Unit 5: Using Credit

Topics:

- Using Credit Wisely
- Establishing Credit
- Consumer Loans
- Student Loans
- The Cost of Borrowing Money
- Credit Reporting
- Fraud and Identity Theft Protection
- Getting Out of Debt

Using Credit Wisely

During this unit we will discuss credit and credit card debt. People normally use credit for the purchase of expensive items so they can make monthly payments. Many times credit is used just because it is convenient. The problem is that there are credit costs. Interest must be paid, and it mounts up month after month, turning a $20 purchase into a something more once interest is added. Unfortunately, consumer credit can be misused to the point where people live beyond their means by purchasing goods and services they simply can't afford. Such overspending can get so bad that it eventually leads to bankruptcy.

Why do people borrow money? There are several answers to that question. Some people take out loans to avoid large cash expenditures. For example, most people do not have enough cash on hand to purchase an automobile or a home. As a result, they take out a loan to finance such large purchases. People often borrow money to cover an expense that would be financially difficult for them to pay given their current income or savings. People also borrow money to meet financial emergencies such as unemployment, travel expenses, or to take care of a sick family member.

People sometimes borrow money to partially finance investments. This can occur as a result of bad stock sales that result in a margin call (also called a fed call or maintenance call). Margin calls occur when the investor's account value depresses to a value calculated by the broker's particular formula (Margin call, n.d.). At this point, the investor must deposit additional money or securities to return the account to the minimum maintenance margin.

Establishing Credit

If you have no credit, generally the first thing you should do is to open a checking and savings account. You want to be able to show that you have stability in your life, and this is a good start. After a period of time, you could open one or two credit cards. Use them only occasionally, paying off the balance each month. Also, you could take out a small loan and make the monthly payments on time. This is called an installment loan because it is repaid in regular payments. You may say you don't need a loan, but if you get a loan and invest the money, you will earn interest. The key is to make the required payments on the loan, on time. This will show lenders that you are dependable and a good credit risk.
By following these steps, you can establish good credit standing with your creditors. Continue to pay on your loans and credit cards consistently, and you may eventually be able to purchase an automobile or a new house. Your credit will speak for itself.

- **Consumer credit**: a type of credit or loan that is available to individuals or businesses. The loan is repaid in regular payments.

- **Closed-end credit**: a type of installment loan in which the amount borrowed and the interest accrued is repaid in a specific number of equal payments.

- **Open-end credit**: a type of installment loan in which there is no fixed amount borrowed or specified number of payments. Regular payments are made until the loan is paid off.

### Shopping for Consumer Loans

We will also examine consumer loans, consider what you should know to make sure the purchase is compatible with your financial plans, and define whether you can service the debt without straining your budget. When shopping for credit, it is in your best interest to compare loan features such as finance charges (APRs), loan maturities, monthly payments, and collateral requirements. From there, you will select loans with terms that are fully compatible with your financial plans and cash budget.

Consumer loans are loans made for specific purposes, using formally negotiated contracts that specify the borrowing terms and repayment. The three major consumer loans are home equity loans, automobile loans, and student loans.

### Home equity loans

Your home is your most valuable asset and as such you should use it to your financial advantage. As the years go by and you make payments on your home, you are building equity. Home equity is the difference between the market value of your home and the remaining balance on your mortgage. To calculate the equity available, you take the market value of the home, subtract what you owe on the home and the result is your home equity. Example:

- **Market value of your home**: $200,000
- **Outstanding mortgage balance**: ($125,000)
- **Equity on home**: $75,000

The collateral for the home equity loan is the home itself. Lenders usually will grant 80% to 90% of the equity towards the home loan. This is a line of credit which you can use for home repairs or any other expense you may have. The benefit of having an equity loan is that the interest you pay
is tax deductible. Other credit choices, such as interest or auto loans or student loans, are not allowable deductions on your taxes.

