

The Ups and Downs of Credit Scoring

Presented by: Jason Alderman
Director of Financial Education Programs for Visa, Inc



Credit Scoring



Credit Scoring



What is a credit score?

Your credit score is a number between 300 and 850, assigned to you by one of three national credit bureaus. The number helps lenders decide how creditworthy you are – the higher the score, the lower the risk.

Because credit can affect many important aspects of your life, getting and keeping your score as high as possible is a vitally important goal. Armed with the right information, controlling this important number is easier than you might think.

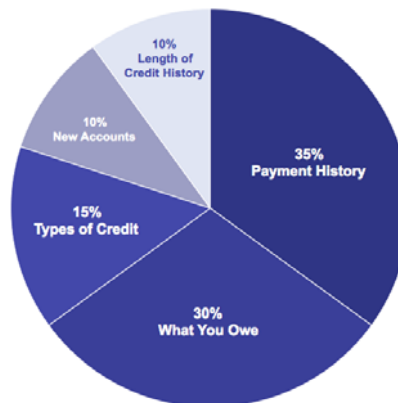
Credit Scoring



How is a credit score calculated?

Using a formula developed by Fair Isaac Corporation (FICO), credit bureaus evaluate how much risk you pose to potential lenders. Scores are based on:

- **35% Payment history:** Do you pay bills on time? Any recent missed payments?
- **30% What you owe:** Debt balance as well as the ratio of your debt to your credit limit help determine your score.
- **15% Types of credit:** Which credit cards you use and loans you carry also play a role.
- **10% New accounts:** Opening lots of new accounts and spreading debt around can negatively affect your score.
- **10% Length of credit history:** How long you've had credit will factor in to your final score.

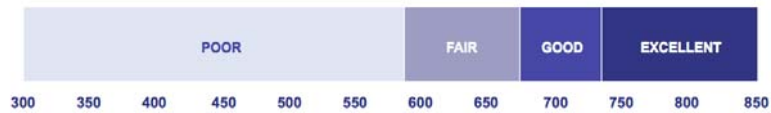


Credit Scoring



What is considered a good score?

There is no absolute standard that lenders use to approve or deny credit. The chart below is merely a guide. Remember, a good score is one that works with, not against, your life goals. Staying informed and making smart financial choices is your best strategy for keeping your score on a steady climb.



Credit Scoring



Why does a good score matter?

A good score (> 650) is important because:

- Both landlords and mortgage lenders look for good credit scores.
- Prospective employers sometimes run credit checks as a gauge of responsibility.
- You may be eligible for lower insurance rates with a good credit score.
- You'll have greater financial flexibility, should you need future credit.

Credit Scoring



How much can a good score save you?

Your credit score can greatly affect your interest rate, and monthly payments on auto loans, mortgages, etc...

36 month auto loan			30 year fixed mortgage		
FICO® score	APR	Monthly payment	FICO® score	APR	Monthly payment
720-850	5.928%	\$760	760-850	4.444%	\$1,510
690-719	7.539%	\$778	700-759	4.666%	\$1,550
660-689	9.558%	\$802	680-699	4.843%	\$1,582
620-659	13.349%	\$847	660-679	5.057%	\$1,621
590-619	18.129%	\$905	640-659	5.487%	\$1,701
500-589	18.725%	\$913	6200-639	6.033%	\$1,805

National average loan amount: \$25,000

National average loan amount: \$300,000

Financial Literacy

Credit Scoring



How can I improve my score?

If your score isn't where you want it to be, all is not lost. Your credit score is very fluid and can change for the better with the right efforts on your part.

- **Get credit. Use it.**
Using credit builds credit history. If you don't currently have any credit accounts, consider opening one. Just be sure to use it wisely.
- **Always pay monthly bills on time.**
Late payments stay on your credit report and make it hard to boost your score.
- **Don't max out your cards.**
Don't spend up to your credit limit. If your debt is more than 25% of your total credit limit, your credit score may begin to fall.
- **Don't be afraid to talk to your creditors.**
Credit card companies may be able to modify your interest rate or lower your monthly payment. But not if you don't ask.
- **Avoid opening new accounts to spread debt around.**
Opening new accounts, in a short period of time, can negatively affect your score.
- **Monitor your credit regularly.**
You aren't penalized for checking your own credit. Check it for errors and potential fraud on a regular basis.

Financial Literacy

Credit Scoring



What's the difference between a credit score and a credit report?

While your credit score is a value that offers a snapshot of your credit at a particular moment, your credit report is a comprehensive document that gives you, and potential lenders a more complete picture of your financial history.

A credit report typically includes:

Personal information (NOT used to determine your creditworthiness)

- Full name, SSN, date of birth
- Current and past addresses
- Employment history
- Driver's license number and state where issued

Financial information (which DOES factor into your creditworthiness)

- List of financial accounts and dates opened/closed
- Account balances and credit limits
- Payment history for each account, including late payments
- Any accounts in collection, bankruptcies, liens, etc.

