

# Basics of Credit and Debt Collection

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*DC Kincare Alliance*



**TZEDEK DC**  
Legal Help for People in Debt

# DISCLAIMER

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Tzedek DC is a nonprofit public interest center focused principally on safeguarding the rights of low-income DC residents facing debt-related problems. Tzedek DC provides this presentation solely for general information and training purposes. This presentation is not intended to convey or constitute legal advice, nor does it create an attorney-client relationship. This presentation should not take the place of obtaining legal advice from a qualified attorney or from applying legal rules to a particular set of facts or circumstances.



# TZEDEK DC: Introduction

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**Tzedek DC** is an independent public interest center headquartered at the UDC David A. Clarke School of Law. We have three projects:

Direct legal services in consumer/commercial debt cases for DC residents up to 400% of FPGL

Policy advocacy for laws / rules reform

“Know Your Rights” / community legal education and financial literacy trainings

# PRESENTATION OVERVIEW

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Introduction to Credit

Credit Score

Credit Reports

Factors That Affect Your Credit Score

Your Rights Against Debt Collectors



# What is Credit?

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Credit is the ability to borrow money or get goods and services with the understanding that you will pay later.

Creditors decide if they will give you credit based on whether they think you will pay back what you borrowed.

Creditors can be lenders (Banks or Credit Unions), merchants (grocery or department stores), and service providers (utilities).

Creditors use credit scores and credit reports to decide how likely you are to pay them back or to determine your creditworthiness.



# Who Uses Your Credit Score / Credit Report?

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- Banks / Credit Unions
- Landlords
- Utility Companies
- Insurance Companies
- Employers



# Credit Score

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A credit score is a number that is supposed to give creditors an idea of how likely you are to pay back what you borrow.

A credit score uses a formula that considers many different factors to produce a number that measures your creditworthiness.

Consumers with a higher credit score are considered less of a risk by creditors.



# More Than One Type of Credit Score

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There are different types of credit scores. Creditors can decide what credit score they want to use.

The main type of credit score used by lenders is the FICO Score (300-850 range).

Creditors can decide what credit score they want to use.



# What Does Your FICO Credit Score Mean?

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- **Excellent:** 800 to 850
- **Very Good:** 740 to 799
- **Good:** 670 to 739
- **Fair:** 580 to 669
- **Poor:** 300 to 579



# Free Credit Score

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There are some companies that will give you a free credit score.

You can get a free credit score from

- Banks / Credit Unions
- Credit Card Companies
- [www.creditkarma.com](http://www.creditkarma.com)
- [www.creditwise.com](http://www.creditwise.com)

# CREDIT: WHAT IS A CREDIT REPORT?

- A credit report shows information about your credit activity, including loans, credit cards, and others
- This information is all important for understanding how likely you are to pay back money if you borrow it
- Many credit scores are based on information found in your credit report
- Credit reports do not include credit scores





# Credit Score vs. Credit Report

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A credit score is a **number** that is supposed to measure your creditworthiness.

A credit report is a document that contains information about you that the creator of the report believes is important to measuring your creditworthiness.

Most credit scores are based on information found in one or more of your credit reports.

# Credit Report

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Just as there are different types of credit scores, there are different types of credit reports.

The three main credit reporting agencies, also called “credit bureaus” are:



**EQUIFAX**®



TransUnion® 



 experian

# CREDIT REPORT: WHY CHECK IT?

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- To make sure accounts you did open are being reported correctly
- Wrong information may tell you that there is fraud or identity theft, which is important to fix
- Wrong information on your credit report, whether because of fraud or incorrect reporting, could lead to lower credit scores, denied credit, denied housing if you are trying to rent, and other issues
- You can better understand your current situation
- If you want to have good credit, it is helpful to see



# CREDIT REPORT: HOW TO CHECK IT?

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[WWW.ANNUALCREDITREPORT.COM](http://WWW.ANNUALCREDITREPORT.COM)

# Factors that affect your FICO credit score

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- Payment History
- Types of Credit
- Length of Credit History
- How Much You Owe
- New Credit



# Payment History

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Paying your bills on time is one of the main things you can do to maintain a high credit score.

Being late or missing a payments will significantly lower your credit score.



# Types of Credit

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Having a combination of different types of credit can help increase your credit score.

The three most common types of credit:

- **Revolving Credit Accounts** (Credit Card)
- **Installment Accounts** (Loan)
- **Open Accounts** (Utility Account or Service Account)

# Length of Credit History

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- The older your good credit accounts are the more it rises your credit score.
- Having a long credit history shows creditors that you have experience with credit.
- If you don't have a credit history at all or if your credit history is insufficient (not very long)short creditors have no information to measure your credit worthiness.



