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Understanding Your Credit

Office of Student Financial Management

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What is Credit?

- ▶ The ability to obtain goods/services before payment based on the trust that a payment will be made in the future
- ▶ Borrowed money that you pay back at a specified time
 - ▶ Credit Cards, Overdraft Protection (Line of Credit), Student Loans, Mortgages, Car Loans, Pay Day Loans, etc.

Who can see your Credit Report?

- ▶ **Creditors** who are considering granting or have granted you credit
- ▶ **Employers** considering you for employment, promotion, reassignment or retention
- ▶ **Insurers** considering you for an insurance policy or reviewing an existing policy
- ▶ **Government agencies** reviewing your financial status or government benefits
- ▶ Anyone with a **legitimate business need** for the information, such as a potential landlord, cable company, etc
- ▶ **YOU**

What is a Credit Report?

- ▶ A history of your past credit activities
 - ▶ Including balances and payment history
- ▶ Includes:
 - ▶ Credit Information (closed and open accounts)
 - ▶ Credit Cards
 - ▶ Loan Accounts
 - ▶ Lines of Credit
 - ▶ Pay Day Loans
 - ▶ Public Record Information
 - ▶ Recent Inquiries (who has obtained your credit report) - “Hard Inquiries”
- ▶ Doesn't Include
 - ▶ Bank account information
 - ▶ Investments, Retirement Accounts, etc

Public Records

- ▶ Judgment or lawsuit (financially related)
- ▶ Foreclosure
- ▶ Bankruptcy
- ▶ State/Federal Tax Lien
- ▶ Wage garnishment
- ▶ Past-due Child Support

Inquiries

▶ “Hard” Inquiries

- ▶ Occur when a creditor checks your credit report for the purpose of granting you a line of credit
- ▶ Reported on your credit report for 2 years. Have a small impact on your credit score

▶ “Soft” Inquiries

- ▶ Occur when someone checks your credit on your behalf
 - ▶ Employer background check
 - ▶ Identity verification
 - ▶ “Pre-approved” offers
 - ▶ You check your own credit report
- ▶ Viewable only by you and have no impact on score

▶ Sometimes, it may not be obvious what kind of inquiry the company is initiating

- ▶ Apartment rental applications
 - ▶ Opening TV/Cable accounts
 - ▶ Car rentals
 - ▶ Opening a new bank account
- ▶ You can always ask the company completing the credit check, what type of inquiry they’ll initiate

What is reported and for how long?

- ▶ Open Accounts - always
- ▶ Closed Accounts - for 7 years
- ▶ Negative Accounts - 7 years from original delinquency
- ▶ Bankruptcies - 10 yrs (Ch 7) or 7yrs (Ch 13/re-org)
- ▶ Public Records - 7 years
- ▶ Tax Liens - 7 years after its paid
- ▶ Hard Inquiries - 2 years

What is a “Negative Account”?

- ▶ Has Late Payments (30, 60, 90 days overdue)
- ▶ In Collections
- ▶ Charged-off
- ▶ Defaulted

Where do Credit Reports Come From?

- ▶ Credit Bureaus collect and sell credit information
 - ▶ Information these bureaus use comes from the parties that have extended credit to you
 - ▶ A creditor may report your account information to all or none of the credit bureaus
 - ▶ information obtained from the different bureaus may vary
- ▶ There are 3 major nationwide credit bureaus
 - ▶ Equifax - www.equifax.com
 - ▶ Transunion - www.transunion.com
 - ▶ Experian - www.experian.com

Checking your Report

- ▶ Its important to check your credit report regularly
 - ▶ To know where you stand
 - ▶ Helps protect against fraud or identity theft
 - ▶ Credit reports can have **ERRORS** that hurt your score
- ▶ Make sure you monitor each of your credit reports as they may have different information

How to Check Your Report

- ▶ You are entitled to 1 free credit report from each of the 3 bureaus annually
 - ▶ www.AnnualCreditReport.com
 - ▶ **NOT FreeCreditReport.com**
 - ▶ This website provides a “free” credit score when you sign up for their credit monitoring service
- ▶ Go directly to credit bureau’s website (\$1-\$10)

Other Websites Providing a Free Credit Report

A number of website services provide you with a free credit report:

- ▶ **Credit Karma** - TransUnion & Equifax report, once per week. Also provides a “score simulator.”
- ▶ **Credit Sesame** - TransUnion report summary, once per month
- ▶ **Quizzle** - Equifax report, once every 3 months
- ▶ Some credit card companies will give you a free credit report as a benefit.

