

Credit

# Understanding Credit



Wisconsin Department of Financial Institutions



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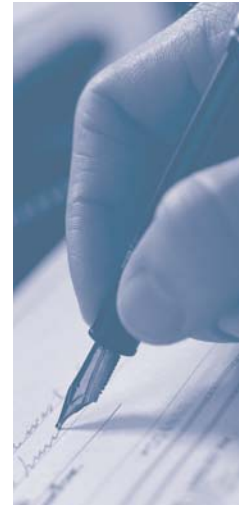


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# What is Credit?

**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? The word “credit” refers to the right to pay for something in the future. For instance, if you purchase furniture today but are allowed to pay for it over the next few years the merchant has given you “credit.” Having the ability to borrow money or purchase something on credit enables us to obtain things we would otherwise have to save for years to afford; like homes, cars, and a college education.

The word “credit” also refers to the belief or confidence in a person's ability and intention to fulfill a financial obligation. Credit is your reputation as a borrower. It tells others how likely you are to repay your loans. When you have good credit, companies will have a high level of confidence in you. As a result, banks will be willing to give you a loan and retailers will be willing to let you purchase something now but pay for it later. Many lenders offer better terms and lower interest rates to consumers that have good credit ratings. When you have bad credit, you will likely pay more for the credit or you may not be able to get credit at all.

Credit is a valuable tool, but it can also be a dangerous temptation, leading people into debt far beyond their ability to repay. Understanding credit is to recognize it is both good and bad. In fact, the advantages of credit cannot exist without the disadvantages.

When you purchase an item on credit you are not only acquiring that item but also acquiring the right to pay for that item over time. As a result, not only will you have to pay the purchase price of the item but you will also have to pay an extra amount for that right to pay over time. What you pay for the right to pay over time is called interest or a finance charge.

## Credit Strategies

### Telemarketers

Never give out your credit card, checking or savings account information to a telephone solicitor with whom you're not familiar. The caller may be a crook rather than a legitimate telemarketer and could use your personal account numbers to access your account and withdraw money without your permission.

# Obtaining Credit

**W** Whenever you apply for a credit card, a mortgage loan, or any other type of credit the lender will want to determine if you are a good credit risk. In other words, are you creditworthy? To answer that question the lender will look at three factors, commonly referred to as the three C's; capacity, capital and character.

Capacity - your present and future ability to pay back your loan. Your ability to meet your financial obligations would be determined by the stability of your employment, your income level and the amount of your already existing debts.

Capital - your savings and other assets that can be used as collateral for your loan. Collateral can be taken by the lender if you are unable to repay the loan in other ways. Many times the product you are purchasing with the loan proceeds will be used as collateral. Even with unsecured loans (i.e., loans with no collateral) lenders prefer that you have assets other than wages that could be used to repay the loan.

Character - your willingness to meet your financial responsibilities. Are you trustworthy? Have you paid your other loans and bills on time?

The most important factor in determining if you are creditworthy is how you paid your past debts. Creditors can find out this information by reviewing your file at a credit bureau. Many different types of merchants report to credit bureaus and rate accounts to reflect the consumer's repayment practices. Obviously, a poor repayment history will not fare well with a lender who is considering your loan application. Creditors check payment histories not only for credit accounts, but also for non-credit debts, such as rent, electric and telephone bills.

Another important factor in determining whether your credit application will be approved is the amount of existing debt you have in relation to your income level. 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 the creditor's 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 reject an application if the credit report shows an excessive number of inquiries. Creditors have found that good credit risks usually do not have many credit inquiries. A record of inquiries will remain on your credit report for as long as two years.

# Your Credit Report

**A** credit report summarizes creditors' experiences with a consumer. Creditors listed in the credit report commonly include banks, loan companies and credit card companies. Accounts placed for collection by hospitals, utilities and landlords will also likely be listed in your credit report, as well as public records of judgments or bankruptcies

Information in your credit report can be obtained by prospective creditors to help them determine whether you are a good credit risk. You can also obtain a copy of your file to verify that the information in the file is accurate.

