

**HARVARD
UNIVERSITY
EMPLOYEES CREDIT UNION**



Personal Credit Fundamentals & Your Credit Score

Presented by:

Harvard University Employees Credit Union

Harvard Student Sources of Financial Education

- Sources of consumer finance education
 - **Formal Program – 15%**
 - None – 41%
 - Parents – 34%
 - Friends – 11%
- **Self rating of knowledge of consumer finance topics:**
 - Personal Budgeting: 65% - poor to average
 - **Personal Credit: 95% - poor to average (27% poor)**
 - Taxes & Insurance: 97% - poor to average (42% poor)
 - Investing: 95% - poor to average (59% poor)

Source: Moneywise Survey - winter 2014–1,532 Harvard students



About the Credit Union

The Harvard University Employees Credit Union is a financial institution exclusively serving the students, alumni, faculty, and staff of Harvard University and the affiliated hospitals. Family members are also eligible.

- **Member Owned**

- Every member is an equal shareholder
- Volunteer Board of Directors elected by the membership

- **Safety and Stability**

- Well capitalized
- Federally insured by the National Credit Union Administration (NCUA)

- **Cooperative Model**

- Member deposits used to fund loans for other members.
- All earnings returned to the members in the form of better value and enhanced services.



Credit Basics

- Credit – Utilizing something now (e.g. education, car or home) and paying for it over a period of time.
- 3 C's of Credit
 - Character – How well do you honor your financial obligations
 - Capacity – How easy will it be for you to repay the debt
 - Collateral – Will the loan be secured by something

Credit Cards & Debit Cards

“Is that debit or credit?”

What it says on card is what matters DEBIT

- Debit Card = Money on deposit
- Credit Card = Loan
- Track your spending on-line
 - Every transaction is recorded
 - Categorize all expenses

Debit Card vs. Credit Card

Debit Card	Credit Card
No formal credit check to receive debit card	Eligibility based on credit history
Immediate debit from checking account	Borrow money from bank or credit union
No interest charged	Interest charges if balance not paid in full
No late fees, potential for bounce fees	Late fees
No credit history	Use builds credit history



Credit Card Caution

Credit Card /kred'-et kard\ n.:

A means for buying something you don't need, at a price you can't afford, with money you don't have.



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

Credit Card Payment Behavior of Students

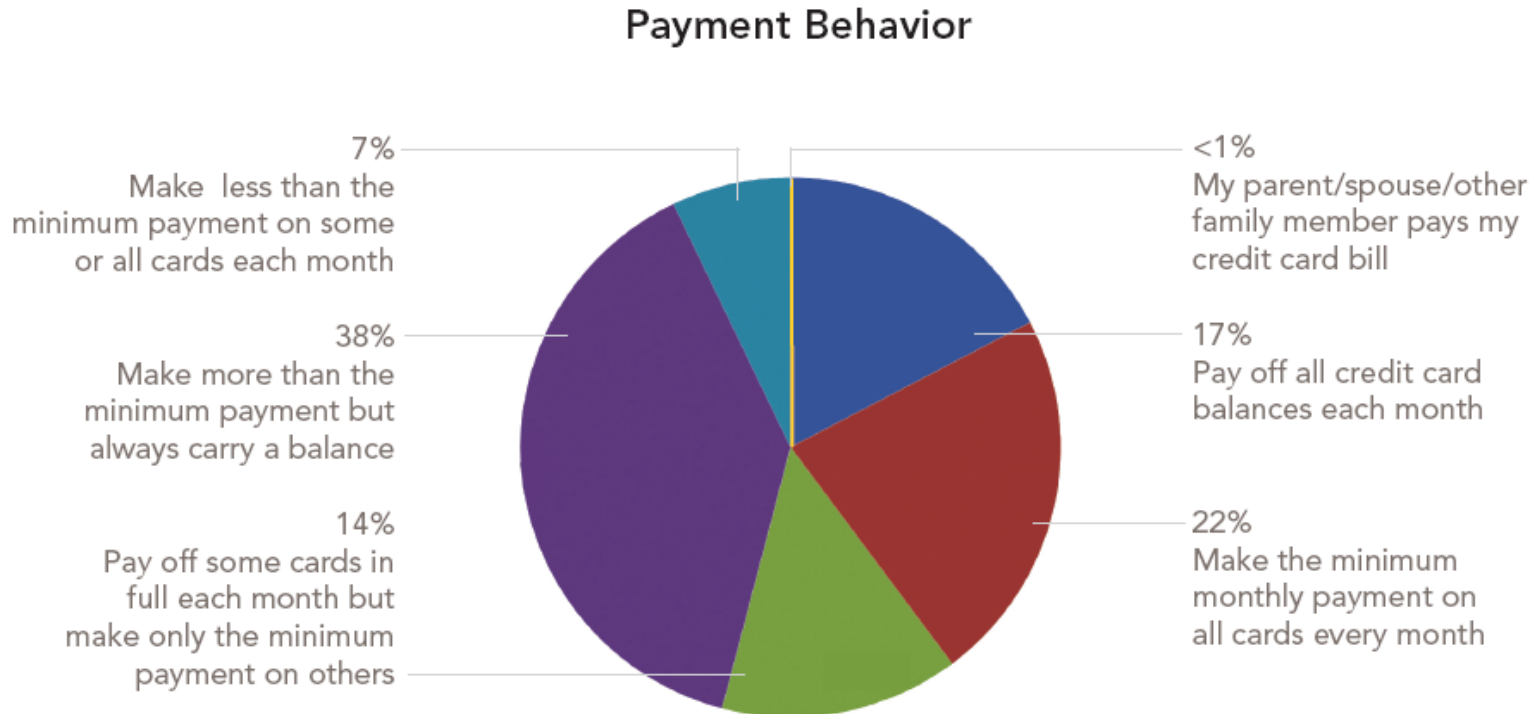


Figure 10: Percentage of students who say their credit card payment behavior most typically resembles that described; source: self-reported survey



