Credit Scoring

What you don’t know CAN hurt you
Hollis Fishelson-Holstine

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Agenda

- What is credit?
- Why should I care?
- Tale of a college student
- What to do (and not to do)
- Test what you’ve learned
- Q&A

What is credit?

| Ability to borrow money or obtain goods by paying little or no money at the time of purchase. |
| Your promise to pay the original cost later or over time plus interest. |

What is credit?

Why do you need credit?

- Buying a home
- Getting a job
- Getting phone service
- Renting an apartment
- Finance an automobile

- Spreading out payments for expensive items
- Qualify for insurance
- Get a loan
- Obtain a credit card
What is credit?

What's a good score?

Range is 300-850
Most consumers score in 600-700's

The higher the score the better

What types of information does this include?
- Trade lines
- Public records
- Collection segments

What questions are answered by this information?
- Recency – How long ago was the last delinquency?
- Severity – What level of delinquency was reached?
- Prevalence – How many credit obligations have been delinquent?

What is credit?

Examples - Previous credit performance

What's NOT used in CB Scores

- Race, color, religion, national origin, sex and marital status (prohibited)
- Age (at least not FICO score)
- Salary, occupation, title, employer, date employed or employment history (ARE used in custom)
- Where you live
- Interest rate being charged
- Child/family support obligations or rental agreements
- Certain inquiries – ‘consumer-initiated’; ‘promotional inquiries’, ‘administrative inquiries’
- Whether participating in credit counseling

What is credit?

Who can get a copy of your credit report?

- YOU
- Extension of credit
- Review of current account
- Employment decision
- Landlords
- Question of insurance eligibility
- Court order
Why should I care?
Generic Benefits of Credit Bureau Scoring

- Unprecedented consumer access to > $7 Trillion in credit
- Accurate and efficient decision-making leading to reduced costs and increased speed and convenience for consumers
- Enhanced competition leading to greater access to credit and lower costs
- Increased liquidity due to the growth of secondary markets
- Increased consumer mobility

Tower Group Report, Walter Kitchenman, 1999
Credit Research Center, 2003

Why should I care?
How Credit Scoring Helps You

- People can get loans faster
- Credit decisions are fairer
- Older credit problems count for less
- More credit is available
- Credit rates are lower overall

Why should I care?
Let’s make it more immediate

- You’ll care that you have a good credit score when you …
- Are ready for a ‘real’ job
- Are ready for better home entertainment system
- Are ready for a nicer car
- Rent an apartment
- Get your phone & electric set up
- Get a better interest rate

Why should I care?
Cost of credit

Assume you get a 5-year, $20,000 car loan

The difference between a lower vs higher interest rate could mean a savings of $3,600!
### Tale of a College Student

**Tina - Freshman Year**

<table>
<thead>
<tr>
<th>BEHAVIOR OR ACTION</th>
<th>CHANGE IN SCORE</th>
<th>CURRENT FICO SCORE</th>
<th>THE CREDIT SCORE CURVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire Credit Card with $1,000 limit. Buy books &amp; supplies. Pays at least minimum due when bill arrives</td>
<td>-150</td>
<td>630</td>
<td>C</td>
</tr>
<tr>
<td>Spring Break $ throws party and maxes out card</td>
<td>-10</td>
<td>620</td>
<td>C</td>
</tr>
<tr>
<td>Acquire Credit Card with $1,000 limit. Buy books &amp; supplies. Pays at least minimum due when bill arrives</td>
<td>-</td>
<td>780</td>
<td>A+</td>
</tr>
</tbody>
</table>

### Tale of a College Student

**Tina - Sophomore Year**

<table>
<thead>
<tr>
<th>BEHAVIOR OR ACTION</th>
<th>CHANGE IN SCORE</th>
<th>CURRENT FICO SCORE</th>
<th>THE CREDIT SCORE CURVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over summer works hard and pays balance on first card</td>
<td>+180</td>
<td>800</td>
<td>A+</td>
</tr>
<tr>
<td>September, car needs major repairs to get to work. Bill maxes out both cards</td>
<td>-150</td>
<td>620</td>
<td>C</td>
</tr>
<tr>
<td>October, forgets to tell one credit card company she moved, so payment on account, including late fees, is $100 and 30 days past due</td>
<td>-130</td>
<td>490</td>
<td>F</td>
</tr>
<tr>
<td>Makes up late payment and pays just minimum due on time on both cards for rest of year</td>
<td>+70</td>
<td>670</td>
<td>B</td>
</tr>
</tbody>
</table>