Credit reports are created by credit reporting companies, also known as credit bureaus. There are three nationwide consumer reporting companies - Equifax, Experian, and TransUnion. A federal law called the Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies to provide you with a free copy of your credit report, at your request, once every 12 months. The FCRA also promotes the accuracy and privacy of information in the credit files of the consumer reporting companies.

If you want to receive a free copy of your credit report do not contact the three consumer reporting companies individually. Free annual credit reports from each of the consumer reporting companies are provided through either: 1) [annualcreditreport.com](http://annualcreditreport.com), 2) 1-877-322-8228, or 3) Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

You may order your reports from each of the three nationwide consumer reporting companies at the same time, or you can order your report from each of the companies at different times. The law allows you to order one free copy of your report from each of the nationwide consumer reporting companies every 12 months.

## Credit Strategies

### Credit Report Errors

If you find an error in your credit report, notify the credit bureau in writing by either e-mail or U.S. mail that you dispute the accuracy of the information, and why (see sample letter on page 6). The credit 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

**A**dditional requests for credit reports can cost about \$11. However, if you have been turned down for credit based on information from a consumer reporting company, that consumer reporting company will give you a free copy if you contact them in writing within 60 days of the credit denial (see sample letter on page 5).

You also have the right to enter your own personal statement into your credit file. Your statement, up to a 100 words long, will become a 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 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 it off as a 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 because many of these organizations are scams. Even with the legitimate organizations, there is nothing they can do that you can't do for yourself at no cost other than postage. It is illegal for a credit repair service to require you to pay them before they provide the promised service.

If you are considering using a credit repair service, make sure the business you choose is registered with the Department of Financial Institutions. Contact our Department if you want more information.

## Credit Strategies

### Credit Report Questions

**Who has access to my credit report?** Credit grantors, debt collection agencies 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.

# Your Credit Report

Use this letter to request a free 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 (insert 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, such as Jr., Sr., II, III  
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

# Your Credit Report

Use this letter to dispute information in your credit report.

<p>Date</p> <p>Credit Bureau Name Address City State Zip</p> <p>Re: Your full name</p> <p>Dear Credit Bureau:</p> <p>I am disputing (describe entry) on my credit report. Enclosed a copy of your credit report with the disputed entry highlighted.</p> <p>List reasons.</p> <p>I request that you investigate this account and, if it cannot be verified, remove it from my credit file.</p> <p>If the entry is removed, I request that you make notifications according to section 611(d) of the Fair Credit Reporting Act.</p> <p>Sincerely,</p> <p>Your full name including generation, if applicable, such as Jr., Sr., II, III 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</p>
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Please note that it is important to enclose a copy of your credit report with the disputed entry highlighted.

# Credit Bureaus

**B**elow is contact information for the three major credit bureaus:

Trans Union Corp www.transunion.com 1-800-916-8800	Trans Union Fraud Assistance Center PO Box 6790 Fullerton CA 92834 1-888-909-8872
Experian www.experian.com 1-888-397-3742	Experian Fraud Department PO Box 9532 Allen TX 75013 1-888-397-3742
Equifax www.equifax.com 1-800-685-1111	Equifax Fraud Assistance Center PO Box 105069 Atlanta GA 30348-5069 1-888-766-0008

## Credit Strategies

### Contacting Credit Bureaus

There are three main credit bureaus servicing the United States: Trans Union, Equifax and Experian. Each bureau is independent and a competitor of each other. Because of this there could be differences between the reports of the three credit bureaus. It is most likely, however, that the reports from the three bureaus will be quite similar because, for the most part, they use the same sources of information. If you find an error in one report it is likely the error also exists in the other reports. For that reason when you find an error you should review the reports from the other bureaus and also inform them of the error if need be. That way you can ensure that all of your credit reports are accurate and up to date.

# 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 that:

- ◆ When creditors furnish information to credit bureaus that it be accurate and complete.
- ◆ Credit bureaus investigate any disputed information. If your claim is found to be valid, your report must be corrected.
- ◆ 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 the FCRA, complain directly to the credit bureau in writing through their website or the U.S. mail. They may correct the problem. If not, contact the Federal Trade Commission (FTC). While the FTC can not always resolve individual complaints, they do use consumers' complaints and inquiries to decide which companies to investigate for violations.

