

Credit Reports and Scores

Advanced Level

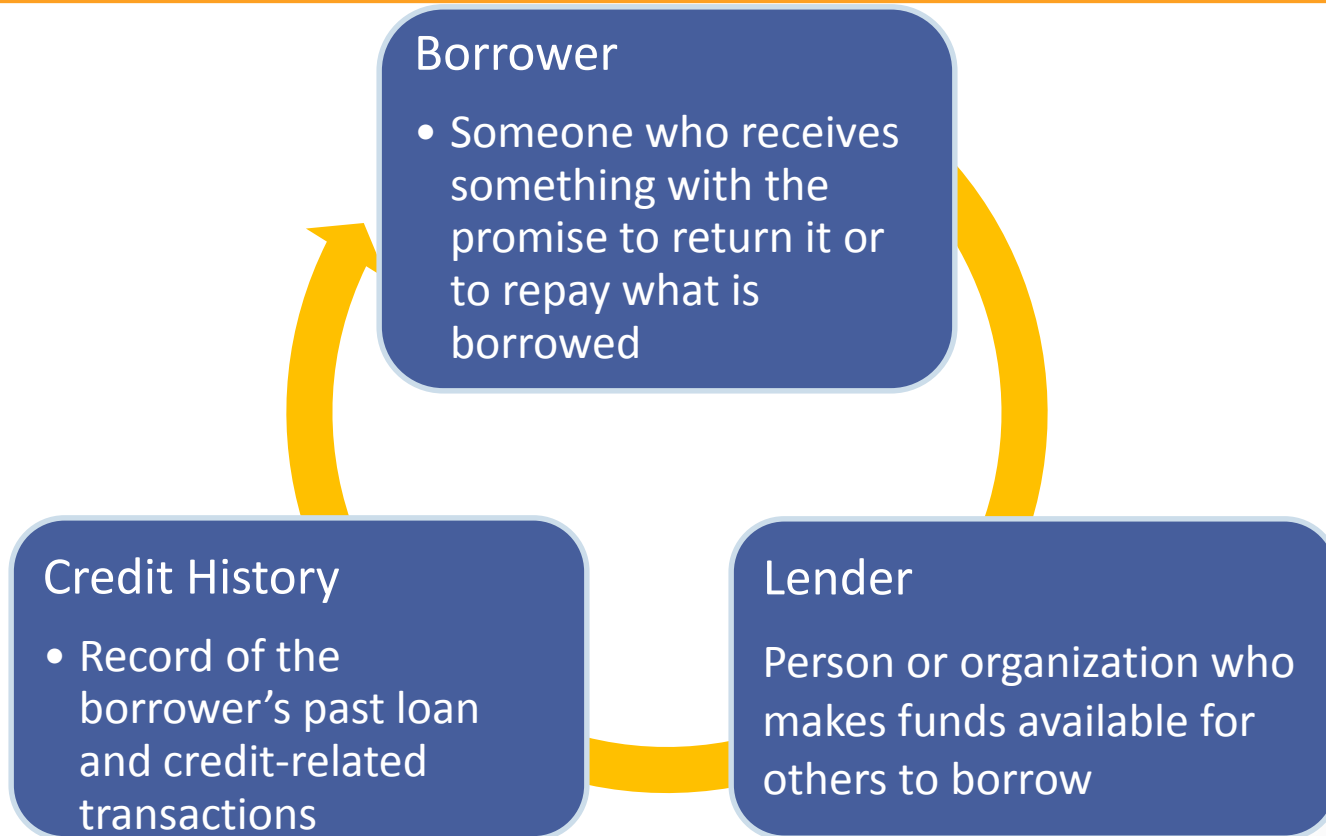


TAKE CHARGE TODAY

Financial Education for a Better Future

The Credit Process

Credit – goods, services, and/or money received in exchange for a promise to pay back a definite sum of money at a future date



How Credit Reports are Created

Lender

Reports a consumer's account history to CRA's



Credit Report Agencies (CRA's)

Keep a record of a consumer's account history (credit history)



Credit Reports

Record, created by a CRA, of an individual's credit history

Credit Reporting Agencies

Three U.S. Agencies:

- Equifax
- Experian
- TransUnion

A person's credit report may vary across the three CRA's

If credit has never been used (or reported) an individual will not have a credit report

