Williams College
Agenda

• What is credit and why is it so important?
• Credit reports and credit scores
• Building credit
• Comparing credit cards
• Borrowing guidelines
• How to repair bad credit
• Student loan overview
What is Credit?

1. Money that a bank or business will allow a person to use and then pay back in the future
   - You can borrow and use credit via credit cards and loans.

2. A record of how well you have paid your bills in the past
   - How you manage your credit cards and loans affects your credit report, which influences your life choices.
Importance of Credit

- Credit can be more convenient than cash
- Credit can be useful in times of emergency
- Credit allows you to have things you wouldn’t have the cash to pay for
  - A house
  - A car
  - An education
  - A trip
How Credit Works

- Usually you are charged interest
  - Interest = a charge for borrowed money (generally a percentage of the amount borrowed)
  - APR = Annual Percentage Rate (variable percentage calculated and charged to the borrower)

- Your repayment of credit affects your credit score and will stay on your credit report (*it’s your “permanent record”*)
  - You will be judged by your credit score!
Three Major Credit Bureaus

- Trans Union: www.transunion.com
- Experian: www.experian.com
- Equifax: www.equifax.com
Your Credit Report
What is on it?

- Identifying Information:
  - Name, Address, Social Security Number, Date of Birth

- Trade Lines:
  - Lenders and retailers report each account that you have: Mortgage, Auto loan, Credit Cards

- Credit Inquiries:
  - Each time you apply for credit

- Public Records and Collection Items:
  - Collected from state and county courts and collection agencies
**Your Credit Report:**

**Your Name:**
123 Current Address
City, State 00000

**SSN #:** 123-45-6789

**Date of Birth:** July 1, 1958

**Telephone Number:** (555) 555-5555

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**EMPLOYMENT DATE REPORTED**

**Employer Name:** Employer 1
**Position:** Job/Occupation
**Date Reported:** 06/2004
**Hired:** 04/2004

**PUBLIC RECORD INFORMATION**

- **Lien Filed:** 03/93; Fulton CTY; Case or Other ID Number: 32114; Amount: $26,987
- **Class-State; Released:** 07/93; Verified 07/93
- **Bankruptcy:** Filed 12/92; Northern District Ct; Cases: $157,855; Personal; Individual; Discharge
- **Satisfied Judgment:**Filed 07/84; Fulton CTY; Case: Consumer; Amount: $8,984; Plaintiff-ABC Real

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**COLLECTION AGENCY ACCOUNT INFORMATION**

**Pro Coll (800)XXX-XXXX**

- **Collection Reported:** 05/07; Assigned 09/04 to PR Hospital; Amount: $978; Unpaid: Balance $978
- **Account Number:** 787652JC

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**CREDIT ACCOUNT INFORMATION**

<table>
<thead>
<tr>
<th>COMPANY NAME</th>
<th>ACCOUNT NUMBER</th>
<th>WHOSE ACCT.</th>
<th>DATE OPENED</th>
<th>MONTHS REVIEVED</th>
<th>DATE OF LAST ACTIVITY</th>
<th>HIGH CREDIT TERMS</th>
<th>BALANCE</th>
<th>PAST DUE</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department St.</td>
<td>32514</td>
<td>J</td>
<td>10/96</td>
<td>36</td>
<td>9/97</td>
<td>$950 X</td>
<td>$0 X</td>
<td>R1 10/97</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>1004735</td>
<td>A</td>
<td>11/96</td>
<td>24</td>
<td>5/97</td>
<td>$750 X</td>
<td>$0 X</td>
<td>I1 4/97</td>
<td></td>
</tr>
<tr>
<td>Oil Company</td>
<td>541125</td>
<td>A</td>
<td>6/96</td>
<td>12</td>
<td>3/97</td>
<td>$500 X</td>
<td>$0 X</td>
<td>O1 4/97</td>
<td></td>
</tr>
<tr>
<td>Auto Finance</td>
<td>529778</td>
<td>I</td>
<td>5/85</td>
<td>48</td>
<td>12/96</td>
<td>$1100 $50</td>
<td>$300</td>
<td>$200</td>
<td>I5 4/97</td>
</tr>
</tbody>
</table>

**Previous Payment History:** 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late

**Previous Status:** 01/97 - 12; 02/97 - 13; 03/97 - 14

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**status type of account code**

- **O** Open (entire balance due each month)
- **R** Revolving (payment amount variable)
- **I** Installment (fixed number of payments)

