

# Money Management Curriculum

## Module 4: Credit Reports & Credit Scores

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United States  
Department of  
Agriculture

National Institute  
of Food and  
Agriculture



Acknowledgments: Vicki Hebb, reviewing content, and Russ Tronstad (University of Arizona) and Stuart T. Nakamoto (University of Hawaii), content.

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### Teaching Notes:

This module explains credit scores and credit reports, accessing and understanding them. Banks and lenders use FICO scores (a specific credit score) to measure the risk of lending to someone. Credit scores indicate the level of borrower risk: higher scores indicate lower risk and lower scores indicate higher risk. If the risk is too high, the lender may not approve the loan. This module covers what FICO scores are, their importance and how they are determined. Credit reports from the three reporting bureaus are used to determine the score. The score can impact whether or not you are able to rent an apartment or are selected for a job. They can also work in your favor: for example, having high scores might mean little to no interest is paid for installment purchases. Understanding your scores and what is on your credit reports BEFORE you apply for a loan, credit card or even a job can help to negotiate rates and terms. The 5 components of a FICO score are:

- 35% Payment History
- 30% Total Debt
- 15% Length of Credit History
- 10% Credit Mix
- 10% New Credit

Credit reports come from the three major credit bureaus:

- Experian
- Equifax
- TransUnion

The only truly free online credit reports are obtained through [www.annualcreditreport.com](http://www.annualcreditreport.com). This site was mandated by the US government and a report from each of the 3 major bureaus is available each year. All three reports can be obtained at once, or they can be spaced out over the 12 months to have more of a running report. These credit reports will not list your actual credit score. They provide the information that is used to calculate your credit score. They should be checked regardless of the FICO score to ensure accuracy and the lack of fraud. There is no quick fix to a bad accurate report. Many fraudulent 'credit repair' companies exist, but reputable help is available.

Credit scores are available from many credit card companies. Discover Scorecard is a free source to get your credit score. It will provide your credit score card. Some places offering to provide a free credit score also provide a lot of credit card and loan offers.

It might be helpful to pull up the example credit reports and scores

Remind your students to keep track of their cash flows and budgets; if they have an accurate budget they may find that they are able to use that to schedule the repayment of any debt. They can also use credit to buy the things they want and pay off the debt monthly to not incur interest expense. If

applying for a loan is necessary, they already have an idea of where they stand in the eyes of a lender and can negotiate terms.

### Educational Objectives:

- Understand what determines a FICO score
- Understand how to access and correct a credit report
- Understand how to rebuild credit
- What is a FICO score?
- What are the benefits and/or drawbacks of a high or low score?
- What actions can you take that would affect your credit score?
- How are FICO scores and credit reports related?
- What should I do if I believe my identity has been compromised?

### Resources:

- **Worksheets:**
  - None
- **Other:** Sample credit reports and credit scores for the same person pulled on 10-4-16.

### Outline:

1. Key Concepts
2. FICO Score Background
3. FICO Score Considerations and Requirements
4. FICO Score Components
  - a. Payment History
  - b. Total Debt
  - c. Length of Credit History
  - d. Credit Mix
  - e. New Credit
5. Where to Find Your Score
6. Why Your Score Matters
7. Credit Reports
  - a. Accessing the Report
  - b. Evaluating the Report
8. Identity Theft
9. Strategies to Improve Credit
10. Reminder to Keep Track of Your Budgeting Exercise

# Managing Money Curriculum

## Module 4: Credit Reports & Credit Scores

The importance of keeping track of your information



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## Key Concepts

- What Is A FICO Score?
- What Is A Good Credit Score?
- How Is My Credit Score Calculated?
- What Is A Credit Report?
- Getting and Checking My Credit Report
- What To Do If You Are A Victim Of Identity Theft
- Strategies To Improve Credit



## FICO Score

- FICO is an analytics software company that compiles credit data from various credit reporting agencies.
- They use that data to run math algorithms and create a score.
- FICO® Scores are the credit scores used by 90% of top lenders to determine your credit risk.
- Lenders want to know the risk they're taking by lending you money. For example:
  - How likely someone is to pay their bills on time?
  - Can they handle a larger line of credit?

