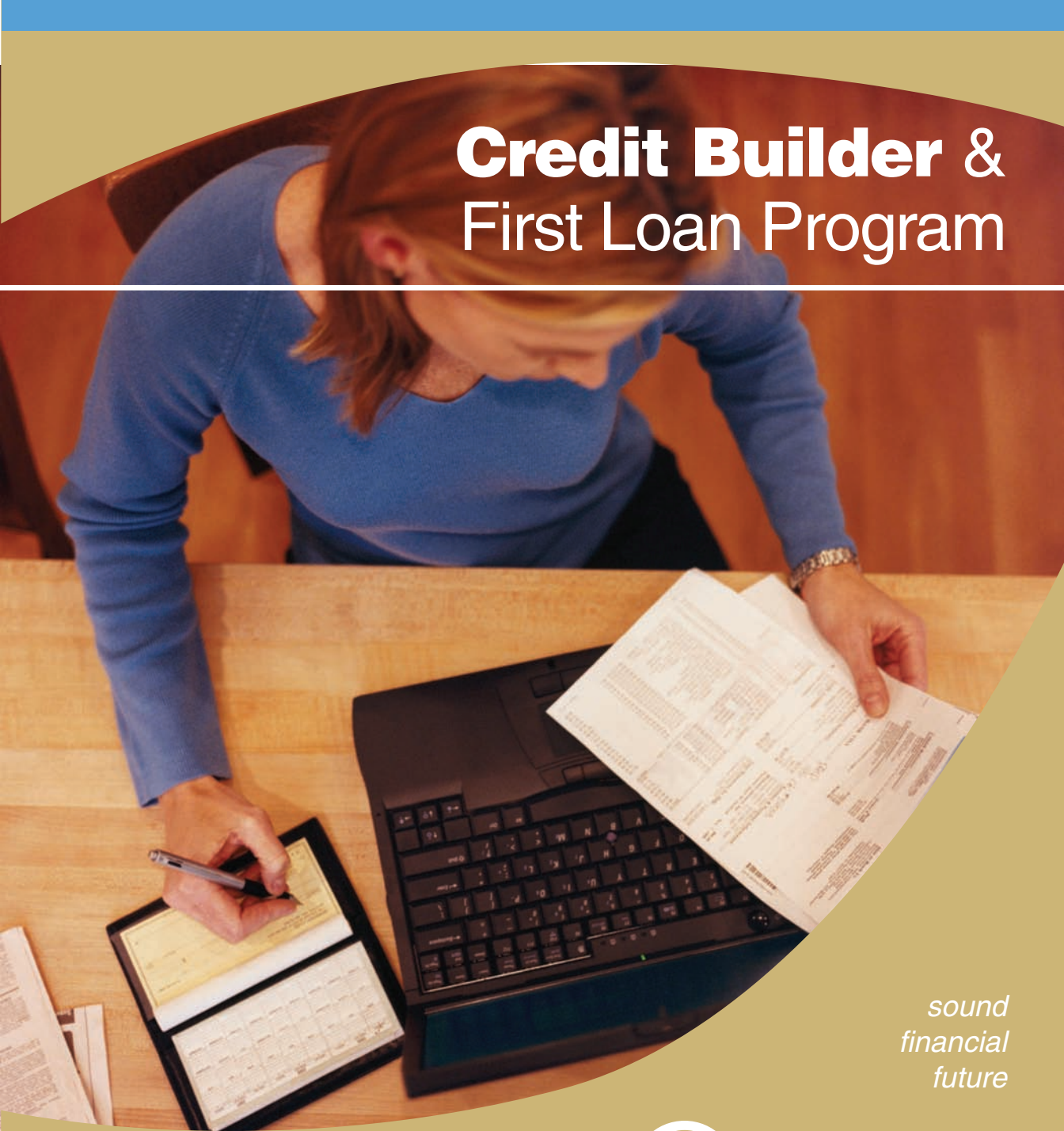


Credit Builder & First Loan Program



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SEFCU Credit Builder and First Loan Program Home Study Guide and Quiz

INTRODUCTION

Historically, SEFCU has held a lending philosophy that fosters making credit available to the widest possible segment of the membership. The basis for granting credit has been centered on a member's ability and willingness to pay, along with a demonstrated, positive credit history. These criteria can be summarized as "creditworthiness", a term that is used throughout the credit union's lending policy.

