

Credit Reporting

Credit Reporting, Credit Scoring, and Repairing Bad Credit



Presenters

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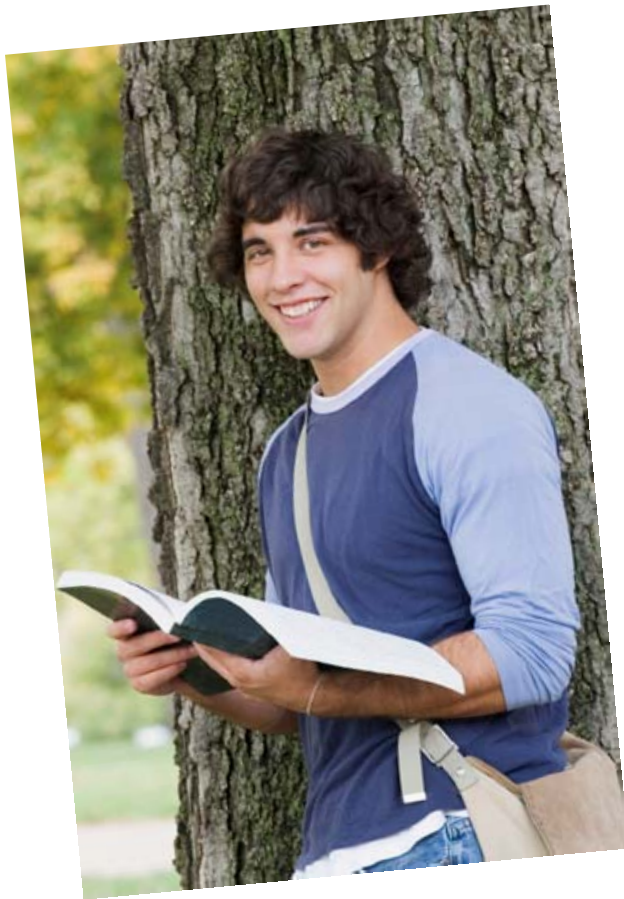


Mission Statement

As a diverse coalition of industry participants, CLFE shall define common goals and engage in activities that improve and preserve the quality and integrity of education loan products and services delivered to students, parents and schools in California.

CLFE Values Statement

- **DEDICATED** to promoting access to Postsecondary Education for California students, parents and schools.
- **PARTNERS** in the delivery and administration of education loans.
- Promote financial literacy, **RESPONSIBLE** borrowing and effective debt management practices.
- **COMMITTED** to honest and fair competition to ensure integrity and enhance product and service quality.
- **ENCOURAGE** and **PARTICIPATE** in the open exchange of ideas and information to maximize the synergy of our efforts.
- Support **COMMUNITY** outreach.
- **DEVELOP** and articulate legislative and regulatory positions.



Credit-based Student Loans

Private Education Loans

- **Credit score**
- **Co-signer option**
- **Tiers (interest rate & fees)**
- **Fees (front end/back end)**
- **Variable interest rate (no cap)**
- **Repayment (term & benefits)**
- **Deferment/Forbearance options**

PLUS & Grad PLUS

- **“Adverse credit history” (>90 days late on any debt or Title IV debt issue)**
- **Fees (4% up front)**
- **Endorser option**
- **No Loan Limits (COA)**
- **Fixed interest rate of 8.5% (FFELP) or 7.9% (Direct)**
- **Repayment (60 days after disbursement)**
- **Four repayment plans available with a fifth plan (IBR) starting on July 1, 2009**
- **Maximum repayment period depends on repayment plan chosen; ranges from 10-25 years**
- **Can defer payments during enrollment (interest accrues)**
- **Deferment now possible during Stafford Loan grace period**

Private vs. Grad PLUS

Private Loans

- Variable Interest Rate
- Credit-based
- 0% - ? fee
- Borrower benefits
- Grace period (typical)
- Cannot be consolidated w/ Federal loans
- Limited repayment options

Grad PLUS

- Fixed Interest Rate
- Adverse Credit
- Up to 4% fee
- Borrower benefits
- Deferment during grace
- Can consolidate w/Federal loans
- Multiple repayment options (with up to 25 years to repay)

Importance of Good Credit



Why is good credit important?

