Are you Credit Ready?

Financial Fitness: Building and Maintaining your Credit

University of Colorado Denver

Financial Literacy and Wellness
After this presentation, you will be able to:

- Understand how to build and maintain your credit
- How your current spending habits impact your financial future
- Protect your identity
The National Student Loan Data System is available for all students that have received Federal student aid (including student loans).

Website:  www.nslds.ed.gov

NOTE: Review your history at least once a year.
About credit

- What is credit?
  - Trust between borrower and lender
  - A loan to pay for something
  - Ability and willingness to repay a debt

- *Student loans
- *Credit cards
- *Business Loan
- *Auto loan
- *Mortgage Loan
Credit cards

- Credit cards are **good**:  
  - For convenience or emergency purposes
    - medical
    - automobile
  - Necessary for some purchases
    - by internet
    - for air fare, hotels and transportation costs
  - Safer than carrying cash
  - Helps establish a credit history
  - Own expensive products sooner
    - Expect life of product should be at least as long as the repayment period
  - Records transaction for record keeping or resolving disputes
    - Safer than a debit card

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Credit cards

- Credit cards are **bad**:  
  - Using credit to support a life-style you can’t afford  
  - Potential over-spending  
  - Using credit for daily and/or “overly” expensive purchases.  
  - Every dollar you spend has interest and/or fees attached  
  - Purchases cost more due to accrued interest  
  - Excessive credit card use and late payments can harm your credit rating and result in compounding debt
## Credit Card Example

<table>
<thead>
<tr>
<th>Balance</th>
<th>Interest Rate</th>
<th>Monthly payment</th>
<th>Years to pay</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,200.00</td>
<td>18%</td>
<td>$40.00</td>
<td>9.8</td>
<td>$4,683.00</td>
</tr>
<tr>
<td>$2,200.00</td>
<td>18%</td>
<td>$55.00</td>
<td>5.2</td>
<td>$3,385.00</td>
</tr>
<tr>
<td>$2,200.00</td>
<td>18%</td>
<td>$200.00</td>
<td>1.1</td>
<td>$2,422.00</td>
</tr>
</tbody>
</table>
What to look for...

• Be sure that you ask questions and understand ...
  – Term (length)
  – Interest rate (variable, fixed, APR)
  – Penalties (fees, etc.)
  – Repayment options
  – Hardship allowances
Understanding your credit score

Q. What is a credit score?

A. A number based on a statistical analysis of a person's credit history, which represents that person's creditworthiness....

Basically, this score looks at your past credit activity and tells creditors whether or not you are a good credit risk or not.
How is Credit Worthiness Measured

The four C’s of Credit:

Character – History

Capital – Collateral

Capacity – Income/Debt

Credit Score
What is a good credit score?

- Below 580: A “very risky” borrower (work on building your credit)
- Between 580 – 669: Below average borrower
- Between 670 – 739: Good credit risk
- Between 740 – 799: Excellent (and dependable)
- Above 800+: Exceptional borrower
Understanding your credit score

• A credit score is based on:
  – Payment history – 35%
  – Amounts owed – 30%
  – Length of credit history – 15%
  – New credit (debt) – 10%
  – Types of credit in use – 10%

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Understanding and building your credit and score

• How to build your credit score:
  – Payment history (35%)
    • Always, always pay on time.
  – Amounts owed (30%)
    • Use less than 50% of your available credit limit.
  – Length of credit history (15%)
    • Get one credit card from a major financial institution and keep it for a long time.
  – New credit – 10%
  – Types of credit in use – 10%
Understanding your credit score (continued)

- **How to build your credit score:**
  - Payment history
    - Always, always pay on time.
  - Amounts owed
    - Use less than 50% of your available credit limit.
  - Length of credit history
    - Get one credit card from a major financial institution and keep it for a long time.
Understanding your credit score (Continued)

• **What can a credit score impact?**
  
  – Your ability to purchase a home, car or other large purchase (business loan)
  
  – Interest rates charged for a home, car or other large purchase
  
  – Insurance rates for car, rental and home insurance
  
  – Employment opportunities

*Note: Pay attention to your spending habits. It can affect you in the long run.*
How do you know you are OVER indebted?

• You don’t know how much you owe
• Borrowing or using credit to pay bills
• Can pay only the minimum due
• Over debt and credit limits
• Requesting new credit or increasing limits
• Paying late or skipping credit payments
• Refinancing loans to get more loan funds
• Using random debt consolidation loans
• Experiencing garnishment or repossessions
Lack of Payment Consequences

- Reported to credit bureau
- Debt becomes due in full
- Assigned to collection agency
- Responsible for attorneys fees and collection costs
- Wages may be garnished
How to get from under excessive debt?

• Determine your account balances and payments required
• Focus budget on debt reduction
• Contact your creditors
• No new credit
• Refinance
• Avoid bad help
• Find good help
Advice from the Pros
(to control or reduce credit card debt)

• Immediately stop using card
• Set a goal pay off date (www.bankrate.com)
• Transfer existing balances for lower interest rates
• Pay minimum on lows/ maximum on high
• Reevaluate your budget to pay off sooner
• Work overtime or use unexpected gift or bonuses
• Seek assistance to get on track
Checking your credit report

• Get your **FREE** credit report every year
• If you move, marital status changes, before applying for new credit, resolving conflicts
• **Colorado residence** can get credit reports twice a year for FREE
• Check your credit reports to understand your creditworthiness and to remove/review disputes, liens, judgments.
• Reports may vary so order from all three major credit bureaus (see below website)

www.annualcreditreport.com

*Transunion  *Equifax

*Experian

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Others that review your credit

- Insurance companies
- Employers
- Colleges/University
- Land Lords
- Various credit agencies

- Utility companies
- Banks/Credit Unions
Identity Theft

• Destroy credit card applications & sensitive mail
• Monitor credit card and checking account balances
• Be aware of any use of your SSN

• Identity thieves need only a few key pieces of information to begin the identity theft process:
  – Name
  – Phone number
  – Bank account
  – Driver's license number
  – Address
  – Social Security Number
  -- Credit card numbers
  -- Date of birth
Some Helpful Resources

- [www.ucdenver.edu/financialliteracy](http://www.ucdenver.edu/financialliteracy)
- [www.bankrate.com](http://www.bankrate.com)
- [www.mint.com](http://www.mint.com)
- [www.showmethefuture.org](http://www.showmethefuture.org)
- [https://www.fdic.gov/consumers/consumer/moneysmart/](https://www.fdic.gov/consumers/consumer/moneysmart/)
- [https://www.360financialliteracy.org/](https://www.360financialliteracy.org/)
- [https://info.cashcourse.org](https://info.cashcourse.org)
Review:

• Understand how to build and maintain good credit
  • Understand credit
  • Understand your creditworthiness
  • Build and maintain your credit score
  • Request your free annual credit reports
  • How to protect your identity

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Are you Credit READY?

University of Colorado Denver
Financial Literacy and Education Programs

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