**Slide 4:** FICO (Fair Isaac Corporation); FICO is in 90+ countries worldwide; they have been in business since 1956. 95% of the largest financial institutions in the US and all the 100 largest U.S. credit card issuers are FICO Clients.

## FICO Scores

### DO NOT Consider

- Your race, color, religion, national origin, sex, or marital status.
- Your age.
- Your salary, occupation, title, employer, date employed, or employment history. (Lenders may consider this information, however)
- Where you live.
- Any interest rate being charged on a particular credit card or other account.
- Any items reported as child/family support obligations.
- Certain types of inquiries (requests for your credit report).
- Any information not found in your credit report.
- Any information that is not proven to be predictive of future credit performance.
- Whether or not you are participating in credit counseling of any kind.

**Slide 5:** US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act. Your scores do not count “consumer-initiated” inquiries – requests you have made for your credit report, in order to check it. They also do not count “promotional inquiries” – requests made by lenders in order to make you a “pre-approved” credit offer – or “administrative inquiries” – requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.

## Score Calculation


- Scores based on data from credit reports
- Separate FICO score for each of the three credit bureaus
- Higher is better
- For valid score, the credit report must have:
  - At least one account opened for six months or more, and
  - At least one account that has been reported to the credit bureau within the past six months, and
  - No indication of deceased on the credit report

**Slide 6:** (Please note, if you share an account with another person this may affect you if the other account holder is reported deceased). The minimum scoring criteria may be satisfied by a single account or by multiple accounts on a credit file.




## FICO Score Components

FICO scores based on these 5 categories:

- 35% Payment History
  - 30% Total Debt
  - 15% Length of Credit History
  - 10% Credit Mix
  - 10% New Credit
- 


**Slide 7:** For some groups, the importance of these categories may vary; for example, people who have not been using credit long will be factored differently than those with a longer credit history. The levels of importance shown in the FICO Scores chart are for the general population, and will be different for different credit profiles.

## Payment History – 35%

- Paying on time one of the most important factors.
  - Overall good credit more important than missing one or two payments.
  - Payment history includes: credit cards, retail accounts, installment loans and mortgage loans.
  - Negative factors: bankruptcies, foreclosures, lawsuits, wage attachments, liens, and judgements.
  - Late or missed payments: how late, how much owed, how recent, and how many.
- 

**Slide 8:** The first thing any lender wants to know is whether you've paid past credit accounts on time. A few late payments are not an automatic "score-killer." Payments NOT considered- rent, utilities, etc-unless they go to collections. With collections, older items and items with small amounts will count less than recent items or those with larger amounts. Bankruptcies will stay on your credit report for 7 to 10 years. The FICO scoring formula treats both Chapter 7 and Chapter 13 Bankruptcies similarly in terms of how they affect one's FICO score.

## Total Debt – 30%

- Amount owed on all accounts
  - Amount owed on different types of accounts
  - Credit utilization on revolving accounts (how much of your available credit you are using)
    - High percentage- negative impacts
    - Low percentage- positive impacts- in some cases, better than not using any of your available credit
  - Someone who is close to "maxing out" several credit cards has a high credit utilization ratio and may have trouble making payments in the future.
- 

**Slide 9:** When a high percentage of a person's available credit is been used, this can indicate that a person is overextended, and is more likely to make late or missed payments. It's also important to note that your current account balance isn't necessarily the balance that shows up on your credit report and factors into your FICO Scores. Your account balance on your credit report will reflect the account balance your lender reported to the credit bureau (typically the balance from your latest monthly statement). So even if you pay your credit card balances in full each month, your account balance won't necessarily show on your credit report as \$0. Paying down installment loans is a good sign that you're able and willing to manage and repay debt.

