

Understanding Credit



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What is Credit?

***B*uy now, pay later! Nothing down, 24 monthly payments! Low, low 9.9 percent APR!**

We are constantly urged to accept credit card offers or purchase items on credit. But what is credit? Credit allows customers to purchase something immediately and pay for it later. The money is borrowed from creditors and the customer can pay the creditor over time, rather than paying at the time of purchase.

There are two basic types of consumer credit transactions: open-end and closed-end.

An open-end credit account is one under which you can make repeated purchases or obtain money. You can either pay the balance in full or in installments. For example, if you purchased a new air conditioner with a credit card, that purchase is part of an open-end credit plan. You could use the same card at a later date to purchase something different and not have to enter into a new agreement with the creditor. You also would not have to make a preset number of payments to pay off the balance.

Other open-end credit examples include: gas cards, credit cards like MasterCard and Visa, checking account overdraft protection programs, and revolving charge accounts. There is no limit on the interest rate that businesses can charge for open-end credit.

Closed-end credit is credit extended for a specific amount and a set time period. For example, if you purchased the same air conditioner as above under a closed-end agreement, you would have to make a certain payment for a set number of weeks or months.

Other examples of closed-end credit include: auto loans, mortgages, and personal or home improvement loans. In Wisconsin, closed-end credit agreements also have no interest rate limits.

Credit Strategies

Three Day Right to Cancel

Wisconsin law allows consumers to cancel certain transactions within three days only if the contract is signed away from the seller's normal place of business. For example, if a salesperson came to your home and sold you a vacuum cleaner, you would have three business days to cancel. However, if you purchased a vacuum cleaner on credit at an appliance store, the three day right to cancel would not apply.

When you apply for a credit card, personal loan or any other type of credit, the lender must first decide if you are a good credit risk. Creditors do this by checking your background to see how you've paid debts in the past. They check not only your credit history, but also how you've paid back non-credit debts, such as rent and medical bills. Many different types of merchants report to credit bureaus and rate the account to reflect your repayment practices. Obviously, a poor repayment history will not fare well with a lender who is considering your application for an extension of credit.

Most lenders use a scoring system to determine whether an applicant is a good credit risk. Applicants receive points for items such as occupation and length of employment. Applicants also receive points for the number of previous or current creditors who have highly rated their credit payment history. The higher the score, the better credit risk the applicant is considered.

If you are deep in debt and are applying for more credit, the creditor may consider you to be over-extended and can deny your application. Your income-to-debt ratio would be the basis for their rejection because they believe you may not be able to handle additional payments based on your income and existing obligations.

If you have applied with several creditors within a short time, each may have accessed your credit report and their inquiries are recorded in your file. Some creditors automatically reject an application if the credit report shows an excessive number of inquiries. They have found that good credit risks usually do not have many credit inquiries during a short period of time. Inquiries will remain on your credit report for as long as two years.

If you have committed yourself to relatively few creditors and have maintained a high credit rating, lenders may look to how long your credit commitments with those creditors will continue. If you are near the end of your current commitments, the lender may consider extending credit to you because your income-to-debt ratio will even itself out at the maturity of your current commitments.

Your Credit Report

A credit report summarizes creditors' experiences with a consumer. Information from the file can be obtained by prospective lenders or creditors to help them determine whether someone is a good credit risk. You can also obtain a copy of your file to verify that the information creditors receive about you is accurate.

If you look under "Credit Reporting Agencies" in the yellow pages there will be listings for credit bureaus in your area. You can usually obtain a copy of your credit report by contacting the credit bureau either by letter, telephone or the internet. You must furnish proper identification information before they can send or give the report to you. Be prepared to provide your full name including generation (III, Jr., etc.), maiden name, date of birth, social security number, current address, previous addresses for past 5 years, spouse's name, and your driver's license number.

Credit reports normally cost between \$9– \$12. However, if you have been turned down for credit based on information in your credit report, the bureau will give you a free copy if you contact them **in writing** within 60 days of the denial (see sample letter on page 17). The credit bureau staff can go over the report with you, but keep in mind that credit bureaus do not determine whether you will receive credit. They simply report the information your creditors submit.

Creditors can vary from credit card companies to your doctor's office to landlords. Accounts placed for collection and public records of judgments or bankruptcies also are listed on your credit report.

Credit Strategies

Credit Report Errors

If you find an error in your credit report, notify the credit bureau **in writing** that you dispute the accuracy of the entry, and why (see sample letter on page 16). The bureau is required to investigate the disputed entry. If an error is discovered it must be corrected or, if the entry cannot be verified as belonging to you, it must be removed completely. At your request, the credit bureau will inform lenders who have requested your credit report within the past six months, or businesses that requested your report for employment reasons within the past two years, of any corrections or deletions made to your file.

Your Credit Report

You also have the right to enter your own personal statement. Your statement will become a permanent part of the credit record and will be included with all other information given out at the time your credit report is requested. Your statement should indicate your side of the story, or why you feel a particular entry does not fairly or accurately reflect the situation it reports.

