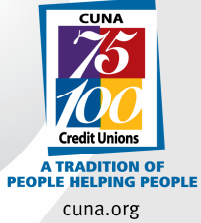




Credit Union National Association

PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | PHONE: 608-231-4000



How to Maintain Good Credit During a Financial Crisis

Jan Garkey
Credit Union National Association
Madison, Wisconsin

National Consumer Protection Week
2009



OFFICES: | MADISON, WISCONSIN | WASHINGTON, D.C.

Slide 1: Title Slide

Hello. I'm Jan Garkey with the Credit Union National Association, or CUNA, based in Madison, Wis. America's credit unions have a long history of providing personal finance education to credit union members, and we're delighted to be part of this important campaign to educate citizens about financial tools for today's economy.

The focus of this presentation is on how to maintain good credit during a financial crisis. These last several months in particular have put a tremendous financial strain on many families, and we'd like to give you some simple but important strategies to get—and stay—on track with your finances, particularly as they relate to managing credit.

Let's begin.

Slide 2: Start With a Personalized Plan

Not everyone has the same financial needs, so it's important that you develop your very own personalized plan that's right for YOUR situation.

The next several slides will help you:

- * Assess your current situation
- * Figure how much you can afford to spend on credit
- * Decide on action steps to take right now
- * Know what to do if you can't pay your bills, and
- * Figure out how to change your money habits ... for life!

Slide 3: Assess Your Current Situation (evaluate each one)

First, start by *assessing where you are right now*.

Ask yourself:

* How much do you owe? Develop separate lists: one list for credit, gasoline, and retail cards; a second list for personal loans such as car loans or money you owe to friends or relatives, and a third list for everything else, including back taxes, unpaid fines, and so on. It's difficult to develop a personalized plan if you don't know what you owe.

* Then, on the list of credit cards, write down what the credit limit is for each card, and divide what you owe on each card by the credit limit for that card. This is important, because potential creditors will judge your creditworthiness based in part on how much you owe relative to how much credit is available to you. This is called a utilization rate, and you want to keep that rate less than 25% to get the best interest rate and terms.

* Finally, do the same for all cards combined. Add up all that you owe, and divide that into your

total available credit limit for all cards combined, and that's *your* total utilization rate. If it's less than 25%, great! If it's higher than 25%, try to pay down some balances, or call the issuer and ask that your credit limit be increased. But watch out—don't spend *up to* your credit limit just because it's available to you, or you'll be in more trouble than before.

Slide 4: Assess Your Current Situation (how do you use credit?)

Here are more questions to ask yourself.

- * What do you buy with credit? Can you switch to cash-only until your financial situation improves?
- * Do you buy things with credit just to get rewards points? This isn't a problem *if* you can pay the balance in full and on time each month. But if you can't, the lure of reward points may be encouraging you to spend more than you should.
- * Have the terms on your cards changed? Watch out, because some issuers hike your interest rate with only 15 days notice, or they lower your credit limit, which can hurt your credit score.
- * And one more question: Do you charge only as much as you can pay off in full when the bill comes due? If you're charging so much you're only able to pay the minimum due, it will take you years to pay off that balance. I'll give an example in a few minutes.

Slide 5: Figure Your Credit Limits (conservative)

Your goal is to maintain credit as a helpful tool without letting it bust your budget and keep you from reaching your long term goals. So just how much credit is safe? Here are two methods:

- * One conservative guide says to take your spendable income and divide it by three. Identify your net pay after taxes and other required deductions. Then find spendable income by subtracting how much you spend on mortgage or rent, utilities, food, clothing, medical, transportation, child care, savings, and other basic payments. Divide the result by three—and keep credit payments less than that.
 - Here's an example—say your take-home pay is \$2,000 and your monthly basic expenses come to \$1,290, then spendable income is \$710. Divide \$710 by three to get \$237, which is the amount you safely can spend each month on credit payments.
 - This method is considered conservative, but you can sleep at night knowing that your debts are under control.

Slide 6: Figure Your Credit Limits (flexible)

* Here's a more flexible method, but it skips housing costs. In this case, start with the same monthly take-home pay of \$2,000; multiply it by 20% to get \$400. Your credit card payments should not exceed \$400. If they do, don't add new debt.

It's important to note that THIS method allows \$163 more each month for your credit payments. That's because it doesn't factor in housing expenses. Unless you're in a situation where your housing costs are minimal, you may be safer using the first calculation.

Slide 7: Dilemma—Save or Pay Debts?

Without a savings cushion you have no choice but to use credit when unexpected expenses crop up. But paying off those cards makes it difficult to build a savings cushion. What should you do?

After you pay for top-priority debts such as rent or mortgage and utilities, try to pay down a sizeable portion of your credit card debt. At the same time--*slowly* develop the savings habit, which is your key to financial freedom. Even if you begin with a very small amount, adding to it consistently *will* pay off in time.