## Length of Credit History– 15%

- Longer credit history will increase score  
BUT new users will not necessarily be negatively impacted
- Age of oldest account
- Age of newest account
- Average age of all accounts
- Use of certain accounts



## Credit Mix– 10%

- Mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans will be considered.
- Has your credit experience been only one type?
- Don't open accounts you won't use.
- Can raise FICO score by having credit cards and installment loans with a good payment history.



## New Credit – 10%

- Don't open a lot of new accounts quickly
- Opening several new accounts in short amount of time represents risk
- How many recent inquiries there are (when a lender makes a request for your credit report or score)
- Inquiries are on your report for 2 years but only impact your FICO score for 12 months



**Slide 11:** It's not necessary to have one of each. The credit mix usually won't be a key factor in determining your FICO Scores—but it will be more important if your credit report does not have a lot of other information on which to base a score. People with no credit cards tend to be viewed as a higher risk than people who have managed credit cards responsibly. A closed account still shows on your report. How many is too many will vary depending on your overall credit picture.

**Slide 12:** Looking for new credit can equate with higher risk, but most Credit Scores are not affected by loans that commonly involve rate-shopping, such as mortgage, auto and student loan lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on your credit scores. If you need a loan, do your rate shopping within a focused period of time, such as 30 days.

## Good, Bad or Ugly?

- Scores usually range from 300 to 850



## Why Should You Care?

Compare Costs on a New Vehicle

### Credit Score of 730+

Car Cost: \$30,000

Rate: 2.99%

Term: 60 Months

Total Cost: \$32,335

### Credit Score of 679-

Car Cost: \$30,000

Rate: 7.25%

Term: 60 Months

Total Cost: \$35,855

**A 51 Point Difference  
Will Cost You  
\$3,520!**

## What Would You Do With An Extra \$3,500?





## Where's My Score?

- Most banking institutions offer a free score, especially to those with credit cards
  - Bank of America- select cardholders - *Transunion*
  - Citibank –Citibank branded cardholders- *Equifax*
  - Chase – Chase Slate cardholders- *Experian*
  - Walmart/Sam's Club- cardholders- *Transunion*
  - USAA- all credit card holders- *Experian*
- Discover- May 20, 2016 new service called "Discover Credit Scorecard." You do not need to be a customer of Discover – anyone can get their official FICO score for free. This is the first place where anyone, not just a Discover customer, can get their official Experian FICO for free.

**Slide 17:** Identifying factors are not used in credit scoring. Credit accounts are known in the business as trade lines; lenders report on each account you have established with them. When you apply for a loan, you authorize your lender to ask for a copy of your credit report. This is how inquiries appear on your credit report. The inquiries section contains a list of everyone who accessed your credit report within the last two years. The report you see lists both "voluntary" inquiries, spurred by your own requests for credit, and "involuntary" inquiries, such as when lenders order your report so as to make you a pre-approved credit offer in the mail. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens, and judgments.

## My Credit Report

What's in it?

- Identifying information
  - Name, address, social security, date of birth, etc.
- Credit accounts reported by lenders
  - Type of account, date opened, credit limit, account balance and payment history
- Credit inquiries
  - Within last two years- voluntary and involuntary
- Public record and collections
  - State and county courts, overdue debt from collection agencies

**Slide 18:** Do not contact the three nationwide credit reporting companies individually. They are providing free annual credit reports only through [annualcreditreport.com](http://annualcreditreport.com), 1-877-322-8228 or mailing to Annual Credit Report Request Service. Only one website is authorized to fill orders for the free annual credit report you are entitled to under law — [annualcreditreport.com](http://annualcreditreport.com). Other websites that claim to offer "free credit reports," "free credit scores," or "free credit monitoring" are not part of the legally mandated free annual credit report program. Some "imposter" sites use terms like "free report" in their names; others have URLs that purposely misspell [annualcreditreport.com](http://annualcreditreport.com) in the hope that you will mistype the name of the official site. Some of these "imposter" sites direct you to other sites that try to sell you something or collect your personal information.

