---

- How Long Does Information Remain on My Credit Report?
  - bad information 7 yrs., bankruptcy 10 yrs.
- Reducing Junk Mail
  - Your “Opt-Out” Right



# Reducing Junk Mail

---

- Credit Bureaus (888) 567-8688
- Direct Marketing Association
  - [www.the-dma.org](http://www.the-dma.org)
    - **Mail Preference Service**  
PO Box 9008  
Farmingdale NY 11735-9008
    - **Telephone Preference Service**  
PO Box 9014  
Farmingdale NY 11735-9014



# Telemarketing

---

- Wisconsin's No Call List
    - [nocall.wisconsin.gov/web/home.asp](http://nocall.wisconsin.gov/web/home.asp)
- or
- 1-866-966-2255

Department of Agriculture, Trade &  
Consumer Protection



# Credit Scoring

---

- Score is one tool used to make credit granting decision.
- Credit granting decision made by creditor.
- FICO (Fair, Isaac & Company)



# Credit Scoring

---

Max Score = 850      Average Score = 720

<b><u>Risk Tier</u></b>	<b><u>Score</u></b>	<b><u>% of Borrowers</u></b>
A (prime)	660 +	70%
A-	620-659	18
B	580-619	9
C	550-579	2.7
D	< 549	0.3



# National Average APR by FICO Score

---

FICO Score	<u>560-619</u>	<u>675-699</u>	<u>720-850</u>
30-year Mortgage	9.34%	7.27%	6.61%
Home Equity Line of Credit	10.44%	7.57%	5.94%
4-year Auto Loan	16.19%	9.55%	6.66%

As of June 2002



# Credit Scoring

---

Five things that affect your credit score:

- Payment History 35%
- Amounts Owed 30%
- Length of Credit History 15%
- New Credit 10%
- Types of Credit in Use 10%



# Credit Scores

---

Do millionaires have  
good credit scores?

Why only 707?



# Establishing Credit

---

- Open savings and checking accounts
- Apply for small loans
- Apply for department store or gas credit cards
- Use collateral
- Co-signer
- Secured credit cards



# Repairing Credit

---

- Face up to problem
- Stop purchasing on credit
- Consider consolidating debt
- Credit Counseling Organizations
- Don't become victim of credit repair scam
- Review credit report and correct errors



# Use Credit Wisely

---

- Live within your means
- Read contracts before signing
- Avoid late fees
- Don't be tempted by low payments

What is the better deal?

\$30 per month or \$40 per month

■ 36 months

24 months

■ 18%

10%

■ large down payment

small down payment



# Effect of Low Payments

---

Balance	Interest Rate	Payments Made	Time to Payoff	Total Interest
\$1,700	18%	Minimum of 2.5% = \$42.50	13 yrs. and 10 months	\$1,973
\$1,700	18%	Minimum plus \$10	10 years	\$1,319

Example is based on a typical credit card account.



# Effect of Low Payments

---

- \$1,700, 18%, payment of \$42.50 takes 13 yrs. and 10 months amounting to total finance charges of \$1,973
- $\$1,700 \times .18 = \$306$
- divide by 12 = \$25.50
- $42.50 - 25.50 = \$17.00$  balance reduction



# Effect of Low Payments

---

Term	30 yr	15 yr	15 yr
Interest Rate	7.5%	7.5%	7.0%
Payment	\$874	\$1159	\$1124
Total Interest	\$189,644	\$83,577	\$77,235
Savings	--	\$106,067	\$112,409

Example based on a \$125,000 mortgage



Cost?

