GREENSBORO MUNICIPAL Federal Credit Union

Financial FITNESS

Credit & Debt

What is Credit?

- Credit is the ability for you to borrow money to access goods and services with the understanding that you'll pay later for the privilege of buying now.

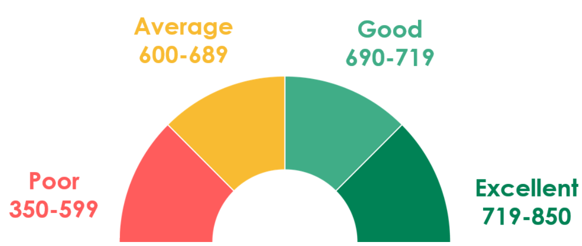
Why do you need good credit?

- To be able to make major purchases.
- To get a credit card
- To get better interest rates on loans and credit cards
- To rent an apartment or house
- To get better insurance rates
- To get utilities without deposits
- To get a job

Types of Credit

- **Revolving/Open:** account with maximum limits and minimum payments that you can make partial payments towards the balance (For example: credit card, line of credit)
- **Installment:** account with a specific sum of money borrowed that is paid back on a regular schedule in a regular, equal payments over a set period of time (For example: car loan, mortgage, student loan)
- **Service Credit:** a contract with utility providers, such as electricity, cell phones, gym memberships, etc. on the understanding you pay monthly for the service.
- **Charge Card:** credit cards paid in full each month, usually have an annual fee and rewards (such as AmEx)

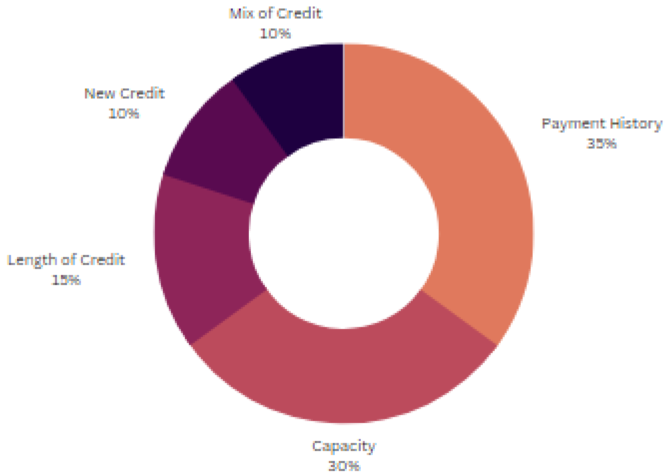
Credit Score



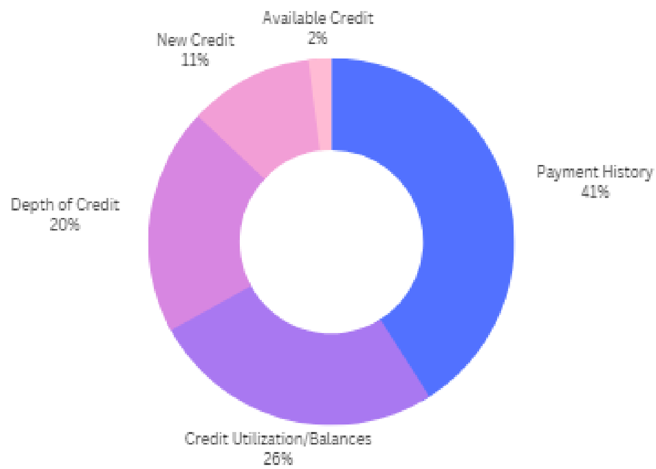
- Helps your lender determine the probability that you will pay back your debt and can also determine how much interest that lender will charge you.
- **FICO:** Fair Isaac Corporation, which sets scores
- **Big Three Bureaus:** Equifax, Experian, & TransUnion
- **VantageScore:** new product developed by Equifax, Experian, & TransUnion; not widely used (yet) but used by Credit Karma

- The average American credit score is 695, which is considered "Good"—but barely.
- Green zone gives you more options for lending. When you fall into the yellow and red zones, you become more of a risk. This sets you up for incredibly limited options with high interest rates OR for no ability to borrow at all.

What Makes Up a Credit Score?



- **FICO**
    - **Payment History (35%)** – Are you paying on time and at least the minimum if not in full?
    - **Capacity (30%)** – Total amount you owe vs total amount available to you.
        - **How to calculate Capacity**: add your total balances, add your total limits, and divide balances by limits
        - **Example**: $3,500 in balances, $10,000 in limits is 3,500/10,000 = 0.35 or 35% capacity
    - **Length of Credit (15%)** – How long have you had your credit accounts?
    - **New Credit (10%)** – Have you taken on a lot of new credit accounts recently?
    - **Mix of Credit (10%)** – Different kinds of accounts (revolving or installment)



- **VantageScore**
    - **Payment History (41%)** – Are you paying on time and at least the minimum if not in full?
    - **Credit Utilization/Balances (26%)** – How much do you owe over all your credit accounts?
    - **Depth of Credit (20%)** – How long have you had credit accounts and what kinds?
    - **New Credit (11%)** – Have you taken on a lot of new credit accounts recently?
    - **Available Credit (2%)** – What credit has been extended to you that you haven't used?

