Credit Reports and Student Loans

Presented by: Chris Dlugozima
Certified Consumer Credit Educator

GreenPath debt solutions
Who is GreenPath?

Nonprofit financial counseling agency (HUD approved)

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
Credit Reports: One Slice of Your Financial Pie

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!
Don't be fooled by look-alikes.

Lots of sites promise credit reports for free. AnnualCreditReport.com is the only official site explicitly directed by Federal law to provide them.

Your credit reports matter.

- Credit reports may affect your mortgage rates, credit card approvals, apartment requests, or even your job application.
- Reviewing credit reports helps you catch signs of identity theft early.

FREE Credit Reports. Federal law allows you to:

- Get a free copy of your credit report every 12 months from each credit reporting company.
- Ensure that the information on all of your credit reports is correct and up to date.

Request your free credit reports
Get free weekly updates of your Transunion and Equifax reports/scores

[www.creditkarma.com](http://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?

<table>
<thead>
<tr>
<th></th>
<th>Diego</th>
<th>Andrew</th>
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<tbody>
<tr>
<td>Balance</td>
<td>$900</td>
<td>$10,000</td>
</tr>
<tr>
<td>Limit</td>
<td>$1000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Pays</td>
<td>entire balance</td>
<td>minimum</td>
</tr>
</tbody>
</table>
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!
Building or Repairing Credit

Obtaining a co-signer

vs.

Being added as an authorized user
Before Applying for a Credit Card

1. Have a stable source of income

2. Have a written monthly budget. Track expenses first to help create realistic numbers.

3. Build up enough savings to cover any monthly credit card charges.
Using Credit Cards Wisely

1. If you tend to make impulsive purchases, consider only making one charge a month and make this charge an automatic bill, such as Netflix, internet or cell phone.

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

3. Pay off the entire balance at the end of the month to avoid finance charges.
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 2013 study, the average college senior graduated with approximately $28,400 in student loan debt! 1 in 7 borrowers default within three years.
So many choices!

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

Rates change each year

Limit ranges from $3500 to $5500

No interest during school.
Not available to grad students.

Last year: 3.86%
This year: 4.66%
Future rates: ???

Once you take out the loan, the rate does not change.
Unsubsidized Loans

Interest accumulates during school. Rate is higher for grad students.

Last year: 3.86%
This year: 4.66%
Future rates: ???

Rates change each year
Limit usually $2000 if getting max subsidized amount

Once you take out the loan, the rate does not change.
Perkins Loans

Rates stay the same each year

Limit = $5500

No interest during school

Rate = 5%

Needs based; First come, first served
Parent/Grad PLUS Loans

Rates change each year

Limit = cost of attendance

Interest accumulates during school; Credit check required; additional fees apply

Once you take out the loan, the rate does not change.

Last year: 6.41%
This year: 7.21%
Future rates: ???
Direct Loans vs. FFEL (Federal Family Education Loans) → July 1, 2010
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 = $5500 @ 4.66% APR
Perkins loan = $5500 @ 5% APR
Unsubsidized Stafford = $2000 @ 4.66% APR
Parent PLUS = $7000 at 7.21% 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) \( \rightarrow \) 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 for more info.
<table>
<thead>
<tr>
<th>Plan</th>
<th>Monthly Payment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>$360 /month</td>
<td>$43,231</td>
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<tr>
<td>Graduated</td>
<td>$205 - $616 /month</td>
<td>$45,987</td>
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<tr>
<td>Extended Fixed</td>
<td>$206 /month</td>
<td>$61,904</td>
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<tr>
<td>Extended Graduated</td>
<td>$157 - $317 /month</td>
<td>$67,431</td>
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<tr>
<td>Pay As You Earn**</td>
<td>$97 - $343 /month</td>
<td>$47,789</td>
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<tr>
<td>Income-Based Repayment (IBR)**</td>
<td>$145 - $360 /month</td>
<td>$57,737</td>
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<tr>
<td>Income-Contingent Repayment (ICR)**</td>
<td>$234 - $313 /month</td>
<td>$50,490</td>
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* For Direct Consolidation Loans, the repayment period under this plan varies from 10 to 30 years based on your Direct Consolidation Loan amount and other factors.
### Income-based repayment guidelines

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<th>Annual income</th>
<th>Family size</th>
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<tr>
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<tr>
<td>$10,000</td>
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<tr>
<td>$70,000</td>
<td>$671</td>
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</table>

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 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](http://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/
Counseling Services

- Free budget counseling
- Free credit report reviews
- Free debt issue counseling: credit cards, medical, student loans, debt collectors, lawsuits
- Counseling for bankruptcy filers
Housing Counseling

- Foreclosure Prevention
- Home Buyer Assistance
- Reverse Mortgage Counseling
Online Resources

www.greenpath.org/university
Social Media

facebook.com/greenpathdebt

twitter.com/greenpathdebt
THANK YOU

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www.greenpath.org