UNDERSTANDING CREDIT

- What is a credit report?
- Checking your credit report
- What’s in a credit score?
- Credit risk
- Benefits of good credit
WHAT IS A CREDIT REPORT?

- History of your ability to manage credit
  - Similar to a transcript
- Lenders report your:
  - Payment History
  - Amount Borrowed
  - Credit Limits
  - Delinquencies
WHAT’S IN YOUR CREDIT REPORT?

- Summary of key information:
  - Personal Information
  - Credit History
  - Public Records
  - Inquiries
CHECKING YOUR CREDIT REPORT

- 79% of credit reports have errors!¹
- Check report annually
  + Name
  + Address
  + Birth Date
  + Social Security Number
  + Accuracy of Accounts

¹National Association of State Public Interest Research Groups, 2004 Survey
**OBTAIN A FREE CREDIT REPORT**

- [x] www.annualcreditreport.com
- [x] 877.322.8228
- [x] One free report (per year) from:
  - Equifax
  - TransUnion
  - Experian
- [x] All three at once or one every 4 months
WHAT IS A CREDIT SCORE?

- Probability of paying a new loan
- Grades of Loans
  - A: the most creditworthy borrower
  - B: the average borrower
  - Subprime: the highest risk borrower
- More information:
  - www.myfico.com
WHAT’S NOT IN YOUR CREDIT SCORE?

- Your race, color, religion, national origin, sex and marital status.
- Your age.
- Your salary, occupation, title, employer, date employed or employment history.
- Where you live.
- Any interest rate being charged on a particular credit card or other account.
- Any items reported as child/family support obligations or rental agreements.
- Certain types of inquiries (requests for your credit report).
- Any information not found in your credit report.
- Any information that is not proven to be predictive of future credit performance.
- Whether or not you are participating in a credit counseling of any kind.
WHAT DETERMINES YOUR SCORE?

- Amounts Owed
- Payment History
- Type of Credit Used
- New Credit
SCORE=INDICATOR OF RISK

- Up to 499
- 500-549
- 550-599
- 600-649
- 650-699
- 700-749
- 750-799
- 800+
LOW CREDIT RISK

- Stable class schedules
- Steady employment
- Consistent payments
- On-time loan payments
- Responsible student loan management
## Buying a $20,000 Car, 60-Month 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>5.031%</td>
<td>$378</td>
<td>$2,663</td>
</tr>
<tr>
<td>690-719</td>
<td>6.523%</td>
<td>$392</td>
<td>$3,492</td>
</tr>
<tr>
<td>660-689</td>
<td>8.409%</td>
<td>$409</td>
<td>$4,567</td>
</tr>
<tr>
<td>620-659</td>
<td>12.046%</td>
<td>$445</td>
<td>$6,721</td>
</tr>
<tr>
<td>590-619</td>
<td>17.908%</td>
<td>$507</td>
<td>$10,412</td>
</tr>
<tr>
<td>500-589</td>
<td>18.97%</td>
<td>$518</td>
<td>$11,109</td>
</tr>
</tbody>
</table>

If your score changes to 690-719, you could pay an extra $830.

If your score changes to 660-689, you could pay an extra $1,905.

If your score changes to 620-659, you could pay an extra $4,059.

If your score changes to 590-619, you could pay an extra $7,750.

If your score changes to 500-589, you could pay an extra $8,446.
## Buying a $250,000 House, 30-Year Fixed 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>760-850</td>
<td>4.5%</td>
<td>$1,267</td>
<td>$206,017</td>
</tr>
<tr>
<td>700-759</td>
<td>4.722%</td>
<td>$1,300</td>
<td>$217,965</td>
</tr>
<tr>
<td>680-699</td>
<td>4.899%</td>
<td>$1,327</td>
<td>$227,599</td>
</tr>
<tr>
<td>660-679</td>
<td>5.113%</td>
<td>$1,359</td>
<td>$239,374</td>
</tr>
<tr>
<td>640-659</td>
<td>5.543%</td>
<td>$1,426</td>
<td>$263,441</td>
</tr>
<tr>
<td>620-639</td>
<td>6.089%</td>
<td>$1,513</td>
<td>$294,756</td>
</tr>
</tbody>
</table>

- If your score changes to 700-759, you could pay an extra $11,948.
- If your score changes to 680-699, you could pay an extra $21,583.
- If your score changes to 660-679, you could pay an extra $33,357.
- If your score changes to 640-659, you could pay an extra $57,424.
- If your score changes to 620-639, you could pay an extra $88,739.
LOW CREDIT RISK

- Late payments
- High balances
- Unpaid accounts
- Excessive number of open accounts
- Many recently opened accounts
THE BENEFITS OF GOOD CREDIT

- Establish and build good credit history
- More apartment/house choices
- Open a checking account
- Better job opportunities
- Fast loan decisions
- Increased purchasing power
  - Little or no money down on cars
  - Lower interest rate
  - Save money
- http://www.myfico.com/myfico/CreditCentral/LoanRates.aspx
SECURING GOOD CREDIT

- Pay bills on time
- Pay before due date
  - Automatic payments
- Pay down outstanding balances
- Check credit report periodically
- Protect your identity
SUCCESSFUL START
SUCCESSFULSTART@BC.EDU