



# Credit: The Basics (Part 1)

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## The Basics: All About Credit

Curriculum for Women's Advocates  
Aftercare Program

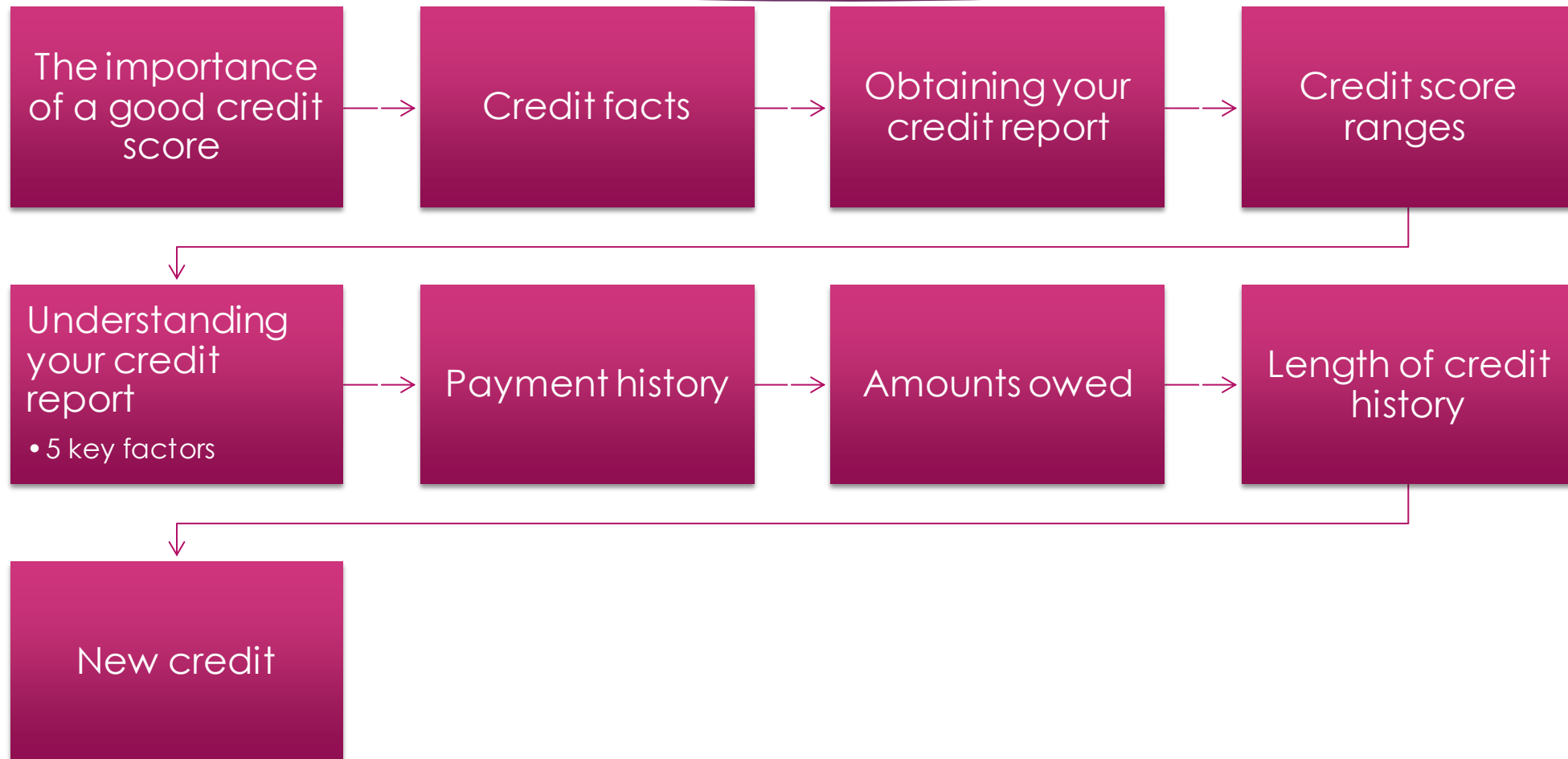


Women's Advocates  
Breaking the cycle of domestic violence





# What We Will Be Covering In This Video



# Common Barriers to Housing for Survivors

Insufficient  
income

Safety  
restrictions

Coerced debt

Criminal record  
as a result of  
domestic  
violence

Eviction record  
due to actions  
of abusive  
person

Financial  
abuse

Insufficient  
credit



## What is credit?

- ▶ Credit is generally defined as a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at a later date—generally with interest.
- ▶ Credit also refers to the creditworthiness or credit history of an individual or company.
- ▶ It also refers to an accounting entry that either decreases assets or increases liabilities and equity on a company's balance sheet.

