

# CREDIT CONFIDENCE: UNDERSTANDING CREDIT SCORE CALCULATIONS

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A photograph of the Auburn University Credit Union building. The building is a two-story structure with a brick facade and large windows. The name "AUBURN UNIVERSITY CREDIT UNION" is displayed in large, raised letters across the top of the building. A stylized logo, featuring a building with columns, is mounted on the brick wall to the right of the main entrance. The building is surrounded by trees and landscaping.

AUBURN UNIVERSITY CREDIT UNION

# ABOUT AUCU

- Opened on Auburn University's Campus in 1960
- Member Owned, Not-for-Profit
- 3 Physical Locations
- "4<sup>th</sup> Branch" – Online and AUCUMobile App
- Community Charter
- Dave Bradford, CEO and President
- Henry Armstrong, Senior Advisor to the Board of Directors



**The views expressed today are solely our own and do not represent the views of other lending institutions. This presentation is not intended to endorse AUCU, but rather is offered as an educational tool to support Auburn University Credit Union's Fearless, True, & Financially Fit literacy program.**





# AGENDA

- What is Credit
- Advantages and Disadvantages of Utilizing Credit
- The Three C's of Credit
- Your Credit Responsibilities
- Your Rights
- Loan Types
- Credit Types
- What Is A Credit Report?
- Credit Scores
- Free Credit Report





# WHAT IS CREDIT?

Credit is the ability of a consumer to borrow money to purchase goods or services, with the agreement that payment(s) will be made in the future.



FEARLESSTRUE &  
FINANCIALLYFIT  
AuburnUniversityCreditUnion



# ADVANTAGES AND DISADVANTAGES OF UTILIZING CREDIT

## *Advantages*

- Builds credit for future purchases.
- Allows you to buy items that you do not have the capital to purchase at this time.
- Creates a record of purchase.

## *Disadvantages*

- Interest (higher cost of items), possible fees
- Financial difficulties may arise if one loses track of how much has been spent each month.
- Increased impulse buying may occur.



# THE THREE C'S OF CREDIT

## *Character*

- Do you have a credit history?
- Do you pay your bills on time?
- Can you provide character references?
- How long have you lived at your present address?
- How long have you been at your current job?

## *Capital*

Do you have any valuable assets such as real estate, savings, or investments that can be used as collateral?

## *Capacity – can you repay the debt?*

- Do you have a steady job? Salary?
- Debt to income ratio?
- What other loans do you have?
- Current living expenses?





# YOUR CREDIT RESPONSIBILITIES

- Build credit the correct way.
- Borrow only what you can repay.
- Read and understand the credit contract.
- Pay debts promptly.
- Notify the creditor if you cannot meet payments.
- Report lost or stolen credit cards promptly.
- Stay vigilant so you don't fall prey to fraud. Ex. Phishing emails, spoofing phone numbers.





# YOUR RIGHTS

- **Truth in Lending Act (1968)**

Ensures consumers are fully informed about the cost and conditions of borrowing.

- **Fair Credit Reporting Act (1970)**

Protects the privacy and accuracy of the information in a credit check.

