Credit Reports and Scores

Advanced Level
The Credit Process

**Credit** – goods, services, and/or money received in exchange for a promise to pay back a definite sum of money at a future date

**Borrower**
- Someone who receives something with the promise to return it or to repay what is borrowed

**Credit History**
- Record of the borrower’s past loan and credit-related transactions

**Lender**
- Person or organization who makes funds available for others to borrow
How Credit Reports are Created

Lender
Reports a consumer’s account history to CRA’s

Credit Report Agencies (CRA’s)
Keep a record of a consumer’s account history (credit history)

Credit Reports
Record, created by a CRA, of an individual’s credit history
Credit Reporting Agencies

Three U.S. Agencies:
- Equifax
- Experian
- TransUnion

A person’s credit report may vary across the three CRA’s

If credit has never been used (or reported) an individual will not have a credit report
Credit Report Detectives

Meet Isabella, your new client
In small groups, read about Isabella
Underline any areas of financial concern

YOUR MISSION:
1. Help Isabella understand her credit report
2. Identify what she did to get into this situation
3. Decide what she can do to improve her credit report
Information in a Credit Report

Four Categories

- Consumer (personal) Information
- Credit Account Information
- Public Record Information
- Inquiry Information
Consumer (personal) Information

Information provided to lenders when applying for credit

- Name
- Current and previous addresses
- Telephone number
- Full or partial social security number
- Date of birth
- Employment history

Place a ★ next to Isabella’s personal information

Personal Information

The following information is reported to us by you, your lenders and other sources. As each source may report your personal information differently, there may be variations of your name, address, Social Security number, etc. As a security precaution, the Social Security number that you used to obtain this report is not displayed. The Name identification number and Address identification number are how our system identifies variations of your name and address that may appear on your report. The Geographical Code shown with each address identifies the state, county, census tract, block group and Metropolitan Statistical Area associated with each address.

Names:
ISABELLA G. LANGLEY
Number identification number: 14965
ISABELLA LANGLEY
Number identification number: 14966
I. LANGLEY
Number identification number: 14967
Social Security number variations: 999999999

Year of birth: 1991
Spouse or co-applicant: MEREDITH LANGLEY

Address: 101 1st Avenue, Apt. 1
Anywhere, AZ 00000
Address identification number: 0938270011
Type of Residence: Apartment
Geographic Code: 0-132974-26-6822

Address: 104 Neat Street
Anywhere, NY 10000
Address identification number: 0938241062
Type of Residence: Multifamily
Geographic Code: 0-132559-85-1212

Employers:
LUCKY’S RESTAURANT
JANE’S DAYCARE

Telephone Numbers:
(555) 354-2368 Residential
(555) 500-0000 Residential
Credit Account Information

Specific information about each credit account you have or have had

Types of Information

- Type of Credit
- Loan Amount or Credit Limit
- Date
- Account Balance
- Payment Information
# Types of Credit

<table>
<thead>
<tr>
<th></th>
<th>Closed-end credit (installment)</th>
<th>Open-end credit (revolving)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>Borrower must repay the amount in a specified number of equal payments</td>
<td>Extended as a line of credit established in advance</td>
</tr>
<tr>
<td>Features</td>
<td>Usually has a contract outlining repayment terms</td>
<td>Borrower chooses how much to pay</td>
</tr>
<tr>
<td>Examples</td>
<td>Automobile loans</td>
<td>Credit cards</td>
</tr>
<tr>
<td></td>
<td>Education loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mortgages</td>
<td></td>
</tr>
</tbody>
</table>
## Types of Credit

What section of the Sam’s Electronic World account on Isabella’s credit report describes the type of credit?