You may need good credit to:

- **Qualify for some education loan programs (e.g., PLUS, private loans)**
- **Get the job you want**
- **Achieve your financial goals, e.g., buying a home, financing a professional practice, obtaining affordable insurance**

True or False?

Paying your credit card bills on time each month is both necessary and sufficient for having good credit.

False

- **Paying your bills on time is necessary, but not sufficient**
- ***All* credit account information in credit report affects credit rating**

Developing and Maintaining Good Credit

Some Useful Tips:

- **Pay all bills on time**
- **Notify creditors of changes in address, etc .**
- **Limit use of credit cards for credit, and when used, pay credit card bill in full each month**
- **Minimize debt – *especially from credit cards***
- **Review credit reports annually for accuracy**



Credit Reporting

Credit Reporting

What is a credit report?

- Record of how well you have managed your credit accounts
- Derived from data in your credit history maintained by credit reporting agencies
- Provides measure of your “*willingness to pay*” a debt on time
- Comparable to your “*credit transcript*”

Credit Reporting

What's in a credit report?

- **Name and aliases**
- **Current address**
- **Prior address(es)**
- **SSN and birth date**
- **Employer information**
- **Type of debt and other account information**
- **Payment performance**
- **Credit available**
- **Current balance owed**
- **Monthly payment amount/terms**
- **Public record information**
- **Inquiries**

Credit Reporting

What's NOT in a credit report?

The following information about you is *not* in your credit report, nor is it compiled in your credit history

- Race
- Gender
- Religion
- National origin
- Sexual orientation
- Medical history
- Income/earnings
- Checking/saving account numbers or balances
- Interest rates on your credit accounts

Credit Reporting

Why check your credit report?

- **Errors occur**
 - Records are keyed first by name
 - 300+ million people in US
 - Others may have same first and last name
- **Can take months to correct errors**
- **Helps you detect if you've become a victim of identity theft**
- **It's a good financial habit**

Credit Reporting

How do errors occur?

- **Applied for credit under different names, e.g.:**
 - Katherine Smith, Kathy Smith, Kathy L. Smith
- **Data entry or clerical error**
- **Inaccurate identifier information provided, e.g.:**
 - Incorrect SSN, address, birth date
- **Credit information applied to wrong account**
- **Fraudulent activity resulting from identity theft**

Obtaining Your Credit Report

You can get a free copy of your credit report at *AnnualCreditReport.com* every 12 months from each of the three national consumer reporting agencies

Credit reports also are available online (usually for a fee) from the three national consumer reporting agencies at:

- ***equifax.com***
- ***experian.com***
- ***transunion.com***

AnnualCreditReport.com

Obtaining Your Free Credit Report

- 1. Enter name, address, DOB, SSN**
- 2. Choose reports wanted:**
 - **Equifax**
 - **Experian**
 - **TransUnion**
- 3. Confirm identity**

AnnualCreditReport.com

Select Your State of Residence

AnnualCreditReport.com

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Request your free annual credit report. It's QUICK, EASY and SECURE.

START HERE to View and Print your Free Credit Report Now

Select Your State

This site is sponsored by:

TransUnion. experian EQUIFAX

What is AnnualCreditReport.com?

This central site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

AnnualCreditReport.com is the official site to help consumers to obtain their free credit report.

We guard your privacy.

This site's security protocols are designed to protect your personally identifiable information from unauthorized access or alteration. Measures include physical and technological security and encryption of certain

Fight identity theft by monitoring and reviewing your credit report. You may request your free credit report online, by phone or through the mail. Free credit reports

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AnnualCreditReport.com

Enter Personal Information

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▶ Frequently Asked Questions

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PLEASE PROVIDE ALL OF THE PERSONAL INFORMATION REQUIRED BELOW.

This information is needed to begin the process of determining your identity and finding your credit report. Please refer to our [Privacy Policy](#) and [Security and Encryption Policy](#) to learn more about the use of and protection of this information.



* = Required Field

*First Name: Middle Initial: *Last Name: Suffix:

*Date of Birth:
Month Day Year(YYY)

*Social Security Number: - -
SSN will be encrypted for your protection

Click here if, for security reasons, you want no more than the last four digits of your Social Security Number to appear when you view or print your credit report.

