

# Changes in Credit Scoring – Why this is important to you

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- **Credit Reports**

- What is and is not included in credit reports
- How long information stays on your file
- Ways to get a copy of your credit report
- How to correct your report

- **Credit Scores**

- FICO and VantageScore systems
- What Is and Is **Not** considered in determining your Credit Score
- How FICO scores are generally interpreted
- How scores impact the cost of credit
- Steps to improve your credit score

- **Creditworthiness**

- Factors other than credit report & score that lenders consider

# The Fair Credit Reporting Act

The FCRA regulates who can look at your credit report. Only people and businesses with “permissible purpose” can access your credit report, most commonly:

- a) creditors
- b) employers
- c) government agencies
- d) collectors
- e) landlords and mortgage lenders
- f) utility and insurance companies



# What is **not** stored in your credit report?

Criminal background information

Medical history and records

Consumer buying habits

Checking and savings information

Information on race, religion or gender



# What **is** stored in credit file?

- Demographic information
- Collections
- Account information
  - Good information is stored 10 yrs from date account was closed
  - Adverse information is stored 7 years from date of the first delinquency that lead to the final default, charge off, or foreclosure.
- Inquiries are stored for 2 years



# Public Record Information

- **Tax Liens**
  - Paid: 7 years from date paid
  - Unpaid: Indefinitely
- **Financial Judgments**
  - 7 years from date filed
- **Bankruptcies**
  - Chapters 7, 11, 12: **10** years from filing date
  - Chapter 13: **7** years from filing date



# Check Your Credit Reports

- Get the facts-pull your reports and check all information for accuracy, including:
  - Wrong mailing addresses
  - Incorrect Social Security numbers
  - Errors in your credit accounts
  - Errors in payments history
  - unauthorized hard inquiries
- These could be signs of identity theft



# Dispute Errors thru Credit Bureau

- Errors in report can be disputed online, by calling the credit reporting agencies or in writing
  - **Equifax Credit Information Services, Inc.**  
P.O. Box 740241, Atlanta, GA 30374  
(800) 685-1111 [www.equifax.com](http://www.equifax.com)
  - **Experian, P.O. Box 2002, Allen, TX 75013**  
(800) 493-1058 [www.experian.com](http://www.experian.com)
  - **TransUnion, P.O. Box 2000, Chester, PA 19022-2000**  
(800) 916-8800 [www.transunion.com](http://www.transunion.com)

For the quickest response, dispute errors online.  
(Call during business hours)



# Credit Scoring: What Does It Mean?

- Scientific method that predicts the likelihood an account will go delinquent or bankrupt.
- A credit score is based on information in your credit report. It is important to review your file to make sure it is complete and accurate.
- A score is a “live” analysis of what your file looks like at the time of application.
- FICO Score range is 300 – 850

# What Is **Not** considered in determining your Credit Score?

- Your race, color, religion, national origin, sex or marital status
- Your age or where you live
- Your salary, occupation, title, employer, date employed or employment history
- The value of your personal assets

# What Is **Not** considered in determining your Credit Score?

- Any interest rate being charged on a particular card or other account
- Any items reported as child/family support obligations or rental agreements
- Whether or not you are participating in credit counseling of any kind

# Credit Scoring Factors

measure how well you manage credit

- **35%** - An individual's history of making credit payments on time
- **30%** - Total amount of debt being carried along with available credit
- **15%** - Age of open credit lines (longer history is better)
- **10%** - Frequency with which someone applies for new credit
- **10%** - Types of credit lines



# How FICO Scores are generally interpreted

Excellent	Over 750
Very good	721 or higher
Acceptable (average)	661 to 720
Uncertain	620 to 660
High risk	Less than 619

**Estimate your credit score range: MSN.Money (free)**

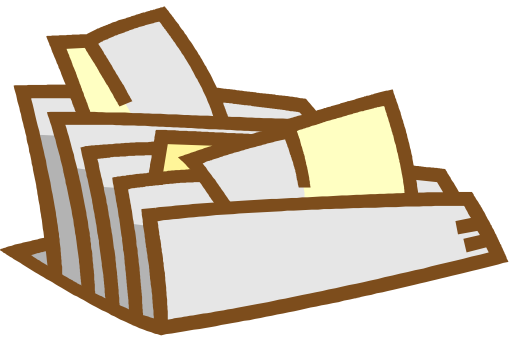
<http://articles.moneycentral.msn.com/Banking/your-credit-score.aspx>

