
Credit Basics

Money Smart Week-WV Presentation by
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What is credit?



- Credit is using services or making purchases of things you need when you need them, and then paying at an agreed upon time under agreed upon terms
- Common types include credit cards, mortgages and car loans
- Service contracts, such as cable and telephone, can also be considered credit
- Financial trustworthiness
 - ▶ Your credit record is one of the most important factors lenders consider when you apply for credit

Requesting your personal report



Experian
1 888 397 3742
www.experian.com



Equifax
P.O. Box 740241
Atlanta, GA 30374-0241
1 800 685 1111



Trans Union
P.O. Box 1000
Chester, PA 19022
1 800 888 4213



The Fair Credit Reporting Act

Permissible purposes

- Open or manage credit accounts
- Offers of credit
- Employment purposes
- Underwrite insurance
- A business transaction initiated by the consumer
- Court order or federal jury subpoena
- Valuation of risk of an investor
- Eligibility for government license
- Disclosure to consumer



Defining credit reports and their importance



- What is a credit report?
 - ▶ Your personal credit report includes a record of your financial accounts and obligations and the identification information associated with them
 - ▶ This report is sometimes called a credit file or a credit history
 - ▶ Credit reporting companies collect and organize data about your credit history from your creditor's and public records

Centralized source for free reports

www.annualcreditreport.com



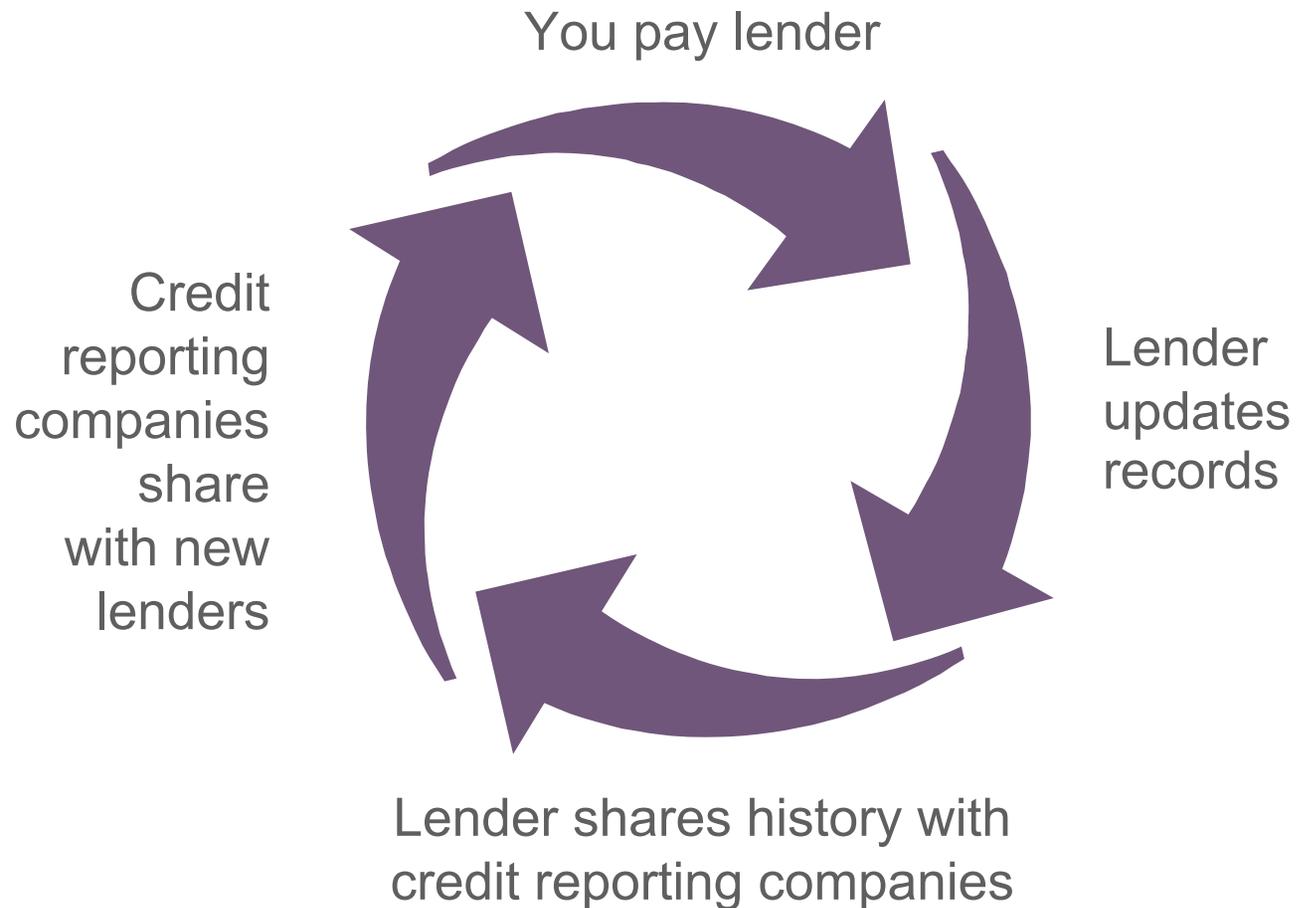
- One every twelve months from each credit reporting agency
- Single contact point
 - ▶ Telephone - 877 322 8228
 - ▶ Mail
 - ▶ Internet
- Fee for credit score disclosure, new legislation allows you to obtain free from agency that provided information that caused you to be denied credit

