

# CREDIT & CREDIT WORTHINESS

Alabama Agricultural and Mechanical University  
Small Farms Research Center



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# Objective

- This module is designed to teach participants the importance of credit and credit worthiness.

Participants will become familiar with topics such as: credit, credit worthiness, credit score vs. credit report and how to read a credit report.

- This module is designed to service veterans, socially disadvantaged and limited resource producers located in the strike-force counties of: Wilcox, Sumter, Greene, Hale, Madison and Mobile counties.

- Length of Completion: 60 – 90 minutes

- Participants are encouraged to take notes **as there will be a quiz at the end** to assess, knowledge gained.



# WHAT IS CREDIT & HOW DOES IT WORK



# Credit

Defined by Webster's Dictionary:

- a) An amount or sum placed at a person's disposal by a bank.
- b) The provision, i.e. (arrangement) of money, goods, or services with the expectation for future payment.



# What is Credit?

- Credit means receiving something of value now and promising to pay for it later, often with a finance charge (interest) added by the lender. Simply put, when you pay “by credit,” you are borrowing the money you need to make purchases. In exchange for that financing, you generally agree to pay the lender back the amount you spend or borrow, plus interest.



**Excellent**

800-850

**Very Good**

750-799

**Good**

700-749

**Fair**

650-699

**Poor**

600-649

**Very Bad**

300-599

Expect the lowest possible  
interest rates and best terms.

You will be eligible for most  
loans with good rates.

Only secured loans are given  
for people in this range.



# Why is credit needed & What is credit used for?

- American consumers use credit to buy almost everything, including food, clothing, housing and transportation. You need credit because it is the way the world financial market has chosen to operate. **You have credit, even if you do not have a credit card.**
- Example: If you pay your bill at the end of the month i.e.(after you have used services, such as: phone service, utilities) that means you were given services you had not yet paid for (credit).



# Credit Score

- What is a credit score ?

Financial matters can be complicated, but understanding your credit score doesn't have to be. If you have any credit accounts, such as credit cards or loans, you have a credit report. Your credit report is a record of how you manage your money. This data is then calculated to create your credit score. While lenders use these reports and credit scores to decide whether or not to extend you credit, it leaves a lot of room for interpretation.