## Accessing Your Report

- Three credit reporting agencies:
  - Equifax
  - TransUnion
  - Experian
- Can get free copy once every 12 months
- You may order all at the same time, or from each of the companies one at a time.
- ONLY through [annualcreditreport.com](http://annualcreditreport.com) or by calling 1-877-322-8228

## Why Do I Need It?

- Your credit report has information that affects whether you can get a loan — and how much you will have to pay to borrow money. You want a copy of your credit report to:
  - make sure the information is accurate, complete, and up-to-date before you apply for a loan for a major purchase like a house or car, buy insurance, or apply for a job
  - help guard against identity theft. That's when someone uses your personal information — like your name, your Social Security number, or your credit card number — to commit fraud.

## Evaluating Your Report

- To protect the security of your personal information, you may be asked a series of questions that only you would know, like your monthly mortgage payment
- If you request your report online at [annualcreditreport.com](https://annualcreditreport.com), you should be able to access it immediately.
- Three Things to Look For:
  - Is your information accurate?
  - What are your balances?
  - Are there any creditors on your report that you supposedly owe that you don't remember doing business with?

## Fixing Errors

- All 3 credit bureaus accept filing disputes online
- Contact the bureau and the creditor
- Sample letter available at:  
<https://www.consumer.ftc.gov/articles/0384-sample-letter-disputing-errors-your-credit-report>
- Will be investigated within 30 days
- Will receive the written results and a free copy of your revised report

**Slide 21:** 1. Tell the credit reporting company, in writing, what information you think is inaccurate. 2. Tell the creditor or other information provider in writing that you dispute an item. When the investigation is complete, the credit reporting company must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report.) If an investigation doesn't resolve your dispute with the credit reporting company, you can ask that a statement of the dispute be included in your file and in future reports

## Identity Theft

If you know there has been I.D. theft contact:

- EQUIFAX: 1-877-576-5734;  
[WWW.ALERTS.EQUIFAX.COM](http://WWW.ALERTS.EQUIFAX.COM)
- EXPERIAN: 1-888-397-3742;  
[WWW.EXPERIAN.COM/FRAUD](http://WWW.EXPERIAN.COM/FRAUD)
- TRANSUNION: 1-800-680-7289;  
[WWW.TRANSUNION.COM](http://WWW.TRANSUNION.COM)
- [www.allclearid.com](http://www.allclearid.com)

## Can't Pay Bills On Time?

- Contact the companies that you owe to work out a repayment plan
- Create a budget and stick to it
- Pay your home and car loans first
- If you know you cannot make your car payment, try to sell your car first.
- DO NOT have it repossessed if you can avoid it.

**Slide 23:** First bill usually paid is cellphone!

## How Long Does A Repo Affect Your Credit?

**7 To 10 YEARS!**

**Don't feel like this guy the next time you go to apply for a loan.**



25

## Improving Your Score

- Fix errors
- When negative information in your report is accurate, only time can make it go away
- Beware of any advice that claims to improve your credit score fast.
  - Reputable credit counseling organizations
- There is help out there to get your credit score on track

[www.consumerfinance.gov](http://www.consumerfinance.gov)



**Slide 26:** The Credit Repair Organization Act (CROA) makes it illegal for credit repair companies to lie about what they can do for you, and to charge you before they've performed their services.

## Tips and Strategies (From myFICO.com)

- Right Now
  - Check your credit report
  - Set up payment reminders
  - Reduce the amount of debt you owe
- Payment History Tips
  - Pay your bills on time
  - If you have missed payments, get current and stay current.
  - If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.



## Tips and Strategies (From myFICO.com)

- Amounts Owed Tips
  - Keep balances low on credit cards and other "revolving credit".
  - Pay off debt rather than moving it around.
  - Don't open a number of new credit cards that you don't need, just to increase your available credit.
- Length of Credit History Tips
  - If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.



## Tips and Strategies (From myFICO.com)

- New Credit Tips
  - Do your rate shopping for a given loan within a focused period of time.
  - Re-establish your credit history if you have had problems.
  - Note that it's OK to request and check your own credit report.
- Types of Credit Use Tips
  - Apply for and open new credit accounts only as needed.
  - Have credit cards – but manage them responsibly.