## Credit Strategies

### Stop Telemarketing Calls

To remove your name and number from telephone solicitation lists, please contact:

Federal Trade Commission  
Do Not Call Registry  
[www.ftc.gov](http://www.ftc.gov)  
1-888-382-1222  
1-866-290-4236 TTY

and

Wisconsin Department of Agriculture, Trade and Consumer Protection  
Wisconsin No Call List  
<https://nocall.wisconsin.gov/web/home.asp>  
1-866-9NO-CALL (1-866-966-2255)

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 a record of such requests and to inform the companies they represent of the customers who want their names removed from the lists.

# Credit Scoring

In some situations creditors use a scoring system to determine whether to approve a credit application. Each creditor determines what score you need to qualify for the credit it is offering. Scoring systems are used because they can automate the entire approval process which speeds up the process and saves money for the creditor. There are many factors that go into determining your score, such as length of credit history, but the best way to ensure a good credit score is to pay your debts on time.

Credit scores are commonly referred to as FICO scores because the most common scoring system is the FICO system. FICO is an acronym for the company that developed the scoring system, which is Fair Isaac and Company. The system software uses mathematical formulas and the information in your credit bureau file to determine your score. The maximum score with the FICO system is 850.

## Credit Strategies

### Improving Scores

One way to improve your credit score is to not use more than 50% of the credit limit on your credit cards. Keeping your credit card balances relatively low in comparison to what they could be (your credit limit) shows that you are not financially desperate. It also shows you have the will power to control your spending.

# 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 have a high balance, shop for a card with a low rate. As a tradeoff you may have to pay a higher annual fee. A credit card will have either a fixed or variable interest rate. Variable rate credit cards can change their rates from month to month without providing an advance notice to the cardholder. Interest rates on fixed rate cards can also change but in this case the credit card company must provide an advance notice of the change to the cardholder.

Many credit card offers provide a so-called teaser rate, which is a low interest rate that will exist only for the first few months after the card is issued. Read credit card offers and applications carefully to make yourself aware of any teaser rates and when they will expire.

*Annual fee* - Many credit cards do not assess an annual fee, sometimes called a membership fee, but others do. The cards that do assess an annual fee will assess it whether you use the credit card or not.

*Grace period* - Many credit cards have a so-called grace period which is usually 20 to 25 days following the date your monthly billing statement is mailed to you. Most credit cards will not assess any finance charges if you pay off your full balance each month within the grace period. The credit cards that do not have a grace period will usually assess interest on your outstanding balance from the date the balance was incurred, for example, from the date of purchase.

*Reward Programs* - Some credit card companies offer "rewards" as an incentive for you to use their card. A common rewards program will refund a certain percentage, commonly 1%, of the total amount of all purchases made with the card. With another common rewards program, the cardholder will earn points each time the card is used and those points can later be used to purchase items such as airline tickets.

As you can see, there are various factors involved in choosing a credit card. Shop around and choose the credit card tailored most to your needs.

# Credit Problems

**S**ometimes, 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. If you are interested in working with a credit counseling service, contact the Department of Financial Institutions to see if the organization is properly licensed in Wisconsin.

**Bankruptcy**-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. Consumers should always consult with an attorney when considering bankruptcy. Although bankruptcy will clear most of your debts, it may not eliminate spousal and child support payments, some student loans, taxes or fines. Bankruptcies will appear on your credit report for 10 years.

## Credit Strategies

### Secured Credit Cards

Secured credit cards can be useful for people who have poor credit and are unable to get a regular (unsecured) credit card. With this type of credit the credit card issuer requires you to deposit and maintain a minimum amount of money with them. Your credit limit on the credit card will likely equal the amount on deposit. Interest charges and other fees on secured credit cards typically are higher than those on regular credit cards.

## Re-establishing Credit

**R**e-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/or savings account with your local financial institution. Often a smaller community bank or credit union will be more willing to help you because their policies may be more flexible than other lenders. Make sure to regularly deposit money into your accounts and never overdraw them. 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. If they can see that you have put your problems behind you they may be willing to grant you a loan.

