BOOSTING CREDIT AND KNOCKING OUT STUDENT LOANS

PRESENTED BY GREENPATH

Chris Dlugozima
Certified Consumer Credit Educator
GreenPath Debt Solutions

Nonprofit, HUD approved financial counseling agency (HUD Intermediary)

Established in 1961

Seven offices in Texas including Brownsville, Corpus Christi, Harlingen, McAllen, McKinney, Plano and San Antonio
TODAY’S AGENDA

What’s in a credit report?
How can you get your credit report?
How is your credit score calculated?
How can you build/rebuild your credit?
Common credit score myths
TODAY’S AGENDA

Types of loans
Repayment options
Income driven and forgiveness plans
Student loans in collections
What is Listed on Your Credit Report?

1) Identifying Information
2) Money You Borrow
3) Collection Records
4) Public Records
5) Inquiries
6) Consumer Statement
Income and assets are not listed.

You could have excellent credit, but have no savings or income.

You could have poor credit, but be very wealthy.
Credit Bureaus

Three Major Credit Bureaus:

- Equifax
- TransUnion
- Experian

Each bureau has different types of info so review all three reports for a complete picture.
What is the best website to get your free credit report?
NOT FREE!
Get a free estimate of your score (from Transunion)

www.creditkarma.com
Negative Information

- Delinquencies, collections, public records and most other negative items: **seven** years
- Chapter 7 bankruptcy reported for **ten** years
- Unpaid tax liens reported for **15** years
- Positive info: in general, **10 years or longer**
How to Fix Errors

To request an investigation of an error:

- Send copies, keep records, document your claim
- File dispute online if report was obtained online
- If unhappy with outcome, file complaint with Consumer Financial Protection Bureau (CFPB) by going to [www.consumerfinance.gov](http://www.consumerfinance.gov) or calling 855-411-2372.
Credit Scoring

• Credit score is a number based on the credit report used to predict how likely you are to pay a new debt back

• Last two years of activity have the greatest impact
Your Credit Score

FICO Score

• Developed by Fair-Isaacs Corp
• Most commonly used by lenders
• Range is 300-850
• 300s, 400s, 500s = poor
• 600s = fair
• 700s and above = good or excellent
Who has the better credit score?

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<th></th>
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<th>Andrew</th>
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<tr>
<td>Pays</td>
<td>entire balance</td>
<td>minimum</td>
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Credit Score

How is FICO calculated?

• Payment History: 35%
• Credit utilization: 30%
• Length of Credit History: 15%
• New Credit: 10%
• Types of Credit Used: 10%
• See [www.myfico.com](http://www.myfico.com) for more information
I have no credit. What is the best way to build my credit?
Building Your Credit

Secured credit cards: make a deposit and receive a card with a limit equal to the deposit amount.

Prepaid cards don’t build credit!
Using Secured Cards Wisely

1. Have money in savings as a backup.

2. Consider only making one charge a month and make this charge an automatic bill, such as internet or cell phone.

3. Use less than 1/3 of your available credit.

4. Pay off the entire balance at the end of the month to avoid finance charges.
Building or Repairing Credit

- Secured loans
- Store (Retail) Credit
- Gas card
- Obtaining a co-signer/being added as an authorized user
MYTH #1

Closing a credit card will always hurt your credit score.
Andrew

• 3 maxed out credit cards.

• Paid off the first card and decides to close it (so he’s not tempted to use it again)

• Other two cards remain maxed out.
Diego

• Five open accounts.

• All balances are either zero or near zero

• Decides to close one of his accounts (to avoid an annual fee)
MYTH #2

My credit score is 760, so I have excellent credit.
Vantage Scores range from 501 – 990 using Alpha Indicators

501-600 F
601-700 D
701-800 C
801-900 B
901-990 A
MYTH #3

Checking your credit report will hurt your credit score.
Student loans can be a major obstacle towards home ownership.
According to a 2012 study, the average college senior graduated with approximately $29,400 in student loan debt! 14.7% of borrowers default within three years.
So many choices!