If you have accurate negative information on your credit report, there is no way to remove it except through time. Adverse information will remain on your report for seven years from the date the creditor placed the account for collection or charged to profit and loss. If you declare bankruptcy, that information may remain on your credit report for ten years.

Be wary of advertisements you see or hear from organizations claiming to be able to “fix” your credit for a fee. Remember, there is nothing they can do that you can’t do for yourself at no cost other than postage.

If you are considering using a credit repair service, make sure the business you choose is registered with the Department of Financial Institutions. It is illegal for a credit repair service to require you to pay before the service is provided. Contact our office for more information.

Credit Strategies

Credit Report Questions

Who has access to my credit report? Credit grantors and merchants buy membership to the credit bureaus to obtain easy access to borrower credit histories. Members sign a contract promising that they will only access credit files when considering persons for extensions of credit, employment or other legitimate business purposes.

Do businesses need my permission to review my credit report? Generally no, not if you have applied for credit or insurance. A credit report cannot be given to a prospective employer without your written consent. In addition, a credit report that contains medical information cannot be given to anyone without your permission.

To contact a credit bureau:

TransUnion Corp

PO Box 2000
Chester PA 19022
Toll-free: 1-800-916-8800
www.transunion.com
For reports: 1-800-888-4213

TransUnion Fraud Assistance Center

PO Box 6790
Fullerton CA 92834
Toll-free: 1-800-680-7289
Fax: 1-714-447-6034

Experian

PO Box 2002
Allen TX 75013-0036
Toll-free: 1-888-397-3742
www.experian.com

Experian Fraud Department

PO Box 9530
Allen TX 75013
Toll-free: 1-888-397-3742

Equifax

PO Box 740241
Atlanta GA 30374-0241
Toll-free: 1-800-685-1111
www.equifax.com
For reports: 1-800-997-2493

Equifax Fraud Assistance Center

PO Box 740256
Atlanta GA 30374
Toll-free 1-800-525-6285
Fax: 1-770-375-2821



Contacting Credit Bureaus

There are three main credit bureaus servicing the United States: TransUnion, Equifax and Experian. Each bureau covers a primary region of the country and TransUnion is the bureau servicing the Midwest. This means many of the credit report requests made on you will be done through TransUnion. However some companies use one or more of the other bureaus. So it's very important to contact each bureau if you find an error to ensure your report is accurate and up to date.

A credit score is one factor used to determine a person's credit worthiness. The score is calculated by a mathematical equation that evaluates many types of information found in a credit report. The key to an individual's score isn't any single piece of information but how the different variables interact. A missed payment might drop a person's perfect score 100 points but have no effect on someone that already has a low score.

Because credit scores are based on information found in a credit report, they do not take into consideration important factors such as income level or available collateral, because this information is not in a credit report.

Scores range from about 200 to 900. Lending to people with scores above 650, which is about 70% of population, is called "prime" lending. People with scores below 650 have a higher risk of being denied credit or having to pay a higher interest rate for the credit.

There are a number of scoring systems, the most common one is called FICO, which is an acronym for the company that developed it, Fair, Isaac & Company. Some scoring systems such as FICO give "reason codes" with the score, which help explain why the score isn't higher. When obtaining a copy of your credit report from a credit bureau it is a good idea to also get your score and reason codes because they can provide hints on how you can improve your score.

Credit Strategies

Secured Credit Cards

Secured credit cards are popular with people who have trouble getting credit. Simply speaking, with this type of credit the financial institution requires you to deposit and maintain a minimum amount of money in an account. Your "credit limit" usually equals the amount on deposit. If you cannot qualify for a normal (i.e., unsecured) credit card, you may want to consider applying for a secured credit card.

Credit and Divorce

If you have gone through—or are considering—a divorce, take a close look at the issues involving your credit. Pay attention to the status of your credit accounts. If you maintained joint accounts during your marriage, it is important to continue to pay the regular required payments. As long as there is an outstanding balance on your joint account, both you and your spouse are responsible for payment. Generally, any debt incurred by your spouse is also your responsibility, regardless of whose name is on the account.

If you are contemplating separation or divorce, you may wish to contact your creditors in writing to ask that they close your joint accounts (or accounts where your spouse is an authorized user). The creditor does not have to change a joint account to an individual account, and may ask you to reapply for a credit account as an individual and then, on the basis of your application, extend or deny you credit.

You may wish to contact an attorney regarding these issues to ensure everything is done properly.

Credit Strategies

Common Questions

Can my credit history before marriage be reported on my spouse's credit history? No. Only obligations that arose during you and your spouse's marriage can be reported on both credit histories.

Can a debt that the court ordered my ex-spouse to pay be reported on my credit history? Yes. As explained above, the creditor can hold you responsible for repayment of a debt incurred while you were legally married or jointly signed a contract, regardless of any court order. The presence of a poor payment history on the part of either spouse while married can impair either spouse's ability to obtain individual credit, even after a divorce.