Credit Scoring



How to read a credit report.

- **1 Personal Identification:** The information that uniquely identifies you from persons who may have the same name.
- **2 Public Records:** These listings show any legal information that may affect your credit ranking.
- **3 Collections:** Any collection agencies assigned to recover outstanding debts you have will be listed here.
- **4 Credit Accounts:** Installment loan accounts and revolving credit accounts will be listed here. This gives credit issuers information on your payment history.
- **5 Requested Credit Files:** This is a list of any companies who have requested information on your credit history.

Your Credit Report Please address all future correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

1 PERSONAL IDENTIFICATION INFORMATION

Your Name 123 Current Address City, State 00000	SSN #: 123-45-6789 Date of Birth: July 1, 1958 Telephone Number: (555) 555-5555
---	---

EMPLOYMENT DATE REPORTED

Employer Name: Employer 1 Date Reported: 06/2004	Position: Job/Occupation Hired: 04/2004
---	--

2 PUBLIC RECORD INFORMATION

Last Filed 03/90; Fulton CTY; Case or Other ID Number:32114; Amount-\$25,667
Class-State: Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-6794212;
Liabilities-\$15,797; Personal: Individual; Discharged; Assets-\$760

Satisfied Judgment Filed 07/94; Fulton CTY; Case or Other ID Number-896872; Defendant-
Consumer; Amount-\$4,984; Plaintiff-ABC Real Estate; Satisfied 03/95; Verified 05/95

3 COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll #000000-XXXX
Collection Reported 05/07; Assigned 08/04 to Pro Coll #000000-XXXX Client-ABC
Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/04; Individual
Account; Account Number 787652JC

4 CREDIT ACCOUNT INFORMATION

Company Name	Account Number	Product	Open Date	Balance	Limit	Open	Close	Time	Block	Rev	Stat	Days
Department B	10114	J	10/96	24	500	9900	X	50	X	R1	10/96	
Bank	104723	A	11/98	24	500	2700	X	50	X	D1	6/08	
Co/Company	24112	A	8/98	12	500	8000	X	50	X	D1	4/08	
Auto Finance	42779	I	5/95	48	1500	550	3300	50/50	R		4/08	

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/08 - 02/08 - 03/08 - 14

5 COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/08 Equifax Disclosure	05/27/08 Department Store
07/29/08 FRM Bankcard	07/03/08 AM Bankcard
04/10/08 AP Department Store	12/11/07 Equifax Disclosure ACIS 123456789

Credit Scoring



Ordering a copy of your credit report.

You are entitled to a free credit report annually from each of the three bureaus. Contact info for each bureau is below.

- You can also order reports online for each bureau at www.annualcreditreport.com
- You can check your report as frequently as you wish.
 - This DOES NOT hurt your credit, but you will be charged a fee for any additional credit reports beyond your free annual one.

Equifax

Credit Reports: 1.800.685.1111
Fraud Hotline: 1.888.766.0008
www.equifax.com

Experian

Credit Reports: 1.800.397.3742
Fraud Hotline: 1.888.397.3742
www.experian.com

Trans Union

Credit Reports: 1.800.322.8228
Fraud Hotline: 1.888.680.7289
www.tuc.com

Credit Scoring



How and where to obtain your credit score.

The website www.myfico.com is the best place to retrieve your credit score.

- Typically, free credit reports from bureaus DO NOT contain your credit score. If you want to receive an actual number score, you will have to pay a fee to receive the score along with the report. (~\$5 - \$15)
- Bureaus may also offer you their ongoing credit monitoring services.
 - These services are often unnecessary. Read any agreement carefully to be clear on what you are signing up for.
- It is possible to get a free estimate of your FICO score.

Credit Scoring



Get a quick estimate of your FICO credit score.

The FICO Free Estimator is an easy first step to gauging your credit score.

<http://www.whatsmyscore.org/estimator/>

- Ten short questions
- No personal data
- Accurate 40 point score range



Credit Scoring



Busting myths about credit scores.

Checking your own credit hurts your score.

- When multiple lenders run your credit, your score can dip temporarily. But checking your own report or score does not affect your credit.

The three bureau's score should always be the same.

- Each bureau uses a variation on the FICO formula, so discrepancies between the three scores is common.

A low score equals financial doom.

- Credit scores are fluid. Your behavior can affect your score positively and negatively. It's never too late to improve a low score.

Closing old accounts helps your credit.

- It can seem counterintuitive, but it's best to leave old accounts open, even if you aren't charging on them.

