

Operation Uplift

Consumer Credit Part 1: What Students Need to Know

A Consumer Financial Wellness Program from the Federal Reserve Bank of Philadelphia

Disclaimer

The views expressed in this presentation are solely those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia, the Federal Reserve Board, or the Federal Reserve System.

Agenda

1. Credit Scores and Reports
2. Building Credit History
3. Limited or Negative Credit History
4. Buy Now, Pay Later
5. Credit Discrimination
6. Q&A



Credit Overview

Consumer Credit: What You Need to Know

- Your credit rating matters because it affects your ability to obtain a car loan, a home mortgage, a credit card, a job, rental housing, and more
- It's therefore important to understand how your credit rating is determined and how to enhance it
- When you apply for credit, lenders primarily focus on:
 - Your credit report and score
 - Your income and debts
- In this session, we'll discuss the information in your credit report, how it's used to calculate your credit score, and the best practices for obtaining a high score



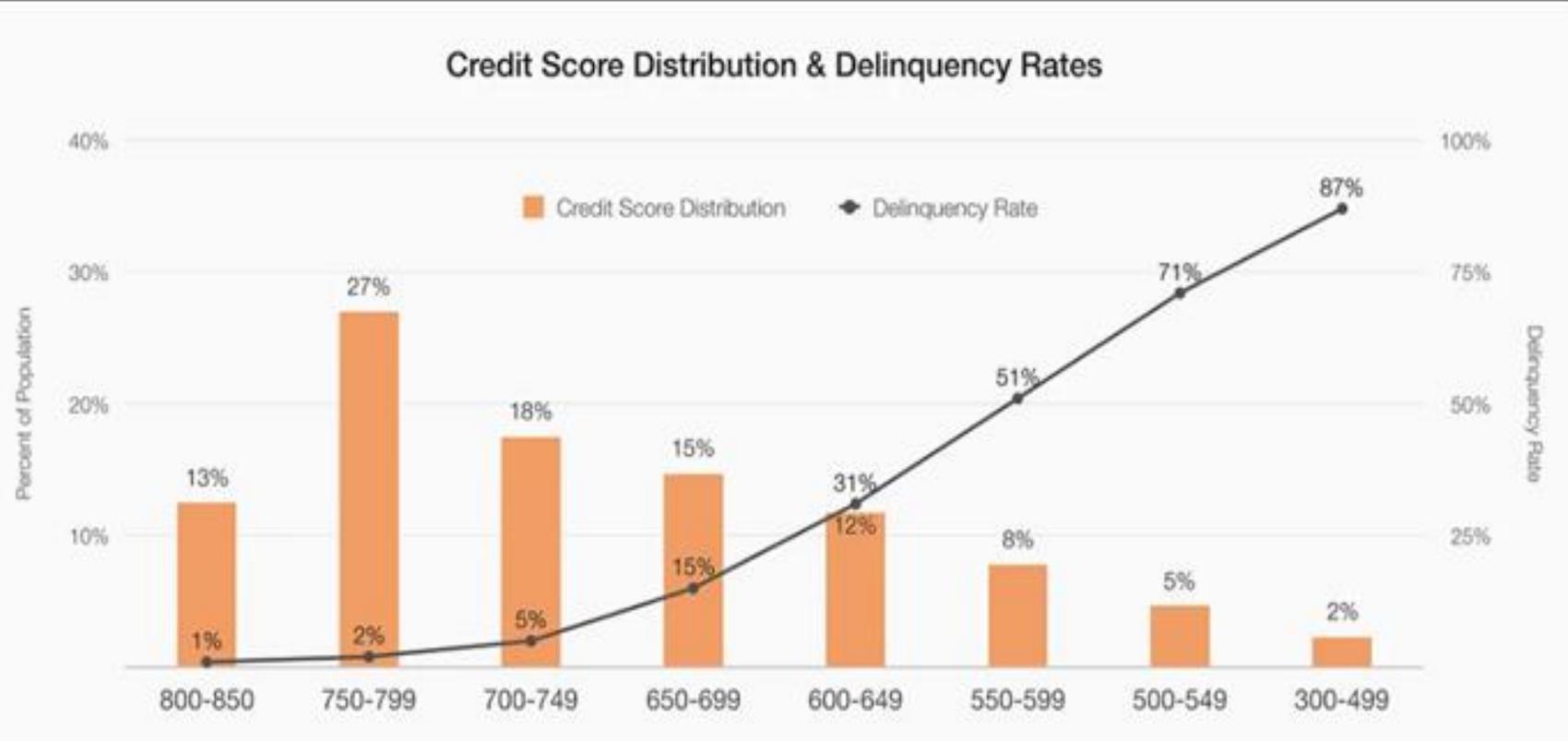
Understanding Credit Scores

Understanding Credit Scores

- Credit scores predict if you will repay a loan based on your credit report history
- Scores typically range between 300 and 850:
 - Deep subprime (credit scores below 580)
 - Subprime (credit scores of 580–619)
 - **Near-prime (credit scores of 620–659)**
 - **Prime (credit scores of 660–719)**
 - **Super-prime (credit scores of 720 or above)**
- Your credit approval and the rate charged largely depend on your credit score
- Most applicants with scores below 620 are either denied or pay a high interest rate if approved

Credit Scores Predict Whether You Will Default on Your Loan

Borrowers with higher credit scores are more likely to repay their loans on time, while borrowers with lower scores are more likely to not repay the loan or to make late payments



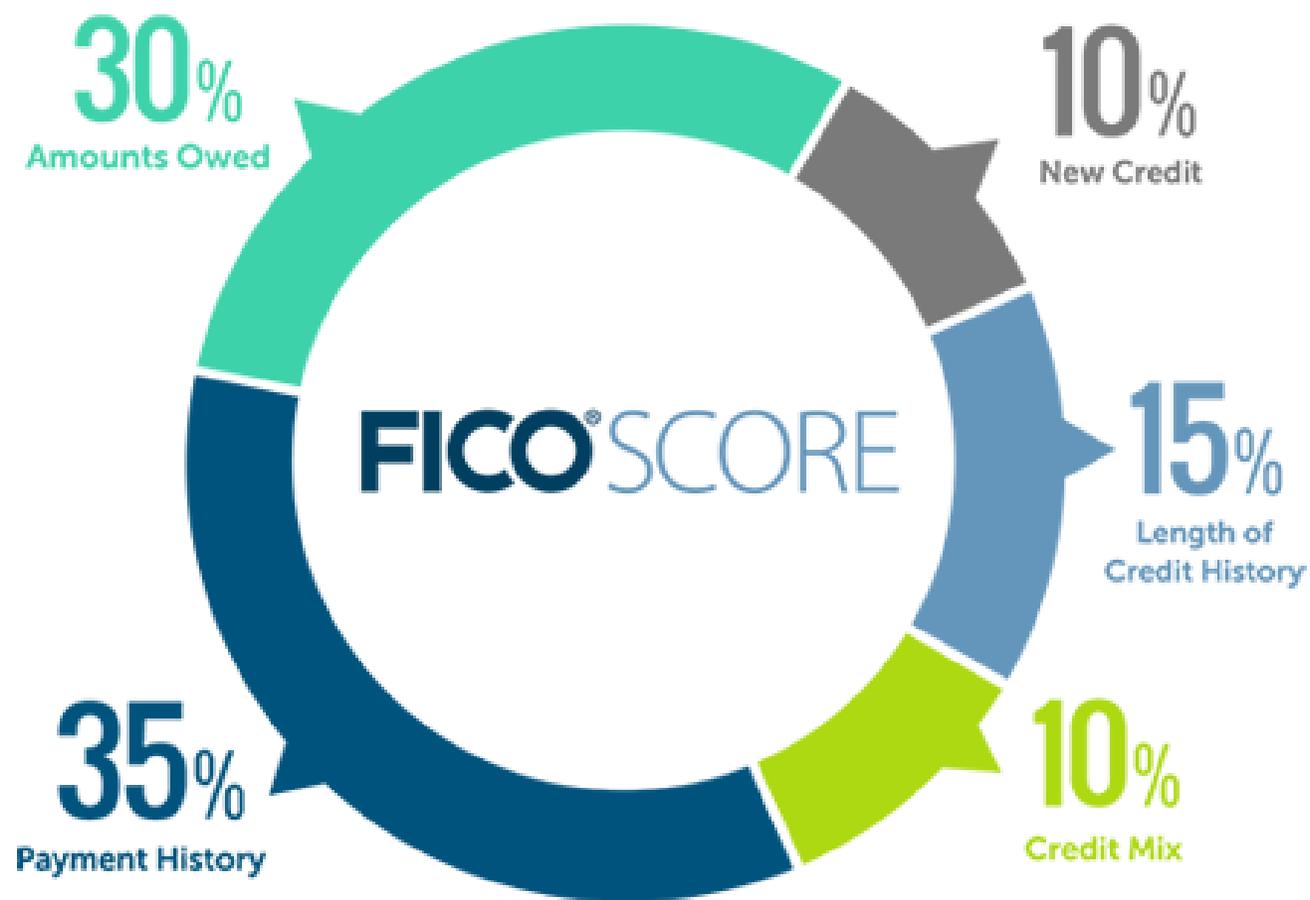
Source: [Thomvest Ventures](#)

