

Credit Reports and Scores

Advanced Level

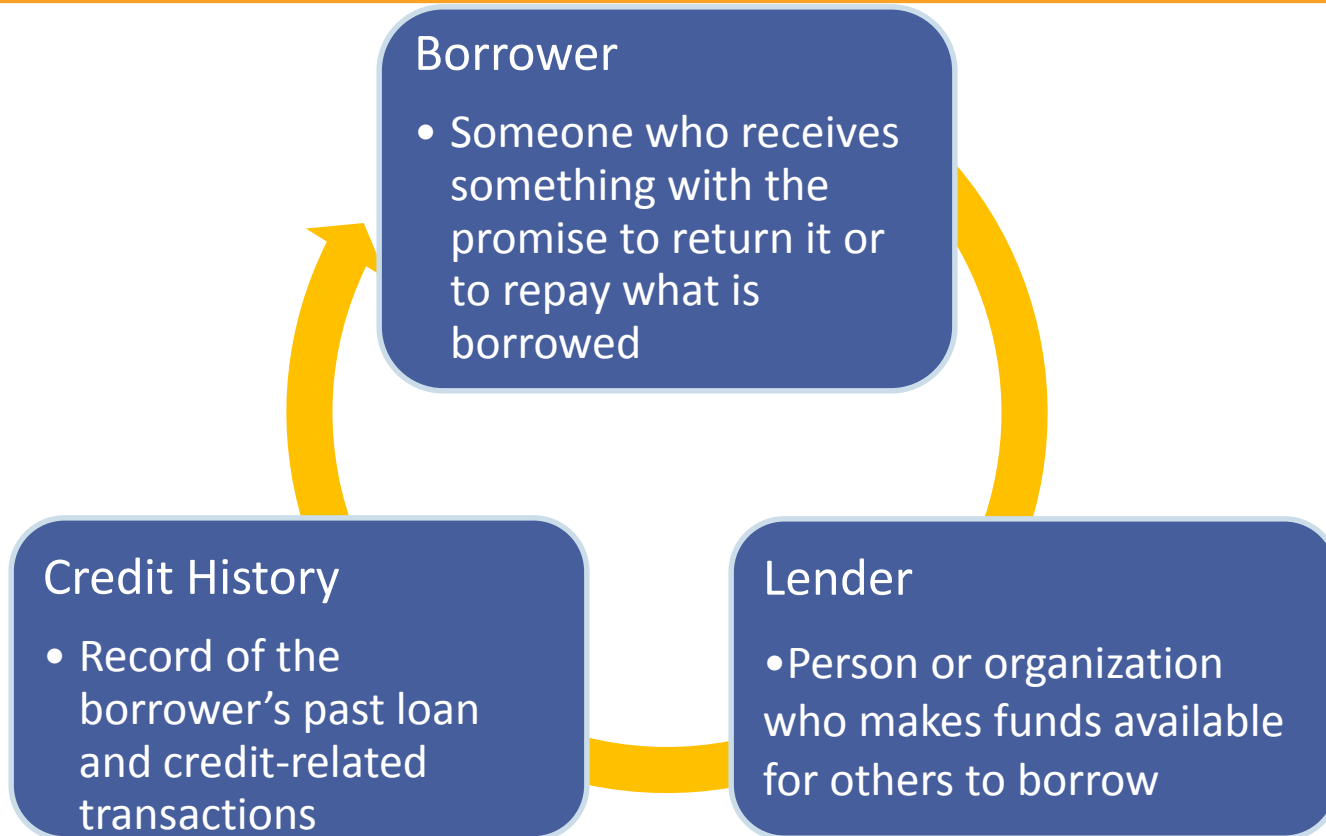


TAKE CHARGE TODAY

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

[Free credit report ads](https://www.youtube.com/watch?v=tloVHJtrJ_k)
https://www.youtube.com/watch?v=tloVHJtrJ_k

Three U.S. Agencies:

