



**Business Development Center  
Asset Building Department**

## **Basic Credit Workshop**

**Build Your CREDIT = Build Your ASSET**



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### **Course Objectives:**

What is credit?

What is credit report?

What is credit score?

What is credit report agency?

How credit report/score affect me?

How to establish/improve my credit?

What are my rights?



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## What is Credit?

**Credit** is borrowed money that you can use to purchase goods and services when you need them. You get credit from a credit grantor, whom you agree to pay back the amount you spent, plus applicable finance charges, at an agreed-upon time.



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## Financial Trustworthiness



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## Types of Credit:

**Installment credit:** Car loans and mortgages

**Revolving credit:** Credit cards

**Charge cards:** American Express and Diner's Club

**Service credit:** Electricity, cell phone service, gym membership, etc.



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in Employment

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## Who are they?

**Credit Grantor:** Report accurate information to the bureaus

**Credit Bureaus:** Trans Union, Experian and Equifax  
(Information warehouse)

**Credit Reporting Agency:** Draws information from the bureaus and provide that information for a fee in an easy-to understand format to other creditors or consumers

**Consumer:** Provide information when apply for charge account, loan, insurance, or job

**Public Records:** Government sources – courts of law



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## Components in the Credit Report?

### The 5 information zones:

**Personal Information:** Name, current/previous addresses and employers, SSN and DOB

**Credit Scoring Results & Summary:** Score and factors **(Extra Fees)**

**Trade Lines & Derogatory Accounts:** Accounts' details

**Inquiries:** Voluntary / Hard Hit vs. Involuntary / Soft Hit

**Public Record:** Liens, bankruptcies, judgments, foreclosures, law suits, overdue child support and overdue debt from collection agencies



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## What is Not Included in the Credit Report?

- Gender
- Ethnicity
- Religion
- Political affiliation
- Medical history
- Criminal records
- Checking account
- Savings account
- Bankruptcy > 10 years
- Charge-off debts > 7 years



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## Who Can Request the Consumer's Credit Report?

- ✓ Consumers
- ✓ Credit Grantor/Creditor
- ✓ Investor/Service/Insurer
- ✓ Employer/Potential Employer
- ✓ Insurance Company
- ✓ The Courts
- ✓ Child Support Enforcement



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## Credit Repositories or Bureaus:

Gather information on consumers who use credit then sell that information (credit report) to credit grantors, such as banks, retail stores, credit card companies, mortgage companies, finance companies, and service providers.

**TransUnion**



**Experian**



**Equifax**



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# What is Credit Scores?



## Credit Score Ranges:

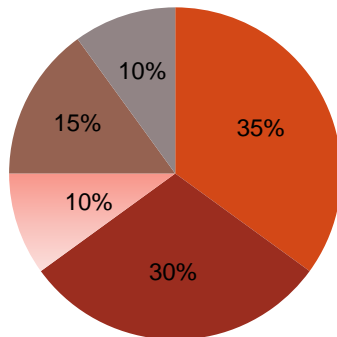
Classic FICO Score:	300-850
Equifax Beacon (FICO):	300-850
TransUnion Emperica (FICO):	150-934
Experian Fair Issac Risk Score:	330-830



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# Fair Issac and the FICO Models:

## Components of the FICO Score

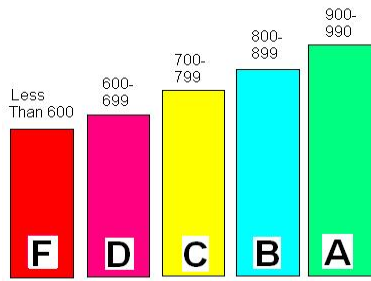
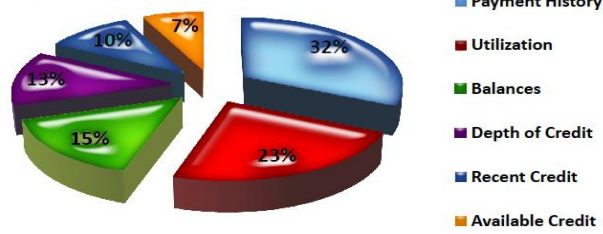


