

UNDERSTANDING CREDIT REPORTS ESSENTIALS Advanced Level

Family Economics & Financial Education The Essentials to Take Charge of Your Finances







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CREDIT REPORT DETECTIVES, INC.

Isabella is the first client at Credit Report Detectives, Inc.

Isabella's File:



- Recently graduated from college and applied for her "dream" job
- As a final step in the interview process, the employers asked her to complete a form granting permission to review her credit report
- Was shocked when she didn't receive the job and believes her credit report was the cause
- Requested her credit report for the first time and doesn't understand how to read it
- She has asked the Credit Report Detectives to help her understand her credit report and explain to her how to improve her credit report
- She has reported to the Credit Report Detectives that during her four years of college she took out many student loans and used credit cards to pay for many living expenses



CREDIT REPORT DETECTIVES, INC.

YOUR MISSION AS A CREDIT REPORT DETECTIVE: Help Isabella understand her credit report and decide what she can do to improve her credit history

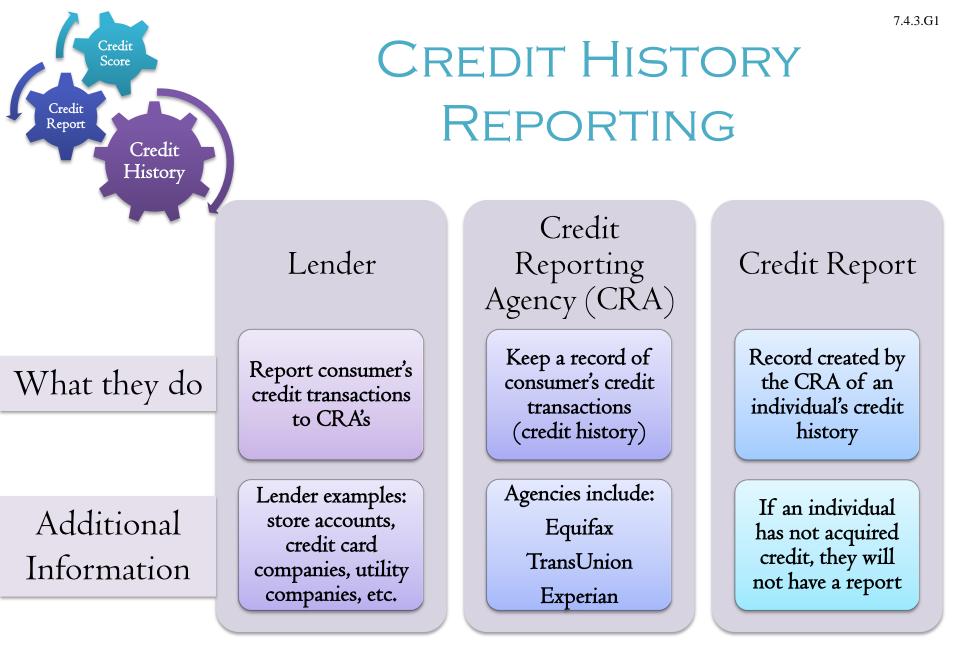
Before you can help Isabella, you need to learn even more about credit reports!



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INFORMATION IN A CREDIT REPORT

Information can be divided into 4 categories:

- Personal Information
- Accounts Summary
- Public record items
- Credit Inquiries

Lenders <u>may or may not</u> report information to all three credit reporting agencies. An individual's information may be different in each report.





PERSONAL INFORMATION

Personal Information

- Name and aliases
- Current and past addresses
- Social security number
- Date of birth
- Employment history

Find Isabella's personal information



Isabella's Personal Information:

- Name Isabella G. Langley
- Addresses 101 Hopeful Ave. & 695 Parent Street
- Date of birth -05/04/86
- Telephone numbers 555-354-2368 & 555-198-2358
- Employers Lucky's Restaurant & Jane's Daycare



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ACCOUNTS SUMMARY

Accounts Summary

Credit

History

Credit

Score

Credit Report

- Types of accounts
- Date the account was opened
- Credit limit or loan amount
- Account balance
- Payment history, including missed or late payments

What lenders does Isabella have accounts with?



Isabella's Accounts

- Sam's Electronic World •
- City of Anywhere •
- U.S. Department of Education •
- Financial Institution School Loan 0
- Shop 'Til You Drop Store Credit • Card
- Love to Read Store Credit Card ightarrow
- The Free Money Credit Card •



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ACCOUNTS SUMMARY

Does Isabella have any late or missed payments on accounts ?



