

# Understanding Credit

## What to know about your credit.

When you apply for credit, your lender will evaluate your financial situation to determine how much money they are comfortable lending you based on specific risk factors. Once you borrow money, it's important to pay the money back. Your repayment behavior, such as being punctual, delayed, or making partial payments, is tracked and reported to one or more credit reporting agencies. These agencies then use this data to calculate your credit score. Your credit score is determined by your prior credit repayment history, which is crucial when you apply for future loans, like a home or a vehicle. Therefore, it's essential to repay borrowed funds on time to build and maintain a positive credit history. Doing so will improve your chances of getting approved for future loans and at a lower interest rate to help you achieve your long-term financial goals.

## Building good credit.

Congratulations on taking the important step of establishing a solid credit history by learning more about it. For those under 21, the challenging part is starting out because a good credit score is strongly based on repayment history. When you don't have much (or any) credit repayment history, your credit score is low. But by repaying your debts in full from the start, you're on your way to having a great credit score later.



# Practical Tips for Understanding Credit



## Information Provided in Credit Reports

- Your credit score is determined by the information that your creditors or loan servicers provide to credit bureaus. This information includes your (and your cosigner's) name, social security number, contact information, the type of loan, current balance of your loan, the monthly amount owed, the amount you paid this month, current repayment status (paid on time, paid late, defaulted, etc.), repayment status over the past two years, and other loan-related information.
- Information that is NOT included is anything pertaining to checking or savings accounts, medical history, or any demographic information, such as race, gender, religion, marital status, national origin



## Credit Score

This credit score changes over time based on your current credit repayment behavior. Positive behavior (repaying credit on time, repaying at or above the amount owed) raises your score. Negative behavior (paying late or not at all, paying below what is owed) lowers your score.

- Credit scores typically range from 300 – 850
- Credit repayment information is kept for 7 years, with limited exceptions
- Important information, such as paying off a credit account on time (positive) and Chapter 7 bankruptcy (negative) remains on your credit report for 10 years

# More About Credit Scores



## Credit Score Factors

- Although credit reporting agencies use slightly different algorithms to measure different types of credit, they all use the same five critical factors to calculate the credit score.
- The five factors and their weight in determining credit scores are: Payment History (35%), Amounts Owed (30%), Length of Credit History (15%), New Credit (10%), and Credit Mix (10%).

## Types of Credit History Inquires

- Hard inquiry – a credit inquiry for mortgage, home loan, auto, or credit card (affects credit score).
- Soft inquiries are from companies sending unsolicited offers for marketing purposes. (does not impact your credit score)
- Personal inquiries from individuals checking their credit scores differ from hard or soft inquiries based on model changes, have no impact on credit score.

## Credit History May Influence

- Ability to buy or lease a car.
- Ability to buy a house.
- Ability to get a credit card.
- Ability to rent an apartment.
- Ability to get a specific type of job/security clearance.
- The interest rate you qualify for on any loan.
- The amount you may pay for insurance.
- Issues with getting a cell phone contract.

# Credit Tips.

## → Improving Your Credit Score

- Pay all your bills on time & pay off any secured loans.
  - Keep balances low on credit cards and revolving credit.
  - Apply selectively for new credit, but only when necessary.
  - Do not close unused credit cards (with no fees).
  - Check for and dispute any inaccuracies on credit reports.
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## → Building Credit History without a Credit Card.

- Apply for a loan, such as a student loan, with a cosigner or as a cosigner. The underwriting is focused on the borrower with established credit, but the repayment is attributed to both regardless of who pays.
  - Use a credit-builder loan. Credit-builder loans are credit cards where the amount of initial credit is equal to the amount of money deposited by the borrower but only accessed if the borrower fails to make payments.
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## → Actions that Adversely Affect Your Credit Score.

- Failure to make payments
  - Late payments
  - Paying less than owed
  - Opening multiple accounts quickly
  - Defaulting on a loan
  - Filing bankruptcy
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## → Attributes of Creditworthy Applicants.

- Having stable income and employment
  - Being consistent in paying bills on time and in full
  - Having a credit score that exceeds the lender's minimum for approval
  - Having a qualified cosigner
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## → Risk Factors Lenders May Consider.

- Current credit score/credit history
- Stability of income/employment
- Current existing debt
- Value of security (where applicable)
- Other financial resources/reserves





# Credit Q&A

## Can I get my credit report for free?

Yes! The Fair Credit Reporting Act requires all credit reporting agencies to provide a free credit report at least annually. Be wary of companies that charge you for information about you that is required to be provided for free

To obtain your free credit report, visit [annualcreditreport.com](https://annualcreditreport.com) or call 877-322-8228. Since each agency must provide a version of its credit report annually, many individuals request their credit report from a different consumer credit reporting agency (Equifax, Experian, and TransUnion) every four months, allowing them to monitor credit report changes regularly.

## What to do with inaccurate information in my credit report?

If you discover an error in your credit report, take the initiative to fix it. The credit reporting agency will inform you to check with the lender/loan servicer first to ensure the correct information is being furnished to the agency. Once you've confirmed that the correct information is being furnished, inform the credit reporting agency. After their review, you should receive corrected information about the disputed error within a reasonable timeframe.

## How long does information stay on my credit report?

Generally speaking, all previously reported information on your credit report remains for seven years to allow future lenders the ability to evaluate your past credit repayment behavior. Some exceptions to these guidelines include:

- Paying off a loan on time remains for 10 years after the last payment.
- Chapter 7 bankruptcy remains for 10 years after the filing date.
- Credit inquiries, aka "Hard pulls," remain for 2 years after the credit inquiry. Multiple hard pulls within a short time while shopping for a loan are evaluated together.

A person with long brown hair, wearing an orange shirt, is holding a credit card in their right hand and a laptop in their left hand. The background is blurred, showing a desk and a window.

# What's the right card for you?



## For Minors

Responsible credit card use is important for building good credit. The Credit CARD Act of 2009 added protections for young consumers to address credit card abuse.

- Anyone under 21 must have a cosigner over 21 or independent income.
- If a credit card is cosigned, the cosigner must approve any increases to the credit limit in writing.
- Card issuers are prohibited from offering tangible items, such as free apparel, to entice students to apply for credit cards on or near campus.



## For Students

- Consult with a family member.
- Apply for a card with a cosigner.
- Consider using a credit-builder loan.
- Consider using a prepaid card.



## Smart Credit Card Use

Remember to always keep track of your credit card's whereabouts. Additionally, it's important to follow these essential tips for using your credit card wisely:

- Understand all terms and conditions.
- Budget for the monthly/annual fees.
- Know the interest rate.
- Use your card only for budgeted expenses or emergencies.
- Make all payments on time.
- Avoid paying just the minimum balance due. Any unpaid balance accrues interest.
- Paying the full balance avoids any interest from being charged.



@ristudentloans

# Contact Information

## RISLA

Student Loans & Refinancing



[risla.com](https://www.risla.com)

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## College Planning Center

Free Resource to prepare, plan, and pay for college



[collegeplanningcenter.org](https://collegeplanningcenter.org)

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## Scholarship Hub

Scholarship opportunities to help parents and students



[rislascholarshiphub.org](https://rislascholarshiphub.org)

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