- Equifax
- Experian
- TransUnion

[How to read your credit report](https://www.youtube.com/watch?v=BTvp2vCHCvs)
<https://www.youtube.com/watch?v=BTvp2vCHCvs>

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

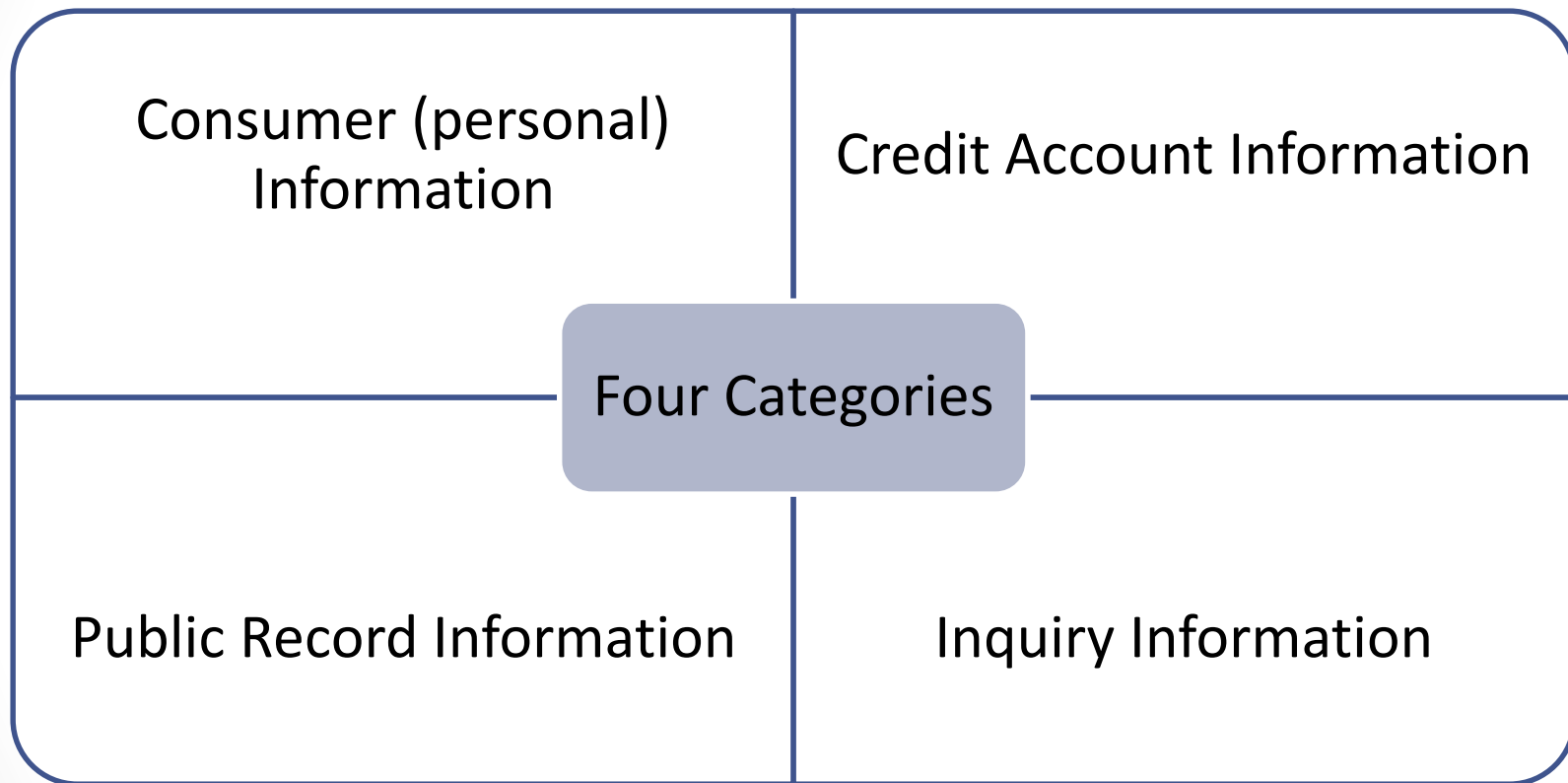


YOUR MISSION:

