



ZOOM SUNDAY WORKSHOP FEBRUARY 25TH, 2024 SESSION 2: IMPROVING CREDIT AWARENESS



Overview:

Credit is a financial tool that is used by almost everyone at one point in their lives.

However, many lack the knowledge to understand and use credit wisely.

Improving your credit awareness can be a powerful tool to access economic mobility.



Overview:

In this presentation, you will learn the definition of credit — what it is, how to become creditworthy and the relationship between your credit report, credit score and credit profile.

Additionally, you will be given information to help you increase your credit awareness and take control of your credit score.



Let's begin by understanding the meaning of the word:

CREDIT

CREDIT DEFINIED:

Credit is the ability to obtain goods or services before payment.

This is possible because the lender **trusts** that you will - repay them in the future.

The lender pays the merchant or seller at the time of the transaction, and you pay the lender back at a later date and for a fee.





But what creates the **trust** that makes one creditworthy?

How does a lender determine if someone is reliable and financially responsible enough to be granted credit?

Since lenders do know potential borrowers personally, they evaluate borrowers' repayment potential from their credit profile.

WHAT IS A CREDIT PROFILE?

Your credit profile consists of your credit report and your credit score.

Understanding your credit profile improves your credit awareness.





The easiest way to understand your credit profile is by reviewing your credit report and credit score.

CREDIT REPORT

The three main credit bureaus, TransUnion, Equifax, and Experian, create credit reports that provide a detailed overview of your borrowing history for the past seven to ten years. You can obtain a free copy of reports from all three bureaus by visiting www.annualcreditreport.com





WHAT IS ON THE CREDIT REPORT:

Your credit report lists all credit activity. Each credit account will show a month-by-month summary and a history of how you've managed the account. The following information is reported to the bureaus:

- ✓ The date the account was opened.
- ✓ Type of account: an "installment" loan with a fixed payment, such as a car loan, or a "revolving" line of credit, such as a credit card.
- ✓ Whether the account is joint or individual.

- ✓ Your balance.
- ✓ When payments are made.
- ✓ The balance limit on your account.
- ✓ Terms of the loan.
- ✓ The status of the account: current/open, closed, chargedoff, sent to collections.

Your credit scores are primarily determined by the information present in your credit reports. The two major credit scoring companies, FICO and AdvantageScore, use this data to calculate a score for each individual.



Think of your credit score as a report card that reflects your financial behavior. Just like in school, if you frequently missed class, performed poorly on tests, and never completed your homework, you would likely receive an unfavorable grade.



Similarly, if you don't pay your bills on time, carry a high debt load, and have unpaid bills, your credit score will reflect these behaviors and result in a low credit score.



On the other hand, if you consistently pay your bills on time, keep your debt levels low, your credit score will reflect these behaviors resulting in a higher score.

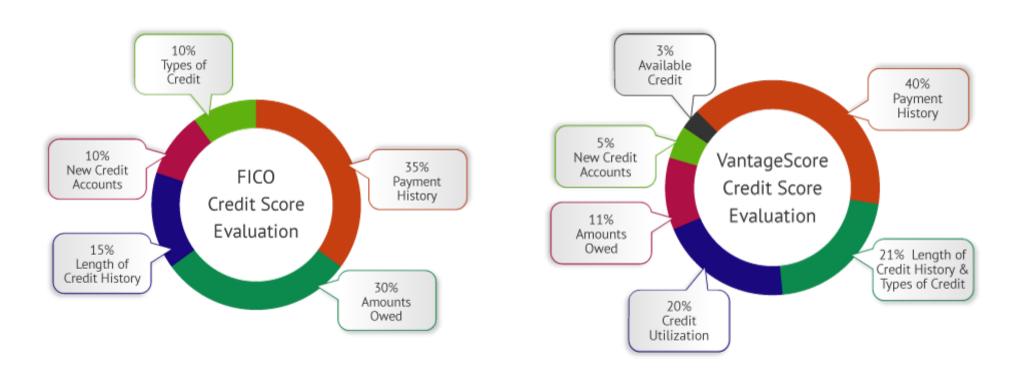
Keep in mind that it takes time and effort to build a strong credit history, but the benefits are well worth it.