Cost of Credit Card Minimum Payment

- Making only minimum monthly payment will take years to payoff balance
(assuming no new borrowing)

- \$2,000 balance
 - 18% interest rate
 - minimum payment
 - Over 30 years to payoff
 - \$7,000 total paid

**\$50 more per month
Reduces payoff
time to Less than
3 years**

- Add \$50/ month to payment



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

Managing Money

*Most people
will spend more with credit than debit
and
more with debit than cash.*

Property Insurance

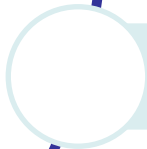


Renters, Condo, and Homeowners

Protection of your possessions whether at home or not



Renters Insurance is a relatively low cost way to protect your personal belongings



If someone is injured during an accident at your home, insurance can help protect you in the event of a lawsuit



Be sure to catalog your belongings with a digital camera



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**



Credit Character Personal Credit Report

Credit Bureau Companies

- Trans Union
- Experian
- Equifax

- Company that collects information from various sources

- Data furnishers are typically creditors, lenders, utilities, debt collection agencies and the courts

- Provides consumer credit information on individual consumers for a variety of uses

What's on the Credit Report?

- **Personal Information**

- Names, current & previous addresses, employers, DOB and spouse's name

- **Credit Information**

- Credit granted and history & timeliness of repayment, revolving, installment or open ended, payment patterns for past 7 years

- **Public Record Information**

- Records found on public documents: bankruptcies, tax liens, collection accounts, overdue child support

- **Inquiries**

- List of creditors and agencies who have requested your credit report

Who Reviews Your Credit?

- Employers
- Landlords
- Automotive dealers
- Professional licensing boards
- Insurance companies
- Financial lenders
- Others



Getting Your Credit Report

- www.Annualcreditreport.com
 - Receive a free copy of report from each of 3 bureaus
 - order report every 4 months to monitor
 - Equifax – Atlanta, GA
 - (800)685-1111
 - Experian (TRW) – Allen, TX
 - (800)Experian
 - Trans Union – Springfield, PA
 - (800)888-4213



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

www.annualcreditreport.com

The screenshot shows the AnnualCreditReport.com website in a Windows Internet Explorer browser window. The browser's address bar displays the URL <https://www.annualcreditreport.com/index.action>. The website's header features the logo "AnnualCreditReport.com" and the tagline "The only source for your free credit reports. Authorized by Federal law." Below the header is a navigation menu with links: Home, All about credit reports, Request yours now!, What to look for, Protect your identity, Frequently asked questions, and Contact us.

The main content area features a large blue banner with the text "Don't be fooled by look-alikes." and a sub-headline: "Lots of sites promise credit reports for free. AnnualCreditReport.com is the only official site explicitly directed by Federal law to provide them." A button labeled "About AnnualCreditReport.com" is positioned below the text. To the right of the text is a photograph of two smiling women. Below the banner is a horizontal navigation bar with tabs: PLAY, SPOT IDENTITY THEFT, GOOD CREDIT, DON'T BE FOOLED (which is highlighted), MORE THAN A SCORE, and NOT LIKE THE OTHERS.

The main content area is divided into three columns:

- Your credit reports matter.**
 - Credit reports may affect your mortgage rates, credit card approvals, apartment requests, or even your job application.
 - Reviewing credit reports helps you catch signs of identity theft early.

[Request your free credit reports](#)
- FREE Credit Reports. Federal law allows you to:**
 - Get a free copy of your credit report every 12 months from each credit reporting company.
 - Ensure that the information on all of your credit reports is correct and up to date.
- BROUGHT TO YOU BY**
 - Experian
 - TransUnion.
 - EQUIFAX

The browser's taskbar at the bottom shows the Windows start button, several open applications (Inbox - Murphy, Tom..., Annual Credit Report..., Re: Graduate school...), and the system tray with the time 12:57 PM.

What Is Your Credit Score?

