

# UNDERSTANDING CREDIT SCORES & REPORTS

A decorative horizontal bar consisting of a series of vertical rectangular segments in various colors including black, blue, light blue, teal, yellow, and dark blue, arranged in a slightly wavy pattern across the width of the slide.

Family Economics & Financial Education  
Take Charge of Your Finances

# WHAT IS THE PURPOSE OF A CREDIT CHECK?

- To find out a borrower's credit worthiness
- What were the 5 C's of credit (review)?
  - Capacity to Pay
  - Character
  - Collateral
  - Capital
  - Conditions

# HOW ARE CREDIT SCORE'S REPORTED?

- A number that summarizes an individual's credit history (or financial responsibility)
- Most common scoring system is FICO
- Credit scores range from 300-850, with 850 being the best score

Average US Credit Score is **678**

*EXCELLENT CREDIT: 750+*

*GOOD CREDIT: 650 - 750*

*FAIR CREDIT: 600 - 650*

*BAD CREDIT: 600 AND LOWER*

# CREDIT SCORE IMPACT

**THIS IS BASED UPON A 30 YEAR FIXED MORTGAGE RATE FOR A \$300,000 LOAN**

| <b>FICO Score</b> | <b>Interest Rate</b> | <b>Monthly Payment</b> | <b>30 Year Amount</b> |
|-------------------|----------------------|------------------------|-----------------------|
| 760               | 5.9%                 | \$1,787                | \$643,320             |
| 650               | 7.2%                 | \$2,047                | \$736,920             |
| 590               | 9.3%                 | \$2,500                | \$900,000             |

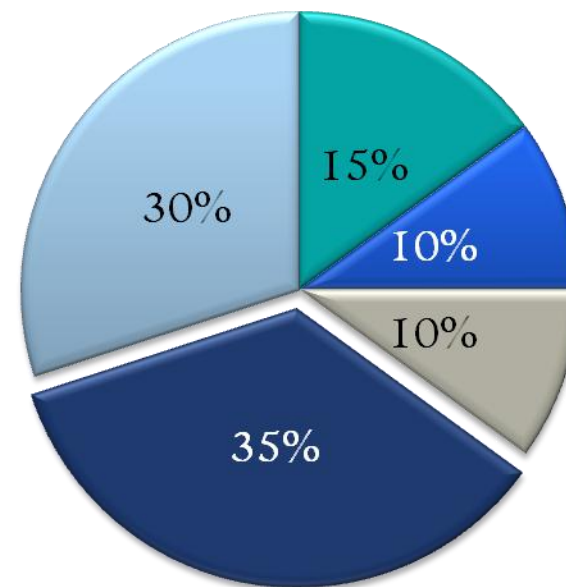
**\$256,680 saved over the lifetime of this loan because of a good credit score!**

# 5 KEY PIECES OF INFORMATION A CREDIT SCORE IS BASED ON:

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# PAYMENT HISTORY

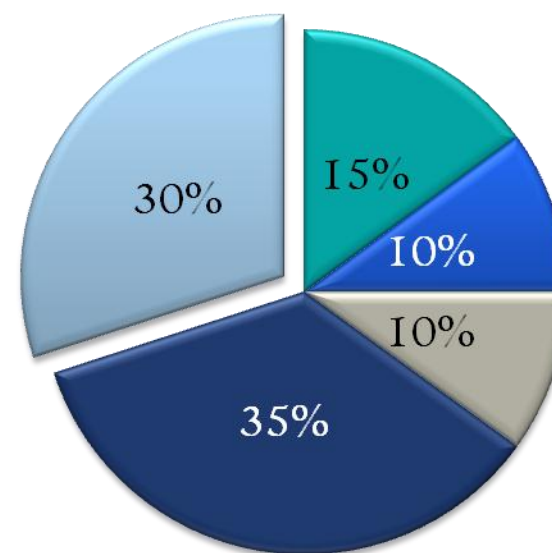
- The timely manner which a consumer did or did not repay debt
- Includes:
  - Several types of credit accounts
  - Late or missed payments
  - Public records and collection items



- Credit History
- Pursuit of New Credit
- Types of Credit in Use
- Payment History
- Outstanding Debt