There are two grading systems used to score credit report transaction:

The Fair Isaac Corporation (FICO) score and VantageScore.

These systems use similar grading models and methods.



See the next slide for an explanation of how the two major credit scoring companies determine credit scores and a list of the lenders that will most likely use them.

The Fair Isaac Corporation (FICO)

Here is how The FICO scoring system evaluates credit report elements:

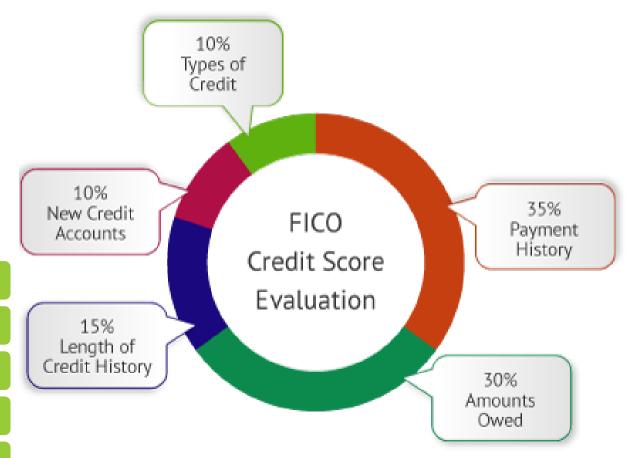
35% is based on your payment history.

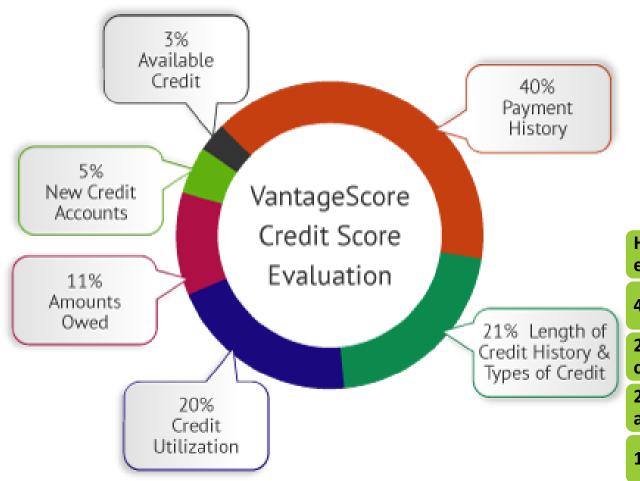
30% reflects the amounts you currently owe.

15% is from the length of your credit history.

10% is from new credit and the number of recently-opened accounts.

Another 10% is based on the types of credit you use.





VantageScore

Here is how The VantageScore scoring system evaluates credit report elements:

40% is based on your payment history.

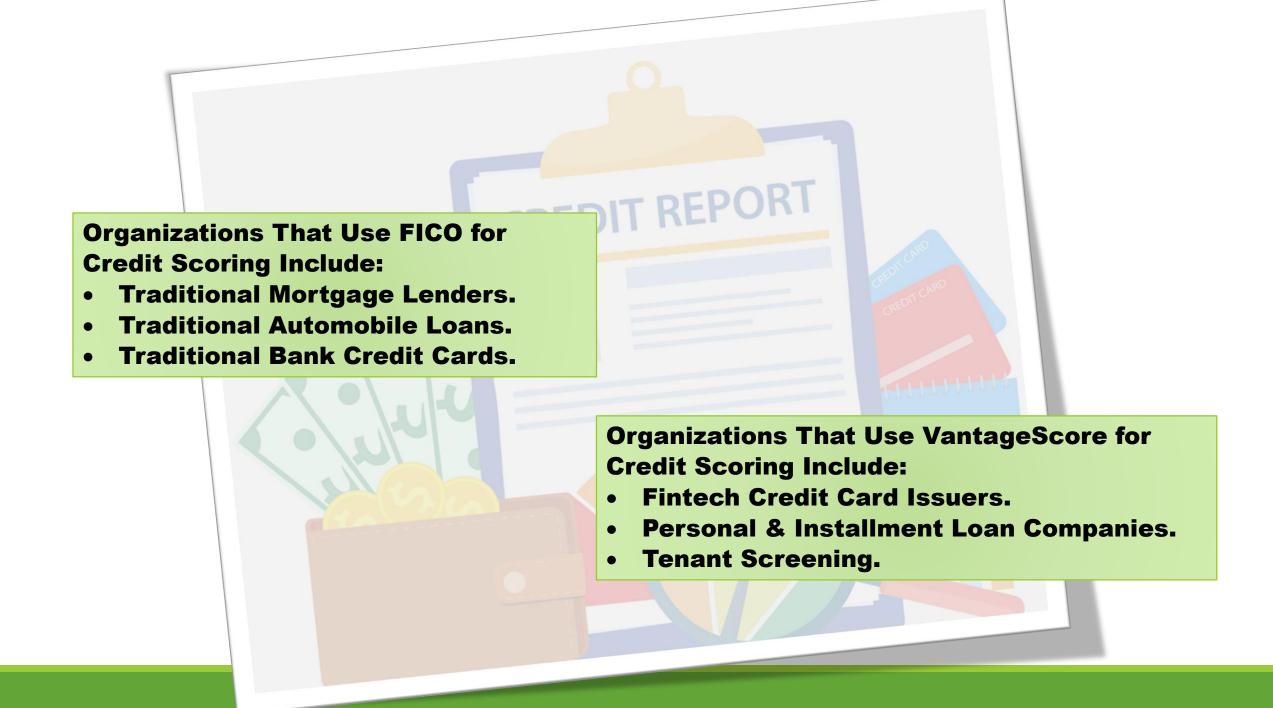
21% is calculated from the length of your credit history and the types of credit you use (combined).

