

Northwest  
**Access**  
Fund



# Financial Wellness:

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## Part II

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# What is a Credit Report for?

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Your credit history is part of what affects a lender's decision to:

- give you a loan or line of credit
- how much you can borrow
- what interest rate you will pay

It may also be used as a factor when renting an apartment, getting a job, or determining insurance rates.

# Credit Bureaus

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- Credit bureaus (non-governmental companies) house your credit data.
- When you get a new loan, make or miss payments on loans or use a credit card, it's common for your lender to report this information to the credit bureaus.
- The information stored at the credit bureaus is represented in your credit reports.



# What is a Credit Score?

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- A credit score is a shortcut for lenders.
- Credit bureaus store a very large amount of data and lenders don't have time to read through it all in order to decide if you are a credit risk.
- Credit scores are numbers generated by a computer program that uses information in your credit reports to predict your creditworthiness.
- FICO® is the most common type of credit score that lenders use.
- FICO® scores generally range from 300-850.

# 5 Factors that form a Credit Score



## 1. Payment history (35%)

Whether you've paid past credit accounts on time

## 2. Amounts Owed (30%)

The amount of credit and loans you are using

## 3. Length of Credit History (15%)

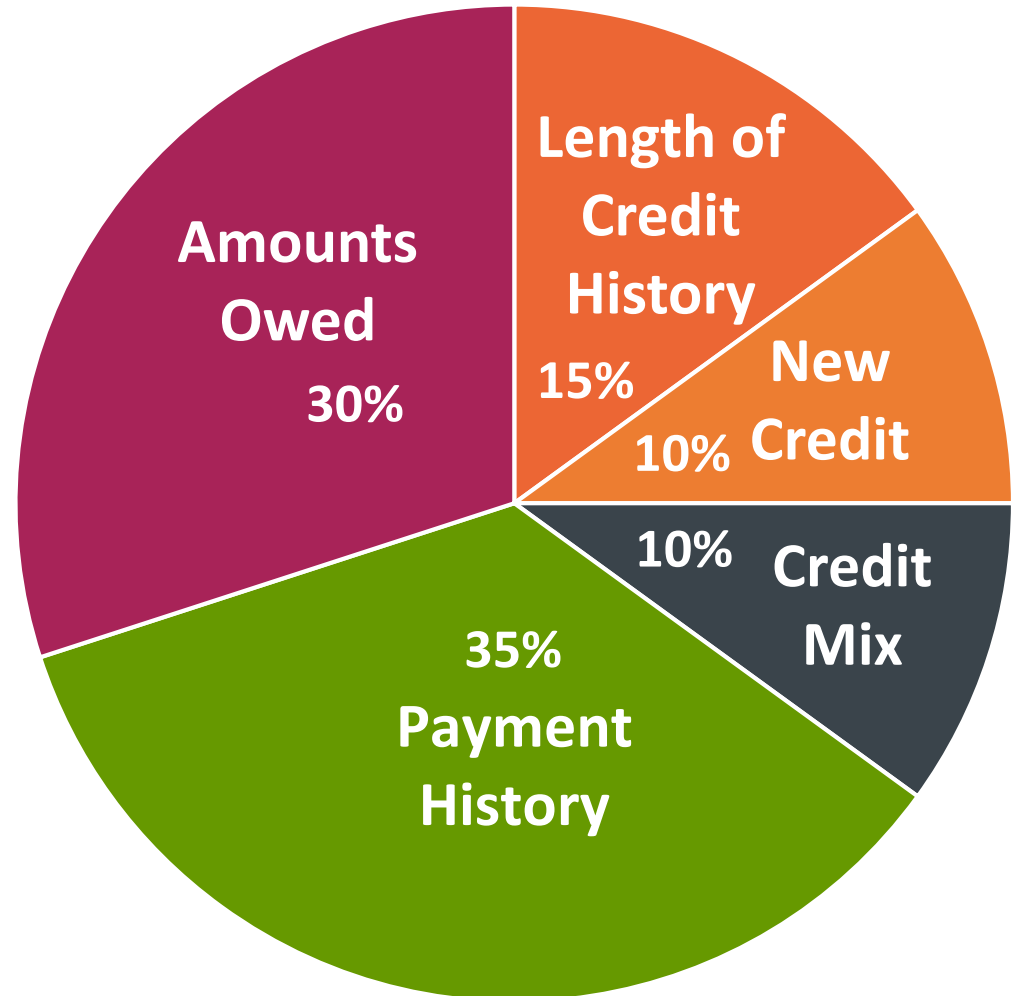
How long you've had credit

## 4. New Credit (10%)

Frequency of credit inquiries and new account openings

## 5. Credit Mix (10%)

The mix of your credit, retail accounts, installment loans, mortgage loans



# Checking Your Credit Report

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You are entitled to a free credit report every 12 months from each of the three major consumer reporting companies.

You can request a copy from **AnnualCreditReport.com.**

- You can request all three reports at once or you can order one report at a time.
- By requesting the reports separately (for example, one every four months) you can monitor your credit report throughout the year.
- While federal law gives you free credit **reports**, it does not provide for free credit **scores**.

**AnnualCreditReport.com**

The only source for your free credit reports. Authorized by Federal law.

# Checking Your Credit Score

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- There are many types of scores, but FICO® is used by most lenders
- You can purchase credit scores from the 3 credit bureaus.

## Free credit score resources:

### Alternative Scorers

- Examples: **Credit Karma**, **Credit Sesame**