Credit Report Detectives

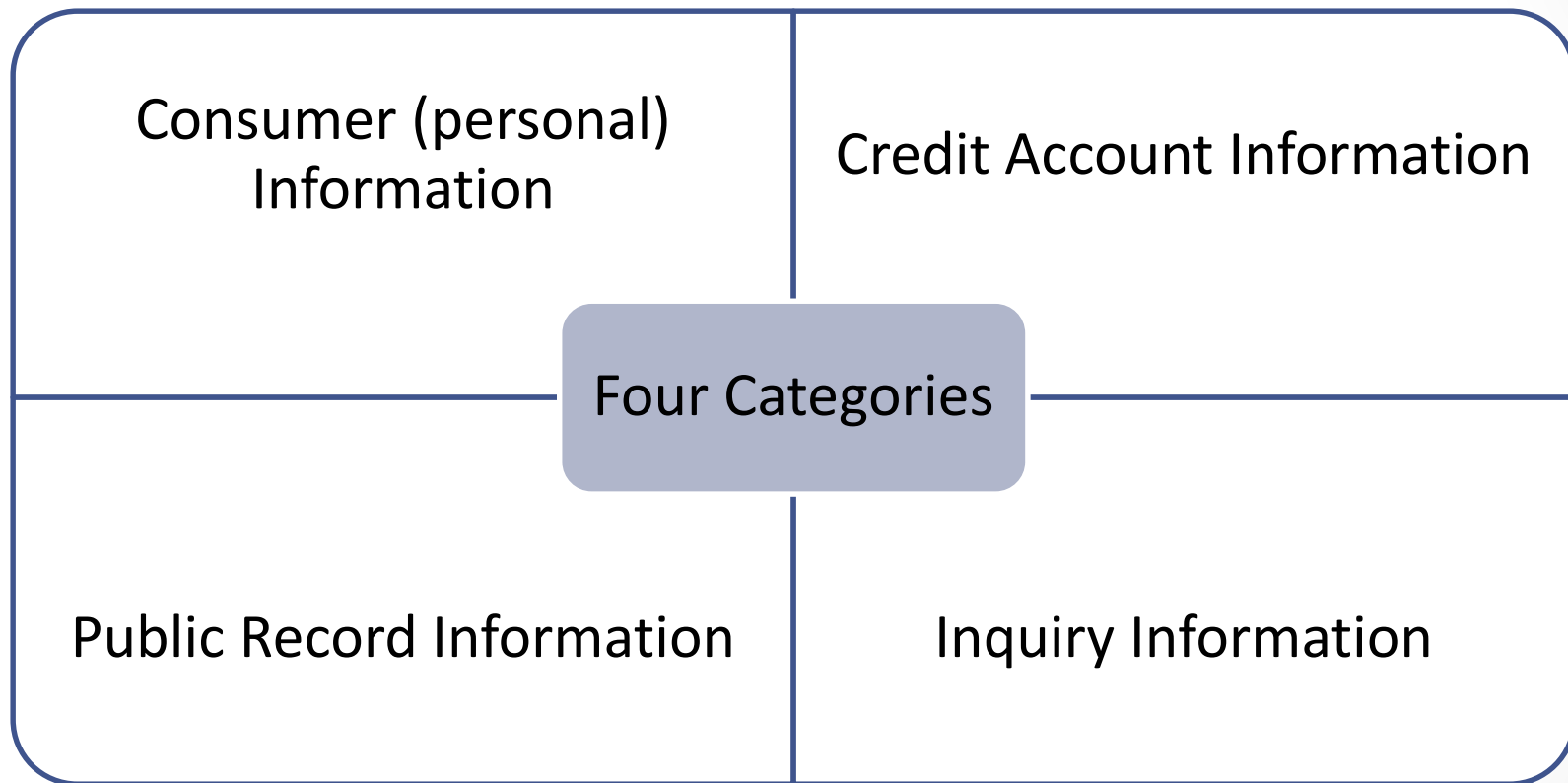


YOUR MISSION:

1. *Help Isabella understand her credit report*
2. *Identify what she did to get into this situation*
3. *Decide what she can do to improve her credit report*



Information in a Credit Report



Consumer (personal) Information

Information
provided to lenders
when applying for
credit



- Name
- Current and previous addresses
- Telephone number
- Full or partial social security number
- Date of birth
- Employment history

Place a ★ next to
Isabella's personal
information



Personal Information

The following information is reported to us by you, your lenders and other sources. As each source may report your personal information differently, there may be variations of your name, address, Social Security number, etc. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address

Names:

ISABELLA G. LANGLEY

Number identification number: 14965

ISABELLA LANGLEY

Number identification number: 14966

I. LANGLEY

Number identification number: 14967

Social Security number variations:

999999999

Year of birth:

1991

Spouse or co-applicant:

MEREDITH LANGLEY

Address: 101 1st Avenue, Apt. 1

Anywhere, AZ 00000

Address identification number:

0938270011

Type of Residence: Apartment

Geographic Code: 0-132974-26-6822

Address: 104 Neat Street

Anywhere, NY 10000

Address identification number:

0938241062

Type of Residence: Multifamily

Geographic Code: 0-132559-85-1212

Employers:

LUCKY'S RESTAURANT

JANE'S DAYCARE

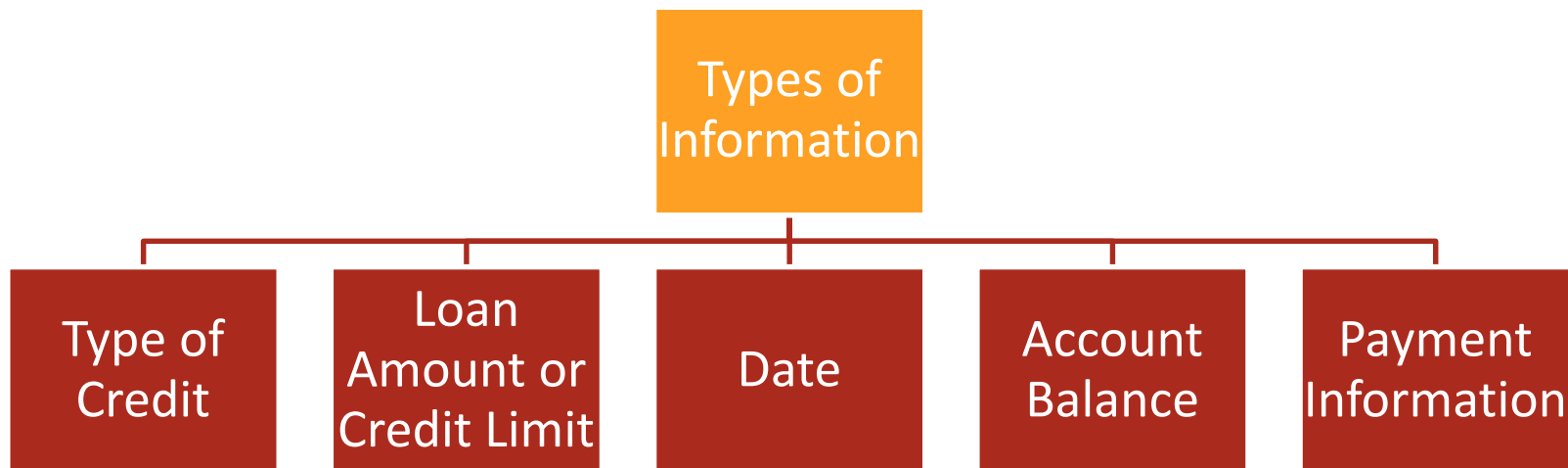
Telephone Numbers:

(555) 354-2368 Residential

(555) 500-0000 Residential

Credit Account Information

Specific information about each credit account
you have or have had



Types of Credit

	Closed-end credit (<u>installment</u>)	Open-end credit (<u>revolving</u>)
Definition	Borrower repays a specified number of equal payments	Line of credit established in advance
Features	Contract outlines repayment terms	Borrower chooses how much to pay
Examples	Automobile loans Education loans Mortgages	Credit cards

Types of Credit

What section of the Sam's Electronic World account on Isabella's credit report describes the type of credit?



SAM'S ELECTRONIC WORLD

Address:
123 MAIN STREET
ANYWHERE, AZ 00000

Account Number:
3624****

Status: Open/Past due 60 days.

Date Opened:
02/2009

Reported Since:
02/2010

Date of Status:
10/2012

Last Reported:
10/2012

Type:
Revolving

Terms:
N/A

Monthly Payment:
\$0

Responsibility:
INDIVIDUAL

Credit Limit/Original Amount:
\$500

High Balance:
\$550

Recent Balance:
\$84 as of 11/2012

Recent Payment:
\$0

Account History:
60 days as of 10-2012
30 days as of 09-2012

Is this a closed-end or open-end credit account?



Loan Amount/Credit Limit

Closed-end
Total amount of loan

Open-end
Credit limit
(maximum dollar amount
that can be borrowed)

What sections
of Sam's
Electronic World
account
describe
loan amount/
credit limit?



SAM'S ELECTRONIC WORLD

Address: 123 MAIN STREET
ANYWHERE, AZ 00000

Account Number: 3624****

Status: Open/Past due 60 days.

Date Opened: 02/2009	Type: Revolving	Credit Limit/Original Amount: \$500
Reported Since: 02/2010	Terms: N/A	
Date of Status: 10/2012	Monthly Payment: \$0	
Last Reported: 10/2012	Responsibility: INDIVIDUAL	
	Recent Balance: \$84 as of 11/2012	
	Recent Payment: \$0	High Balance: \$550

Account History:
60 days as of 10-2012
30 days as of 09-2012

Date Account Was Opened

What section of Sam's Electronic World account describes date opened?



SAM'S ELECTRONIC WORLD

Address:
123 MAIN STREET
ANYWHERE, AZ 00000

Account Number:
3624****

Status: Open/Past due 60 days.

Date Opened:
02/2009

Type:
Revolving

Credit Limit/Original Amount:
\$500

Reported Since:
02/2010

Terms:
N/A

High Balance:
\$550

Date of Status:
10/2012

Monthly Payment:
\$0

Recent Balance:
\$84 as of 11/2012

Last Reported:
10/2012

Responsibility:
INDIVIDUAL

Recent Payment:
\$0

Account History:

60 days as of 10-2012

30 days as of 09-2012

Account Balance

Amount the borrower still has to pay back to the lender

What section of Sam's Electronic World account describes account balance?



SAM'S ELECTRONIC WORLD

Address: 123 MAIN STREET ANYWHERE, AZ 00000	Account Number: 3624****
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Status: Open/Past due 60 days.

Date Opened: 02/2009	Type: Revolving	Credit Limit/Original Amount: \$500
Reported Since: 02/2010	Terms: N/A	High Balance: \$550
Date of Status: 10/2012	Monthly Payment: \$0	Recent Balance: \$84 as of 11/2012
Last Reported: 10/2012	Responsibility: INDIVIDUAL	Recent Payment: \$0

Account History:
60 days as of 10-2012
30 days as of 09-2012

Payment Information

What sections of Sam's Electronic World account describe payment information?



SAM'S ELECTRONIC WORLD

Address:

123 MAIN STREET
ANYWHERE AZ 00000

Account Number:

3624****

Status: Open/Past due 60 days.

