

Understanding credit



SPEAKER

DATE



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Bridging the Dream Scholarship Winner

Agenda

- Credit management
- Protecting yourself
- Understanding your credit report
- Summary: financial health and wellness tips



Credit management

Credit basics

Credit health plays an important role throughout an individual's life, whether someone is trying to qualify for a loan or even looking for certain types of jobs

- **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 individual's 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 individual's credit risk. A credit score helps lenders evaluate your credit profile and influences the credit that's available to you

Source: www.ficoscore.com/faq



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.

What is a 'good' FICO Score?

The higher the score, the better it is!

FICO® Score	Rating	What FICO® Scores in this range mean
800+	Exceptional	<ul style="list-style-type: none">• Well above the average score of U.S. consumers• Demonstrates to lenders you are an exceptional borrower
740 - 799	Very Good	<ul style="list-style-type: none">• Above the average of U.S. consumers• Demonstrates to lenders you are a very dependable borrower
670 - 739	Good	<ul style="list-style-type: none">• Near or slightly above the average of U.S. consumers• Most lenders consider this a good score
580 - 669	Fair	<ul style="list-style-type: none">• Below the average score of U.S. consumers• Though many lenders will approve loans with this score
< 580	Poor	<ul style="list-style-type: none">• Well below the average score of U.S. consumers• Demonstrates to lenders that you are a risky borrower

Average FICO® Score of U.S. consumers in 2019 was 706

Components of your FICO® Score

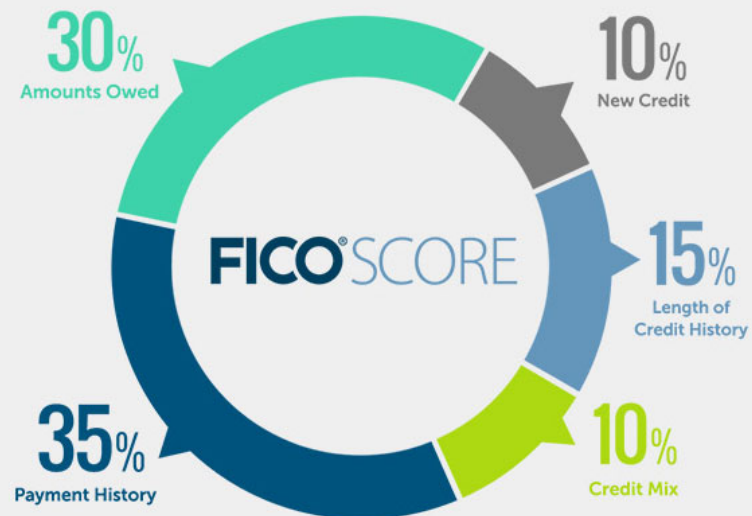
1. Payment history (35% of your scores):
Whether you've paid past credit accounts on time

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 inquires 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://ficoscore.com/faq/>

Credit inquiries

Soft Credit Inquiries

All credit inquiries where your credit is NOT being reviewed by a prospective lender, including:

- 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

Credit inquiries where a potential lender is reviewing your credit because you've applied for credit, including:

- 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.

Source: <http://www.myfico.com/credit-education/questions/how-do-inquiries-impact-credit-scores/>

Myths vs. reality

Myth	Reality
A poor score will stay poor forever	FICO® Scores are based on a snapshot of credit behavior. As behavior changes, so will that snapshot. Healthy credit decisions, such as paying bills on time as agreed and waiting for negative items to “age”, will cause scores to improve over time
Checking my own FICO® Scores will lower my score	Checking your own scores will never impact your scores
I have to have a large income to have high FICO® Scores	Your income doesn't factor into your FICO® Scores
My FICO® Score isn't important	When you apply for new credit or a loan, your FICO® Scores may impact your rate, terms, and promotions. In fact, high FICO® Scores could save you thousand of dollars

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 as low as possible versus your available credit limit
- Make more than the minimum payment
- Have a mix of credit account types
- Review your credit report regularly at annualcreditreport.com

Did you know?

The longer your credit history, the better!



