Ch. 4

Before You Begin

Learning Outcomes

Once you've completed this chapter's videos, you will be asked to return to this list of learning outcomes and place a checkmark next to the items you've mastered.

Section 1: Debt: Product, Not Privilege

- ☐ Identify the costs of using various types of credit.

Section 2: Debunking the Credit Myths

- ☐ Evaluate and refute the myths associated with debt.
- ☐ Apply systematic decision making to identify the most cost-effective option for purchasing a car.
- ☐ Identify various types of mortgage loans and the most cost-effective option for purchasing a home.
- ☐ Evaluate ways that debt can negatively affect your financial future and how to overcome personal debt.

Section 3: The Credit Score

- ☐ Describe the elements of a credit score.
- ☐ Understand how to obtain a credit report.
- ☐ Explain how a credit score affects creditworthiness and the cost of credit.
- ☐ Explain the factors that affect a credit score.
- ☐ Analyze a credit report, indicate the time that certain negative data can be retained, and describe how to dispute inaccurate entries.

Section 4: Credit Bureaus and Identity Theft

- ☐ Identify organizations that maintain consumer credit records.
- ☐ Summarize major consumer credit laws.
- ☐ Develop a plan for protecting personal information.

Key Terms

Get to know the language of money.

» **Annual fee:** A yearly fee that's charged by the credit card company for the convenience of the credit card

» **Annual percentage rate (APR):** Cost of borrowing money on an annual basis; takes into account the interest rate and other related fees on a loan

» **Credit card:** Type of card issued by a bank that allows users to finance a purchase

» **Credit report:** A detailed report of an individual's credit history

» **Credit score:** A measure of an individual's credit risk; calculated from a credit report using a standardized formula

» **Debt snowball:** Preferred method of debt repayment; includes a list of all debts organized from smallest to largest balance; minimum payments are made to all debts except for the smallest, which is attacked with the largest possible payments

» **Depreciation:** A decrease or loss in value

» **Introductory rate:** An interest rate charged to a customer during the early stages of a loan; the rate often goes up after a specified period of time

» **Loan term:** Time frame that a loan agreement is in force, and before or at the end of which the loan should either be repaid or renegotiated for another term

» **Tax deduction:** An expense, such as a charitable contribution, that can be deducted from one's taxable income

✱ **Note:** You may also want to review the following terms from Chapter 1: consumer, credit, debt, interest and loan

Measure Your Progress

Before watching the video, read each statement below and mark whether you agree or disagree in the "Before" column. Then, after watching the video, do it again using the "After" column to see if you changed your mind on any statement.

BEFORE			AFTER	
Agree	Disagree		Agree	Disagree
☐	☐	1. Co-signing a loan is a good way to help a friend or relative.	☐	☐
☐	☐	2. Cash advance and title pawning are needed services but should be used with caution.	☐	☐
☐	☐	3. The typical millionaire drives reliable used cars.	☐	☐
☐	☐	4. Leasing a car is a smart way to drive a newer car for a lower monthly payment.	☐	☐
☐	☐	5. A new car is the largest purchase most consumers make that goes down in value.	☐	☐
☐	☐	6. A home equity loan is a substitute for an emergency fund and a good way to consolidate debt.	☐	☐
☐	☐	7. You need to have a credit card to rent a car or check in to a hotel.	☐	☐
☐	☐	8. It is okay to use a credit card if you pay it off every month.	☐	☐
☐	☐	9. Teens are the number one target of credit card companies today.	☐	☐

JOURNAL QUESTION: INTRODUCTION

What have you heard about "building your credit score"?

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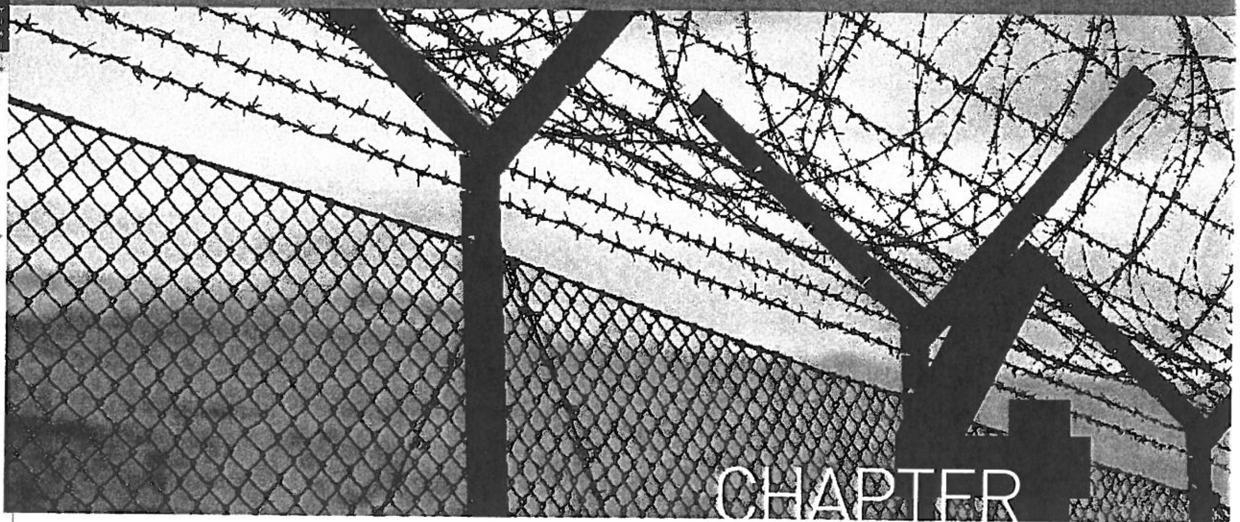

When someone borrows money from another, we understand he or she has an obligation to repay. A study in the dictionary will show you what this really means. A definition of *obligation* is "bound," which is defined as "tied; in bonds: a bound prisoner."

