

# PARTICIPANT PRESENTATION



## MODULE 9

# Restoring Your Credit



We make home possible®



A Guide to Better Credit, Money Management,  
and Responsible Homeownership

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## **Freddie Mac CreditSmart®**

### **Module 9: Restoring Your Credit**

Dear Workshop Participant:

Welcome to CreditSmart, Freddie Mac's premier financial education curriculum, designed to help you learn how to build and maintain better credit, and prepare for successful long-term homeownership. Freddie Mac's curriculum is designed to help you increase your financial literacy by providing life-long money management skills. It provides important information about credit and money management and how to avoid financial traps; insight into how lenders assess credit histories; and how credit plays a profound role in achieving your financial goal of buying a home and ensuring successful long-term homeownership.

As a participant, you'll be using a Participant Presentation to follow along through the 12 modules with your instructor. In addition to attending a workshop like this one, you can also complete all 12 modules at your leisure by accessing the Web-Based Training (WBT) online at [www.freddiemac.com/creditsmart/consumer\\_training](http://www.freddiemac.com/creditsmart/consumer_training).

On behalf of Freddie Mac and our CreditSmart affiliates, thank you for participating in our CreditSmart workshop. We wish you great success as you gain the skills and information necessary to achieve homeownership and build a sound financial future.

# Module 9: Restoring Your Credit



## Module Introduction

The primary purpose of this module is two-fold. It will help to prepare you for the unexpected by offering some tips on how to most effectively deal with financial difficulties.

Additionally, if you have experienced financial difficulties or credit problems either in the past or at present, this module will provide several useful tools to help you to build back good credit and your credit rating.

This module will address:

- The major reasons for financial difficulties
- Warning signs for credit problems
- How to cope with a financial crisis
- How to restore your credit
- How to deal with derogatory tradelines



# Module 9: Restoring Your Credit



## Reasons for Financial Difficulties

As you know, life can be full of surprises. How many times have you wondered when something bad is going to happen because everything in life seems to be going too well?

There are a number of major reasons for financial difficulties, including:

- Poor money management (overspending, compulsive buying, purchasing things you can't afford)
- Loss of income (job loss, divorce, death)
- Emergency and/or unexpected expenses (car repair, house repair, medical expenses, etc.)
- Fraudulent use of your credit card - identity theft

All of the items listed above, except poor money management, may not always be within your control. Therefore, you always need to be as prepared as possible to deal with the unexpected.



# Module 9: Restoring Your Credit



## Warning Signs of Credit Problems

Be aware of and recognize the warning signs that might be a signal of pending financial and credit problems, such as:

- Inability to pay your bills on time and paying late fees.
- Difficulty deciding which bills to pay each month.
- Being forced into using credit cards for routine purchases that you would normally make with cash or checks.
- Spending more than 20 percent of your **net monthly income** to pay back credit cards and other **loans** (excluding a **mortgage**).
- Borrowing money to make payments on existing loan obligations.
- Being frequently at, near, or over your credit card limit.
- Paying only the minimum payment due on your credit card bills.
- Paying bills late or putting off necessary things, like visits to the doctor, because you don't have enough money.
- Working overtime or a second job just to cover food, housing, and other basic living expenses.
- Thinking your financial condition is beyond help.

The items above are some of the primary signals that financial trouble may be knocking at your door. If after reviewing this list, you thought, "That's me," you're not alone. It's easy to fall into the trap of any one of these items. And, once you're in the hole, digging out often seems impossible.

# Module 9: Restoring Your Credit



## How to Cope With a Financial Crisis

So, how can you put the pieces back together and hopefully keep your credit intact? How can you cope during periods of financial difficulty? Communication and early intervention are the keys to helping you cope with a financial crisis. Here are some tips to help you get through a difficult time and keep your credit intact:

1. **Call your [lender](#) or [creditor](#), explain your situation, and work with them.** Creditors always respond better to a consumer who reaches out to them, rather than a consumer who avoids them. By contacting them, you can make payment arrangements or restructure the [debt](#). Never ignore communications from your lender or creditor.
2. **Seek help.** Find a [HUD-approved housing counseling agency](#) or other reputable firm in your area that offers [credit counseling services](#)\*. Seeking help early on, while the problem is still small, will make for easier, more manageable solutions.
3. **Don't make promises that you cannot keep.** Be realistic.
4. **Be honest and don't give up.** If you tell the truth to your creditors, you'll ensure a good relationship and positive resolution.
5. **Rebuild your credit.** A credit counselor can provide confidential [spending plan](#) and debt information, debt repayment programs, and financial management education. Look in your own community for valuable resources.
6. **Pay yourself first.** Put yourself on "the payroll." Always set aside money for savings.

\***Note:** Beware of "quick fix" and/or "[credit repair companies](#)" that may use deceptive methods to falsely improve your credit.

# Module 9: Restoring Your Credit



## Restoring Your Credit

If you've experienced credit problems in the past, there are ways to restore your credit.

First, contact former creditors with whom you've had a good payment record. They may be willing to reopen your account and re-establish credit with you.

Next, review any credit card offers you receive in the mail.

