

Three C's to determine Creditworthiness

Creditworthiness– means that you are a good risk.

Character: Will you repay your debt? From your credit history, does it look like you possess the honesty and reliability to pay credit debts?

- Have you used credit before?
- Do you pay your bills on time?
- Do you have a good credit report?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your present job?

Capital: What if you don't repay the debt?

- What property do you own that can secure the loan?
- Do you have a savings account?
- Do you have investments to use as collateral?

Capacity: Can you repay the debt?

- Do you have a steady job? What is your salary?
- How many other loan payments do you have?
- What are your current living expenses? What are your current debts?
- How many dependents do you have?

Establishing a Good Credit Rating

Credit Rating: a measure of your creditworthiness

Based on your past record for borrowing money. Lenders often compute a numerical credit rating by using a computerized scoring system called FICO. The FICO system will give you a score between 100 and 800.

- * Payment History (most important factor in your score)
- * Current Debt (too much, will not be allowed more)
- * Length of Credit History (longer history = less risky)
- * New Account Inquiries (too many = risky)

Credit Score: consists of a list of items that reflect how risky an applicant is as a debtor (borrower). Points are assigned on how the applicant rates on each item. They are then added up for an overall score. They can also use the information to predict what your score might be.

Credit Bureau: they collect information on you and sell it to lenders for use in establishing your credit rating. (if you borrowed money, bounced a check, taken to court, etc...)

Credit History/Credit Report: your record of borrowing money and repaying for the last 7 – 10 years.

The 4 major categories of information that appear on a credit report:

1. Identification and employment data
2. Payment history
3. [Inquiries](#)
4. Public record information

The 3 major Credit reporting agencies are:

1. [Equifax](#)
2. [Experian](#)
3. Trans Union

3 C's of Credit

The Federal Government has passed several important consumer credit laws:

Truth in Lending Act (1969)

- Contracts clearly state finance charges and must be expressed as the APR.
- Everyone must report the costs the same way, know what your paying.
- Helps compare costs

Fair Credit Reporting Act (1971)

- Credit bureaus cannot circulate inaccurate credit information
- Anyone denied credit because of their report has a right to know why.
- You have a right to request a copy.

Consumer Credit Reform Act (1996)

- Reformed the Fair Credit Reporting Act.
- States that if you disagree with an item on your report, the credit bureau must investigate it within 30 days.

Equal Credit Opportunity Act (1975)

- Banned discrimination because of gender or marital status in the granting of credit.

Fair Credit Billing Act (1975)

- Consumers have the right to settle disputes with retail stores and credit card companies before any information is reported to the credit bureau.
- If you think there is a billing error you have 60 days after receiving the bill to report it in writing, the creditor then must respond within 30 days and resolve the issue within 90 days.

Fair Debt Collections Practice Act (1977)

- Forbids abusive practices by debt collectors.
- Forbids harassing, abusive conduct.