NAVY FEDERAL Credit Union

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UNDERSTANDING CREDIT

1-888-842-6328

For toll-free numbers when overseas, visit **navyfederal.org**

Collect internationally **1-703-255-8837**

TDD for the hearing impaired **1-888-869-5863**

Online at **navyfederal.org**

Or visit a branch

Credit is a convenience that allows you to make purchases today and pay for them over time. It's a loan that enables you to make purchases when you are lacking cash.

Credit is easy to use, but it's not free. The cost of credit—the interest rate you're charged—varies depending on your credit score, the type and term of credit you choose, if collateral is provided, and where you get your loan.

YOUR CREDIT SCORE AND WHY IT'S SO IMPORTANT

Your credit score reflects your credit profile and is based on your payment history. The use of credit scores to determine a borrower's creditworthiness is a lending industry standard. It has been proven that a credit score is the best predictor of a person's repayment performance. Borrowers with high credit scores are usually offered lower interest rates than those with lower scores.

The three major credit reporting bureaus—Equifax®, Experian®, and TransUnion®—assign you a score based on the information they have on file. Your credit score is determined by five pieces of information, with the most emphasis placed on the first two:

- Your payment history. Paying bills on time boosts your credit profile.
- Amount you owe. The higher the debt load you carry, the lower your score.
- Length of credit history. The longer your credit history, the higher your score.
- New credit. Frequent credit applications or inquiries for your credit report by creditors raise red flags.
- Forms of credit. Having different types of credit—installment loans, charge cards, or lines of credit—is viewed positively.

Credit score numbers range from 300 to 850 and may vary by credit reporting bureau. Experts recommend that you check credit reports and scores at least once a year to have any inaccurate information corrected. You're entitled to one free report per 12-month period from each credit bureau.

Contact Equifax at 1-800-685-1111 (equifax.com), Experian at 1-888-397-3742 (experian.com), and TransUnion at 1-800-916-8800 (transunion.com).

Factors that also play a part in whether lenders will extend you credit are your income, assets, length of employment, length of residence in one place, and education level.

TOP SEVEN WAYS TO IMPROVE YOUR CREDIT SCORE

1. Check your credit report for errors or incomplete information.
2. Pay all your bills on time and never skip payments, big or small.
3. Keep your credit card balances low by paying more than just the minimum.
4. Don't charge any single credit card or credit line to the maximum.
5. Avoid opening new credit card accounts unless absolutely necessary.
6. When shopping for a car or mortgage loan, make all inquiries within a 45-day period.
7. Don't close old unused accounts in good standing—they actually help your score.

PROTECTION FOR BORROWERS

The Truth-in-Lending Act protects you as you shop for credit. It lets you easily compare the cost of credit among different sources. The law requires that all credit-cost information be disclosed clearly before a credit contract is signed.

Lenders are required to disclose:

- the annual percentage rate (APR), which is the cost of your loan, or credit expressed as an annual rate, disclosed accurately to within 1/8 of 1%
- the fact that variable rates may apply
- the finance charge, which is the total of all charges for the loan, including interest and any service charges, carrying charges, or points

- the length of any grace period before you must make a payment
- the amount being financed
- the payments required
- other applicable fees, such as penalties for paying off a loan ahead of schedule

TWO TYPES OF CREDIT

Open-End Credit

Open-end credit includes credit cards, department store charge accounts, gasoline company cards, and checking account overdraft protection. Open-end credit can be used, paid off, and used again up to the pre-arranged credit limits. The Truth-in-Lending Act requires all lenders of open-end credit to notify the customer—45 days in advance—of any changes in the APR, the annual fee, or the method used to determine the balance.

The Truth-in-Lending Act also requires the lender to disclose the way interest is computed and the length of any no-interest period. With open-end credit, interest can be calculated several ways, including:

- Adjusted Balance—Interest is calculated after all payments made during the billing period are subtracted from the balance owed. This is the least expensive method.
- Average Daily Balance—Interest is calculated on the average daily balance during the billing period. This is the most common method.
- Previous Balance—Interest is calculated without consideration of payments made during the billing period. This is the most expensive method.

Closed-End Credit

Closed-end credit is a one-time, lump-sum advance of funds, such as a car or mortgage loan. In a closed-end transaction, a specific amount of credit is advanced for a specific period of time. Finance charges and the schedule of payments for the loan are agreed upon by the lender and you.

The Truth-in-Lending Act requires all closed-end credit providers to disclose the amount financed, the total amount of all payments (amount borrowed plus interest), and the total sales price (total cost of the purchase, including down payment).

SHOP AROUND

Credit is available from a variety of sources, including banks, credit unions, finance companies, car dealers, retailers, and even insurance companies. Each source and type of credit has its advantages and disadvantages.