"The rich rule over the poor, and the borrower is slave to the lender" (Proverbs 22:7). Don't become a prisoner or slave to debt!

Section 1:

Debt: Product, Not Privilege

2 THE SECOND FOUNDATION

Get Out of Debt

WE LIVE IN A WORLD where it takes a total national economic meltdown to get most people's attention about crazy mortgages and stupid credit card debt! If there's one good thing that's come from the national economic mess of 2008 and beyond, it's that some people are finally getting the message: Debt is dumb!

VIDEO 1.1

Debt Is Everywhere

» Almost ______% of Americans are living paycheck to paycheck. A Reuters survey of 30,600 people found that 68% said it would be somewhat difficult or very difficult if their paychecks were delayed for a week. The problem? Overspending and way too much debt.

» When it comes to debt, if you tell a lie or spread a __________ long enough, eventually it becomes accepted as the __________. The truth is, debt is a product—*the most successfully marketed product in history.*

...u have a hard time viewing debt as a product that is sold and marketed, maybe this will help: Total 2011 earnings for the entire credit card industry were $18.5 billion, which was up from the $13.6 billion earned in 2010.
BCS Alliance, Inc.

The Second Foundation is Get Out of Debt. But don't stop there! Keep it up and commit to living a debt-free life!

» The world wants us to believe that debt is a *service* or *reward* that is offered to help consumers. This is simply NOT true!

» Debt has been _______________ to us with such intensity for so long that to imagine living without it requires a complete _______________ shift—a completely new way of looking at things.

JOURNAL QUESTION: VIDEO 1.1

Explain how debt is actually a product that is bought and sold.

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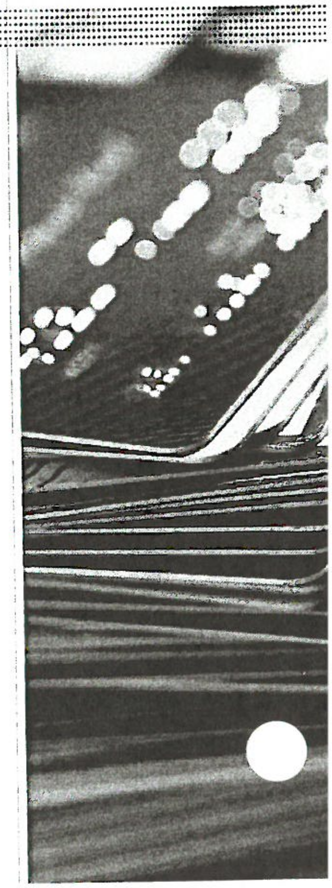
Sadly, it is easier than ever for 18-year-old college students to get credit cards. In response to the 2009 Credit Card Accountability, Responsibility and Disclosure (CARD) Act, the credit card industry has updated its marketing techniques and incentives to now include mailing credit card offers to students and offering promotional and "tangible" gifts to prospective collegiate customers. New policies also allow students to include student loans as a component of the income they cite to qualify for credit cards.

Fox Business



The Devastating Effects of Credit

In 2001, CBS's *60 Minutes II* correspondent Vicki Mabrey reported on the devastating effects credit card marketing had for one college student and his mother. Sean Moyer was an 18-year-old National Merit Scholar with future law school plans when he headed off to the University of Texas in Dallas. Even though he had always worked from the time he was 16, Sean was naïve when it came to credit cards. Like a lot of other freshmen, Sean applied for and received his first credit card when he got to college. Because of credit card debt, Sean was forced to transfer to the University of Oklahoma so he could live at home. By that time, he was working two jobs making minimum wage as a salesperson and gift wrapper for a major department store. One day, his mother knocked on Sean's bedroom door but got no answer. Upon entering, she found him dead; he had hung himself in the closet. Sean Moyer was 22 at the time with more than $14,000 of credit card debt. His mother told *60 Minutes II*, "It just never occurred to me that you could give a credit card to an 18-year-old making minimum wage. When he died, he had 12 credit cards." In 2007, CNN ran a similar story about credit card marketing on campuses and what happened to Sean Moyer. They reported that Sean's mother still receives credit card offers in the mail for her son, despite the fact that he died in 1998.

VIDEO 1.2

A Message From Dave

As a marketer, I have to give the credit card industry some credit. They've done a great job of marketing their product. They've not only gotten nearly every American hooked on their goods, but they've done it in a way that makes the consumer feel special, accepted and as though they've been done a favor. It's kind of scary how good a job they've done, in fact.

Financial Myths Young Adults Fall For

» The first one is the belief that you have to build __________. The credit industry wants you to believe this. Credit is NOT necessary to survive. The truth is there is _______ good reason to go into debt.

» The second myth is that you can spend money on whatever you want while in ___________ and pay for it later when you're making more ___________.