Consider the following:

Jill and Bob were recently divorced. The court decree stated Bob would pay the balances on their joint credit card accounts. For whatever reason, Bob did not pay on the accounts and the creditors began contacting Jill for payment. Jill told the creditors that the court had ordered her ex-spouse pay the debts, and she insisted they contact Bob.

The creditors told Jill that the agreement they entered into with the couple obligated both Jill and Bob to repay. They also told Jill that they were not a party to the court decree agreement, and therefore do not have to attempt to collect only from Bob and that she was still legally obligated to repay the debt.

The creditors' statement is accurate.

Because a valid contract binds the parties who sign, it does not matter if one of the parties chooses not to repay or a divorce decree stipulates that one party must pay. The contract is still binding regardless of a divorce decree. Either party can be contacted for repayment, and both parties' credit history can be affected by the debt. Either or both parties may be sued for repayment of the debt, and either or both parties' wages may be garnished after a judgment is obtained.

If one spouse ignores a court order to pay a certain debt or debts, it is the responsibility of the other spouse to inform the court that the court order is being ignored. The court may take further action against the party for noncompliance of the court order.

Credit Strategies

Credit Repair Ads

Be wary of advertisements that say "Erase Bad Credit! 100% Guaranteed!" Or "remove bankruptcy and liens from your credit file." There are no quick or easy cures for a poor credit history based upon accurate information. See the section on your credit report for more information.

Credit and the Law

There are a number of federal laws that regulate credit practices.

The Equal Credit Opportunity Act—

The Equal Credit Opportunity Act (ECOA) ensures that all consumers will be given an equal chance to receive credit. The ECOA states that it is illegal to discriminate against applicants on the basis of:

Sex,
Marital status,
Race,
National origin,
Religion,
Age, or
Because they receive public assistance income.

This doesn't mean that all consumers who apply for credit will get it. Creditors may still use factors such as income, expense, debts and credit history to evaluate applicants, but they cannot discourage anyone from applying for credit.

Creditors may not:

- 1 Ask about your plans for having or raising children or if you receive child support or other maintenance (formerly called alimony) payments unless you are first told that you don't have to reveal that information if you won't rely on that income to repay the debt. However they may ask if you are obligated to pay child support or other maintenance because your ability to repay credit debts may be impaired by those commitments;
- 1 Consider the race of people who live in the neighborhood where you want to buy or improve a house with borrowed money;
- 1 Consider whether you have a telephone listed in your name. They may, however, consider whether there is a phone in your home.

They may not consider your age unless:

- 1 You are a minor;
- 1 The creditor's scoring system will treat an applicant who is 62 or older at least as favorably as anyone under 62.
- 1 Your age would affect your credit worthiness, such as a decreased income due to upcoming retirement.

When evaluating your income a creditor may not:

- 1 Refuse to consider reliable public assistance income in the same manner they would consider other income;
- 1 Discount income because of your sex or marital status (such as scoring a man's income as 100% and a woman's as 75%);
- 1 Assume that a woman of child-bearing age will stop working to raise children;
- 1 Discount or refuse to consider income because it is derived from part-time employment or from pension, annuity, retirement benefits; or
- 1 Refuse to consider consistently-received child support or separate maintenance payments; however, they can ask you for proof that this income has been received consistently.

Under the ECOA, you have the right:

- 1 To know whether your credit application has been accepted or denied within 30 days of filing it;
- 1 To know the reasons for a rejected application. The creditor must either give you the specific reasons for the rejection or tell you of your right to learn the reason if you ask them within 60 days. Acceptable reasons are: "your income is too low" or "you haven't been employed long enough." Unacceptable reasons are: "you didn't meet our minimum standards" or "you didn't receive enough points on our credit scoring system." Indefinite or vague reasons are illegal;
- 1 To receive a specific explanation of why you were offered less favorable terms than you applied for, such as higher finance charges or less money than you requested. However, this does not apply if you accept the less favorable terms by signing a contract.
- 1 To have credit in your birth name, your first name and your spouse's last name, or your first name and a combined or hyphenated last name. Make sure, however, that the name on your credit report is consistent with the name under which you apply for credit.
- 1 To keep your own accounts after you change your name, marital status, reach a certain age, or retire unless the creditor has evidence that you are unwilling or unable to repay.
- 1 To get credit without a co-signer if you personally meet credit worthiness standards and to have a co-signer other than your spouse, if one is necessary.
- 1 To receive an explanation as to why your account was closed or why the terms of your account were changed. Wisconsin law requires a creditor to notify the customer of adverse changes to a consumer account in writing not less than 90 days before the terms of the account will change.

Credit and the Law

The Fair Credit Reporting Act—

The Fair Credit Reporting Act (FCRA) governs the activities of credit bureaus and creditors. Among other things, the FCRA requires:

Creditors to furnish accurate and complete information regarding your credit history.

