

Successful Start and the Office of Student Services Present:

IMPROVING YOUR CREDIT SCORE

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Stokes North - N115

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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.

MANAGEMENT OF CONSUMER CREDIT

✕ 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

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'

CREDIT REPORTS

- ✖ 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.



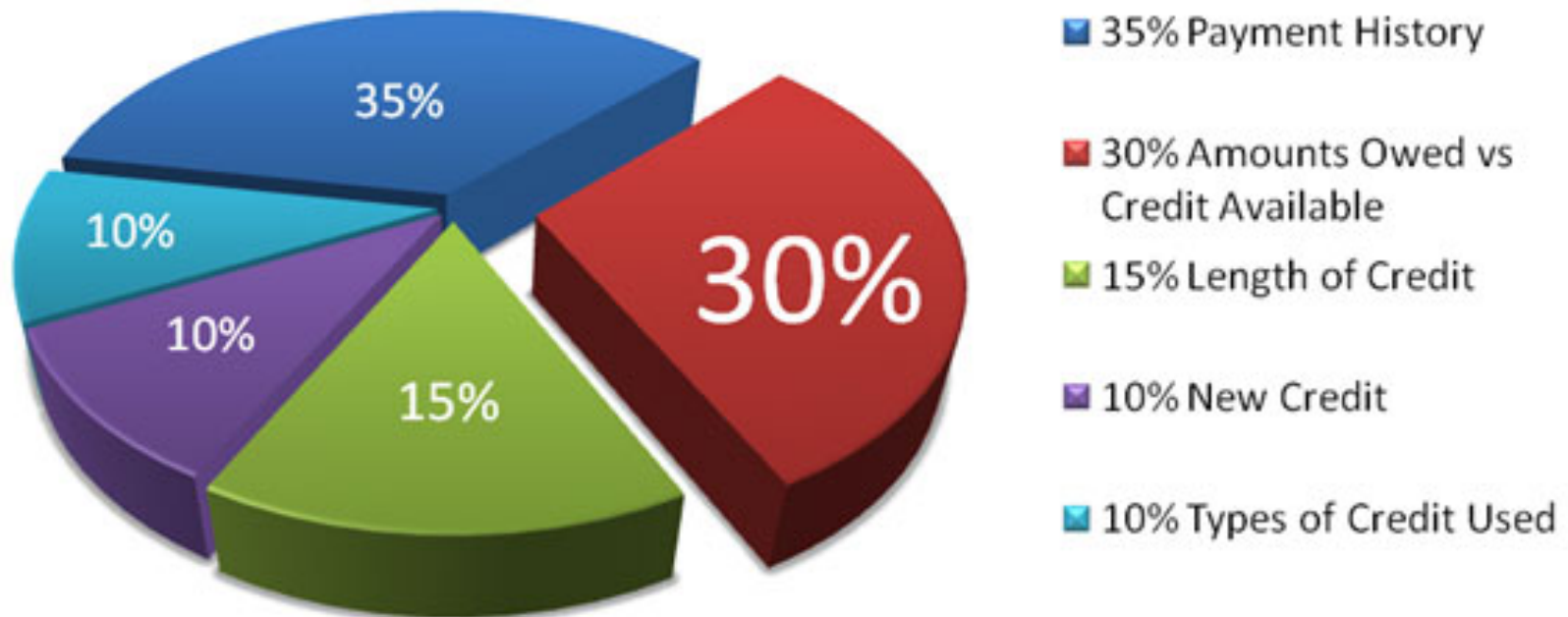
WHO REPORTS TO CREDIT AGENCIES?

- ✖ 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



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.

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

FICO SCORE	APR	MONTHLY PAYMENT	TOTAL INTEREST PAID
720-850	5.993%	\$1,198	\$231,352
700-719	6.118%	\$1,214	\$237,154
675-699	6.656%	\$1,285	\$262,501
620-674	7.805%	\$1,440	\$318,556
560-619	8.715%	\$1,568	\$364,625
500-559	9.332%	\$1,657	\$396,610

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!!**



LINKS & RESOURCES

- ✖ \$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
- ✕ successfulstart@bc.edu
- ✕ <https://twitter.com/SuccessfulStart>