$uccessful Start and the Office of Student Services Present:

IMPROVING YOUR CREDIT SCORE

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Stokes North - N115

Presenter:
Craig Noyes ’08 ‘13
Direct Loans/Collection Specialist
Office of Student Services
craig.noyes@bc.edu
617-552-2840
LEARNING OBJECTIVES

- Defining credit
- Determining credit worthiness
- Finding ways to build credit
- Defining credit reports & scores
- Reviewing credit
- Repairing credit
WHAT IS CREDIT?

Credit is defined as the “confidence in a borrower’s ability and intention to repay.”

Businesses, institutions, banks grant you credited funds if they determine you are responsible enough to have them.

All credited funds are borrowed. They are leant to you. They must be paid back.

Your actions define your credit worthiness. Then, your credit worthiness helps determine how expensive future loans or credit lines will be for you.

Source: http://www.dcu.org/streetwise/credit/what.html
The Five “C’s”

+ **Character** – will you repay?
  - Do you have discipline and responsibility?

+ **Capacity** – can you repay?
  - Do you have the income to use credit?

+ **Capital** – what are your assets?
  - What do you own in your name?

+ **Collateral** – what if you don’t repay?
  - What do you have that can secure a loan?

+ **Conditions** – what economic conditions affect you?
  - How secure are you and your job?
WHAT INFLUENCES CREDIT WORTHINESS?

- Income
- Length of credit history
- Timeliness of payment
  - Habits and financial discipline
- Types of credit in your name
- Accuracy of your credit report

Source: http://www.dcu.org/streetwise/credit/what.html
HOW CAN YOU BUILD YOUR CREDIT SAFELY?

- It takes credit to get credit
- Start early & responsibly
- Know the types of credit
  - Revolving credit
    - Credit cards
  - Service credit
    - Utilities, cell phone
  - Installment credit
    - Car loans, private loans
    - Student loans
WHAT CREDIT CAN BE USED FOR

- **Good**
  - Routine purchases
    - *IF IMMEDIATELY PAID OFF*
  - Education
  - Car purchase
  - Home purchase
  - Major purchases

- **Bad**
  - Monthly expenses
    - Rent
    - Gas
    - Groceries
  - Luxuries that don’t fit in your budget
  - Payments to other credit accounts
CREDIT CARDS: ESSENTIAL TOOLS

- Get them early... when you can use them responsibly
- Prove you can handle credit
- Use them to establish/maintain good credit
- Pay off your balances quickly (immediately)
- Know the different types
- Know your APR
  + Annual Percentage Rate
- Benefits vs. Risks
WHAT ARE CREDIT REPORTS?

- Official documents that include personal identifying information
- Contain records of your credit payment history
  - Public record information
  - Collection agency information
- Show the amount you have borrowed in credit cards and loans
- Reveal who’s requested your credit file
- Used to determine creditworthiness
  - Presented as a ‘credit score’
Know your rights

You can access your credit reports for free
  + Up to 3 a year

Stagger your report requests throughout the year

Immediately correct any discrepancies you find

FREE Annual Credit Reports

AnnualCreditReport.com is the ONLY authorized source to get your free annual credit report under federal law.
WHO REPORTS TO CREDIT AGENCIES?

- Store accounts
- Mortgage and other loan lenders
- Credit card companies
- Some utility accounts (especially if past due)
- Financial institutions
- Cell phone companies (especially if past due)
Credit Score

- Quantified measure of your credit worthiness
- Reflection of the information on your credit report
- The lower the score, the greater the risk it is to lend you money
- Most popular formula developed by Fair Isaac Corporation (FICO)
- Scores range from 300-850
- Average score is 692 (713 in Massachusetts)
CREDIT SCORE COMPONENTS

- 35% Payment History
- 30% Amounts Owed vs Credit Available
- 15% Length of Credit
- 10% New Credit
- 10% Types of Credit Used

725-850 EXCELLENT
700-725 GOOD CREDIT
670-700 CREDITORS INVESTIGATE
Under 670 HIGH RISK
REQUIREMENTS FOR THE PERFECT SCORE

- Having paid all bills on time during the past seven years
- Having a minimum of 30 years of credit use
- Having between four and six revolving credit accounts
CREDIT INQUIRIES

- **Hard vs. Soft**
  - **Hard**
    - When applying for lines of credit (loans, credit cards, mortgages).
    - Typically require your authorization.
  
