

Hofstra North Shore-LIJ School of Medicine



Office of Financial Aid

Consumer Credit and Your Credit Report

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What We Will Cover

- Consumer credit and credit cards
- The affect of consumer credit on your personal credit
- Credit reports
- FICO scores



Consumer Credit

Credit: an appropriate definition –

An agreement between two parties (the *creditor* or *lender* and the *consumer* or *borrower*) whereby the crediting party **allows** the borrower to utilize its funds and at no point in time does this funding **actually belong to the borrower**. It is not the equivalent of income.

- Some important notes:
 - Nothing is free
 - Creditors are in business to make money
 - Creditors make money when you utilize their funds; creditors make **A LOT** of money off of irresponsible borrowers
 - They do this by charging borrowers a percentage of the total borrowed



Consumer Credit

October 2012



Medical Student Education: Debt, Costs, and Loan Repayment Fact Card

Indebted Graduates, Class of 2012*			
	Public	Private	All
Mean	\$155,978 (↑4%)	\$183,066 (↑4%)	\$166,750 (↑3%)
Median	\$160,000 (↑3%)	\$190,000 (↑6%)	\$170,000 (↑5%)
Education Debt of:	Public	Private	All
\$100,000 or more	78%	80%	79%
\$150,000 or more	59%	67%	62%
\$200,000 or more	29%	48%	36%
\$250,000 or more	10%	27%	17%
\$300,000 or more	4%	11%	6%
Graduates with Education Debt	88%	84%	86%
Graduates planning to enter loan forgiveness/repayment program:			30%
Other Debt	Pct. of Graduates	Median	
Premedical Education Debt	36%	\$20,000	
Non-education Debt	25%	\$9,000	

*Source: FIRST analysis of AAMC 2012 GQ data. Education debt figures include premedical education debt. Non-education debt includes car, credit card, residency relocation loans, etc.

25 % (almost 10,000) of those graduating from medical school left with **\$9,000** in non-education debt in 2012.

These loans consist of car loans, credit cards, and residency relocation loans.



Consumer Credit

Do I need a credit card?

– Yes and No

- Yes

- If you are responsible and understand how credit cards work
- If you are interested in building your personal credit
- If you need immediate cash flow assistance for education-related expenses and you are waiting on your refund check
- If you've shopped around and found the right card for you
- If you understand what makes a debit card different than a credit card

- No

- If you have trouble managing money. First, understand where your money goes and then, apply for a credit card.
- If you've had problems with credit card debt in the past.
- If you're short on cash and your checking and savings accounts are depleted. This is a sign of bad things to come.



Consumer Credit

Credit cards: how they work

- Credit cards compound interest daily (most) or monthly
- You are charged interest on every purchase that you make unless you pay off your balance in full during the grace period
- Rates can be fixed or variable
- Introductory rates of **0%** do expire and carry additional terms and fees
- Rates are driven by the **APR** (annual percentage rate), **prime rate** (tied to the economy), and the **individual consumers' credit history**



Consumer Credit

Credit cards: by the numbers

- Credit card interest rates are higher than ever. The average interest rate on a credit card is 13.33%*
 - This is for people that have good credit. Most cards typically max out at 29.99% but there are higher rates in existence.
- There are cards for people with little or no credit. Rates often hover around 25% and these cards typically have an annual fee. Be cautious – incredibly bad offers live here.

*All fixed. Source: <http://www.bankrate.com/finance/credit-cards/rate-roundup.aspx>



Consumer Credit

Credit cards: never – or if you **MUST**, temporarily – carry a balance.

- An entering 2nd year college student carries a balance of **\$5,000** on his/her credit card. The credit card interest rate is set at **17.9%**. Monthly payment is equal to **\$100**.

– There are two possible courses of action:

1. Pay the minimum monthly payment. Remember, this is an undergraduate student. Now, during medical school, funds are limited, this is all that this student can afford. After medical school, student loans are in repayment. The student continues to pay the minimum through residency. Long term implications? Habits are created...at this pace, it will take **34 years** to pay of this \$5,000 principal balance at a cost of **\$12,588** (this is only interest!)

2. Get a job. Pay more than the minimum. Adding **\$100** to the minimum monthly payment will allow this student to pay off the **entire balance in just 3 years**. Total interest paid = **\$1,305**.

Want to use your own personal scenario? Visit:

<http://www.federalreserve.gov/creditorcalculator/Default.aspx>



Consumer Credit

Avoiding credit card debt

- Do not purchase what cannot otherwise afford. If you do not have the money to pay for something, DO NOT buy it.
- If you must carry a balance, pay off **much more** than the monthly minimum
 - If you need more than one month to pay off a credit card balance, have a clear plan and timeline.
- Make payments on time
 - Late fees are not worth paying. If your payment is one day late, you will be charged a late fee. Numerous late payments can also ruin your credit.