Current Address

*Line 1: Line 2:

*City: *State: Pennsylvania *Zip Code:

AnnualCreditReport.com

Select Report(s) You Want to Obtain

AnnualCreditReport.com

▶ AnnualCreditReport.com

▶ Frequently Asked Questions

▶ Contact Us

▶ About Us

▶ Fraud Alert

Please select one or more of the following nationwide consumer credit reporting companies to request your free credit report.

 TransUnion.

 Experian™
A world of insight

EQUIFAX®

Click Next to continue

NEXT

Click Cancel to return to AnnualCreditReport.com Home Page

CANCEL

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AnnualCreditReport.com

Confirmation Process

- **You must complete confirmation step to receive your free credit report**
 - You will be asked several multiple-choice questions to verify your identity
 - Questions will focus on credit account information on your current credit report
 - Correct answers are needed to proceed to obtain your credit report
- **Failure to confirm your identity will halt your request for the credit report**

Reading Your Credit Report

- **Personal identifying information**
- **Alerts**
- **Credit summary**
- **Account history**
- **Credit inquiries**
- **Collections**
- **Public records**
- **Dispute file information**

Sample Credit Report

Personal Profile



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CreditExpert Products: | [Experian Credit Manager](#) | [3 Bureau Report with PLUS Score](#) | [PLUS Score and Experian Report](#) | [About PLUS Score](#)

Sample Credit Report

Get unlimited access to your Experian Credit Report and PLUS Score as a full Credit Manager member!

[Join Now >>](#)

[View Full Report](#) | [Printable Report](#) | [Dispute Information](#) | [Credit Report Guide](#)

Prepared for: **JOHN CONSUMER**

Report Date: **9/26/2003**

Personal Profile	Credit Summary	Public Records	Credit Inquiries	Account History	PLUS Score
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Personal Profile

Here you will find the personal information contained in your credit file, including your legal name(s), current and previous addresses, current and previous employers, and date of birth.

	EXPERIAN	EQUIFAX	TRANSUNION
Name:	JOHN CONSUMER		
Also Known As:	JOHN CONSUMER		
Year of Birth:	1976		
Address(es):	1000 WESTMINSTER, GARDEN GROVE, CA 92683 1001 NEWHOPE WAY, SANTA ANA, CA 92707		
Current Employer:	ABC Company		
Previous Employer(s):	123 Company		

As a full Credit Manager member, you'll receive:

- Unlimited credit reports and scores
- Daily credit monitoring with email alerts
- \$10 off 3 Bureau Credit Report upgrades

[Join Now >>](#)

Sample Credit Report

Credit Summary

Credit Summary			
This section gives you a broad look at your current and past credit status. Here you'll find the total number of open and closed accounts in your name, the total balance on those accounts, and delinquencies.			
	EXPERIAN	EQUIFAX	TRANSUNION
REAL ESTATE:			
Count:	2		
Balance:	\$233,458.00		
Current:	2		
Delinquent	0		
Other	0		
REVOLVING:			
Count:	9		
Balance:	\$950.00		
Current:	9		
Delinquent	0		
Other	0		
INSTALLMENT:			
Count:	5		
Balance:	\$771.00		
Current:	5		
Delinquent	0		
Other	0		
OTHER:			
Count:	0		
Balance:	\$0.00		
Current:	0		
Delinquent	0		
Other	0		
COLLECTION:			
Count:	1		
Balance:	\$0.00		
Current:	1		
Delinquent	0		
Other	0		
ALL:			
Count:	17		
Balance:	\$235,179.00		
Current:	17		
Delinquent	0		

Get your free credit report and PLUS Score with your free 30-day trial of Experian Credit Manager!

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Sample Credit Report

Public Records

Public Records

The information in this section comes from federal district bankruptcy records, state and county court records, tax liens and monetary judgments, and in some states, overdue child support records. Public records remain on your credit report for 7-10 years.

	EXPERIAN	EQUIFAX	TRANSUNION
TYPE:	Suit		
Date Filed:	Jan 12, 1998		
Reference #:	AB23456		
Court:	US DIST CT		
Plaintiff:	MARY HARDT		
Liability:	N/A		
Asset Amount:	N/A		
TYPE:	Bankruptcy: CH-13 Filed		
Date Filed:	Jun 19, 1997		
Reference #:	CN94847		
Court:	US DIST CT		
Plaintiff:	N/A		
Liability:	\$4,526		
Asset Amount:	\$7,580		

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Credit Inquiries

This section contains the names of those who obtained a copy of your credit report. Inquiries remain on your report up to two years.