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

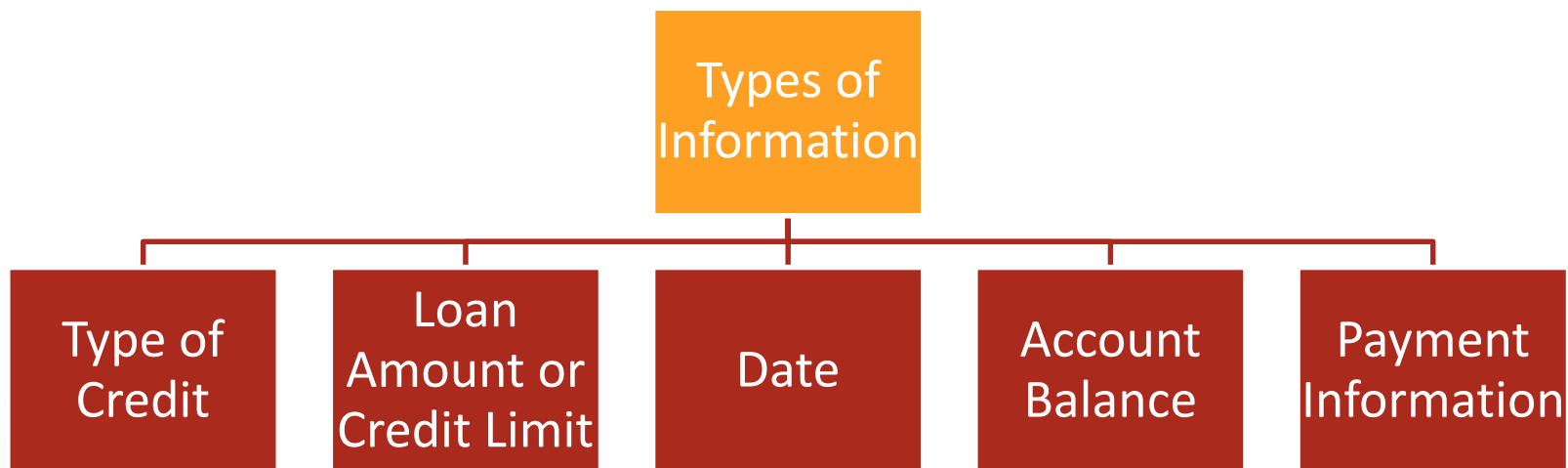
Telephone Numbers:

(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 https://www.youtube.com/watch?v=U2jHCvLQ078&list=PLCNK1KOEQ8msQ6wAyUcKwZ0VQJ0VH2JZW

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	High Balance: \$550
Last Reported: 10/2012	Responsibility: INDIVIDUAL	Recent Balance: \$84 as of 11/2012
		Recent Payment: \$0

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****
----------------------------------------------------------	------------------------------------

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
------------------------------------------------------------	-------------------------------------------	---------------------------------------

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****
---------------------------------------------------------	-----------------------------------------

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
- <https://www.youtube.com/watch?v=VdL7ENclfLI>