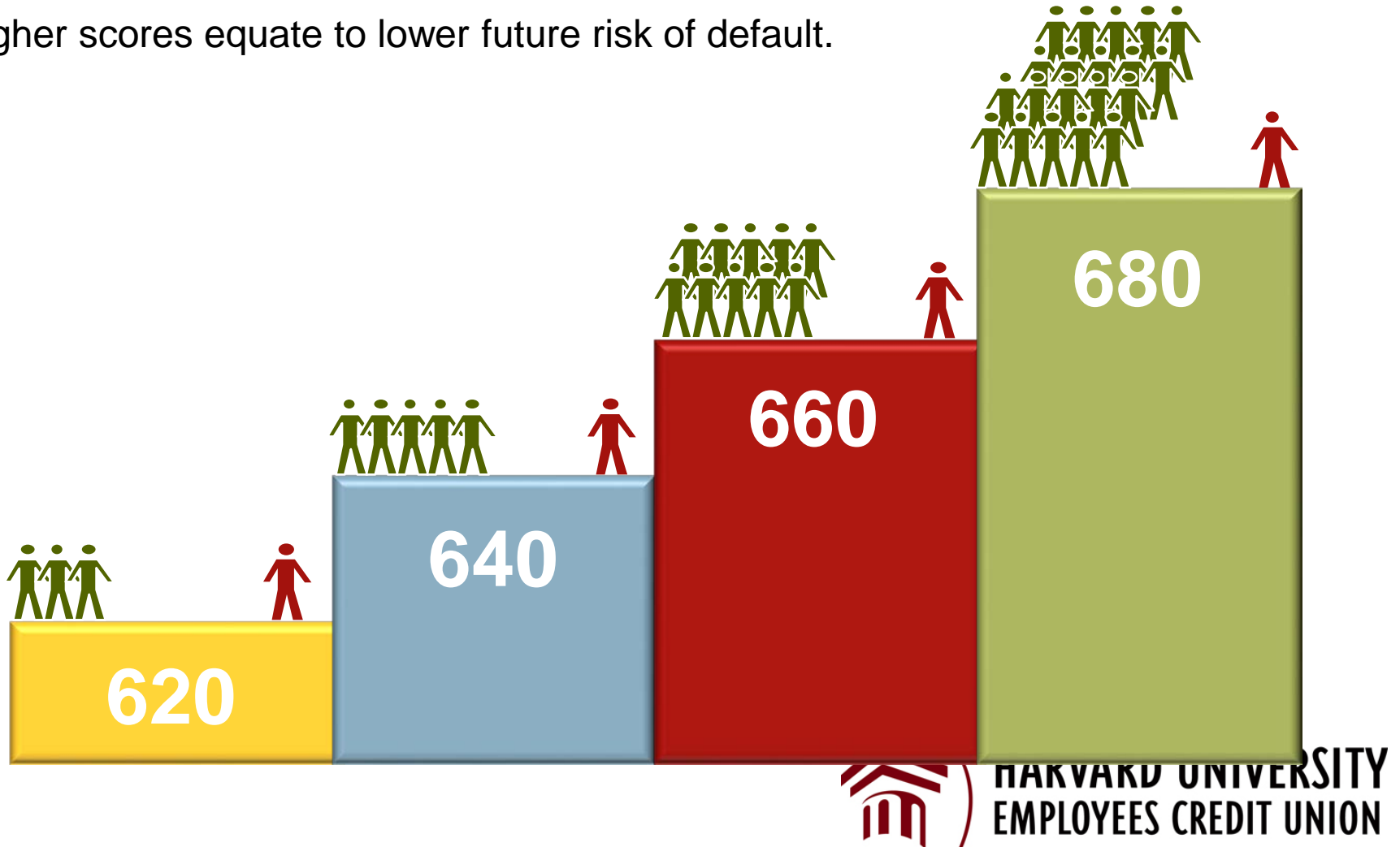
- Forecast of how well you will repay a loan as agreed during the next 24 months
- Snapshot of your credit history at a particular point in time
- Only includes factors related to an individual's credit
- Always changing

Credit Score Ranges

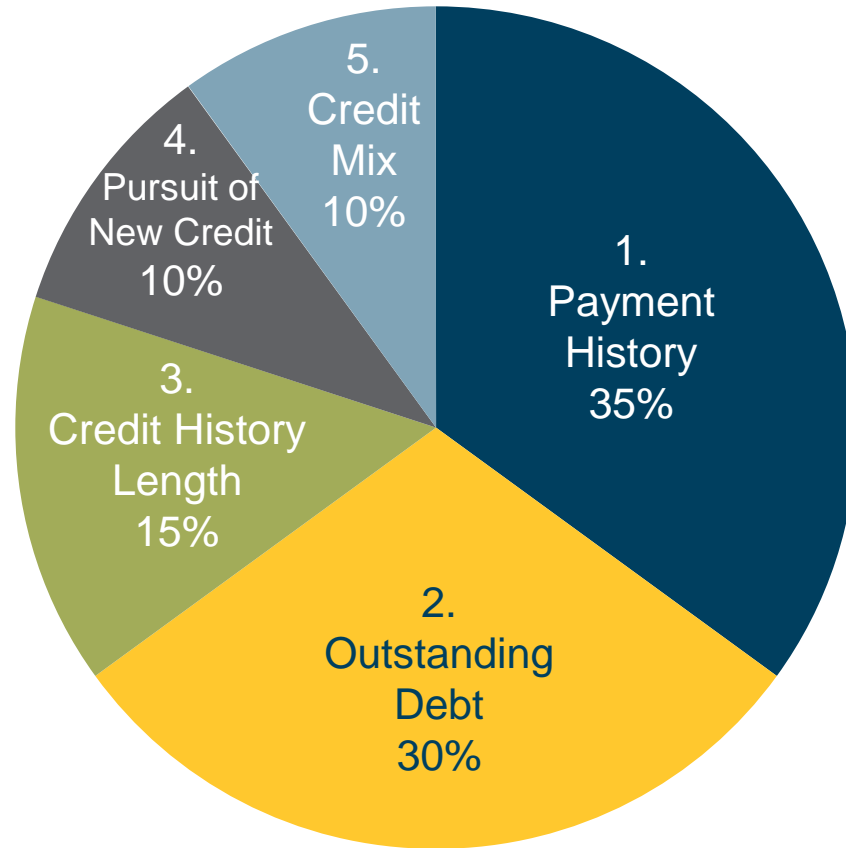
- FICO Scores range – 300 to 850
- Only 18% of population have a FICO Score of 800 or better
- 7% of population have scores below 500

FICO® Scores - Designed to Rank Order Risk

- » The FICO® score is a summary of the information on a consumer's credit file.
- » It is a 3-digit number ranging from 300-850®
- » Higher scores equate to lower future risk of default.