- Payment History 35%
- Amount Owed 30%
- Types of Credit 10%
- Length of Credit History 15%
- New Credit 10%



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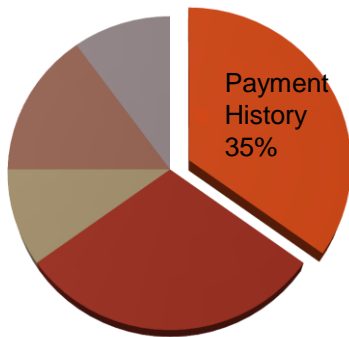
### Vantage Score Break-Down



"A" for scores between 900-990 – Super Prime  
 "B" for scores between 800-899 – Prime Plus  
 "C" for scores between 700-799 – Prime  
 "D" for scores between 600-699 – Non-Prime  
 "F" for scores 599 and below – High Risk

**New VantageScore Scale**

### Components of the FICO Score

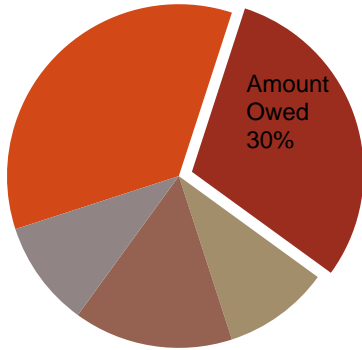


**Payment History 35%**

*Have you paid bills on time?*

- ✓ # of months since the most recent public record or collection
- ✓ How severe was the most recent derogatory reporting
- ✓ Patterns of late payments

### Components of the FICO Score



#### Amount Owed 30%

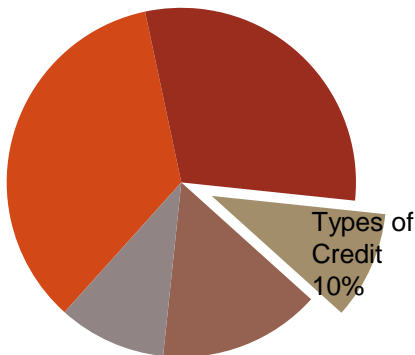
*How much is too much?*

- ✓ The debt to credit ratio:
  - On each account
  - The total amount owed compare to total available credit
- ✓ Number of accounts with balances



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### Components of the FICO Score



#### Types of Credit 10%

*Healthy mix of revolving and installment debt?*

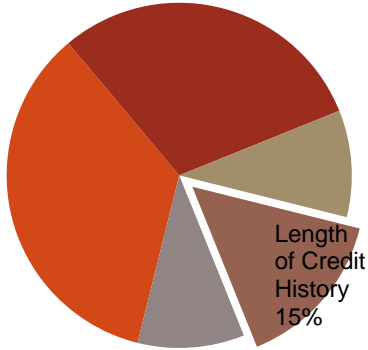
- ✓ # of national bank credit cards
- ✓ # of installment debts compare to revolving debts
- ✓ Credit limited to certain types of creditors



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### Components of the FICO Score



#### Length of Credit History 15%

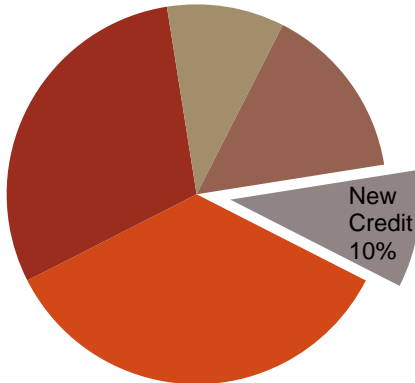
*How old are your account?*

- ✓ # of months on file
- ✓ # of months since the most recent account opening



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### Components of the FICO Score



#### New Credit 10%

*Are you taking on more debt?*

- ✓ # of inquiries last 12 months
- ✓ # of trade lines open in the last 12 months



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## How Long the Information Remains in the Credit Report?

