$uccessful Start and the Office of Student Services Present:

THE WINNING SCORE
QUESTIONS TO BE ANSWERED

- How is a credit score calculated?
- Why is a credit score important?
- How can I improve my credit score?
HIT OR MYTH?
HIT OR MYTH?

- Once a debt is paid in full it is removed from your credit report.
**MYTH**

- Negative accounts will stay on report for 7 years.
- Positive accounts will stay on report for 7 or more years.
HIT OR MYTH?

- You can hurt your score by shopping around for the best rates.
**MYTH**

- Consumers usually want to shop around for auto loans and mortgages to get the best deal/rates. Consumers should not be penalized for this. So.....
- 14 days for rate shopping are allowed (multiple auto loan inquiries within 14 days will only be counted once)
HIT OR MYTH?

- You have to use your credit in order to get a good credit score.
The credit scoring formula is designed to judge how well you handle credit over time; if you have no credit, or you don’t at least occasionally use the credit you have, the formula won’t have enough information to make an assessment.
CREDIT REPORT FACTS

- Record of your credit payment history
- Illustrates the amount you have borrowed in credit cards and loans and your timeliness of payment
- Contains identifying information
- Used to determine creditworthiness
LENDERS WHO MAY REPORT

- Store accounts
- Mortgage and other loan lenders
- Credit cards
- Some utility accounts (especially if past due)
- Financial institutions
- Cell Phone (especially if past due)
ANATOMY OF A CREDIT REPORT

Section 1: Personal Identification Information

Section 2: Public Record Information

Section 3: Collection Agency Account Information

Section 4: Credit Account Information

Section 5: Companies Requesting your Credit File
ONLY 3% OF AMERICANS CAN NAME THE THREE MAJOR CREDIT BUREAUS...
HOW TO OBTAIN YOUR CREDIT REPORT

Credit Bureaus:
 Equifax  www.equifax.com
 Experian  www.experian.com
 Trans Union  www.transunion.com

One free report from each agency every 12 months:
www.annualcreditreport.com
Credit Score

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

35% Payment History

30% Amount Owed vs. Available Credit

15% Length of Credit History

10% Amount of New Credit

10% Types of Credit
PAYMENT HISTORY

ARE YOU PAYING ON TIME?

- Account payment information on specific types of accounts
- Presence of adverse public records, collection items, and/or delinquency
- Severity of delinquency (how long past due) & Amount owed
- Number of past due items on file
- Number of accounts paid as agreed
AMOUNT OWED VS. AVAILABLE CREDIT

- Amount owing on accounts
- Amount owing on specific types of accounts
- Number of accounts with balances

Utilization Ratio

- Proportion of credit lines used
- Proportions of installment loan amounts still owing
LENGTH OF CREDIT HISTORY

- Time since accounts opened
- Time since account activity
NEW CREDIT

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Time since recent account opening(s), by type of account
- Number of recent hard credit inquiries
- Time since hard credit inquiries
INQUIRIES

- Hard vs. Soft
- 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.
- An inquiry generally stays on for up to 2 years.
TYPES OF CREDIT

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)
## National Distribution of FICO Scores

<table>
<thead>
<tr>
<th>FICO Score Range</th>
<th>% of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 499</td>
<td>2%</td>
</tr>
<tr>
<td>500 to 549</td>
<td>5%</td>
</tr>
<tr>
<td>550 to 599</td>
<td>8%</td>
</tr>
<tr>
<td>600 to 649</td>
<td>12%</td>
</tr>
<tr>
<td>650 to 699</td>
<td>15%</td>
</tr>
<tr>
<td>700 to 749</td>
<td>18%</td>
</tr>
<tr>
<td>750 to 799</td>
<td>27%</td>
</tr>
<tr>
<td>800 +</td>
<td>13%</td>
</tr>
</tbody>
</table>
NON-FACTORS

- Race, color, religion, national origin, sex and marital status
- Age
- Where you live
- Interest rates
- Soft inquiries
- Any information not found in your credit report
IMPACT ON INTEREST RATES

- How much can your score impact the interest you pay on a loan?

A LOT!!
• Type of Loan: 30-Year Fixed
• State: Massachusetts
• Principal Amount: $200,000

<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>5.993%</td>
<td>$1,198</td>
<td>$231,352</td>
</tr>
<tr>
<td>700-719</td>
<td>6.118%</td>
<td>$1,214</td>
<td>$237,154</td>
</tr>
<tr>
<td>675-699</td>
<td>6.656%</td>
<td>$1,285</td>
<td>$262,501</td>
</tr>
<tr>
<td>620-674</td>
<td>7.805%</td>
<td>$1,440</td>
<td>$318,556</td>
</tr>
<tr>
<td>560-619</td>
<td>8.715%</td>
<td>$1,568</td>
<td>$364,625</td>
</tr>
<tr>
<td>500-559</td>
<td>9.332%</td>
<td>$1,657</td>
<td>$396,610</td>
</tr>
</tbody>
</table>
INTEREST RATE EXAMPLE

Current FICO Score Range:  620 – 674

If your score changes to 720 – 850, you could **SAVE** an extra $87,204

If your score changes to 700 – 719, you could **SAVE** an extra $81,402

If your score changes to 675 – 699, you could **SAVE** an extra $56,055

If your score changes to 560 – 619, you could **PAY** an extra $46,069

If your score changes to 500 – 559, you could **PAY** an extra $78,054
CLOSING ACCOUNTS

- Closing credit card accounts will not necessarily improve your credit score.
IMPROVING YOUR CREDIT SCORE

- Payment History Tips
  - Pay your bills on time
  - If you have missed payments, get current and stay current

- Amount Owed Tips
  - Keep balances low on credit cards and other “revolving credit”
  - 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
**IMPROVING YOUR CREDIT SCORE**

- **Length of Credit Tips**
  - If you have been managing credit for a short time, don’t open a lot of new accounts

- **New Credit Tips**
  - Do your rate shopping for a given loan within a focused period of time
  - Re-establish your credit history if you have had problems

- **Types of Credit Tips**
  - Apply for and open new credit accounts only as needed
  - Have credit cards – but manage them responsibly
IMPROVING YOUR SCORE

- No one can have accurate information removed from your credit report.

- If you have had credit problems in the past, it can take years to repair your credit legitimately.

- No one can create a new identity for you.

- You can order your credit report yourself. If you see errors on your report, you can also request that the credit reporting agencies make appropriate changes.
QUESTIONS?

- www.bc.edu/successfulstart
- successfulstart@bc.edu
- Money Mentors – Meet with a peer to learn about budgeting, saving, and credit
  money.mentors@bc.edu