Credit Scores and Loan Rates

Interest Rates on a 5-Year \$30,000 Car Loan			
FICO Score	APR	Payment	Total Interest
720–850	5.636%	\$575	\$4,495
690–719	6.825%	\$592	\$5,494
660–689	9.187%	\$625	\$7,529
620–659	11.757%	\$664	\$9,819
590–619	15.924%	\$728	\$13,700
500–589	17.536%	\$754	\$15,255

- *That's a difference of \$10,760 over the life of the loan*
- *Increasing your credit score saves you money*

What Factors Affect Your Credit Score?



Source: [FICO](#)

How Your Personal Finance Decisions Affect Your Credit Score

Major Improvement

Major Drop

Action	How Lender Views This Action	Impact to Your Credit Score
Pay bills on time	Wisely handling debt	Improvement
Not use all available credit	Likely not financially squeezed	Improvement
Hold accounts for long time	Experienced credit user	Improvement
Use different loan products	Can handle different repayment requirements	Improvement
Inquire about new loans	Taking on too much credit?	Slight drop
Open a new loan	Taking on too much credit?	Slight drop
Open other new accounts	Can effectively manage more credit?	Slight drop
Max out credit cards	Potential signal of increasing risk	Drop
Pay late for the first time	Potential signal of increasing risk	Drop
Pay multiple loans late	All credit at risk	Larger drop
Miss 3 or more payments	All credit at risk	Larger drop
Stop paying loan	Default	Major drop
Foreclosure	Default	Major drop
Bankruptcy	Default	Maximum drop

Understanding Credit Reports

Information in Your Credit Report



Products Customer Service Finance Blog Member Center

Equifax 3-in-1 Monitoring with Credit Scores

Member Services

Credit Watch Fraud Alert Score Watch Credit Report Credit Score Debt Wise Identity Report

- >> Alerts
- >> Reports
- Credit Score
- Summary
- Understanding Your Score
- Your Loan Risk Rating
- Interactive Score Estimator
- ☐ Credit Report
 - Credit Summary
 - ☐ Accounts
 - Inquiries
 - ☐ Negative Information
 - Personal Information
 - Dispute File Information
- Archive
- >> Insurance

Equifax Credit Report™

Print Report

As of: 9/27/2010
 Available until: 10/27/2011 - Report Does Not Update
 Confirmation #: 0800859542

Correct errors in your Credit Report
[Initiate Online Dispute](#)

Credit Summary

Your Equifax Credit Summary highlights the information in your credit file that is most important in determining your credit standing by distilling key credit information into one easy-to-read summary.

Accounts

Lenders usually take a positive view of individuals with a range of credit accounts - car loan, credit cards, mortgage, etc. - that have a record of timely payments. However, a high debt to credit ratio on certain types of revolving (credit card) accounts and installment loans will typically have a negative impact.

