

## Fundamentals of Personal Credit

### Quick Notes...

Understand your rights and how to use them when shopping and applying for credit.

Keep a good credit rating by repaying all debts on time.

Complain, when necessary, about unfair credit deals.

Your use of personal credit, whether charging a meal on your credit card, paying for an appliance on the installment plan, taking out a loan to buy a house, or paying for education or vacation, is protected under the law. There are legal standards regarding how you are to be treated in your financial dealings. It is important that you know your rights and how to use them in shopping and applying for credit, keeping up your good rating, and complaining--when necessary--about an unfair deal.

### Shopping for Credit

Truth in Lending legislation requires creditors to give you certain basic information about the cost of buying on credit or taking out a loan. You have a right to know and a responsibility

to understand the following before you sign any credit agreement:

1. the finance charge and the annual percentage rate (APR);
2. the length of the loan;
3. the size of the down payment;
4. when finance charges begin on your account;
5. the method used to calculate the balance on which you will pay a finance charge.

Always be sure to ask for an explanation of any terms you don't understand.

Disclosures required under Consumer Leasing law can help you compare cost and terms of various leasing agreements, *and* compare leasing against the cost and terms of buying for cash or on credit. The law applies to personal property leased to you for more than four months for personal, family, or household use. This includes, for example, long-term rental of cars, furniture, and appliances, but not daily car rentals or apartment leases.

### Applying for Credit

The applicable law protecting you when you apply for credit is the Equal Credit Opportunity Act, which requires that all credit applicants be considered on the basis of their

actual qualifications for credit and not be turned away because of certain personal characteristics. Creditors look for:

1. Your capacity to repay the debt: your occupation, your work history, how much you earn, your expenses, number of dependents, and other obligations;
2. Your character: Will you repay the debt? How much do you owe? How often do you borrow? Do you pay bills on time? Do you live within your means? Signs of stability may also include how long you've lived at your present address, whether you rent or own, and length of your present employment;
3. Your collateral: (If you fail to repay, collateral protects the creditor). What do you have that could be used to back up or secure your loan? What sources do you have for repaying the loan other than income--savings? Investments? Property?

You are not guaranteed credit under the law, but you are guaranteed the creditor must apply tests of credit worthiness fairly, impartially, and without discriminating against you on any of these grounds: age, gender, marital status, race, color, religion, national origin, because you receive public income such as veterans' benefits, welfare, or Social Security, or because you exercise your rights under the law. When you apply for credit, you must be notified within 30 days after your application

whether your loan has been approved or not. If credit is denied, this notice must be in writing and include the specific reasons why you were denied credit or tell you of your right to ask for an explanation. Always ask for that explanation, and talk with the creditor about ways to improve your credit worthiness for future applications.

### **Keeping a Good Credit Rating**

Getting a good credit rating is based on incurring debt and paying it back on time. Records are kept by credit bureaus and credit reporting agencies whose business it is to collect and store information about borrowers. The Fair Credit Reporting Act guarantees that you must be told what is in your credit file *and* that you can have any errors corrected. Errors may include inaccurate information or old information. For example, bankruptcies, suits and judgments, tax liens, arrest records, and other kinds of unfavorable information must be dropped from your credit file after a certain time period.

The best way to keep up your credit standing is to repay all debts on time. Period.

### **Complaining about an Unfair Deal**

Always try first to resolve a dispute directly with the creditor. If this effort fails, you do have legal recourse in many situations. A directory of federal agencies and federal reserve banks is available in [Consumer Handbook to Credit Protection Laws](#) from the Board of Governors of the Federal Reserve System, Washington, D.C. 10551.