The credit history, or "credit profile" of a borrower traditionally carries significant weight in determining whether or not members can avail themselves of the low borrowing rates and favorable terms offered by the credit union. As the availability of credit products becomes more of a necessity than an option, SEFCU recognizes that some of our members, because of a lower credit rating, or no credit, may have been previously excluded from taking advantage of loan products. These members have been forced to seek credit at other institutions (including finance companies, etc.) at significantly higher costs.

SEFCU's Credit Builder Loan Program is designed to give members with a damaged credit history access to credit and the opportunity to demonstrate their ability to repay, thereby rebuilding a positive credit rating. In addition, this program is available to members who have not established a credit history so they may begin building a good credit record.

SEFCU's program is designed to benefit our members by:

1. Providing a source of credit that may not be available elsewhere without paying higher interest rates.
2. Providing an opportunity to correct current or past credit problems, thereby re-establishing creditworthiness over time through a specific, disciplined process.
3. Reducing the member's interest expense over the life of the loan, if the member makes timely payments and completes this Home Study Course.

THE APPLICATION PROCESS

How your application is judged

In order to obtain credit, you must be able to establish that you are creditworthy. Generally, that means that SEFCU considers you to have the willingness and ability to pay your bills when they are due. Having always paid cash for things that you purchase does not prove creditworthiness. To a certain extent, it can be said that you often have to *have* credit to *get* credit.

Most credit unions look at the four criteria defined below to help them decide your level of creditworthiness:

1. Credit history

Your credit history is a record of your bill-paying habits and is very important to potential lenders. Typically, four-to-five indicators of financial responsibility (such as good credit card and checking account histories) will be sufficient proof of positive bill payment activity. Some creditors will only consider such records if the accounts have been used for at least twelve months, and you have demonstrated your ability to handle them responsibly. Repayment of loans is another good indicator of your ability and willingness to pay debts.

Information on your bill-paying history is recorded by a credit bureau. A credit bureau is a clearinghouse of consumer credit information. Merchants and other creditors subscribe to credit bureau services and pay fees to obtain consumer information stored by the bureau.

A common misconception is that credit bureaus “rate” consumers and assign a “credit rating” to each person, according to his or her creditworthiness. However, credit bureaus do not rate consumers, nor do they decide who will receive credit and who will not. They merely compile, store, and distribute the information. Individual creditors determine an applicant’s creditworthiness according to their lending standards.

Your credit history consists of:

- A. Information (e.g., name, address, employer, Social Security Number) supplied by you when you fill out an application for credit.
- B. Reports from credit bureau members (e.g., stores, banks, and other creditors), that supply the bureau with information regarding the manner in which you repay your debts to them. Some of these creditors send this information to the bureaus on a monthly basis. This information is then made available to other member creditors of the bureau.
- C. Public records, such as notices of divorce, death, bankruptcy, court judgment, bad debt, and lawsuits.

2. Capacity

Capacity is sometimes known as “economic stability” and includes several factors, especially proof that you have a steady source of income.

The length of time at a particular job and how long you have been in the same field of work are important. Also important is the length of time you have lived at your current address. If you have been at a job or your most recent address for less than one year, potential lenders may consider your current situation to be unstable. (However, if the length of time in your previous job or residence was substantial, creditors may take that into consideration when assessing capacity.)

3. Collateral and capital

Collateral refers to the assets you may have (e.g., house, car, or furniture) that could be converted to money to pay back your loan. Capital is the money that you have in savings and/or checking accounts or other financial assets, including certain insurance policies, savings bonds, etc. These are indicators of your financial worth. Sometimes you may be required to pledge some or all of your assets, as collateral to obtain a loan.

4. Character

Character refers to your willingness to repay a loan, as determined by your credit report. The credit union looks for any indications of bankruptcy, repossession, civil suit for debt collection, indications of repeated late payments, or anything else that indicates you have not paid your bills in a timely manner. Maintaining on-time payments is critical to support the character determination when making a loan request.