A home equity loan can also be taken against your property. By taking a second mortgage on your home you are using the equity in your home as collateral. In this situation, when the home is sold the original mortgage is paid off as well as the home equity loan. **If the house goes into default, the first mortgage of the home is paid first from the proceeds of the sale before the second (home equity) mortgage.** This could present a problem because if the value of the home has decreased for any reason, there may not be enough equity in the home to pay off the home equity loan. The homeowner will still be responsible for the amount not covered by the sale.

When you decide to sell your home, hopefully the market value has not changed negatively and you will have sufficient funds to cover repayment of the mortgage as well as the home equity loan. During the years 2008-2010, we saw the market values of homes decrease by large percentages, some as much as 50%. People found their homes were not worth what they once were, and that their mortgages and home equity loans were greater than the value of their homes. Lenders canceled equity loans without notice because property value had declined. This resulted in financial hardship for many people.

As a consumer, it is up to you to monitor property values in your area and what you owe on your home. Do not overextend your credit on your home. Most people have come to look at their homes as an investment towards their retirement. However, as we have seen, when the economy falters, home values can be hurt and people may be left with huge debt and fewer assets.

**Automobile loans**

Financing a new car, truck, or minivan is one of the most common consumer loans. The new vehicle is used as the collateral for the loan. The life of this type of loan can range anywhere from two years to six years. The lender can repossess the vehicle if the borrower has not made his or her payments. Most lenders require a down payment and financing of the remainder. Most dealerships are able to connect their clients with a lender that will grant the loan for the car.
Student loans

Attending college can be a very exciting period for students, but it can be very costly. The sole purpose of a student loan is to assist students with their educational expenses. The cost of attending public and private institutions of higher education is increasing at a faster rate than inflation. With rising costs, students are finding it difficult to afford tuition and are turning to student loans to assist them. Education is an investment in a student’s future. An education will help the student compete for a job once the degree has been completed, which will enable him or her to repay the loan.

Federal loans are borrowed funds that you must repay with interest just like any other loan. A federal student loan allows students and their parents to borrow money to help pay for college through loan programs supported by the federal government. These loans feature low interest rates and offer flexible repayment terms, benefits, and options. Federal student loans typically have lower interest rates than the student loans granted by private banks.

Questions frequently asked by students are answered below. The first step in taking out any loan is research. It is imperative to understand what the interest rates are, the repayment schedule, and the amounts available for students.

The following information was taken directly from the FAFSA web-site: http://federalstudentaid.ed.gov/federalaidfirst/

How do I get a Federal Student loan?

To get a federal student loan, you must complete the Free Application for Federal Student Aid (FAFSA). The easiest way to complete the FAFSA is online at www.fafsa.gov. Here, you identify schools that you are interested in attending. When your FAFSA is processed, the schools you have identified will receive your information. The school will then tell you how much financial aid is available, including grants, scholarships, work opportunities, and federal student loans. Should you choose a federal student loan, your school will provide you with instructions on the next steps.
What kinds of federal student loans are available?

**Stafford loans** are for undergraduate and graduate students. There are two types of Stafford loans: Subsidized and Unsubsidized.

- **Subsidized Stafford loans** provide low interest rates and are available to students who demonstrate financial need based on income and other information provided on the FAFSA. A credit check is not required to receive these loans. The federal government pays the interest on these loans until six months after the student is no longer enrolled in school at least half-time.

- **Unsubsidized Stafford loans** provide low interest rates and are available to all students regardless of financial need (although the FAFSA still must be filed). A credit check is not required to receive these loans. The student is responsible for the interest, which may be paid while the student is in school or accrued and then added to the principal balance when the student enters repayment, which occurs six months after the student is no longer enrolled in school at least half-time.

**Plus loans are low interest loans** that parents can obtain to help pay the cost of education for their children. In addition, graduate students may obtain PLUS loans to help pay for their own education. PLUS loans require a credit check and, in some instances, an eligible cosigner. Repayment of PLUS loans begins following the final disbursement for the year. Graduate students and parents of dependent students may be able to defer repayment of their PLUS loans until after the student is no longer enrolled in school at least half-time, although interest will continue to accrue.