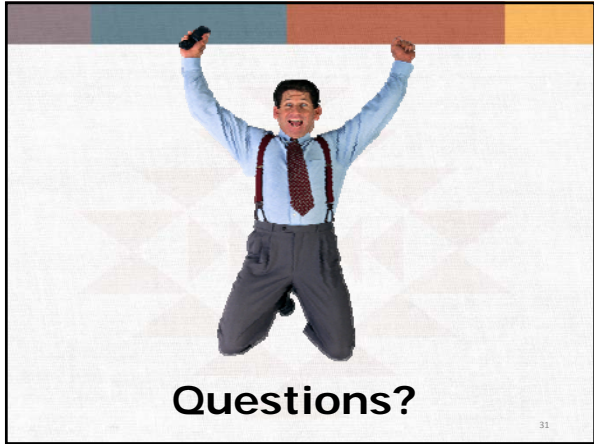
**Slide 29:** Note that closing an account doesn't make it go away.

A closed account will still show up on your credit report, and may be considered by a score.

# Homework Assignments:

1. Use [www.annualcreditreport.com](http://www.annualcreditreport.com) to request and print **at least one report** from one of the credit bureaus
2. Use 'Discover Credit Scorecard' or your bank website to get your free FICO score





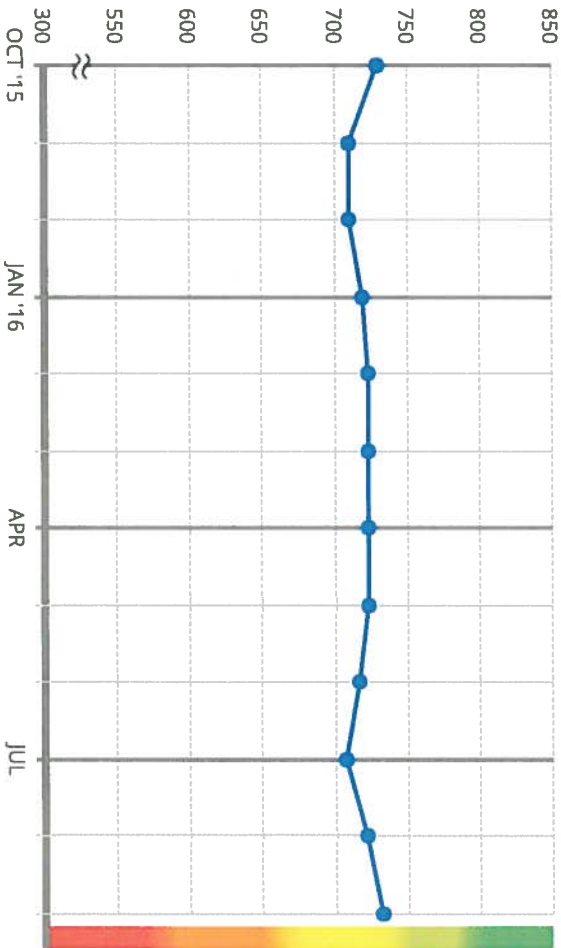
**Questions?**



# Credit Dashboard



Your monthly credit score based on data provided by Experian



## Key Factors Impacting Your FICO® Score

- No missed payments
- Many accounts currently paid on time

**FICO®SCORE**

**73**

As of 09/03/2016

National Average: **693**

[View details](#) ▾

[View details](#) ▾

Ratio of balance to limit on bank revolving or other revolving accounts is too high

[View details](#)

Your FICO® Score and Credit Dashboard are for your educational purposes and based on data from Experian. The score we provide is FICO® Score 8 and may differ from other credit scores. Chase and other lenders may use different scores and other types of information in credit decisions. The information we provide is updated monthly and may not reflect the most current data on your credit report.

