

The Good, The Bad & The Ugly of Credit

Where do you stand?

The Basics: Understanding Credit

▶ Credit has two definitions:

1. Borrowed money that allows you to purchase things
 - ▶ This can take many forms, such as a car loan, home mortgage, student loan, or credit cards for product purchases
2. The likelihood that you will pay back these loans and be approved to take out new ones (this likelihood is demonstrated through a credit score)
 - ▶ Your credit score is determined by the three credit agencies and helps lenders determine how much money you'll be able to borrow and what interest your loans will have. The interest is additional money that you are charged and will need to pay back so the lender can profit on your loan.

CREDIT

Using Credit for big money purchases

- ▶ Having access to credit means you can buy something before you pay for it.
- ▶ This ability to borrow gives you, the borrower, flexibility in planning your purchases and makes it possible to pay for a large purchase over time
- ▶ However, you also pay interest on the purchase amount, so use credit wisely, and only borrow money to make necessary purchases.
- ▶ Tuition can be a large expense, so many students and parents of students choose to take out loans to fill in the gap after scholarships and other financial aid have been awarded.
- ▶ Some education loans, such as GradPLUS and parent PLUS loans, require a credit check.
- ▶ Credit plays a big role in your life, which is why having good credit, making payments on time, and minimizing your debt are so important.



What is a credit report?

It is a record of your credit history that shows if you pay your bills on time or don't and how much you owe in loans, credit card, etc. It shows how you manage your financial responsibilities.



- ▶ What is a credit score - also known as FICO score?
 - ▶ It is a number that reflects how good of a 'credit risk' you are based on your credit history. Companies that lend money use this score to decide if they will extend you credit and how high or low they will set your interest rate.
- ▶ What do credit reporting agencies (also known as credit bureaus) do?
 - ▶ They gather and maintain information from creditors about your debt and payment activity. They then provide this information in the form of your credit report to companies that you are requesting credit from.

Who are the Credit Agencies?

To determine your creditworthiness, potential lenders will acquire your credit report from credit agencies.

You have a right to request a copy of your credit report at any time and can get one for free from each agency once a year.

How much does a credit report cost?

- It's **FREE** if you go to www.gofreecredit.com/Annual-Credit/Credit-Report
- You can get 1 free credit report from each of the nationwide credit bureaus
- This is the only website where this service is truly free.

▶ **Equifax**

P.O. Box 740241
Atlanta, GA 30374-0241
800.997.2493
Equifax.com

▶ **Experian**

P.O. Box 949
Allen, TX 75013-0949
888.397.7654
Experian.com

▶ **Trans Union**

P.O. Box 390
Springfield, PA 19064-0290
800.888.4213
Transunion.com



Who looks at your credit report?

- ▶ Lenders
 - ▶ Insurance companies (home, car)
 - ▶ Auto Dealerships
 - ▶ Potential employers
 - ▶ Telephone and utility companies
 - ▶ Landlords
- ▶ What makes you “credit worthy”?
- ▶ Paying all your bills on-time.
 - ▶ Not borrowing more than your income can afford.
 - ▶ Not opening lots of credit/loan accounts.

How do they calculate my credit score?

- ▶ If you pay your bills on-time
- ▶ How much total debt you have outstanding
- ▶ How much of your available credit you are currently using
- ▶ The number and types of credit accounts you have open
- ▶ If you have any accounts in collection status
- ▶ How long you have had credit - age of your accounts



The Good vs the Bad of Credit



- ▶ What does a **high** credit score mean?
 - ▶ You are a **good** credit risk = you pay your bills on time and manage your finances well.
 - ▶ Lenders are more likely to offer you credit/loans at better/lower interest rates.
- ▶ What does a **low** credit score mean?
 - ▶ You are a **bad** credit risk = you pay your bills late or not at all. You don't manage your finances well.
 - ▶ Lenders are not likely to offer you credit/loans. If they do, your interest rates will be very high.

The Good vs the Bad of Credit

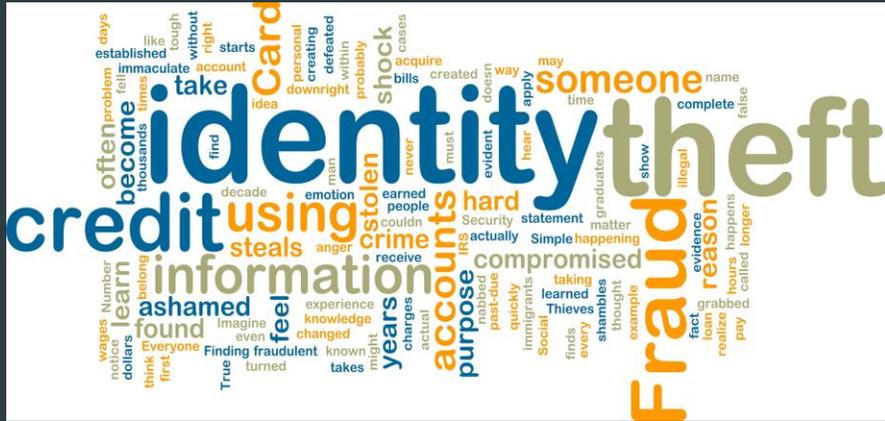
How to repair a bad credit score

- ▶ Pay your bills on-time
- ▶ Establish a budget.
- ▶ Don't charge up to your maximum credit limit on credit cards
- ▶ Talk with a reputable credit counseling agency for help.