Consumer Credit

Managing credit card debt

- Similar to communication that should take place with your student loan servicer, should you run into problems with making credit card payments, **communicate with you credit card company.**
- Most credit card companies **will work with you and develop a plan** if you are honest (and not a habitual defaulter). They will usually help you dig out of a hole **ONE TIME.**
- **Avoid credit counseling firms** or companies that claim that they can negotiate with credit card companies and reduce what you owe.
 - Typically this is achieved at the expense of your credit. You will have much more success dealing with the credit card companies directly.



Consumer Credit

Credit card default

- Simply put, **defaulting repeatedly will ruin your credit...**and for a long time.
- How bad can it really be if you ignore your credit card bill?
 - Interest rates will increase rapidly (25-30%, instantly)
 - Insurance rates will increase
 - Difficult to rent
 - VERY difficult to buy
 - Car loans will come at a very high interest rate – if you qualify at all
 - Employers DO check your credit – your personal life spills over into your professional
 - Incessant phone calls – the least damaging but *most annoying*
 - Ultimately, wage garnishment



Consumer Credit

When to wait on a credit card

- If you do not have a handle on your cash flow
- If you cannot develop or maintain a budget, **THE LAST THING YOU SHOULD DO IS APPLY FOR A CREDIT CARD**
- If you have never had a credit card and have never managed your own money
- If you have had spending problems in the past
- If you have recently paid off a large credit card balance – don't fall into the hole again
- If you don't have income – this one is tricky being a student...



Consumer Credit

Catch-22: In order to establish personal credit, you will need a credit card. Student loans are not enough.

- Solutions:
 - pay off purchases in full during the grace period
 - Wait until your third or fourth year of medical school to acquire a card. If treated properly, you *should* have enough personal credit to purchase a car (with a down payment) or sign a lease on an apartment



Consumer Credit

Your credit report: What is it?

- **Payment history (35%)**
 - Payments made on time?
- **Length of credit history (15%)**
 - How long have accounts been open in your name
- **New credit (10%)**
 - Recent lines of credit
- **Types of credit (10%)**
 - Loans from banks, credit cards, department store cards?
- **Amounts owed (30%)**
 - Debt-to-credit ratio

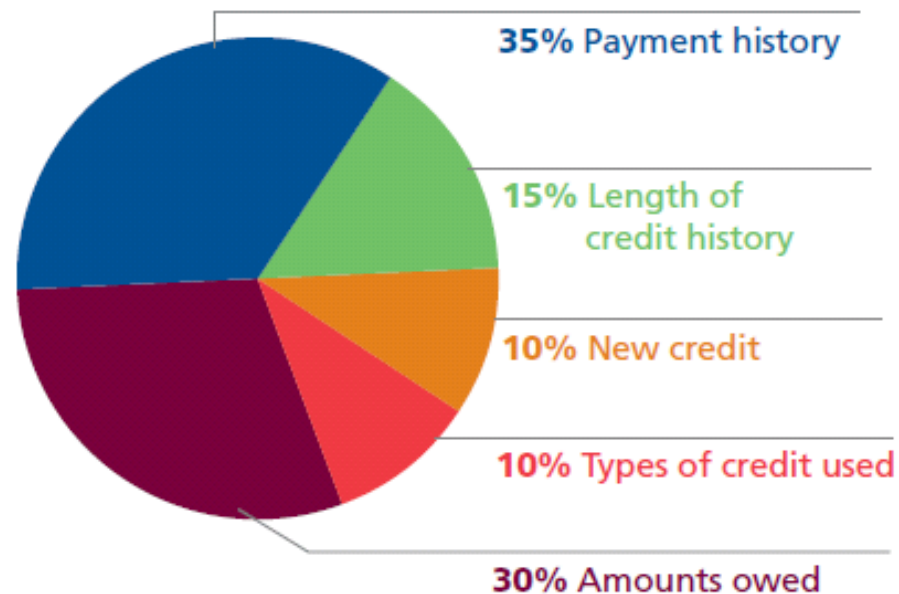


Image source: www.aamc.org/FIRST

65% of your
credit is based
on **2 factors!**



Consumer Credit

Your credit report: Who Uses It?