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

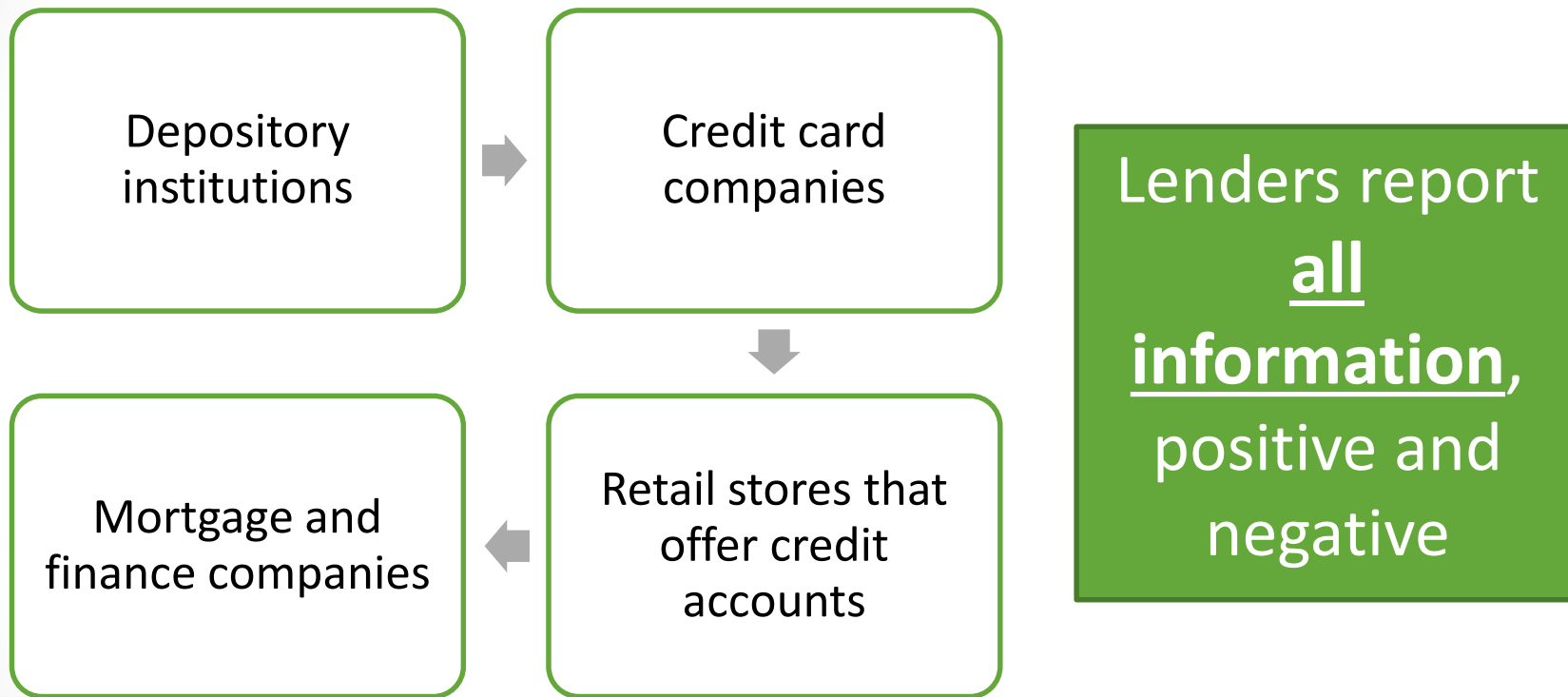
Potentially Negative

- 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