Credit bureaus to investigate if you dispute an entry on your credit report. If your claim is valid, your report must be corrected.

That only people with a legitimate business purpose can obtain a copy of your credit report.

If you suspect a credit bureau is not complying with any of these laws, complain directly to the credit bureau. They may correct the problem. If not, contact the Federal Trade Commission (see page 13). While they can not always resolve individual complaints, they do use consumers' complaints and inquiries to decide which companies to investigate for violations.

Credit Strategies

“Opting-Out” of Unwanted Solicitations

Merchants, such as credit card companies, commonly purchase pre-screened lists of consumers from credit bureaus. These lists are used by merchants for marketing purposes. This practice of purchasing lists is permitted only if the list is used by the merchant to extend a firm offer of credit or insurance. The pre-screened lists sold by credit bureaus can only contain very limited information, such as the name and address of the consumer, and other general information.

Consumers have the right to keep their names off of these pre-screened lists. To exercise this so-called “opt-out” right, call (888) 567-8688, which is operated jointly by the three major credit bureaus: TransUnion, Equifax and Experian (formerly TRW).

Wisconsin also maintains a "No Call List" that is a list of telephone numbers of residents who do not want to be called by telemarketers. The law prohibits telemarketers from calling households that have been added to the list. Beginning January 1, 2003, any business - whether located inside or outside of Wisconsin - soliciting Wisconsin residents by telephone, must obtain a copy of the list and delete the consumers' numbers from its own calling list.

To add you name to the list call 1-866-966-2255 or visit the website; nocall.wisconsin.gov. Registration lasts for two years and there is no cost to consumers.

To remove your address information from national mailing lists used by other types of merchants, or your name and number from telephone solicitation lists, write to:

Mail Preference Service

PO Box 9008

Farmingdale NY 11735-9008

Telephone Preference Service

PO Box 9014

Farmingdale NY 11735-9014

If you are receiving unwanted telephone solicitations for credit or insurance, you can also notify the telemarketer that you want your name, number and address information removed from their marketing lists. The Federal Telemarketing Rule requires telemarketers to keep record of such requests and to inform the company(ies) they represent of the customers who want their names removed from the lists.

Sometimes, because of sickness, job loss or other reasons, people become overwhelmed by bills. This is not the time to ignore the problem and hope it goes away. First, contact creditors in writing and advise them of your situation. While they are not obligated to give you extra time to pay your bills, they may be willing to consider alternative payment plans. Then assess your options:

Credit counseling service—These organizations are beneficial if you need help getting your finances in order, setting up a budget, or arranging to pay accounts. They are often available at low cost. Contact DFI to see if the organization is properly licensed in Wisconsin.

Bankruptcy—This should only be considered after consulting with an attorney, as this will appear on your credit report for 10 years. There are two basic types of bankruptcy: Chapter 13 and Chapter 7. Chapter 13 allows a debtor to pay off creditors over 3-5 years. In this case debtors won't lose any property or possessions. Chapter 7 involves the liquidation of all your assets, except those exempt by law, to pay your debts.

Although bankruptcy will clear most of your debts, it may not eliminate spousal and child support payments, some student loans, taxes or fines.

Credit Strategies

Re-establishing Credit

Re-establishing a good credit rating is not easy, but with hard work and perseverance it can be done. The best way to start is to establish a checking and savings account with your local financial institution. Often a smaller community bank, savings and loan or credit union will be more able to help you because their lending policies may be more flexible. Make sure to regularly deposit money into both accounts and never overdraw on either. Build a good relationship and a solid account history with them. You can then sit down with them and discuss your situation. Be honest regarding your past, but also highlight the effort you have put forth on your accounts with them. They may be willing to grant you a loan. You have then taken the first step to regaining good credit.

Although this method takes time, it is the best way for people to rebuild damaged credit. There is no quick way to fix credit, so be careful about responding to organizations who claim to be able to fix your credit overnight, or ask you to pay a fee for assisting you in obtaining credit. It doesn't work that way. There are many scam organizations that mislead people to believe that they can fix someone's credit rating or get someone credit.

Choosing a Credit Card

There are several factors to weigh when considering a credit card offer. Issues such as interest rate, annual fee and grace periods are important factors, and each should be considered based on how you plan to use the card.

Interest rate—If you plan to keep a high balance, shop for the card with the lowest rate. As a tradeoff you may have to pay a higher annual fee. Keep in mind that credit card issuers may change their interest rate at any time. They only must notify you in writing of their intentions to do so.

Always check if a low rate is part of an introductory offer. If so, issuers may raise the rates considerably after the introductory period.

Some cards use a variable rate system. With these cards your interest rate can change from month to month with no notice.

Annual fee—If you pay your balance every month, look for a plan with a low or no annual fee. In this case, the interest rate is not a factor because your account won't accrue interest.