Sources of reports for consumers

- Consumer reporting companies
 - ▶ Referred by adverse action notices
 - ▶ Fraud
 - ▶ Unemployed and seeking employment
 - ▶ Receiving welfare assistance
 - ▶ Free reports under some state laws
 - ▶ Purchase additional reports
- FACT Act Centralized Source
- Consumer direct services



The credit cycle



Credit reporting companies are like libraries

Credit reporting company clients check out information ...



... If they have a permissible purpose under the law

What's in a credit report?

- Identifying information
- Account information
- Public record information
- Inquiries
- Dispute instructions



What's NOT in a credit report?

- Credit reporting companies do not store:
 - ▶ Criminal background
 - ▶ Medical information
 - ▶ Buying habits / transaction data
 - ▶ Bank account information
 - ▶ Credit risk scores



How long is information retained?

▪ Open accounts in good standing	Indefinitely
▪ Closed accounts in good standing	10 years
▪ Late or missed payments	7 years
▪ Collection accounts	7 years
▪ Civil judgments	7 years
▪ Chapter 7 bankruptcy	10 years
▪ Chapter 13 bankruptcy	7 years
▪ Unpaid tax liens	10 years
▪ Paid tax liens	7 years
▪ Credit inquiries	2 years

Processing a dispute

- Credit reporting company verifies with the source of the information (creditor or court)
- Must allow up to 30 days for processing
- Source verifies, corrects or updates
- Secure electronic mail system is used
- Creditors required to report corrections to all databases
- Consumer can add statement of dispute if issue is not resolved with source



Beware of credit repair companies

- Can't legally do anything you can do for free
- Can't legally collect fee before delivering the promised service
- Can't legally advise you to lie about your accounts or about your identifying information



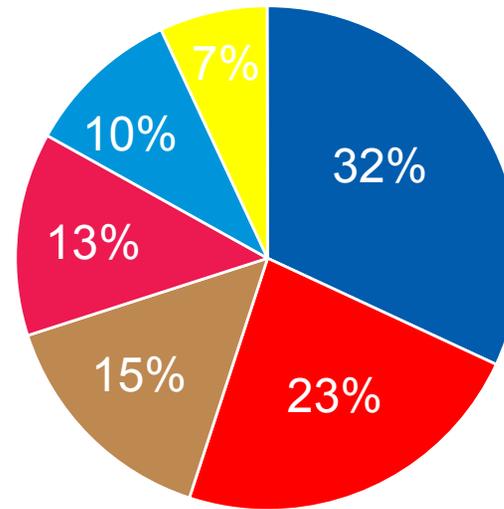
Automated credit risk scoring

- Used instead of a manual “score sheet”
- Valuable risk management tool
- Many different models available from many different sources
- Credit reporting companies often apply the model selected by the creditor when delivering the credit report; however, the credit scoring model, or formula, is proprietary to the developer and is not known by the credit reporting company



