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
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

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

Credit Card  \textit{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.
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

Sallie Mae (2009). “How Undergraduate Students Use Credit Cards”
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

- Add $50/month to payment

$50 more per month Reduces payoff time to Less than 3 years
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
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
www.annualcreditreport.com
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
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 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%

HARVARD UNIVERSITY EMPLOYEES CREDIT UNION
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:
  - High: 0–11
  - 12–23
  - 24–35
  - 36–47
  - 48–High
  - No Delq

Risk

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?
Outstanding Debt

Example

Risk

High

Low

Ratio of Total Balances to Total Limits on Revolving Accounts
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

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<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>Monthly Payment</th>
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<tbody>
<tr>
<td>720-850</td>
<td>4.23%</td>
<td>$741</td>
</tr>
<tr>
<td>690-719</td>
<td>5.68%</td>
<td>$757</td>
</tr>
<tr>
<td>660-689</td>
<td>7.73%</td>
<td>$780</td>
</tr>
<tr>
<td>620-659</td>
<td>11.29%</td>
<td>$822</td>
</tr>
<tr>
<td>590-619</td>
<td>16.28%</td>
<td>$882</td>
</tr>
<tr>
<td>500-589</td>
<td>17.71%</td>
<td>$900</td>
</tr>
<tr>
<td>&lt;500</td>
<td>Not eligible</td>
<td></td>
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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.
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.
For illustrative purposes, data is based on $50 biweekly contributions at 8% compound annual return.

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