Credit Management

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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, it's 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.

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

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Interest Accrued</th>
<th>Monthly Payment</th>
<th>Final Cost of Purchase</th>
<th>Difference compared to 3.5% Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5%</td>
<td>$184,968.26</td>
<td>$1,347.13</td>
<td>$484,968.26</td>
<td>N/A</td>
</tr>
<tr>
<td>4.5%</td>
<td>$247,220.13</td>
<td>$1,520.06</td>
<td>$547,220.13</td>
<td>+$65,252</td>
</tr>
<tr>
<td>5.5%</td>
<td>$313,212.12</td>
<td>$1,703.37</td>
<td>$613,212.12</td>
<td>+$128,244</td>
</tr>
<tr>
<td>6.5%</td>
<td>$382,633.47</td>
<td>$1,896.20</td>
<td>$682,633.47</td>
<td>+$197,665</td>
</tr>
<tr>
<td>7.5%</td>
<td>$455,151.67</td>
<td>$2,097.64</td>
<td>$755,151.67</td>
<td>+$270,183</td>
</tr>
</tbody>
</table>
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 can’t 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

<table>
<thead>
<tr>
<th>Equifax</th>
<th>Experian</th>
<th>Transunion</th>
</tr>
</thead>
<tbody>
<tr>
<td>800.685.1111</td>
<td>888.397.3742</td>
<td>800.916.8800</td>
</tr>
</tbody>
</table>

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:

• Be sure to get information on the agency before setting up an appointment

• Not all counseling services are ‘free’