- Carefully evaluate the offer before you open any new account.
- Consider obtaining a **secured credit card**.
  - A secured credit card is backed by collateral - usually cash (for example, a card whereby you have funds available - like \$500 - to secure a credit card with a \$500 limit).
  - If you choose a secured credit card, be sure that the credit card issuer reports to the **credit reporting agencies** so that there's a positive record resulting from the restoration of your credit.
- As you shop for new credit cards, make sure at least one is from a reputable **bank**.
- Be careful not to acquire too many new credit cards at once.



# Module 9: Restoring Your Credit



## Restoring Your Credit (cont.)

You might also ask a family member or friend to co-sign a loan with you. Keep in mind, however, that both parties, you and the **co-signer**, are fully responsible if you are unable to make your payments.

Borrowing against your **savings** is another way to establish credit as long as the lending institution reports the loan to the credit bureaus.



# Module 9: Restoring Your Credit



## Restoring Your Credit (cont.)

Be careful when dealing with credit repair companies that may use deceptive methods to falsely improve your credit.

The **Credit Repair Organizations Act** was put in place to protect you from unscrupulous practices by organizations that claim to repair credit. It requires companies to disclose all fees associated with their services so you can make an informed decision.

Before the credit repair company can perform any services for you, you must sign a contract. You have the right to cancel the signed contract within three business days.

Always contact a nonprofit HUD-approved counseling agency before spending money with a credit repair company.



# Module 9: Restoring Your Credit



## Steps to Restore Your Credit

Restoring your credit takes hard work and discipline, but it's well worth it in the long run. **Don't give up!**

### Take the following steps to restore your credit:

- Prepare a spending plan.
- Examine how much you owe on monthly basis, to whom and when it is due.
- Contact creditors or third party debt collectors to whom payment is overdue and work out payment arrangements or offer to settle. (If you settle a debt and the savings is \$600 or more, you may be required to pay taxes on the amount saved through settlement. Consult a tax advisor for information about your individual circumstances.)
- Investigate where additional sources of money can be obtained to pay off debt.
- Sell assets or personal belongings you do not need.
- Consider getting a second job.
- Dispute the account if you think it is in error.



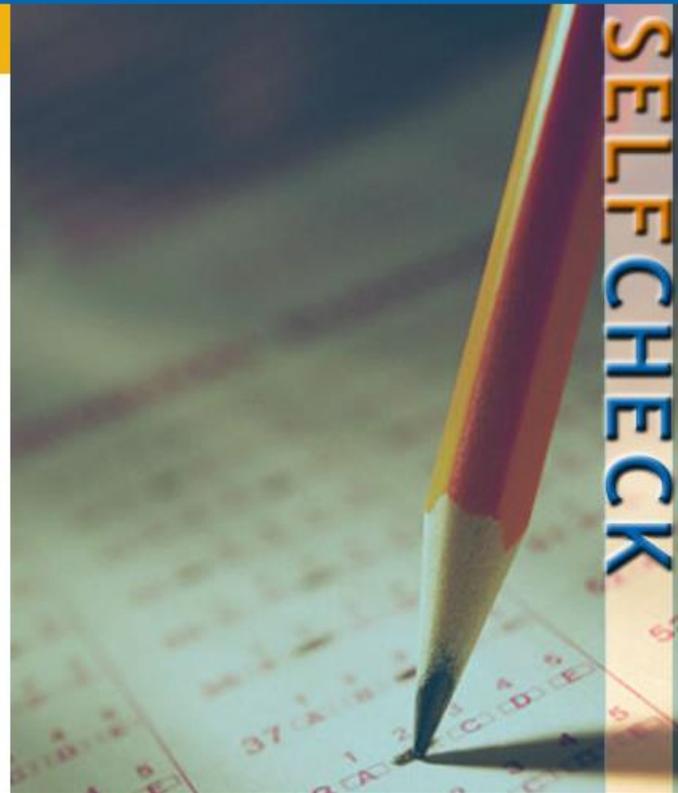
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## Knowledge Check

Which of the items listed below are steps you can take to restore your credit?  
(Select all that apply.)

- Paying the minimum on your credit card bills
- Preparing a spending plan
- Contacting creditors to work out payment arrangements
- Borrowing money to make loan payments
- Selling assets or personal belongings you do not need



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# Module 9: Restoring Your Credit