<table>
<thead>
<tr>
<th>SAM’S ELECTRONIC WORLD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Address:</strong> 123 MAIN STREET</td>
</tr>
<tr>
<td><strong>Account Number:</strong> 3624****</td>
</tr>
<tr>
<td><strong>Status:</strong> Open/Past due 60 days.</td>
</tr>
<tr>
<td><strong>Date Opened:</strong> 02/2009</td>
</tr>
<tr>
<td><strong>Reported Since:</strong> 02/2010</td>
</tr>
<tr>
<td><strong>Date of Status:</strong> 10/2012</td>
</tr>
<tr>
<td><strong>Last Reported:</strong> 10/2012</td>
</tr>
<tr>
<td><strong>Type:</strong> Revolving</td>
</tr>
<tr>
<td><strong>Terms:</strong> N/A</td>
</tr>
<tr>
<td><strong>Monthly Payment:</strong> $0</td>
</tr>
<tr>
<td><strong>Credit Limit/Original Amount:</strong> $500</td>
</tr>
<tr>
<td><strong>High Balance:</strong> $550</td>
</tr>
<tr>
<td><strong>Recent Balance:</strong> $84 as of 11/2012</td>
</tr>
<tr>
<td><strong>Recent Payment:</strong> $0</td>
</tr>
<tr>
<td><strong>Account History:</strong> 60 days as of 10-2012</td>
</tr>
<tr>
<td><strong>30 days as of 09-2012</strong></td>
</tr>
</tbody>
</table>

Is this a closed-end or open-end credit account?
Loan Amount/Credit Limit

**Closed-end**
Total amount of loan

**Open-end**
Credit limit (maximum dollar amount that can be borrowed)

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**SAM’S ELECTRONIC WORLD**

<table>
<thead>
<tr>
<th>Address</th>
<th>Account Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 MAIN STREET ANYWHERE, AZ 00000</td>
<td>3624****</td>
</tr>
</tbody>
</table>

**Status:** Open/Past due 60 days.

**Date Opened:** 02/2009
**Reported Since:** 02/2010
**Date of Status:** 10/2012
**Last Reported:** 10/2012

**Type:** Revolving
**Terms:** N/A
**Monthly Payment:** $0
**Responsibility:** INDIVIDUAL

**Credit Limit/Original Amount:** $500
**High Balance:** $550
**Recent Balance:** $84 as of 11/2012
**Recent Payment:** $0

**Account History:**
- 60 days as of 10-2012
- 30 days as of 09-2012

---

What sections of Sam’s Electronic World account describe loan amount/credit limit?
# Date Account Was Opened

What section of Sam’s Electronic World account describes date opened?

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**Status:** Open/Past due 60 days.

| **Date Opened:** 02/2009 |
| **Reported Since:** 02/2010 |
| **Date of Status:** 10/2012 |
| **Last Reported:** 10/2012 |

| **Type:** Revolving |
| **Terms:** N/A |
| **Monthly Payment:** $0 |
| **Responsibility:** INDIVIDUAL |

| **Credit Limit/Original Amount:** $500 |
| **High Balance:** $550 |
| **Recent Balance:** $84 as of 11/2012 |
| **Recent Payment:** $0 |

**Account History:**
- 60 days as of 10-2012
- 30 days as of 09-2012
### Account Balance

Amount the borrower still has to pay back to the lender

### What section of Sam’s Electronic World account describes account balance?

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</tr>
<tr>
<td>ANYWHERE, AZ 00000</td>
</tr>
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**Status:** Open/Past due 60 days.

<table>
<thead>
<tr>
<th>Date Opened:</th>
<th>Reported Since:</th>
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<th>Last Reported:</th>
<th>Type:</th>
<th>Terms:</th>
<th>Credit Limit/Original Amount:</th>
</tr>
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<tr>
<td>02/2009</td>
<td>02/2010</td>
<td>10/2012</td>
<td>10/2012</td>
<td>Revolving</td>
<td>N/A</td>
<td>$500</td>
</tr>
</tbody>
</table>

**Monthly Payment:** $0

**Responsibility:** INDIVIDUAL

**Recent Balance:** $84 as of 11/2012

**Recent Payment:** $0

**Credit Limit/Original Amount:** $500

**High Balance:** $550

**Account History:**

- 60 days as of 10-2012
- 30 days as of 09-2012
## Payment Information

What sections of Sam’s Electronic World account describe payment information?