**status timeliness of payment**

- 0 Approved not used; too new to rate
- 1 Paid as agreed
- 2 30+ days past due
- 3 60+ days past due
- 4 90+ days past due
- 5 Pays or paid 120+ days past the due date; or collection account
- 6 Making regular payments under wage earner plan or similar arrangement
- 7 Repossession
- 8 Charged off to bad debt
Fair Isaac Corporation
FICO

- A public company (FICO on NYSE) that provides analytics and decision making services including credit scoring
- Does not reveal the exact formula
- Purpose of credit scores is to summarize your creditworthiness
- Scores range from 300 to 850

Higher is better
How a FICO Score breaks down

- 30% Amounts Owed
- 10% New Credit
- 15% Length of Credit History
- 35% Payment History
- 10% Types of Credit in Use

FICO® Score

BAD
- 300
- Only secured loans are given for people in this range

FAIR
- 640
- Creditors will give you a loan, but with high interest rates

GOOD
- 680
- You will be approved almost everywhere with good rates

BEST
- 850
- You will get the best interest rates everywhere.

http://www.cccsso.org/Page.asp?NavID=411
Why are my scores different?

- Each agency has a different method to determine your credit score.
- Not all creditors report to all three agencies.
- Credit scores are calculated at different times and may reflect different balances.
Real Life Sample of Credit Scores

- Experian 793
- Equifax 797
- TransUnion 805

- Total Debt $104,216
- Real Estate debt $101,848
- Revolving Debt $2,368
- 98% of revolving debt available (2% outstanding)
- No negative accounts
- No collection accounts

- Experian is lower because of the way an account is categorized. Real estate debt shows as installment debt.
Benefits of a High Credit Score

• Access to credit
  - Lenders less likely to deny your request
• Favorable terms and interest rates
  - Higher credit scores allow you to shop different lenders.
• Credit scores can be checked by others:
  - Landlords, Utility Co., Cell Phone Co., Potential employers
• Derogatory information stays on your credit report for as long as 7 years.
Example of how credit affects interest rates on car loan


<table>
<thead>
<tr>
<th>FICO Score</th>
<th>APR</th>
<th>Monthly Payment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>3.098 %</td>
<td>$582</td>
<td>$970</td>
</tr>
<tr>
<td>690-719</td>
<td>4.274 %</td>
<td>$593</td>
<td>$1,345</td>
</tr>
<tr>
<td>660-689</td>
<td>6.094 %</td>
<td>$609</td>
<td>$1,934</td>
</tr>
<tr>
<td>620-659</td>
<td>8.213 %</td>
<td>$629</td>
<td>$2,633</td>
</tr>
<tr>
<td>590-619</td>
<td>13.528 %</td>
<td>$679</td>
<td>$4,443</td>
</tr>
<tr>
<td>500-589</td>
<td>13.548 %</td>
<td>$679</td>
<td>$4,450</td>
</tr>
</tbody>
</table>

A 36-month loan for a new automobile in which the interest rate does not change during the entire term of the loan.

If your score changes to 690-719, you could pay an extra $376
If your score changes to 660-689, you could pay an extra $965
If your score changes to 620-659, you could pay an extra $1,663
If your score changes to 590-619, you could pay an extra $3,474
If your score changes to 500-589, you could pay an extra $3,481
Building A Personal Credit Profile

• Start small with a credit card
  - Department store card or gas company card
  - Visa or MasterCard (secured credit card)
• Use the card AND PAY ON TIME
  - Avoid paying only the minimum payment
• Apply for a loan at a local institution
  - Take at least 6 months to pay the loan back or it may not get rated on your credit report
CAUTION!

Once you begin to establish credit:
- You will be inundated with offers. Choose wisely!!!
- Build credit slowly over time.
- Charge and pay balance off before you charge again.
- Keep accounts open.
- Use a mix of credit types.
- Don’t open too many accounts all at once.
COMPARE CREDIT CARDS

• Interest Rates (APR)
• Annual Fees (Most cards don’t have one so choose wisely.)
• Credit Line (Make sure it’s enough, but not too high – avoid the temptation.)
• Rewards (Many offer cash back, airline miles, etc. Take advantage of these.)
Discover-it For Students

• 5% back on bonus categories; 1% on all others
  *(Rewards are only worth it if you pay in full every month!)*
• $0 annual fee
• No late fee on first late payment
• No over-the-limit fees
• No foreign transaction fee
• No penalty APR if you miss a payment
• Free FICO score
• APR 0% on purchases for 6 months, then ranges from 12.99% - 21.99%
• 10.99% on balance transfers for 6 months
• Ongoing APR of 12.99% - 21.99%