Grace period—While many credit cards give you 25 days to pay any new balance without incurring interest, some do not. This means you will be charged interest from the moment of purchase.

There are many other factors involved in choosing a credit card. Some cards offer annual cash back programs, free insurance on rental vehicles, or some other incentive for you to use their card. Examine the offer carefully and choose the program tailored most to your needs.

Credit Strategies

Telemarketers

Never give out your credit card, checking or savings account information to a telephone solicitor with whom you're not familiar. They could use those personal account numbers to access your account and withdraw money without your permission. Callers are not always truthful about who they really are.

Disputing a Debt

If a collection agency contacts you regarding a debt (or a portion of a debt) that you don't believe you owe, there are specific things you should do.

First, write the collection agency within 30 days of receiving the first notice, informing them that you dispute the debt and why. Make sure your letter is dated, properly addressed and shows the account number shown on the notice. It is also vital that you keep a copy of all correspondence for your records.

Upon receiving your letter, the collection agency must halt collection activity until a copy of a debt verification is sent to you. A verification may include a signed agreement, a copy of a judgment against you regarding the debt or an itemized statement of services rendered under your name (or the name of a dependent or spouse). It can also be as simple as a copy of the last bill the creditor sent you.

The collection agency cannot report the disputed debt to a credit bureau without also reporting that it is being disputed. However, if the collection agency reports the debt to a credit bureau before you dispute it, they are not obligated to update the credit bureau report.

If the debt cannot be verified by the creditor, the collection agency must cease collection activity on the account. If the collection agency continues to contact you regarding the debt, you should notify our office.

If verification is obtained from the creditor, the collection agency must mail a copy of the verification to you. It may then continue its efforts to collect the debt.

A legitimate debt should never be disputed merely to postpone repayment. In doing so you risk losing any leniency the creditor or collection agency may have granted you in paying back your debt.

Credit Strategies

Collection Question

I owe a company money. Cash is tight, but as long as I give them anything, even a dollar a month, they can't do anything to me, right? Wrong. If you default on a debt the creditor or collection agency has the right to demand full payment on the balance of the debt. If you refuse or cannot afford to pay, legal action can be taken against you.

Who to Contact

If you have questions regarding the following businesses, contact the corresponding state or federal agency.

If Your Situation Involves:

Contact:

State-chartered bank, adjustment service company, collection agency, credit service organization, currency exchange, loan or finance company, seller of checks, insurance premium finance company

***Department of Financial Institutions
Division of Banking***

*PO Box 7876
Madison WI 53707-7876*

Mortgage company

***Department of Financial Institutions
Division of Banking***

*PO Box 7876
Madison WI 53707-7876*

State-chartered savings bank or savings & loan (the initials SSB or SA will follow the name)

***Department of Financial Institutions
Division of Savings Institutions***

*PO Box 8306
Madison WI 53708-8306*

State-chartered credit union

***Department of Financial Institutions
Office of Credit Unions***

*PO Box 14137
Madison WI 53714-0137*

Credit bureau or telemarketers

Federal Trade Commission

*600 Pennsylvania NW
Washington DC 20580
1-877-382-4357
www.ftc.gov*

Nationally-chartered bank (the word national or the abbreviation N.A. will appear in the name)

Comptroller of Currency

*1301 McKinney Street, Suite 3710
Houston TX 77010
1-800-613-6743
www.occ.treas.gov*

Federally-chartered or federally insured savings and loan association (the initials FSB or FA will follow the name)

Office of Thrift Supervision

*1700 G Street NW
Washington DC 20552
www.ots.treas.gov*

Federally-chartered credit union

National Credit Union Administration

*Consumer Affairs Division
Washington DC 20456
<http://ncua.gov>*

Use this letter to dispute inaccurate information in your credit report:

Date

Credit Bureau Name

Address

City State Zip

Re: *Your full name*

Dear *Credit Bureau*:

I am disputing (*describe entry*) on my credit report.

List reasons.

I request that you investigate this account and, if it cannot be verified, remove it from my credit file.

If the entry is removed, I request that you make notifications according to section 611(d) of the Fair Credit Reporting Act.

Sincerely,

Your full name including generation if applicable

Social security number

Give maiden name if applicable

Your current address

Give addresses over past five years, including zip code

Give spouse's full name and social security number if applicable

Provide copy of your current driver's license or other photo ID.

Date of birth

If available, enclose a copy of your credit report with disputed entry highlighted.

Sample Letters

Use this letter to obtain a free copy of your credit report after a credit denial:

Date

*Credit Bureau
Address
City State Zip*

Re: *Your full name*

Dear *Credit Bureau*:

Enclosed is a copy of the letter I received from *name of credit card issuer or other lender* denying me credit based upon information found in my credit report.

I request that you send me a free copy of my credit report as required by section 612(b) of the Fair Credit Reporting Act.