Slide 8: Take Action Now—Basics

* After you calculate how much you reasonably can afford to spend on credit—if you choose to use credit cards—then decide what you can do *right now*.

* First, if you don't already have an emergency back-up fund, start to build one now. Living paycheck to paycheck with no financial reserves means one car repair or one major appliance breakdown could throw your finances into a tailspin. Initially, resolve to put away one month of living expenses, then build up to two months. Eventually, you want a reserve of three to six months' living expenses in case you're laid off or have a major medical expense. Here's a tip: Have the money automatically deposited into your savings or money market account *before* you have a chance to spend it.

* Something else you can do right now is pay *all* your bills on time. Don't waste hard-earned dollars on late fees, which could show up on your credit report and cause you to pay higher interest rates on other forms of credit and personal loans. Avoid late fees altogether by using online banking or automatic bill-pay.

* Yet another action step to take *right now* is to order your credit report, if you haven't done so within the past year. The best way to do this is online through annualcreditreport.com. Or, call 877-322-8228. Steer clear of other Web sites that try to get you to buy other services. Since you can order one free report each year from *each* of the "big three" credit reporting agencies, here's a tip: Order a report from, say, Experian in January; then order a report from TransUnion in May, and then order a report from Equifax in September. Then, next year, start all over again with the same schedule. That way, you can monitor your credit reports every four months throughout the year and take advantage of getting free reports from all three of the major credit reporting agencies.

Slide 9: Take Action Now—Reduce Debt

- * There are several things you can do right now to help you *handle credit*.
- * Slow down—or stop—using credit cards if you're going through difficult times. If you tend to pull out the plastic a little more than you'd like, put your cards in a bowl of water and place it in the freezer. Then when you want to make a purchase, you'll be forced to think about it as the card thaws. But DON'T thaw the card out in the microwave—you'll ruin the magnetic strip.
- * If your weakness is shopping online, don't store your credit card information on retail sites. Instead, sign in as a new visitor each time, so you'll think twice about the purchase.
- * Even if you stop using credit cards, resolve to pay down the balance.

Slide 10: Take Action Now—Reduce Debt

- * If you have balances on several cards, use the PowerPay principle. It works like this: Pay off the debt with the highest interest rate first, while making at least minimum payments on all the other debts. Once you pay off the most expensive debt, apply that same total monthly amount to the remaining debts. Finally, apply the same *total* monthly amount—the one you were paying on all the debts initially—to the one remaining debt to pay it off quickly. That's the PowerPay principle.

Slide 11: Take Action Now—Reduce Debt

- * Another good tip is to only charge as much as you can pay in full when the bill comes due. And if you can't pay in full, at least pay more than the minimum due. Those minimum payments are a killer. If your minimum payment is 2% on a \$2,000 balance at 18% interest, it will take you 19 years to pay it off, and you'll pay a whopping \$3,862 in interest over those 19 years—if you don't charge anything else in the meantime! This means your original \$2,000 purchase will actually cost you almost \$3,900!

Slide 12: Take Action Now—Reduce Debt

- * Keep your utilization rate *less* than 25%; we talked about that earlier. Remember: The utilization rate is a number that reflects how much of your available credit you're already using. So if your total line of credit—which is the amount you spend up *to*—is \$4,000, then you don't want to spend more than \$1,000, which is 25% of \$4,000.
- * And finally, if you use cards, make sure those cards have reasonable rates. Credit union-issued cards typically have lower interest rates and fees than bank-issued cards. Make sure you know the terms and conditions of all the cards you have.

Slide 13: Take Action Now—Steer Clear

* The examples on this slide are meant to keep you from spending money on things you don't need to. By avoiding them, you can actually save money.

* For example, by sticking to a spending plan, you can avoid having to take out costly cash advances. These always, always have higher interest rates.

Slide 14: Take Action Now—Steer Clear

* Here's a good tip: If you're about to apply for a mortgage or other form of credit, don't open a flurry of new accounts; a lender may interpret a lot of new accounts as a red flag and either *not* grant you credit, or grant you credit at a higher interest rate.

Slide 15: Take Action Now—Steer Clear

* Also, don't close old accounts with a *good payment history* right before you apply for credit or a mortgage. Closing accounts *lowers* your total line of credit, and unless you pay off balances right away, your utilization rate will go up. And that's not good.

Slide 16: Take Action Now—Steer Clear

* Always, always pay your bills on time. You'll avoid late payment fees, and keep your credit report clean.

* Believe it or not, those library fines *can* work against you, if they're reported to a credit bureau. So come clean and pay up!

Slide 17: If You Can't Pay Your Bills (don't ignore creditors)

Ignoring credit trouble won't make it go away. And it won't do any good to agree to a plan you can't afford, so before you call creditors, know what you can afford to pay.

When you call your creditors, be candid about your situation. Explain how you plan to solve the problem. Follow through and send a letter summarizing your conversation; send it certified mail, return receipt requested. Keep a copy for your files. Then make the payments you agreed to.