	EXPERIAN	EQUIFAX	TRANSUNION
WELLS FARGO BANK			
Banks and S&Ls	✓		
1/1/2002			
BANANA REPUBLIC/MCCBG			
Sales Financing Company	✓		
6/2/2001			

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Sample Credit Report

Credit Inquiries

Credit Inquiries			
This section contains the names of those who obtained a copy of your credit report. Inquiries remain on your report up to two years.			
	EXPERIAN	EQUIFAX	TRANSUNION
WELLS FARGO BANK	✓	Get your free credit report and PLUS Score with your free 30-day trial of Experian Credit Manager! Join Now >>	
Banks and S&Ls			
1/1/2002			
BANANA REPUBLIC/MCCBG	✓		
Sales Financing Company			
6/2/2001	✓		
ROBINSON MAY		✓	
General Clothing Stores			
2/14/2001	✓		
MBNA		✓	
Banks and S&L			
1/6/2001			

Reading Your Account History

Verifying Your Account Information

- Account Name
- Account Number
- ***Creditor Address***
- Acct Status
- Date Opened
- ***Reported Since***
- ***Date of Status***
- ***Last Reported***
- Credit Limit/
Original Amount
- ***High Balance***
- Recent Balance
- ***Recent Payment***
- 24-Month Payment
History (***often shown***)

Sample Credit Report

Account History

Account History

This section contains specific information on each account you've opened in the past. Positive information about your accounts remains on your report indefinitely.

BANANA REPUBLIC

	EXPERIAN	EQUIFAX	TRANSUNION
Account Name:	BANANA REPUBLIC		
Account Number:	XXXX XXXX XXXX 1212		
Acct Type:	Revolving or Option		
Acct Status:	Open		
Monthly Payment:	\$0		
Date Open:	6/1/2001		
Balance:	\$0		
Terms:	N/A		
High Balance:	\$1,400		
Limit:	N/A		
Past Due:	\$0		
Payment Status:	Pays account as agreed		
Comments:	CHARGE		

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24-Month Payment History

[? Legend](#)

Date:	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Experian:	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND	OK

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MCCBG/OLD NAVY

	EXPERIAN	EQUIFAX	TRANSUNION
Account Name:	MCCBG/OLD NAVY		
Account Number:	XXXX XXXX XXXX 1313		
Acct Type:	Revolving or Option		

Credit Scoring



Question

Which of following give(s) lenders the BEST measure of credit risk using information from your credit report?

A. Amount of total credit card debt

B. Debt-to-income ratio

C. Credit score

D. Number of loans borrowed

E. All the above

What's a credit score?

A credit score is:

- **Numerical forecast of likelihood you'll successfully repay a future loan**
- **Based on credit account information in your credit report**
- **An automated credit evaluation tool**
- **Comparable to “*Credit GPA*”**

Credit Scores

- **First developed by Fair Isaac Corp.**
- **Scoring methodology relies upon statistical modeling**
- **Fair Isaac's general risk score often is referred to as a FICO[®] Score**
- **FICO[®] Scores typically range from 300 to 850**
- **You want the *highest* score possible**

Who can request your score?

Anyone with legal authority as defined in the Fair Credit Reporting Act (FCRA) can request your credit score, e.g.,:

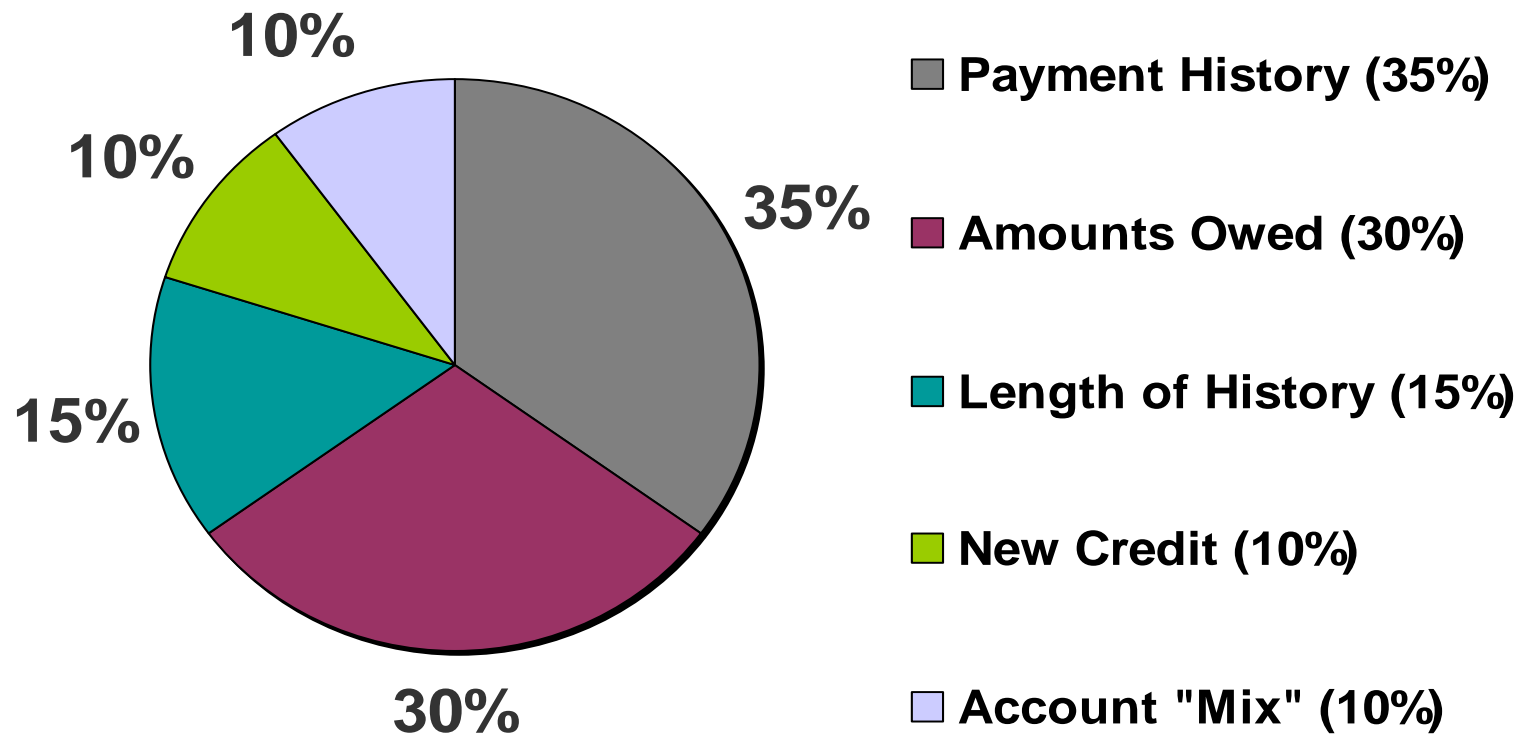
- **Current and potential lenders**
- **Prospective employers**
- **Prospective landlords**
- **Insurance companies from whom you're trying to get coverage**

True or False?

All information in your credit report has equal weight in credit scoring.

False

What factors affect a FICO[®] credit score?



Source: *myFICO.com*

True or False?

Education loan debt does not necessarily result in a low credit score.

True

- **Education loans are installment debt and typically are viewed more favorably than revolving debt in credit scoring**
- **“Thin credit files” are more likely to be affected negatively by additional education loan debt**

Question

What types of inquiries may have a negative impact on your credit score?

A. Inquiries that you request

B. “Hard” inquiries

C. Inquiries by lenders who want to solicit you for a new credit card

D. Inquiries by prospective employers or landlords

E. All the above would impact your score

“Hard” inquiries occur when a lender requests your credit report because you have applied for credit from them

“Soft” Inquiries Have NO Impact

“Soft” inquiries include:

- **Self inquiries**
- **Promotional inquiries**
- **Administrative inquiries**
- **Inquiries from prospective employers**

Estimating FICO[®] Scores

- **Fair Isaac Corp. and Bankrate.com have jointly developed a FICO credit score estimator:**

www.bankrate.com/brm/fico/calc.asp

- **Credit score range is estimated based on your answers to 10 questions about your credit use and payment behavior**

What's the score?