Sincerely,

*Your full name including generation if applicable
Social security number
Give maiden name if applicable
Your current address
Give addresses over past five years, including zip code
Give spouse's full name and social security number if applicable
Provide copy of your current driver's license or other photo ID.
Date of birth*

Important Credit Terms

Accrued Interest - interest that has accumulated since the last payment.

Actuarial Method - a method of allocating payments made on a debt between the amount financed and the finance charge in which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed.

Adjustment - a payment to a customer, often in the form of a credit to the account, made when a math error or violation of law is discovered in an examination.

Adjustable Rate Mortgage - a real estate mortgage in which the parties agree to predetermined intervals at which the interest rate being charged may be changed by the lender, based on an index.

Adjustment Service Company - a firm that, for a fee, will help a person set up a budget. Customers generally make one payment to the company and the company in turn distributes the available money to the customer's various creditors.

Amortization - the reduction of debt through regular payments, or the reduction in value of an asset through depreciation.

Annual Percentage Rate (APR) - the cost of credit, expressed as a yearly rate. Federal law requires this rate be disclosed in a way which makes it stand out from the rest of the text.

APR - (see annual percentage rate)

Balloon Payment - the final payment on a debt, which is much larger than the standard payments.

Bankruptcy - the discharge or forgiving of one's debts by a federal court. There are different types of official bankruptcy under federal law.

Billing Error - an error that may result in monies being owed to a customer by a creditor.

Business Day - according to the Wisconsin Consumer Act, any calendar day except Saturday, Sunday, and certain specified holidays.

Charge Off - when an account or loan is removed from the business's or the financial institution's current credit files; however, the customer remains liable for the debt and may face collection action.

Important Credit Terms

Closed-end Credit - a loan or account in which a specific amount is borrowed for a specific period of time. No further purchases or loans may be added to the original amount without further agreement.

Collateral - items of value that are pledged as security for a loan. If the loan is not paid, the items are forfeited.

Compound Interest - a method by which interest is calculated on the principal amount and on the interest that was earned earlier.

Consolidation Loan - a loan that combines and refinances other obligations to achieve smaller monthly payments, usually at a lower interest rate or for a longer term.

Consumer Approval Transaction - a cash or credit consumer transaction that exceeds \$25 and is entered into and completed away from the merchant's regular place of business.

Consumer Credit - credit extended for personal, family, or household purposes; amount of credit extended must be \$25,000 or less.

Consumer Credit Protection Act - (see Truth in Lending Act).

Consumer Credit Transaction - a consumer transaction in which something is acquired on credit, and a) a finance charge may be imposed, or b) the debt may be paid in more than four installments.

Consumer Price Index - (CPI) also known as the cost of living index, the CPI measures the cost of food, housing, transportation and other items as compared to a base year of 1967.

Consumer Loan - a loan made to an individual or family, as opposed to a commercial loan made to a business.

Consumer Credit Sale - a sale in which the debt is payable in more than four installments, or a finance charge is imposed, and in which the person owns the goods when the terms of the agreement are complete.

Contract - an agreement, either oral or in writing, in which two or more parties agree to do something in exchange for payment or other consideration.

Conventional Mortgage - a mortgage not insured by any federal agency.

Important Credit Terms

Cosign - to cosign a loan means to guarantee the payment terms for another person and to become personally liable for those terms.

Credit - the ability to borrow money from a lender; also the ability to purchase goods and pay for them later.

Credit Bureau - a firm that maintains credit reports on individuals and the use or abuse of the credit extended to them.

Credit Card - a device used to purchase goods without cash or to obtain cash advances up to a certain pre-approved credit limit.

Credit Insurance - insurance offered in conjunction with credit, which makes the person's payments if death or injury occurs.

Credit Rating - an evaluation of the credit history of an individual or firm to determine if worthy of the extension of additional credit.

Credit Scoring - a system of scoring credit worthiness based on factors such as income, whether you own or rent, length of residence at an address, etc.

Credit Services Organization - a person or merchant who, in return for payment of money, provides a service of improving a consumer's credit record or arranges for or obtains an extension of credit or assists the customer in either of these two areas.

Credit Worthy - meeting certain standards and eligible to have credit extended.

Creditor - a person or firm to which a debt is owed.

Debt - an obligation owed to another.

Debtor - one who owes a debt.

Deceptive Advertising - advertising that is false or that misinforms or misleads the consumer.

Default, Closed-end - when an amount exceeding one full payment remains unpaid for more than 10 days after the scheduled due date.

Important Credit Terms

Default, Open-end - the failure to make two required payments when due within a 12-month period.

Deferral - a postponement of an obligation.

Deficiency Judgment - when the sale of property in a foreclosure or repossession action does not cover the debt outstanding, a court may issue such a judgment declaring the debtor liable for the remaining balance.

Delinquency - the failure to pay on a obligation when due.

Disclosure - informing the consumer in writing of the terms and conditions of a transaction.

Discretionary Income - also called disposable income, this is the amount of money available to spend each month after all essentials such as food, clothing, housing and debts are covered.