- **Fair Credit Billing Act (1974)**

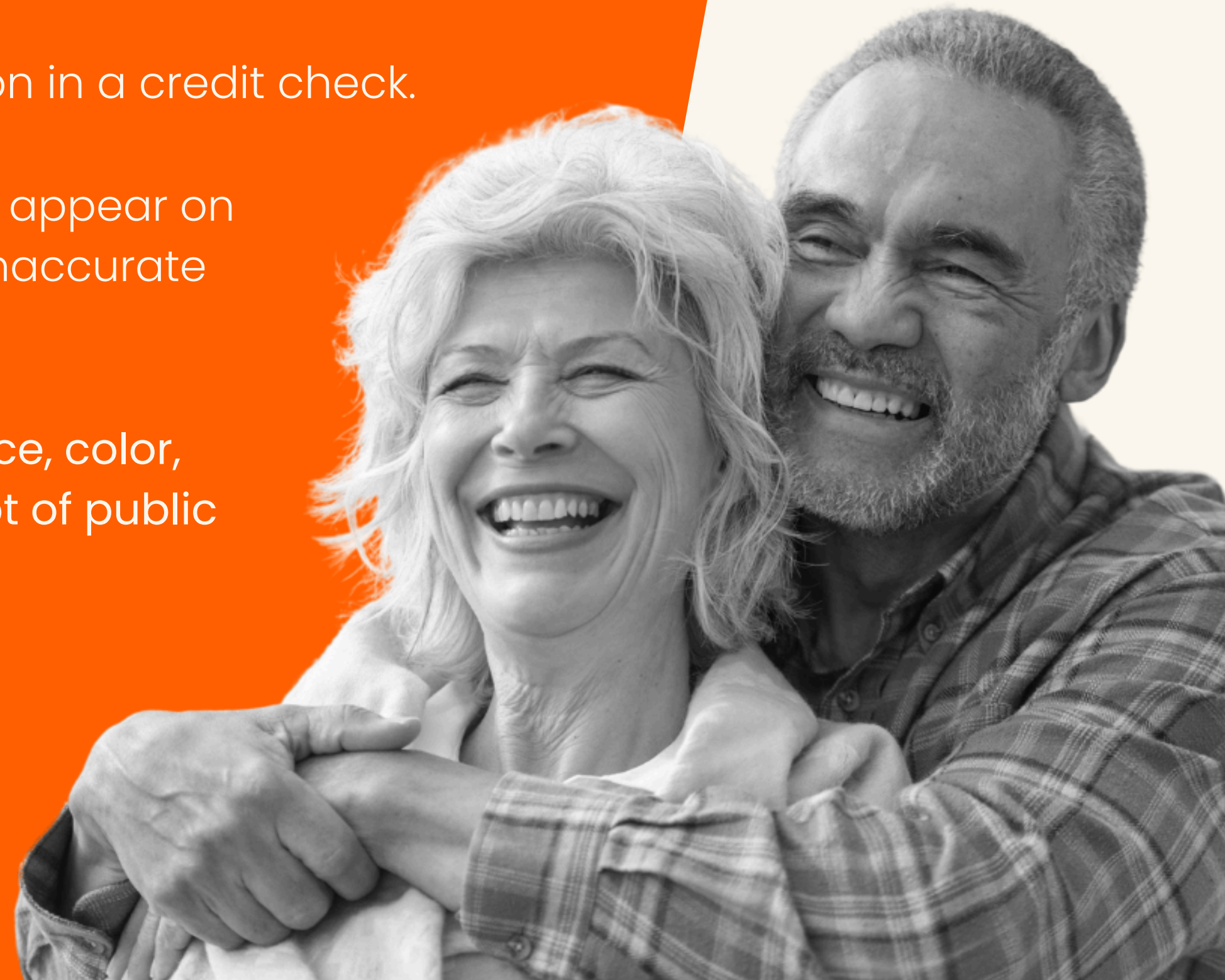
A procedure for the quick correction of mistakes that appear on consumer credit accounts so you may dispute any inaccurate information.

- **Equal Opportunity Act (1974)**

Prohibits credit discrimination on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance.

- **Fair Debt Collection Practices Act (1977)**

Prevents abuse by professional debt collectors and applies to anyone employed to collect debts owed to others; it does not apply to banks or other businesses collecting their accounts.







# LOAN TYPES

## **Secured Loans** *backed by collateral*

- Interest rates are usually better on secured loans.
- The lender has the right to seize the asset should you fail to repay the loan.

## **Unsecured Loans** *no collateral*

- No assets are required, but you will still face credit implications if you default on your loan payments.
- Interest rates are typically higher.



# CREDIT TYPES

## Revolving

A line of credit that remains available over time, even if you pay the full balance. Interest rate can be variable. Ex. Credit Card, Line of Credit

## Installment

Allows you to borrow a lump sum of money and pay it back in fixed amounts. Ex. Auto Loan, Personal Loan

## Mortgage

A home loan. Mortgages can be fixed-rate or adjustable-rate.





# WHAT IS A CREDIT REPORT:

A credit report is an organized list of the information related to your credit activity.

- Past and present personal information
- Employment history
- FICO scores
- Credit summary
- Loans – Active and Inactive (includes closed, charged-off, or paid off)
  - Loan Amount
  - Loan Balance
  - Payment History
  - Collections
- Inquiries
- Credit company from which the report was pulled.