# How Much You Owe

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- The amount of money that you owe compared to the amount of credit that you have available has an impact on your credit score.
- Positive Impact: If you have a credit card with a \$1,000 credit limit but you only owe \$10 on the credit card, you have \$990 of available credit. This will have a positive impact on your credit score.
- Negative Impact: If you have a credit card with a \$1,000 credit limit and you owe \$900 on the credit card, you have \$100 of available credit. This will have a negative impact on your credit score.



# New Credit

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- **New Accounts:** Opening new credit accounts can have a negative impact on your credit, especially if you open a lot of accounts in a short period of time.
- **Hard Inquiries:** When you apply for credit, the creditor will usually run a “hard inquiry” to check your credit. Hard inquiries will lower your credit score. A creditor needs your permission before they perform a hard inquiry.
- **Soft Inquiries:** Soft inquiries are not usually associated with an application for credit. Soft Inquiries do not lower your credit score. Your permission is not needed before a soft inquiry is performed.



# Tips to Improve Your Credit Score

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- Pay your bills on time.
- Keep your credit card balances low and your available credit high.
- Don't close unused credit accounts if they are not costing you annual fees or other charges.
- If you are young,, or you don't have a long credit history, open a credit card account to start building a credit history.
- Check your credit report and "dispute" any mistakes or incorrect information.
- Don't open too many credit accounts in a short period of time.

# Treat Companies Offering to Help With Your Credit or Debt for a Fee With CAUTION!



- There is no magic quick fix to your raise credit score.
- **Most** things that credit repair and debt settlement companies say they can do for you are things you can do yourself for free. For Example, you can
  - Order a free credit report.
  - Dispute incorrect negative information in your credit reports.
  - Negotiate settlement of your debt yourself or with help from a legal services provider without paying a fee.
  - Develop a plan to try to pay down your debt.



# Paid Products to Improve Your Credit Scores: A Temporary Boost.

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There are a few financial products that cost money that can be used as tools to provide a temporary boost to your credit score.

- There are services available that will report your on-time rent and utility payments for a fee.
- There are financial products that help you save money while the payments into savings are reported as loan payments.

These products improve your score by reporting accounts to your consumer reports for a fee. This is only beneficial if your accounts are being paid ontime and are in good standing. And, they are temporary. If you stop paying, they stop reporting.

Because these score boosts are temporary, you should only use them if:

- You have little to no credit and are trying to become eligible for a starter credit product to build credit.
- You are rate shopping for a large credit purchase in the next several months like a house, or car, and want to get the most competitive rate.





# Can't Pay All of Your Bills?

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- First pay the bills that are most necessary for you and your family!
  - Housing
  - Food
  - Utilities
  - Medical



# If you are contacted by a debt collector you should . . .

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Keep a log of all your conversations with debt collectors. Make sure you write down the date and time of the conversation. The name of the person you spoke to and what you talked about. If they made any threats or profane language make a note of that.

Keep copies of letter or notices that they send you.



# Debt Collectors May Not Do the Following:

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- Threaten to send you to jail for not paying your debts
- Use threats of violence or harm
- Publish a list of names of people who refuse to pay their debts but they can give this information to the credit reporting companies
- Use obscene or profane language
- Call repeatedly on the phone to annoy someone
- Falsely claim that they are attorneys or government representatives
- Falsely claim that you committed a crime



# Verify your debt

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- Debt collectors are required to send you a written debt validation notice with information about the debt they are trying to collect.
- Within 30 days of receiving the notice from the debt collector you can send the debt collector a letter asking them to send you documentation that verifying that you owe the debt.
  - The Consumer Financial Protection Bureau has sample letters on their website.
    - <https://www.consumerfinance.gov/ask-cfpb/what-should-i-do-when-a-debt-collector-contacts-me-en-1695/>



# Cease and Desist Letter

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- You have the right to tell a debt collector to stop communicating with you.
- Once you send a cease-and-desist letter they most stop communicating with you.
- **WARNING:** Sending a cease-and-desist letter may increase the chances that they will try to sue you.



# Old Debt and Statute of Limitations

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- If a debt collector contacts you about a debt that is old you should seek legal advice before you make any payments.
- DC has a 3 year statute of limitations on most kinds of debt. The 3 years start to run when you first miss a payment.
- If you make a payment the clock on the statute of limitations starts all over again.



# What to do if you are served with legal court papers:

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- Seek free legal advice from a legal services organization like Tzedek DC.
- Make sure you respond or attend court as instructed in the paperwork you receive. Failure to respond and/or attend court could result in a default.
- If the court orders you to do something make sure that you comply. Not following a court order could result in you being detained and put in jail.

# Important Things to Remember

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- Your credit score is Important because it can affect your ability to get:
  - Loans
  - Housing
  - Utilities
  - Insurance
  - Bank Accounts
  - Employment
- To have and maintain a good credit score:
  - Pay bills on time
  - Keep credit card balances low
  - Don't close unused credit cards
  - Build a credit history
  - Check your credit report regularly
  - Don't open too many accounts.





# Contact Us

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