  - **Soft**
    - When checking your credit report, employer checks, ‘pre-approved’ offers.
    - Can happen without your permission.
    - Can be recorded on your report but do NOT have negative impacts.

- Multiple inquiries for the same type of credit done within 14 days of each other are considered one inquiry (mortgage, student loan, auto loan).
  
  - This does not apply to inquiries for credit cards.

- A hard inquiry generally stays on your report for up to 2 years.

- Hard inquiries have negligible negative effects on your score, can compound, but wane over time.

Source: https://www.creditkarma.com/article/hard_inquiries_and_soft_inquiries
## Why Is Your Credit Score Important?

- **You want to buy your first house...**
  - **Type of Loan:**
    - 30-Year Fixed
  - **State:**
    - Massachusetts
  - **Principal Amount:**
    - $200,000

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<th>FICO Score</th>
<th>APR</th>
<th>Monthly Payment</th>
<th>Total Interest Paid</th>
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<tr>
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<td>5.993%</td>
<td>$1,198</td>
<td>$231,352</td>
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<tr>
<td>700-719</td>
<td>6.118%</td>
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<td>675-699</td>
<td>6.656%</td>
<td>$1,285</td>
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<td>620-674</td>
<td>7.805%</td>
<td>$1,440</td>
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<td>560-619</td>
<td>8.715%</td>
<td>$1,568</td>
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</tr>
<tr>
<td>500-559</td>
<td>9.332%</td>
<td>$1,657</td>
<td>$396,610</td>
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</tbody>
</table>
**IMPROVING YOUR CREDIT SCORE**

- **ALWAYS** pay on time!
  - Miss a payment? Get current. Stay current.
- Credit card(s): get one if you don’t have one.
- Pay off your credit cards.
- Pay before report date, **NOT** the due date.
  - Call your lender and find out the former.
- Keep your older cards, and use them.
- Raise your limits.
- Don’t use your full credit line.
  - Goal: 30% - 10% of your credit lines.
IMPROVING YOUR CREDIT SCORE

- Know the difference between revolving and installment credit.
  - Prove you can use both.
- Strategize and time your (hard) credit inquiries.
- Protect your cards and accounts.
- Review your credit reports regularly.
- Snuff out credit errors.
IMPROVING YOUR CREDIT SCORE

- No one can have accurate information removed from their credit report.
- Closing credit card accounts will not necessarily improve your credit score.

Amount Owed Tips
- Pay off debt rather than moving it around
- Don’t close unused credit cards as a short-term strategy to raise your score
- Don’t open a number of new credit cards that you don’t need, just to increase your available credit

REPAIRING BAD CREDIT

- Deal honestly and quickly with your debts
- Modify spending habits
- Get current on your payments
  - Stay current
- Pay down your balances
- Add good accounts to your credit report
- Review your credit report
- Talk with the lenders
  - Ask for good faith adjustments
- TIME!!
$ALT:
+ www.bc.edu/salt
+ www.saltmoney.org

Financial Security Project @ BC:
+ fsp.bc.edu

Squared Away Blog:
+ fsp.bc.edu/squared-away-blog

www.mint.com
QUESTIONS?

- [www.bc.edu/successfulstart](http://www.bc.edu/successfulstart)
- [successfulstart@bc.edu](mailto:successfulstart@bc.edu)
- [https://twitter.com/SuccessfulStart](https://twitter.com/SuccessfulStart)