CREDIT

Financial Literacy Series: Credit, Building Credit & How to Prevent Identity Theft

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Objectives

• Define and discuss various types of credit
• Identify various factors that affect a credit score
• Recognize ways to detect, defer and defend against identity theft
What is Credit?

Credit is the ability to borrow money (or access goods or services) with the agreement to pay later, generally with interest.
Types of Credit

• Installment Credit
  • Automobile Loans, Home Mortgages, Student Loans, and Personal Loans

• Revolving Credit
  • Credit Cards and Lines of Credit

• Service Credit
  • Utilities, mobile phone service and memberships
Establishing Credit

- **Equal Credit Opportunity Act**: Prohibits credit discrimination
- **Brick and Mortar**
  - Commercial Banks
  - Savings and Loans
  - Credit Unions
Establishing Credit

• Virtual Banking
  • Internet banks
  • Peer to Peer Lending

• Alternatives
  • Consumer Finance Companies
  • Pawn Shops
  • Buy-Here-Pay-Here
5 C’s of Credit

Factors the lender considers when deciding whether or not to extend credit to the borrower.

- Capital
- Capacity
- Character
- Collateral
- Condition
Credit Behavior Activity

- Minimal History of Late Fees
- Late or Missed Payments
- Creditor Closed Accounts
- Current Checking and Savings Account
- Maxed Out Credit Cards
- Cash Advance on a Credit Card
- Regular Timely Payments
- Keeping up with your Credit Report
Maintaining Credit

• Credit Score
  • Predicts likelihood of certain credit behaviors, including default

• Credit Report
  • Fair Credit Reporting Act
FICO Score Activity

Rank the following factors that affect your credit score!

- Types of Credit Used
- Length of Credit History
- Payment History
- Requests for New Credit
- Current Total Debt

Pie chart showing the percentage distribution of the factors:
- Current Total Debt: 35%
- Payment History: 30%
- Requests for New Credit: 15%
- Length of Credit History: 10%
- Types of Credit Used: 10%
FICO Score Activity

- Payment History: 35%
- Current Total Debt: 30%
- Length of Credit History: 15%
- Requests for New Credit: 10%
- Types of Credit: 10%
Identity Theft and Fraud

- **Identity Theft** is the illegal use of another individual’s personal data.
- Fair and Accurate Credit Transactions Act
- Credit Repair Organizations Act
Three Steps to Prevention Activity

**Deter**
- Shred documents with personal data
- Protect social security number
- Avoid giving out personal information through phone, mail or online
- Be aware of unsolicited emails
- Create difficult passwords

**Detect**
- Be aware of unexpected mail or bills
- Review credit report annually for inaccuracies

**Defend**
- Place “Fraud Alert” permissions on your credit report
- Close tampered accounts
- File a report with local law enforcement
- Report complaints to Federal Trade Commission
Resources

• To order your **FREE** credit reports visit [www.annualcreditreport.com](http://www.annualcreditreport.com).

• Download a personal finance app
  – Mint, Pocketguard, Spendee, Wally
Contact Information

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