

UNDERSTANDING CREDIT AND DEBT



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Some farm families are experiencing economic challenges due to commodity prices, region, debt load and outsourcing. These financial constraints can cause financial stress. In addition, financial constraints can create credit and debt challenges not only for farms as businesses but also for farm family household finances as well.

“If farmers find themselves in a financial pickle, they still have valuable land, but that doesn’t help them turn a profit from one year to the next. In recent years, a little more than 50 percent of farm operations lost money, the USDA says” (Gerlock, 2017).

Many farmers have already and may continue to face financial challenges. With decreased revenue and ongoing expenses, farmers must assess their credit use and debt, since these areas can have an impact on future goals.

What is credit?

Credit involves buying something or using a service now by promising to pay for it later. Examples include credit cards, auto loans, personal loans and other products.

What is a credit score?

A credit score is a three-digit number that lenders use to predict the likelihood that consumers will pay them back. A credit score is generated by the three major credit bureaus (Experian, Equifax and Trans Union). It is based on the information in your credit report. To obtain a free estimate of your credit score, visit FICO at <http://www.myfico.com/Fico-Credit-Score-Range-Estimator/>.

What does your credit score determine?

Your credit score (and information in your credit report) may determine your ability to:

- Get a loan or other form of credit, and the associated costs.
- Get a job.
- Rent an apartment.
- Get insurance.

What is a credit report?

A credit report is a record of how you have paid your debts. It includes:

- Identifying information.
- The amount of debt you have.
- The timeliness of your payments to creditors.
- Your credit history.
- Inquiries from creditors and other authorized parties.
- Public record information.

How do I get a copy of my credit report from each credit bureau (Experian, Equifax and Trans Union)?

You can:

- Go to www.annualcreditreport.com.
- Call 1-877-322-8228.
- Write to:
Annual Credit Report Request Service
PO Box 105281
Atlanta, GA 30348-5281

Consumers are encouraged to obtain their free credit reports, from each credit bureau on an annual basis. Credit bureaus report differently, so your credit reports will not all look the same. There are numerous benefits in obtaining your credit reports. First, you can check the accuracy of information provided in each report (your name, address, account information and other facts), dispute any inaccurate information that may negatively influence your credit score and look for potential identity theft (that is, accounts that you did not initiate or agree to).

What can I do to improve my credit?

- Pay bills on time.
- Get credit reports, review them for accuracy and dispute errors, annually.
- Watch your Credit Utilization Ratio: that is, do not charge more than 30% of your approved credit limit.
- Bring delinquent loans current. (See <https://www.consumer.ftc.gov/blog/2015/10/when-dead-debt-comes-back-life> to be on the lookout for zombie debt.)
- Pay down or pay off credit cards, but do not close them.
- Stay current on student loans. (For federal student loan repayment options, visit the U.S. Department of Education at <https://studentaid.ed.gov/sa/repay-loans/understand/plans>.)
- Do not open a lot of accounts or credit cards in a short period of time.

How can I manage debt?

- Create a personalized debt repayment plan by visiting <https://powerpay.org/>, a tool developed by Utah State University Extension.
- Pay more than the minimum payment on credit cards when possible.
- Follow a monthly spending plan. (For template examples, visit www.mimoneyhealth.org.)

What are the benefits of managing debt?

- May increase a feeling of control over your finances
- May help improve your credit score
- Can help you save money (that is, on potential late fees and interest)
- Can help you free up money in your budget for other things, such as saving or financial goals

Facts:

- Half of Americans have less than one month's income saved for a rainy day (Garman & Fogue, 2015).
- Half of adults say they do not budget (Garman & Fogue, 2015).
- In 2015, 40% of Michiganders reported "breaking even" and 14% reported spending more than they earn (FINRA Investor Education Foundation, 2015).
- If a person has a credit card with an 18% APR, and an outstanding balance of \$1,000, it will take them 7.6 years to pay off that balance if they only make the minimum monthly payment of around 3% (Bankrate, 2018).

RECOMMENDED RESOURCES

- Consumer Financial Protection Bureau: <https://www.consumerfinance.gov>
- Cooperative Extension System: <https://nifa.usda.gov/extension>
- Federal Trade Commission (Zombie Debt): <https://www.consumer.ftc.gov/blog/2015/10/when-dead-debt-comes-back-life>
- Michigan State University Extension: <https://www.mimoneyhealth.org>
- U.S. Department of Agriculture, Farm Service Agency: <https://www.fsa.usda.gov/>

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ACKNOWLEDGMENTS

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