**Consolidation loans** allow student or parent borrowers to combine multiple federal student loans into one loan, with one monthly payment. A federal consolidation loan cannot include private loans. However, some private lenders may offer consolidation loans. Borrowers should be aware that they will lose their federal borrower benefits if they consolidate their federal student loan into a private consolidation loan. Borrowers should always exhaust federal student loan options first before considering a private consolidation loan (Source: U.S. Department of Education).
Table 5.1

### Student Loan Types and Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Subsidized Stafford Loan</th>
<th>Unsubsidized Stafford Loan</th>
<th>PLUS Loan</th>
<th>Federal Perkins Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Limits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For dependent (independent) Students</td>
<td>Yr 1: $2,625</td>
<td>Between $5,500 to $20,500 (less any subsidized amount received for the same period) depending on grade level</td>
<td>Maximum amount is cost of attendance minus any other financial aid the student receives.</td>
<td>Undergraduate students: up to $5,500 Graduate and Professional degree students: up to $8,000</td>
</tr>
<tr>
<td></td>
<td>Yr 2: $3,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yrs 3-4: $5,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Graduate: $8,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total maximum for dependent (independent) students</strong></td>
<td>Undergraduate: $23,000</td>
<td>Undergraduate: $23,000</td>
<td>Cost of attendance not covered by other financial aid</td>
<td>Undergraduate: $20,000 Graduate: $40,000</td>
</tr>
<tr>
<td></td>
<td>Graduate: $65,500</td>
<td>Graduate: $138,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Program Details</strong></td>
<td>-Must be at least a half-time student.</td>
<td>-Must be at least a half-time student.</td>
<td>-For parents of dependent students</td>
<td>-Your college is the lender.</td>
</tr>
<tr>
<td></td>
<td>-Must have financial need.</td>
<td>-For undergraduate and graduate students</td>
<td>-Borrower is responsible for all the interest.</td>
<td>-Payment is owed to the college that made the loan.</td>
</tr>
<tr>
<td></td>
<td>-For undergraduate and graduate students.</td>
<td>-Borrower is responsible for all interest on the loan including while in college and during grace and deferment periods.</td>
<td>-interest charged on this loan is 7.9%</td>
<td>-For undergraduate and graduate students.</td>
</tr>
<tr>
<td></td>
<td>-Borrower is not charged interest while in college and during grace and deferment periods.</td>
<td>-Interest charged on this loan is 6.8%.</td>
<td>-Must not have negative credit history.</td>
<td>Interest charged on this loan is 5%.</td>
</tr>
<tr>
<td></td>
<td>-Interest charged on this loan is 4.5% for undergraduate students and 6.8% for graduate students.</td>
<td>-The U.S. government is the lender; payment is owed to the U.S. government.</td>
<td>-The U.S. government is the lender; payment is owed to the U.S. government.</td>
<td>-Funds depend on student’ financial need and availability of funds at the college.</td>
</tr>
<tr>
<td></td>
<td>-The U.S. government is the lender; payment is owed to the U.S. government.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Repayment Begins</strong></td>
<td>6 months after graduation</td>
<td>6 months after graduation</td>
<td>2 months after disbursement</td>
<td>9 months after graduation</td>
</tr>
<tr>
<td><strong>Maximum schedule for payment</strong></td>
<td>Several choices; 25 years if total loan &gt; $30,000</td>
<td>Several choices; 25 years if total loan &gt; $30,000</td>
<td>Several Choices: 35 years if total loan &gt; $30,000</td>
<td>10 years</td>
</tr>
<tr>
<td></td>
<td>Department of</td>
<td>Borrower pays</td>
<td>Available to</td>
<td>Lender is the</td>
</tr>
</tbody>
</table>
Education pays interest while student is in school and during deferrals. interest during the life of the loan. parents of dependent undergraduate students. school and federal government. Not all schools participate.

Source: U.S. Department of Education, April, 2010

When researching student loans, you must not only look at interest rates and amounts available, you must also look at the repayment plans available, how much they will cost, and how long it will take you to repay the loans. Just like any other type of loan, you must keep track of your costs and not overextend yourself. Many students think a loan is “free” money, when in reality there is an obligation to re-pay the money borrowed. The following information is taken from the William D Ford Federal Direct Loan Program Website:

**Repayment Plan**

The Direct Loan Program offers loan repayment plans designed to meet the needs of almost every borrower. Direct Loans are funded by the U.S. Department of Education through your school and are managed by the Direct Loan Servicing Center, under the supervision of the Department. The Direct Loan Program allows you to choose your repayment plan and to switch your plan if your needs change.