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
- Select passwords carefully
- Pay attention to your mail and shred or discard personal information carefully
- 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



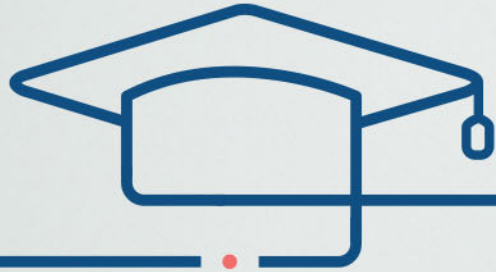
Identity
Theft
Affidavit



Police
Report



ID Theft
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 and how much interest you'll have to pay
 - Potential employers may be able to view your credit — which could affect whether you get certain types of jobs
- **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](https://www.annualcreditreport.com) or call 1-877-322-8228

Credit Report: What it includes

Personal Information

Name: Joe Sample	Date of Birth: 09/15/1979	Address: 901 Main Street Anytown, USA 12345
SSN: XXX-XX-XXXX	Telephone: (555)555-5555	

Employment information:

Acme Widgets	2011-2015
Joe Sample	1997-2012

Account Information

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

Payment History:

Year	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
2015	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
2014	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok

Public Record

None listed.

Credit Inquiries

Bank Town Bank	Requested 09/12/2011	Inquiry Purpose Credit Transaction
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Special Message

None at this time.

Bureau Contact Information

Please contact us for any reason at (123)444-5678 or online at CreditReportingBureauofAmerica.com

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												
Name: Joe Sample	Date of Birth: 09/15/1979	Address: 901 Main Street Anytown, USA 12345										
SSN: XXX-XX-XXXX	Telephone: (555)555-5555											
Employment information:												
Acme Widgets	2011-2015											
Joe Sample	1997-2012											
Account Information												
My Bank: Bank Name	Pay Status: Paying as Agreed	Date Opened: 10/24/2010										
Balance: \$0	Account Type: Revolving Account											
Credit Limit: \$500	Loan Type: Line of Credit											
Payment History:												
<i>Year</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
2015	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
2014	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
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												

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

Personal Information

Name: Joe Sample	Date of Birth: 09/15/1979	Address: 901 Main Street Anytown, USA 12345
SSN: XXX-XX-XXXX	Telephone: (555)555-5555	

Employment information:

Acme Widgets	2011-2015
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Account Information

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

Payment History:

Year	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
2015	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
2014	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok

Public Record

None listed.

Credit Inquiries

Bank	Requested	Inquiry Purpose
Town Bank	09/12/2011	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 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

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
 - Keep a copy of your letter and all documentation
 - The company generally has 30 days to investigate the issue
- 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

Personal Information												
Name: Joe Sample	Date of Birth: 09/15/1979	Address: 901 Main Street Anytown, USA 12345										
SSN: XXX-XX-XXXX	Telephone: (555)555-5555											
Employment information:												
Acme Widgets	2011-2015											
Joe Sample	1997-2012											
Account Information												
My Bank: Bank Name	Pay Status: Paying as Agreed	Date Opened: 10/24/2010										
Balance: \$0	Account Type: Revolving Account											
Credit Limit: \$500	Loan Type: Line of Credit											
Payment History:												
Year	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
2015	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
2014	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok	ok
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												

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

- 800-685-1111
- Equifax.com

Experian

- 888-397-3742
- Experian.com

TransUnion

- 800-916-8800
- TransUnion.com



Financial health tips

Financial health tips



Create a budget

- Having a budget will help you stay in control of your finances
- Create yours at SallieMae.com/CollegePlanningToolbox



Pay on time

- Late payments and collections can impact your FICO® Score.
- If you have 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



Manage your accounts

- Keep your balances low
 - According to FICO, 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
- According to FICO, in general, having credit cards doesn't hurt your FICO® Score as long as you are making payments on time

Financial health tips



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



Correct mistakes

- If you find mistakes on your credit history, contact credit bureaus directly

Equifax	Experian	TransUnion
Equifax.com 1-800-685-1111	Experian.com 1-888-397-3742	TransUnion.com 1-800-916-8800

Learn more at SallieMae.com/FICO



Questions?

The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated.

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