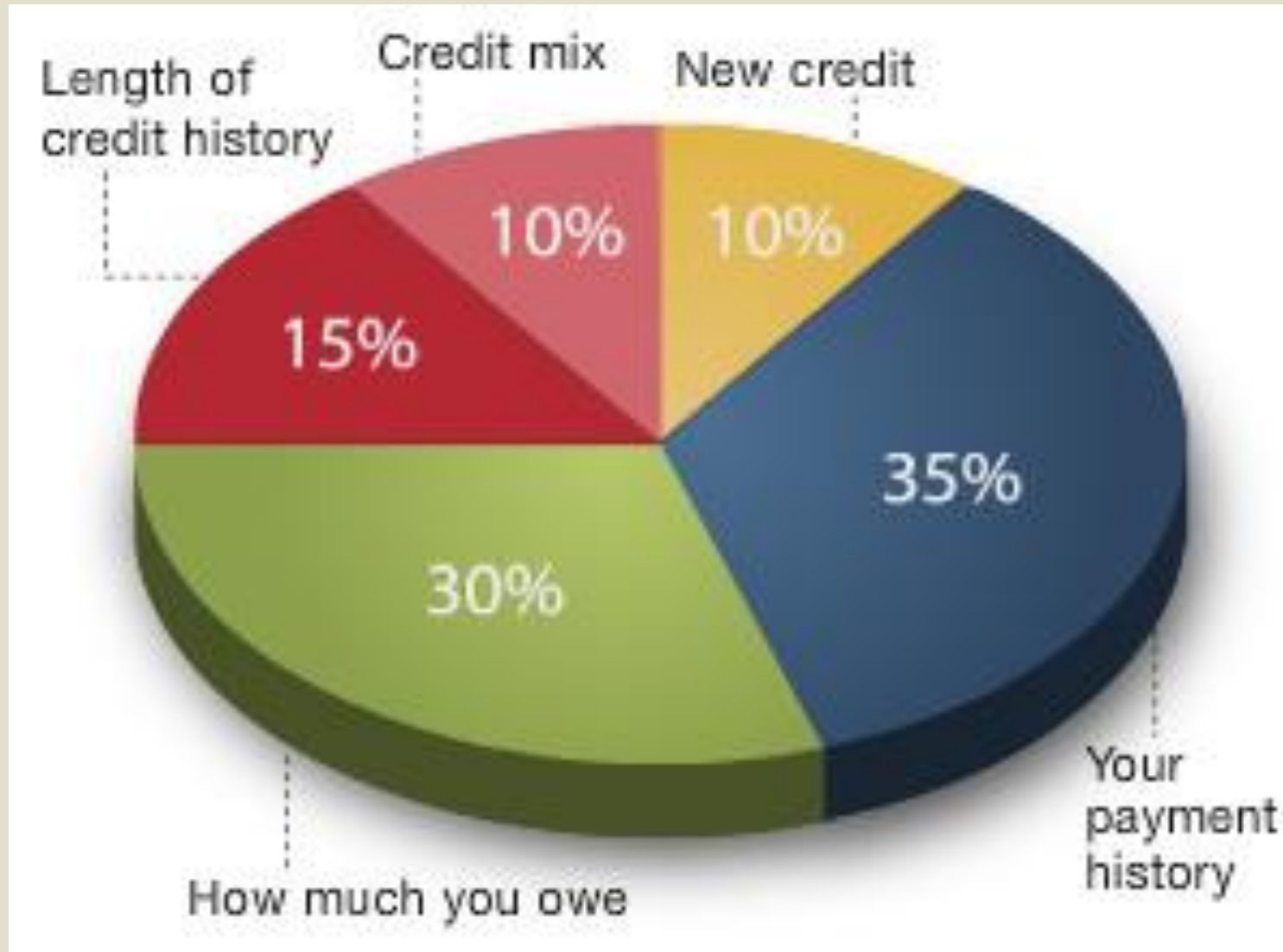
# How is my credit score calculated ?

To see how it all breaks down, here's an example of how FICO scores are calculated.

Your payment history makes up 35% of your score, while credit utilization, i.e.(amounts owed) is 30%. The length of your credit history contributes 15%, types of credit used 10% and new credit accounts are responsible for 10%. All of these values are then broken down into a credit score, which ranges between 300 and 850—the higher the number the better. TransUnion's credit score check can let you know where your score falls.



# Credit score breakdown



# What affects credit scores the most ?

- Your payment history is the most important aspect of your credit score, because it shows how you've managed your finances, including any late payments. Your credit history is also very important, as it demonstrates how long you've been managing your accounts, when your last payments were made, and any recent charges.



# What personal details do not affect my credit score ?

- Your score is a representation of how you manage financial responsibility, not a testament to you as an individual.

The following is not included in the calculation of your score.

- Age
- Ethnicity
- Religion
- Marital status
- Employer
- Salary
- Occupation



# Will my score be the same at all three credit bureaus?

- The three major credit bureaus:

TransUnion®, Experian and Equifax, are responsible for collecting and maintaining consumer credit reports in the U.S. These reports are then provided to subscribers, such as landlords, mortgage lenders, credit card companies and others who are deciding whether or not to extend you credit.



# Will my score be the same at all three credit bureaus?

- It can be confusing when your score seems high but you still get denied for a new line of credit. Chances are you're not looking at the same score as your bank or finance company. Subscribers don't work with every credit reporting agency, so the credit report information included in one report might be slightly different from that in another.