To find out more about repayment options before receiving a Direct Loan, borrowers may contact their school’s financial aid office or the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). If you currently have a Direct Loan and would like the exact payment amount on your loan, you can find it out online at the website for the Direct Loan Servicing Center or you can call the center at 1-888-447-4460.

Direct PLUS Loan borrowers may only choose from the standard, extended, or graduated options. However, beginning July 1, 2009, student Direct PLUS Loan borrowers may choose the income contingent repayment plan or the income-based repayment plan.

**Standard Repayment**

With the standard plan, you'll pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50, and you'll have up to 10 years to repay your loans.

The standard plan is good for you if you can handle higher monthly payments because you'll repay your loans more quickly. Your monthly payment under the standard plan may be higher than it would be under the other plans because your loans will be repaid in the shortest time. For the same reason - the 10-year limit on repayment - you may pay the least interest.

**Extended Repayment**

To be eligible for the extended plan, you must have more than $30,000 in Direct Loan debt and you must not have an outstanding balance on a Direct Loan as of October 7, 1998. Under the extended plan you have 25 years for repayment and two payment options: fixed or graduated. Fixed payments are the same amount each month, as with the standard plan, while graduated payments start low and increase every two years, as with the graduated plan below.
This is a good plan if you will need to make smaller monthly payments. Because the repayment period will be 25 years, your monthly payments will be less than with the standard plan. However, you may pay more in interest because you're taking longer to repay the loans. **Remember that the longer your loans are in repayment, the more interest you will pay.**

**Graduated Repayment**

With this plan your payments start out low and increase every two years. The length of your repayment period will be up to ten years. If you expect your income to increase steadily over time, this plan may be right for you. Your monthly payment will never be less than the amount of interest that accrues between payments. Although your monthly payment will gradually increase, no single payment under this plan will be more than three times greater than any other payment.

**Income Contingent Repayment**

*(not available for parent PLUS loans)*

This plan gives you the flexibility to meet your Direct Loan obligations without causing undue financial hardship. Each year, your monthly payments will be calculated on the basis of your adjusted gross income (AGI, plus your spouse's income if you're married), family size, and the total amount of your Direct Loans. Under the ICR plan you will pay each month the lesser of:

1. the amount you would pay if you repaid your loan in 12 years multiplied by an income percentage factor that varies with your annual income, or
2. 20% of your monthly discretionary income*.

If your payments are not large enough to cover the interest that has accumulated on your loans, the unpaid amount will be capitalized once each year. However, capitalization will not exceed 10 percent of the original amount you owed when you entered repayment. Interest will continue to accumulate but will no longer be capitalized.

The maximum repayment period is 25 years. If you haven't fully repaid your loans after 25 years (time spent in deferment or forbearance does not count) under this plan, the unpaid portion will be discharged. You may, however, have to pay taxes on the amount that is discharged.

**Income-based Repayment**

Under this plan the required monthly payment will be based on your income during any period when you have a partial financial hardship. Your monthly payment may be adjusted annually. The maximum repayment period under this plan may exceed 10 years. If you meet certain requirements over a specified period of time, you may qualify for cancellation of any outstanding balance of your loans.

*Source: U.S. Department of Education; April, 2010*

http://www2.ed.gov/offices/OSFAP/DirectLoan/RepayCalc/dlindex2.html
The cost of borrowing

The cost of borrowing is the interest you pay for using the money. There may also be carrying charges attached to the loans. Below is a list of terms that will assist you to better understand the contents of a loan.