- Alternative scores do not use the same FICO algorithm that your lender uses, but they can give you some idea of how you're doing

### Lenders

- Any time you apply for a loan, your lender likely gets a FICO score as part of the lending process. Ask your lender to tell you what your score is

# Credit Disputes

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- According to the FTC, 1 in 5 Americans has false information on their credit report
- If there is an error:
  - Report information to credit bureau by mail – use a letter form template from the cfpb or FTC
  - Include copies of any documents that support your position as well as a copy of your credit report with the faulty information clearly marked
  - Keep copies of any letters you send
  - Send by certified mail with “return receipt requested”
  - Credit bureaus are required to investigate all disputes, usually within 30 days (unless it is determined to be frivolous)
  - When the investigation is complete, the credit reporting company must give you the results in writing and a free copy of your report if the dispute results in a change.



# Credit Building

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- “Credit Building” vs “Credit Repair”
- Beware of “credit repair” agencies
- Strategies correspond to values of participant and weight of each factor
- How much a positive or negative action affects your credit score depends on your credit history
- Paying off collections doesn’t usually result in a higher score

# Debt Options

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- Debt repayment
- Debt management
- Debt consolidation
- Debt settlement
- Chapter 7 Bankruptcy
- Chapter 13 Bankruptcy

Handout: Consumer debt collection rights

# Prioritizing Debts

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- Depends on person
- Do not let debt collectors affect actual priority
- Generally:
  - Necessities (food)
  - Housing
  - Utilities (look into reduced rates)
  - Car loans or leases if necessary for income
  - Child support, back taxes, student loans, court judgments (government has more debt collection rights than other creditors including wage garnishment, seizure of tax refunds, etc)
  - Unsecured debt (look into Charity Care for medical debt)

# Student Loans

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- Options depend on whether or not in default – ideally contact loan servicer before this happens
- Repayment plans:
  - Standard, graduated and extended repayment plans
  - Income-driven repayment plans
    - REPAYE Plan (or Revised Pay As You Earn Repayment Plan)
    - PAYE Plan (or Pay As You Earn Repayment Plan)
- Debt consolidation or refinancing
  - Federal vs. Private loans
- Student Loan Deferment or Forbearance
- Student Loan Forgiveness
  - Total and Permanent Disability Discharge (TPD)
  - Public Service Loan Forgiveness Program