# Why is good credit important?

- ▶ Good credit allows you to obtain loans and credit cards with the best interest rates. It can also improve your ability to rent an apartment, buy insurance coverage, get a job, obtain a mortgage, etc.
- ▶ Landlords, insurance companies and even some employers can have limited access to your credit report.
- ▶ **They can:**
  - ▶ Verify your personal information.
  - ▶ View your payment history.
  - ▶ See whether you've been sued or have declared bankruptcy.
  - ▶ See how often you have recently applied for credit.



# What's on your credit report?

Whether or not  
you've paid  
your debts on  
time

How much  
you owe to  
creditors

Unpaid loans

# Credit Facts

- ▶ Checking or pulling your own credit score or report **does not** hurt or lower your credit rating. (self-inquiry)
- ▶ Credit inquiries made by companies checking your credit report to send you pre-approved offers, do not count either. (soft hit)
- ▶ However, if you **accept an offer** and the credit card company or lender pulls your credit report to do a more thorough credit check, it does count.
- ▶ Each credit inquiry can lower your score by *about 5 points*.
- ▶ However, the FICO system counts multiple inquiries made in a 14-day period as one inquiry for large purchases (property or auto loans), so you can rate shop.



# Obtaining Your Credit Report

- ▶ Each of the 3 credit reporting agencies must provide you with a free copy of your credit report every 12 month, upon request.
  1. Equifax - [www.equifax.com](http://www.equifax.com)
  2. Experian - [www.experian.com](http://www.experian.com)
  3. TransUnion - [www.transunion.com](http://www.transunion.com)
- ▶ You can request a report for **all three** from a central website:
  - ▶ Annual Credit Report Request Service
    - ▶ [www.Annualcreditreport.com](http://www.Annualcreditreport.com)
- ▶ **Don't be misled by other websites**