Credit scoring systems

Many lenders use credit scoring systems to establish the creditworthiness of an applicant. This involves using a mathematical formula for objectively attempting to separate good credit risks from potentially bad ones. Statistical research compiled from large numbers of previous borrowers helps determine the most important characteristics for lenders to consider when granting loans to applicants.

Credit scoring systems have shown that certain criteria used in the past to determine creditworthiness, such as income level, were not very accurate ones. For example, a person earning \$40,000 per year who is in debt may not be as good a risk as one who earns \$25,000 per year and regularly saves \$200 per month. Newer credit scoring systems take into account many more factors than simply income level.

THE CREDIT BUREAU

A summary of your rights under the Fair Credit Reporting Act

The federal Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every “consumer reporting agency” (CRA). Most CRAs gather and sell information about you (such as whether you pay your bills on time or have filed bankruptcy) to creditors, employers, landlords, and other businesses. The FCRA gives you specific rights, as outlined below:

1. You must be told if information in your file has been used against you.

Anyone who uses information from a CRA to take action against you (such as denying an application for credit insurance or employment) must tell you, and give you the name, address, and phone number of the CRA that provided the report.

2. You can find out what is in your file.

At your request, a CRA must give you the information in your file, and a list of everyone who has recently requested it. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, as long as you request the report within 60 days of receiving notice of the adverse action. You are also entitled to one free report every twelve months.

3. You can dispute inaccurate information with the CRA.

If you tell a CRA that your file contains inaccurate information, the CRA must investigate the item (usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is deemed frivolous. The source must review your evidence and report its findings to the CRA. The source must advise national CRAs to which it has provided the data of any error. The CRA must give you a written report of the investigation and a copy of your new report, if the investigation results in any change. If the CRA's investigation does not resolve the dispute, you may add a brief statement to your file. The CRA must normally include a summary of your statement in future reports. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.

4. Inaccurate information must be corrected or deleted.

A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after you dispute it. However, the CRA is not required to remove accurate data from your file unless it is outdated or cannot be verified. If your dispute results in any change to your report, the CRA cannot reinsert a disputed item into your file, unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice informing you it has reinserted the item. The notice must include the name, address, and phone number of the information source.

5. You can dispute inaccurate items with the source of the information.

If you tell anyone (such as a creditor who reports to a CRA) that you dispute an item, they may not report the information to a CRA without including a notice of your dispute. In addition, once you have notified the source of the error in writing, it may not continue to report the erroneous information.

6. Outdated information may not be reported.

In most cases, a CRA may not report negative information that is more than seven years old, or more than ten years old for bankruptcies.

7. Access to your file is limited.

A CRA may provide information about you only to people with a need recognized by FCRA – usually as background for consideration of an application with a creditor, insurer, employer, landlord, or other business.

8. Your consent is required for reports that are provided to employers or reports that contain medical information.

A CRA may not give out information about you to your employer, or prospective employer, without your written consent. A CRA may not report medical information about you to creditors, insurers, or employers without your permission.

9. You may choose to exclude your name from CRA lists for unsolicited credit and insurance offers.

Creditors and insurers may use file information as the basis for sending unsolicited offers for credit or insurance. Such offers must include a toll-free phone number for you to call if you want your name and address removed from future lists. If you call, you must be kept off the lists for two years. If you request, obtain, complete, and return the CRA form provided for this purpose, you must be taken off such lists indefinitely.

10. You may seek damages for violators.

If a CRA, a user, or (in some cases) a provider of CRA data violates the FCRA, you may sue them in state or federal court.

THE IMPORTANCE OF BUDGETING

Making ends meet

Why should you have a spending plan?

There are many pressures on individuals and families today. One of the most common is the lack of money. For many, it is often a challenge to support themselves and their families on their current income. This stress can cause strained relationships and even health problems. Proper money management can help alleviate financial related stress.

Know where you are

No matter how good or bad your financial situation is, you should know how your money is being spent, and more importantly, where the money should be spent. A written budget gives you this knowledge and increases your ability to properly handle your household finances.

Keep it simple

There are various ways to create a budget. Most budgets fail because they are misunderstood or too complex to follow. A simple, basic budget can be very effective in managing your money.