- **Low Risk (726 - 830):** Lenders rest easier when they extend loans and credit to individuals with high Credit Scores. Plus, you may be able to save money by negotiating a lower interest rate or a better term on a new loan or credit card.
- **Low - Medium Risk (700 - 725):** Lenders may be more willing to extend credit to individuals with Credit Scores in the low-to-medium risk range. In this range, you may get better-than-average rates and terms on new loans and credit cards.
- **Medium Risk (626 - 699):** Lenders may still be willing to extend loans and credit to individuals with mid-range Credit Scores; however, you may only get average rates and terms.
- **Medium - High Risk (551 - 625):** Lenders may be less willing to extend credit to individuals with Credit Scores in the medium-to-high risk range. In this range, you may not enjoy the best rates possible.
- **High Risk (330 - 550):** Lenders may be wary about extending loans and credit to individuals with Credit Scores in the high-risk range. You may be denied credit, or pay higher rates.

# myFICO.com scores affect your mortgage payments

*For a loan of \$150,000/30 year fix rate mortgage:*

FICO Score	Interest Rate	Monthly Pmt
760-850	4.53%	\$763
700-759	4.75%	\$782
680-699	4.93%	\$798
660-679	5.14%	\$818
640-659	5.56%	\$858
620-639	6.11%	\$910



# New score formula

- More lenient on those who have an occasional slip, but harder on those with multiple late payments
- A mix of installment and revolving debt will fair better than a consumer with all revolving debt
- Only hard inquiries over the past 12 months used in score calculation
- Formula modified so that it ignores multiple inquiries from car or mortgage lenders



# Ways to get your credit score

- Experian, [www.experian.com](http://www.experian.com)
- TransUnion, [www.transunion.com](http://www.transunion.com)
- Equifax, [www.equifax.com](http://www.equifax.com)
- [www.annualcreditreport.com/cra/index.jsp](http://www.annualcreditreport.com/cra/index.jsp)
- FICO score through [www.myfico.com](http://www.myfico.com). Scores purchased through the Fair Isaac site come only as a package, requiring the additional purchases of credit reports or monitoring services.

[www.annualcreditreport.com](http://www.annualcreditreport.com)

## VantageScore Scale 501-990

- A,B,C,D and E score grades make it simple for consumers to understand the meaning of their scores:
  - **A:** 901-990 (excellent credit)
  - **B:** 801-900
  - **C:** 701-800
  - **D:** 601-700
  - **F:** 501-600 (very poor credit)

# Cost Savings from Good Score

Using VantageScore Range from 501-990

## 542 “F” Score

- Loan: \$25,000
- Term: 60 months
- Rate: 14.95%
- Payment: \$594.09
- Total payments: \$35,645.40

## 901 “A” Score

- Loan: \$25,000
- Term: 60 months
- Rate: 5.49%
- Payment: \$477.41
- Total payments: \$28,644.60

**Savings: \$116.68 per month, and a total of \$7,000.80 over the term of the loan.**

# Elements of Creditworthiness

- Credit History and Score
  - Stability
  - Ability to Pay
- Collateral or Cosigner
  - Ability to Save
  - Character

# Summary: Credit Check-up

- Right the wrongs
  - Contact creditors
  - Dispute directly with the credit bureaus
- Improve your behavior
  - Identify problem areas and plan for improvement
- Follow-up
  - Review credit to verify disputes were handled and/or changes were made to inaccuracies
- Monitor your credit
  - One report every 4 months, or purchase monitoring tool

# How to Improve Credit

- Always pay your bills on time.
- Keep bills current and under limit for 12 months.
- Keep balances low on credit cards.
- Apply for new accounts only as needed.
- Make sure information on credit report is correct.
- Be ready to explain extenuating circumstances that caused problem, and what you've done to make things better.

# Additional Resources

- **For more on insurance scores, *CLUE and You: How Insurers Size You Up***  
[www.privacyrights.org/fs/fs26-CLUE.htm](http://www.privacyrights.org/fs/fs26-CLUE.htm)
- **Fair Isaac FICO Scores**  
[www.myfico.com/CreditEducation/CreditScores.aspx](http://www.myfico.com/CreditEducation/CreditScores.aspx)
- **ChexSystems Consumer Assistance**  
<https://www.consumerdebit.com/consumerinfo/us/en/index.htm>
- **Dirty Little Secrets: What the Credit Bureaus Won't Tell You** by Jason Rich, Entrepreneur Press

"Though no one can go back and make a new start, anyone can start from now and make a brand new end."

Carl Bard