# Will my score be the same at all three credit bureaus?

- Check your credit scores and reports from each bureau annually to ensure all the information is accurate. By law, you're entitled to one free annual credit report. You should also use a credit monitoring service year-round. TransUnion offers some of the latest and most innovative credit monitoring services, like Identity Lock and Instant Alerts. These services will help you spot inaccuracies, potential fraud and other blemishes that could lead to higher interest rates.



# Hard Credit Pull

- What is a hard inquiry?

A hard inquiry is an inquiry that occurs when a prospective lender checks your credit report to make a lending decision. Hard inquiries can slightly lower your credit score and will typically stay on your report for two years.

Hard inquiries commonly take place when consumers apply for a credit card, auto loan, mortgage or other loan.



# Soft Credit Pull

- What is a soft inquiry?

A soft inquiry is an inquiry that occurs when a person or company checks your credit report as a background check, like when you check your credit score or a mortgage lender preapproves you for a loan. Soft inquiries can occur without your permission, but don't worry – they won't affect your credit in any way.

soft inquiries typically occur when employers access your report to look for signs of risk or you check your own credit report or score from sites like [Credit Karma](#), [Credit Sesame](#) or [MyFICO](#).



# Maintaining Healthy Credit

- A credit reporting agency needs a track record of how you've managed credit before it can calculate a credit score. Typically, six months' worth of activity will provide enough information to generate a score.
- Check your credit score regularly with a monitoring service, but don't stress; your credit score is just a snapshot of how you're managing your credit at a particular moment in time. Paying your bills on time, maintaining low balances and not taking on too much debt can help to rehabilitate your credit profile, resulting in a higher score.



# MYTHS

- Carrying a balance will help build your credit.
- Closing accounts will help your score.
- Cosigning for a loan won't affect your credit score
- Pulling your own credit score will lower your score



# QUIZ

- Quick Review:

What is credit and why is it important?

Hard pull vs. Soft pull

Bad credit vs. Good credit

How is your FICO score calculated?

- [What is Credit & How does it work? Quiz](#)



WHAT IS  
CREDIT WORTHINESS  
&  
HOW DOES IT WORK



# Creditworthiness

- What is 'Creditworthiness'

Creditworthiness is a valuation performed by lenders that determines the possibility a borrower may default on his debt obligations. It considers factors, such as repayment history and credit score. Lending institutions also consider the amount of available assets and the amount of liabilities to determine the probability of a customer's default.



# BREAKING DOWN 'Creditworthiness'

- The creditworthiness of an individual or company are determined by several businesses who have established credit rating systems. It is essential for every person to keep track of his credit score because this is the primary factor that financial institutions use to decide if the person is eligible for an advantageous interest rate. Payment history or credit history depicts how a person meets debt obligations, which establishes creditworthiness or the financial character of a person. Payment history counts for 35% of a person's credit score.



# BREAKING DOWN 'Creditworthiness'

- Creditworthiness is depicted as a credit score. A high credit score provides high creditworthiness.
- Creditworthiness considers other factors such as:
  - Age
  - Income
  - Financial obligations
  - Employment status
  - Total debt owed
  - Types of accounts
  - Length of payment history
  - Ability to repay debt.
  - Employment eligibility
  - Insurance premiums
  - Business funding
  - Professional certifications or licenses.



# Creditworthiness: Credit Reporting Agencies

- Experian, TransUnion and Equifax are the prominent credit reporting agencies that measure creditworthiness. Lenders pay the credit reporting agencies to access credit data on potential or existing customers in addition to using their own credit scoring systems to grant approval for credit.
- For example, **Mary has a 700 credit score** and has high creditworthiness. Mary gets approval for a credit card with an **11% interest rate** and a **\$5,000 credit limit**.
- **Doug has a 600 credit score** and has low creditworthiness. Doug gets approval for a credit card with a **23.9% interest rate** and a **\$1,000 credit limit**.
- Doug pays more in interest over time than Mary.