Study Abroad Student Card

• 1.5 points on every dollar spent
• $0 annual fee
• No foreign transaction fees
• APR of 0% on purchases for 12 months, then ranges from 14.99% - 22.9%
Avoid Credit Card Traps

- Only charge what you can afford to pay.
- Pay more than just the minimum payment.
- Keep track of your charges (they add up).
- Don’t be late with a payment. It can drastically affect your credit score.
- Limit the number of cards you have to 2.
- Major credit cards can be used everywhere. Store cards are limited.
General Borrowing Guidelines for Bank Loans

- When you apply for credit, the lender will look at your gross monthly income.
- Typical lenders will not allow your total monthly payments to exceed 43% of your gross monthly income.
- Total monthly debt includes housing/rent, installment loan payments, student loan payments and credit card payments.
General Borrowing Example

Annual gross income
$42,000

Monthly gross income
$3,500

43% of monthly gross income = $1,505

Monthly Expenses
Housing/Rent
$650
Car Loan
$325
Credit Card
$100
Student Loans
$256
Total payments $1,331

$1,331/ $3,500 = 38%
Debt Consolidation - Getting a loan to pay off debt

- Make sure interest rate is better than the rate on the accounts being paid off.
- Keep term as short as possible.
- You will need to have good credit to qualify for a consolidation loan.
- DO NOT use credit cards paid by consolidation.
Snowball vs. Stack

- Make all minimum payments.
- Apply additional funds to one account.
- Pay off lowest balance first.
- When paid off, focus on the account with the next lowest balance.

- Make all minimum payments.
- Apply additional funds to one account.
- Pay off highest interest rate first.
- When paid off, focus on the account with the next highest rate.
Debt Repayment Strategies

- Use online calculators to help make a plan

**Example Calculation**

- **Enter Principal**: $5,000
- **Interest Rate**: 5%
- **Monthly Payment**: $250

**Results**

- **Years to pay off**: 1.8
- **Total Payoff Amount**: $5,231
Repairing Bad Credit

• Get a copy of your credit report & verify information. www.annualcreditreport.com
• Pay off, or make a payment plan with collection accounts.
• Pay off judgments.
• Pay all bills on time.

Repairing credit is a slow process!!!!
Student Loans

- Know your options.
- Subsidized and Unsubsidized
- How and when will I pay them back?
- What if I can’t pay?
- Federal loans vs. Private loans
- How much should I borrow?
Federal Student Loans 101

Subsidized Direct Loan
(Need Based)
- Loan Interest: 4.29% fixed
- Government pays the interest of the loan while you are a student.
- Grace period is 6 months

Unsubsidized Direct Loan
(Non-Need-Based)
- Loan Interest: 4.29% fixed
- Interest while at school is recommended to be paid or it will be added to the principal of the loan.
- Grace period is 6 months

The FAFSA (Free Application for Federal Student Aid @ [www.fafsa.ed.gov](http://www.fafsa.ed.gov)) serves as the loan “application”

- Any student could qualify for an unsubsidized loan since there is no credit-check
- Deferments on repayment are granted while you are in college and for graduate or professional study or for economic hardship as defined by the Department of Education
- Repayment is handled through the assigned Loan Servicer. Find yours through [www.studentaid.gov](http://www.studentaid.gov)
- If you can’t afford payments, contact your loan servicer immediately to learn your options
Student Loan Debt Facts

• 40 million people in U.S. have student loan debt
  - Student debt up 500% since 2000.
  - Average salary has decreased 10%.
  - Can cause delay in homeownership, marriage and starting a family.

• Average national student loan debt: $29,400.
  • (Average Williams student borrower debt: $12,500)
Student Loans Won’t Disappear

- Can’t include in bankruptcy.
  - Even death may not absolve all debt.
- **Loan Default** = No payments for 270 days
  - Can inhibit ability to gain employment.
  - Default can cost you your license.
- **But** there are forgiveness programs for federal loans:
  - [Public Service Loan Forgiveness](#) (10 years)
  - [Income-Based Forgiveness](#) (20-25 years)
Student Loan Debt Consolidation

- **Federal student loan consolidation** may help simplify and lower repayment, but might result in more paid over the lifetime of the loan.
- Ask your loan servicer
- Watch out for new Student Loan Refinance Companies
Thank You

Adams Community Bank