Term   APR   Payment   FC

A. \$ 12,000

A. cash

B. \$ 12,186

B. 3 years, 1%, \$339

\$186

C. \$ 14,349

C. 3 years, 12%, \$399

\$2,349

D. \$ 13,737

D. 3 years, 9%, \$382

\$1,737

E. \$ 14,946

E. 5 years, 9%, \$249

\$2,946



# Payday Loans

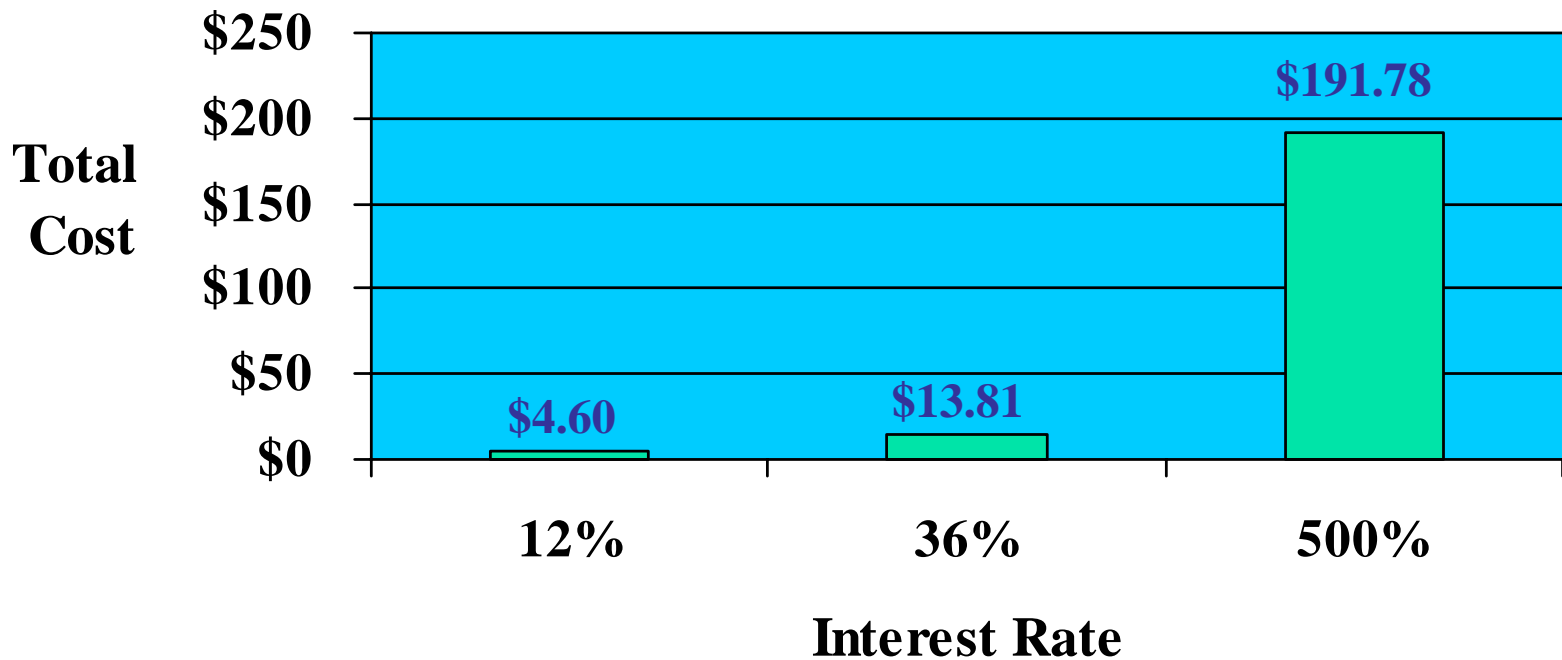
---

- Short-term, high interest rate loans paid by a post-dated check
- Have sufficient funds in checking account by date of post-dated check
- Not an effective solution for long-term monetary needs
- Avoid rolling over



# Payday Loans

## Interest Cost on a \$200 Loan Outstanding For Ten Weeks





# Auto Title Loans

---

- Short Term (30 days)
- High APRs (300% to 500%)
- Risk of Losing Auto



# Rent-To-Own

---

- Short-period rental, with ability to renew and right to acquire ownership after certain number of renewals
- Can walk away
- Very expensive - 3 to 7 times normal retail
- Why? no savings or can't get credit
- Alternatives: credit sales, layaway, auctions, garage sales, second-hand stores, classified ads



# Rent-To-Own

---

- To purchase a TV worth \$200 at an:
  - Appliance store
    - one \$200 payment
  - Rent-to-own store
    - 78 weekly payments of \$8.50 each plus one additional payment of \$37 for a total of \$700
- Save \$8.50 for 24 weeks = \$204



# Free Financing Offers

---

**No Interest, No Payments  
for 90 Days!**



# Credit Cards

---

- Grace Periods - number of days to pay full balance without incurring interest charges
- Interest Rates
- Teaser Rates
- Applying Payments



# Credit Cards

---

- Choosing a Credit Card
  - If high balance is kept .... search for low rate
  - If paid off monthly .... look for no annual fee
- Secured Credit Cards



# Choosing a Credit Card

---

- Federal Reserve System  
[www.federalreserve.gov/pubs/shop/](http://www.federalreserve.gov/pubs/shop/)
- CardWeb [www.cardweb.com](http://www.cardweb.com)
- ABC Guides  
[www.abcguides.com/creditcards/](http://www.abcguides.com/creditcards/)
- Bank Rate Monitor [www.bankrate.com](http://www.bankrate.com)
- Credit Choice [www.creditchoice.com/](http://www.creditchoice.com/)
- Motley Fool [www.fool.com](http://www.fool.com)



