

How Can Lending Help Your Credit



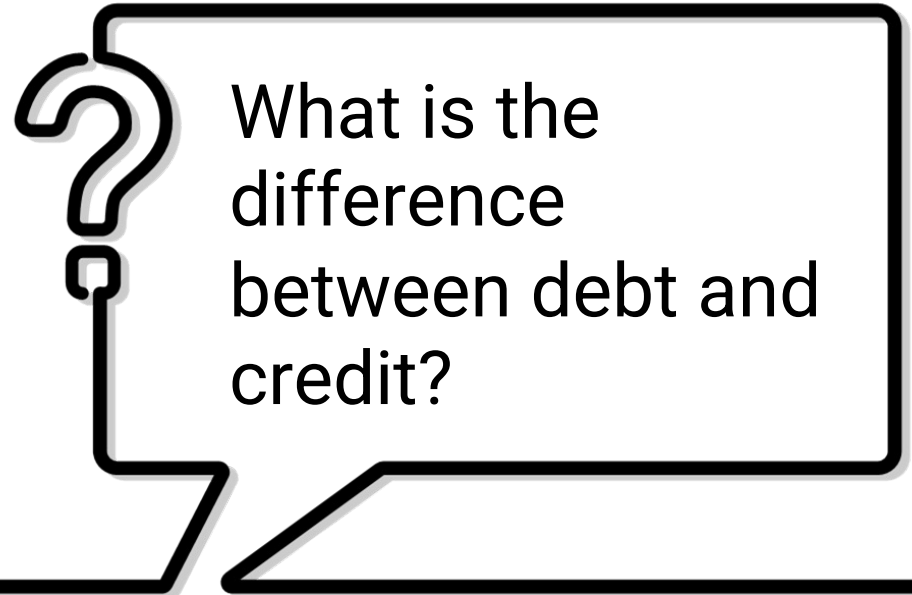
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What is Debt?



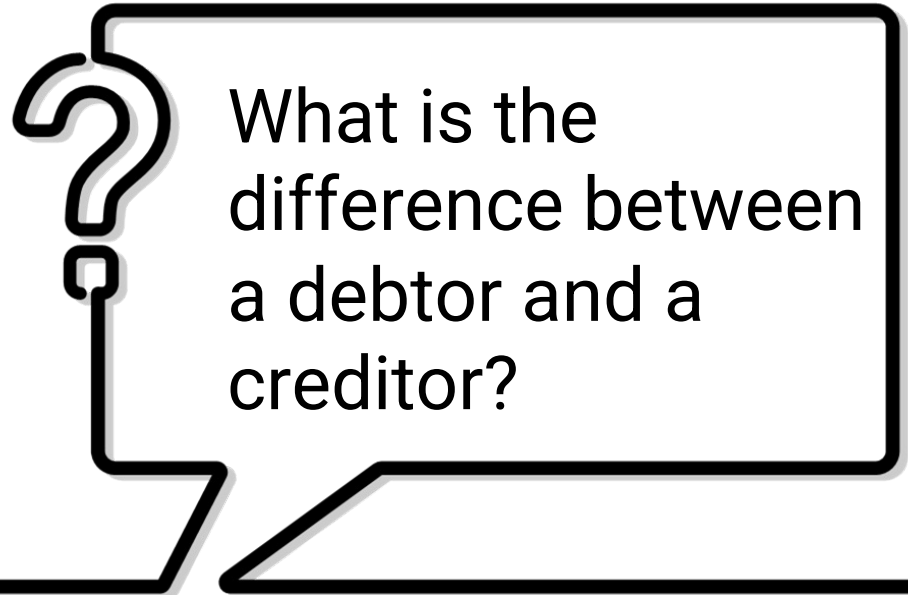
Debt and Credit



Debt *Is Not* the Same as Credit

- Debit is money you owe
- Credit is the ability to borrow money
 - You use credit to borrow money, which then becomes your debt.

Debtors and Creditors



Debtors Owe Money to Creditors or Lenders

- Debtors owe money (they borrowed it)
- Creditors and lenders loan money

How Debt Can Affect Your Financial Situation

- Need to use future income to pay your debts
 - Called “obligating future income”
- Generally, pay interest and sometimes fees on your debt until paid
- May impact how soon you can achieve your goals



How Debt Works



Installment Loans

- Principal
 - Amount you borrow
- Term
 - How long you have to repay the principal and pay the interest
- Generally, pay same amount every payment, unless there is a variable or adjustable interest rate

Revolving Credit

- Credit Limit – the most you can borrow
- Payment – based on credit you have used
- Minimum payment – often 1% to 5% of the outstanding balance



Pay
More

Pay off
Sooner

Pay
Less
Interest!



Credit Reports



What is listed in a Credit Report?