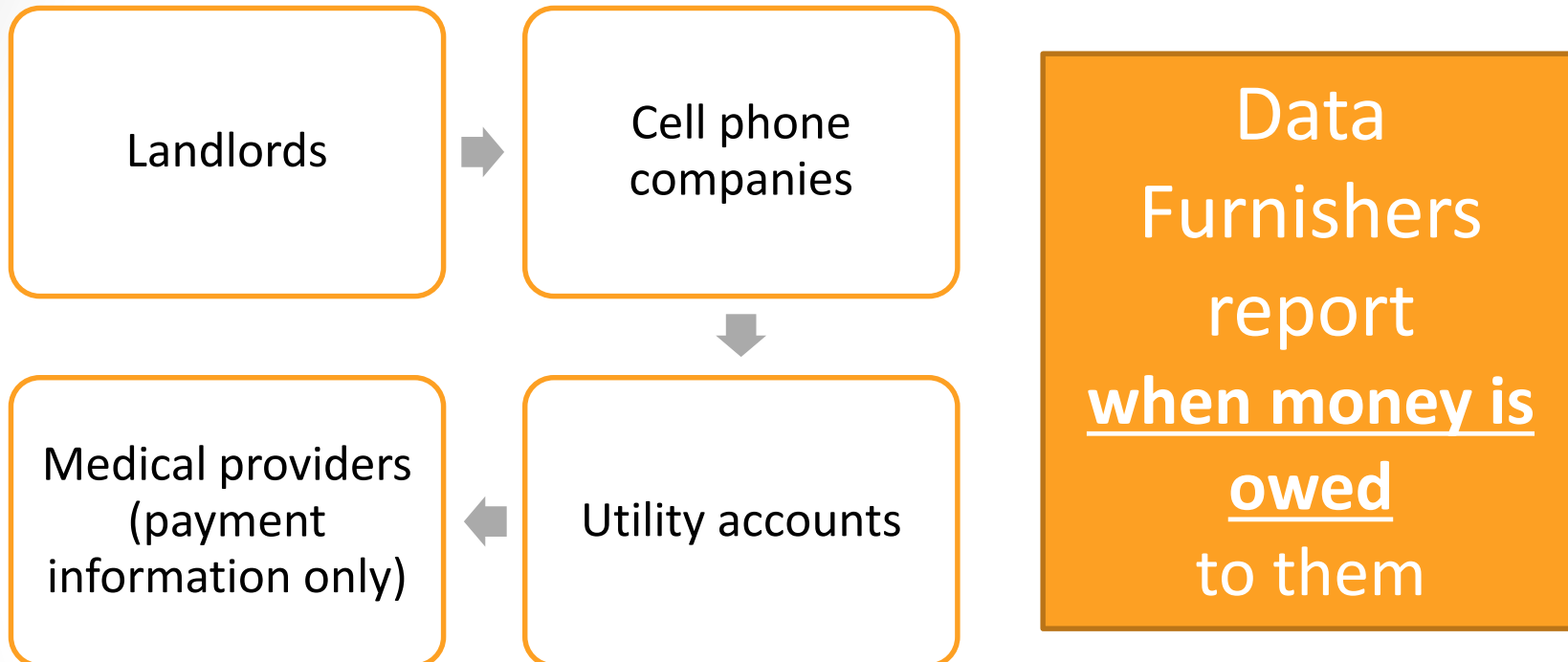
Types of Lenders Who Report to CRA's



What type of lenders have reported about Isabella?