To find the best source for your particular need, shop and compare. Arm yourself with an understanding of the Truth-in-Lending Act and the terms “finance charge” and “annual percentage rate.”

Commercial banks are the nation’s largest lenders. As with all lenders, the cost of credit at a commercial bank varies according to the type, the amount of the loan, and the quality of the collateral offered. For example, a new vehicle loan, with the vehicle offered as collateral, usually costs less than a used vehicle loan or personal loan.

Finance companies or small-loan companies specialize in personal loans. Except in Arkansas and Washington, DC, these loan companies operate under what are known as Small-Loan Laws, which regulate the amount that can be loaned and the maximum interest rates that can be charged.

Generally, the borrower pays one rate of interest up to a certain loan limit and then a lower rate for any amount over the limit, up to the maximum permissible loan size. Insurance is often required, and other fees are usually charged.

Credit unions are groups of people who share a common bond (employment, residence, or association) and pool their savings to make credit available to one another at reasonable rates. Loans granted to credit union members usually have lower interest rates than those from commercial banks.

UNDERSTANDING CREDIT

Retail sellers and credit card companies offer credit to encourage sales. Customers are able to buy what they want, when they want, and pay for it later. It's just as important to compare the APR and finance charges on this type of loan as it is on loans from other sources.

BE A WISE CREDIT SHOPPER

Before borrowing money or using any form of credit:

Things to Do

- Compare the cost of credit from different types of lending institutions before borrowing money.
- Determine the difference, if any, between the "cash" and "credit" price of the merchandise you are buying.
- Consider withdrawing money from your savings and paying cash instead of charging.
- Read your contract carefully—signed contract copies should be kept in a safe place.
- Ask for an explanation of all fees and charges included on your loan documents.
- Keep track of how much you "charge" so that your monthly statement won't surprise you.
- Try to pay off the full balances on your credit cards each month in order to avoid paying interest.
- Obtain itemized bills and keep your payment receipts.
- Inquire if there is a penalty for early repayment of a loan.

Things Not to Do

- Don't take out a payday loan—a loan in which you are borrowing against a paycheck you have not yet received.
- Don't borrow money from an illegal lender or a place that you suspect is not operating completely within the law.
- Don't accept a loan term longer than you need.
- Don't wait until it's time to sign the final loan documents and pick up your money before you ask about the annual percentage rate and finance charges.
- Don't rely on verbal promises—get it in writing.
- Don't accept the word of a loan counsel or someone else who tells you that all finance companies or banks charge the same rate, but just express it differently.

BORROWING FROM NAVY FEDERAL

Navy Federal provides reasonably priced credit when compared to other financial institutions. Members' savings at Navy Federal are invested primarily in loans to fellow members. Our loan rates include all charges involved in making the loan.

CONSUMER LOAN TERMS

Members may borrow (subject to credit approval) up to a maximum of:

- $30,000 for their personal loan
- $50,000 for all credit cards—*cash*Rewards, *n*Rewards®, **GO**REWARDS®, Visa Signature® Flagship Rewards, and Platinum
- $15,000 for Checking Protection (Line of Credit)

Checking Protection (Line of Credit) provides overdraft protection for a Navy Federal checking account and Visa® Check Card, while enabling you to "write yourself a loan" anytime. Navy Federal's loan rates and maximum repayment periods change from time to time and vary, depending on the purpose and maturity of the loan.

SHARES SECURED LOANS

Shares secured loans are issued with the money in your savings or certificate accounts serving as collateral and normally carry Navy Federal's lowest consumer loan interest rate. To qualify for this type of loan, your savings must equal or exceed the loan

requested. For the duration of the loan, shares remaining in the account must at least equal the outstanding loan balance. Shares that exceed the outstanding loan balance may be withdrawn; however, shares pledged for the outstanding loan balance cannot be withdrawn. Although shares are used as collateral, they still earn dividends.

OPTIONAL LOAN PROTECTION PLANS

Many lenders offer payment protection plans for most consumer loans and Guaranteed Asset Protection (GAP) for car loans. Acquiring either or both of these optional coverages usually adds a few dollars more to your monthly loan payment or may require a flat fee to be paid up front. Navy Federal offers multiple Payment Protection Plan options. With payment protection, your Navy Federal credit cards or loan balances may be canceled in the event of loss of life. Additional plan options may cancel monthly payments on your loans should you become disabled or involuntarily unemployed, even as a result of being honorably discharged from the military.

GAP may cover the difference between the outstanding loan amount (after the insurance settlement payment has been applied) and the actual cash value of your vehicle if it is declared a total loss.

APPLYING FOR A LOAN

Loan applications can be made at **navyfederal.org**, by phone, or at a branch.

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