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.
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
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 “Negative Account”? 

- Has Late Payments (30, 60, 90 days overdue) 
- In Collections 
- Charged-off 
- Defaulted
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
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](http://www.equifax.com)
  - Transunion – [www.transunion.com](http://www.transunion.com)
  - Experian – [www.experian.com](http://www.experian.com)
Checking your Report

It is very important to check your credit reports regularly.

- Know where you stand
- Helps protect against fraud or identity theft
- Credit reports can have **ERRORS** that hurt your score
- Make sure to 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
  - 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 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
- Report is inaccurate due to fraud
- Some websites - Quizzle, Credit Sesame, Credit Karma - provide free reports more often than yearly
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
  - Often sold by the 3 credit bureaus to customers
  - Uses a slightly different calculation than the FICO score
Credit Score Details

FICO Credit Score Components
- Payment History: 35%
- Credit Utilization: 10%
- Account Diversity/Length of History: 18%
- New Credit: 10%

VantageScore Credit Score Components
- Payment History: 32%
- Credit Utilization: 13%
- Available Credit: 23%
- Depth of Credit: 15%
- New Credit: 7%
Credit Score Components

Payment History: 35% FICO or 32% 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 45% VantageScore (Utilization 23%, Balances 15% and Available Credit 7%)
- The amount of credit you are using compared to how much credit you have available
- keeping credit utilization below 30% is good
- keeping credit utilization below 10% is excellent
Credit Score Components

Length of History: 15% FICO
- The longer history you have the better
- Usually, anything less than 7 years hurts your score

Account Diversity: 10% FICO
- Having a more diversified “credit portfolio” helps your score.
- Accounts are categorized as:
  - Revolving (credit cards, lines of credit)
  - Installment (loans)
  - Real Estate (mortgage)

Depth of Credit: 13% VantageScore
- Combination of Length of History and Account Diversity

New Credit: 10%
- Too many “hard” inquiries (those where a creditor is checking your credit for the purpose of qualifying you for credit) can hurt your score
### Understanding your Credit Score

<table>
<thead>
<tr>
<th>FICO</th>
<th>VantageScore</th>
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<tbody>
<tr>
<td>750 – 850</td>
<td>901 – 990 : A, Super Prime</td>
</tr>
<tr>
<td>700 – 749</td>
<td>801 – 900 : B, Prime Plus</td>
</tr>
<tr>
<td>640 – 699</td>
<td>701 – 800 : C, Prime</td>
</tr>
<tr>
<td>580 – 639</td>
<td>601 – 700 : D, Non-Prime</td>
</tr>
<tr>
<td>350 – 579</td>
<td>501 – 600 : F, High Risk</td>
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<tr>
<td>POOR</td>
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<td>FAIR</td>
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<td>EXCELLENT</td>
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<td>VERY POOR</td>
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<td>HIGH RISK</td>
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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 – Shopping Around Too Much for Credit
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
Debit Card Pros and Cons

**PROs**
- Convenient
- Secure
- Interest free
- Can help you track your spending
- Can be used to get cash at ATMs or with merchants

**CONs**
- Can be declined if you don’t have enough money in your account
- Overdraft fees can be costly
- Using a debit card wisely has no impact on your credit
## Credit Card Pros and Cons

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<th><strong>PROs</strong></th>
<th><strong>CONs</strong></th>
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<tr>
<td>Convenient</td>
<td>Interest charges if you carry a balance from month to month (interest of 10-30%)</td>
</tr>
<tr>
<td>Secure</td>
<td>Late fees and higher interest rates if not paid on time</td>
</tr>
<tr>
<td>Interest free, if paid off in full each month</td>
<td>May give you the illusion that you have more money than you really have</td>
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<tr>
<td>Can help you track your spending</td>
<td>Can have an annual fee</td>
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<tr>
<td>Can give you rewards or cash back</td>
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<tr>
<td>Can provide additional protection for certain purchases</td>
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<tr>
<td>Can be useful in an emergency situation</td>
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<tr>
<td>Help build your credit</td>
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Credit Card Dos and Don’ts

**DOs**
- Pay your bill on time
- Pay your balance in full, if you can
  - Reduce your credit card use if you can’t pay off your card in full
- Check your statement/account activity regularly
- Read 0% financing offers carefully
  - Can cost you A LOT in interest if not paid off by end of promo period
- Understand your terms and conditions

**DON’Ts**
- Max out your credit card
- Make purchases you can’t afford
- Make only minimum payments
- Buy things on credit just to get rewards/cash back
  - If not paying your card off fully next month, how much will that “reward” cost you.
Importance of Budgeting

- Ensures you don’t spend money that you don’t have
- Can shed light on some bad spending habits
  - You may see areas where you are spending money on things you really don’t need
- Helps you prepare for emergencies
- Gives you peace of mind
  - By following a budget, you’ll have control over your financial life, rather than it controlling you.
- Helps you meet your financial goals
  - Paying off loans, taking trips, retirement, etc.
- Can help you maintain (or improve) your credit
Tracking your Spending

- To maintain, and improve, your credit record, you need to monitor your spending and ensure you have enough money to cover your debts.

- An easy way of doing this is by creating a Spending Plan or Budget.

- There are many tools to help you create a budget you can live on:
  - Budgeting Worksheets from the Office of Financial Management
  - Websites such as: Mint.com, BudgetSimple.com, MySpendingPlan.com
Creating a Budget

- **Determine your sources of income**
  - Income from work
  - Financial Aid *(if loans, remember you have to pay those back)*
  - Amount available from savings *(for students)*

- **Determine your expenses**
  - Look at your expenses from the previous month or two.
  - If you don’t have a record, make one. Track your spending for a month.
  - If you have costs that you incur every couple of months or once per year *(insurance, car registration)*; break them down to a per month amount so you can include them in your budget.
Creating a Budget

- Total your monthly income and expenses
  - Income > Expenses
    - Reduce Borrowing (while a student)
    - Put toward your financial goals: increase savings, save for a larger purchase, pay off credit cards or student loans, etc.
  - Income < Expenses
    - Identify areas where you can save money
    - Cover “needs” first, “wants” second
    - Reduce amount you spend on “luxury” items – eating out, entertainment, cable, etc.

- Monitor your Budget regularly
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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FinancialManagement@law.du.edu