

Credit History and Credit Scores

Notes

Learning Target

- ▶ I will demonstrate my understanding of credit history and credit scores.

What is a Credit History?

- ▶ A credit history is a report of a person's **payment activity over time**
 - ▶ When a person applies for **loans** or **credit cards**, the lender checks the borrower's credit history
 - ▶ It contains information such as where you **live**, where you **work** and the **type of credit** you already have, as well as **outstanding debt** information
 - ▶ It also reports **credit problems**, such as **past-due** payments or accounts turned over to a collection agency

What is a Credit History?

- ▶ Your credit history affects all aspects of your life including your ability to open a **bank account**, **buy a car**, get a **cell phone**, obtain a **credit card** or **rent** an apartment
- ▶ It may also affect the price you pay for **car insurance**
- ▶ Insurance companies check credit history because they think there is a correlation between **risky** financial behavior and risky driving behavior

What is a Credit History?

- ▶ If you do not demonstrate the ability and willingness to **repay** what you have **borrowed** in the past, your ability to obtain credit in the future will be limited
- ▶ The cost of future credit may be **higher** as well
 - ▶ You may have to pay a **higher interest rate** because you are considered a risky borrower

How a credit score is calculated



What Is a Credit Score and How Is It Used?

- ▶ It includes whether or not one pays **on time**
- ▶ The **total** amount of **available credit**
- ▶ The **total** amount and **type** of **debt** a person has
- ▶ The number of **open** and **active** accounts one has
- ▶ The **longevity** of a person's relationships with creditors
- ▶ The information is compiled by the credit **reporting** companies (CRCs) – **Equifax**, **Experian**, and TransUnion

What Is a Credit Score and How Is It Used?

- ▶ A consumer's credit score is typically a **three-digit number**
- ▶ It **ranks** a consumer's likelihood to pay his/her debts compared to all other consumers
- ▶ A **higher score** means that a person is more likely to pay their **debts**
- ▶ A **lower score** means that a person is less **likely** to pay their debts

What Is a Credit Score and How Is It Used?

- ▶ **Mortgage** lenders, **auto** lenders, and **credit card** issuers may use credit scores to help determine whether a person can **qualify** for **credit** and what **interest rate** they might pay
- ▶ **Cell phone** companies may use credit scores to help determine which plan a person may be eligible for and whether any **security deposit** is required

What Is a Credit Score and How Is It Used?

- ▶ **Utility** companies may use credit scores as they evaluate whether or not to require a security deposit and the amount of such deposit
- ▶ **Landlords** may use credit information and scores to help determine the amount of the **deposit** that may be required for a particular property

What Influences a Credit Score?

Characteristic	Description	Maintaining a good credit score
Payment History	Repayment behavior (current, late or charged-off)	Pay all bills on time.
% of Credit Limit Used	Proportion of credit amount used/owed on accounts	Keep revolving balances low, under 30% of credit limits.
Total of Balances	Total amount of recently reported balances (current and delinquent)	Reduce the amount of debt owed.
Age and Type of Credit	Length of credit history and types of credit	A mix of accounts (credit cards, auto, mortgage) and a longer history will improve a credit score.
Recent Credit	Number of recently opened credit accounts and credit inquiries	Don't open too many new accounts too quickly.
Available Credit	Amount of credit available	Only open the amount of credit needed.

What is a Good Credit Score?

- ▶ Excellent credit: **750+**
- ▶ Good credit: 700-749
- ▶ Fair credit: **650-699**
- ▶ Poor credit: 600-649
- ▶ Bad credit: **below 600**

What is a Good Credit Score?

- ▶ The highest score is **850** and the lowest is **300**
- ▶ What is the magic number that will get you the best interest rate?
 - ▶ If your credit score is **above 760**, you will get the best rates
- ▶ How hard is it to get that number?
 - ▶ For people 25 to **34** years of age, the average score is **628**
 - ▶ For people age **45** to **54**, the average is **647**
 - ▶ For those **55-plus**, it is **697**
 - ▶ Why???

How to Improve a Credit Score

- ▶ **Pay bills on time**
- ▶ Apply for credit only when it's **needed**; do not open new accounts frequently or open **multiple** accounts within a **short** time span
- ▶ Keep outstanding balances **low** — a good rule of thumb is not to exceed **30%** of available credit limit with each account
- ▶ Pay any **delinquent** accounts as soon as possible and then keep them current
- ▶ Everyone has the right to obtain their credit reports for free through the website **annualcreditreport.com**

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GOOD CREDIT

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MORE THAN A SCORE

NOT LIKE THE OTHERS

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