Basic Credit Workshop

Build Your CREDIT = Build Your ASSET
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?
What is Credit?

**Credit** – A trust or promise to buy now and pay later under designated terms and conditions for goods or services

**Creditworthiness** – An Assessment of a consumer’s past credit behavior that allows a potential lenders to decide whether or not to extend credit.
Financial Trustworthiness
Types of Credit:

**Installment credit**: Car loans and mortgages

**R revolving credit**: Credit cards

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

**Service credit**: Electricity, cell phone service, gym membership, etc.
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
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
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
Who Can Request the Consumer’s Credit Report?

- Consumers
- Credit Grantor/Creditor
- Investor/Servicer/Insurer
- Employer/Potential Employer
- Insurance Company
- The Courts
- Child Support Enforcement
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
What is Credit Scores?

Credit Score Ranges:

<table>
<thead>
<tr>
<th>Score Type</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classic FICO Score</td>
<td>300-850</td>
</tr>
<tr>
<td>Equifax Beacon (FICO)</td>
<td>300-850</td>
</tr>
<tr>
<td>TransUnion Emperica (FICO)</td>
<td>150-934</td>
</tr>
<tr>
<td>Experian Fair Issac Risk Score</td>
<td>330-830</td>
</tr>
</tbody>
</table>
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%
“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
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
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
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
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
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: Indefinite
- Paid tax liens: 7 years (from the date paid)
- Student loan: 7 years (delinquent – indefinite)
- Inquiries: 2 years
- Foreclosure: 7 years
- ChexSystem: 5 years
Derogatory Items in Your Credit Report:

- Late Payment
- Charge-offs
- Debt Collections
- Bankruptcy
- Foreclosure
- Tax Liens
- Lawsuits or Judgments
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
## Credit Score Deductions

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

*Source: FICO*
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)
## The Impact of Credit Score

<table>
<thead>
<tr>
<th>FICO Score</th>
<th>APR %</th>
<th>Monthly Payment</th>
<th>Extra Payment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>760-850</td>
<td>4.17</td>
<td>$1,461.80</td>
<td></td>
<td>$226,250</td>
</tr>
<tr>
<td>700-759</td>
<td>4.392</td>
<td>$1,500.87</td>
<td><strong>$14,059</strong></td>
<td>$240,310</td>
</tr>
<tr>
<td>680-669</td>
<td>4.569</td>
<td>$1,532.38</td>
<td><strong>$25,406</strong></td>
<td>$251,657</td>
</tr>
<tr>
<td>660-679</td>
<td>4.783</td>
<td>$1,570.91</td>
<td><strong>$39,281</strong></td>
<td>$265,531</td>
</tr>
<tr>
<td>640-659</td>
<td>5.213</td>
<td>$1,649.74</td>
<td><strong>$67,658</strong></td>
<td>$293,908</td>
</tr>
<tr>
<td>620-639</td>
<td>5.759</td>
<td>$1,752.43</td>
<td><strong>$104,629</strong></td>
<td>$330,879</td>
</tr>
</tbody>
</table>

Source: bankrate.com 1/17/2019
# The Impact of Credit Score

## New Car Loan $25,000 for 60 months

<table>
<thead>
<tr>
<th>FICO Score</th>
<th>APR %</th>
<th>Monthly Payment</th>
<th>Extra Payment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super Prime: 781 to 850</td>
<td>2.6</td>
<td>$445.00</td>
<td></td>
<td>$1,687</td>
</tr>
<tr>
<td>Prime: 661 to 780</td>
<td>3.59</td>
<td>$456.00</td>
<td><strong>$661</strong></td>
<td>$2,348</td>
</tr>
<tr>
<td>Nonprime: 601 to 660</td>
<td>6.39</td>
<td>$495.00</td>
<td><strong>$2,996</strong></td>
<td>$4,683</td>
</tr>
<tr>
<td>Subprime: 501 to 600</td>
<td>10.65</td>
<td>$539.00</td>
<td><strong>$5,665</strong></td>
<td>$7,352</td>
</tr>
<tr>
<td>Deep Subprime: 300 to 500</td>
<td>13.53</td>
<td>$576.00</td>
<td><strong>$7,851</strong></td>
<td>$9,538</td>
</tr>
</tbody>
</table>

## Used Car Loan $15,000 for 60 months

<table>
<thead>
<tr>
<th>FICO Score</th>
<th>APR %</th>
<th>Monthly Payment</th>
<th>Extra Payment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super Prime: 781 to 850</td>
<td>3.4</td>
<td>$272.00</td>
<td></td>
<td>$1,332</td>
</tr>
<tr>
<td>Prime: 661 to 780</td>
<td>5.12</td>
<td>$284.00</td>
<td><strong>$702</strong></td>
<td>$2,034</td>
</tr>
<tr>
<td>Nonprime: 601 to 660</td>
<td>9.4</td>
<td>$314.00</td>
<td><strong>$2,526</strong></td>
<td>$3,858</td>
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<tr>
<td>Subprime: 501 to 600</td>
<td>15.72</td>
<td>$363.00</td>
<td><strong>$5,421</strong></td>
<td>$6,753</td>
</tr>
<tr>
<td>Deep Subprime: 300 to 500</td>
<td>18.98</td>
<td>$389.00</td>
<td><strong>$7,005</strong></td>
<td>$8,337</td>
</tr>
</tbody>
</table>

*source: bankrate.com 1/17/2019*
## How Much Interest Will You Pay?

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

Source: bankrate.com
PERSONAL CREDIT = FINANCIAL TRUST-WORTHINESS

CREDIT REPORT = FINANCIAL RESUME
Build Your CREDIT = Build Your ASSET

CREDIT = ASSET
Thank you

Presented by:

Wai Ling Chin
Business Counselor Manager
Email: wchin@pacela.org
Tel: (213) 353-9400