Build a Strong Credit History

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The New York University Federal Credit Union
Seminar Objectives

Learn:

- Who needs to build good credit, and why
- Significance of credit report and score
- How to establish credit if you don’t have any
- How to rebuild a good credit history
- Tips for using credit wisely
- Pitfalls that cost you plenty
- Your rights and responsibilities
Case Study

Situation:
- Joe Student, age 21
- Checking account at hometown bank
- No savings account
- Utility bills are in roommates’ names
- Late rent payments twice last semester
- Credit: one gas card in parents’ name (maxed out at $800)
- Receives 6-8 credit card offers a week
- Turned down for personal loan
Why build good credit?

Implements your:

- Image in eyes of lenders
- Ability to get credit
  - Loans, apartment, insurance, credit cards, job
- Chances of getting lower interest rates on loans and other forms of credit
Case Study: Michael and Ashley, both recent college graduates

- **Michael** owes $5000 on his credit cards, mostly from entertainment expenses and a spring break trip to Cancun. He only pays the minimum amount due each month and has paid late several times. Because of his poor credit record and low credit score (both of which we’ll talk in a few minutes), he pays more for his car insurance, is required to pay a larger security deposit for his apartment, and has missed out on job opportunities and graduate school acceptance.

- **Ashley**, in contrast, pays her credit card balances in full each month, pays all bills on time, and gets a free credit report each year from the three major credit-reporting agencies. Because of her good credit history and high credit score, Ashley has a low interest rate on her car loan, qualifies for low-interest credit cards, and recently qualified for a mortgage with a low interest rate.

So.. Which scenario would **YOU** prefer?
And which one is more costly over the long term?
What’s in a credit report?

- Identifying information
  (name, SSN, date of birth, address)
- Employment history
- Creditors and payment history
- Bankruptcies, judgments, liens, lawsuits
- Inquiries you initiated
  (loan and credit applications, but not credit card solicitations)
Who can look at your credit report?

- Lenders
- Landlords
- Potential employers
- Insurance companies
How to order your credit report

- Annualcreditreport.com (FACT Act)
- Mail request letter
- Call 877-322-8228

Or, order through “Big 3” credit bureaus:
- Equifax 800-685-1111
- Experian 888-397-3742
- TransUnion 800-888-4213
If your credit report has errors ...

The law entitles you to correct mistakes:

- Write to credit bureau
- Bureau has 30 days to investigate, notify you of results, and delete inaccurate information
- Disagree? Write dispute statement for your file
What’s a credit score?

- Number that represents creditworthiness
  - The higher the number, the better
  - Changes over time, depending on payment history

- Answers the question, “How likely are you to repay the loan?”

- Range:
  - FICO® – 300 to 850
  - VantageScore: 501 to 990

- Order your score from “Big 3” or myfico.com
Components of FICO credit score

- Payment history (35% of score)
  - Do you pay bills on time?
- Amounts owed to creditors (30%)
  - Do you owe a lot of money to a lot of people?
- Length of credit history (15%)
  - How established is your credit history?
- New credit (10%)
  - Are you increasing your debt obligations?
- Types of credit currently in use (10%)
  - Do you have a “healthy mix”?
FICO Expansion™ Score

- For people who lack traditional credit history
- Based on:
  - Deposit account records, payday loan repayment, purchases made on payment plans, and other nontraditional data
- Who does it help?
  - Recently divorced or widowed
  - Immigrants
  - Young adults who are just starting to handle finances
  - Those who prefer to pay for services with cash
Tips to build a strong credit score

- Pay all bills on time
- Keep credit utilization ratio < 25% of available credit
- Don’t close all old accounts
- Don’t open a flurry of new accounts
- Don’t co-sign if other person has bad credit
- Pay your library fines

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How to *rebuild* a good credit history

- Order credit report; correct errors
- Pay all bills on time
- Pay down debt (consider consolidation loan)
- Establish emergency fund as backup
- Apply for small line of credit; pay on time
- Apply for secured credit card
- Get automated bill-pay and direct deposit
- Get help from CU or local CCCS
Tips for using credit wisely

- Charge small amounts; pay on time
- Pay in full, or more than minimum
- Avoid minimum payment trap
- Don’t max out cards
- Avoid late and over-the-limit fees
- Avoid cash advances
- Don’t open flurry of new accounts
Warning signs you have too much debt

- Only make minimum payments
- At or near credit limit on cards
- Don’t know how much you owe
- Use cash advances to pay other bills
- Denied credit, or denied credit purchase
- Get calls from collection agencies
- Lie to spouse or family about spending
- More of total income going toward debts
Beware the pitfalls

- Credit repair clinics
- Rent-to-own
- Payday loans
- Pawn shops
- High-interest debt consolidations

(Continued)
More pitfalls …

- Debt settlement
- Temptation from credit offers
  - To get off most solicitation lists … Call 888-5opt-out; Visit optoutprescreen.com
- ID theft, phishing, vishing, smishing, and pharming
- Home equity scams
- Bankruptcy “sting” on credit report
Your rights and responsibilities

- Get credit reports (per FACT Act)
- Ask “why” if you’re refused credit
- Contact creditors to work out repayment plan
- Report violations of Fair Debt Collections Practices Act
What debt collectors cannot do

- Use threats or violence
- Use obscene or profane language
- Publish list of consumers who refuse to pay debts
- Repeatedly use the phone to annoy someone
- Use false statements or give false information
- Use a false name
- Send what looks like government/official documents
- Contact you by postcard
- Deposit post-dated check prematurely
- Threaten to take your property (unless it’s legal)
Case Study: You make the call

- Top priorities
- Credit-building strategies
- Future benefits from good credit
- Pitfalls to avoid
- Resources available
Checklist: Are you ready?

- I have the basics in place: budget, tracking system, emergency fund.
- I plan to pay all bills on time.
- I plan to get my credit report and correct errors.
- I plan to take steps to increase my credit score.
- I plan to keep my utilization ratio below 25%.
- I plan to pay down debt.
- I understand the potential pitfalls.
Resources

Credit Union National Association
www.creditunion.coop
(Has calculators, budget work sheets, and credit and debt resources)

Fair Isaac Corporation
Myfico.com

Consumer Credit Counseling Service
Nfcc.org or 800-388-2227

Equifax 800-685-1111
Equifax.com

Experian 888-397-3742
Experian.com

TransUnion 800-888-4213
Transunion.com

Federal Trade Commission
FTC.gov
Remember … your credit union can help you with all your financial challenges.