Why it is important for you to check your credit report at least once a year

- ▶ To see if there is any negative history reported incorrectly so that you can dispute it.
- ▶ To make sure that no unauthorized accounts have been opened in your name = possible identity theft.

Now, the Ugly Part of Credit



► What is identity theft?

- When someone steals your personal information and uses it to commit fraud - such as open credit accounts in your name.

► Ways that your identity can be stolen

- Mail with your personal information could be stolen from your mailbox or even from the post office.
- Your wallet or purse could be stolen which could contain your credit cards, blank checks and other personal information.
- Dumpster Diving where a thief looks through your outdoor trash cans for items that contain your personal information - you should always shred these kinds of items.
- Phishing where you receive an e-mail from an unauthorized source that asks you for personal information.

Preventing Identity Theft

- ▶ Shred all documents that contain your personal information (social security number, account numbers, etc.)
- ▶ Review your credit report regularly for new accounts that you didn't authorize.
- ▶ Review all your bills, credit card and bank account statements as soon as you get them for unauthorized charges or activity.
- ▶ Report stolen or lost credit cards or checks immediately.
- ▶ Never respond to telephone calls or email messages that ask for your personal information





What should you do if you find an error on your credit report?

- ▶ You should contact each of the 3 national credit bureaus and find out how to “dispute” or request that the error be removed.
- ▶ If the error shows a negative credit history, this will have a bad impact on your credit score and your ability to get credit in the future.

What does ‘adverse credit history’ mean?

An entry on your credit report that says you missed one or more monthly payments or you consistently made less than the scheduled payment. These types of entries can negatively affect your ability to get more credit.

- ▶ **What does “delinquent” mean?**
 - ▶ Delinquent means that you missed one or more scheduled bill payments. This has a negative impact on your credit score and your ability to get credit.
- ▶ **What does “default” mean?**
 - ▶ Default means that you have ‘walked-away’ or refused to repay your debt obligation and have not worked with the creditor to make payment arrangements. Default has a very serious negative effect on your credit score and your ability to get credit.

More Info



- ▶ If you pay-off an account that was sent to collections, will it be removed as a negative credit mark on your credit report?
 - ▶ **No.** Negative credit information will remain on your credit report for 7 years. Information like bankruptcy and judgments or liens against you can stay for up to 10 years.
- ▶ If you can't afford your monthly loan/credit card payment, what should you do?
 - ▶ You should contact the lender and explain your situation and ask them if you can make a smaller payment until you are able to continue with regular payment amounts. You should never just skip a payment because this will create a negative mark on your credit report.

The best credit tip you can get...

Budget, budget, budget!

- ▶ **What is the purpose of a budget?**
 - ▶ To help you manage your money effectively by knowing and tracking how much of your money is coming in and going out.
- ▶ **What is a discretionary expense in your budget?**
 - ▶ Discretionary expenses are those that you choose to purchase that are not absolutely necessary for day-to-day living, like eating out every day or expensive entertainment. These items are called your “wants”.
- ▶ **What is a fixed expense in your budget?**
 - ▶ Expenses that you must pay each month and are usually the same amount each month, like rent, car payment, loans.
- ▶ **What is a variable expense in your budget?**
 - ▶ Expenses that must be paid every month but their amounts vary, like utilities and food.
- ▶ **What is a periodic expense in your budget?**
 - ▶ Expenses that only occur at certain times during the year, like car insurance and registration. You need to save for these expenses during the rest of the year.

Keep to your Budget!

- ▶ **Record your actual expenses** -
 - ▶ By recording your expenses you can get a better grasp on where you're spending your money.
- ▶ **Organize your records** -
 - ▶ Decide what system you're going to use to track and organize your financial information such as apps and computer-based programs that work well.
- ▶ **Create a routine** -
 - ▶ Manage your money on a regular basis by recording your expenses and income regularly either daily, weekly, every two weeks.
- ▶ **Comparison shop** -
 - ▶ When buying products compare the prices to get the best deals and value out of it.



Any Questions?

Contact CCA Financial Aid:

FinancialAid@ccaaurora.edu

Phone 303-360-4709