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<thead>
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</tr>
</tbody>
</table>
Public Records

Information from federal, state and county public court records

<table>
<thead>
<tr>
<th>Collection Agencies</th>
<th>Bankruptcy</th>
<th>Tax liens</th>
<th>Foreclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses hired by lenders to pursue payments on debts not paid back according to contract terms</td>
<td>When an individual or business is not able to repay outstanding debts</td>
<td>Taxes not paid in full</td>
<td>Borrower fails to keep up with mortgage payments and the lender takes possession of the property</td>
</tr>
</tbody>
</table>

Does Isabella have any public records?
## Potentially Negative Items

### Public Records
Credit lenders may carefully review the listed items below when they check your credit history. Please note that the account information with some public records, such as a lien or judgment, may also appear later in this report.

<table>
<thead>
<tr>
<th>CITY OF ANYWHERE COURT CLERK</th>
<th>Identification Number:</th>
<th>Plaintiff:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 COURTHOUSE LANE</td>
<td>10-11-15</td>
<td>CITY OF ANYWHERE</td>
</tr>
<tr>
<td>ANYWHERE, AZ 11000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Status:**
Collection account. $680 past due as of 12-2012

**Status Details:**
The item was verified and updated as in Dec 2012.

<table>
<thead>
<tr>
<th>Date Filed:</th>
<th>Claim Amount:</th>
<th>Liability Amount:</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/01/2012</td>
<td>$358</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MAIN COLLECTION AGENCY</th>
<th>Account Number:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1001 TOWN BLVD</td>
<td>000102331****</td>
</tr>
<tr>
<td>ANYWHERE, AZ 10000</td>
<td></td>
</tr>
</tbody>
</table>

**Status:**
Collection account. $680 past due as of 01-2013

Unpaid traffic ticket which City of Anywhere turned over to Main Collection Agency
Inquiry Information

Requests for an individual’s credit report

- Must be a result of actions by the consumer

Or

- Be a result of a permissible purpose

Isabella’s Actions:
- Keeping You Insured

Permissible Purpose:
- The Dream Sales Job
- Flexperian
- Keeping You Insured
- Need More Credit?
Inquiry Information

Potentially Negative

- Seeking additional credit
- Impact is reduced if shopping for the same type of loan within a 14-day period

Typically No Impact

- Inquiries not initiated by you
- Inquiries not related to credit
- Checking your own report
Types of Lenders Who Report to CRA’s

- Depository institutions
- Credit card companies
- Mortgage and finance companies
- Retail stores that offer credit accounts

Lenders usually report all information, positive and negative

What type of lenders have reported about Isabella?
Types of Data Furnishers Who Report to CRA’s

- Landlords
- Cell phone companies
- Medical providers (payment information only)
- Utility accounts

Typically only report when money is owed to them

CRA’s are encouraging regular payment information to be reported to help consumers build a positive credit history.

What is an example of a data furnisher on Isabella’s report?
Information Not in a Credit Report:

- Buying habits
- Medical information about where the person was treated and for what
- Race & Gender
- Criminal background
- Religion & Nationality
- Non-credit depository institution accounts
Your Present Self Impacts Your Future Self

- Always Accounts in good standing
- 10 years Closed accounts in good standing
- 7-10 years Public record information
- 7 years Late or missed payments
- 2 years Inquiries

Some items remain on your credit report longer than others.
Credit Score

Mathematical number created to help a lender evaluate the risk associated with lending a consumer money.

Reflects information in the entire credit report

At a particular point in time

Numeric “grade” of a consumer’s financial reliability

Examples: Fair Isaac, Corp (FICO) and VantageScore
Credit Scores

Most common scoring systems are produced by credit reporting agencies:

<table>
<thead>
<tr>
<th>Scoring System</th>
<th>Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICO</td>
<td>300 - 850</td>
</tr>
<tr>
<td>VantageScore</td>
<td>501 - 990</td>
</tr>
</tbody>
</table>

Generally, higher score = higher chance of credit repayment

How the score is calculated depends on the credit scoring model
Credit Score Impact

