



OVERCOMING THE CREDIT BARRIER



Clearing the
Way to Your
Financial Goals



Overcoming the Credit Barrier: Clearing the Way to Your Financial Goals was written and designed for The National Foundation for Credit Counseling (NFCC) and The Financial Planning Association (FPA) as a public service by the Denver-based National Endowment for Financial Education®, or NEFE®, www.nefe.org

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Overcoming the Credit Barrier

Managing credit is a challenge that cuts across all socioeconomic lines. No matter what level of income you earn, handling credit is a necessary skill.

This brochure offers a step-by-step approach to help you improve your credit record. Anyone who has ever been denied credit understands how the lack of credit affects financial options.

Like most Americans, you probably dream of someday owning your own home, buying a new car, or taking your family on vacation. But poor credit can be a roadblock to your ability to achieve these desires.

Poor Credit Affects Your Ability to Plan

Your credit affects many areas of your life. For example, your credit worthiness will affect your ability to purchase goods and services on credit and to get a loan. If you have a good credit record, you are likely to receive lower interest rates than those who are considered credit risks, which means you will pay less interest.

Some employers even review a job applicant's credit report. Poor credit could mean that you are not offered a job. A potential landlord also may request credit bureau information for an applicant seeking an apartment. Landlords do not want tenants who are late paying rent.

As you can see, poor credit can be a huge obstacle to obtaining the good things you desire for yourself and your family. Similarly, a poor credit history tarnishes your ability to plan for the future.

It may take some time to repay debt and improve your credit record. You may even need some assistance from a nonprofit counseling service to help you start paying off debts. After you pay off your debts, you will be in a better position to start saving and begin to build your assets.

Plus, your credit rating will likely improve. Eventually, you may want to consult a CERTIFIED FINANCIAL PLANNER™ professional who can show you how to reach your financial goals.

The Thomas Family's Story

Money is tight for George Thomas and his family of four. George and his wife Angie frequently pay their credit card bills late, which results in finance charges and late fees. Their credit reports note this negative information. So even though the Thomases have not defaulted on any of their bills, they have unknowingly developed a poor credit history.

When George's old car finally died, the couple managed to pull together \$1,000 for a down payment for a used vehicle. But they still needed an additional \$7,000.

Their bank was willing to give them a \$7,000 car loan, but because of their poor credit report, the interest rate on the loan was a high 13 percent.

With a better credit history, the couple could qualify for a much lower interest rate and save themselves hundreds of dollars over the course of the loan. They could have used that extra money to buy clothes for the children, buy new furniture, pay for a vacation, or save for emergencies.

Poor credit can be an obstacle to achieving financial goals. However, a credit counselor could help the Thomases improve their credit history and start building a better financial future.

Do You Have a Credit Problem?

Like the Thomases, you may be under the impression that you have a good credit record. After all, you have few outstanding loans and you always pay your bills. But late payments alone can damage your credit standing.

Loan officers study an individual's payment history to determine whether to make loans and what kind of interest rate to set on automobile loans, home mortgages, and personal loans.

You may not be aware that you have a credit problem or that your credit rating is low. Check the following list to determine if you have a credit problem. You may have a credit problem if you:

- Worry about how much money you owe
- Miss payments or pay your bills late each month
- Spend more than 20 percent of your paycheck to pay off secured debt
- Pay for groceries with credit instead of cash
- Are refused credit by people or stores
- Make only the minimum payments on your credit cards
- Filed for bankruptcy within the past 10 years

Another indication that you may have credit problems includes nearing the limit on your lines of credit. You also may have a credit problem if you would face immediate financial trouble if you or your spouse lost a job.

How to Improve Poor Credit

If you suspect that you have a credit problem, you can check your credit by ordering a credit report from one or all of the three major credit-reporting agencies. It's smart to review your credit report once a year, just to know your credit standing and to check for any errors. The major credit reporting agencies are:

Equifax
1-800-685-1111
www.equifax.com

Experian
1-888-397-3742
www.experian.com

Trans Union Corp.
1-800-916-8800
www.transunion.com

Generally, each of these agencies charges a small fee, ranging from \$9 to \$15, to get your credit report. However, your state may have a law that requires credit-reporting agencies to provide you with a free report every year. Credit reports from

a reporting agency also are free if you have recently been turned down for credit by that agency. In addition, you're entitled to one free copy of your report a year if you certify in writing that (1) you're unemployed and plan to look for a job within 60 days; (2) you're on welfare; or, (3) your report is inaccurate because of fraud.

How to Correct Credit Report Errors

Once you receive your credit report, check it over carefully for errors and outdated information. Although correcting the information costs you nothing, it may require persistence. You can try to correct an error by taking any of the following steps:

- Follow the instructions on the report to tell the credit-reporting agency and the organization that provided the information to the credit-reporting agency about the mistake.
- Telephone the agency about the mistake.
- Explain the problem in a brief letter.

If the agency finds that the information in the report is wrong, then it's the creditor's responsibility to notify other major credit-reporting agencies of the error, so they can correct their information, too.

Steps to Improve Credit

Now that you are familiar with your credit report, you can start working to improve it. Once a creditor reports negative information to a credit bureau, it remains in your file for seven years. However, negative information becomes less damaging over time.

To improve your credit, take the following steps:

- Pay your bills on time.
- Pay off high-interest loans first. By paying down these obligations, you free up interest money that can go to other bills.
- Pay off credit cards monthly. Remember, if you let a payment slide, you will incur a late fee and a penalty charge.

- Apply only for the credit cards you need. It's easy to run up debt when you have a lot of credit available.
- Use your credit card to establish good credit. By paying on time and by paying down the debt, you will show creditors that you are creditworthy.