Other Free Ways to get Report

- ▶ Under Colorado law, you are also entitled to 1 free credit report from each of the credit bureaus each year
 - ▶ So, you could get 2 free reports per year
- ▶ If denied credit, insurance or a job due to your credit report, you are entitled to a free report within 60 days
- ▶ Unemployed and looking for work
- ▶ Suspect that your report is inaccurate due to fraud

What is a Credit Score?

- ▶ A numeric rating assigned based on your credit report
 - ▶ Represents your creditworthiness to potential creditors, employers, etc.
- ▶ The most common score used for this purpose is the **FICO score** (developed by the Fair Isaac Corporation)
 - ▶ Ranges from 300-850
 - ▶ Because each bureau has different data, you may have 3 different FICO scores
- ▶ Another score is the **VantageScore**
 - ▶ Ranges from 501-990 for older VantageScores, and 300-850 for VantageScore 3.0
 - ▶ Often sold by the 3 credit bureaus to customers
 - ▶ Uses a slightly different calculation than the FICO score

Credit Score Components

FICO

- ▶ Payment History 35%
- ▶ Credit Utilization 30%
- ▶ Length of History 15%
- ▶ Credit Mix 10%
- ▶ New Credit 10%

VantageScore

- ▶ Payment History 40%
- ▶ Depth of Credit 21%
- ▶ Credit Utilization 20%
- ▶ Balances 11%
- ▶ New Credit 5%
- ▶ Available Credit 3%

Credit Score Components

Payment History:

35% FICO or 40% VantageScore

- On-time payments help your score
- Late payments hurt your score

Payments are reported as 30, 60, 90, or 120 days late

Credit Utilization:

30% FICO or 34% VantageScore

(Utilization 20%,
Balances 11%,
Available Credit 3%)

- The amount of credit you are using compared to how much credit you have available
 - Below 30% is good (below 10% is excellent)
- how much you owe on all your debts.

Credit Score Components

Depth of Credit:

25% FICO or 21% VantageScore
(15% Length
10% Credit Mix)

- The longer history you have the better
 - Usually, anything less than 7 years hurts your score
- Having a more diversified “credit portfolio” helps your score.
 - mix of loans, credit cards, retail accounts, and mortgage loans is preferred

New Credit:

10% FICO or 5% VantageScore

- how many new accounts you have opened up recently
- how many “hard inquiries” you have in the last year
 - Usually, inquiries from several auto, mortgage or student loan lenders in short period of time are counted as one inquiry.
- Very small impact on your score.
 - should not discourage you from shopping around for the best rates

Understanding Your Credit Score

750 - 850 : EXCELLENT

700 - 749 : GOOD

640 - 699 : FAIR

580 - 639 : POOR

350 - 579 : VERY POOR

* Always check on the scale, when looking at a score.
Different models will use different scales.

Ways you may be hurting your credit

1 - Closing old Credit Card Accounts

2 - Missing Payments

3 - Settling Past Due Accounts

4 - Over-Utilizing Credit

5 - Opening a lot of New Accounts in a short period of time

Qualifying for Credit

The following are criteria that creditors use to qualify you for credit:

- **Character** - Will you repay your debt? How have you paid your bills in the past? (**credit report**)
 - **Collateral** - What will the lender get if you don't repay your debt?
 - Secured loans (car loans, mortgages) usually have lower interest rates than unsecured loans (personal loans, credit cards) because the lender will get something (car, house) if you default
 - **Capacity** - Can you repay your debt based on your available income? (**debt to income ratio**)
 - **Capital** - What is your net worth?
 - Again, if you have a higher net worth, the lender is more likely to recoup the money they lent you if you default
- Conditions** - What is the overall economic situation? This will have a high impact on availability of credit and rates.

Building Your Credit

- ▶ Get added as an authorized user to another person's account (relative, significant other)
- ▶ Set up a secured credit card
- ▶ Obtain a co-signer for loans
- ▶ Pay your bills on time

Resources

General Resources:

www.law.du.edu/financial-aid
www.bettermoneyhabits.com
www.quizzle.com/blog
www.mint.com/blog
www.smartaboutmoney.org
www.practicalmoneyskills.com

Getting a Free Credit Score:

www.annualcreditreport.com
www.quizzle.com
www.creditkarma.com
www.creditsesame.com

Budgeting:

www.law.du.edu/financial-aid
www.mint.com
www.budgetsimple.com

Credit Bureaus:

www.experian.com
www.transunion.com
www.equifax.com

Questions? Contact Student Financial Management

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