

# Understanding Credit

To better understand credit, think of it as another term for “borrowing”. After you apply, an organization (such as a financial institution, the government, etc.) determines how much credit or money to let you borrow based on their predetermined risk factors. When you borrow money, you need to pay it back. The way you pay back the money (on-time, late, partial payments, etc.) is monitored and reported to a credit reporting agency. The agency then analyzes all reports provided and calculates your credit score. Your credit score over time becomes your credit history, both of which may be considered when you want to borrow money in the future (to buy a house, buy a car, etc.) For this reason, it is important to repay the money borrowed on time to establish and maintain a good credit history.



## Credit Score

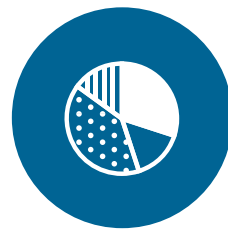
- Credit Score is a statistical number which represents a person’s creditworthiness and ability to repay debt
- A FICO score is one type of credit score created by FICO (formerly known as the Fair Isaac Corporation). Similar to the VantageScore, FICO scores range from 300 to 850.

## Credit Reports Contain

- Your credit score is based on the information submitted
- Personal information: name, date of birth, social security number, phone numbers, addresses, and employer
- Account information: retail, finance, mortgage, rental, and medical
- All balance information and payment history
- Negative items: tax liens, court judgments, bankruptcies, account delinquency information

## Credit Reports Do Not Contain

- Gender, race, religion, marital status, or national origin
- Medical history
- Checking / savings account information
- Any private transactions



## Credit Score Components

- Different credit reporting agencies calculate credit scores differently based on differences in credit score models that weigh credit-related factors differently.
- Scores are primarily based on payment history, amount owed/depth of credit, credit utilization, length of credit history, types of accounts, and recent activity.

## Types of Credit History Inquiries

- Hard - an inquiry which you initiate for credit – mortgage, home loan, auto, or credit card account (impacts credit score)
- Soft – inquiries from companies which send unsolicited offers for marketing purposes (no impact to credit score)
- Personal- inquiries from a person checking their own credit score, which may be different from hard or soft inquiries based on changes in models (no impact to credit score)

## Credit History May Influence

- Your ability to buy or lease a car
- Your ability to buy a house
- Your ability to get a credit card
- Your ability to rent an apartment
- Your ability to get a certain type of job/security clearance
- The interest rate you qualify for on any type of loan
- The amount you may pay for insurance
- Issues with getting a cell phone contract

# Understanding Credit (continued...)



## Improving Your Credit Score / Building a Strong Credit History

- Pay all your bills on time
- Pay off any secured loans
- Keep balances low on credit cards and other revolving credit
- Apply selectively for new credit, but only when necessary
- Do not close unused credit cards (with no fees)
- Dispute any inaccuracies on credit reports



## Building a Credit History Without a Credit Card

Using credit cards responsibly is one of the easier ways to begin building credit. However, if you're against credit cards or prefer not to get one, there are other ways to establish and maintain good credit history

- Repay student loans as soon as possible
- Obtain and repay a cosigned loan
- Use a credit builder loan
- Pay your bills on time (although not all will be reported to credit bureaus, it creates a good habit)



## Actions that Adversely Affect Your Credit Score

- Defaulting on any loan
- Forgetting to make loan payments
- Making late loan payments
- Making purchases that exceed revolving credit limits
- Opening several new accounts in a short period of time
- Having too few lines of credit
- Filing for bankruptcy



## Attributes of Creditworthy Applicants

- Stability of income, employment, and housing
- Consistency in paying bills on time over time
- Having a credit score that exceeds the lender's minimum for approval
- Having a qualified cosigner



## Risk Factors Lenders May Consider

- Current credit score/credit history
- Stability of income/employment
- Current existing debt
- Value of security (where applicable)
- Other financial resources/reserves

# Credit Cards

## Credit Cards to Minors

A great way to establish good credit history is to use a credit card. But responsible purchases are key!

To address issues with credit card abuses, the Credit CARD Act of 2009 included several requirements for the protection of young consumers. These protections included:

- Anyone under the age of 21 requires a cosigner (over 21) or an independent means of repaying the obligation
- If a credit card is cosigned, credit limit increases must be approved by the cosigner in writing
- Card issuers can no longer offer tangible items to induce student to apply for credit cards on campus, near campus, or at a college event

## Options for Students Seeking a Credit Card

- Consult with a family member
- Apply for a card with a cosigner
- Get added as an authorized user on a parent's credit card
- Consider a prepaid card

## Smart Credit Card Use

Besides knowing where your credit card is at all times, other key hints for smart credit card use include:

- Understand all terms and conditions
- Budget for the monthly/annual fees
- Know the interest rate (and avoid paying it by carrying no balance)
- Use your card only for budgeted expenses or emergencies
- Make all payments on time
- Payoff your balance every month for budgeted expenses
- Payoff the balance from emergency use as quickly as possible



<b>Advantages</b>	<b>Disadvantages</b>
Ability to access emergency funds	Fees
Excellent way to establish and maintain good credit history	High interest rates on balances not paid in full monthly
Convenience when making online purchases	Short or no grace period
Provides access to rewards through credit card points program	Potential to harm credit history
Minimizes need to carry large sums of cash	Compulsive/impulse purchase & emotion spending

# Credit Q&A

## Can I get My Credit Report for Free?

Yes! Although there are some companies that may charge you for a credit report service, in order to stay in compliance with the Fair Credit Reporting Act, all credit reporting agencies (Equifax, Experian, TransUnion) are required to provide free annual credit reports upon request.

To get your free credit report, you can visit [annualcreditreport.com](http://annualcreditreport.com) or call **877-322-8228**. As each agency is required to provide you their version of your credit report annually, many people request their credit report from a different agency every four months, keeping on track of credit report changes on a consistent basis.

## What Can I Do if the Information in My Credit Report Seems Inaccurate?

If you find what you believe to be an error in your credit report, you can contact the credit reporting agency that shows the error in your credit report and/or the organization that may have reported the information incorrectly. After their review, you should be provided with details about the suspected error within a reasonable time frame.

## How Long Does Information Stay on My Credit Report?

Generally speaking, positive events (paying off a loan on time) typically will be shown on a credit report for ten years after the event. Negative events (a late payment) will be shown on a credit report for other potential lenders to see for seven years. Some exceptions to these guidelines include:

- Inquiries will remain on your credit reports for up to two years
- Information about a bankruptcy will be reported for ten years from the filing date (for Chapter 7) or seven years from the discharge (for Chapter 13)
- Judgments previously remained on credit reports for up to seven years but in 2017, credit reporting agencies started excluding new records of tax liens and civil judgments.

## How Can I Opt Out from Receiving any Unsolicited Credit and Insurance Marketing Advertisements?

- Unless you explicitly inform credit reporting agencies, creditors, and insurance providers can use credit reporting information to market to people identified as potential customers
- If you want to remove your name from consideration, you can visit [optoutprescreen.com](http://optoutprescreen.com) or call 888-567-8688 to remove your name for five years
- If you want to be added back for consideration, you can visit the same website or call the same number.