# How to Improve Credit Worthiness

- There are several ways an individual can improve his credit score to establish creditworthiness. The main way to increase creditworthiness is **to pay bills on time**. Get current on any late payments or set up payment plans to pay off past due debt. Pay more than the minimum monthly payment to pay down debt faster and reduce the assessment of late fees.



# How to Improve Credit Worthiness

- Keep credit card balances at 20% or less of the credit limit; **10% is ideal.**

Verify your debt-to-income (DTI) ratio. An acceptable DTI is 35%, but **28% is ideal.** DTI can be calculated by dividing your total monthly debt by your total gross monthly income. Lenders use DTI when assessing an individual's creditworthiness. Creditworthiness is difficult to restore once it is lost; individuals must work diligently to retain their creditworthiness.



# Debt-to-Income Ratio

■ DTI =  $\frac{\text{total monthly debt}}{\text{total gross monthly income}}$

■ EX:  $\frac{\text{monthly debt bills} = \$460}{\text{money made for the month} = \$2,000} = .23$   
or  
 $= 23\% \text{ DTI}$



# MYTHS

You won't get a loan if you don't have a credit history

My credit score will be high if I never take a loan

If you credit score is bad, it will always be bad



# QUIZ

- Quick Review

What is creditworthiness?

Why is it important to keep track of your credit score?

How can you improve your creditworthiness & factors that affect creditworthiness?

How do you calculate your debt-to-income-ratio?

- [What is creditworthiness & how does it work? Quiz](#)



CREDIT REPORT  
VS.  
CREDIT SCORE



# What is it?

- Credit Report

A credit report is a record of a consumer's credit history and serves as credit references.



- Credit Score

A credit score is an algorithm that measures your credit risk based on the information in your credit report at one point in time.



# Who makes it?

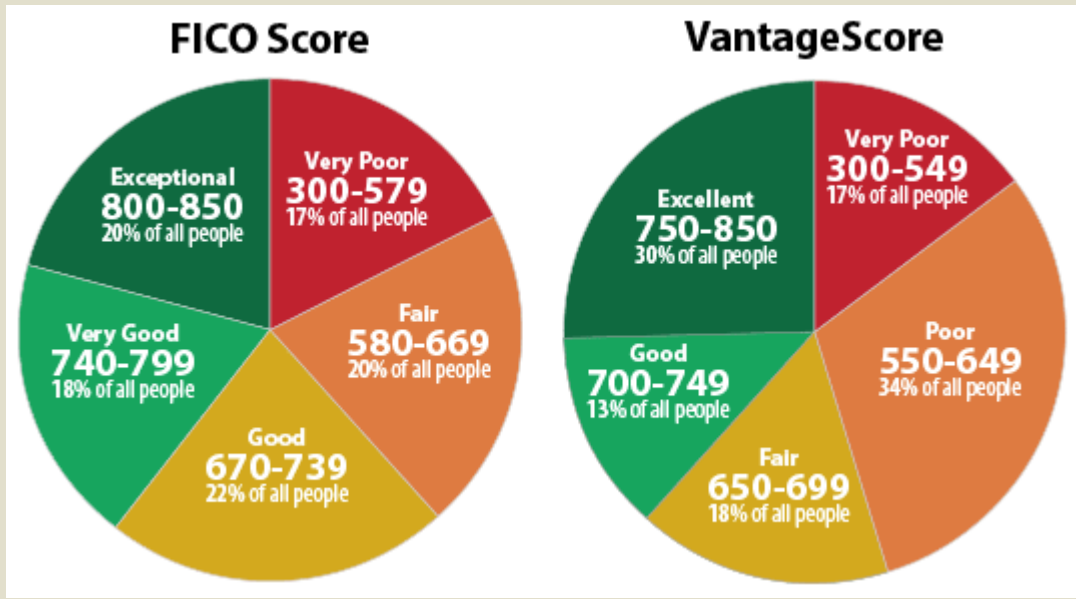
- Credit Report

The three national credit reporting bureaus: Experian, Equifax and TransUnion.



