UNDERSTANDING CREDIT

2017 IASFAA Conference

Speaker: Raymond Yee – Director of Business Development
Agenda

• Credit Management

• Protect Yourself

• Understanding Your Credit Report

• Summary: Financial Health Tips
CREDIT MANAGEMENT
Credit Basics

Credit health plays an important role throughout an individuals life, whether someone is trying to qualify for a loan or even looking for a job

- **Credit** is an arrangement an individual makes with a company or individual to receive goods, products, or services now that will have to be paid for later

- A **credit history** is a collection of all the financial information that relates to an individuals life. It helps creditors decide, “If I loan someone money, what are the odds that they will repay it?”

- A **credit score** is a number that summarizes an individuals credit risk

FICO Scores®

FICO® Scores are used in 90% of lending decisions in the United States. Lenders can request FICO® Scores from all three major consumer reporting agencies — TransUnion, Equifax, and Experian. FICO® Scores can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms offered by lenders.

A FICO® Score is a three-digit number calculated from the credit information on an individual’s credit report at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly.

FICO® Scores generally fall within the 300-850 score range.

Learning your FICO® Score can help you better understand your credit health.

Source: http://ficoscore.com/faq/ September 2017
Components of Your FICO® Score

1. Payment history (35% of your scores): Whether you’ve paid past credit accounts on time
2. Amounts owed (30% of your scores): The amount of credit and loans you are using
3. Length of credit history (15% of your scores): How long you've had credit
4. New credit (10% of your scores): Frequency of credit inquiries and new account openings
5. Credit mix (10% of your scores): The mix of your credit, retail accounts, installment loans, finance company accounts and mortgage loans

A good FICO® Score means better financial options for you

Source: http://fico.com/faq/ September 2017
• **What is a “Good” FICO® Score**

The higher the score, the better it is!

<table>
<thead>
<tr>
<th>FICO® Score</th>
<th>Rating</th>
<th>What FICO® Scores in this range mean</th>
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</table>
| 800+        | Exceptional | • Well above the average score of U.S. consumers  
• Demonstrates to lenders you are an exceptional borrower                                                                                                 |
| 740 - 799   | Very Good  | • Above the average of U.S. consumers  
• Demonstrates to lenders you are a very dependable borrower                                                                                           |
| 670 - 739   | Good      | • Near or slightly above the average of U.S. consumers  
• Most lenders consider this a good score                                                                                                           |
| 580 - 669   | Fair      | • Below the average score of U.S. consumers  
• Though many lenders will approve loans with this score                                                                                         |
| < 580       | Poor      | • Well below the average score of U.S. consumers  
• Demonstrates to lenders that you are a risky borrower                                                                                         |


September 2017
Credit Inquiries

**Soft Credit Inquiries**
Soft inquiries are all credit inquiries where your credit is NOT being reviewed by a prospective lender. These include
- Checking your own credit (such as checking your score in myFICO)
- Credit checks made by businesses to offer you goods or services (such as promotional offers by credit card companies)
- Inquiries made by businesses with whom you already have a credit account.

**Hard Credit Inquiries**
Hard inquiries are credit inquiries where a potential lender is reviewing your credit because you've applied for credit with them. These include:
- Credit checks when you've applied for an auto loan, mortgage or credit card.
- Each of these types of credit checks count as a single credit inquiry.

**Rate Shopping**
Your FICO score considers all inquiries within a 45-day period for a mortgage, an auto loan or a student loan as a single credit inquiry. This same guideline also applies to a search for a rental property such as an apartment. These inquiries are usually recorded by the credit bureau as a type of real estate-related inquiry, so the FICO Score will treat them the same way. You can avoid lowering your FICO Score by doing your apartment hunting within a short period.

Ways to Improve Your Financial Health

Credit scores are continually changing, depending on how well - or poorly - the person manages their credit.

General tips for improving your financial health:

• Pay bills on time
• Apply for credit only when necessary
• Keep credit card balances to less than 50% of the available credit limit
• Make more than the minimum payment
• Have a mix of credit account types
• Review your credit report regularly at annualcreditreport.com

Tip: The longer your credit history, the better!
Building a Credit History Q&A

Student Loans:

Q: Does taking out a student loan have a negative impact on my FICO® Score?
   A: Student loans are considered in your FICO® Score. When you open a student loan, it will increase your amount of debt, but if you pay your bills on time, lenders tend to view you as being a relatively lower credit risk.