And--if you haven't already--stop charging on your cards. Don't add more debt until you're able to pay your bill in full each month. Your new savings habit will make that possible in time.

Slide 18: If You Can't Pay Your Bills (on your side)

If your talk with creditors breaks down, ask for help from a local nonprofit Consumer Credit Counseling Service (CCCS). These counselors can talk to creditors on your behalf.

A counselor conducts face-to-face or telephone counseling sessions, reviews your income and expenses, presents options for dealing with debt, and provides money management information and educational materials. You might enter into a debt management plan—also called a DMP--where the agency collects a single payment from you and turns around and pays your creditors.

The local Cooperative Extension office, usually found in the phone book with county government numbers, often provides money management seminars and counseling services, or they can refer you to a reputable agency.

Another resource for you is your credit union staff. Credit unions are not-for-profit financial cooperatives owned by their members. Professionals at the credit union can help you assess your financial situation, and either counsel you or refer you to someone who can help.

Slide 19: If You Can't Pay Your Bills (Beware false solutions)

* If you can qualify for a consolidation loan at a credit union or other legitimate lender, you may be able to reduce your payments and overall interest. But too many so-called consolidation loans will make your credit burden worse.

* Also, if you take out a consolidation loan, don't continue to rack up charges on your credit cards.

* Some so-called credit counselors, those that are "DMP-mills" for their focus on revenue-generating debt-management plans, can actually make your problem worse. They usually don't provide consumer education, and many charge very high fees. They push a debt-management plan even when it's not the best fit for you, and sometimes they don't make payments to creditors, leaving you in a worse position than before.

* Debt-settlement companies promise to "Reduce Debt 40%-60%," or they promise "Debt Relief--Save up to 75%." They *say* they will negotiate with creditors to accept a lesser payment in full, but your creditors don't see *any* payments until you settle. In the meantime, they may impose more late fees and higher interest rates. Worse yet, your creditors might send your debts to a collection agency, but you won't *know* that, because the news will go to the debt-settlement firm, not to you. Keep in mind that few creditors are willing to settle for such low amounts, and even if they do, you could have negotiated the settlement yourself without paying a settlement company. If the debt *does* get settled at a discount, your credit rating will reflect your partial payment, and you'll owe income taxes on the discount.

Slide 20: If You Can't Pay Your Bills (find extra money)

* If you can't pay your bills, you have to get really serious about deciding what's a want and what's a need--and devote any excess money to paying down debt.

* Also, consider taking a second job, and apply all that income to your debts.

* If you have unused sports equipment, furniture, or clothes, you might be able to unload them for cash at consignment shops. If you have two cars and can make do with just one, sell one!

* Is it possible to rent a room to someone for a few months? Maybe you can even barter a room for, say, childcare. Think of fresh ways to tackle your situation—there's no single answer.

Slide 21: Be Prepared. Plan Ahead!

* During tough times, you need a plan. If you don't have one, make one now. And write it down.

* First, know where your money is going. Once you start tracking, you'll be better able to identify your spending leaks.

* You'd be surprised how those little things—or spending leaks—add up. Calculate the annual cost of that morning latte versus the cost of coffee made at home. Calculate the annual cost of fast food, and compare that to making low-cost, healthier meals at home. Have the kids calculate the annual cost of a daily soda, and talk about the health—and financial—benefits of drinking water instead.

* Then, put pencil to paper and run the numbers. A budget—or spending plan—is a road map that helps you figure out whether you're going in the direction you want to go financially. With a good road map, *you* control your financial future. On your budget worksheet, list all income sources, then list all your expenses—both fixed and variable.

* Finally, talk to family members. Together, brainstorm different ways to save money during tough times. If they're involved in the process, they'll take ownership of the solutions they come up with and buy in to the process from the get-go.

Slide 22: Change Habits for Life!

* In closing, going through tough times can actually help you shore up your foundation and be better prepared for future challenges.

* By living within your means, you spend *no more* than you make, and you don't use credit as a crutch.

* By saving money regularly, you have a back-up fund for when the frig dies or the car needs

major repairs.

* By shopping wisely, you act as a good steward to your hard-earned dollars.

* By charging only what you can afford to pay in full when the bill comes due, you control your debt payments rather than letting *them* control *you*.

* By using online banking, auto bill-pay, direct deposit, and automatic transfers, you save money on stamps and gas, save time, avoid lost or stolen checks sent in the mail, and you reduce your risk of ID theft.

Slide 23: Credit Union Locator Tool

On behalf of the Credit Union National Association, we hope these tips are useful as you lay a solid foundation for using credit in both good and tough times. Changing just a few habits can mean a lifetime of prosperity. Start with an action plan and keep moving forward to stay on track with your finances. And be sure to take advantage of the many services that your local credit union provides. To find the nearest credit union, visit the credit union locator tool on this slide. The people at your credit union can help you build and maintain good credit in good times and bad.