# OUTSTANDING DEBT

- The amount of debt currently held
- When a high percentage of debt is used, then it negatively impacts a score

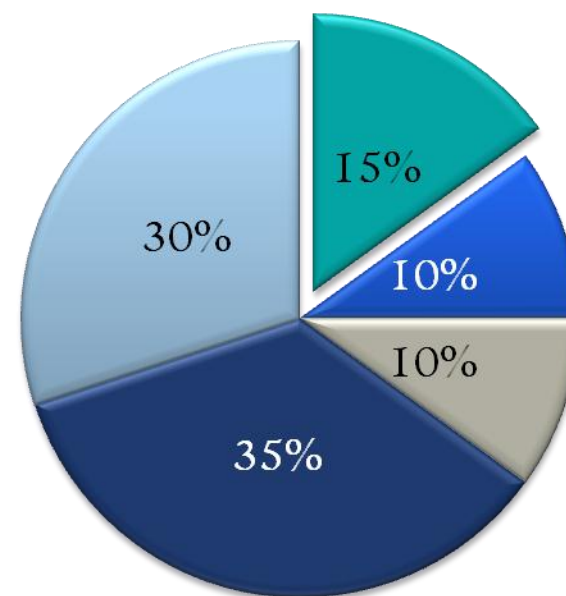


- Credit History
- Pursuit of New Credit
- Types of Credit in Use
- Payment History
- Outstanding Debt



# CREDIT HISTORY

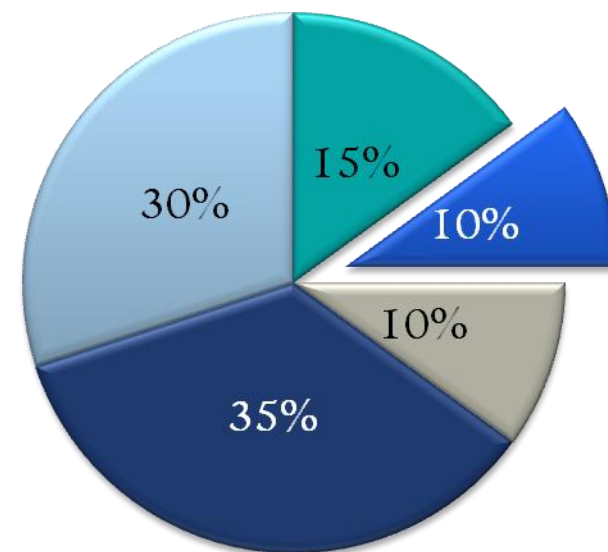
- Amount of time a consumer has held accounts
- How often accounts are used
- A longer credit history will generally increase a credit score



- Credit History
- Pursuit of New Credit
- Types of Credit in Use
- Payment History
- Outstanding Debt

# PURSUIT OF NEW CREDIT

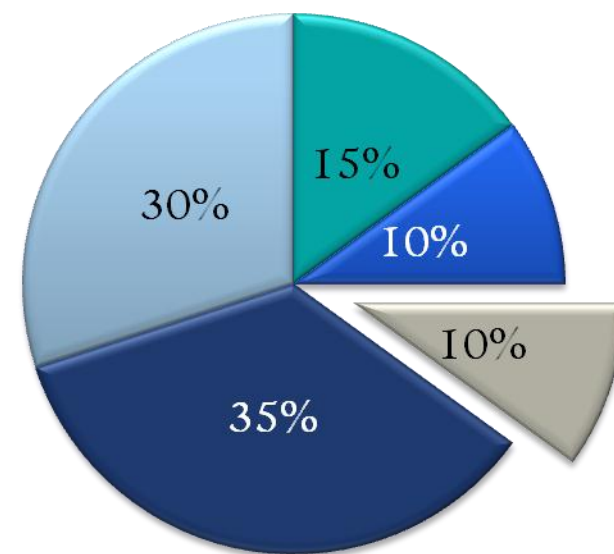
- Assesses how much credit is acquired
- Includes how many new accounts are requested
- Opening too many types of accounts in a short period of time has a negative affect
  - Multiple inquiries to the same type of lender in a short period of time is only counted one inquiry when calculating a credit score



- Credit History
- Pursuit of New Credit
- Types of Credit in Use
- Payment History
- Outstanding Debt

# TYPES OF CREDIT IN USE

- Analyzes the types of credit in use
- Credit cards, retail cards, mortgages, automobile loans, etc.
- Variety is generally good to have



- Credit History
- Pursuit of New Credit
- Types of Credit in Use
- Payment History
- Outstanding Debt

# INFORMATION IN A CREDIT REPORT

Information can be divided into 4 categories:

- Personal Information
- Accounts Summary
- Negative Items
- Credit Inquiries

Lenders may not report information to  
all three credit reporting agencies.  
An individual's information may be different in each report.