- **Finance charges** or **carrying charges**: the interest and any fee associated with an installment loan.
- **Cash price**: paid all at once at time of purchase
- **Down payment**: partial payment
- **Amount financed**: total amount paid in regular payments to pay off the balance
- **Installment price**: includes all installment payments, finance charges, and down payment

**Simple interest method** is calculated on an outstanding balance.

\[ F_s = P \times r \times t \]

Where

- \( F_s \) = finance charge using simple interest method
- \( P \) = principal loan amount
- \( r \) = stated annual interest rate
- \( t \) = term of loan

**Example** - Calculate finance charges and APR on a $2,000 loan for 2 years at 6% interest rate (Assume interest is the only finance charge):

Interest = Principal * Rate * Time

\[ \frac{2000 \times 6\% \times 2}{12} \]

\( I = 240.00 \)
The simple interest method is the easiest for most consumers to understand. Let’s use the same example to compute the Annual Percentage rate

\[
\text{APR} = \frac{\text{Interest/Time}}{\text{Principle}}
\]

\[
\text{APR} = \frac{240/2}{2000}
\]

\[
\text{APR} = 6\%
\]

The APR is the same as the stated rate.

**Discount Method** is when the interest (calculated on principal) is subtracted from loan amount and remainder goes to the borrower.

- **Features**
  - Finance charges paid in advance
  - APR will be higher than stated interest rate

Using our previous example and the discount method you will calculate as follows:

Calculate the same way as the simple interest method but subtract finance charges from loan amount ($2000 – $240). You will receive $1,760 now, and pay back $2,000.

To Calculate APR:

\[
\text{APR} = \frac{\text{Average annual finance charge}}{\text{Average loan balance outstanding}}
\]

\[
\text{APR} = \frac{240/2}{2000 - 240}
\]

\[
\text{APR} = \frac{120}{1760}
\]

\[
\text{APR} = 7\%
\]

**Credit reporting**

It is always a good idea to monitor your credit reports and fix any errors in the report. Your credit score can affect what you pay for things, such as interest rates on loans and your automobile insurance. Employers also check your credit score, so negative credit information can hinder you getting that job you have always wanted. Credit scores are used to see the potential risk you are in paying back your debts. The credit score does not take your salary into consideration. It looks at your history of paying your bills. Scores are based on payment history, past debt, current debt, and credit currently in use.
Things to check for accuracy are:

- Your name (pay close attention to middle initials and the spelling of your name)
- Your address
- Your social security number
- Your date of birth
- Your credit card information such as your payment record. You want to make sure everything is recorded properly according to your records
- Your account history. Check to verify that accounts that have been closed were closed at the correct amount. Any variation from your records may be harmful to your getting credit in the future
- Your credit cards. Most importantly, make sure that no credit cards are listed that you did not or do not have open

There are three major credit reporting agencies that monitor your creditworthiness: Equifax, Experian, and TransUnion. Here is the contact information for these agencies:

**Equifax Information Services, LLC**
P.O. Box 740241
Atlanta, GA 30374
[www.equifax.com](http://www.equifax.com)

Helpful phone numbers:
1-800-685-1111 (to order your credit report)
1-888-766-0008 (to place a Fraud Alert in your credit file)

**Experian**
P.O. Box 2104
Allen, TX 75012-2104
[www.experian.com](http://www.experian.com)

Helpful numbers:
1-888-397-3742 (to order your credit report by phone or to report fraud)
Fraud and Identity Theft Protection

You must protect yourself from someone else ruining your credit. It is essential to guard your personal information at all times. You need to be proactive and think twice about what information you are giving out and to whom you are giving the information. Here are some precautions you should take:

- Never give out your personal information over the phone.
- Never give out your account numbers over the phone when an organization calls you.
- If you have made the call to an organization, you can give them the account numbers.
- When making purchases over the Internet, make sure you are using a secure site with protection. Look for the padlock in the address bar at the top or in the bottom right corner of your computer (the task bar).
- When you write a check, do not put your account number or social security number on the check.
- On credit slips, never write your phone number, address, or social security number.
- When making purchases, watch clerks to make sure they do not make copies of your credit card.
- When using your debit card, make sure no one is watching as you enter your PIN.
- Review your credit card statements to make sure you were not charged for an item you did not purchase.
- Report any erroneous charges (or charges you do not recognize) to the credit card company immediately, both by phone and in writing.
- Destroy all old credit cards that you are no longer using.
Don’t carry all credit cards on your person. Carry only those that you will be using.