✱ **REMEMBER:** Taking on a lot of debt when you're young will limit your options later in life.

» The third myth is that you need a ________ car. You should buy the car you can afford—with cash.

Don't fall for these myths. ___________ debt, save for emergencies and large purchases, and learn to say no, even when people around you won't.

JOURNAL QUESTION: VIDEO 1.2

Explain what Dave means when he says, "The borrower is slave to the lender."

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NATIONAL DEBT: The amount of money a country owes. Yes, even the government sometimes spends money it does not actually have. The U.S. national debt now exceeds $16 trillion! It is the highest national debt in the world. The U.S. owes about half of that money to individuals, companies and foreign governments who have bought bonds and other investments from the U.S. Treasury. If you have a savings bond, then some of that debt is owed to you!

Want to see the current national debt? Go to dationsU.com/clock.

PERSONAL DEBT: The amount of money an individual person owes.

39% of incoming college freshman already have a credit card.

Federal Reserve Survey of Consumer Finances

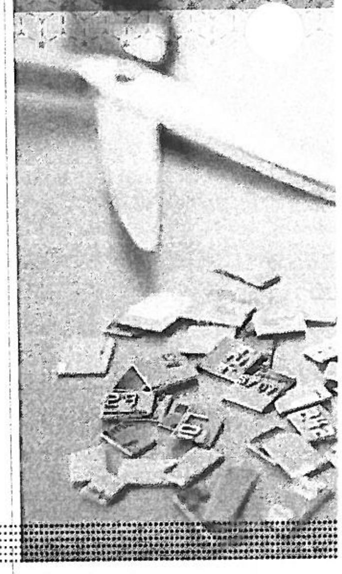
Which Credit Card Is Best?

"I'm going to college after I graduate and will need a credit card for various things, such as internet access. Can you recommend one that's better than the others?"

DAVE'S ANSWER: I never recommend using credit cards. NEVER! You can pay for internet access, make online purchases, and buy things in a store with a debit card.

Using a debit card, which is connected to your checking account, means you're spending money that's actually yours. You're not borrowing it from some bank and then paying interest on it. If you don't have money in your account, you won't be making purchases. That's the way it works, and it's the smartest thing you can do.

Credit cards are the quickest way I know to become broke and stay broke for the rest of your life!



Section 2:
Debunking the Credit Myths

A Message From Dave

We weren't born to use debt. Our country was not founded on easy financing and 90-days-same-as-cash. The great fortunes in the history of America weren't built on cash-back bonuses and free airline miles. We've been sold a bill of goods, and it's a total lie. If you tell a lie or spread a myth often enough, loud enough and long enough, eventually the myth becomes accepted as truth. That's where we are with debt in America: trapped in the myth that credit is a normal, healthy part of life.

"Our great-grandparents thoi debt was a sin. Our grandparents thought debt was dumb. Our parents borrowed on a few things. We borrow on everything."

DAVE RAMSEY

VIDEO 2.1

Money Myths

MYTH If I __________ money to a friend or relative, I will be helping them.

TRUTH The relationship will be strained or ______________.

The average number of credit cards per person is 3.5.

Federal Reserve Survey of Consumer Finances

Money Myths *(Continued)*

MYTH By ______________ a loan, I am helping out a friend or relative.

TRUTH The bank requires a co-signer because the person isn't likely to __________. Be ready to pay the loan and have your credit damaged.

MYTH ________ ____________, payday lending, rent-to-own, title pawning, and tote-the-note lots are needed ____________ for lower income people to help them get ahead.

TRUTH These are horrible, greedy rip-offs that aren't needed and benefit no one but the owners of these companies. They are what's known as *predatory lenders.*

Predatory lenders are modern-day loan sharks who take advantage of people and should be avoided at all costs. So why is the industry still thriving? Because they offer fast cash. But these are serious money traps. Here are reasons you should stay away from this type of lender:

» Payday loans are expensive. If a $100 payday loan costs you $15 for 10 days, that's an annual percentage rate of 400%.

» You can get stuck in a repeat cycle. According to *Center for Responsible Lending Research*, 76% of payday loans are to pay off old payday loans.

SECURED LOANS and **UNSECURED LOANS** are the two types of loans typically available to borrowers.

An **UNSECURED LOAN** is given to borrowers based on their financial resources or ability to repay the loan. Nothing "secures" the loan. In other words, the lender does not have rights to a specific asset if the loan is not repaid. Personal loans, student loans, and personal lines of credit are examples of unsecured loans.

A **SECURED LOAN** is usually needed when borrowing large amounts of money. The loan is "secured" with collateral. In other words, if you default on the loan and your house was used as collateral, the lender would take the house. Secured loans usually have lower interest rates and longer repayment terms. Automobile loans, mortgages and home equity loans are examples of secured loans.

» Debt grows fast at these rates. It's not unusual to end up owing 4–10 times the amount you originally borrowed.

» Many of these companies have horrible reputations for unethical debt collection practices.

Eighty percent of ____________________ in America are first-generation rich. That means they started with nothing, did smart stuff, and became millionaires. That's the opposite of what we're talking about here.

MYTH The ____________ and other forms of gambling will make me __________.

TRUTH The lottery is a ________ on the poor and on people who can't do math.

Texas Tech University did a study on the Texas Lottery and found that, of those who play the lottery, people without a high school diploma spent an average of $________ a month playing the lottery. College graduates spent $________ a month on average.