Date Opened:

02/2009

Type:

Revolving

Credit Limit/Original Amount:

\$500

Reported Since:

02/2010

Terms:

N/A

High Balance:

\$550

Date of Status:

10/2012

Monthly Payment:

\$0

Recent Balance:

\$84 as of 11/2012

Last Reported:

10/2012

Responsibility:

INDIVIDUAL

Recent Payment:

\$0

Account History:

60 days as of 10-2012
30 days as of 09-2012

Public Records

Information from federal, state and county public court records

Collection Agencies

- Businesses hired by lenders to pursue payments on debts not paid back according to contract terms

Bankruptcy

- When an individual or business is not able to repay outstanding debts

Tax liens

- Taxes not paid in full

Foreclosure

- Borrower fails to keep up with mortgage payments and the lender takes possession of the property

Does Isabella have any public records?



Potentially Negative Items

Public Records

Credit lenders may carefully review the listed items below when they check your credit history. Please note that the account information with some public records, such as a lien or judgment, may also appear later in this report.

CITY OF ANYWHERE COURT CLERK

Address: 1 COURTHOUSE LANE ANYWHERE, AZ 11000	Identification Number: 10-11-15	Plaintiff: CITY OF ANYWHERE
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Status:
Collection account. \$680 past due as of 12-2012

Status Details:
The item was verified and updated as in Dec 2012.

Date Filed: 06/01/2012	Claim Amount: \$358
Date Resolved: N/A	Liability Amount: N/A
Responsibility: INDIVIDUAL	

MAIN COLLECTION AGENCY

Address: 1001 TOWN BLVD ANYWHERE, AZ 10000	Account Number: 000102331****
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Status: Collection account. \$680 past due as of 01-2013

Date Opened: 07/2004	Type: Revolving	Credit Limit/Original Amount: \$550
Reported Since: 08/2004	Terms: N/A	High Balance: \$680
Date of Status: 10/2012	Monthly Payment: \$0	Recent Balance: \$680 as of 10/2012
Last Reported: 10/2012	Responsibility: INDIVIDUAL	Recent Payment: \$0

Account History:
90 days as of 05-2012
60 days as of 04-2012
30 days as of 03-2012

**Unpaid traffic
ticket which
City of
Anywhere
turned over to
Main Collection
Agency**

Inquiry Information

Requests for an individual's credit report

- Must be a result of actions by the consumer

Or

- Be a result of a permissible purpose

Place a 😊 next to Isabella's inquiry information



Isabella's Actions:

- Keeping You Insured

Permissible Purpose:

- The Dream Sales Job
- Flexperian
- Keeping You Insured
- Need More Credit?