Open Accounts	Total Number	Balance	Available	Credit Limit	Debt to Credit Ratio	Monthly Payment Amount	Accounts with a Balance
<u>Mortgage</u>	1	\$2,241	\$0	\$5,000	45%	\$0	1
<u>Installment</u>	0	\$0	N/A	N/A	N/A	\$0	0
<u>Revolving</u>	1	\$1,500	-\$1500	\$0	0%	\$0	1
<u>Other</u>	0	\$0	N/A	N/A	N/A	\$0	0
Total	2	\$3,741	-\$1,500	\$5,000	75%	\$0	2

Sample Report

Lenders send information about your loans each month to the three national credit bureaus

Your credit report contains details about your current and past loans, including:

- Loan balances
- Credit utilization
- Defaulted loans
- Late payments

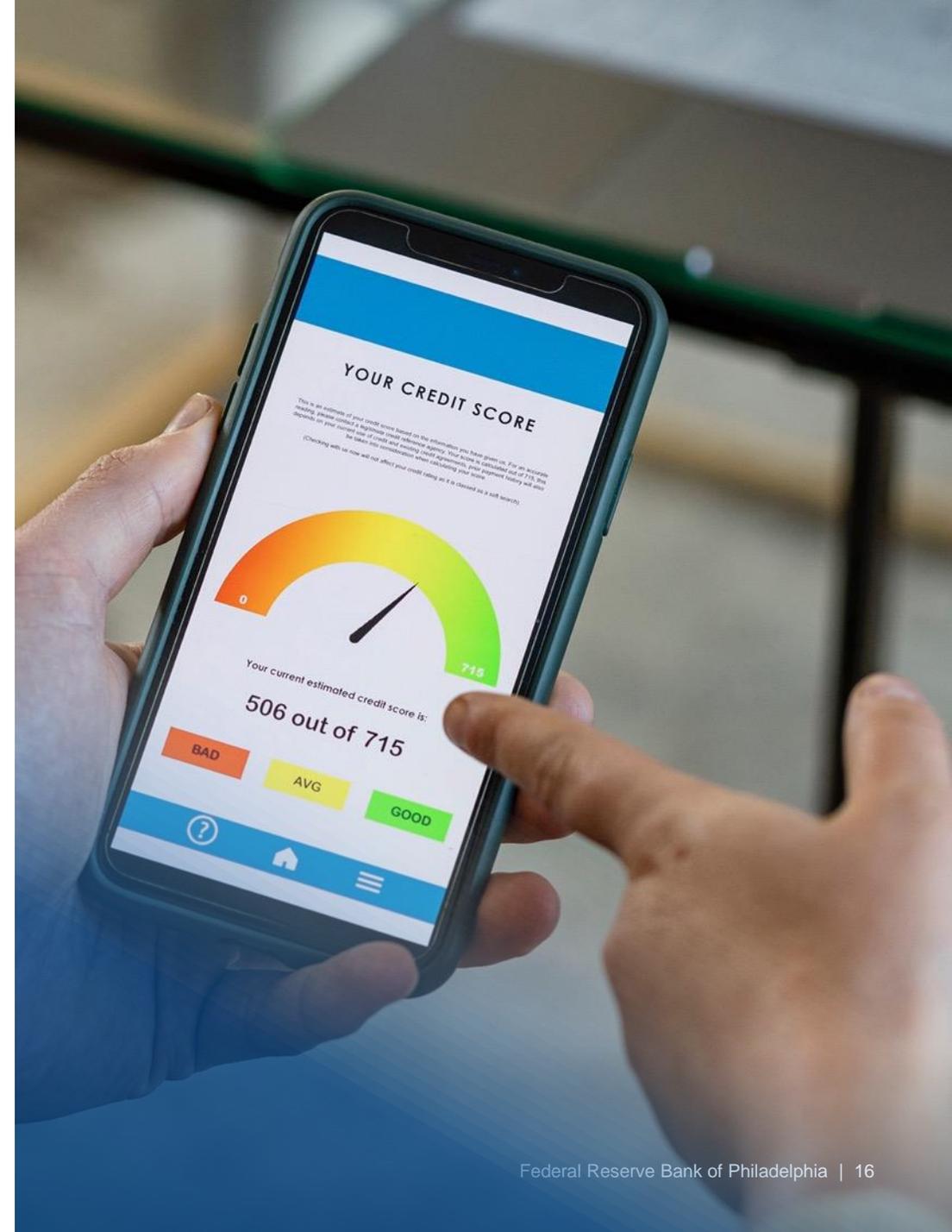
Who Can View Your Credit Report?

Because credit reports contain sensitive, private information, they can be obtained only in these circumstances:

- by lenders for loan applications
- by employers for job applications
- by insurance companies for insurance applications
- by landlords for lease applications
- by government agencies for benefit applications
- by permission from a consumer

How Long Does Negative Information Stay on Your Credit Report?