JOURNAL QUESTION: VIDEO 2.1

Explain why co-signing a loan is never a good idea.

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Have you ever loaned someone money, only to have it turn into a bad experience?

"My friendship hasn't been the same since I loaned a friend money and didn't get it back. I don't trust him anymore."

Junior, Missouri

"A close friend of mine bought a new car and couldn't afford the payment. I loaned him $300, then he left the state. I couldn't afford to take him to court because of court costs, so I dropped the whole thing."

Junior, Michigan

"I loaned $150 to a friend who never returned it and then claimed that I 'gave' it to him."

Senior, Missouri

"I loaned my mother more than $2,000 to help pay for my 19-year-old brother's car note and college fees. She promised to pay me back but it has been over a year and a half and I haven't received one payment from her. I will never loan money again."

Senior, Georgia

VIDEO 2.2

The Truth About Car Loans

THE THIRD FOUNDATION

3 Pay Cash for Your Car

The Third Foundation is paying cash for your car. We teach people not to borrow money, period. But there are a few more reasons to avoid financing a new car. For instance, when you purchase a new car, you lose money. If you have a net worth of $1 million, it's not such a big deal. But many people who buy new are broke, living paycheck to paycheck. And that's why they have so much money trouble.

MYTH ________ payments are a way of life, and you'll always have one.

TRUTH Staying away from car payments by driving reliable used cars is what the typical ________________ does. That is how they became millionaires.

How many times have you heard or said, "I'll *always* have a car payment"? That's the normal way of thinking. But normal is broke. We want to be WEIRD! To get new results, you have to try new things.

So think about this:

» What if you decided to stop messing with car payments?

» What if you invested that car payment every month instead of giving it away to the bank?

» What if we showed you a six-year plan that would put you in free cars for the rest of your life?

» What if that plan also made you a millionaire?

DRIVE FREE. RETIRE RICH.
The Power of One Decision

Don't make car payments a way of life! What if we decided that enough was enough? What if we decided to hang on to our money instead of sending it all to the bank in the form of payments? What if we got really radical and devised a plan to make our money work for us, instead of letting it work for the bank?

In the Drive Free example, the average car payment was $475. Instead of making those payments to the bank or car dealer, pay yourself instead. Then, pay cash for your car. Do it again and combine that savings with the value of your first car. That's a major upgrade in car without owing the bank a dime!

Continue this plan and start putting that $475 a month into a good mutual fund. The interest you'll earn on that mutual fund will pay for your cars for the rest of your life. That's free cars! That's what happens when your money starts working for you!

Three huge ways you lose when buying a new car:

1. **Payments.** Spreading the purchase of an automobile over four or five years hinders your ability to pay off debt or save money for that time.

2. **Interest.** Included in the payment, of course, are the interest charges. That means you pay more than the sticker price. It's like buying a $20,000 vehicle for $23,000.

3. **Depreciation.** This is the biggest one. If you purchase a $20,000 car, it will be worth about $8,000 in four years. That's in addition to all the gasoline, maintenance and other stuff. You could buy a $2,000 beater and get the same use out of it for those same four years without taking a $12,000 hit.

Save a few thousand dollars and buy a used vehicle with cash (getting a discount by flashing the money), and you'll ride with a lot more peace of mind.

"If you call my radio show, struggling to get out of debt, you can almost guarantee that the first words out of my mouth will be, 'Sell the car!' If you want to take control of your money, you've got to amputate the out-of-control lifestyle. For most people, that starts with the car payment."

DAVE RAMSEY

JOURNAL QUESTION: VIDEO 2.2

Explain how the "drive free" method of buying a car works.

VIDEO 2.3

The Truth About Car Loans *(Continued)*

MYTH ______________ your car is what sophisticated financial people do. You should always lease things that go down in value. There are tax advantages.

TRUTH *Consumer Reports, Smart Money* magazine and a good calculator will tell you that the car ___________ is the most ________________ way to finance and operate a vehicle.

If you own a business, you can __________ _______ your paid-for car on taxes without making payments for the privilege.

The way to ________________ the money lost on things that go down in value is to buy slightly _________.

MYTH You can get a good deal on a _________ car.

TRUTH A new car loses ______% of its value in the first four years. This is the largest purchase most consumers make that goes down in value.

JOURNAL QUESTION: VIDEO 2.3

Explain why leasing a car is a bad idea.

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A **CAR LEASE** is a long-term rental agreement; a form of *secured long-term debt.*

"The rich ask, 'How much?' Broke people ask, 'How much down and how much a month?' If you can't pay cash, you can't afford it."

DAVE RAMSEY

The average new-car loan now is at 65 months, a term previously unheard of. Even more distressing is that financing for new cars with terms from 73 months to 84 months—that's six- and seven-year-plus notes—jumped 19.4% in 2012. With these terms, you'll be **upside down** (owe more than the car is worth) almost as soon as you drive off the lot!

The Wall Street Journal

VIDEO 2.4

Buying a House

MYTH I'll take out a 30-year mortgage and pay __________ on it. I promise!