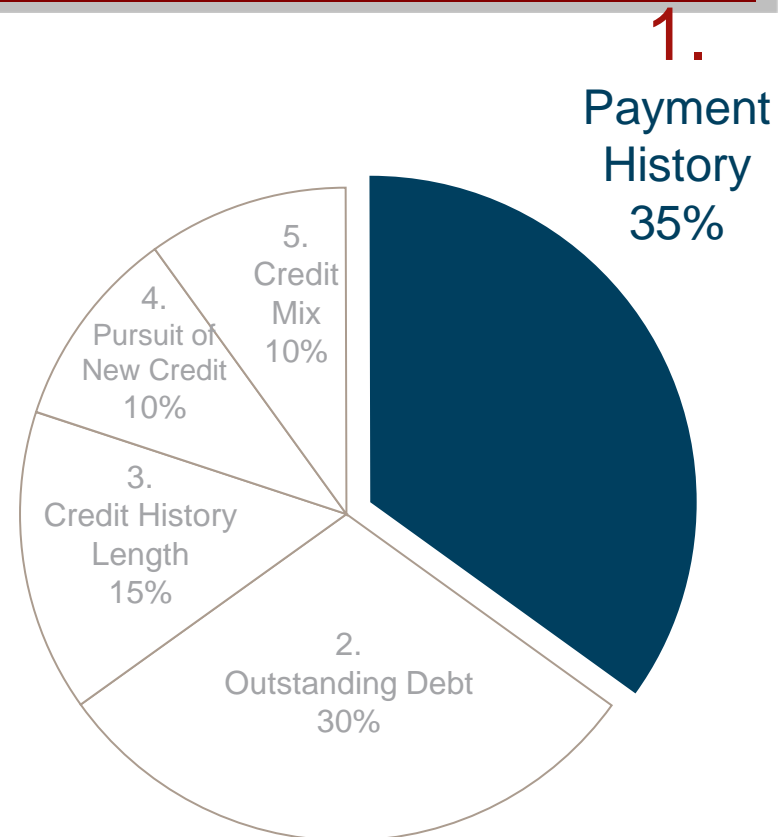
FICO Credit Score Factors



1. Payment History

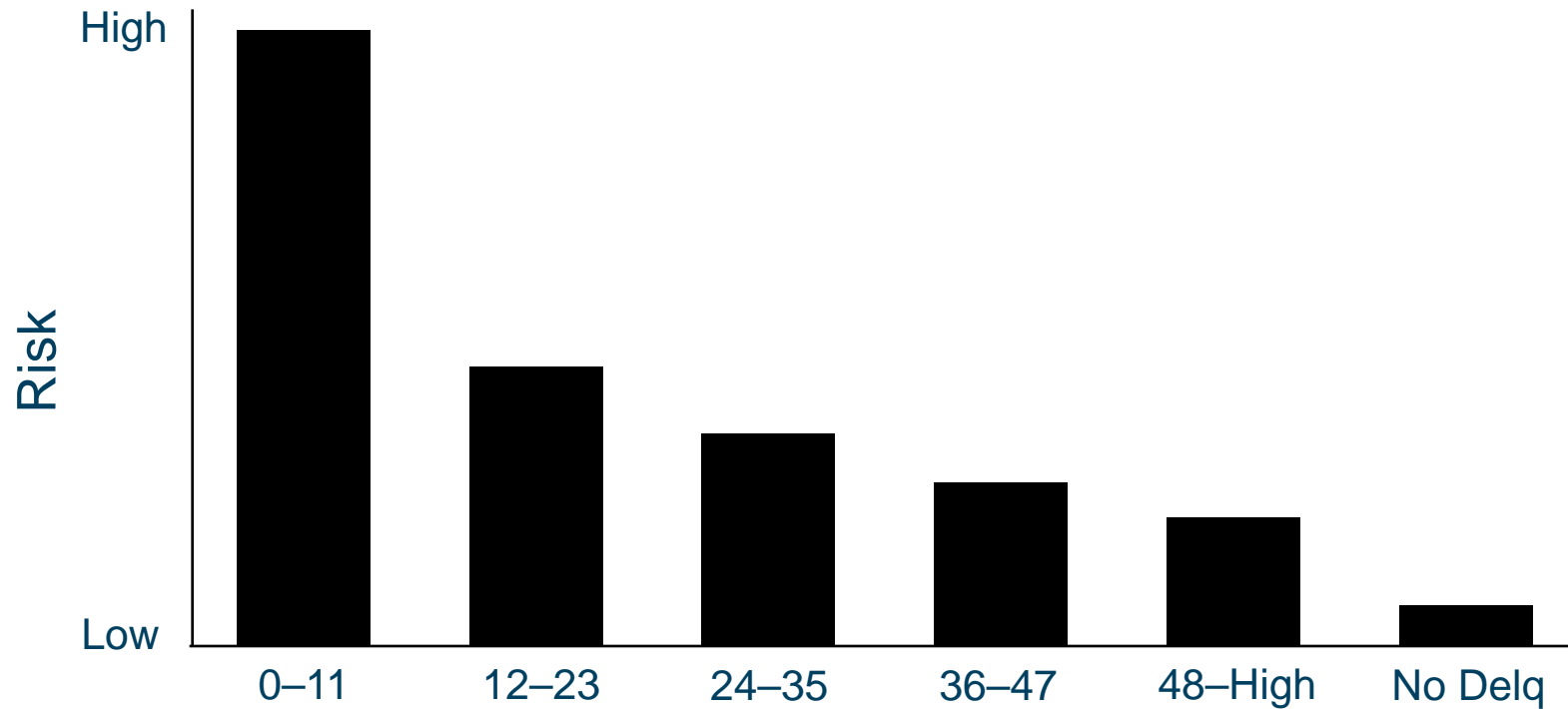
Key Factors

- **How recent** is the most recent delinquency, collection or public record item?
- **How severe** was the worst delinquency—30 days, 90 days?
- **How many** credit obligations have been delinquent?



Payment History

Example



