Credit Scores

67% of Americans have a Good FICO® Score or Better
Credit score basics
What is and isn’t part of your score
How your actions impact your score
Tips to manage your score
How to get your reports and scores
Basic information about credit scores
Quick facts

› Your credit score summarizes your credit risk or how likely you are to repay a loan

› Credit Scores are a snapshot in time and constantly change as the credit bureaus receive new information (TransUnion, Equifax, Experian)

› You → Lender → Bureau → Formulas → Score

› Other scoring models exist, but most lenders use scores based on formulas from the Fair Isaac Corporation (FICO)
Quick facts

Multiple versions of FICO scores

(28 between the 3 bureaus)

Score range: 300 - 850

Average score: 695 or 706, depending on who you ask

Millions of FICO scores are purchased every day
# The Real Cost of Borrowing

## Vehicle Loan

<table>
<thead>
<tr>
<th></th>
<th>Person A: 620 Score</th>
<th>Person B: 720 Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Term</td>
<td>60 months</td>
<td>60 months</td>
</tr>
<tr>
<td>Rate</td>
<td>14.89%*</td>
<td>3.89%*</td>
</tr>
<tr>
<td>Payment</td>
<td>$712</td>
<td>$539</td>
</tr>
<tr>
<td>Total Payments</td>
<td>$42,718</td>
<td>$32,344</td>
</tr>
</tbody>
</table>

$42,718 - $32,344 = **$10,374 Savings!!!**

*Arbitrary interest rates not reflective of any particular financial institution’s interest rate*
Your credit history is important for many other reasons

- Insurance companies can use your credit information to determine the rates you pay.
- Landlords can use your credit score to determine if they will accept you as a tenant.
- Utility, phone, and cable companies can require customers with poor credit to make a deposit before activating service.
What is (and isn’t) part of your score?
Information on your report

Some things don’t even appear on the report:
- Gender
- Race
- Religion
- Marital Status
- Banking information
- Job Title
- Income
- Education
- Arrests or criminal convictions

Some things appear, but DO NOT impact your score:
- Name
- Address
- Social Security Number
- Date of Birth
- Employer
These are the things that impact scores
Payment history-35% of score

Make on-time payments

Get caught up if you fall behind

What if you don’t have any credit history, how can rent or utilities get included? (Rental Kharma, Experian Boost)

Late payment score impact is determined by amount, frequency, and how recent the late payment was.
How much you owe-30% of score

Overall amount of debt

How many accounts have balances?

Amount remaining on installment loans

Do you have revolving accounts?

Capacity on revolving loans (according to your statement)
Length of credit history - 15%

Age of oldest account
Age of newest account
Average age of accounts
How long since an account was used.
New credit - 10% of score

Hard inquiries - 5 point drop for 12 months - except:

Voluntary inquiries made by you, employers, or insurance don’t affect score.

Involuntary inquiries don’t affect score (Pre-approved credit cards)

Alike inquiries count as one inquiry (Auto loans, student loans, or mortgages within a 14-45 day period)

Opening new credit line - 10 point drop for 12 months
Credit mix-10% of score

Credit cards
Retail cards
Installment loans
Mortgage
Specific tips to raise your score
Do these things

Pay on time (auto pay?)
Keep credit card balances < 25% of limit
Raise your credit limit if you can handle it
Restructure credit card debt
Have a revolving account
Keep cards open
Only open new credit when needed
OK, how do I get my report and score?
How can I get my report?

In cooperation with the Federal Trade Commission, the three major credit reporting agencies set up the website, annualcreditreport.com, to provide free access to annual credit reports.

Annual Credit Report.com
The only source for your free credit reports. Authorized by Federal law.
How can I get my score?

FICO scores are available for FREE from:

- Select credit cards
- Select credit unions (yes, Canvas)
- Lenders when you apply for a loan

FICO scores are available for a FEE from:

- annualcreditreport.com
- Myfico.com

Other scores are available for FREE from:

- Creditsesame.com, creditkarma.com
How Can Canvas Help?

Many credit unions offer **FREE** credit counseling services through a partnership with GreenPath Financial Wellness.

- Credit Report Review
- Debt Management
- Bankruptcy Support
- Student Loan Counseling
- Homebuyer Counseling
A good score can help you afford life!

Nancy Patton  nancyp@canvas.org
Credit factors to consider: loan term (length)
Savings: $1835

<table>
<thead>
<tr>
<th>Details: $30,000 auto loan with credit score of 720</th>
<th>72 month loan</th>
<th>60 month loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>4.39%</td>
<td>3.89%</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$475</td>
<td>$539</td>
</tr>
<tr>
<td>Total of payments</td>
<td>$34,179</td>
<td>$32,344</td>
</tr>
</tbody>
</table>
Credit factors to consider: down payment
Savings: $4794

<table>
<thead>
<tr>
<th>Details: 60 month auto loan with credit score of 720 (interest rate 3.89%)</th>
<th>$30,000 loan</th>
<th>$25,000 loan (down payment of $5,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly payment</td>
<td>$539</td>
<td>$459</td>
</tr>
<tr>
<td>Total of payments</td>
<td>$32,344</td>
<td>$27,550</td>
</tr>
</tbody>
</table>
Credit factors to consider: credit score
Savings: $10,374

<table>
<thead>
<tr>
<th>Details: $30,000 auto loan for 60 months</th>
<th>Credit Score 620</th>
<th>Credit score: 720</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>14.89%</td>
<td>3.89%</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$712</td>
<td>$539</td>
</tr>
<tr>
<td>Total of payments</td>
<td>$42,718</td>
<td>$32,344</td>
</tr>
</tbody>
</table>
Credit factors to consider: worst/best combination
Savings: $19,591

<table>
<thead>
<tr>
<th>COMPARE!</th>
<th>Worst combo</th>
<th>Best combo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount</td>
<td>$30,000</td>
<td>$25,000 ($5,000 down)</td>
</tr>
<tr>
<td>Credit score</td>
<td>620</td>
<td>720</td>
</tr>
<tr>
<td>Term</td>
<td>72</td>
<td>60</td>
</tr>
<tr>
<td>Interest rate</td>
<td>16.24%</td>
<td>3.89%</td>
</tr>
<tr>
<td>Monthly payment</td>
<td>$655</td>
<td>$459</td>
</tr>
<tr>
<td>Total of payments</td>
<td>$47,141</td>
<td>$27,550</td>
</tr>
<tr>
<td>Sum up</td>
<td>Not so great 😞</td>
<td>Smart choice! 😊</td>
</tr>
</tbody>
</table>