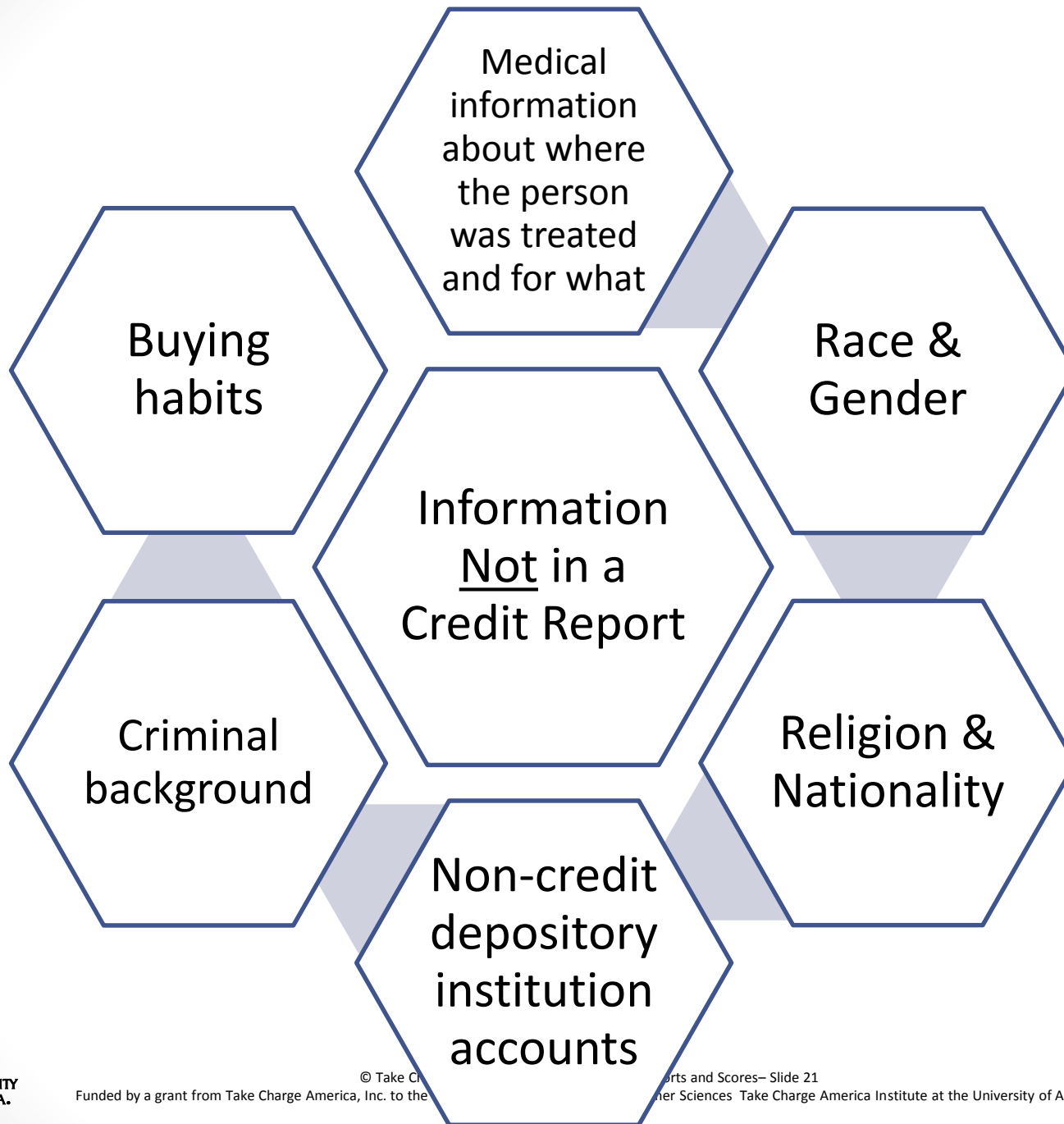
Types of Data Furnishers Who Report to CRA's



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

https://www.youtube.com/watch?v=Hf4BgVNSf_E

Most common scoring systems are produced by credit reporting agencies:

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

<https://www.youtube.com/watch?v=F6b2XoeQV2I>

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

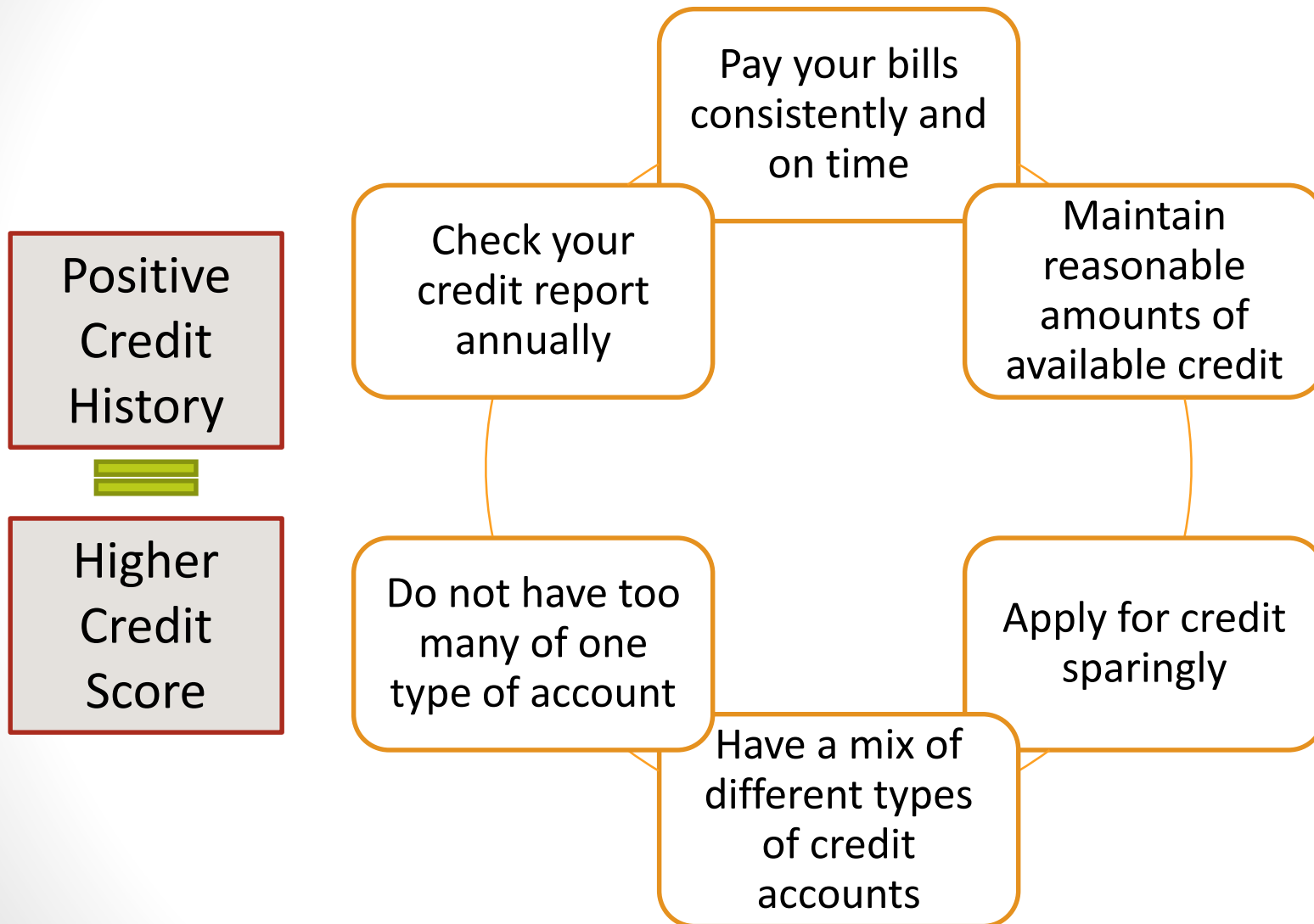
Public Utility Services

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

AnnualCreditReport.com

▶ AnnualCreditReport.com ▶ Frequently Asked Questions ▶ Contact Us ▶ About Us ▶ Fraud Alert

Request your free annual credit report.
It's **QUICK, EASY** and **SECURE**.

START HERE to view and print
your credit report now.

Select Your State

Fight identity theft by monitoring and reviewing your credit report. You may request your free credit report online, request your report by phone or request your report through the mail. Free credit reports requested online are viewable immediately upon authentication of identity. Free credit reports requested by phone or mail will be processed within 15 days of receiving your request.

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A world of insight

What is AnnualCreditReport.com?

This central site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

AnnualCreditReport.com is the official site to help consumers to obtain their free credit report.

We guard your privacy.
Please be aware of how you arrived at this site. To ensure that you are visiting the legitimate site, type <https://www.annualcreditreport.com> directly into the address bar on your browser. You will never receive an email directly from the Annual Credit Report Request Service. For further information please read the Security Policy.