You may also want to apply for a department store or gasoline company credit card. These credit cards are usually easier to get than a general purpose credit card.

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. Many credit repair companies are scams.

### Credit Strategies

#### Three Day Right to Cancel

Wisconsin law allows consumers to cancel certain transactions within three days but 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 at an appliance store, the three day right to cancel would not apply. Whether you have the right to cancel in that situation would depend on the store's policy.

# Disputing a Debt with a Collection Agency

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 must do to document the dispute.

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 Department.

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.

## Stop Junk Mail

**A**re you annoyed by all of the credit card offers you receive in the mail? If so, you will be happy to know that you can have those mailings stopped. You are receiving those offers because your name is appearing on a list of pre-screened consumers that the credit card company purchased from a credit bureau. 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.

If you decide that you don't want to receive prescreened offers of credit and insurance, you have two choices: You can opt out of receiving them for five years or opt out of receiving them permanently. Call toll-free 1-888-5-OPTOUT (1-888-567-8688) or visit [www.optoutprescreen.com](http://www.optoutprescreen.com) for details. The telephone number and website are operated by the major consumer reporting companies. When you call or visit the website, you'll be asked to provide certain personal information, including your home telephone number, name, Social Security number, and date of birth. The information you provide is confidential and will be used only to process your request to opt out.

To remove your address information from national mailing lists used by other types of merchants, please contact:

Direct Marketing Association  
[www.dmachoice.org](http://www.dmachoice.org)

**Credit Strategies**

### **Identity Theft**

Reducing the amount of mail you receive will reduce the chances of you becoming a victim of identity theft.

# Credit and Divorce

If you have gone through-or are considering-a divorce, take a close look at the issues involving your credit. If any debt was incurred during the marriage both you and your spouse are responsible for payment of that debt, even if the credit account was not a joint account. That is because Wisconsin is a marital property state. Pay attention to the status of your credit accounts. It is important to continue to pay the required payments. 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 you are protected.

## 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, regardless of any court ordered divorce settlement. 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.

**C**onsider 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.

# The Equal Credit Opportunity Act

**S** 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, debts and credit history to evaluate applicants, but they cannot discourage anyone from applying for credit.

## **Creditors may not:**

- ◆ 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;
- ◆ Consider the race of people who live in the neighborhood where you want to buy or improve a house with borrowed money;
- ◆ 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:**

- ◆ You are a minor;
- ◆ Your age would affect your credit worthiness, such as a decreased income due to upcoming retirement.

# The Equal Credit Opportunity Act

**W**hen evaluating your income a creditor may not:

- ♦ Refuse to consider reliable public assistance income in the same manner they would consider other income;
- ♦ Discount income because of your sex or marital status (such as scoring a man's income as 100% and a woman's as 75%);
- ♦ Assume that a woman of child-bearing age will stop working to raise children;
- w Discount or refuse to consider income because it is derived from part-time employment or from pension, annuity, retirement benefits, or;
- ♦ 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:**

- ♦ To know whether your credit application has been accepted or denied within 30 days of filing it;
- ♦ 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;
- ♦ 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.
- ♦ 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.
- ♦ 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.
- ♦ 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.
- ♦ 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.

## Who to Contact

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

<i>If Your Situation Involves:</i>	<i>Contact:</i>
State-chartered bank or credit union; loan company; finance company; car dealership	<i>Department of Financial Institutions Bureau of Consumer Affairs PO Box 8041 Madison WI 53707-7876</i>
Mortgage company, adjustment service company, collection agency, credit service organization, currency exchange seller of checks, insurance premium finance company	<i>Department of Financial Institutions Division of Banking PO Box 7876 Madison WI 53707-7876</i>
Credit bureau	<i>Federal Trade Commission Consumer Response Center 600 Pennsylvania Ave, NW Washington DC 20580 1-877-FTC-HELP (1-877-382-4357)</i>
Nationally-chartered bank (the word national or federal, or the abbreviation N.A. will appear in the name)	<i>Office of the Comptroller of Currency Consumer Assistance Group 1301 McKinney Street, Suite 3450 Houston TX 77010-9050 1-800-613-6743</i>
Federally-chartered or federally insured savings and loan association (the initials FSB will follow the name)	<i>Office of Thrift Supervision Consumer Affairs Division 1700 G Street NW Washington DC 20552 800-842-6929</i>
Federally-chartered credit union	<i>National Credit Union Administration Consumer Affairs Division Region 4 4807 Spicewood Springs Rd, Suite 5200 Austin TX 78759-8490 1-800-755-1030</i>