# CREDIT SCORE

A credit score is a snapshot of your credit history, reflecting how responsibly you've managed credit in the past.

Lenders use this three-digit number to assess the risk of lending you money.

The higher the number, the better.

## FICO consumer credit score ranges

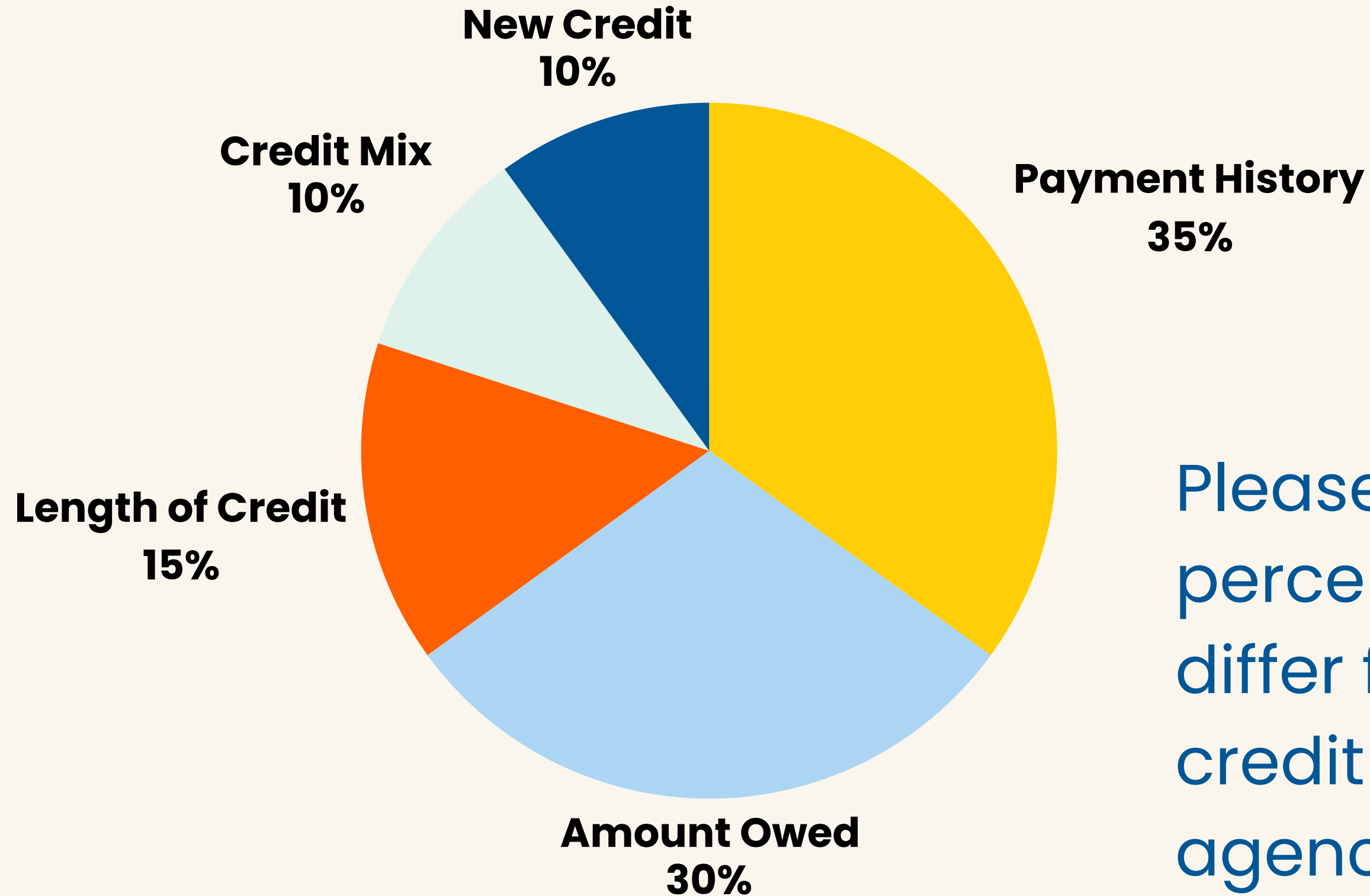


300-579	Poor
580-669	Fair
670-739	Good
740-799	Very good
800+	Excellent

Source: FICO®



# WHAT MAKES UP YOUR CREDIT SCORE?



Please note: These percentages may differ from other credit reporting agencies.