Months Since Most Recent Major Delinquency

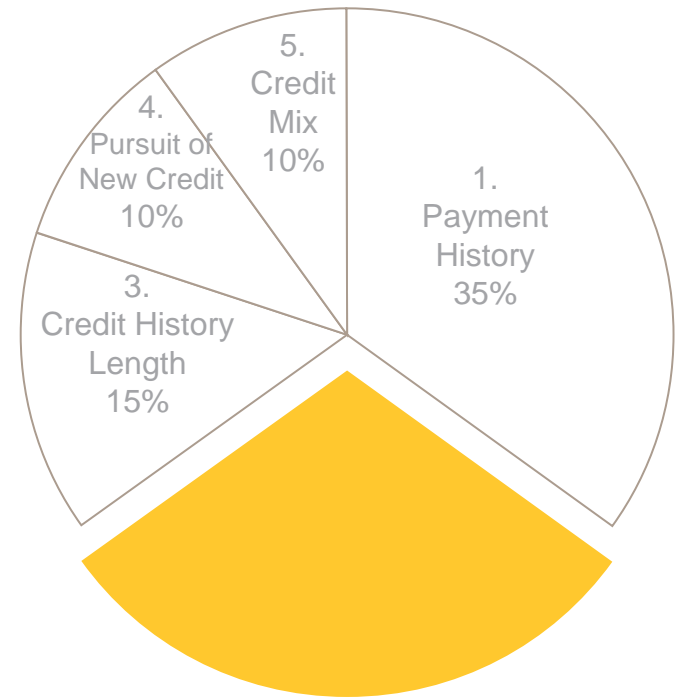


**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

2. Outstanding Debt

Key Factors

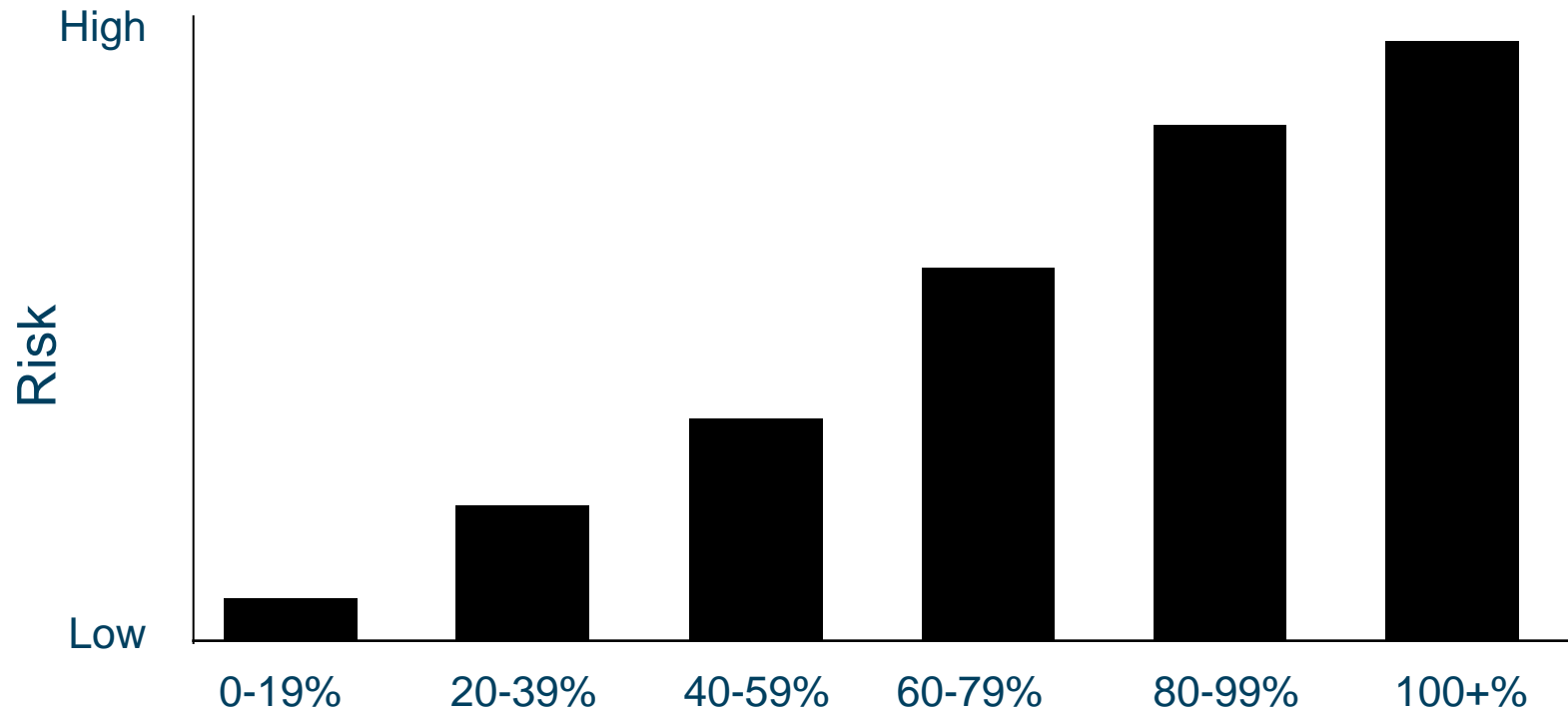
- How much does the consumer owe creditors?
- What percentage of available credit card limits is the consumer using?
- What percentage is outstanding on open installment loans?