One of the most frustrating areas of budgeting is planning for times when you may be unexpectedly short of money. If your income and expenses never changed from month to month, managing money would be much simpler! But since they do change, more planning must be done to properly manage your finances. The following tips can be used to balance your income and expenses, and to make preparing your budget an easier task.

Simple, but POWERFUL budgeting tips:

1. Pay bills twice a month.

Bills should be paid on the 1st and the 15th of each month. As you receive bills in the mail, place them in a file folder so they will be together on “bill payment days”. Bills can then be sorted and paid in order of due date. Paying bills on specific days during the month and making this part of your routine insures that you do not incur late fees because you missed a due date.

2. “Spread out” income.

If your income isn't the same each month of the year, you can balance your income over the full year by supplementing seasonal earnings with a second job during planned, off-season periods or additional part-time work throughout the year. For example, if a landscaper only has steady income from April through October, consider longer hours or additional part-time work during summer months or a different type of work from November through

March to assist in balancing out income needs. This, of course, means that you must set aside savings during the months when your income is the highest to supplement your needs for months when your income is lower.

3. Set aside money for large, occasional bills.

One of the most challenging aspects of budgeting is that some major payments are due only occasionally. For example, auto insurance premiums may be due every six months. This can create havoc with your budget if you have not saved for this expense. It is frustrating to use savings or, worse yet, not be able to pay this type of bill when it arrives. Budgeting and planning for these expenses will allow you to make the payments easily and on time.

An easy way to effectively plan for these bills is to open a SEFCU Owner's Choice savings account. You can designate custom categories within one account. For example, you could have Owner's Choice sub-accounts for taxes, auto insurance, tuition, and even summer vacation.

4. Make payments on all past due bills.

If you get behind on paying bills, a common error you might make would be to take your money and try to pay one or two bills in full. Too often, individuals and families take this approach, and then have no money left to apply to the remaining bills. This can cause immediate trouble with those creditors who receive nothing.

Try to pay some portion of all your bills. Don't pay any in full, unless there is enough money to do so. The overall goal is to make at least some payment toward all your bills until you are able to make good on the entire amounts owed. **However, you must discuss this ahead of time with your creditors.** Contact the creditor using the phone number listed on your bill and ask to make alternate payment arrangements. You may be asked how much you can afford to pay each month, so try to determine this before you call. Once you and the creditor have agreed on your new payment schedule, be sure to make the payments on time and include additional money each month, if possible, to decrease the amount of time you are in debt. Remember, the goal of making payments is to eventually pay off each bill entirely and not get behind again.

5. Resist the credit card temptation.

Credit cards should be used only when absolutely necessary. Although credit cards are easy to use, they cost more than budgeting ahead of time for a particular purchase. If you have to use a credit card, pay as much toward the balance as your budget allows. Credit card companies offer flexible payment plans, often requiring only a small minimum payment each month. However, do not be tempted to pay only the minimum payment. The increased finance charges you will pay by making only minimum payments will add to the cost of the item you purchased with the card. Also, paying only minimum payments extends the amount of time you will remain in debt.

For example, if you need to repair your roof and you charge \$2,000 on a credit card, your minimum monthly payment might be \$25. With a very low interest rate of 7.5% APR*, making only the minimum payment would take you more than nine years to pay off the debt and you would pay more than \$780 in interest. Increasing your monthly payments on the same credit card to \$50 a month means that you would pay off the entire debt in just under four years and the interest paid would be cut to just over \$300.

6. Live beneath your means.

Plan to spend less than what you make. Personal expenses are usually the first that can be trimmed. When making large purchases (such as a car), the cost should be carefully figured and compared to what your budget will actually allow for monthly payments. If possible, payments should be lower than what you can afford.

If you are in a situation where your income cannot cover basic living expenses, then you will more than likely have to seek extra income. Doing everything realistically possible to cut living expenses will help you set aside funds for unexpected expenses.

SAVE TO GET AHEAD

Once you are able to make ends meet, incorporate a savings plan into your household budget. No matter how tight the money gets, save at least a small amount of money as a cushion for unexpected bills or decreases in income. For example, setting aside a small amount each month may allow you to cover the expenses of car repairs, education needs, or other items that are not a normal part of your budget. Choose a longer-term savings account, such as a share certificate, for some of these funds. You will earn higher interest and will be less tempted to spend the savings because of the penalties assessed if you take the money out before the certificate term is over.