Inquiry Information

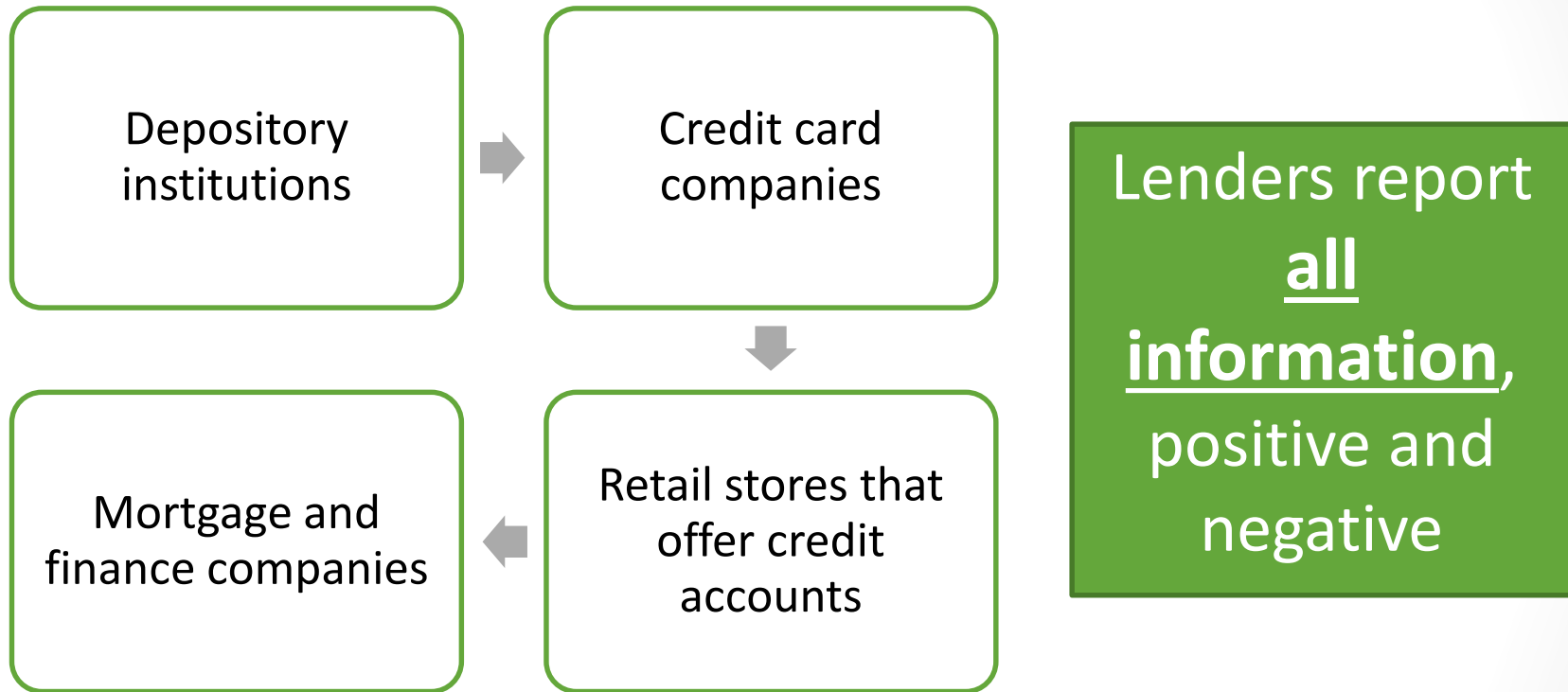
Potentially Negative

- Seeking additional credit
- Impact is reduced if shopping for the same type of loan within a 14-day period

Typically No Impact

- Inquiries not initiated by you
- Inquiries not related to credit
- Checking your own report

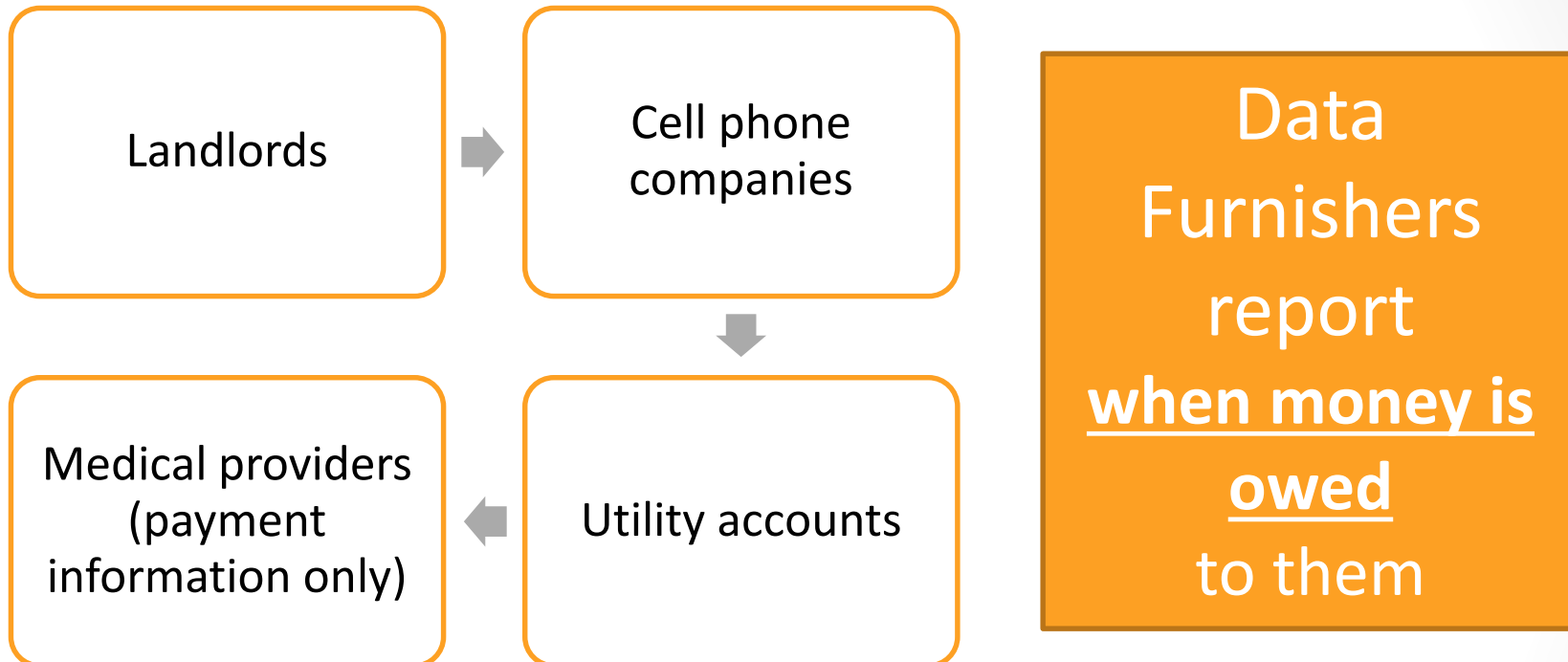
Types of Lenders Who Report to CRA's



What type of lenders have reported about Isabella?