When using credit, most charges should be repaid within three months of the purchase. Be sure you know the costs of credit including the credit card's annual fee, the interest rate you will pay, and any charges for overdue payments or going over your credit limit.

Lee's Story

After graduating from college, Lee landed a job with a software company. With his good salary, he treated himself to an expensive apartment, new furniture, a DVD player, and a television set. He used credit cards to finance some of these purchases, figuring that his salary would more than cover the costs over time.

Although Lee was careful to pay his credit card bills each month, he wasn't prepared financially when the company abruptly folded and he lost his job. His unemployment compensation barely covered his rent, car loan, and living expenses.

Soon, he could no longer make payments on all the furniture and electronics he bought. Those creditors began calling him regularly to demand payment.

It was all Lee could do just to keep up his job search. As the weeks went by and he still did not find a job, the debt on his unpaid credit card bills piled up steadily, thanks to finance charges, late fees, and even legal fees from collection agencies. Lee's credit standing deteriorated quickly.

Fortunately, he contacted a credit counseling service that helped him set up a plan to repay his debts and improve his money management skills and credit over time.

Getting Out of Debt

To get out of debt, track your spending. For one month, record where and how much money you spend wherever you go. By the end of the month, you will have a clearer idea of how you spend your money.

Be sure to monitor your debt load, too. Know how much you owe and how long it will take you to pay it off. Make an effort to pay more than the minimum amount due on credit card accounts to liquidate debt.

If you find yourself already overburdened with debt, what can you do?

First, contact your creditors directly. By explaining the situation, you may be able to get them to reduce your monthly payment. Generally, creditors are happy to work with people who want to pay back the debt but are experiencing temporary hardship.

If you owe money to several creditors and cannot pay them all, you may want to enlist the help of a nonprofit debt counseling service. These organizations are available for free in most large cities and will work with you to set up a repayment plan that will satisfy all your creditors.

Credit Counseling Services

If you are stressed by debt and can't pay your bills on time, especially credit card debt, you may want to enlist the help of a nonprofit credit counseling service. The National Foundation for Credit Counseling, Inc.[®], (NFCC) is the longest serving and largest network of nonprofit credit counseling agencies nationwide. NFCC members are mostly known as Consumer Credit Counseling Services (CCCS). Some are known by other names but all can be identified by the NFCC member seal.

NFCC agencies offer free and low-cost services through in-person appointment, by phone, and the Internet. Their goal is to assist you with getting out of deep debt and helping you understand how to avoid future debt traps.

In a confidential counseling session, a certified credit counselor will analyze your personal financial data and advise you on successful money-management methods. With proper budgeting, you may be able to pay off your debt.

However, if you cannot pay off the debts as scheduled, the counselor may propose a plan to negotiate directly with your creditors to work out terms that you can meet. Under this type of plan, you make consistent monthly payments to the counseling agency, which in turn pays the creditors.

To find an NFCC member agency near you, call 1-800-388-2227 or visit their Web site at www.nfcc.org. Spanish language services are available at 1-800-682-9832.

Stay Away from “Credit-Repair” and Debt Companies

Avoid “credit repair” companies that charge high fees to help clean up your credit. Don’t confuse these organizations with legitimate, nonprofit community-based counseling organizations that provide a needed service to people with credit problems.

You can clean up your credit by repaying your debt, paying your bills on time, and ensuring your creditors update your accounts accurately with the credit bureaus.

Be careful to avoid “debt” companies. Some charge high fees and will keep your first payment or a portion of your monthly payments, which will cause you more debt. Visit NFCC’s Web site to learn more about “how to choose a credit counseling agency” that’s right for you.

Financial Planning Assistance While Accumulating Assets

Once you establish a good credit record and begin to set money aside in a savings account, you're on your way to realizing your financial goals.

Many of the things you want to accomplish in life require money. What are your goals? Like many of us, you probably hope to:

- Buy a home
- Save for your children's college education
- Build a retirement fund
- Take vacations

How to Select a Financial Planner

Financial planning is for everyone—not just the wealthy. We are all on our own financially, without large corporations or the government to help us. Plus, the strategies needed to accomplish our goals have become more complex. A professional financial planner can help guide you.

A CERTIFIED FINANCIAL PLANNER™ reviews your overall financial health and makes sure your strategies are helping you efficiently realize your goals. The planner looks at your budgeting, insurance, investments, and taxes. A financial planner also can help you make decisions based on facts rather than emotions.

To find a planner, ask friends and professionals such as lawyers, bankers or accountants to recommend someone. You also may want to check with financial planning organizations. For a list of CFP™ professionals in your area, contact the Financial Planning Association (FPA) at 1-800-647-6340 or visit FPA online at www.fpanet.org.

When you have a few names in hand, contact their offices or check their Web sites to obtain as much written information about them as possible. Consider the planner's:

- Educational background
- Licenses and credentials
- Method of compensation
- Work experience
- Specialization, if any

With this material, you can narrow your list of prospective planners to two or three whom you wish to interview. Generally, the first meeting with a financial planner is free.

Meet with the planner in person so you can select the one who makes you feel most comfortable and responds most thoughtfully to your questions. Consider these points in the selection process:

- Does the planner listen carefully to the description of your personal financial situation?
- Is the planner someone you can trust?
- Does the planner seem intent on providing a genuine service to you, or is he or she intent on selling financial products?
- Is the planner's approach steady and long-term?

Working with a financial planner involves a personal relationship. The planner should commit to ethical behavior and high professional standards. You want a planner who will put your needs and interests first.

Conclusion

A poor credit record can serve as a major roadblock to your financial goals. Fortunately, poor credit can be repaired over time.

Take a good look at your credit history and start to improve your credit. Be persistent. Good credit will help you meet your long-term goals for you and your family.



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