Deposit - money or securities left with a financial institution, or, an amount offered on a purchase or a loan to show good faith, or as collateral.

Escrow - a fund used to set aside monies paid by the debtor for eventual payment of things like property taxes or property insurance. The financial institution holds the funds for eventual transmittal to a third party at a date in the future.

Equal Credit Opportunity Act - enforced by the Federal Trade Commission, the federal legislation protects individuals from discrimination in the granting of credit on the basis of race, sex, religion and other factors.

Fair Credit Reporting Act - 1971 federal law ensuring easier access to personal credit records and the opportunity to both correct inaccurate entries and challenge disputed entries in writing.

Finance Charge - the total cost of obtaining credit.

Financial Statement - a written record of the financial status of an individual, association, or business organization. It includes a balance sheet (also called statement of condition), and a profit and loss statement (also called an income statement).

Fixed Rate Loan - a loan or mortgage in which the interest rate is determined at the beginning of the term and stays constant throughout.

Important Credit Terms

Foreclosure - a court action in which, because of missed payments, the owner loses title to a property.

Garnishment - a court order requiring an employer to deduct monies from a person's paycheck or that deducts monies from a financial institution account for a specific purpose.

Home Equity Line of Credit - an account that allows a homeowner to use the equity in property which has built up over time as a line of credit for purchases, cash advances and loans to him or herself.

Inflation Rate - an indication of how much the cost of consumer goods has risen over a specified period of time, usually a year.

Insolvent - Unable to pay debts. Bankrupt.

Interest - the cost of credit; usually a percentage of the total loan, which is charged for the benefit of using the funds borrowed.

Judgment - a court order requiring some person or firm to pay an amount of money or surrender property to another.

Lease (consumer, motor vehicle) - the transfer of the right of possession and use of a motor vehicle primarily for a personal, family, or household purpose, for a period longer than four months, and the amount of the lease does not exceed \$25,000.

Letter of Credit - there are many specific types of letters of credit; in general, a written letter which guarantees payment of a person's or a firm's draft, check, order or transaction.

Liabilities - the financial obligations of a person or a firm such as debt, accounts payable, etc.

Lien - a claim by a creditor or other party against an asset. If an obligation is not fulfilled, the property may be seized through a court order to satisfy the lien.

Line of Credit - an amount of credit which a financial institution makes available to a business or consumer during a specified period of time.

Important Credit Terms

Loan - 1) in general, the use of something of value for a period of time by someone other than the owner; 2) an agreement to borrow money, most often in writing and for a specific period of time, at a stated interest rate and repaid according to a specified plan.

Mortgage - a type of debt in which the borrower gives the lender a lien against the property until the funds are paid back. When involving personal property as opposed to real estate, the term is "chattel mortgage."

N.S.F. Check - (see non-sufficient funds check).

Net Loan Charge-Off - the portion of a loan considered uncollectible after any recovery amount gained through the sale of repossessed or seized goods or property. This amount is charged off as an expense to the business or financial institution.

Net Payoff - the amount paid to a creditor to pay off a loan or account. Any precomputed charges or interest are deducted to determine the figure.

Net Worth - the value of an individual or business, determined by subtracting all liabilities from all assets.

Non-Accrual Loan - a loan that is no longer earning interest because of non-payment by the borrower. If not properly classified as non-accrual, the financial institution may incorrectly overstate its earnings.

Non-Filing Insurance - an insurance policy taken out by a loan company or other firm rather than filing a formal courthouse lien against collateral.

Non-Sufficient Funds Check - a check that cannot be cashed because not enough funds are on deposit in the account. When the check is presented to the financial institution, it may be stamped NSF and returned.

Notice of Right to Cancel - a formal written notice that must meet certain legal requirements, informing a consumer of his or her right to cancel a contract (see right to cancel).

Official Fees - fees paid to government agencies or officials for various filings, certain taxes, processing of official documents or actions, or insurance in lieu of filing.

Important Credit Terms

Open-end Credit - a credit plan that allows a consumer to make repeated credit transactions under one agreement, provides for a finance charge and permits payment in full or in installments.

Overdraft Checking - a checking account with a pre-approved line of open-end credit to avoid NSF checks and overdrafts.

Participation Loan - a loan made by one financial institution, in which other financial institutions acquire an interest in order to limit the risk to any one financial institution.

Points and Origination Fees - special fees charged at the beginning of a mortgage loan that pay for various approvals, forms, and paperwork needed to process the transaction. One point is the equivalent of one percent multiplied by the principal amount of the proposed loan.

Post-dated Check - a check issued for a date later than the day on which it is written; the recipient should not deposit it prior to the written date.

Precomputed Interest - interest that is determined at the time a loan is granted and is added to the amount borrowed, the total of which is paid in equal installments.

Precomputed Transaction - a debt expressed as a single sum, comprised of the principal amount financed plus the total finance charges computed for the full term of the agreement.