How Do I See My Credit Report?

- You're entitled by law to 1 free credit report per year per bureau.
- AnnualCreditReport.com
- Your score will vary by bureau
- If there's something wrong, file a dispute with EACH bureau.
- Some credit card companies will provide you with a "soft score" each month

What is Debt?

- This is the amount of money that you borrow from a lender, either in the form of a loan or a credit card.
- OR it's the amount of money you owe for services rendered, such as a medical bill.
- And your payment matters—late payments can affect your credit score negatively for anywhere from 24 months to 7 years.
- **Secured Debt:** backed by collateral; failure to repay results in foreclosure or repossession (car, house, etc.)
- **Unsecured Debt:** not backed by collateral; failure to repay can cause the debt to be sold to a collection agency and/or filed for judgment.

Why Does Payment Matter?

- Making your payment on time can make a huge difference in what you end up spending once your balance is paid down to zero.
- Average APR on regular credit cards is 21.92%, but make two late payments and your interest could easily jump higher

Balance:	$2,000.00	$2,000.00
Payment	$50.00/mo	$50.00/mo
APR	15%	25%
Interest	$790	$2,345
Total Paid	$2,792	$4,345
Payoff Time	4 years, 8 months	7 years, 3 months

- At 25%, you're paying over DOUBLE the amount you borrowed back, nearly TRIPLE the interest by the time you get it paid off at that monthly rate, and it's taking you almost 3 full years longer. That's a lot of time and money! And that's not even counting any late fees, annual fees, inactivity fees, or any other fees that might pop up during that time.

How Does Credit Score Impact Interest Rates?

Credit Score	Average for a New Car	Average for a Used Car
781 to 850	3.69%	3.84%
661 to 780	4.90%	5.47%
601 to 660	7.25%	9.81%
501 to 600	10.11%	15.86%
300 to 500	12.93%	19.81%

Based off Experian 5-year (60 month) Average Auto Loan Rates as of Q3 2022

Collections

- The Consumer Financial Protection Bureau estimates 28% of consumers have some form of debt in collections.
- Best practice: Don’t ignore the debt!
- Taking control early will help you minimize damage.
- Deal with an in-house collector as much as possible
- NEGOTIATE!
- For disputes, send a registered letter to the bill collector stating your dispute.
    - Templates at ConsumerFinance.gov
- Acting swiftly, educating yourself, seeking help, and committing to make payments on time can save your credit!

Improving Credit

- Pay of delinquent accounts ASAP
- Pay off high balance/high interest accounts FIRST to save money.
- Apply for and open credit only as needed.
- Keep credit lines you’ve had for a long time that don’t charge you an annual fee and put a small amount on them monthly that you can easily pay off—gives you credit history and positive payments!
- Keep an eye on your credit report and dispute any discrepancies immediately.
- DON’T GIVE UP! It’s a marathon, not a sprint.

Should I ever close a credit account?

- While you don’t want to open and close too many lines in a short amount of time, you may need to close accounts that aren’t serving you anymore:
    - Accounts with high interest rates
    - Accounts with annual fees
    - Accounts you’re tempted to use
- A good rule of thumb is to keep open your oldest trade line that does not have any fees associated with it, use it sparingly, and pay it off every month

Snowball or Avalanche Method of Debt Repayment

- Pick a path!
    - **Snowball**—pay accounts with smallest debts first.
        - Pro: quick wins make you feel great!
        - Con: can cost more in interest
    - **Avalanche**—pay accounts with highest debts/interest first.
        - Pro: can save you money in interest
        - Con: can take a while before you see a debt paid in full
- Budget how much you can afford to pay all debts per month, taking into account minimum payments and then extra to pay on your focused debt.
- Pay a higher payment (minimum + any extra budgeted) on your focused debt while paying minimum payments on all other debts.
- Once your focused debt is paid, move to the next in the list and repeat the cycle while adding on your payment from your paid off debt to your new focused debt.
- The idea is you've already budgeted an amount to your debt so keep with that amount until debts are all paid.
- Example:
    - You have 3 credit cards with $25 minimum payments each. You can afford to put $125 on those cards per month, so an extra $50.
        - Card 1 – Pay $75
        - Card 2 – Pay $25
        - Card 3 – Pay $25
    - Once card 1 is paid off, you'll pay.
        - Card 2 - $100 ($25 minimum plus $75 from Card 1)
        - Card 3 - $25
    - Once card 2 is paid off, you'll pay.
        - Card 3 - $125 ($25 minimum plus $100 from Card 2)

Credit Rules to Remember

- Make sure you pay those bills on time and in full whenever possible. If you can't pay in full, pay over the minimum if possible. It will help!
- Keep your borrowing below 30% of your total credit limit (that's the total maximum of all credit cards and total amounts of any loans you've been issued).
- Keep tabs on your credit yearly with AnnualCreditReport.com.
- Don't open and close too many accounts at once because this will affect how lenders perceive you can handle your accounts.

Important Links

- Free Credit Report: www.AnnualCreditReport.com
- CFPB Credit Report Tools: https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/