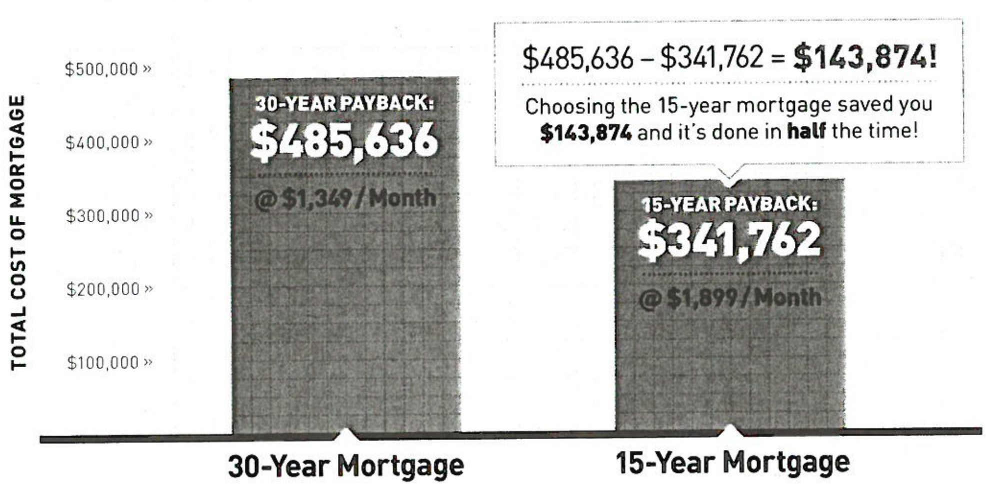
TRUTH Life happens and something else will always seem more important. Never take out more than a _____ -year fixed rate mortgage.

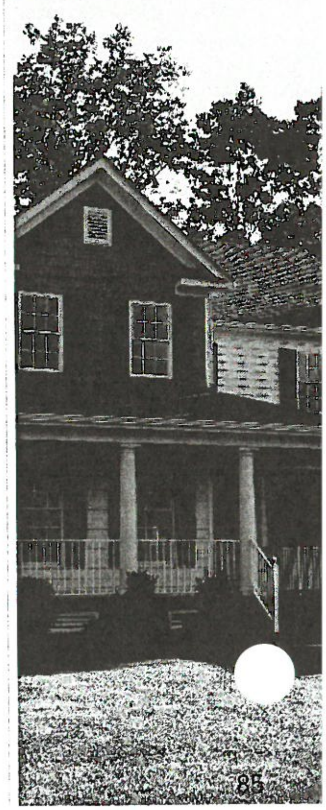
The ideal way to buy a house is the 100%-down plan—pay cash for the whole house. Sounds weird, doesn't it? But think how much fun that would be! No mortgage! No payments! If paying cash for a house seems too far out of reach, you can still buy a house if you make wise choices. Save a down payment of at least 10% on a 15-year (or less) fixed rate mortgage, and limit your monthly payment to 25% or less of your monthly take-home pay. You can probably qualify for a much larger loan than what 25% of your take-home pay will give you. But it's not wise to spend more on a house, because then you will be what Dave calls "house poor." Too much of your income will be going out in payments, and that will put strain on the rest of your budget. You won't be able to save and pay cash for things like furniture and cars.

WHAT DO FIXED AND VARIABLE RATES MEAN?
With a fixed rate mortgage, the interest rate is set when you take out the loan, and it will not change. Therefore, your monthly payments will never change. Variable rate mortgages (or adjustable rate mortgages—ARM) will start with a lower rate. This initial rate may stay the same for months or years. But when this "introductory period" is over, your interest rate will change and the amount of your monthly payment will likely go up.

15- or 30-Year Mortgage?

*Let's say you're buying a home valued at **$250,000** with a **$25,000** down payment. That would leave you with a mortgage amount of **$225,000**. Now let's look at how much you'll pay if you choose a 15- or a 30-year repayment plan.*





MORTGAGE OPTIONS TO AVOID

ADJUSTABLE RATE MORTGAGES (ARMs): An ARM is a mortgage with an interest rate that changes based on market conditions. The intention is to transfer the risk of higher interest rates to you and, in return, the lender gives a lower rate up front. Since they can qualify for more home, many people find this mortgage appealing; however, as many homeowners learned in the economic downturn, if your rate djusts higher or you lose r job, your payment can quickly become too much for you to afford.

REVERSE MORTGAGES: A reverse mortgage is when a homeowner borrows against the equity in their home and obtains monthly, tax-free payments from the lender. This mortgage is a bad idea because you are putting a paid-for home at risk, and the fees are horrible. In fact, the FTC claims that reverse mortgages have the most fraud in the mortgage business.

Home Buying Tips

Get your finances in order. The first thing you should do is make sure you are financially ready to buy a house. In other words, you need to be debt-free with a fully funded emergency fund.

Be certain you can afford a new home by asking these questions:

1. Can I make at least a 10% (preferably 20%) down payment?
2. Can I afford a 15-year fixed rate loan?
3. Can I keep the house payments at or below 25% of my monthly take-home pay?

If you answered yes to all three questions, then you can afford a house. You should also be debt-free with a full emergency fund left over after closing. Otherwise, Dave strongly suggests you wait to buy a home.

JOURNAL QUESTION: VIDEO 2.4

Explain why it is better to take out a 15-year mortgage instead of a 30-year mortgage.

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VIDEO 2.5

Credit Cards

MYTH You need a __________ __________ to rent a car or make a purchase online or by phone.