- Credit Score

FICO, VantageScore and banks can create their own proprietary credit



# How many exist & Can it exist alone?

## ■ Credit Report

Three. Each bureau maintains one credit report on each person. The information in each report can differ because creditors don't have to report account information to all three.

Yes, a credit report is a stand-alone document.

## ■ Credit Score

There are 53 different FICO scores in existence. Once FICO 9 has been fully implemented over the next year or so, FICO will have a total of 65 scores. VantageScore maintains three generations of its credit score. There is an unknown number of bank proprietary scores in existence.

No, a credit score is calculated based on information in a credit report.



# How does each judge creditworthiness?

## ■ Credit Report

Credit reports provide a detailed history of a person's current and past credit accounts and debt, third-party collections, certain public records and requests by lenders for the credit reports. The reports include dates accounts were opened, loan amounts, current balances and payment history, including late payments or defaults.

## ■ Credit Score

The most widely used credit score, FICO, considers five factors found in a credit report, each weighted differently, to arrive at the score. They are: payment history (35 percent); amounts owed (30 percent); length of credit history (15 percent); new credit (10 percent); and mix of credit (10 percent). Other credit scores use similar information, but may weight it differently and/or include other data.



# How can I check it?

- Credit Report

Consumers are entitled to a free copy of their credit reports once every 12 months from each credit bureau under federal law. Free reports are available at

[AnnualCreditReport.com](https://www.annualcreditreport.com).

- Credit Score

Mortgage lenders are required to show consumers the three credit scores that are pulled for the loan application. Other types of lenders also must disclose a credit score that was used to deny a consumer credit or to justify offering less-than-the-best terms. FICO and the credit bureaus offer educational credit scores, sometimes for free.



# Who uses which?

- Now that you know which is which, how do you find out who uses which one to determine your creditworthiness? Credit scores and credit reports are seen by more than just lenders. Employers, landlords and insurance companies also use one or both to evaluate consumers and help determine whether to do business with them.



# 5 C'S OF CREDIT



## CHARACTER

A lender will look at a borrower's reputation and standing in the local ag community.



## CAPITAL

A borrower's personal investment in the ag operation.



## CAPACITY

A borrower's ability to repay the loan based on current income and debt.



## COLLATERAL

Lenders will evaluate the land being used to secure the loan.

## CONDITIONS

The state of the overall economic environment, including interest rates and purpose of the loan.



# Mortgage lender & Auto lender

## ■ Credit Report

Yes, mortgage lenders look at credit reports along with credit scores for any red flags.

Yes, auto lenders look at credit reports along with credit scores for any red flags.



## ■ Credit Score

Yes, mortgage lenders pull three credit scores based on credit reports from each credit bureau and use the middle score for qualification.

Yes, auto lenders look at credit scores to determine approval, interest rates and loan terms.



# Credit card issuer & Employers

## ■ Credit Report

Probably not. Because most credit card applications are approved in seconds, often online, credit card issuers depend on credit scores to determine approval, interest rate and credit limits.

Yes, the credit bureaus provide modified versions of credit reports to employers. Forty-seven percent of employers pull credit reports as part of their background checks on potential employees, largely to help prevent theft and embezzlement and to reduce legal liability for negligent hiring.

## ■ Credit Score

Yes, credit card issuers generally use one credit score for the application process.

No, the credit bureaus don't supply credit scores to employers.



# Insurers , Collection agencies & Landlords

## ■ Credit Report

Yes, insurance companies use your credit report information to create their own credit-based insurance scores.

Yes, collection agencies use credit reports to help determine which accounts you can pay off first.

Yes, landlords use credit reports to help them determine whether to rent to a person and how large a security deposit to request.

## ■ Credit Score

Somewhat, but it's not a traditional FICO-type credit score. Many property insurers use credit-based insurance scores that predict the likelihood someone will file a claim. The score is based off an algorithm using information in a credit report.

Yes, collection agencies may use credit scores to predict the likelihood that a consumer will pay back the account.