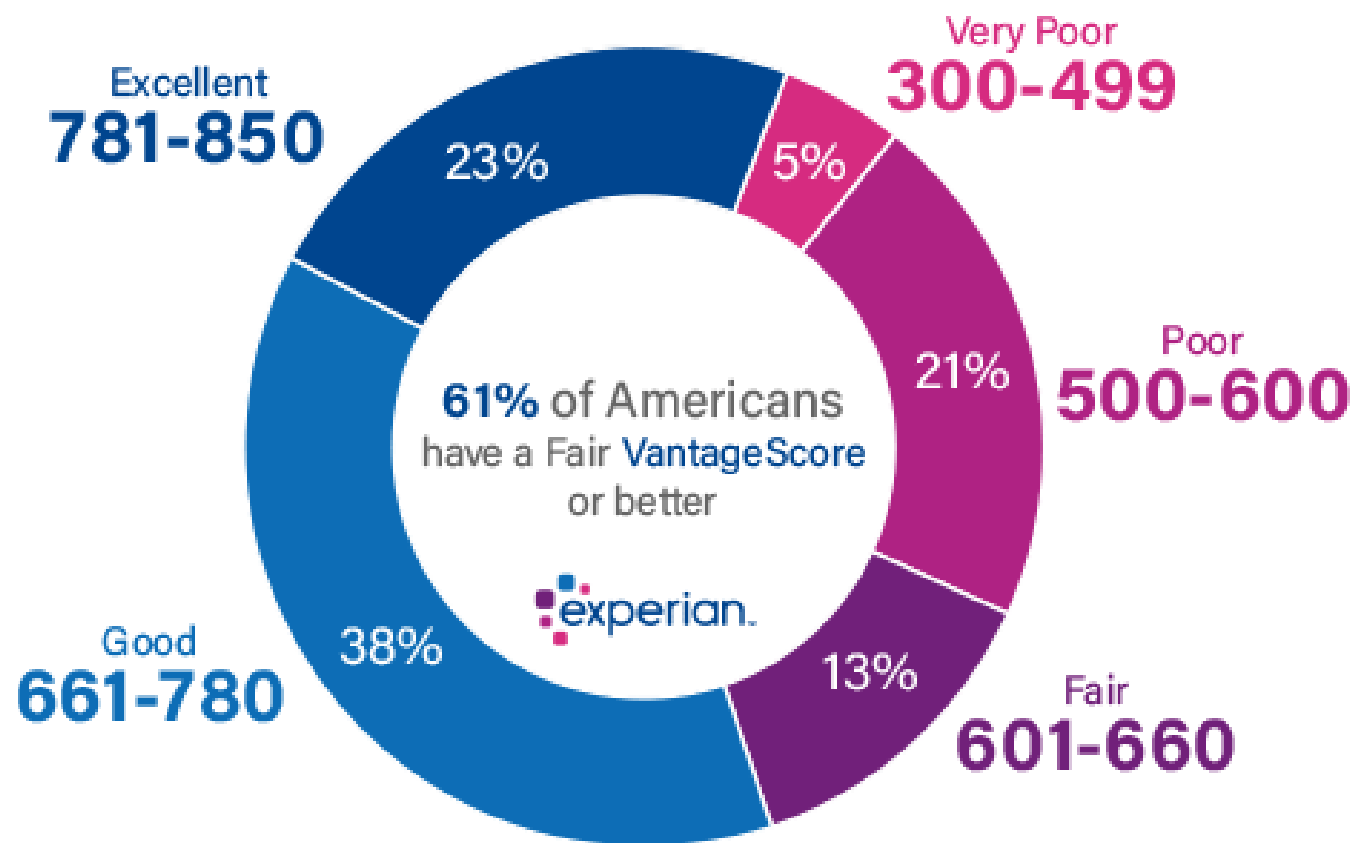




# Understanding Your Credit Report



- ▶ **Personal Identifying Information:** name, birthdate, address, SSN, employment
- ▶ **Credit History:** payment history, balance information, current status
- ▶ **Public Records:** bankruptcy filings, foreclosures, judgements, liens
- ▶ **Inquiries:** list of creditors or authorized parties that have requested a credit report in the last 2 years



# Credit Score Ranges

# Five Key Factors of Your Credit Score

**Payment  
History –  
35%**

**Amounts  
Owed – 30%**

**Length of  
Credit – 15%**

**New  
Credit – 10%**

**Types of  
Credit – 10%**

- ▶ Your credit score takes into consideration **all** these categories, not just one or two.
- ▶ It's impossible to say exactly how important any single factor impacts your score since they are **different for everyone**.
- ▶ Different debt is “weighted” differently
- ▶ Example: Revolving debt (i.e. credit card debt) is weighted heavier than mortgage debt

*\* All percentages are approximations. For certain groups, the importance of these categories may be different.*

# Payment History

## THE most important factor that impacts your credit score

- ▶ On-time payments on:
  - Credit cards, retail accounts, installment loans, finance company accounts, mortgages, auto loans, etc.
- ▶ Adverse (negative) public records:
  - Bankruptcy, judgments, suits, liens, wage attachments, collections and/or delinquency (past due items)
- ▶ Amount and number of past due and delinquent accounts or collection items, as well as length of delinquency
- ▶ Time since there were items past due, adverse or any collections
- ▶ Number of account paid as agreed (in good standing)



# Amounts Owed

- ▶ Number of accounts with balances
- ▶ Amount owed on accounts
- ▶ Portion of credit lines (debt to limit ratio)
- ▶ **Example:**  
\$300 debt on a credit card with \$1,000 limit = 30% debt to limit ratio



# Length of Credit History

- ▶ How long you've been using credit
  - The date you opened your oldest account
  - The date you opened your newest account
  - Average age of all your accounts
- ▶ Time since accounts were opened, by specific type of account
- ▶ Time since account activity

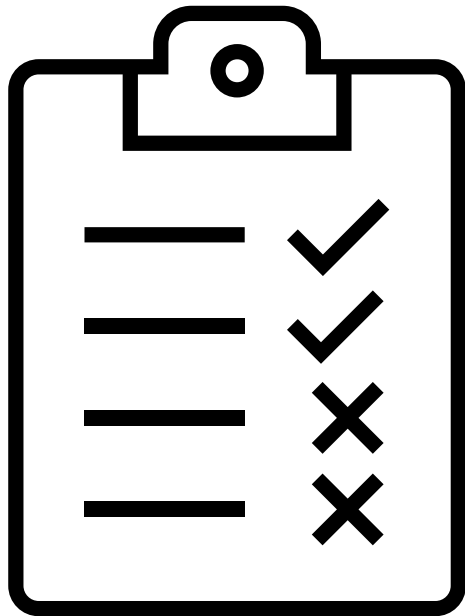




# New Credit

- ▶ Number of and time since recently opened accounts
  - As well as proportion of accounts that are recently opened
- ▶ Number of and time since recent inquiries
- ▶ Re-establishment of positive credit history following past payment problems





# Don't forget to take the quiz!

Take the quiz using the **link in the description** of this video to receive credit for watching this video. It will contribute to you receiving your aftercare certificate of completion.



# Overview

## What we just learned

- ▶ The importance of a good credit score
- ▶ Credit facts
- ▶ Obtaining your credit report
- ▶ Credit score ranges
- ▶ Understanding your credit report
  - ▶ 5 key factors
- ▶ Payment history
- ▶ Amounts owed
- ▶ Length of credit history
- ▶ New credit

## What's to come in part 2

- ▶ Types of credit
  - ▶ Installment, Revolving, Open
- ▶ Understanding credit score
- ▶ Improving credit score
  - ▶ Payment history
  - ▶ Missed payments
  - ▶ Making payments
- ▶ 30% Rule Examples
- ▶ Length of credit
- ▶ New credit
- ▶ Diversifying type of credit
- ▶ Correcting errors on credit report



# Thank you for watching!

## The Basics: All About Credit

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WITH ANY QUESTIONS!