20% is based on credit utilization: the percentage of an account's total amount of available credit currently owed.

11% on the amounts you currently owe.

5% is from new credit and the number of recently-opened accounts.

3% is from the total amount of credit to which you currently have access.







- Make your payments on time: Late payments can have a significant negative impact on your credit score. It's important to make at least the minimum payment on each account by the due date.
- Pay down your debt: High levels of debt can also negatively impact your credit score. By paying down your debt, you can improve your credit utilization ratio, which is the amount of credit you're using compared to your credit limit. the goal is to use 30% or less of your total credit limit.



- Keep old accounts open: The length of your credit history is a factor in your credit score, so it's a good idea to keep old accounts in good standing open, even if you're not using them.
- 4. Limit new credit applications: Applying for new credit can result in a hard inquiry on your credit report, which can temporarily lower your score. Limit new credit applications to only when necessary.



5. Check your credit report regularly: It's important to check your credit report regularly for errors or inaccuracies that could be negatively impacting your score. You can get a free copy of your credit report from each of the three major credit bureaus once a year at AnnualCreditReport.com.



Oispute any errors or inaccurate information: on the report in writing and enclose copies of account statements, ongoing investigation reports, and any other documents that offer evidence supporting your challenge. Give both the credit bureau and the associated information provider approximately 30 to 45 days to investigate the claim. If the claim cannot be verified, the record will be removed from your credit report.

Session Recap:

- Credit is financial too you will likely use at some point in life.
- Credit the ability to obtain good or services before paying for them.
- Trust is what makes one credit worthy.
- Lenders rely on your credit profile to evaluate your creditworthiness.
- Your credit profile consists of your credit report and your credit score.
- Your credit report lists credit activity for the past 7 to 10 years.
- A credit score is the grade given to the financial behaviors presented in the credit report.
- The two major scoring companies are FICO and AdvantageScore.
- There is no shortcut to improving your credit.

Session Recap:

Remember that your financial journey is unique.

When it comes to personal finance, there is no one-size-fits-all approach. Each individual's financial situation is unique, based on their income, expenses, goals, and priorities.

What works for one person may not work for another. Recognize that everyone's financial journey is different. Understanding and accepting this fact can help you make financial decisions tailored to your specific needs rather than trying to follow someone else's path.

So, take the time to assess your financial situation, set your goals, and develop a plan that works best for you is essential.

Remember, your financial journey is your own, and it's up to you to take control of it.

Thank You

Thank you for joining us today for this virtual session. We hope you found it informative and engaging. We appreciate your commitment to lifelong learning.

Our mission is simple: to provide resources to help others make informed financial decisions, optimize resources, develop healthy financial habits that promote economic inclusion.

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