Maybe, depending on the landlord. Larger management companies or landlords are more likely to pay the cost to get credit scores versus smaller landlords.





# QUIZ

- Quick Review

What is a credit report?

What is a credit score?

Yes, auto lenders look at credit scores to determine approval, interest rates and loan terms.

What are the 5 C's of Credit?

- [Credit Report vs. Credit Score Quiz](#)



# HOW TO READ A CREDIT REPORT



# Read your Credit Reports Regularly

- Regularly reviewing your credit reports lets you check for errors that might be lowering your credit scores, and it can tip you off to potential identity theft. You can use the dispute process to get mistakes removed, which may help you qualify for credit or get better terms.
- You can get free credit report information two ways:

You're entitled to a free report direct from the three credit bureaus at least once a year by accessing [AnnualCreditReport.com](https://www.annualcreditreport.com).

Some personal finance websites, including NerdWallet.com, offer free credit report information on demand so you can check more often than annually.

- Other circumstances, such as being turned down for credit or placing a fraud alert on your credit, can entitle you to additional reports. In addition, some states mandate additional free copies of your credit reports.



# What's on your credit reports, and what should you check?

- Each credit bureau organizes its reports differently, so the sections may fall in a different order, but all of your reports have the same basic parts.
  - Personal Information
  - Accounts
  - Negative Information, If any
  - Inquiries on your credit



# Credit Report Example

Your FICO® Reports from September 19, 2010: **TransUnion** **Equifax**

FICO® Report – **EQUIFAX** [FICO® Score Simulator](#) [Printable Version](#)

September 19, 2010 | FICO® score: 673

FICO® Score

FICO® Score Summary (1) Understanding Your Score (2) How Lenders See You (3) Credit At-A-Glance (4) **Accounts (5)** **Credit Report (6)** **Collections (7)** **Public Records (8)** Next Steps (9)

### FICO® Score Summary


Your Equifax FICO® score:

# 673

On September 19, 2010

Score Watch® does not check your FICO® score every day, so there may be a delay between a change in your FICO® score and the time you receive an alert from Score Watch.





**Your Equifax FICO® score is good**



Your score is near the average score of U.S. consumers, and most lenders consider this a good score.

- FICO® Scores range between 300 and 850
- Higher scores are better scores
- The higher your score, the more favorably lenders look upon you as a credit risk

myFICO provides your FICO® score and credit report as generated and reported by one of the three major credit bureaus. Below are factors in your credit report that are hurting or helping your score:

FICO® score ingredients	How you rate
 <b>Payment history</b> Your history of paying bills on time.	Great
 <b>Amount of debt</b> Your total amount of outstanding debt.	Good
 <b>Length of credit history</b> How long you've had credit.	Very Good
 <b>Amount of new credit</b> Amount of credit you've recently obtained or applied for.	Great



# Personal Information

- Your personal information will include names you've used, current and previous addresses and phone numbers, Social Security number — partially masked for security — birthdate, and current and previous employers.
- Don't be surprised if there are a few different spellings of your name. Variations you've used on credit applications will pop up, such as married and maiden name, with and without middle name or initial, the short version of your first name, etc.
- If one or more of your employers or telephone numbers is missing, it's not a big deal. But keep an eye out for addresses you don't recognize — especially if you later spot accounts you don't recognize. That suggests someone has used your personal information to open fraudulent accounts in your name and is diverting bills elsewhere so you won't be alerted.



# Accounts

- This section lists all of your accounts that haven't gone to collections or been defaulted on. **This is the meat of your credit report.**
- Each account has a summary at the top. Check to make sure you recognize the following items:

Name and address of the creditor, account number and date opened

Status of the account — such as whether it's open or closed or has been transferred — and whether you're current on payments

Type of account (credit card, student loan, etc.)