Stafford Loans
Perkins Loans
Parent PLUS Loans
Grad PLUS Loans
Private Loans
Stafford Loans

3.86%*
No interest during school

Subsidized vs. unsubsidized loans

3.86%*
Interest accumulates during school

*Rates subject to change (for new loans) in July of each year. Fee = 1.051%
Direct Loans vs. FFEL (Federal Family Education Loans) → July 1, 2010
Perkins Loan

• Needs based: fill out FAFSA to determine eligibility (www.fafsa.ed.gov)
• First come, first served, so apply early!
• Interest rate is 5% fixed
• May borrow up to $5500 per year
Parent/Grad PLUS Loans

- Can cover difference between other loans/grants and total cost of attendance
- Interest rate is **6.41%** fixed*
- Parent or graduate student takes out loan; credit check required
- Fee of **4.204%** of loan amount
PRIVATE
Brad is a sophomore at Notre Dame. He’s considered a dependent student. After grants (Pell, state grant) and a scholarship (winner of hot dog eating contest) he must borrow $20,000 per year.
Subsidized Stafford = $4500 @ 3.86% APR
Perkins loan = $5500 @ 5% APR
Unsubsidized Stafford = $2000 @ 3.86% APR
Parent PLUS = $8000 at 6.41% APR
Federal Repayment Options

• Standard Repayment: 5 to 10 years

• Graduated Repayment: usually increase every two years

• Extended Repayment: if balance exceeds $30,000; fixed or graduated payments not to exceed 25 years

• Income based repayment (IBR) and Pay As You Earn (PAYE) → more on this later
Consolidation?

Federal Direct Consolidation Loan

– See loanconsolidation.ed.gov for more info

– Pro: lower payments; could lock in fixed rate for loans taken out before July 2006

– Con: extended term means that you will pay more interest
Postponing Payments

Deferment

– Most common way to qualify is being unemployed (2 years max) or being enrolled in school half time or more (unlimited)

– Interest does NOT accumulate on subsidized Stafford loans.
Postponing Payments

Forbearance

– Interest accrues during a forbearance period: paying interest is optional during this time

– Could be a good short term strategy; can be dangerous long term strategy

– Can be done retroactively!
Income Based Repayment (IBR)

See [www.ibrinfo.org](http://www.ibrinfo.org) for more info.
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Source: [www.consumerfinance.gov](http://www.consumerfinance.gov)
Pay As You Earn (PAYE)

Program started December 21, 2012.

Borrower must have had no federal loans as of October 1, 2007 \textbf{AND} taken out a new federal loan after October 1, 2011.

If eligible, payments are less than IBR.
What about Public Service Loan Forgiveness?

Job = Non profit (501(c)3) or government (including city, state & federal)
What about Public Service Loan Forgiveness?

Make a total of 120 on time payments. (10 years) Does not need to be consecutive.
For tools, webinars and legislative updates, check out www.askheatherjarvis.com
“I don’t work in a public service profession. Do I have options?”

If you’re eligible for IBR, 25 years of IBR payments can qualify you for debt forgiveness.

If you’re eligible for PAYE, 20 years of PAYE payments can qualify you for debt forgiveness.
“What does it mean if my loan is in default? How does this happen?”
Getting out of default

Rehabilitation

– Option if student loan is in default

– Strict payment schedule for a certain period of time (usually 9 months)

– Upon completion, your loan will return to a normal lender and any notation of default on your credit report will be erased
Consolidation for defaulted loans

Federal Direct Consolidation Loan
  – Gives fresh start and restarts the clock for forbearance and deferment time
  – See loanconsolidation.ed.gov for more info
  – Quicker than rehab, but credit report will look worse
“I always have bankruptcy as a last resort, right?”
Additional Resources

www.studentloanborrowerassistance.org
www.studentaid.ed.gov
www.consumerfinance.gov
http://greenpathstudentservices.org/
GreenPath Debt Solutions

- Free **budget** counseling
- Free **credit report** reviews
- Free **housing** counseling: mortgage delinquency, reverse mortgage, pre-purchase
- Free **debt issue** counseling: credit cards, medical, student loans, debt collectors, lawsuits
- Counseling for **bankruptcy** filers
Webinar Wednesdays!

Learn about credit, budgeting, and more!

All free, every Wednesday at 12 EST. Sign up at www.greenpath.org/university

April 30: Student Loans 101

May 7: To Buy or Not to Buy: the Psychology of Money
GET IN TOUCH CONTACT US

We’d love to chat more!

GreenPath is a not for profit consumer credit counseling agency and HUD approved housing counseling agency with offices around the country.

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twitter.com/greenpathdebt
THANK YOU

Chris Dlugozima
Certified Consumer Credit Educator
cdlugozima@greenpath.com

www.greenpath.org/university

For appointments, please call 877-428-1113