# WHAT MAKES UP YOUR CREDIT SCORE?



Payment History (35%) – The most critical factor, looking at whether you have paid your bills on time, includes credit cards, retail accounts, installment loans, and public records like bankruptcies.

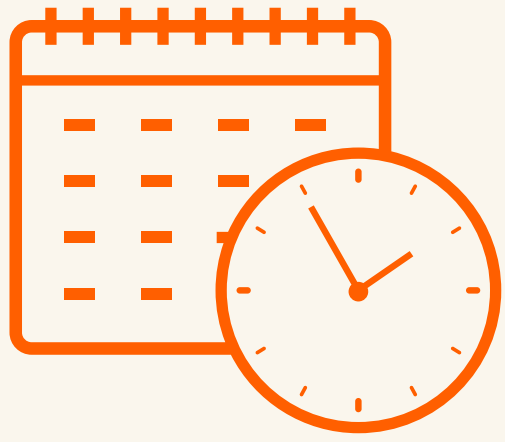


Amounts Owed (30%) – This category considers the total amount you owe across all accounts. It also factors in credit capacity vs. credit utilization.





# WHAT MAKES UP YOUR CREDIT SCORE?



Length of Credit History (15%) – This refers to how long you’ve had credit accounts.



Credit Mix (10%) – This considers the different types of credit you have – revolving, installment, and mortgage.



New Credit (10%) – This category looks at new credit inquiries (applications) and opened accounts. Multiple applications in a short period of time can potentially lower your credit score.





# FICO SCORE EXAMPLES

POOR

MODEL PROFILE  
\*\*\* ALERT \*\*\*  
\*\*\* FICO SCORE 8 ALERT: SCORE **+502** 039, 010, 018, 013 \*\*\*  
039 SERIOUS DELINQUENCY  
010 PROPORTION OF BALS TO CRED LIMS TOO HIGH ON BANK/NATIONAL OR OTHER REV ACCTS  
018 NUMBER OF ACCOUNTS WITH DELINQUENCY  
013 TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN  
\*\*\* INQUIRIES IMPACTED THE CREDIT SCORE

GOOD

MODEL PROFILE  
\*\*\* ALERT \*\*\*  
\*\*\* FICO SCORE 8 ALERT: SCORE **+698** 010, 014, 012, 008 \*\*\*  
010 PROPORTION OF BALS TO CRED LIMS TOO HIGH ON BANK/NATIONAL OR OTHER REV ACCTS  
014 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED  
012 LENGTH OF TIME REVOLVING ACCOUNTS HAVE BEEN ESTABLISHED  
008 TOO MANY INQUIRIES LAST 12 MONTHS

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EXCELLENT

MODEL PROFILE  
\*\*\* ALERT \*\*\*  
\*\*\* FICO SCORE 8 ALERT: SCORE **+831** 004, 005, 014, 010 \*\*\*  
004 LACK OF RECENT INSTALLMENT LOAN INFORMATION  
005 TOO MANY ACCOUNTS WITH BALANCES  
014 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED  
010 PROPORTION OF BALS TO CRED LIMS TOO HIGH ON BANK/NATIONAL OR OTHER REV ACCTS

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300-579	Poor
580-669	Fair
670-739	Good
740-799	Very good
800+	Excellent

- A Chapter 7 bankruptcy appears as a public record item on your credit report for up to 10 years after filing.
- Chapter 13 bankruptcy records are sometimes removed 7 years after filing, depending on the credit reporting company's policy.



# YEARLY FREE CREDIT REPORT

Visit [AnnualCreditReport.com](https://AnnualCreditReport.com) to receive a free report from all three credit bureaus:

- Equifax
- Experian
- TransUnion



# Want to learn more?

For a deeper dive into credit reports, check out our  
**ElevatED course –**  
**Financial Tools You Didn't Learn In School**

Scan the QR code,  
and once the course  
has been scheduled  
for the fall term, we  
will send you an  
email with the class  
information.





# THANK YOU!