Late payments, foreclosures, short sales, and related delinquencies	7 years
Chapter 7 bankruptcy	10 years
Chapter 13 bankruptcy	7 years
Hard credit inquiry	2 years





Medical Debt Is Subject to Enhanced Consumer Protections

- Currently, medical debt is subject to a one-year waiting period before it can be added to a credit report
- Medical debt is removed from your credit report once it is paid or is less than \$500
- In the future, medical debt may no longer appear on credit reports because the Consumer Financial Protection Bureau is working on a [regulation](#) to accomplish this

View your credit report at annualcreditreport.com



CHECK REGULARLY

Review your report regularly to ensure it is accurate, and file a dispute if you find an error

IDENTITY THEFT

To protect against identity theft, you can freeze your credit report

Obtaining Credit When You Have Limited or Negative History



Limited Credit History: Student Credit Cards

- Most college students have a limited credit history because of their young age
- Credit card companies recognize that many students will enter the workforce when they graduate and could be new customers
- To start a relationship, many card issuers offer student cards, which are easier to obtain than regular credit cards



Limited Credit History: Student Credit Cards

Factors to consider when looking at student credit cards:

- Compare the interest rate; if you don't pay the balance in full each month, finance charges apply
- Does the card have an annual fee? No annual fee is generally best
- Does the card have other fees? Are they reasonable?
- Does the card issuer require a minimum credit score? Check your score before applying to know if you qualify

If you obtain a student card and manage it properly, you can build a credit history and achieve a high credit score

The Credit Invisible

- Over 53 million Americans have no credit history or a stale history
- This creates a Catch-22: You need a recent credit history to obtain credit, but you can't obtain credit without a recent history
- We discuss an option to build a credit history



The Credit Invisible: Secured Credit Cards

Advantages	Disadvantages
A secured credit card can help establish a credit history	An unsecured card usually has a higher rate and often has many fees
Your deposited funds become your credit limit	Credit limit is determined by security deposit
Your monthly payments are reported to the credit bureaus, which builds credit history	A small limit can negatively affect credit score
This card can help you transition to an unsecured card	If you don't make timely payments, this will hurt your score

Buy Now, Pay Later

openpay



LAYBUY

payright

Klarna.



Buy Now, Pay Later (BNPL)

Key Considerations

- Interest-free loan paid back in four installments
- If not paid in four payments, fees and interest may apply
- Not reported to the credit bureaus
- Risk of taking out too many loans
- Fewer protections than credit cards:
 - No right to dispute with the merchant
 - Less protection against fraud

Discrimination and Your Rights

Federal law prohibits credit and housing discrimination

The Equal Credit Opportunity Act and the Fair Housing Act

- These laws prohibit discrimination based on:
 - Race
 - Color
 - Religion
 - Sex
 - Marital status
 - Age
 - National origin
 - Receiving public assistance
 - Gender identity/sexual orientation
 - Family status (housing only)
 - Handicap (housing only)
- You can file a complaint with the regulator for the lender if you believe you were discriminated against
- For assistance, contact:
 - [Federal Reserve Consumer Help](#), (888) 851-1920
 - [Consumer Financial Protection Bureau](#), (855) 411-2372

Consumer Resources

Free credit report and scores

Credit reports: annualcreditreport.com
(all 3 bureaus)

Experian FICO score and credit report: www.experian.com/

Education about credit reports and scores

- [MyFico site](#)
- [CFPB, choosing a credit counselor](#)
- [Credit.org credit counseling services](#)
- [BNPL concerns](#)
- Credit report freeze: [TransUnion](#), [Equifax](#), and [Experian](#)



Questions?

Thank you for your attention and please let us know of any questions or comments.

Contact Us



Robin Myers

Vice President

robin.p.myers@phil.frb.org



Ken Benton

Principal Consumer Regulations Specialist

kenneth.j.benton@phil.frb.org



Tesia Lemelle

Program Manager

tesia.lemelle@phil.frb.org



Devin Kelley

Project Analyst

devin.kelley@phil.frb.org

Operation Uplift

www.philadelphiafed.org/banking/operation-uplift

Program Email: OperationUplift@phil.frb.org



@philadelphiafed



@philadelphiafed



Federal Reserve Bank of Philadelphia