# Using Credit Cards Wisely

---

- ⌘ Over the Phone and Internet
- ⌘ Lost and Stolen Credit Cards
- ⌘ Review Monthly Statements
- ⌘ Credit Card “Blocking”
- ⌘ Credit Card Protection
- ⌘ Transfer to Home Equity Loan

# Rich man advises teens: Stay away from credit cards

NST 10-12-99

By Joe Ruff  
Associated Press

OMAHA, Neb. — Some free advice to teens from multibillionaire investor Warren Buffett: Avoid credit cards.

"If you're going to make progress, you will not do it by borrowing at 18 to 20 percent interest," Buffett told about 380 Nebraska high school students Monday.

"Warren Buffett can probably give us more real-life examples than a teacher in economics class could," said Reese Pearson, 17, a senior from Davenport in southeast Nebraska.

In a forum on economics, the third-richest man in America and chairman of Berkshire Hathaway also urged the students to:

- Develop integrity, which guides intelligence and energy, three qualities Buffett said he looks for in hiring people. "If they don't have the first one, integrity, the other two will kill ya."

- Establish good habits, picking people to admire and following their example, while learning to weed out attributes that are not admirable. "If you do that, two or three years from now you'll find out the person you admire most will be yourself."

- Learn about companies before investing in them; do not rely on someone else's advice.

- Choose professions for love of the work, not the money. Doing



Jackson



Buffett

well in the United States is not far removed from being rich, said Buffett, who added with self-effacing humor: "I'll pay more for my suits than you will, but as soon as I put it on, it will look cheap on me."

Students gathered from across the state for the event organized by U.S. Sen. Bob Kerrey, D-Neb. They talked about savings and investment and filled out budgets based on the average starting salary for college graduates in Nebraska.

The students also heard from the Rev. Jesse Jackson, who spoke via speaker phone from Los Angeles.

The civil rights leader said energy and focus are needed for financial success, and those qualities can help students avoid the pitfalls of drugs and violence.

Jackson also urged the students to help close the gap between rich and poor in America. Capital and resources need to be more accessible to the disadvantaged, Jackson said.

## Warren Buffett - Multibillionaire

“You can not make  
progress borrowing  
at 18 - 20%”

• Establish good habits



# Credit Cards

---

- Late and over-limit fees
  - Averaged \$12 in 1994 , \$31 in 2004
- 30% paid at least one late fee last year
- Late payment or universal default may cause increase in rate
  - 85% of banks now use practice



# Skip Payment Offers

---

- Do you need extra money for the Holidays?

Don't worry, you can skip your November and December payments!



# Motor Vehicle Leases

---

- Read & Understand Before Signing
- Additional Charges
  - Acquisition & Disposition Fees
  - Excess Wear/Mileage
  - Rent Charge
  - Early Termination Charge
  - Security Deposit: Refundable
- GAP
- *Consumer Reports* (4/93 and 4/98)



# Refund Anticipation Loans

---

- Amount of tax refund less interest and fees
- Very expensive (\$40 to \$100, 70% to 500% APR)
- Alternative: e-file with refund deposited directly into your bank account = refund in less than 10 days



# Credit Insurance

---

- Types of Credit Insurance
  - Life
  - Disability (A&H or A&S)
  - Unemployment
- Debt Cancellation Contracts
  - Gap



# Credit Insurance

---

Cost of credit insurance

Example: \$15,000 installment loan  
at 9% for 4 years

\$265 credit life insurance

\$475 credit disability insurance

\$740



# Credit Insurance

---

Annual premium for \$50,000 life coverage

Age	Credit Life	Term Life	
		Male	Female
22	\$342	\$69	\$66
30	\$342	\$70	\$67
40	\$342	\$77	\$73
50	\$342	\$126	\$104
60	\$342	\$226	\$170
65	\$342	\$354	\$235



# Credit Insurance

---

- Cannot be required
- Packing
- 6 x 6
- Little or no underwriting



# Divorce and Credit

---

- After divorce, both parties remain responsible for payment of credit accounts
- Contracts are still binding regardless of divorce agreement, either party can be contacted for repayment
- Credit card can be closed with either spouse's written request



Department of Financial  
Institutions

---

**800 - 452 - 3328**

**[www.wdfi.org](http://www.wdfi.org)**

**345 W. Washington Ave.**

**Madison WI 53703**