Isabella's Late or Missed Payments

- Sam's Electronic World
 - Past due
- City of Anywhere
 - Past due
- Shop 'Til You Drop Store Credit Card
 - Occasional late payments



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PUBLIC RECORD ITEMS RELATED TO CREDIT

Public Record Items

- Accounts turned over to collection agencies
- Public records
 - Bankruptcy
 - Tax liens
 - Legal suits
 - Foreclosures

Identify public record items in Isabella's report



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Isabella's Public Record Items

- City of Anywhere
 - In Collection





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CREDIT INQUIRIES

Requests for an individual's credit report. There are two types of inquires- hard and soft check.

| Type of inquiry | Soft check | Hard check | |
|--|---|--|--|
| Do they impact your credit history? | Not usually | Yes | |
| Examples | Individuals checking their credit reports Credit card companies pre-approving individuals Pre-employment checks | Permission given by the individual when seeking credit •Credit card •Automobile loan •Insurance | |

Individuals should avoid too many hard credit checks at one time!

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ISABELLA'S REPORT

What inquiries does Isabella have on her report?

Which inquiries are soft checks and which inquires are hard checks?



| Type of inquiry | Soft checks | Hard checks |
|-----------------|----------------------|---------------------|
| Examples | •A Very Big Bank | •Shop 'Til You Drop |
| | •Need More Credit | |
| | •Keeping You Insured | |
| | •The Dream Sales Job | |



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INFORMATION <u>NOT</u> IN A CREDIT REPORT

Medical Information

NOT allowed- where an individual was treated and what they were treated for

Allowed- information regarding late medical payments

Personal Information

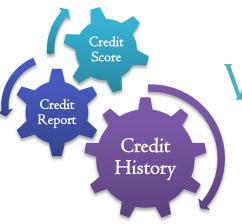
NOT allowed- race, religion, marital status, and nationality

Allowed- Age and gender

Equal Credit Opportunity Act prohibits credit discrimination regarding any of these factors



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WHAT IS A CREDIT SCORE?

Mathematical tool created to help a lender evaluate the risk associated with lending a consumer money

- Based upon information in the credit report
- Numeric "grade" of a consumer's financial reliability
- Used by lenders to determine a consumer's risk of defaulting on a loan
- Most common scoring system is FICO
 - Range from 300-850, with 850 being the best score
- Available for a small fee

Isabella requested her credit score and it was 560

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CREDIT SCORE IMPACT

| THIS IS BASED UPON A 30 YEAR FIXED MORTGAGE RATE FOR A \$300,000 LOAN | | | | | |
|---|---------------|-----------------|----------------|--|--|
| FICO Score | Interest Rate | Monthly Payment | 30 Year Amount | | |
| 760 | 5.9% | \$1,787 | \$643,320 | | |
| 650 | 7.2% | \$2,047 | \$736,920 | | |
| 590 | 9.3% | \$2,500 | \$900,000 | | |

\$256,680 saved over the lifetime of this loan because of a good credit score!



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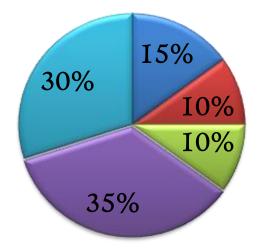




HOW CREDIT SCORES ARE DETERMINED

Five categories of information from an individual's credit report are used to determine a credit score

Each category accounts for a different percentage of the final credit score



Credit History
Pursuit of New Credit
Types of Credit in Use
Payment History
Outstanding Debt



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HOW CREDIT SCORES ARE DETERMINED

Payment History

- The timely manner in which a consumer did or did not repay debt
- Includes:
 - Several types of credit accounts
 - Late or missed payments
 - Public records and collection items

<u>Outstanding Debt</u>

- The total dollar amount of debt currently held
- Compared with total amount of debt available
- When a high percentage of debt is used, then it negatively impacts a score





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HOW CREDIT SCORES ARE DETERMINED

Length of Credit History

- Length of time a consumer has held credit accounts
- A longer credit history will generally increase a credit score

Pursuit of New Credit

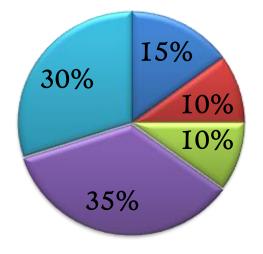
- Assesses how many accounts have been opened recently and the type of account
- Opening too many types of accounts in a short period of time has a negative affect



HOW CREDIT SCORES ARE DETERMINED

Types of Credit in Use

- Analyzes the types of credit in use
- Credit cards, retail cards, mortgages, automobile loans, etc.
- Variety is generally good to have



Credit History
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INFORMATION <u>NOT</u> INCLUDED IN A FICO SCORE

These variables may still be considered when a lender reviews a loan application

- FICO score is <u>only</u> based upon credit use
- Information not included:
 - Personal information such as age, where you live, marital status, race, color, religion, national origin, gender
 - Employment information
 - Interest rates charged on accounts
 - Overall wealth (assets an individual may have)



POSITIVE VS. NEGATIVE **CREDIT IMPACT**

Positive

- Informs the lender a consumer is:
 - Financially responsible
 - Less risk
- Benefits to the consumer
 - Lower interest rates
 - Access to additional credit

Is Isabella a positive or a negative risk? Why?