**Annual percentage rate. This rate is used as an example only, and does not reflect current SEFCU rates.*

PREPARING YOUR BUDGET

Start in the current spending column. Write down how much you spend per month, or how much you think you spend per month. When completed, add up your total expenses for the month, being sure to add any additional unlisted bills under the “other” category (e.g., credit cards and other loans not listed). Compare your total expenses to your total income.

To fine-tune your budget, and to find areas where you can cut back expenses, go through your budget a second time, using the right column to list the new, lower budgetary figure. Again, compare your expenses to your income when completed.

Prepare for expenses that occur only a few times per year by depositing enough money into a separate account.

HOUSEHOLD MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
RENT / MORTGAGE PAYMENT		
PROPERTY TAX		
HOME / RENT INSURANCE		
LOT RENT		
CONDO MAINTENANCE		
PEST CONTROL		
YARD WORK / GARDEN		
WATER / GARBAGE / SEWER		
GAS FOR HOME		
OIL FOR HOME		
PHONE		
ELECTRICITY		
CABLE / SATELLITE TV / INTERNET SERVICE		
FURNACE / AC REPAIR		
HOME / APPLIANCE REPAIR		
TOTAL		
TRANSPORTATION MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
CAR PAYMENT		
GAS AND OIL		
TIRES		
REPAIRS AND MAINTENANCE		
BUS / CAB / TRAIN FARE		
PARKING		
AUTO INSURANCE		
TOTAL		

FOOD MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
GROCERIES		
BAKERY / BUTCHER ETC.		
COFFEE BREAKS / VENDING		
BREAKFAST OUT		
LUNCHESES OUT		
DINNERS OUT		
TOTAL		
MEDICAL / OTHER CARE MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
DOCTOR / HOSPITAL VISITS		
DENTIST		
EYE DOCTOR		
COUNSELING / THERAPY		
PRESCRIPTIONS		
HEALTH INSURANCE		
LIFE INSURANCE		
DAYCARE		
BABYSITTING		
SCHOOL TUITION		
LESSONS		
SCHOOL ACTIVITIES / SPORTS		
TOTAL		
PERSONAL MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
PURCHASE FOR SELF		
PURCHASE FOR SPOUSE		
PURCHASE FOR CHILDREN		
LAUNDRY / DRY CLEANING		
ALTERATIONS / SHOE REPAIR		
HAIRCUTS		
COSMETICS / HAIR PRODUCTS		
ALLOWANCES		
TOTAL		
CONTRIBUTION MONTHLY EXPENSES	CURRENT SPENDING	NEW BUDGET
DONATIONS TO CHURCH		
DONATIONS TO CHARITIES		
TOTAL		

THE SEFCU CREDIT BUILDER & FIRST LOAN PROGRAM QUIZ

Be smart about your money and take advantage of options that will decrease the interest on your SEFCU loan. Once you have read the Home Study Course information, complete the quiz below and return it to SEFCU. If you make your monthly payments on time over the period specified in conjunction with your loan, and successfully complete and return this quiz **within the first year of your loan**, you may be eligible for a rate reduction for the remainder of your Credit Builder loan.

To be eligible for your reduced loan rate, complete all the answers and return the completed quiz to:

SEFCU
Attn: Loan Servicing, Credit Builder Program
P.O. Box 12189
Albany, NY 12205

1. SEFCU's Program is designed to provide a source of credit that may not be available elsewhere without paying higher interest rates.

TRUE / FALSE

(circle one)

2. Where is the information on your bill-paying history maintained?

3. Name three pieces of information found in your credit history.

4. What does the term "Capacity" mean in reference to your credit history?

5. What does the term "Character" mean in regard to your credit history?

6. Can you find out what information is contained in your credit report?

YES / NO
(circle one)

If so, how?

7. What must you do if you dispute your credit file?

8. Name three budgeting tips.

9. If money is tight, is it best to pay off just one of your bills, or small portions of all your bills? Why?

10. Why is it critical to include a savings plan in your budget?

Member name (Please print) _____

Member signature _____

Account number _____

Note: In order to qualify for this program, you must submit your authorized signature.



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