Credit Scoring



What's new in Credit Scoring – FICO 08

FICO 08 is a new formula the three bureaus have begun to offer

- It's not a radically different formula, but is considered a better predictor for credit risk.
- In general, new formula is more forgiving to people who slip up once, but typically have good payment habits.
- Conversely, the new formula may be a little harder on repeat offenders.
- Even though all three bureaus have the formula, many lenders still request the old formula from the bureaus, so until the majority of lenders migrate over to the new formula, the existing FICO formula is still in play.

Credit Scoring



What's new in Credit Scoring – Vantage Score

The plot thickens. Vantage Score is a new scoring system available to consumers

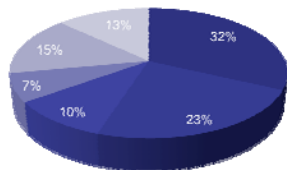
- Offers a competitive alternative to FICO score
- Uses a different scale, and assigns an A-F letter grade to score
- FICO Score scale is 300 – 850. Vantage Score scale is 501 – 990.
- From consumer point of view, Vantage operates on very similar criteria

Credit Scoring



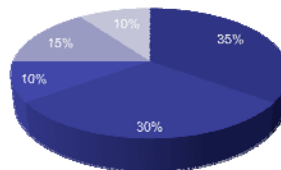
What's new in Credit Scoring – Vantage Score

Credit scores vary from bureau to bureau due to differences in scoring methods and data. The charts below illustrate the contributing factors that differentiate a Vantage Score from FICO:



Vantage Score factors:

- 32% - payment history
- 23% - utilization of available credit
- 15% - credit balances
- 13% - length and depth of credit history
- 10% - recently opened credit accounts
- 7% - available credit



FICO factors:

- 35% - payment history
- 30% - amount owed
- 15% - length of credit history
- 10% - types of credit in use
- 10% - new credit

Credit Scoring



What's new in Credit Scoring – Vantage Score

While “competition” is healthy, there is growing confusion among consumers, which stems from not understanding who offers what score and to whom.

Do these new scores really carry weight?

- They do if lenders request them. Similar to the situation with FICO 08, Vantage is available with all bureaus, *but are not always requested by the lenders checking credit*
- So, until these new scores become more widely used by all bureaus and lenders:
 - Be clear on the score you are paying for when you request a credit score
 - Ask your lender what score system they request from bureaus
 - Know that FICO “Classic” is still a benchmark used by many lenders

Credit Scoring



What's new in Credit Scoring – Monitoring Services

An increased interest in credit scoring has resulted in a variety of credit monitoring services available to consumers.

- The main bureaus, as well as independent companies (e.g. Credit Karma) offer ongoing monitoring services. Some are free, some are fee-based.
- Remember, you are entitled to one free credit report from each of the three bureaus. Whatever they offer you beyond that will likely come with a fee.
- Paying bills online, using credit wisely, and checking your report regularly is usually all the “monitoring” you need, so approach these additional services with a critical eye.



CreditReporting.com

free3bureaucreditreport.com



freecreditreport.com
Know your Score.™

Credit Scoring



What's new in Credit Scoring – Credit Clinics

The Federal Trade Commission (FTC) cautions consumers to be wary of companies that make claims regarding credit repair. These companies, commonly called credit clinics, don't do anything for consumers that consumers cannot do for themselves at little or no cost. Here are some warning signs that you might be dealing with a credit clinic:

- An organization that offers to create a new identity and credit file for you
- An organization that guarantees to remove late payments, bankruptcies, or similar information from a credit report
- An organization that charges a lot of money to repair credit
- A company that asks the consumer to write to the credit reporting company and repeatedly seek verification of the same credit account information in the file, month after month, even though the information has been determined to be correct
- An organization that is reluctant to give out their address or one that pushes you to make a decision immediately

Credit Scoring



Additional resources available to you.

- Practical Money Skills and WhatsMyScore.org are two sites we manage that
 - Practical Money Skills promotes financial literacy for everyone.
 - Weekly financial articles and columns
 - Games
 - Calculators and budgeting tools
 - Curriculum for educators
 - WhatsMyScore.org offers free resources geared toward college and post-college consumers. The site offers good reinforcements about credit and smart spending. Resources include:
 - Downloadable Money Guides covering a variety of topics
 - Blog and Facebook fan page that cover relevant financial topics of today
 - FICO Score Estimator, a quick fast and free way to get an accurate estimate of your score without entering any account information or personal data

Financial Literacy



Lessons for Life

Financial Literacy

AFC Money Watch

Subscribe to *AFC Money Watch*, NSLP's biannual newsletter.



NSLP National Student Loan Program

Lessons for Life

Financial Literacy

Next “Lessons for Life” webcast

Learn about new credit laws

Tuesday, March 2, 2010

10 am Central/11 am Eastern

Register in the “Workshops & Webcasts”
section at www.nslp.org



NSLP National Student Loan Program

Lessons for Life

Financial Literacy

For more information:

National Student Loan Program

1300 ‘O’ Street

Lincoln, NE 68508

www.nslp.org