Your Credit Picture

Credit Basics

FAQs

Credit Picture is a summary of data from your Experian Credit Report. This summary may not reflect how the data is used to calculate your FICO® Score.

Data provided by



### Payment History

The percentage of payments you've made on time over the past 24 months.

[View details](#)



### Credit Utilization

The percentage of your total available credit limits that you're currently using.

[View details](#)



### Length of Credit

The average length of time since you first opened your credit accounts and loans.

[View details](#)



### Credit Inquiries

The number of times lenders accessed your credit report because you applied for credit or for a loan.

[View details](#)



## Open Accounts

The number of open credit accounts and loans you have.

[View details](#)

[Unenroll](#) »

[Terms and Conditions](#) »

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## FICO® Score

695

as of 08/31/16

Wells Fargo credit rating:  
**Fair**

| FICO® Bankcard Score 2 | Experian Data  
 Score range: 250 – 900 | Updated Monthly

### Planning & Tools

- [Visit the Smarter Credit™ Center](#)
- [View My Retirement Plan®](#)
- [Calculate Debt-to-Income Ratio](#)

Your Score Factors
Your Score History
Credit Reports
Credit Education
FAQs

## Factors affecting your current FICO® Score

These key factors reflect your credit information as reported in your credit report.

Ratio of balance to limit on bank revolving or other revolving accounts is too high

Too many accounts with balances

Too many inquiries last 12 months

Amount owed on revolving accounts is too high

[See the key ingredients used to calculate FICO® Scores.](#)

Your FICO® Score shown above is the credit score that Wells Fargo uses to service your account. It is displayed here to help you understand your credit score and maintain good credit.

[I no longer want Wells Fargo to display my FICO® Score.](#)



How can we help you? 

- Accounts
- Bill Pay
- Transfers
- Special Offers & Deals
- Tools & Investing
- Open an Account
- Help & Support

# FICO® Score

View your FICO® Score



Your FICO® Score

[Learn about credit scores](#)

## FICO® SCORE

The score lenders use.™

# 712

Credit Rating: **GOOD**

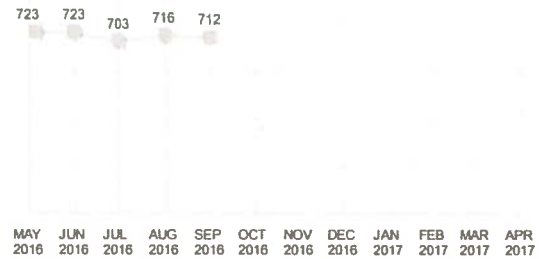
As of 09/19/2016 | Updated monthly

Your FICO® Score 8 based on TransUnion® data and the key factors provided are for your educational use. TransUnion is one of three credit bureaus. Your scores may vary across each bureau. For any questions, please see the FAQs below or contact TransUnion at 844.456.0942. Monday through Friday 8am-9pm EST.



### Your FICO® Score history

### National FICO® Score averages



## Key factors affecting your FICO® Score\*



### Proportion of balances to credit limits on bank/national revolving or other revolving accounts is too high

As one of the most important score factors, FICO® Scores evaluate account balances in relation to available credit on revolving accounts. Your score was impacted because your proportion of balances to credit limits on these accounts is too high.

#### Keep in mind:

People who pay revolving account balances, such as credit cards, as owed tend to show responsible credit behavior to lenders. However, keep in mind that consolidating or moving debt from one account to another will usually not help since the total amount owed remains the same.

### Length of time revolving accounts have been established

FICO® Scores consider the age of a person's oldest revolving account and/or the average age of revolving accounts. Your score was impacted by the relatively low age of your oldest revolving account and/or the average age of your revolving accounts.

#### Keep in mind:

People who do not frequently open new accounts and have longer credit histories generally pose less risk to lenders.



You can request your free annual credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com)

The score we provide here is FICO® Score 8 and may differ from other FICO® Scores. Bank of America and other lenders may use different scores and other types of information in credit decisions.

Manage how you get notified when updated scores are available to view.

[Update Alert Settings](#)