Pre-payment - the ability to pay the balance of an extension of credit before it is due.

Prime Rate - the interest rate which a financial institution charges its largest and best corporate customers, often used as a basis to price other loans.

Principal - the amount of money borrowed.

Promissory Note - a written promise to pay a certain sum under terms acceptable to both the borrower and the lender.

Refinancing - entering into a new credit agreement that replaces one or more prior agreements.

Refundable Interest - interest that by law must be refunded if the precomputed loan is paid more quickly than called for in the original payment schedule.

Important Credit Terms

Reorganization - a term in bankruptcy proceedings in which a firm and its debts are reorganized under federal law to allow the firm to continue operating.

Repossess - the seizing of collateral by a financial institution or merchant because of nonpayment, usually with the intention of selling it to recover at least a portion of the loan balance.

Retail Installment Contract - an agreement between a merchant and a consumer to purchase goods or services, to be paid for in installments.

Revolving Credit - a credit account to which additional purchases may be made, to which finance charges are assessed on any outstanding balance, and that may be paid in full at any time (see open-end credit).

Right to Cancel - under certain circumstances, the consumer's right to cancel a contract within a specified period of time.

Right to Redeem - the right of a consumer to buy back, within a specified period of time, an item of collateral that was seized for nonpayment.

Rule of 78's - a method used to compute the refund due the consumer under a precomputed transaction.

Secured Credit Card - a card for which the financial institution requires a collateral deposit to be kept to cover purchases made with the card (also called a collateralized credit card).

Security Interest - a right to collect or foreclose on property listed as collateral if the debt is not paid according to terms.

Service Charge - any of a number of different fees charged by financial institutions that help defray the costs of processing checking and savings account transactions.

Simple Interest - a method of calculating the earned finance charge by applying the annual percentage rate to the unpaid balances for the actual time those balances were unpaid up to the date of prepayment. The basic concept is that the finance charge is computed only on that portion of the original amount financed that is still owed.

Small Business Administration - (SBA) a federal agency whose mission is to assist small business by providing specialized information and training, and by providing low interest loans.

Important Credit Terms

Statement of Condition - a key financial statement that shows the levels of assets, liabilities and capital as of a given date (also called a balance sheet).

Surety Bond - a type of guaranty or insurance that protects a person, firm, or government if a party fails to perform a contract as agreed, or is guilty of misconduct.

Tattletale Notice - under the Wisconsin marital property laws, notice provided to a married person by a firm or lending institution that the person's spouse has signed a contract, taken on debt or opened an account.

Three Day Right to Cancel - (see right to cancel) under state and federal law, consumers have three days to cancel a contract under certain conditions.

Transaction - a business event such as the sale of an item, the payment on an account, a deposit or other event resulting in an exchange of value.

Truth in Lending Act - a key federal statute that provides for important disclosures of terms and ensures various consumer rights in lending transactions.

Unearned Charges - certain fees charged to borrowers that by law are refunded when a debt is prepaid in full.

Unsecured Loan - a loan for which no collateral is taken as security (also called a signature loan).

Variable Rate - A periodic rate that may change based on some type of index. If the rate is subject to change, this must be disclosed to you in writing.

Vender Single Interest Insurance - a special type of insurance to protect the creditor if the consumer defaults or collateral is damaged.

Voluntary Surrender - when a debtor gives up property, without a request or order to do so by the creditor.

Wage Assignment - an agreement signed by a debtor requesting that a certain amount of her or his wages be deducted to pay another person or firm, for a debt or obligation.

Wisconsin Consumer Act - a body of law enacted in 1973 that sets forth the rights of consumers in transactions involving credit (Chapters 421-427 of the Wisconsin statutes).

Write-off - see Charge-off.



About DFI

DFI provides financial education through our *Your Money Matters* program including:

Website access to a wide range of business and financial information from DFI, and the *Your Money Matters* event calendar.

Informational brochures on Investing, Credit, Financing and Entrepreneurship.

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Division of Banking - regulatory responsibility for state-chartered banks, mortgage bankers and licensed financial service providers.

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Office of Credit Unions - supervision of state-chartered credit unions.

Division of Savings Institutions - supervision of savings and loans, and savings banks.

Division of Securities - regulates offerings of securities including mutual funds; franchise offerings; broker-dealers and securities agents; investment advisers and investment adviser representatives.

Wisconsin Consumer Act - Counsels consumers and merchants regarding their rights and responsibilities under the Act, which governs consumer credit transactions and the collection of consumer debt.

About DFI



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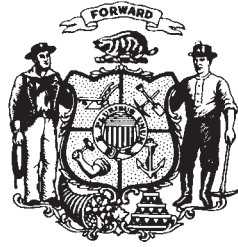
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This brochure was written by
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DEPARTMENT OF FINANCIAL INSTITUTIONS

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You can file a complaint by writing to:

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Wisconsin Consumer Act Section
PO BOX 8041
Madison, WI 53708-8041