A Typical Student

How many credit cards?	2 – 4
When was first loan borrowed?	2 – 5 yrs.
How many accounts applied for in past year?	2
How recently was new account opened?	3 – 6 mos.
How many accounts have balances?	2 – 4
How much debt? (<i>other than mortgage</i>)	\$20,000+
When did you miss a payment?	Never
How many accounts are past due?	None
What percent of credit card limits are used?	20% - 29%
FICO® Credit Score Range	675 - 725

What would happen to typical student's credit score if ...

Original credit score was 675 to 725

Missed one payment within the past 3 months

Score DROPS to 590 - 640

Missed one payment within the past 3 to 6 months

Score DROPS to 595 - 645

What would happen to typical student's credit score if ...

Original credit score was 675 to 725

At least 50% of available credit card limit is owed

**Score DROPS to
640 - 690**

At least 90% of available credit card limit is owed

**Score DROPS to
615 - 665**

What would happen to typical student's credit score if ...

Original credit score was 675 to 725

At least 90% of available credit card limit is owed

AND

One payment is missed within past 3 months

**Score DROPS to
540 - 590**

What's the score?

Thin Credit File

How many credit cards?	0
When was first loan borrowed?	6 mos. to 2 yrs.
How many accounts applied for in past year?	2
How recently was new account opened?	> 6 mos.
How many accounts have balances?	0 – 4
How much debt? (<i>other than mortgage</i>)	\$20,000+
When did you miss a payment?	Never
How many accounts are past due?	None
What percent of credit card limits are used?	0%
FICO® Credit Score Range	665 - 715

What would happen to
thin file credit score if ...

**Original credit score was
665 to 715**

**Borrow another
student loan**

Score DROPS

Maximizing Your Credit Score

- **Don't procrastinate – pay all bills on time**
- **Keep credit card debt as low as possible**
- **Older accounts score more favorably**
- **Minimize opening new revolving credit accounts (i.e., credit cards)**

Obtaining Your FICO[®] Credit Score

**You can purchase your FICO[®] credit
score at: *myFICO.com***



Repairing Credit Problems

Repairing Bad Credit

- **Requires solving payment problems and/or issues related to the amount of your debt**
- **Takes time, attention and consistency**
- **You must:**
 - **Demonstrate that you're NOW willing to ALWAYS repay what is borrowed on time**
 - **Reduce your overall indebtedness and eliminate revolving credit card debt**

Steps to Repairing Bad Credit

- **Establish personal budget and stick to it**
- **STOP using credit cards**
- **Contact creditors if you are having trouble making payments on time**
- **Seek advice and assistance from a reputable nonprofit credit counseling organization such as CCCS**

Use Caution!

- **Beware of companies that make promises, e.g.,**
 - **“We guarantee to wipe away your bad credit!”**
 - **“Have you filed bankruptcy recently? No problem! We can make it disappear from your credit record!”**
 - **“We can create a new YOU when it comes to your credit record!”**
- **These are false promises that rarely can be fulfilled over the long-term**

The Truth About Such Claims

- **Bad credit can't just be “wiped clean”**
- **It takes time and patience to improve your credit history**
- **Bankruptcies remain on credit records for at least ten years**
- **There is no legal way to create a “new” credit identity**

Credit Counseling May Help

- **Credit counseling organizations can help develop strategies to manage your money more effectively**
- **Use caution when selecting a credit counseling organization**

Selecting a Credit Counseling Agency

- Select a nonprofit agency
- Know the fees that must be paid before agreeing to receive any services
- Agency should be accredited
- Agency should adhere to a set of ethical and quality standards
- Verify that the agency has a good track record of customer service and delivers on its promises
- Be certain that personal information will be handled with strict confidentiality
- Understand how services provided by the agency may impact your credit record

A Counseling Resource to Consider...

- **National Foundation for Credit Counseling (NFCC) and its member agencies**
- **Member agencies often are known as the Consumer Credit Counseling Service (CCCS)**
- **For the NFCC member office nearest you:**
 - ***www.nfcc.org***
 - **(800) 388-2227**



Questions

**On behalf of CLFE and our membership organizations
we thank you for the opportunity to present today's session.**