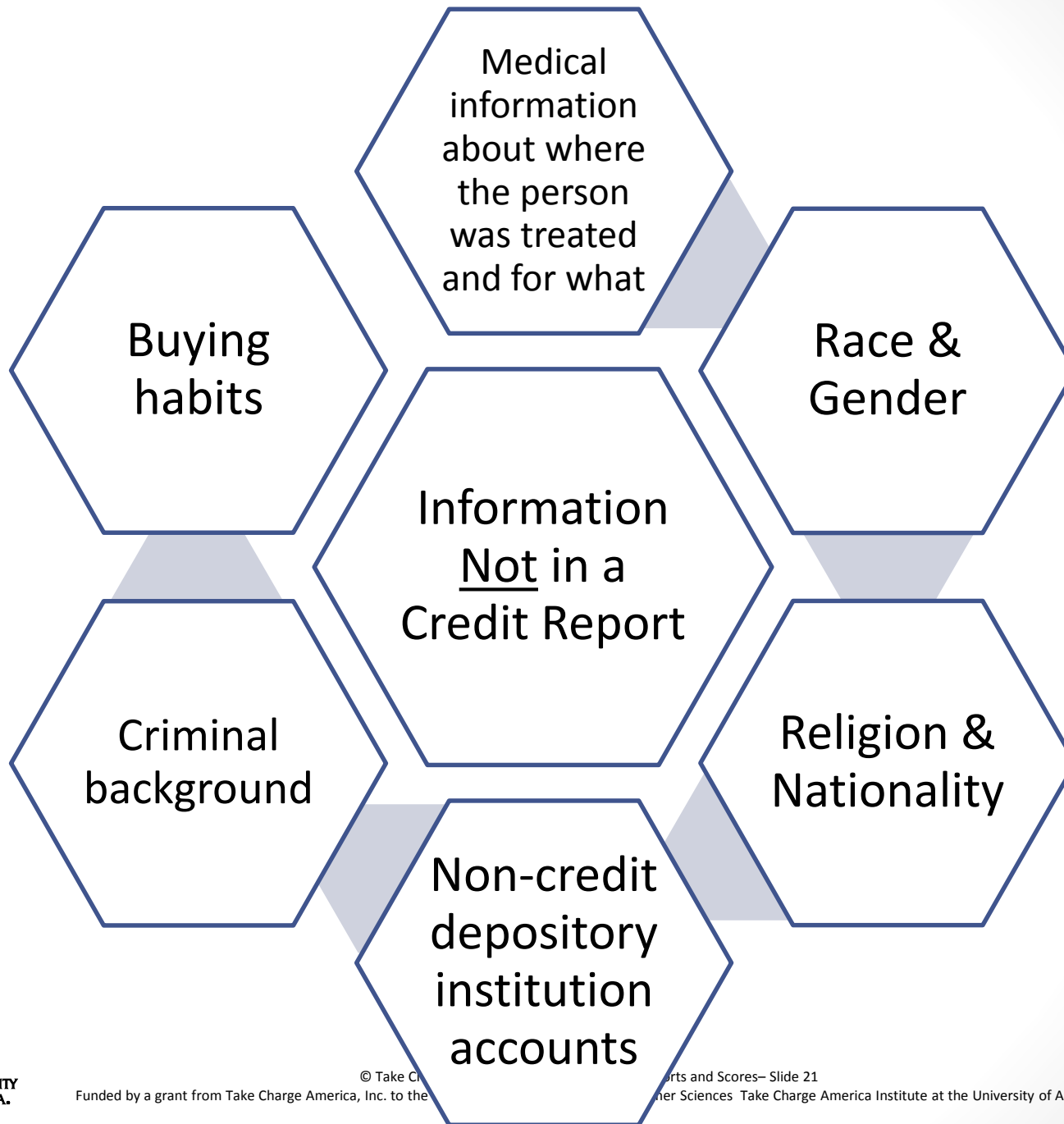
Types of Data Furnishers Who Report to CRA's



CRA's are encouraging regular payment information to be reported to help consumers build a positive credit history.

What is an example of a data
furnisher on Isabella's report?





Your Present Self Impacts Your Future Self



Credit Score

Mathematical number
created to help
evaluate the risk with
lending a consumer
money

Reflects
information
in the entire
credit report

At a
particular
point in time

Numeric
“grade” of a
consumer’s
financial
reliability

Examples: Fair
Isaac, Corp
(FICO) and
VantageScore

Credit Scores

Most common scoring systems are produced by credit reporting agencies:

<u>Scoring System</u>	<u>Score Range</u>
FICO	300 - 850
VantageScore	501 - 990

Generally, higher score = higher chance of credit repayment

How the score is calculated depends on the credit scoring model

Credit Score Impact

Credit history helps a lender determine the terms of credit granted

EXAMPLE: \$15,000 LOAN (3 YEAR FIXED AUTOMOBILE)

FICO Score	Interest Rate	Monthly Payment	3 Year Amount
730	6.16%	\$457	\$16,452
660	8.77%	\$475	\$17,100
590	14.43%	\$516	\$18,576

\$2,124 can be saved over the lifetime of this loan because of a good credit score!