TRUTH A __________ card does all of that. The only thing you can't do with a debit card that you can do with a credit card is go into debt!

MYTH I pay my __________ __________ off every month with no annual payment or fee. I get brownie points, air miles and a free hat.

TRUTH When you use cash instead of plastic, you spend __________% less because spending cash hurts.

MYTH I'll make sure my __________ gets a credit card so he or she can learn to be responsible with money.

TRUTH Teens are a huge __________ of credit card companies today. The reason is that the adult market is saturated. Also, researchers have discovered that there is a strong brand loyalty to your first credit card. Therefore, credit card companies are competing to have *their* card be your *first* card.

JOURNAL QUESTION: VIDEO 2.5

Explain the difference between a credit card and a debit card.

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"The only man who sticks closer to you in adversity than a friend is a creditor."

UNKNOWN

Researchers studying the neurological impact of big purchases hooked up an MRI to participants and watched their brainwave activity. They found that when people spend cash, it neurologically registers as pain.

Carnegie Mellon Magazine

Credit cards are moving away from a magnetic swipe and moving toward chips in the cards. It's called RFID technology, and all you have to do when you use your credit card is wave it.

"Never spend your money before you have it."

THOMAS JEFFERSON
American founding father

VIDEO 2.6

Debt vs. Wealth-Building

MYTH Debt is a _________. It should be used to create prosperity.

TRUTH The _______________ is slave to the lender.

When surveyed, the Forbes 400 were asked, "What is the most important key to building wealth?" ______% replied that becoming and staying ________ -free was the number-one key to wealth building.

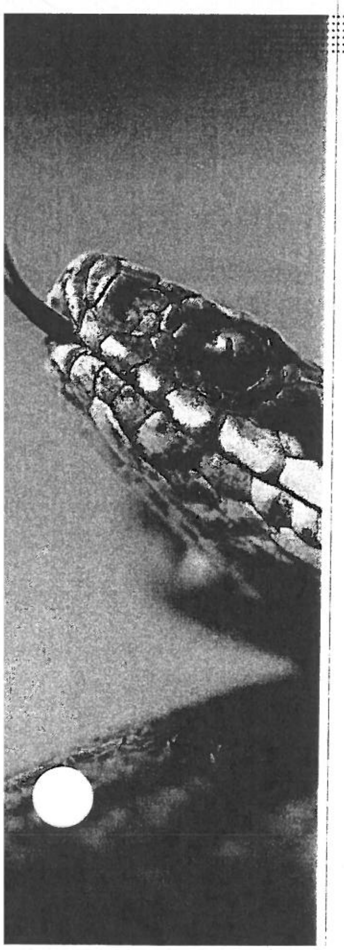
That's because your largest wealth-building tool is your income. When you don't have any *payments*, you have *money*.

"Rather go to bed supperless than rise in debt."

BENJAMIN FRANKLIN
Author, inventor and political theorist

Before McDonald's chose to accept credit cards, the average ticket price was $4.75. When they went to credit cards, the average ticket price went to $7. That's a 47% increase!

Nightline, ABC



What About Credit Card Rewards?

"My credit card has no annual fee, and I get money back from the credit card company for all of my charges. I only use it for bills and I pay it off every month, so I'm getting money from the credit card company for using their credit card. What's wrong with that?"

DAVE'S ANSWER: I've been doing financial counseling for decades, and I've worked with tens of thousands of people. During that time I've repeatedly met folks who were doing exactly what you are doing, and it has come back to bite them.

When you're talking about credit cards, you're talking about a multibillion-dollar industry designed to do just one thing—separate you from your money. And they're really good at it! They're more than willing to pay you a percentage point back because they know you're going to stumble at some point—and that's when they pounce!

I've talked with hundreds of millionaires, and I've never met one who said they got rich thanks to credit card rebates. They've all just gone about the business of earning money, living on less than they make, and saving. They don't play with snakes because they know, sooner or later, they'll get bitten.

Steps Out of Debt

1. **Quit borrowing more money!**
2. **You must save money.**
3. **Sell something.**
4. **Get a part-time job or work overtime (temporarily).**
5. **Use the debt snowball method.**

Debt Snowball: List your debts in order from smallest to largest. Pay minimum payments on all your debts except for the smallest one, and attack that one with intensity! Every extra dollar you can get your hands on should be thrown at the smallest debt until it is gone. Then you attack the second one. Every time you pay off a debt, you add its old minimum payment to your next debt payment. So as the snowball rolls over, it picks up more snow. Get it?

* **REMEMBER:** Even if your other loans have higher interest rates, you should still start with your smallest one first. That way you experience quick wins and build momentum along the way!

JOURNAL QUESTION: VIDEO 2.6

Which credit myths did you believe prior to hearing this lesson? Explain why each of those are myths and not facts.

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Borrowing money and failing to pay it back has some serious consequences. Here are some terms commonly used when dealing with debt problems that have gone too far. This is lingo you don't want to experience firsthand.

FORECLOSURE: Process by which the holder of a mortgage sells the property of a homeowner who has not made interest and/or principal payments on time as stipulated in the mortgage contract

REPOSSESSION: Process of a lender taking something back (like a car) for failure to make payments

BANKRUPTCY: A legal procedure for dealing with debt when an individual or business cannot repay what they owe

GARNISHMENT: A court-ordered attachment that allows a lender to take monies owed directly from a borrower's paycheck; only allowed as part of a court judgment

SURRENDER OF COLLATERAL: In a bankruptcy proceeding, a debtor can give up property (collateral) to the creditor in exchange for a clean slate.