Norton SECURED
powered by VeriSign

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

<https://www.youtube.com/watch?v=EG69y-vpIbk>

Place a next to Isabella's
personal statement section



Advice for Isabella

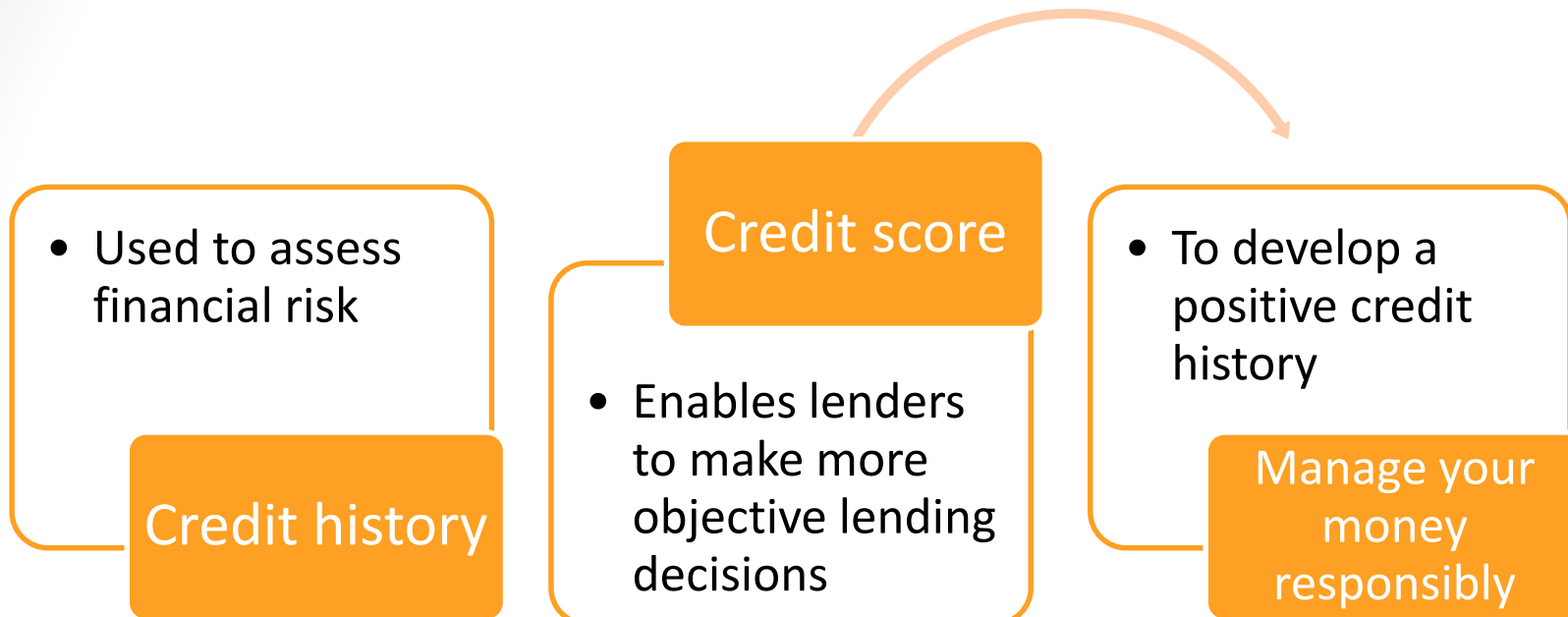
What are three pieces of advice for Isabella?

- 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.

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

Summary



How did we get here?

<https://www.youtube.com/watch?v=88bCYyLAX3A>

Your Present Self Impacts Your Future Self

5 “C”s of Credit

- Character = stability, track record, trustworthiness
- Capacity = debt-to income ratio
- Capital = net worth (what you own: assets – liabilities)
- Collateral = assets to guarantee repayment
- Conditions = economy: local market & competition

Open-Note Test

- You may use the following handouts on your test:
- Credit Basics Info Sheet
- Credit Reports and Scores Info Sheet
- Isabella Langley's Story and Credit Report
- The 5 "C"s of Credit