- Your identifying information
- Your debts and some bills
- Public record information
- Your applications for new credit and other “inquiries”

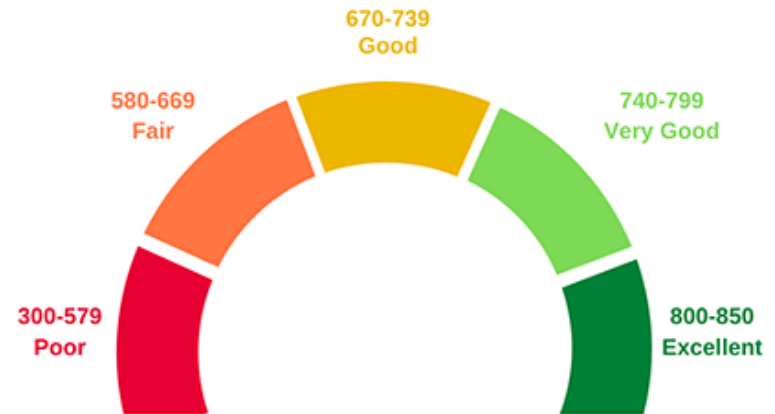
Nationwide Credit Reporting Agencies



Equifax	Experian	TransUnion
1-866-349-5191	1-888-397-3742	1-800-916-8800
www.equifax.com	www.experian.com	www.transunion.com
Equifax Information Services, LLC P.O. Box 740256 Atlanta, GA 30348	Experian National Consumer Assistance Center P.O. Box 4500 Allen, TX 75013	TransUnion Consumer Relations P.O. Box 2000 Chester, PA 19016-2000

What is a Credit Score?

- A number based on information in credit reports
- Predicts payment of bills and debts as agreed
- People with higher credit scores are likely to present lower risk to creditors



Who Uses Credit Reports and Scores?

- Financial institutions
- Some landlords
- Utility companies
- Certain cell phone companies
- Insurance companies (in some states)
- Employers (in some states)
- Certain state agencies or affiliated organizations

Risk-Based Pricing

- Credit reports and scores may be used as one factor in risk-based pricing
- Lenders set interest rates and other terms based on estimated risks
 - They must tell you if they used your credit reports or credit scores to deny your application or offer you less favorable terms
 - Adverse action notices
 - Risk-based pricing notices

Having No Credit Reports or Scores

- “Credit invisible”
- May result in having a harder time:
 - Getting credit or a loan
 - Renting an apartment
 - Getting a favorable cell phone plan
 - Obtaining some jobs
 - Turning on utilities without paying a large deposit

Opting Out

- You can opt out of receiving prescreened offers of credit or insurance – for five years or permanently
- You may still get offers based on lists from other sources
- If you opt out, you can opt back in
- But you can't opt out of having a credit report



Credit Scores



The Basics of Credit Scoring

- Number calculated from information in credit reports
- Generally, higher number = better credit history
- Predicts likelihood of payment of credit obligations on time and as agreed
- Two significant factors affect your credit scores
 - Whether you repay debts on time and as agreed
 - Your credit utilization rate – how much you owe on each account compared to the credit limit or original amount



**Higher
Score**



**Lower Risk
to Lenders**

Five Factors in General FICO Model

FICO Model



- Credit Mix
- New Credit
- Length of Credit History
- Payment History
- Amounts Owed

What is a Good Credit Score?

Exceptional	800 – 850
Very Good	740 – 799
Good	670 – 739
Fair	580 – 669
Poor	300 – 579

Note: This is an example, based on FICO®

Right to Free Credit Reports

- One free credit report every 12 months from each nationwide credit reporting agency
 - Equifax, Experian, and TransUnion
- Go to [Annualcreditreport.com](https://AnnualCreditReport.com)
 - Official website to fill orders for these free credit reports
 - Complete the online form and pick the reports you want
 - Make sure you are on a secure Internet connection, and do not print or save your report on a public computer

Repair and Improve Credit

- Get and review your credit reports
- Dispute and correct any errors
- Pay all of your bills on time and as agreed
- Use as little of your credit limit as possible
- Use a credit building strategy
- Keep old accounts open if you can
- Apply for credit only if you need it
- Negotiate different terms
- Ask for a “good will” deletion

Build Alternative Credit History

Document other payments you regularly make, such as:

- Rent
- Childcare
- Cell phone bill
- Electric bill
- Gas bill
- Water, sewage, and garbage bills
- Television service bill
- Internet service bill
- Insurance payments
- Loan from friend or family member
- Savings

Build Credit

- Get a secured credit card
- Get a credit-building loan
- Become an authorized user on an account
- Get a cosigner
- Apply for a credit card at a store or gas station
- Make a large down payment and negotiate a loan for the balance

Thank You