DELINQUENCY: Broadly refers to a borrower not being current on his or her payments

Section 3: The Credit Score

VIDEO 3.1

The total number of card holders in the U.S. is 176.8 million.

Federal Reserve Survey of Consumer Finances

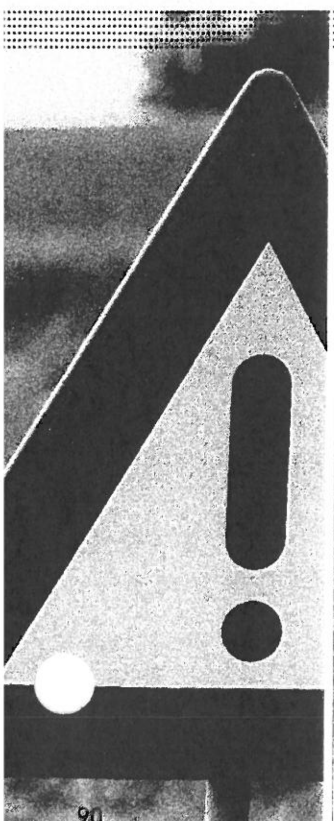
WHAT DOES FICO STAND FOR?
FICO stands for **Fair Isaac Corporation**, the company that created and computes this credit score. Although other companies also compute credit scores, FICO is the most trusted and most used score.

What Your Credit Score Really Measures

MYTH You need to take out a credit card or car loan to "build up your __________ __________."

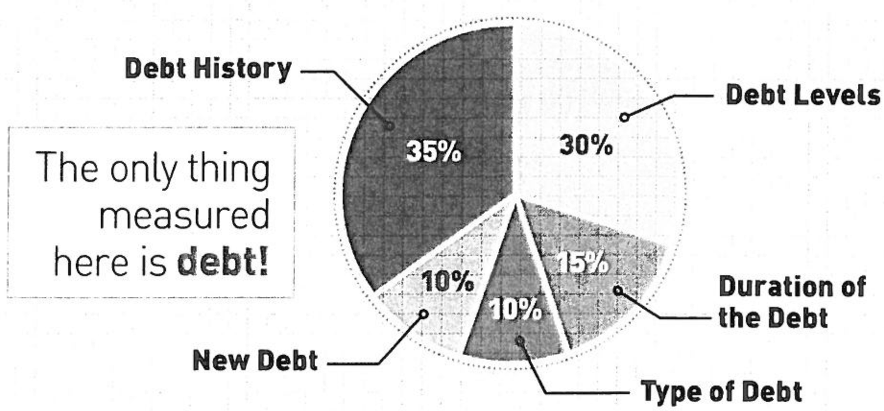
TRUTH The __________ score is an "I love __________" score and is not a measure of winning financially. In fact, it can often mean the opposite. If you were to inherit $10 million tomorrow, it would have NO effect on your credit score!

Some people seem to believe that the credit score is almost as important as oxygen and water. Most of that stems from the fact that we've been beaten over the head with the importance of the credit score since we first learned the difference between a $10 bill and a $5 bill. But it's simply not true. Can you really live without a credit score? Absolutely—and it's actually easier than you'd think. It just takes some foresight, planning and maybe a little patience.



The Five Components of the FICO Score

Don't be fooled into thinking a FICO score measures how well you handle money. Take a look at its five components below.



No Credit Score? No Problem!

4. **How do I rent an apartment?** Most apartments will work with you if you can provide first and last month's rent as well as a security deposit. Get a rental history referral from your previous landlord. If it's your first time renting, you might have to look around for a little while. But you'll be able to find someone to work with you.

5. **How do I take out a mortgage?** If you don't have a credit score, you should focus on one thing—making sure you have a large down payment. If you've never gone into debt, that shouldn't be too difficult, right? Without a credit score, the down payment, as well as your job and how long you've been employed in that line of work, are big factors. You'll also want an outstanding history of rental and utility payments. Look for a mortgage company that uses a process called manual underwriting, sometimes called "non-traditional credit" or "no credit score" lending.

6. **What if an employer wants to see my credit score during the interview process?** This is a growing trend, but it mainly affects people in the financial industry—banks, mortgage brokers, investment companies and so on. Again, the key here is to learn their process up front and explain why you don't have a credit score if they ask you about it.

JOURNAL QUESTION: VIDEO 3.1

What does a credit score measure?

The average college undergrad is carrying about $2,169 in credit card debt. Graduate students carry an average of $8,162 in credit card debt.

Investopedia.com

There are a lot of companies that measure credit, but two major credit scoring systems are FICO and VantageScore (which the three credit bureaus jointly created). FICO ranges from 300 to 850, and VantageScore ranges from 501 to 990. Remember, a credit score measures the risk of your not repaying debt; it is not a measure of financial success.

CREDIT BUREAUS are also commonly referred to as consumer reporting agencies or credit reporting agencies.

Section 4:
Credit Bureaus and Identity Theft

In a recent survey, one in four teens didn't know the difference between a debit card and a credit card.
MSN Money

VARIOUS FORMS OF CREDIT REPAYMENT
Note: We recommend that you NEVER borrow money. Period.