Q: Does deferring payments on my loan until after graduation harm my payment history?
   A: Deferred loans do not harm your FICO® Score. In fact, the existence of your loan can help establish your length of credit history and mix of credit.

Q: I have the option of starting to pay my student loan while I’m in college. Will that impact my FICO® Score?
   A: When you pay student loans on time, it shows responsible behavior, lowers your outstanding debt, and lenders tend to view you as being a relatively lower credit risk. Missing or late payments will have a negative impact on your FICO® Score.

Q: Does moving my loan into forbearance impact my FICO® Score?
   A: Your FICO® Score does not consider the fact that a loan is in forbearance, so moving a loan into forbearance would not affect your score like missing a payment would. However, your loan is still considered part of your personal credit. Even in forbearance, the amount of your loan will be taken into account and could impact your score.

Building a Credit History Q&A

Credit Cards

When selecting a card, you should compare different cards’ Annual Percentage Rates (APR). An APR is the annual cost of borrowing, including all interest, fees, premiums, etc., expressed as an annualized percentage rate. You should also be aware of hidden fees. If you miss a payment, make a late payment, or exceed your credit limit, you may be charged fees.

Q: Does opening up new credit accounts affect my FICO® Score?
A: Apply for and open new credit accounts only as needed. Opening accounts for the purpose of providing a better credit picture probably won’t raise your FICO® Score and in some cases may even lower your score.

Q: Will closing credit cards increase my FICO® Score?
A: Closing cards won’t increase your score and may actually lower it at least slightly. A better way to increase your score is by managing your credit cards responsibly.
Good Credit vs. Poor Credit – What Can it Mean?

**GOOD CREDIT**
- Lower interest rates
- Could save hundreds, if not thousands, of dollars in interest costs
- Allows you to be more selective when choosing a lender
- Can mean preferred rate on car insurance

**BAD CREDIT**
- Higher interest rates
- Can result in loan applications being rejected
- Can get denied for basic services
- Can mean high cost premium on car insurance
10 Rules of Smart Credit Management

Credit plays an important role in managing your money – do not take on more than you can handle.

1. Live within your means
2. Know what you owe
3. Borrow only what you can afford
4. Maintain a good credit rating
5. Check your credit report annually
6. Use credit wisely
7. Recognize the warning signs of financial difficulty
8. Know a scam when you see one
9. Guard against identity theft
10. View bankruptcy as a last resort
The Budgeting Process

Follow these steps:

1. Communicate
2. Consider personal or family situation
3. Set goals
4. Estimate income
5. Estimate expenses
6. Balance the budget plan
7. Put the budget into action
8. Keep track of income and spending
9. Adjust the budget as necessary
10. Use for future planning
Budgeting Tips

1. Keep it simple
2. Be realistic and consider all expenses
3. Build in a margin of safety
4. Keep working with your budget and record keeping until you find a system that works well for you
5. Provide for personal allowances in your plan
6. Create a personalized budget rather than trying to use someone else’s
7. Distinguish between wants and needs
8. Borrow with care
9. Develop an emergency fund
Know What You Owe

Put together a snapshot of what you owe

Student loans $ 

Other loans:
• Credit card balance(s) +$ 
• Automobile loan +$ 
• Mortgage loan or rent +$ 

Other money owed:
• Utilities, cable, internet +$ 
• Phone +$ 

TOTAL $
Don’t Borrow More than You Need

Calculate your debt-to-income ratio:

Minimum debt payments   Monthly gross income
(including mortgage or rent)

Example: You earn $5,000 each month in gross income, and a yearly bonus nets you $500 a month. Your total monthly income is $5,500.

You pay $200 a month in student loans, $500 in rent, $150 on a car payment, and $150 on your credit card and other expenses. Your total monthly debt payments are $1,000.

$1,000 (debt) divided by $5,500 (income) = a ratio of 18.2%

How much is too much?
• 36% or less – Excellent
• 37% to 42% – Acceptable
• 43% to 49% – Overextended
• 50% or higher – Danger!