General information -----	7 years
Bankruptcy -----	10 years
Judgment -----	7 years (from date of filing)
Unpaid tax liens -----	Forever
Paid tax liens -----	7 years (from the date paid)
Student loan -----	7 years (delinquent – indefinite)
Inquiries -----	2 years
Foreclosure -----	7 years
ChexSystem -----	5 years



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## Derogatory Items in Your Credit Report:

- ✓Late Payment
- ✓Charge-offs
- ✓Debt Collections
- ✓Bankruptcy
- ✓Foreclosure
- ✓Tax Liens
- ✓Lawsuits or Judgments



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## Rules of Thumb for Good Credit Score

- Rule 1: Check your credit report regularly  
Dispute any information that is incorrect  
All derogatory information lowers credit score
- Rule 2: Pay yourself first. Establish an emergency savings account
- Rule 3: Pay on time  
If missed payments, get current and stay current
- Rule 4: Do not "max out"  
Keep Debt to Credit ratio <30% (lower the better)
- Rule 5: Apply new credit only on needed basis  
Don't close old credit card accounts
- Rule 6: Pay down your debts, especially credit card debts
- Rule 7: Obtain a secured credit card or secured loan



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## Credit Score Deductions

	Effect on a 680 score	Effect on a 780 score
<b>Maxed-out card</b>	-10 to -30	-25 to -45
<b>30-day late payment</b>	-60 to -80	-90 to -110
<b>Debt Settlement</b>	-45 to -65	-105 to -125
<b>Foreclosure</b>	-85 to -105	-140 to -160
<b>Bankruptcy</b>	-130 to -150	-220 to -240

Source: FICO



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## Consumers' Rights:

Fair Credit Reporting Act, 1971

Fair and Accurate Credit Transactions Act, 2003

Fair Debt Collection Practices Act, 1978

Credit Repair Organization Act

Equal Credit Opportunity Act, 1975

Fair Credit Billing Act, 1975

Consumer Credit Protection Act, 1968  
(Truth in Lending Act)



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## The Impact of Credit Score

\$300,000 @ 30 Years Fixed Mortgage				
FICO Score	APR %	Monthly Payment	Extra Payment	Total Interest Paid
760-850	4.019	\$1,436.00		\$216,792
700-759	4.243	\$1,475.00	\$14,060	\$230,853
680-669	4.421	\$1,506.00	\$25,370	\$242,162
660-679	4.637	\$1,545.00	\$39,254	\$256,047
640-659	5.070	\$1,623.00	\$67,604	\$284,396
620-639	5.621	\$1,726.00	\$104,644	\$321,436

\$25,000 @ 60 months auto loan				
FICO Score	APR %	Monthly Payment	Extra Payment	Total Interest Paid
720-850	3.419	\$454.00		\$2,233
690-719	4.916	\$471.00	\$1,016	\$3,249
660-689	6.973	\$495.00	\$2,449	\$4,683
620-659	10.177	\$533.00	\$4,768	\$7,001
590-619	15.196	\$597.00	\$8,606	\$10,839
500-589	17.262	\$625.00	\$10,257	\$12,491



source: myfico.com  
4/21/2014

## How Much Interest Will You Pay?

Credit Card Balance	Interest Rate APR%	Minimum Payment % of Balance	Monthly Payment % of Balance	Total Interest Paid	Total Payment	Total Months to Payoff
5000	19.88%	4%	200	3133.58	8133.58	137
5000	19.88%	5%	250	2239.95	7239.95	105
5000	19.88%	6%	300	1744.17	6744.17	85
5000	19.88%	7%	350	1428.42	6428.42	72
5000	19.88%	8%	400	1209.79	6209.79	63
5000	19.88%	9%	450	1049.29	6049.29	56
5000	19.88%	10%	500	926.42	5926.42	50
5000	19.88%	15%	450	584.47	5584.47	34
5000	19.88%	20%	1000	426.91	5426.91	25

Source: bankrate.com



**PERSONAL CREDIT** = **FINANCIAL TRUST-WORTHINESS**

**CREDIT REPORT** = **FINANCIAL RESUME**



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**Build Your CREDIT = Build Your ASSET**

**CREDIT = ASSET**



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