Credit history helps a lender determine the terms of credit granted

**Example: $15,000 Loan**

*(3 Year Fixed Automobile)*

<table>
<thead>
<tr>
<th>FICO Score</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>3 Year Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>730</td>
<td>6.16%</td>
<td>$457</td>
<td>$16,452</td>
</tr>
<tr>
<td>660</td>
<td>8.77%</td>
<td>$475</td>
<td>$17,100</td>
</tr>
<tr>
<td>590</td>
<td>14.43%</td>
<td>$516</td>
<td>$18,576</td>
</tr>
</tbody>
</table>

$2,124 can be saved over the lifetime of this loan because of a good credit score!
Credit History Affects More than Credit

- Insurance Rates
- Employment
- Public Utility Services
- Housing

What are examples of how Isabella’s credit history is affecting her financial well-being?
Positive Credit History

Pay your bills consistently and on time

Maintain reasonable amounts of available credit

Check your credit report annually

Apply for credit sparingly

Do not have too many of one type of account

Have a mix of different types of credit accounts

Positive Credit History

Higher Credit Score
## Strategies to Build Credit

**Acquire and positively manage small lines of credit**

<table>
<thead>
<tr>
<th>Small closed-end loan</th>
<th>Credit card with a co-signer</th>
<th>Secured credit card</th>
<th>Authorized user on a credit card</th>
</tr>
</thead>
</table>
| • From a depository institution  
  • Set up automatic payments | • Co-signer – person who is **equally responsible** for paying back debt | • Requires a cash security deposit  
  • Ensures the credit card company will be paid | • Authorized user is not legally responsible for the debt but they will build a credit history |

**Having no credit history** may be just as challenging to a consumer as having a negative history.
Requesting a Credit Report

**One free credit report annually from each of the three credit reporting agencies**

Important to request your report even if you have not used credit

If denied credit, the applicant can request a free copy within 60 days

**Only government-sponsored free website**
Accessing Your Credit Score

- Must be ordered separately
- Usually costs a fee
- The 3 CRA’s are the primary source
- Scores may differ between each CRA
If an Error is Found

Contact the CRA & company that provided the incorrect information

Credit agency has 30 days to investigate

If error found, correct information must be provided to all three CRA’s

If dispute is not resolved, consumer may add a dispute statement to their report

Place a ☐ next to Isabella’s personal statement section
Credit Repair Agencies

• Offer to help a consumer “fix” his/her negative credit report

• According to the Better Business Bureau (BBB) and the Federal Trade Commission (FTC):
  • Consumers can do just as good of a job repairing their credit report errors as a fee-based debt repair agency
  • Be cautious of debt repair agencies promising instant help because there is no immediate fix for negative credit
Talitha and Brendan’s Advice

1. Review Isabella Langley’s Story
2. Identify two pieces of advice both Talitha and Brendan provided
3. Determine if the advice was good and why or why not
## Advice Isabella Was Given

<table>
<thead>
<tr>
<th>From Talitha</th>
<th>From Brendan</th>
<th>From Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Credit ratings improve as people get older and earn more</td>
<td>• Shopping around too much for credit is not good because it increases inquiries</td>
<td>• Close old accounts, including those with loans not paid on time to wipe the slate clean</td>
</tr>
<tr>
<td>• Isabella’s credit score will improve as soon as she:</td>
<td></td>
<td>• Pay someone else to fix her credit</td>
</tr>
<tr>
<td>• Settles her delinquent accounts</td>
<td>• Opening new accounts, even if not used, provides evidence of credit worthiness</td>
<td></td>
</tr>
<tr>
<td>• gets a better interest rate on existing loans</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Credit Report Detective’s Advice

What are three pieces of advice for Isabella?

- Pay her Sam’s Electric World card so it is not past-due
- Settle her traffic ticket so she is no longer in collections
- Create and use a spending plan so as not to rely so heavily on credit
- Set up automatic payments so that her credit payments are never late
- Contact her school loan agencies to set up a payment plan
- Pay down her credit card balances by paying more than the minimum payment
- Continue monitoring her credit reports
- Talk to Talitha and Brendan to educate them on what she learned.
Summary

- **Credit history**
  - Used to assess financial risk

- **Credit score**
  - Enables lenders to make more objective lending decisions

- **Manage your money responsibly**
  - To develop a positive credit history

Your Present Self Impacts Your Future Self