Source: This information was gathered 3/2016 from http://www.foxbusiness.com/personal-finance/2012/07/30/how-to-tell-if-have-too-much-debt/
Average Debt Levels for U.S. Households

- Credit Cards = $16,883
- Auto Loans = $29,539
- Mortgages = $182,421
- Student Loans (Fed + Private) = $50,626
- Any type of debt = $137,063

Using Credit Cards the Right Way

- Start small with one card and a low credit limit
- Make small everyday purchases – not extra purchases to get rewards
- Pay off your balance each month
- Understand your spending by analyzing the statement each month

- Know and watch the interest rate
- Get the “full scoop” on special introductory rates
- Stay out of the “penalty” box
Most Common Mistakes to Avoid With Credit Cards

- Overspending
- Spending just to earn more rewards
- Making only minimum payments
- Not paying your bill on time
- Using convenience checks or other cash advance features
Recognize the Signs of Financial Difficulties

Financial problems, once started, tend to get worse if they are left unsolved
Some warning signs of financial problems:
• You have to wait for your paycheck or other income to pay bills
• Your credit cards are charged up to the maximum
• The amount you owe gets bigger every month
• You overdraw your account
• You’ve received letters or calls from creditors

Actions you can take:
✔ Review your spending plan/budget
✔ Ask for assistance from parents or a mentor
✔ Consider credit counseling
Bankruptcy: It’s Not an Easy Out

People who are unable to pay their debts file for bankruptcy

• Bankruptcy allows the court to discharge your debt
  - Bankruptcy filings may stay on your credit report for up to 7 years
• Student loans may not be eligible for a discharge via bankruptcy
• Should only be used as an absolute last resort
PROTECT YOURSELF
Know a Scam When You See One

• Debt relief scams
• Advance-fee loan scams
• Credit repair scams
• Be aware of the following:

✓ Organizations that have no website or cannot be found in Google
✓ Organizations that ask for credit card information, bank account information, social security, drivers license, or other personal information
✓ Return address is a free domain (Hotmail, Gmail, Yahoo)
✓ Offer contains a lot of hype and promotional language but little on how it works and the cost
✓ Offers a prize, in which you have to pay “processing fees”
Guarding Against Identity Theft

If someone steals your identity, your credit is at risk

• Guard your social security number
  - Keep your card out of your wallet
  - Don’t put it on your driver’s license or checks
• Pick passwords carefully
• Pay attention to your mail and trash
• Check your credit reports annually

✓ Be careful when purchasing items online
✓ Read your monthly statements
✓ Do not sign up for unfamiliar contests
✓ Don’t reply to messages asking for personal or financial information
✓ After a disaster, give only to established charities
What If My Identity is Stolen?

• Alert a credit reporting agency
  - Place a fraud alert (free)
  - Ask them to contact the other 2 agencies on your behalf
  - Alert stays on your credit report for 90 days

• Get copies of your free credit report from each of the agencies
  - Contact the fraud department at each of the companies with impacted accounts
  - Follow up in writing & keep copies

• Create an Identity Theft Report
  - FTC Identity Theft Affidavit (www.ftccomplaintassistant.gov)
  - Police Report
UNDERSTANDING YOUR CREDIT REPORT
Credit Report: Overview

• When you apply for credit, the company from whom you’re requesting it will check your credit report from one or more of the major consumer reporting agencies:
  - TransUnion®
  - Equifax®
  - Experian®

• Credit reports differ from credit scores
  - A credit report is a detailed view of your outstanding credit, payment history, and public records
    - Credit reports are provided by one of the three major consumer reporting agencies
  - A credit score is a number calculated using the information in your credit reports, how many times lenders requested information, and any collections, among other items
    - FICO® is a leading provider of credit scores
    - There are other credit scores available; they may vary because the companies calculate credit factors differently

• Your credit score does not appear on your credit report
Credit Report: Reviewing Your Credit

• **Why you should review your credit report**
  - Credit reporting companies sell the information to lenders and other businesses that use it to evaluate your applications for credit
  - The information in the report can impact whether you’ll qualify for a loan (student, home, auto) and how much interest you’ll have to pay
  - Potential employers may be able to view your credit — which could affect whether you get a job

• **When you should review your credit report**
  - Annually, to make sure there are no mistakes
  - Before an activity that requires a loan, like applying for a student loan, purchasing or leasing a car, or buying a house

• **How you can review your credit report**
  - The Fair Credit Reporting Act (FCRA) requires each nationwide credit reporting company to provide you access to free copy of your credit report every 12 months
  - Request a free copy each year at [AnnualCreditReport.com](http://AnnualCreditReport.com) or call 1-877-322-8228
Credit Report: What it Includes

Each credit reporting agency’s report may look different, but they all contain:

- Your identifying information
- The amount of credit available to you
- The amount of credit you’re using
- A record of whether you make payments on time or are delinquent
- Collection activities
Credit Report: Personal Information

Personal Information:
- Information that distinguishes you from others with similar names:
  - Name
  - Current and previous addresses
  - Social Security number
  - Telephone number
  - Date of birth, etc.