2.

Outstanding Debt

Example



Ratio of Total Balances to
Total Limits on Revolving Accounts

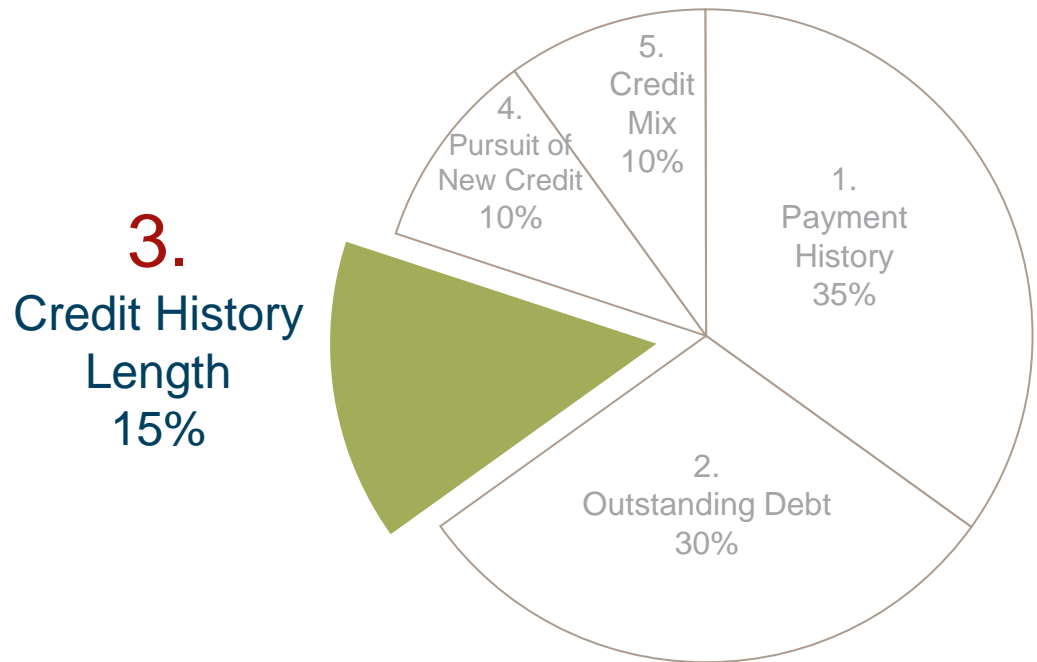


HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION

3. Credit History Length

Key Factors

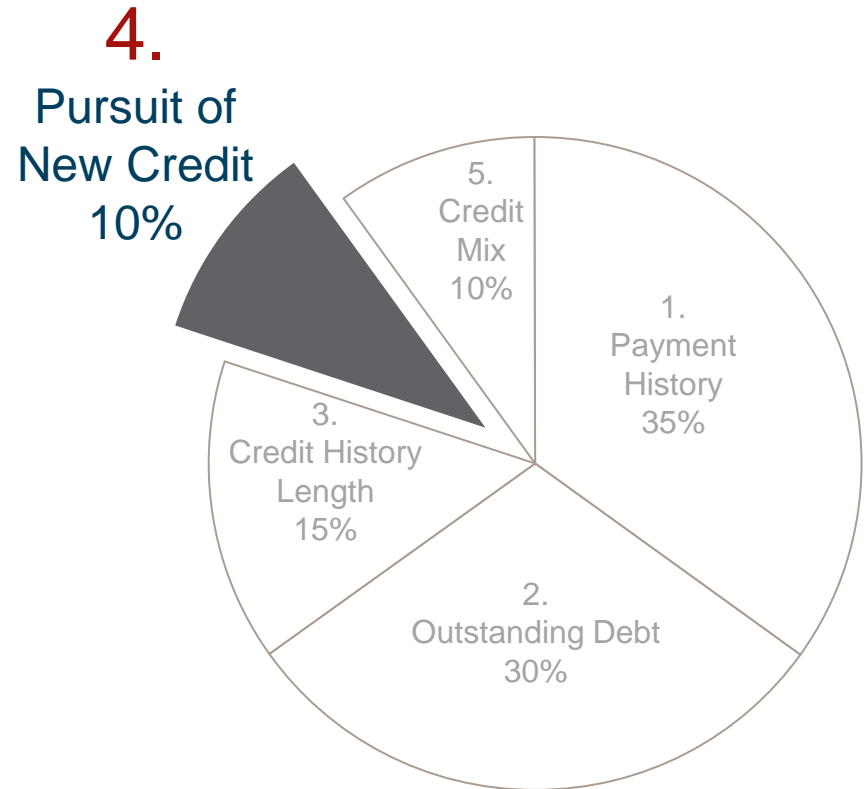
- How long have accounts been established—**average** number of months accounts have been open
- New accounts—number of months since most recent account opening