# Definitions

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

**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 which, 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.

**APR** - (see annual percentage rate)

**ARM** - (see adjustable rate mortgage)

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

**Bankruptcy** - the discharge or forgiving of one's debts by a federal court.

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

**Charge Off** - when a customer's account or loan is removed from the creditor's balance sheet because it is considered likely to be uncollectible. The customer, however, remains liable for the debt and may face collection action.

**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 which are pledged as security for a loan. If the loan is not paid, the items can be taken (repossessed) by the creditor.

# Definitions

**Compound Interest** - a method by which interest is calculated not only on the principal amount of the loan but also on any previously earned but currently unpaid interest. In other words, charging interest on interest.

**Consolidation Loan** - a loan which combines and refinances other obligations.

**Consumer Credit** - credit extended for personal, family, or household purposes.

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

**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.

**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.

**Cosign** - to sign a contract, such as a loan, with another person (borrower). Both signers are obligated to the terms of the contract.

**Credit** - the belief or confidence in a person's ability and intention to fulfill a financial obligation. Also, the ability to borrow money from a lender; also the ability to purchase goods and pay for them later.

**Credit Bureau** - a firm which creates and maintains credit reports on individuals and businesses.

**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 borrower's payments if a certain event occurs, such as death or injury.

# Definitions

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

**Credit Sale** - a sale in which the purchase price is paid over time.

**Credit Scoring** - a system of scoring credit worthiness based on various factors.

**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.

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

**Debt** - an obligation owed to another.

**Debtor** - one who owes a debt.

**Default** - to break the terms of a contract. For example, to not make scheduled payments on a loan..

**Deferral** - a postponement of an obligation, such as to push back the due date of an installment on a loan.

**Deficiency Judgment** - when the sale of property in a foreclosure or repossession action does not cover the debt outstanding, and a court order declares the debtor liable for the remaining balance.

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

**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.

# Definitions

**Equal Credit Opportunity Act** - A law enforced by the Federal Trade Commission, that 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.

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

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

**Home Equity Line of Credit** - an account which 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 that some person or firm pay an amount of money or surrender property to another.

# Definitions

**Lease** - the transfer of the right of possession and use, but not ownership, of certain property, such as a car or apartment.

**Letter of Credit** - a written letter which guarantees payment of a debt.

**Liabilities** - the financial obligations of a person or a firm.

**Lien** - a claim by a creditor or other party against an asset. If an obligation is not fulfilled, the asset/property may be seized by the creditor 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.

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

**Non-Accrual Loan** - a loan which 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 assets.

# Definitions

**Non-Filing Insurance** - an insurance policy taken out by a lender to protect the lender in case of default by the borrower. The insurance is used in place of filing a lien on collateral.

**Non-Sufficient Funds Check** - a check which 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 which must meet certain legal requirements, informing a consumer of his/her right to cancel a contract.

**Official Fees** - fees paid to government agencies or officials for various purposes such as taxes, processing of official documents or actions, filing liens, etc.

**Open-end Credit** - a credit plan which 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 which pays 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 that is dated with a date sometime in the future; the recipient should not deposit the check prior to the check's date.

**Precomputed Loan** - a loan in which the outstanding balance is expressed as a single sum comprised of the principal amount financed plus the total finance charges computed for the full term of the agreement. If the loan is paid off early a partial refund of the finance charge will be made.

**Pre-payment** - 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.

# Definitions

**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 which repays/replaces one or more prior agreements.

**Refundable Interest** - interest which by law must be refunded if the loan is paid more quickly than called for in the original payment schedule. This usually occurs with precomputed loans.