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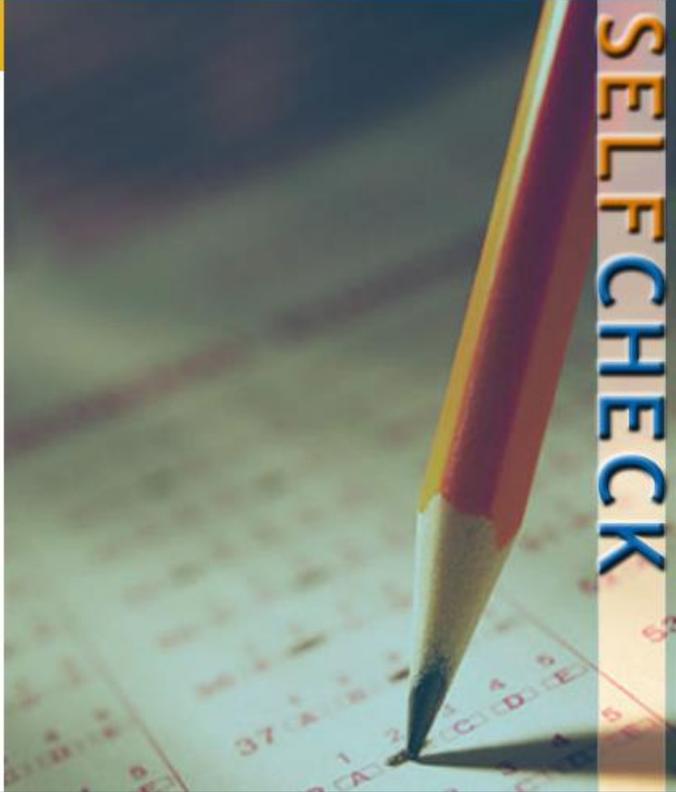
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**Knowledge Check**

**True or False:**

Poor money management and loss of income are two of the major reasons for financial difficulties.

- True
- False

A close-up photograph of a pencil with a pink and yellow body, pointing towards the bottom of a document. The document has a vertical label that reads 'SELF-CHECK' in large, bold, blue and yellow letters. The background of the document is slightly blurred, showing some text and numbers.

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# Module 9: Restoring Your Credit



## Module Conclusion

Congratulations! You have completed the **Restoring Your Credit** module of the CreditSmart Online Training Program.

The goal of this module was to help prepare you for the unexpected by:

- Offering tips on how to most effectively deal with financial difficulties  
- and -
- Providing several useful tools to help you to build back good credit and your credit rating.

The warning signs of credit problems are a signal for the need to take control and improve your financial situation.

Additionally, be sure to routinely monitor your credit report and put into practice the necessary steps to positively impact and restore your credit history.



# Freddie Mac CreditSmart®

## Module 9: Restoring Your Credit | Glossary

Term	Definition
Bank	A federally regulated financial institution that offers you a place to keep your money and uses it to make more money. Banks make loans, cash checks, accept deposits, and provide other financial services.
Co-Signer	A co-signer is a term used to describe an individual who signs a loan or credit application with another person and promises to pay if the primary borrower doesn't repay the loan.
Credit Counseling	Counseling that helps people manage money and credit and prepare them for homeownership.
Creditor	Creditor is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term creditor can generally be used interchangeably with the term lender.
Credit Repair Companies	Credit repair companies are private, for-profit businesses that claim to offer consumers with credit and debt repayment difficulties assistance in "fixing" their credit problems and/or "fixing" an impaired credit report.
Credit Repair Organization Act	<p>The CROA, 15 U.S.C. § 1679, et. seq., prohibits a variety of false and misleading statements, as well as fraud by credit repair organizations (CROs). CROs may not receive payment before any promised service is "fully performed." Services must be under written contract, which must include a detailed description of the services and contract performance time. CROs must provide the consumer with a separate written disclosure statement describing the consumer's rights before entering into the contract. Consumers can sue to recover the greater of the amount paid or actual damages, punitive damages, costs, and attorney's fees for violations of the CROA. The states and the FTC may also enforce the CROA.</p> <p>Source: <a href="http://www.ftc.gov/ro/chro/credit.shtm">http://www.ftc.gov/ro/chro/credit.shtm</a></p>

# Freddie Mac CreditSmart®

## Module 9: Restoring Your Credit | Glossary

Term	Definition
Credit Reporting Agencies	<p>A credit reporting agency is a company that collects and retains credit information on all persons using credit and provides that information in the form of a credit report to lenders or creditors for a fee. A credit reporting agency is also commonly referred to as a credit bureau. There are three major credit reporting agencies:</p> <ul style="list-style-type: none"><li>▪ Equifax</li><li>▪ Experian</li><li>▪ TransUnion</li></ul>
Debt	<p>What is owed to a person or institution for obtaining merchandise or services without immediately paying for them. Usually, a debt is acquired through a loan or the use of credit.</p>
Lender	<p>Lender is the term used for the person or entity that is providing credit or a loan to a borrower at specific terms and conditions. The term lender can generally be used interchangeably with the term creditor.</p>
Loan	<p>Money you borrow from a financial institution with a written promise to pay it back later. With a loan, financial institutions will charge you fees and interest to borrow the money.</p>
Mortgage	<p>A mortgage is a document that is signed by a borrower when a home loan is obtained and gives the lender the right to take possession of the property if the borrower fails to make loan payments.</p>
Net Monthly Income	<p>Your take-home pay for one month after taxes. It is the amount of money that you actually receive in your paycheck.</p>
Savings Account	<p>An account where you keep money for safekeeping or as an investment that earns interest.</p>

# Freddie Mac CreditSmart®

## Module 9: Restoring Your Credit | Glossary

Term	Definition
Secured Credit Card	A secured credit card is a credit card that is backed by collateral (usually cash).
Spending Plan	A spending plan is an itemized list of all of one's expenses. Spending plans are tools commonly used to measure or gauge expenses against income.