Consumer identity theft is a serious problem. The best advice is to buy yourself a shredder and shred all documents that you do not need to keep once all information has been verified. Keep documents such as social security cards under lock and key.

**Getting out of debt**

Credit is abused when people live beyond their means. Using credit cards gives people the ability to purchase items that really are not necessary. They spend because they can and do not stop to think how much it will cost them in the long run. Often people use their credit cards for everyday purchases without giving a second thought until it’s too late and they are overextended. If only the minimum payment is made, it can take years to pay off the balance.

Here is an example: You have a $3,000 balance on your credit card, which is about one-half the national average, with a 15% annual interest rate. Making the minimum payment, it would take 15 years to pay off the debt, and the interest charges would equal $2,000 or more. This is 66% of the original balance.

To stay out of debt you should never use credit for basic living expenses. You should not make impulse purchases; take 24-48 hours to think through a purchase decision. Is it a want or a need? You must be especially careful when money is tight to avoid using credit cards. Your debt can add up to the point where it is difficult to dig out.

Some suggestions:

1. Decide if the purchase is a want or a need. Wants can wait, needs are necessary for survival.

2. The purchase you make on a credit card should outlive the time it will take you to pay it off.

When an adverse life event happens, such as losing your job, or unexpected medical expenses arise, contact your lenders. Try to set up a repayment schedule that will work for both of you. Whatever you do, do not ignore the problem by not making a payment. You are legally obligated by law to repay the money you have used. If you choose to ignore your creditors, they will come back to collect the debt when you least expect it. You will need to check your state’s statute of limitations—most are about seven years. What this means is that any creditor has up to seven years to collect the debt. Failure to meet your repayment obligation will also remain on your credit report for years.

Getting out of debt is harder than one might think. You must have a lot of determination to complete the task. After all, it took you years to get into debt, so to get out of it will be a slow process. Consider taking one card at a time and pay it off. Start off by contacting the credit card company to request lowering the interest rate, which will speed the reduction of your debt.

Make a list of all credit cards and their balances and the monthly payment amounts. Because you cannot pay them off all at once, here is one solution that will help you to decide which one to pay off first. Let’s assume that the interest rates for your credit cards are roughly equal. Take the balance
of an account and divide it by the amount of the monthly payment. This will give you the number of months it will take you to pay off that card.

Example:

<table>
<thead>
<tr>
<th>Card Type</th>
<th>Balance</th>
<th>Monthly Payment</th>
<th>Months to pay off</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visa</td>
<td>$4,500</td>
<td>$100.00</td>
<td>45</td>
<td>3</td>
</tr>
<tr>
<td>Master Card</td>
<td>$2,000</td>
<td>$50.00</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>Sears</td>
<td>$800</td>
<td>$25.00</td>
<td>32</td>
<td>1</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>$3,500</td>
<td>$75.00</td>
<td>47</td>
<td>4</td>
</tr>
</tbody>
</table>

As you can see, the card with the least number of months to pay-off is ranked number one. While still making minimum payments on the other cards, you will concentrate on paying the minimum payment and some extra on the credit card ranked number one. Once you have paid off that card, continue on to the second ranked card, and continue until you have paid off all of your cards. It would also be wise to destroy the cards, keeping only one with low interest rates for emergency purposes.

Continue to save as you are paying off the balances. While you are working on reducing your debt, it is important to also save for your future financial security. It is essential that you keep saving your money and building equity. It is also important for you to remember that, as a consumer, you have rights. If you feel you are being unfairly treated, notify your state’s Better Business Bureau or other consumer protection departments within your state’s government.

Bankruptcy

When a person goes bankrupt it means the person has decided that he or she is no longer able to pay back debts. When bankruptcy is declared, a person is freed by law from the need for doing so. However, any property a bankrupt person may still have is usually divided among those to whom the person owes money. There are two types of bankruptcy for individuals, Chapter 7 and Chapter 13.