Installment: This is credit that you use to borrow money and promise to repay in equal amounts r a specific period .ime.

Revolving Credit: This is credit in which a pre-established amount of money is borrowed repeatedly as long as the account is in good standing.

Layaway: An agreement in which the seller reserves an item for a buyer until the buyer pays for the item in full

What Is a Credit Bureau?

» A **credit bureau** is an agency that researches and collects individual credit information and sells it for a fee to creditors so they can make a decision on granting loans. Typical clients include banks, mortgage lenders, credit card companies and other financing companies.

» Individual account information is removed from your credit report seven years after the last activity on the account, except for Chapter 7 bankruptcy, which stays on for 10 years.

» Beware of credit clean-up scams. The only information that may be legally removed from a credit report is inaccurate information.

» The three main credit bureaus are: **Experian**, **TransUnion** and **Equifax**.

Correcting Credit Report Inaccuracies

A recent study by the Federal Trade Commission questions the reliability of the credit reporting industry. It is believed that as many as 40 million Americans have a mistake on their credit report. Twenty million have significant mistakes.

* **REMEMBER:** You should check your credit report annually. You can do this for free at foundationsU.com/report.

Identity Theft

Identity theft is the fastest growing __________-__________ crime in North America today.

Warning signs that you may have had your identity stolen:

- » Checks disappear from your checkbook.
- » Your credit report shows accounts you didn't open.
- » A collection agency calls about a debt you didn't incur.
- » Bank and billing statements don't arrive on time.
- » You receive a bill from a credit account you didn't open.
- » Unauthorized charges appear on your cell phone or bank accounts.
- » You are turned down for a loan, mortgage or other form of credit because of unauthorized debts on your credit report.

What you should do if you think you are a victim:

- » Obtain a copy of your credit report and look for any suspicious activity.
- » Place a __________-__________ alert on your credit bureau report (stays on for 90 days without a police report).
- » If your purse or wallet is stolen, cancel all cards immediately and get replacements. Also put a "stop payment" on all lost or stolen cards.
- » File a ______________ report and keep a copy of the report for your personal records.
- » Report any suspicious charges and accounts to the appropriate credit issuers and credit bureaus immediately via the phone and in writing. Cancel the accounts.

The 2013 Identity Fraud Report released by Javelin Strategy and Research states that in 2012 identity fraud incidents increased by more than 1 million victims. Fraudsters stole more than $21 billion, the highest amount since 2009.

HOME EQUITY LOAN
A home equity loan means borrowing money against your house. Like any other debt, home equity loans are a bad idea. They often come with higher, variable interest rates and if there comes a time when you can't make the payments, you risk losing your home!

CREDIT COUNSELING
Companies that offer consumer credit counseling services can 'p you get better interest es and lower payments, but at a price. When you use one of these companies and then try to get a home mortgage loan, you will be treated the same as if you had filed Chapter 13 bankruptcy.

Real debt help is found only in changing your behavior.

In short, debt management companies are out. Hard work is in. Change your financial behavior and change your life—for good. True debt management is about one thing: you controlling your money.

Identity Theft *(Continued)*

» Remember, this is __________. You owe ______________ and should pay nothing.

» Contact the fraud-victim division of the three main credit reporting companies and furnish ____________________.

» Be persistent. This will take some time. You now have a new ___________.

Obviously, you're never too young to be careful with your personal information. Here are some tips to protect yourself from identity theft:

» Use a paper shredder and destroy credit card offers and other documents with your personal information.

» Check your credit report annually. Many people don't even know that their identity has been stolen. Bottom line, you can't fix the problem if you're not aware of it.

» Never print your Social Security number or driver's license number on your checks.

» Sign the back of your debit card and write "PHOTO ID REQUIRED."

» Create strong passwords using a combination of letters, characters and numbers.

» Keep passwords and personal information confidential.

» Purchase identity theft protection.

Consumer Credit Laws

The U.S. Congress enacted the Fair Credit Reporting Act (FCRA) in 1970. The FCRA was intended to address concerns over consumer credit report accuracy, privacy and fairness.

» **Accuracy:** Prior to the FCRA, consumers were unable to challenge errors in their credit reports. The FCRA gives consumers the right to review the contents of their credit report file and dispute inaccurate information.

» **Privacy:** To protect consumers' privacy, the FCRA requires that a person or organization have a "permissible purpose" (or legitimate need) for checking a person's credit information.

» **Fairness:** The FCRA grants consumers the right to know if a decision to deny them credit or other adverse action against them was based on information in a credit report file. Creditors must notify consumers if they deny credit based on a credit report file, and they must also tell the consumer which of the three credit bureaus provided the report. The act also allows consumers to receive one free credit report per year.

* **NOTE:** There are several other credit laws of which you should be aware. Please refer to the glossary under "credit laws" for more information.

JOURNAL QUESTION: VIDEO 4.1

Explain why the credit industry wants you to believe that you need a credit score.

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Budget Builder

Do you already have debt in the form of credit cards or a car loan? Go to foundationsU.com/4 to learn how to tackle debt with your budget.

THE FEDERAL TRADE COMMISSION (FTC) is one of many U.S. federal agencies that regulate the consumer credit system and enforce the laws related to it.

The total number of credit cards in use in the U.S. is 1.5 billion.

Federal Reserve Survey of Consumer Finances