# CREDIT HISTORY REPORTING

## Lender

Report consumer's credit transactions to CRA's

Lender examples:  
store accounts,  
credit card  
companies, utility  
companies, etc.

## Credit Reporting Agency (CRA)

Keep a record of  
consumer's credit  
transactions  
(credit history)

Agencies include:  
Equifax  
TransUnion,  
Experian

## Credit Report

Record created by  
the CRA of an  
individual's credit  
history

If an individual  
has not acquired  
credit, they will  
not have a report

What they do

Additional  
Information

# REQUESTING A CREDIT REPORT


annualcreditreport.com - Only government sponsored Web site  
Other sites may be fraudulent or charge a fee

- One free credit report annually from each of the three credit reporting agencies
- Credit scores are available for a small fee

Request your free annual credit report.  
It's QUICK, EASY and SECURE.




**START HERE** to view and print your credit report now.

Select Your State



Fight identity theft by monitoring and reviewing your credit report. You may request your free credit report online, [request your report by phone](#) or [request your report through the mail](#). Free credit reports requested online are viewable immediately upon authentication of identity. Free credit reports requested by phone or mail will be processed within 15 days of receiving your request.

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**AnnualCreditReport.com is the official site to help consumers to obtain their free credit report.**

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# REQUESTING A CREDIT REPORT

- Must provide personal information
  - Including social security number and date of birth
- Must answer a series of questions about credit history
  - Prevents someone from fraudulently accessing your information

**Click here to receive a free credit report.**

Request your free annual credit report. It's **QUICK, EASY** and **SECURE**.

**START HERE** to view and print your credit report now.

Select Your State

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**Credit Scoring Companies**  
*(if you click on a company icon, you are directed to their Web site and may have to pay for your credit report.)*

# CREDIT INQUIRIES

- Requests for an individual's credit report
- Completed by:
  - Insurance agencies
  - Potential credit companies
  - Financial institutions
  - Landlords
  - Potential employers, etc.

WHAT INQUIRIES  
DOES ISABELLA  
HAVE ON  
HER REPORT?





# INFORMATION NOT INCLUDED IN A FICO SCORE

- FICO score is only based upon credit use
- Information not included is:
  - Personal information such as age, where you live, marital status, race, color, religion, national origin, gender
  - Employment information
  - Interest rates charged on accounts
  - Overall wealth (assets an individual may have)

# POSITIVE VS. NEGATIVE CREDIT IMPACT

## Positive

- Informs the lender a consumer is:
  - Financially responsible
  - Less risk
- Benefits to the consumer
  - Lower interest rates
  - Access to additional credit



## Negative

- Informs the lender a consumer is:
  - Not financially responsible
  - May be a higher risk
- Impact on the consumer
  - May pay higher interest rates
  - May not be able to qualify for credit
  - May limit employment opportunities

# EQUAL CREDIT OPPORTUNITY ACT

- Prohibits credit discrimination the basis of:
  - Race
  - Religion
  - Marital status
  - Nationality
  - Gender
  - Age

Creditors may ask for this information (except religion) in certain situations, but may not use it to discriminate when deciding whether to grant you credit

# WHEN CREDIT IS NOT ESTABLISHED

- Although the following are all positive financial habits, no credit is established when:
  - Credit is never used
  - Accounts are not in own name
  - Cash is paid for all major purchases
  - Phone and utility bills are paid on time
    - It only negatively impacts a score if payments are late

# BUILDING CREDIT HISTORY

- Important for consumers to build a credit history to be able to purchase items on credit
  - For example – house, vehicle
- Affects a young adult's ability to make a purchase on credit in the immediate future including:
  - Renting an apartment
  - Buying a car
  - Purchasing electronics or other merchandise



# ESTABLISHING CREDIT

- Strategies to build credit include acquiring and positively managing small lines of credit
  - Store credit card
  - Credit card
    - Can be a secured card where money is already linked to a bank account
  - Small loan from financial institution

If someone is a co-signer on an account, they are equally as responsible and their credit report is impacted.