4. Pursuit of New Credit

Key Factors

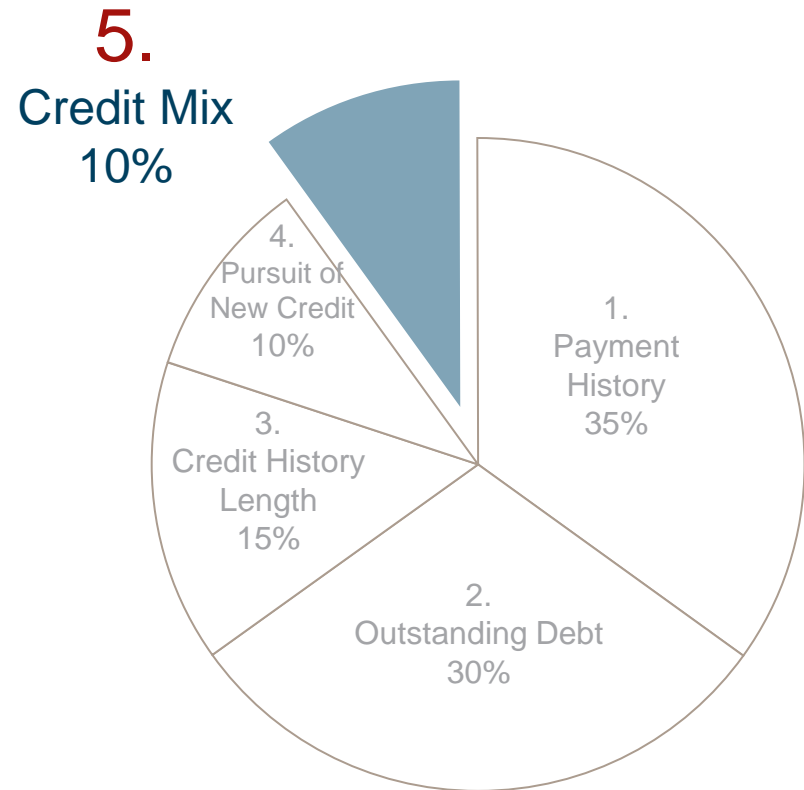
- Inquiries:
Number of recent inquiries (12 months)
- New accounts—
number of trade lines opened in last year



5. Credit Mix

Key Factors

- What is the mix of credit product types?
- Revolving credit—
number of bankcard trade lines
- Installment credit—
percent of trade lines that are installment loans



Credit Impact: Slow Payments

One 60 day delinquency can decrease a credit score by...

- 50
- 75
- 100 points

Credit Impact: Rates and Payments

Credit Score	APR	Monthly Payment
720-850	4.23%	\$741
690-719	5.68%	\$757
660-689	7.73%	\$780
620-659	11.29%	\$822
590-619	16.28%	\$882
500-589	17.71%	\$900
<500	Not eligible	

Source: Myfico.com – 36 month car loan - \$25,000

Poor Credit: Costs

- Mortgage costs – extra \$200 to \$300 per month per \$100,000 borrowed
- Insurance costs, credit card costs, other borrowing - \$100's extra per month
- Pay extra for borrowing or pay yourself



Common myths about credit reporting

When paid, the bad debt will go away on my credit report.

Not paying off the full balance of my credit card balance (not paying in full) each month helps my credit score.

Using my debit card but saying “credit” at the store checkout puts the info on my credit report.

A divorce decree separates joint accounts

Requesting your own report harms your credit history



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

Should you close your credit card?