### Tale of a College Student

**Tina - Upper Classman**

<table>
<thead>
<tr>
<th>BEHAVIOR OR ACTION</th>
<th>CHANGE IN SCORE</th>
<th>CURRENT FICO SCORE</th>
<th>THE CREDIT SCORE CURVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Junior Year</td>
<td>+70</td>
<td>670</td>
<td>B</td>
</tr>
<tr>
<td>Works hard to pay down debts by paying $50 &gt; min pay on each card and using cards sparingly</td>
<td>+70</td>
<td>670</td>
<td>B</td>
</tr>
<tr>
<td>Senior Year</td>
<td>+100</td>
<td>770</td>
<td>A+</td>
</tr>
<tr>
<td>Pays off almost all debt by graduation; paid bills on time for solid 2 years; credit once again excellent</td>
<td>+100</td>
<td>770</td>
<td>A+</td>
</tr>
</tbody>
</table>

### What to Do (and NOT to do)

**How can I get credit?**

- **Establish an account**
  - Ask a local company
  - Find a co-signer
  - Get a secured credit card

- **Use it responsibly for a year or two**
  - Pay all bills promptly
  - Don’t bounce checks

- **Shop around**
  - Compare several offers
  - You’ll quickly see the bad deals
What to Do (and NOT to do)

**Why is credit denied?**

- No credit history
- Too much outstanding credit
- Credit not handled responsibly in the past
- Victim of fraud

**Read the fine print**

- Go over the contract carefully.
- Fine print contains important details.
- Don’t rush into signing anything.
- Once a contract is signed, get a copy of it.
- Know the penalties for missing payments.

What to Do (and NOT to do)

**Know the cost of credit**

- Figure out total price when paying with credit.
- Make the largest payments possible.
- Ask about the penalties for missed payments.
- Don’t be misled into thinking small payments are the best option.

**How can I get a copy of my credit report?**

- Go to: [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Based on recent legislation, everyone is entitled to a free credit report from each of the three bureaus once per year
- You’ll need:
  - Full name
  - Social Security number
  - Addresses for past 2-5 years, telephone number
  - Birthdate
What to Do (and NOT to do)

Getting your score

myFICO® is the only service offering North American consumers their FICO® score and scored three-bureau reports for 2.5 million customers in first two years.

Partnership opportunities for lenders and others.


What to Do (and NOT to do)

FICO® Scores and Interest Rates

Fair Isaac Advise to Consumers

- Pay bills on time
- Keep balances low on revolving credit
- Use credit, but don’t open a lot of new accounts too rapidly
- Do rate shopping within focused period of time
- Re-establish credit history if you’ve had problems
- Apply for and open new credit accounts only as needed

Washington Mutual Platinum MasterCard

Exclusive feature: Online access to your credit score.*Your Platinum credit card comes with free online access to your FICO® credit score and tools to help you understand, track, and manage it. As a cardholder you can see your score online, just like this:

<table>
<thead>
<tr>
<th>FICO® Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your FICO credit score is 677</td>
</tr>
<tr>
<td>Find out the primary factors why your score is 677, and what actions you can take to improve it. See how simple changes can affect scores with the FICO® Score.</td>
</tr>
</tbody>
</table>

200 250 300 350 400 450 500 550 600 650 700 750 800 850 900 950

Lowest Highest

What to Do (and NOT to do)

What is identity theft?

- Identity theft occurs when someone steals personal information to take over credit accounts, open new accounts, take out loans, rent an apartment, access bank accounts, or commit other similar crimes.
- Nearly 10M people fall victim each year, costing consumers $5B in out-of-pocket losses and businesses $48B (FTC).
- On average, identity thieves stole $5,00/person in 2004*.
- Median out-of-pocket cost per fraud victim in 2004 was $750*.
- On average, victims spend 28 hours resolving problems due to identity theft*.


What to Do (and NOT to do)

Sources of Information for Identity Theft

- Lost/stolen wallet
- Friends/acquaintances
- Corrupt employee
- Offline transaction
- Stolen paper
- Computer spyware
- Dumpster diving
- Online transactions
- Hackers
- Phishing


What to Do (and NOT to do)

How it’s Used

- New credit account in victim’s name
- New cell phone
- Charges on victim’s card
- Charges over internet
- New home phone
- New cable/utility
- Name/change address on existing card


What to Do (and NOT to do)

Preventing Identity Theft

- Monitor your account
- Be careful with your passwords
- Don’t open email from unknown sources
- Beware of phishing attacks
- Don’t email personal or financial information
- Use the best virus and firewall protection
- Exercise caution when using ATMs
- Always check your statements for unusual withdrawals.
Additional Information  
(see handout)

- www.annualcreditreport.com
- www.myfico.com
- http://www.practicalmoneyskills.com
- www.fdic.gov (then click on consumer section)
- www.consumer.gov/idtheft
- www.consumer-action.org
- www.whatsmyscore.org