DOES ISABELLA HAVE ANY CO-SIGNERS?  
WHAT IMPACT DOES HER ACTIONS HAVE ON THEM?



# MISTAKES IN CREDIT REPORTS

- Important to check each credit report annually to correct mistakes
- 2 common errors
  - Fraud (identity theft)
  - Mistaken identity
    - When a lender reports a transaction on the wrong person's credit report

# FAIR CREDIT REPORTING ACT

- Gives consumers the right to review and correct their report
- If a person is denied credit, they have the right to request their credit report from the credit reporting agency
  - If within 60 days it is free of charge
- Errors on a report should be reported in writing and by phone immediately



# CORRECTING ERRORS ON CREDIT REPORT

- According to the Better Business Bureau (BBB) and the Federal Trade Commission (FTC):
  - Consumers can do just as good of a job repairing their credit report errors as a fee based debt repair agency
  - Be cautious of debt repair agencies promising instant help because there is no immediate fix for poor credit
- Be proactive and correspond to CRA's if an error is found



# CREDIT REPORT DETECTIVES

Meet Isabella, your new client:

- About to graduate with college
- In extreme debt
- Concerned about finding a job
- Doesn't understand her credit report



## YOUR MISSION:

*Help Isabella understand her credit report, identify what she did to get into this situation, and what she can do to improve her credit report.*



# ISABELLA'S STORY

IN SMALL GROUPS:  
*READ ISABELLA'S SCENARIO*



- What is your analysis of her situation?
  - Does she need your help?
  - Why?



# PERSONAL INFORMATION

## Personal Information

- Name and aliases
- Current and past addresses
- Social security number
- Date of birth
- Employment history

FIND ISABELLA'S  
PERSONAL  
INFORMATION



## Isabella's Personal Information

- Name – Isabella G. Langley
- Date of birth – 05/04/86
- Telephone numbers –  
555354.2368 &  
555.198.2358
- Employers – Lucky's  
Restaurant & Jane's Daycare
- Addresses – 101 Hopeful  
Ave. & 695 Parent Street

# ACCOUNTS SUMMARY

## Accounts Summary

- Types of accounts
- Date the account was opened
- Credit limit or loan amount
- Account balance
- Payment history

WHAT LENDERS  
DOES ISABELLA  
HAVE ACCOUNTS  
WITH?



## Isabella's Accounts

- Sam's Electronic World
- City of Anywhere
- U.S. Department of Education
- Financial Institution School Loan
- Shop 'Til You Drop Store Credit Card
- Love to Read Store Credit Card
- The Free Money Credit Card

# NEGATIVE ITEMS

## Negative Items

- Missed payments
- Collection agencies
- Public records
  - Bankruptcy
  - Tax liens
  - Legal suits
  - Foreclosures

## Isabella's Negative Items

- Sam's Electronic World
  - Past due
- City of Anywhere
  - In Collection
- Shop "Til You Drop
  - Occasional late payments
- The Free Money
  - Over the credit limit

IDENTIFY  
NEGATIVE ITEMS  
IN ISABELLA'S  
REPORT



# CREDIT INQUIRIES

Not all credit inquiries are the same!

| Type of inquiry                   | Soft check  | Hard check  |
|-----------------------------------|---|---|
| Do they impact your credit score? | Not usually   | Yes   |
| Examples                          | <ul style="list-style-type: none"> <li>• Individuals checking their credit reports</li> <li>• Credit card companies pre-approving individuals</li> <li>• Pre-employment checks</li> </ul> | <p>Permission given by the individual when seeking credit</p> <ul style="list-style-type: none"> <li>• Credit card</li> <li>• Automobile loan</li> <li>• Insurance</li> </ul> |

**Individuals should avoid too many hard credit checks at one time!**

# ISABELLA'S REPORT

| Inquiries       |   |   |
|-----------------|---|---|
| Type of inquiry | Soft checks   | Hard checks   |
| Examples        | <ul style="list-style-type: none"> <li>•A Very Big Bank</li> <li>•Need More Credit</li> <li>•Keeping You Insured</li> <li>•The Dream Sales Job</li> </ul> | <ul style="list-style-type: none"> <li>•Shop 'Til You Drop</li> </ul> |



# PAYMENT HISTORY

WHAT IS ISABELLA'S  
PAYMENT HISTORY?