- Positive impact with closing credit cards
 - Reduce identity theft risk
 - Reduce risk of potential overspending
 - Minimize confusion of multiple bills/ addresses
 - Avoid high interest rate/ high fee credit cards
- Caution with closing credit card accounts
 - Only credit card open
 - Potential impact to credit report/credit score
 - Good payment history
 - Long credit record
 - Depends on credit history and current need for credit



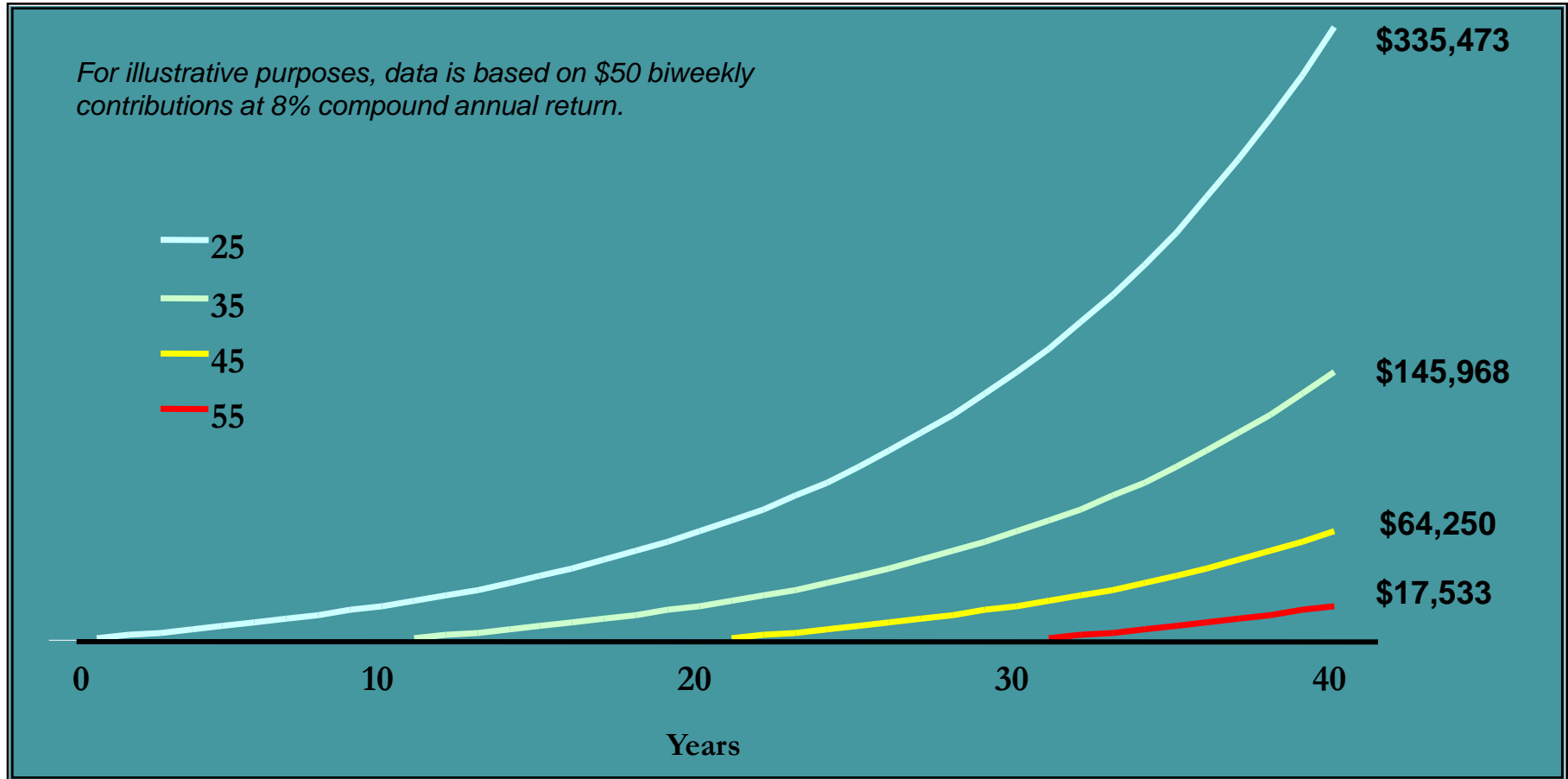
Managing Your Debt

- Step 1 – Get together a list of every debt you have – (student loans, credit cards, etc.)
- Step 2 – Find out everything about the debts you owe
- Step 3 – Establish your plan for paying your debts
 - Minimum monthly payments, interest rates, amount owed
 - Steal from tomorrow debt
 - Snowball Strategy

Signs of Financial Distress

- When Your Credit Card Bill Arrives, You Can't Pay It In Full.
- Your Credit Card Usage Has Become a Necessity Rather Than a Convenience.
- Your Credit Card Debt Is Increasing, But You Only Pay the Minimum Payment Each Month.

“The most powerful force in the universe” – Albert Einstein



**HARVARD UNIVERSITY
EMPLOYEES CREDIT UNION**

HUECU's BALANCE Counseling

BALANCE is a financial education and counseling service available as a benefit of the Harvard University Employees Credit Union

Money management counseling

- Personal budget development
- Debt repayment options
- Credit report review
- 888-456-2227 - Harvard University CU Referral



Managing Your Personal Credit

- Pay your bills on time.
- Check your credit report for accuracy.
- Payoff debt, rather than transferring it around.
- Don't get a credit card if you don't need it. (store cards)
- Utilize Balance Counseling

Harvard University Credit Union

- Thank you for attending today's seminar.
- Visit our branches
 - 16 Dunster Street – Holyoke Center, Harvard Square
 - Longwood Medical Area – Harvard School of Public Health
 - Mass. General Hospital
 - Partners Health – Charlestown Navy Yard
- Visit us at www.huecu.org



**HARVARD
UNIVERSITY
EMPLOYEES CREDIT UNION**



Thank You!