- **Insurance companies**
 - Auto insurance, renters / homeowners insurance
 - *What's at risk?* **Low rates**
- **Landlords**
 - Most landlords will review your credit before allowing you to sign a lease
 - *What's at risk?* **The apartment**
- **Banks**
 - Personal lines of credit, mortgages
 - Auto loans
 - *What's at risk?* **The total you can borrow, low rates, and potentially the car**
- **The U.S. Department of Education**
 - Grad PLUS loans are issued based on the applicant's creditworthiness
 - *What's at risk?* **Federal funding for medical school**
- **Credit card companies**
 - Want that credit card with extra points and miles?
 - *What's at risk?* **Acquisition of the card**

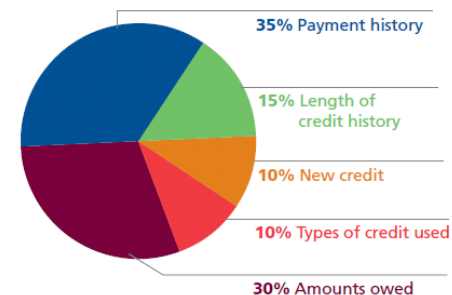


Image source: www.aamc.org/FIRST



Consumer Credit

Your credit report: Keys to staying positive

- Keep your debt-to-credit ratio low. The average is 40%...about 7-10% is a good goal
 - If you have a \$10,000, \$700-\$1,000
- Make **every** payment on time
- Pay your balances in full
- Keep the number of accounts low in the beginning
- Don't open and close accounts repeatedly. If you want more than one card because of the benefits, keep the others open but just use one.

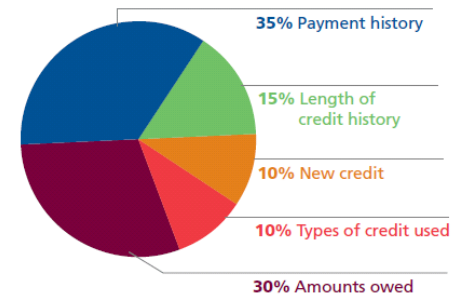


Image source: www.aamc.org/FIRST



Consumer Credit

Your credit report: What you need to know

- Check your report annually – you do not need to pay if done once a year
- There are three credit bureaus:
 - **Experian**
 - **Equifax**
 - **TransUnion**
- Resolve any discrepancies immediately
- If things get dicey, consolidate
 - Use 0% APR transfer offers but, use them wisely
- All of these accounts, history, numbers, and percentages are great but what does it mean??
 - Your **FICO score**

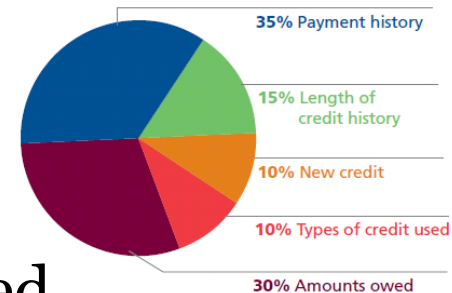


Image source: www.aamc.org/FIRST



Consumer Credit

Your **FICO score**: what it is and what it isn't

- We now know what is considered
- What isn't considered
 - Race, color, religion, national origin, sex, marital status
 - Age
 - Salary, occupation, title, employer, dates employed, or employment history
 - Where you live
 - Interest rates
 - Child support or alimony paid
 - Consumer-initiated inquiries
 - Any info that isn't on your credit report
 - Anything not proven to be predictive
 - Credit counseling

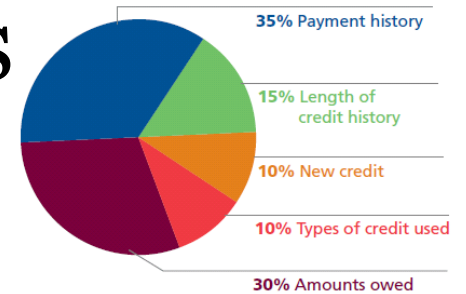


Image source: www.aamc.org/FIRST

Source: <http://www.myfico.com/CreditEducation/WhatsNotInYourScore.aspx>



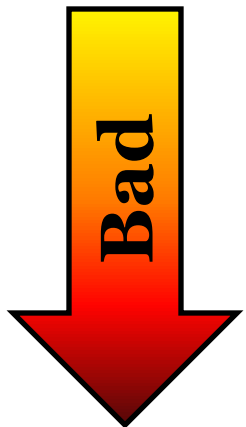
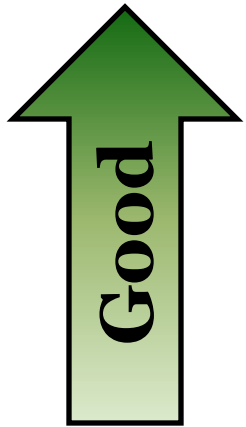
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AT HOFSTRA UNIVERSITY

Consumer Credit: Your FICO score

- Range from **300-850**. The higher, the better
- The lender determines what your score means to them

What your score *typically* means:

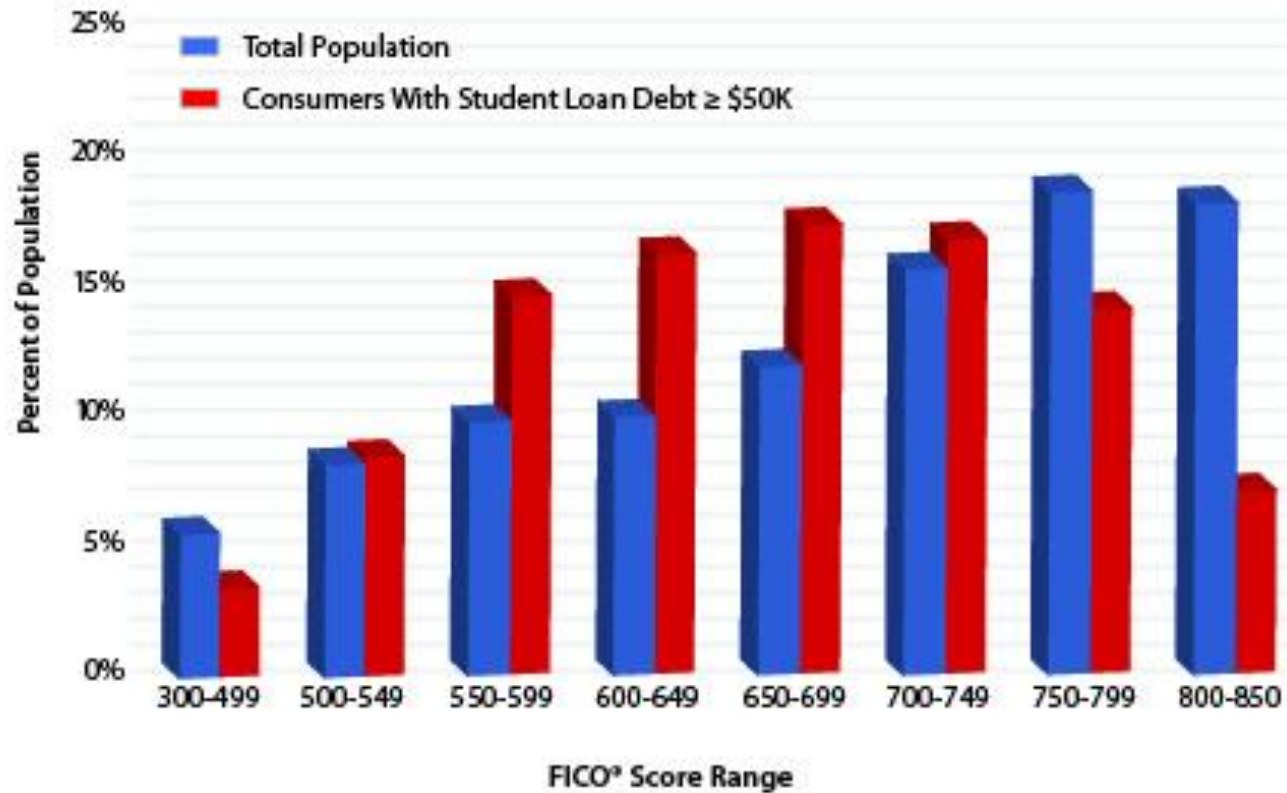
- **Above 800 = excellent credit**; excellent credit risk; long credit history; multiple established accounts; qualifies for the best deals
- **750-800 = very good credit**; very low credit risk; credit accounts paid on time; qualifies for the some of the lowest rates
- **700-750 = good credit**; low credit risk; may have had late payments in the past; all accounts currently paid on time; qualifies for competitive rates and terms
- **650-700 = fair credit**; moderate credit risk; may have high debt-to-credit ratio; qualifies for decent rates; may have too many applications for new credit
- **600-650 = bad credit**; high credit risk; high debt-to-credit ratio; may have late payments, collections, or bankruptcy records; difficulty being approved
- **Below 600 = very bad credit**; very high credit risk, late payments; collections; very high debt; need co-signer
- **No Score = no credit** considered high risk, possibly not using accounts long enough, viewed better than those with bad credit



Consumer Credit

Your FICO score

Score Distribution: Consumers with \$50K+ in Student Loans



Source: FICO™ Banking Analytics Blog. © 2012 Fair Isaac Corporation.

Source: <http://blog.myfico.com/2012/09/student-loan-debt-and-fico-score-trends/>



Consumer Credit

Where to get more information

- The Office of Financial Aid
- Credit reports
 - <https://www.annualcreditreport.com/cra/index.jsp>
- Credit and FICO score
 - www.myfico.com