Whether you're an individual or joint owner of the account or simply an authorized user

Credit limit or original amount of the installment loan



# Accounts

- You'll also see balance and payment information, including the date when the creditor last sent account data to the bureau. Don't expect it to reflect your balance as of today.
- Make sure your payment history doesn't show errors, such as a late payment when you paid on time. You'll also want to make sure your account limits are correct, as this can affect your credit utilization ratio — and that's a big factor in credit scores.
- If an account has been closed, your report will note who closed the account and when. Closed accounts in good standing can stay on your credit reports indefinitely. But accounts closed by the creditor because you didn't pay as agreed should fall off seven years after the account first went delinquent.



# Negative Information

- The negative information section will list accounts that haven't been paid as agreed, collections and public records such as court judgments, liens and bankruptcies. Negative information generally stays on your credit report for seven years, with the exception of Chapter 7 bankruptcies, which stay on your report for 10 years.
- In this section, you'll want to make sure any negative information is accurate. If you see incorrect accounts or collections or if something is being listed after it was supposed to have dropped off, dispute the entries immediately to have them removed from your report.



# Inquiries on your credit

- This section lists times when someone checked your credit. You'll see inquiries when you applied for new credit or limit increases, as well as ones related to things like housing or utility applications.
- Entries may be separated by type. Hard inquiries happen when you authorize a potential creditor to check your file as part of an application. These can cause a small, temporary dip in your credit scores.
- Soft inquiries, which don't affect your credit scores, happen when you check your own credit or a potential creditor sees if it wants to send you a promotional offer.
- Both types of inquiries will include the name and address of the organization, as well as the date. Make sure that all hard inquiries were authorized by you and that they fall off your report after two years.



# What if you need to dispute an item?

- If you spot inaccuracies that may be lowering your scores, gather documentation to back up your claim and contact the bureau showing the error:
- [How to dispute your Equifax credit report](#)
- [How to dispute your Experian credit report](#)
- [How to dispute your TransUnion credit report](#)



# **5 things to check on your credit report**



# QUIZ

- Quick Review

Why is it important to review your credit report

Identify a credit report

What four sections of your credit report should you check, what should you check in each

How long does negative information stay on your credit report

- [How to read a Credit Report Quiz](#)



# Credit & Creditworthiness FINAL QUIZ

- Important points

Review Credit Assessment Quiz

Review Creditworthiness Quiz

Review Credit report vs. Credit score Quiz

Review How to read a credit report Quiz

- [FINAL QUIZ](#)



# If you need assistance

- [Alabama Cooperative Extension](#)
- [AAMU Small Farms Research Center](#)
- [KK & K Enterprise LLC Dba H&B Associates](#) (Bookkeeping, Taxes, Notary, Printing)

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# Resources

<https://newfarmers.usda.gov/planning-whats-next>

<https://www.bankrate.com/finance/credit/credit-score-vs-credit-report-whats-what.aspx>

<https://www.wellsfargo.com/financial-education/credit-management/five-c/>

<https://www.tatacapital.com/blog/personal-loan/removing-some-myths-about-credit-worthiness-and-loans>

<https://www.investopedia.com/terms/c/credit-worthiness.asp>

<https://www.financialsamurai.com/how-much-should-one-have-in-their-401k-at-different-ages/>

[https://www.nerdwallet.com/blog/finance/read-credit-report/?trk\\_location=ssrp&trk\\_query=Credit%20Report&trk\\_page=1&trk\\_position=1](https://www.nerdwallet.com/blog/finance/read-credit-report/?trk_location=ssrp&trk_query=Credit%20Report&trk_page=1&trk_position=1)

<https://www.debt.org/credit/>

<http://www.thefrugalfeminista.com/>

<https://www.transunion.com/credit-score>

<https://www.entrepreneur.com/article/310262>

<https://www.usatoday.com/story/money/personalfinance/2017/12/21/fico-vs-vantagescore-5-differences-you-should-understand/964591001/>

<https://www.merriam-webster.com/dictionary/credit>

<https://www.credit.com/credit-reports/what-is-credit/>