The following excerpts are from the official Federal Trade Commission website located at www.ftc.gov/bcp/conline/pubs/credit/fiscal.shtm. There is a wealth of consumer information located on this site, but it is vital that you understand the laws governing bankruptcy proceedings. This website is an excellent source for the correct and current information.

Chapter 7 is the sale of all assets except items that include your cars, work tools, and household furnishings. Under the supervision of a court-appointed trustee, other items will be sold and the money given to your creditors. The Chapter 7 bankruptcy is not removed from your credit for eight years (Federal Trade Commission, 2011).
Chapter 13 allows people with a steady income to keep property like a mortgaged house or a car that they might otherwise lose through the bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to use your future income to pay off your debts during a three-to-five-year period, rather than surrender any property. After you have made all the payments under the plan, you receive a discharge of your debts (Federal Trade Commission, 2011).

Both types of bankruptcy may eliminate unsecured debts and stop foreclosures, repossessions, garnishments and utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary by state. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or security lien on it (Federal Trade Commission, 2011).
Resources

To learn about federal student loans, write the U.S. Department of Education at:

U.S. Department of Education
Federal Student Aid Information Center
P.O. Box 84
Washington, DC 20044-0084
800-4-FED-AID (TTY: 800-730-8913)
www.FederalStudentAid.ed.gov

For an overview on different programs available for monitoring your money:


Credit Reporting Agencies

Equifax Information Services, LLC
P.O. Box 740241
Atlanta, GA 30374
www.equifax.com

Helpful phone numbers:
1-800-685-1111 (to order your credit report)
1-888-766-0008 (to place a Fraud Alert in your credit file)

Experian
P.O. Box 2104
Allen, TX 75012-2104
www.experian.com

Helpful numbers:
1-888-397-3742 (to order your credit report by phone or to report fraud)
1-888-397-3743 (to request a copy of your report by mail)

**TransUnion Corporation**

Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022

[www.tuc.com](http://www.tuc.com)

Helpful Phone numbers:
1-800-888-4213 (to order your credit report)
1-800-916-8800 (to review your TUC report with a customer-service representative)

For more information, see “Fiscal Fitness: Choosing a Credit Counselor,” at [www.ftc.gov/bcp/conline/pubs/credit/fiscal.shtm](http://www.ftc.gov/bcp/conline/pubs/credit/fiscal.shtm)

William D Ford Direct Loans for government Student Loan Information:
[http://www2.ed.gov/offices/OSFAP/DirectLoan/index.html](http://www2.ed.gov/offices/OSFAP/DirectLoan/index.html)
Glossary

**Annual percentage rate (APR)**

The true rate of interest paid over the life of a loan.

**Bankruptcy**

Declared when a person is unable to pay their debts and is freed by law from the need for doing so.

**Credit bureau**

An organization that collects and stores credit information about individual borrowers.

**Credit scoring**

Assigning values to one’s income, existing debts, and credit references to determine a person’s credit worthiness.

**Debit card**

A card attached to a checking (or savings account), which is charged and eliminates the need to carry cash. Debit card purchases are cash purchases, not credit purchases.

**Open account credit**

A form of credit extended to the consumer for future purchases. Examples would be Master Card and Visa.

**Personal bankruptcy**

Is a form of legal recourse open to insolvent debtors, who may petition a court for protection from creditors and arrange for the orderly liquidation and distribution of their assets.

**Secured (collateralized) credit cards**

A type of credit card that is secured with some form of collateral such as a bank CD.

**Unsecured personal credit line**

A line of credit made available to an individual on an as-needed basis.

**Consumer loans**

Loans made for specific purposes using formally negotiated contracts that specify the borrowing terms and repayment.

**Installment loan**

A loan that is repaid in a series of fixed, scheduled payments rather than a lump sum.
Lien

A legal claim permitting the lender, in the case that the borrower defaults, to liquidate the items serving as collateral to satisfy the obligation.

Prepayment penalty

An additional charge you may owe if you decide to pay off your loan prior to maturity.

Simple interest method

A method of computing finance charges in which interest is charged on the actual loan balance outstanding.
References