WHAT IMPACT  
DOES THIS HAVE ON  
HER CREDIT SCORE?



- Found in status column
- Payment history
  - Sam's Electronic World is past due
  - City of Anywhere is in collection
  - Shop 'Til You Drop has occasional late payments
  - Love to Read was closed and never late
  - The Free Money Credit Card is paid on time
- Credit score impact
  - Negative
  - Too many late accounts

# OUTSTANDING DEBT

HOW MUCH TOTAL DEBT DOES ISABELLA HAVE?



HOW MUCH AVAILABLE CREDIT IS ISABELLA USING?



WHAT IMPACT DOES THIS HAVE ON HER CREDIT SCORE?



- Total debt
  - Found in recent balance column
  - \$37,325
- Available credit
  - Found in credit limit column
  - \$38,546
- Impact
  - Negative
  - $\$38,546 - \$37,325 =$   
 (\$\_\_\_\_\_) she is using more credit than available

# CREDIT HISTORY

WHEN DID ISABELLA  
FIRST BEGIN HER  
CREDIT HISTORY?



IF ISABELLA KEEPS HER  
FREE MONEY CREDIT  
CARD OPEN FOR  
ANOTHER 10 YEARS AND PAYS  
OFF THE BALANCE, WHAT  
WILL HAPPEN?



- Credit history
  - Found in date opened column
  - 08/05 U.S. Dept. of Education
- Free Money Credit Card
  - Score will improve

# NEW CREDIT

HAS ISABELLA  
PURSUED ANY  
ADDITIONAL CREDIT  
SINCE JANUARY 2008?



IF ISABELLA ACQUIRED  
ANOTHER CREDIT  
CARD AND SHOPPED FOR  
AN AUTOMOBILE LOAN, WHAT  
WOULD HAPPEN TO HER  
SCORE?



- Additional credit
  - Shop 'Til You Drop in August 2008
- Impact of seeking additional credit
  - Credit score will go down

# CREDIT IN USE

WHAT TYPES OF  
CREDIT DOES  
ISABELLA HAVE?



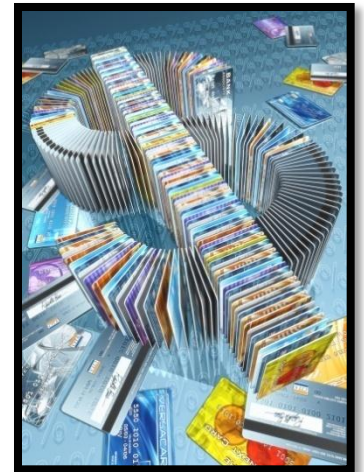
WHAT ARE  
ADDITIONAL FORMS  
OF CREDIT SHE MAY SEEK?



- Types
  - Credit card (revolving)
  - School loan (installment)
  - Private school loan (installment)
  - Store cards (revolving)
- Additional forms
  - Mortgage
  - Automobile loan

# ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE

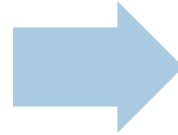
1. Instructor will read a scenario
2. Determine if the scenario will have a positive or negative impact on an individual's credit report
3. Move to the side of the room
4. Be prepared to explain “why”



# ACTIVITY

## Action:

- Joey rented a TV from “The Best Deal” rent to own store during college
- The TV was never returned or paid for as stated in the contract