Credit History Affects More than Credit

Insurance Rates

Employment

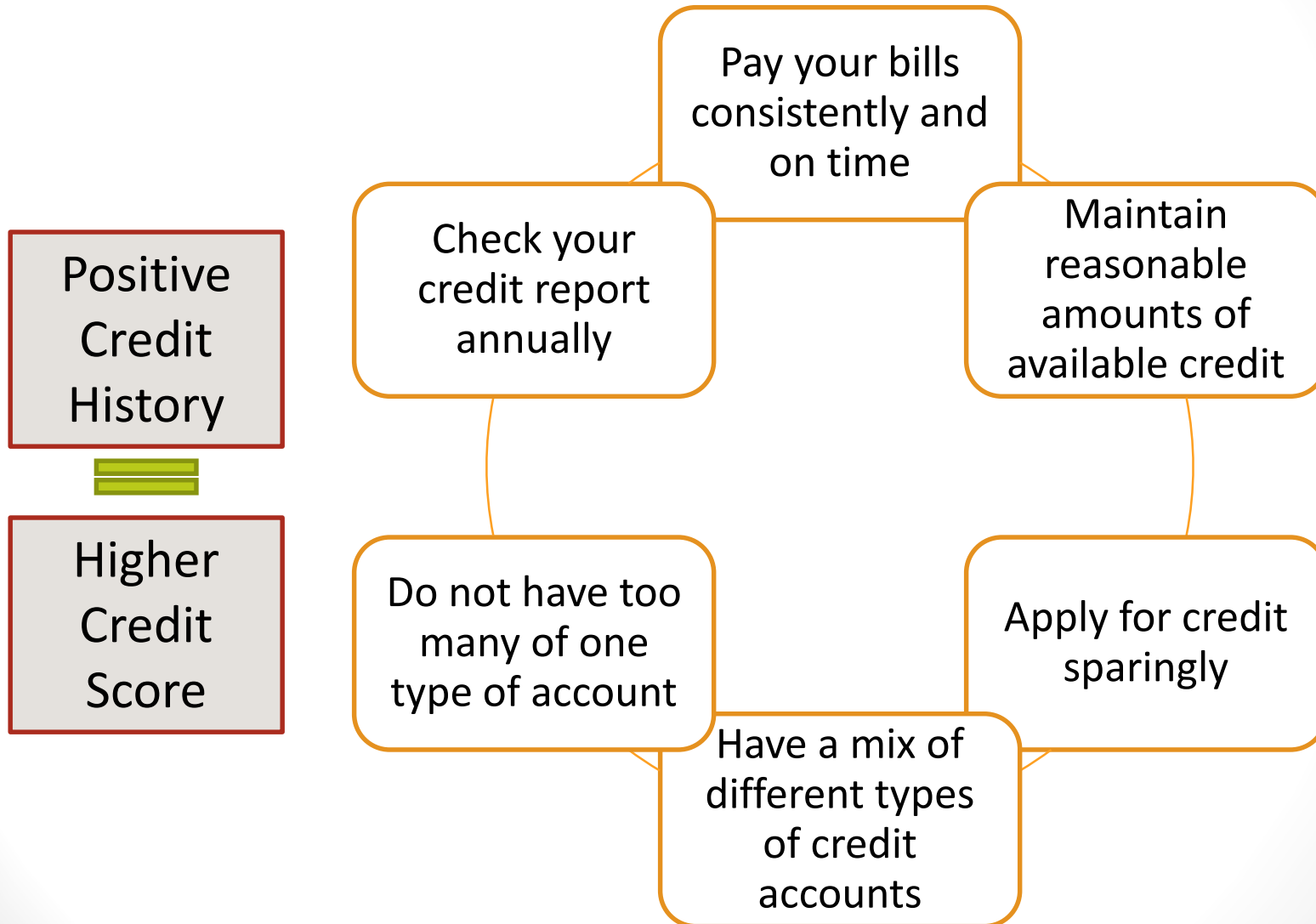
Public Utility Services

Housing

What are examples of how Isabella's credit history is affecting her financial well-being?



Positive Credit History



Strategies to Build Credit

Acquire and positively manage small lines of credit

Small closed-end loan

- From a depository institution
- Set up automatic payments

Credit card with a co-signer

- Co-signer – person who is equally responsible for paying back debt

Secured credit card

- Requires a cash security deposit
- Ensures the credit card company will be paid

Authorized user on a credit card

- Authorized user is not legally responsible for the debt but they will build a credit history

Having no credit history may be just as challenging to a consumer as having a negative history

Requesting a Credit Report

One free credit report annually from each of the three credit reporting agencies



Important to request your report even if you have not used credit



If denied credit, the applicant can request a free copy within 60 days

The screenshot shows the homepage of AnnualCreditReport.com. At the top, there is a navigation bar with links for AnnualCreditReport.com, Frequently Asked Questions, Contact Us, About Us, and Fraud Alert. Below the navigation bar, a main heading reads "Request your free annual credit report. It's QUICK, EASY and SECURE." A prominent call to action says "START HERE to view and print your credit report now." Below this, there is a dropdown menu for "Select Your State" and a "Request Report" button. To the right, a section titled "What is AnnualCreditReport.com?" explains that the site allows users to request a free credit file disclosure annually from Equifax, Experian, and TransUnion. It also includes a privacy notice and a Norton Secured logo.