**Reorganization** - a term in bankruptcy proceedings in which the payment schedule of a firm's debts are changed to be more favorable to the firm 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 balance owed.

**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 which may be paid in full at any time (see open-end credit).

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

**Rule of 78's** - a method used to compute the unearned portion of certain charges, like finance charges or insurance premiums. The unearned portion should be refunded to the consumer.

**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.

# Definitions

**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. The basic concept is that the finance charge is computed only on that portion of the original amount financed which 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.

**Statement of Condition** - a key financial statement which 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 which protects a person, firm, or government if a party fails to perform on a contract as agreed, or is guilty of misconduct.

**Tattletale Notice** - a notice provided by a creditor to inform a spouse whenever the other spouse obtains credit. The notice is required by the Wisconsin marital property law.

**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 law that requires certain disclosure in credit transactions and ensures various consumer rights in those transactions.

**Unearned Charges** - certain fees charged to borrowers which 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** - An interest rate that may change from time to time.

**Vender Single Interest Insurance** - a 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.

# Definitions

**Wage Assignment** - an agreement signed by a debtor requesting that a certain amount be deducted from the debtor's paycheck to be used to pay another person or firm.

**Wisconsin Consumer Act** - a law enacted in 1973 which 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** is an abbreviation for the Department of Financial Institutions. DFI's mission is to ensure the safety and soundness of Wisconsin's financial institutions, to protect the consumers of financial services, and to facilitate economic growth.

**DFI** regulatory areas include:

*Bureau of Consumer Affairs* - regulates consumer credit transactions through the administration of the Wisconsin Consumer Act.

*Division of Banking* - regulates state-chartered banks, mortgage bankers and licensed financial service providers.

*Office of Credit Unions* - supervises state-chartered credit unions.

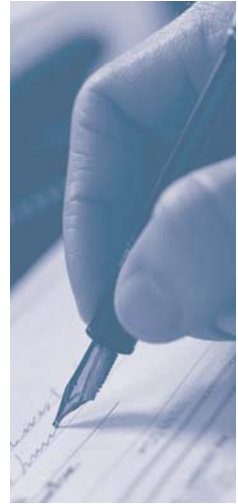
*Division of Securities* - regulates offerings of securities including mutual funds; franchise offerings; broker-dealers and securities agents; investment advisers and investment adviser representatives.

*Division of Corporate and Consumer Services* - responsible for maintaining the state-wide database of Uniform Commercial Code lien filings for secured transactions, and also for maintaining the corporate filings for domestic and foreign corporations, limited partnerships, limited liability companies and limited liability partnerships.

**DFI**'s educational activities include providing:

- ◆ Website access to a wide range of financial information for both consumers and businesses.
- ◆ Speakers for meetings, seminars and classrooms.
- ◆ Electronic brochures on investing, credit, financing and entrepreneurship.
- ◆ A partnership with over 100 organizations to facilitate various educational events.
- ◆ Counseling for consumer and businesses regarding their rights and responsibility under the law.

## About DFI



**DFI** is a self-supporting agency funded by fees charged to those it regulates.

**DFI** is here to serve you! Visit us at:

345 West Washington Avenue, Madison, Wisconsin.  
Office hours are Monday through Friday, 7:45 a.m. to 4:30 p.m.

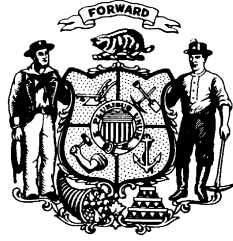
**DFI** ...To learn more about us visit our Website at:

[www.wdfi.org](http://www.wdfi.org)

This brochure was written by:

Paul D. Egide  
Director  
Bureau of Consumer Affairs  
Wisconsin Department of Financial Institutions

State of Wisconsin



**DEPARTMENT OF  
FINANCIAL INSTITUTIONS**

[www.wdfi.org](http://www.wdfi.org)

345 West Washington Avenue  
Madison, WI 53703

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**You can file a complaint by writing to:**

Department of Financial Institutions  
Bureau of Consumer Affairs  
P.O. Box 8041  
Madison, WI 53708-8041