## Credit report impact:

### Negative

Joey owes the store the money which was agreed upon in the contract

May be responsible for additional fees

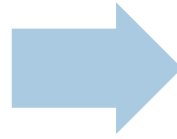
He may be sent to collections



# ACTIVITY

## Action:

- Sally pays the total amount due on her credit cards each month



## Credit report impact:

Positive  
An excellent habit for building a positive report

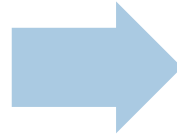




# ACTIVITY

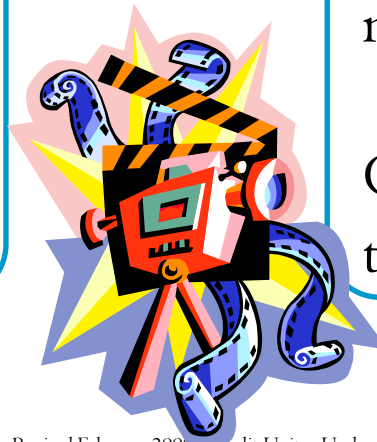
## Action:

- Fernando rented a DVD from Busting Bronco Rental and never returned the movie



## Credit report impact:

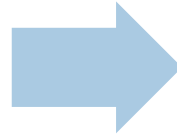
Negative  
Fernando is responsible for the movie replacement  
  
Could be reported to collections



# ACTIVITY

## Action:

- Cassie has received three parking tickets throughout the past year and has not paid them

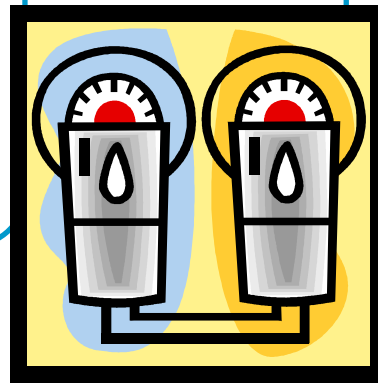


## Credit report impact:

Negative

Cassie has probably already been sent to collections

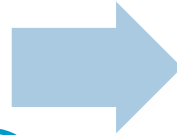
Will owe for the parking tickets and additional fees



# ACTIVITY

## Action:

- Sam acquired a loan from Buy More Credit Union for \$1,000 to purchase a motorcycle. He paid the loan back in full and on-time



## Credit report impact:

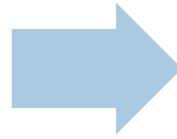
Positive  
Demonstrated the ability to responsibly use credit



# ACTIVITY

## Action:

- Corey's credit card bill is paid in monthly installments. However, it is due on the 15<sup>th</sup> and usually paid a few days late



## Credit report impact:

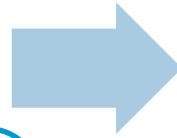
Negative  
Although Corey is paying his bill, he is doing so late!



# ACTIVITY

## Action:

- Kari bought a car and financed it through the “Drive Bigger and Better” promotion
- Payments are automatically removed from her checking account
- Money is always in the account



## Credit report impact:

### Positive

All payments were made in time  
Having automatic withdrawals with the money in the account is a good practice

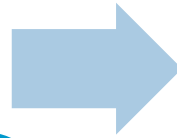




# ACTIVITY

## Action:

- Jessica has several types of credit cards
- Each of her credit card balances are at the maximum level



## Credit report impact:

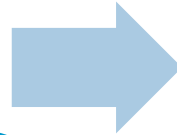
Negative  
A variety of types of credit may be good, however, Jessica's balances are at the maximum level



# ACTIVITY

## Action:

- It is 12 months after graduation and Jon has not started paying his student loan back because he has not found a job
- He has not contacted the loan company



## Credit report impact:

Negative  
Jon is delinquent on the account. If he contacts the loan company, they may be able to work with him





# ADVICE ISABELLA WAS GIVEN

## From Angie

- Credit ratings improve as people get older and income increased
- Isabella's credit score will improve when she:
  - Moves to a better side of town
  - Gets a better interest rates on loans
  - Is promoted

## From George

- Shopping around too much for credit is not good because it increases inquiries
- Opening new accounts, even if not used, provides evidence of credit worthiness
- Close old accounts, including those with loans not paid on time to wipe the slate clean

WAS THE ADVICE GOOD? WHY OR WHY NOT?



# CREDIT REPORT DETECTIVES ADVICE



- Will Isabella receive her dream job?
- What advice would you give Isabella to improve her credit report and score?
  - What should she do immediately?
  - What recommendations would you provide she employs in the near future?

# ANY QUESTIONS?