Negative

- Informs the lender a consumer is:
 - Not financially responsible
 - May be a higher risk
- Impact on the consumer
 - May pay higher interest rates
 - May not be able to qualify for credit
 - May limit employment opportunities



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Credit

Credit History

ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE

Action:

 Corey's credit card bill is paid in monthly installments.
 However, it is due on the 15th and usually paid a few days late



Credit report impact:

Negative Although Corey is paying his bill, he is doing so late!



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ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE

Action:

- Kari bought a car and financed it though the "Drive Bigger and Better" promotion
- Payments are automatically removed from her checking account
- Money is always in the account

Credit report impact:

Positive All payments were made in time Having automatic withdrawals with the money in the account is a good practice

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ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE

Action:

 Fernando rented a DVD from Busting Bronco Rental and never returned the movie Credit report impact:

> Negative Fernando is responsible for the movie replacement Could be reported to collections



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ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE

- In the past three months, Tammy has applied for credit cards at these establishments:
- Tarmore, Wally World, JcMoney, and Seemores

Credit report impact:

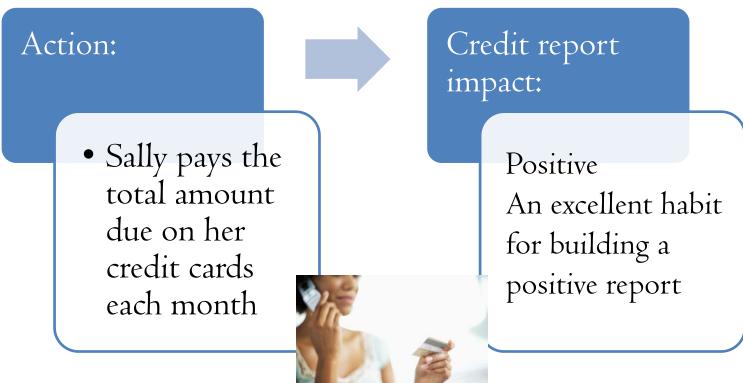
> Negative This is too many inquiries for new credit at one time from a variety of types of stores

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ACTIVITY - WHAT YOU DO MAKES A DIFFERENCE





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POSITIVE CREDIT PRACTICES

Positive

Practice good banking techniques, such as keeping a checkbook balanced, managing accounts online, and not bouncing any checks

Pay bills consistently and on time

Maintain reasonable amounts of unused credit

Apply for credit sparingly, thus keeping credit inquiries to a minimum

Check credit reports annually and search for errors



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NEGATIVE CREDIT PRACTICES

Negative

Having non-sufficient funds (NSF) when writing checks, also known as bouncing checks

Routinely paying late on credit cards, utility, and cell-phone bills

Maxing out limits on credit cards

Numerous credit applications in a short period of time

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WHEN CREDIT IS NOT ESTABLISHED

- Having no credit history may be just as challenging to a consumer as having a negative history
- Although the following are all positive financial habits, no credit is established when:
 - Credit is never used
 - Accounts are not in own name
 - Cash is paid for all major purchases
 - Phone and utility bills are paid on time
 - It only negatively impacts a score if payments are late

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2009 CARD ACT

Changed how young adults receive certain types of credit

To receive a credit card:

- Generally must be 21 years of age or older UNLESS
- Show documentation of sufficient income
- Have a co-signer

If someone is a co-signer on an account, they are equally as responsible and their credit report is impacted.



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ESTABLISHING CREDIT

Strategies to build credit include acquiring and positively managing small lines of credit:

- CREWT CARD SCOST 2222 10 1 SRSTNAME LASTNAME
- Co-signer
- Secured credit card
 - Require a cash security deposit to ensure payment of the card

- Small loan from depository institution

Does Isabella have any co-signers? What impact does her actions have on them?



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MISTAKES IN CREDIT REPORTS

- Credit reports should be requested and checked for errors
- Common mistakes on credit reports:
 - Fraud (identity theft)
 - Mistaken identity
- If a mistake is found, refer to the "How to Dispute Credit Report Errors" section of the FTC website: <u>http://www.ftc.gov/</u>



Credit Reporting Agencies: Experian, Equifax, and TransUnion Credit scores are available for a <u>small fee</u>

Access the website: annualcreditreport.com <u>Only</u> government sponsored Web site Other sites may be fraudulent or charge a fee

Can also request your credit report by phone or mail- the website includes this information





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CREDIT REPORT DETECTIVES ADVICE

What advice would you give Isabella to improve her credit report and score?



- What should she do immediately?
 - Pay her Sam's Electric World card so it is not past-due
 - Settle with the City of Anywhere so she is no longer in collections
 - Stop charging anything on credit
 - Create and use a spending plan to not rely so heavily upon credit
- What recommendations would you suggest she employ in the near future?
 - 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.