Only government-sponsored free website

Accessing Your Credit Score

Must be ordered separately

Usually costs a fee

The 3 CRA's are the primary source

Scores may differ between each CRA

If an Error is Found

Contact the
CRA &
company that
provided the
incorrect
information

Credit agency
has 30 days
to investigate

If error
found,
correct
information
must be
provided to
all three
CRA's

If dispute is
not resolved,
consumer
may add a
dispute
statement to
their report

Place a next to Isabella's
personal statement section



Credit Repair Agencies

- Offer to help a consumer “fix” his/her negative credit report
- According to the Better Business Bureau (BBB) and the Federal Trade Commission (FTC):
 - Consumers can do just as good of a job repairing their credit report errors as a fee-based debt repair agency
 - Be cautious of debt repair agencies promising instant help because there is no immediate fix for negative credit

Talitha and Brendan's Advice

1. Review Isabella Langley's Story
2. Identify two pieces of advice both Talitha and Brendan provided
3. Determine if the advice was good and why or why not

Advice Isabella Was Given

From Talitha

- Credit ratings improve as people get older and earn more
- Isabella's credit score will improve as soon as she:
 - Settles her delinquent accounts
 - gets a better interest rate on existing loans

From Brendan

- Shopping around too much for credit is not good because it increases inquiries
- Opening new accounts, even if not used, provides evidence of credit worthiness

From Both

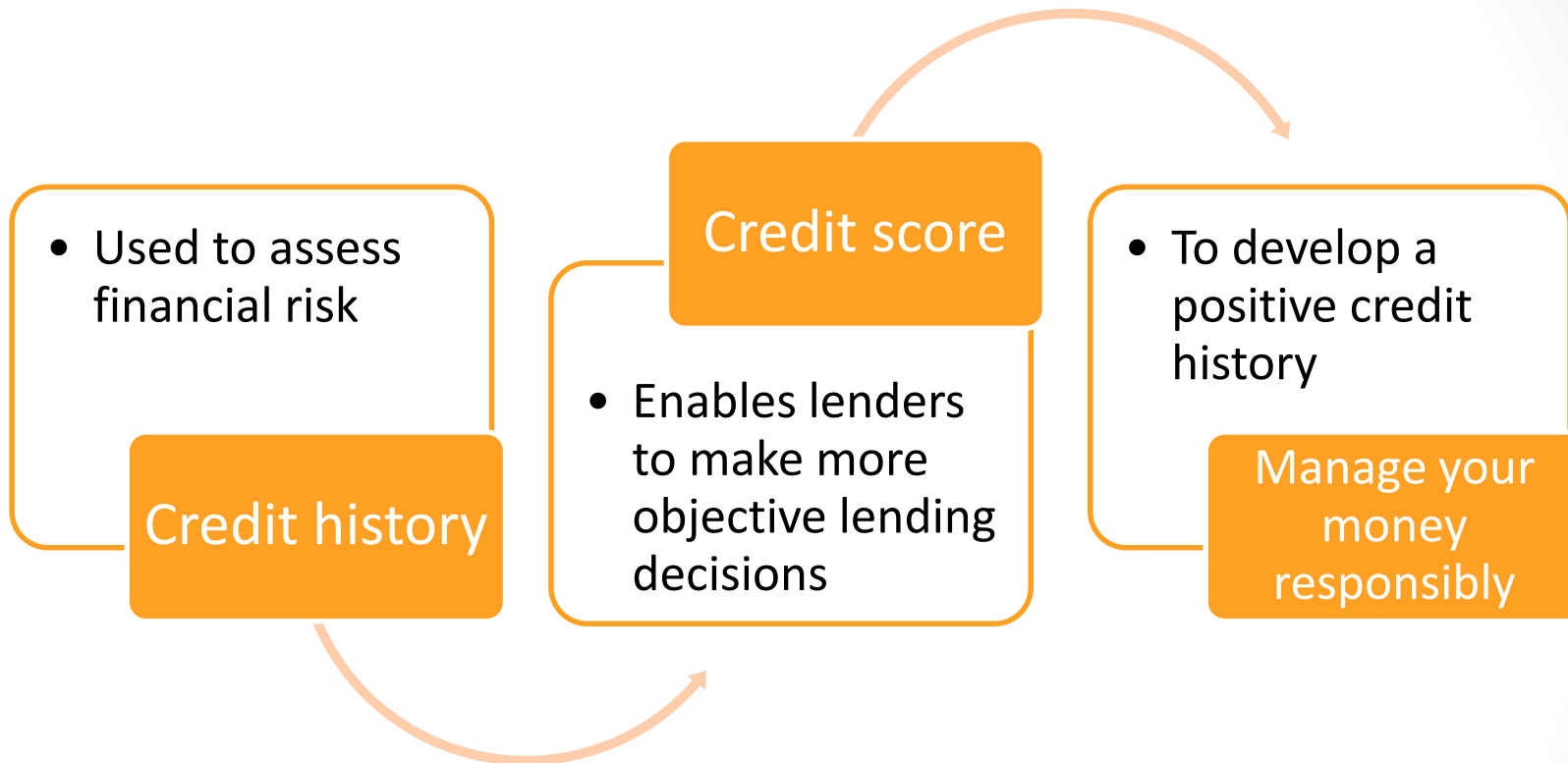
- Close old accounts, including those with loans not paid on time to wipe the slate clean
- Pay someone else to fix her credit

Credit Report Detective's Advice

What are three pieces of advice for Isabella?

- Pay her Sam's Electric World card so it is not past-due
- Settle her traffic ticket so she is no longer in collections
- Create and use a spending plan so as not to rely so heavily on credit
- Set up automatic payments so that her credit payments are never late
- Contact her school loan agencies to set up a payment plan
- Pay down her credit card balances by paying more than the minimum payment
- Continue monitoring her credit reports
- Talk to Talitha and Brendan to educate them on what she learned.

Summary



Your Present Self Impacts Your Future Self