Employment information:
- Past and present employers, your position, and when you were hired
Credit Report: Inquiries, Messages, Contact Information

Credit Inquiries:
- People or companies who have requested your credit report, the date they requested it, and the reason for the request, over the past two years.
- Businesses must have a legitimate reason to access your report.

Special Messages:
- Notes about your credit report; these can include discrepancies within your personal information or reported fraud or theft.

Bureau Contact Information:
- Who to contact if you see mistakes or have questions about anything in your credit report.

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**Personal Information**
- **Name:** Joe Sample
- **Date of Birth:** 09/15/1979
- **Address:** 901 Main Street, Anytown, USA 12345

**Employment Information**
- **Acme Widgets:** 2011-2015
- **Joe Sample:** 1997-2012

**Account Information**
- **My Bank:** Bank Name
- **Balance:** $0
- **Credit Limit:** $500
- **Pay Status:** Paying as Agreed
- **Account Type:** Revolving Account
- **Date Opened:** 10/24/2010
- **Loan Type:** Line of Credit

**Payment History**

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</table>

**Public Record**
- None listed.

**Credit Inquiries**
- **Bank:** Town Bank
- **Requested:** 09/12/2011
- **Inquiry Purpose:** Credit Transaction

**Special Message**
- None at this time.

**Bureau Contact Information**
- Please contact us for any reason at (123)444-5678 or online at CreditReportingBureauofAmerica.com
Credit Report: Correcting Errors

Check your credit report once a year to make sure there are no errors or fraud; if you do find something:

- Write to the credit reporting company about the error and include supporting documents (and keep a copy of your letter!)
- The company generally has 30 days to investigate the issue
- If they find there is an error, they have to notify all three major credit reporting companies

Guard against identity theft:

- Thieves can use your name or Social Security number to open new credit cards in your name;
  - When the account is delinquent, it can affect your credit
- If you suspect identity theft, contact the credit reporting company immediately and file a police report
Credit Report: Account and Public Record Information

Account Information:
- Your entire credit history, including student loans, auto loans, mortgages, and credit cards
  - Opened and closed credit accounts
  - Credit limits

Public Record Information:
- Publicly available reports on:
  - Delinquent accounts
  - Liens
  - Bankruptcies
  - Lawsuits, etc.

- A public record can remain on your credit report for a number of years, depending on the type of account.
National Credit Bureau Agencies

EQUIFAX:  **Phone:** 800-685-1111  
**Website:** [www.Equifax.com](http://www.Equifax.com)

Experian:  **Phone:** 888-397-3742  
**Website:** [www.Experian.com](http://www.Experian.com)

TransUnion:  **Phone:** 800-916-8800  
**Website:** [www.TransUnion.com](http://www.TransUnion.com)
SUMMARY: FINANCIAL HEALTH TIPS
Financial Health Tips

Create a Budget:
• Sallie Mae has a downloadable monthly budget worksheet that can help you stay in control of your finances during college. Create yours at SallieMae.com/CollegePlanningToolbox.

Pay On Time
• Late payments and collections can impact your FICO® Score.
• If you’ve had a hard time paying your bills on time, consider signing up for an automated bill pay service.
• If you’re having trouble paying your bills, contact your creditors. Don’t wait and hope it gets better.

Manage Your Accounts
• Keep your balances low. High balances on your credit cards and other revolving credit can lower your FICO® Score. Consider increasing your monthly payments until all balances are manageable.
• In general, having credit cards doesn’t hurt your FICO® Score if you make payments on time. People without credit cards, for example, tend to be at slightly higher risk than people who have shown they can manage credit cards responsibly.
Financial Health Tips, cont.

Monitor Your Credit
- Request a free copy of your credit report every 12 months at annualcreditreport.com. Check for errors to ensure you haven’t become the victim of identity theft.
- Check and monitor your FICO® Score 6-12 months before applying for a big loan.

Correct Mistakes
- If you find mistakes on your credit history, contact the following credit bureaus directly:
  **Equifax**
  Equifax.com
  1-800-685-1111

  **Experian**
  Experian.com
  1-888-397-3742

  **TransUnion**
  TransUnion.com
  1-800-916-8800

Learn more at SallieMae.com/FICO
Questions?
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MKT12894 09/2017