



# Credit Management

Justin Kribs, CFP®

Manager, Student Debt Counseling and Financial Management

# Overview

After attending this session students should be able to

- Understand the parts of their credit score
- Tell the difference between credit and debit
- Understand the adverse affects of bad credit
- Identify Credit Repair Scams
- Be able to access your credit report

# Credit is Vital

- Credit Directly Affects –
  - Your Ability to Borrow Grad Plus Loans and Alternative Loans
  - Your future ability to find employment
  - Insurance Rates
  - Your ability to buy a car
  - Your ability to rent or buy a home
  - Your ability to buy into a practice

# Do You Need a Credit Card?

Yes you do

- Building your credit
- Traveling
  - Rentals
  - Hotels
  - Flights
- Emergencies

- **The Three C's of Credit**

- Character – Moral Hazard
- Capacity – Repayment Risk
- Collateral – Security Risk

# Credit vs. Debit

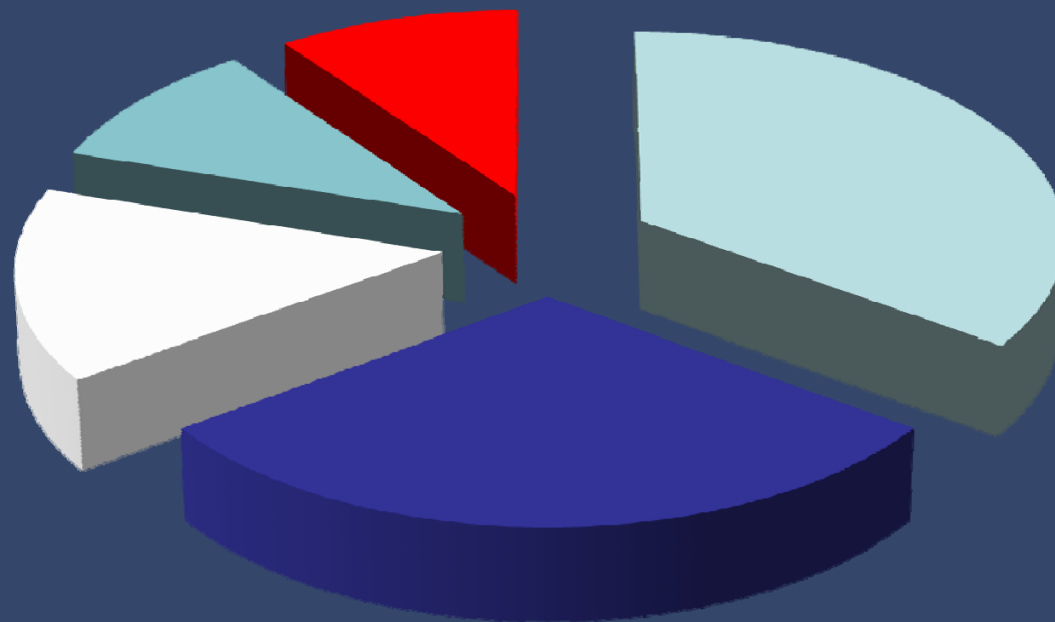


- Debit Cards
  - Linked to your Bank account
  - Once the money is gone, its gone
    - Overdraft Protection Fees
- Credit Cards
  - Line of Credit
  - Predictable Fraud Protection
  - Consumer Protection Services
  - No signature required transactions

# Credit Score

- Your FICO (Fair Isaac Corporation) is the number that is assigned to an individual based on their credit history
- It can range from 300 – 850
- It does not take into account
  - Employment Status
  - Income
  - Profession

# \*Parts of your Credit Score



■ Payment History - 35%

■ Amount Owed - 30%

■ Length of History - 15%

■ New Credit - 10%

■ Types of Credit - 10%

<http://www.creditcards.com/credit-card-news/help/5-parts-components-fico-credit-score-6000.php>



# The Costs Of Credit – Auto Loan

Your credit score directly affects your ability to finance future purchases. The example below shows the affect higher interest rates have on a \$20,000 5 year (60 payment) auto loan.

Interest Rate	Interest Accrued	Monthly Payment	Final Cost of Purchase	Difference compared to 1% Loan
1%	\$512.50	\$341.87	\$20,512.50	N/A
2%	\$1,033.31	\$350.56	\$21,033.31	+\$520.81
3%	\$1,562.43	\$359.37	\$21,562.43	+\$1,049.93
4%	\$2,099.83	\$368.33	\$22,099.83	+\$1,587.33
5%	\$2,645.48	\$377.42	\$22,645.48	+\$2,132.98

# The Costs Of Credit – Home Loan

The example below shows the affect higher interest rates have on a \$300,000 30 year (360 payments) home loan.

Interest Rate	Interest Accrued	Monthly Payment	Final Cost of Purchase	Difference compared to 3.5% Loan
3.5%	\$184,968.26	\$1,347.13	\$484,968.26	N/A
4.5%	\$247,220.13	\$1,520.06	\$547,220.13	+\$65,252
5.5%	\$313,212.12	\$1,703.37	\$613,212.12	+\$128,244
6.5%	\$382,633.47	\$1,896.20	\$682,633.47	+\$197,665
7.5%	\$455,151.67	\$2,097.64	\$755,151.67	+\$270,183

# What Affects Your Credit?

- Subscription Services
  - Phone
  - Utilities
  - Cable
  - Gas
  - Electric
- Third Party Loans
- Credit Cards
- Student Loans
- Over Drafts
- Maxing out your credit cards

# Common Mistakes

- Co-Borrowing:
  - Boy Friend/Girl Friend
  - Roommates and utilities/leases
- Minimum Payments
- The Little Things Add Up
- Buying What you cant afford
  - The rule of the Jones'
  - The 'Good Debt' 'Bad Debt' myth

# How To Improve Your Credit

- Make payments on Time!
  - Auto Draft is Your Friend
- Track Your Debt
  - Know your lenders and their policies
- Do not frequently change credit cards
  - Introductory rates can be tempting
- Look into prepaid credit cards from your bank or current lender

## Use Credit Wisely

- Are you earning points?
  - If you are not you could be missing out
- Choose the correct co-signer
  - A fellow college student may not be the best idea
- Refrain from the ‘credit card shuffle’
- Pay off your balances
  - If you can’t, then add to your minimum payment
- Monitor your credit

# Take Charge of It

- Monitor your credit
  - You can request a free report from each agency once a year

Equifax	Experian	Transunion
800.685.1111	888.397.3742	800.916.8800
<a href="http://www.equifax.com">www.equifax.com</a>	<a href="http://www.experian.com">www.experian.com</a>	<a href="http://www.transunion.com">www.transunion.com</a>

This means you can view your credit report at least three times a year for free

# If you think something is wrong don't wait

- Credit problems don't fix themselves
- Some steps to take to correct errors
  - Follow the instructions on the credit report
  - Telephone the agency about the mistake
    - Be sure to write down the date, time, person, and extension number
  - Explain the problem in writing
  - Track everything

Persistence is key to fixing an error



# Understand Your Rights as a Borrower

- Visit the FTC website to learn about your rights as a borrower
  - <http://www.ftc.gov/>
  - <http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt137.shtm>

## Be weary of 'Credit Repair' scams

- A list of approved credit counseling agencies by state can be found here:
  - [http://www.justice.gov/ust/eo/bapcpa/ccde/cc\\_approved.htm](http://www.justice.gov/ust/eo/bapcpa/ccde/cc_approved.htm)
- Be sure to get information on the agency before setting up an appointment
- Not all counseling services are 'free'