VantageScoreSM

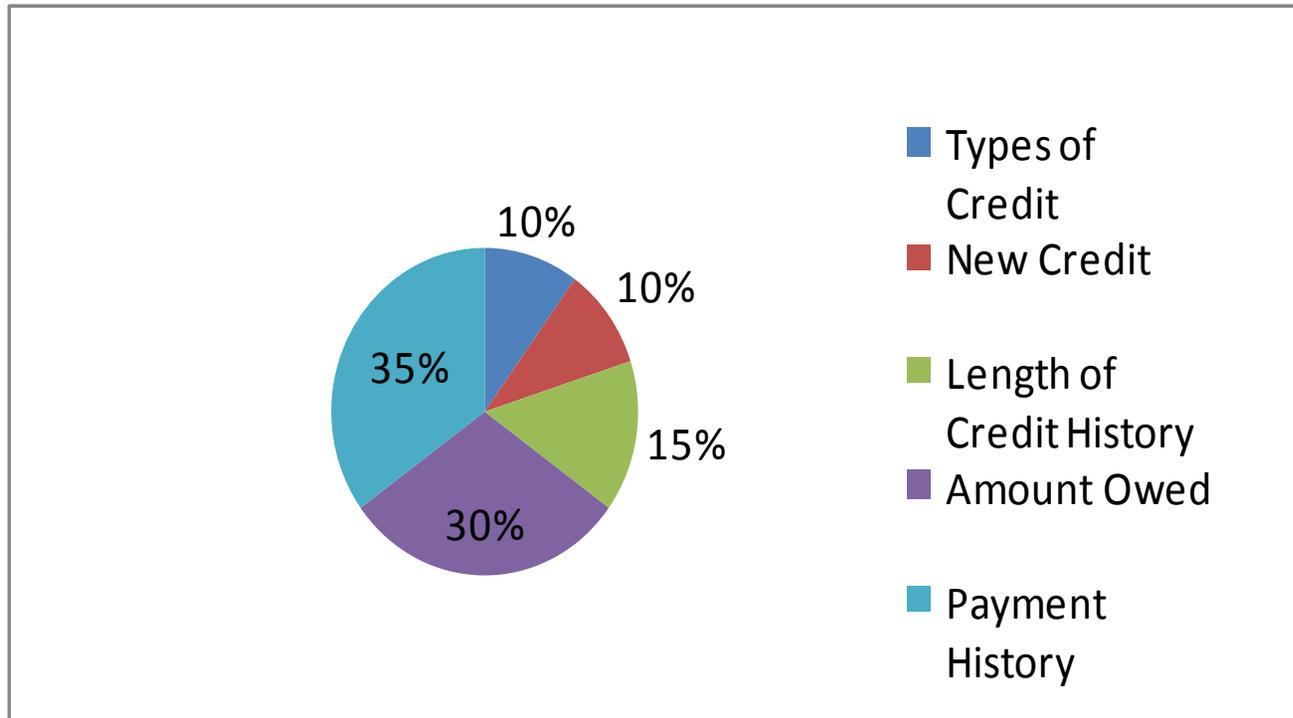
Focus
on these factors!



Payment history	Repayment behavior (satisfactory, delinquency, derogatory)
Utilization	Percentage of credit amount used/owed on accounts
Balances	Amount of recently reported balances (current and delinquent)
Depth of credit	Length of credit history and types of credit
Recent credit	Number of recently opened credit accounts and credit inquiries
Available credit	Amount of credit available

Composition of a FICO Score

- *Percentage breakdown*



How Mistakes Affect FICO Scores

DAMAGE POINTS: HOW MISTAKES AFFECT FICO SCORES		
Credit mistake	If your score is 680	If your score is 780
Maxed-out card	Down 10 to 30 pts.	Down 25 to 45 pts.
30-day late payment	Down 60 to 80 pts.	Down 90 to 110 pts.
Debt settlement	Down 45 to 65 pts.	Down 105 to 125 pts.
Foreclosure	Down 85 to 105 pts.	Down 140 to 160 pts.
Bankruptcy	Down 130 to 150 pts.	Down 220 to 240 pts.

Source: FICO

Ten rules for managing credit



1. Establish a credit report
2. Always pay as agreed
3. Get a credit card
4. Use caution in closing accounts
5. Apply for credit judiciously
6. Time is key
7. Demonstrate stability
8. Have a plan
9. Put credit to work for you
10. Share your knowledge

Resources

- Equifax www.equifax.com
- TransUnion www.tuc.com
- Experian
 - ▶ www.experian.com
 - Ask Experian
 - Credit education
 - ▶ www.vantagescore.experian.com
 - ▶ www.annualcreditreport.com (free credit report)
 - ▶ www.myfico.com

- Education partners
 - ▶ www.lifesmarts.org
 - ▶ www.jumpstart.org