# Setting Goals

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**S**pecific

**M**easurable

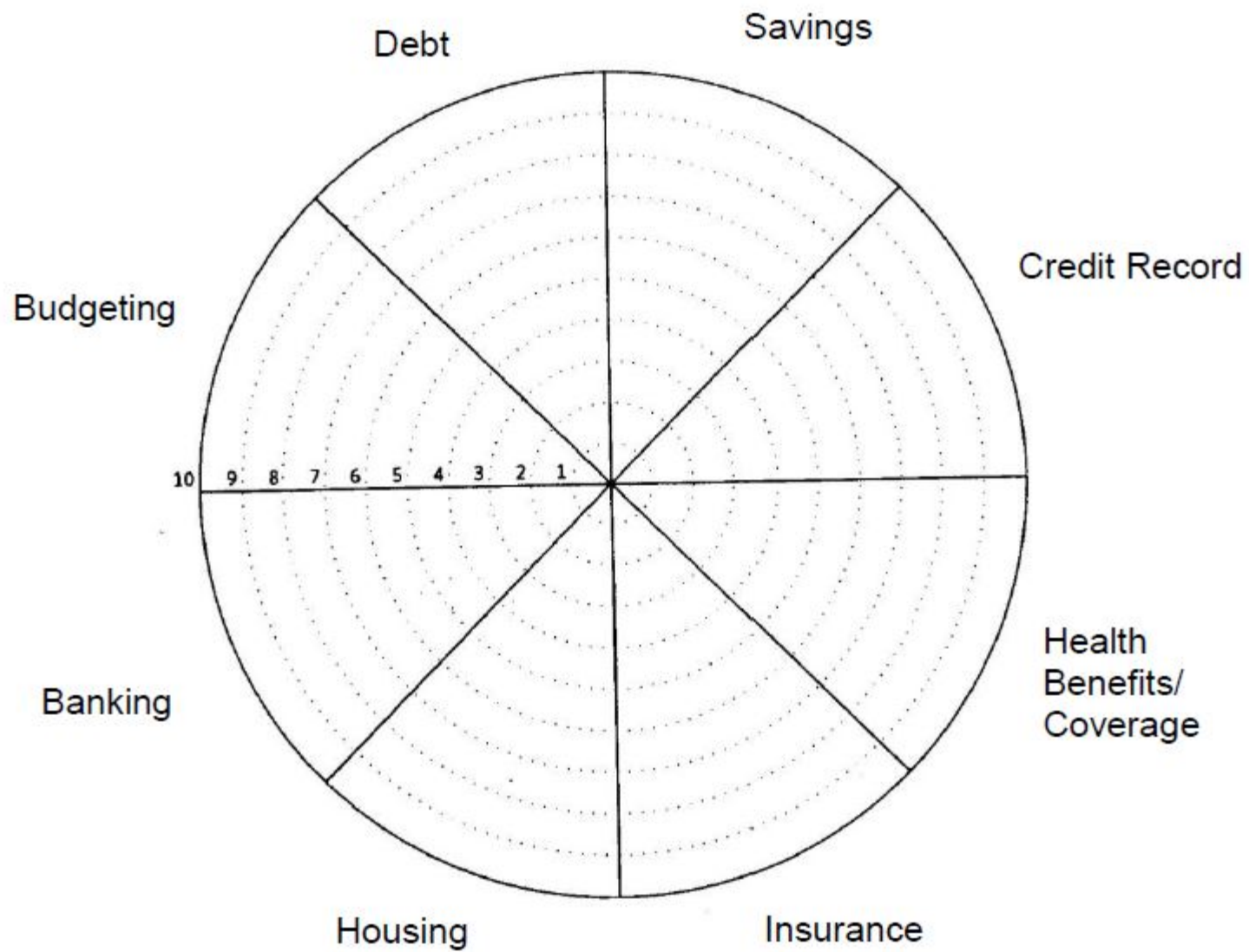
**A**ctionable

**R**ealistic

**T**ime-bound

**E**xciting

**R**elevant





**Q&A**