



Understanding Credit

Presented by Tom May

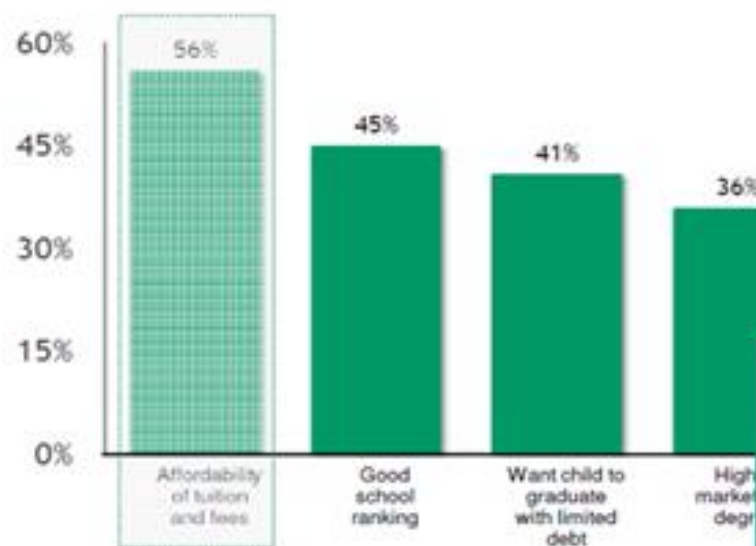
Relationship Manager Citizens One

"Happiness can be found even in the darkest of times if one only remembers to turn on the light."

~ Albus Dumbledore

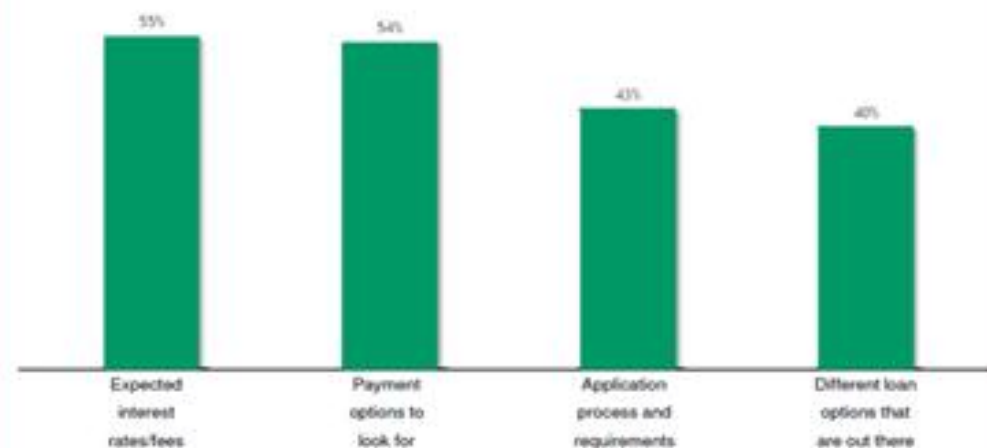


Affordability is the #1 concern: for parents, it is an integral part of the process, not an afterthought



Which of the following sources will or have already influenced your decisions about which school your child will attend?

The information they want to know about education finance is straightforward



Q. What type of information would you like to know about student loans?



Understanding Credit

After the SAT, LSAT, MAT, MCAT and GRE - FICO is the score you need...

Building and maintaining credit is critical to achieving your financial well-being. Your credit score is an important number that influences your ability to finance major life events such as paying for college or a wedding and buying a home or car.

Borrowers looking to improve or build their credit should consider smart spending habits, opening a credit card, or co-signing. It's important to start establishing credit and taking a mindful approach to protecting your credit to help you reach your future goals!



How can I prepare families for credit requirements?

Recommend that they obtain a copy of their credit report and read the fine print while doing so

- ✓ Request a free copy from each of the three major credit reporting agencies: Equifax®, Experian® and TransUnion®
 - ✓ Visit AnnualCreditReport.com or call 1-877-322-8228
 - ✓ Visit Equifax.com or 1-800-846-5279
 - ✓ Visit Experian.com or 1-800-EXPERIAN
 - ✓ Visit TransUnion.com or call 1-800-888-4213
- ✓ They may request a free copy from each credit bureau once each year
- ✓ Advise they stagger their request from one agency at a time to check their credit more frequently - every four months
- ✓ Beware of advertised so-called “free credit reports” and read the fine print! Many are scams or require enrollment in a program that cost money
- ✓ Remember that some companies create scoring models with different factors/percentages. The score given may not be the FICO score the lenders are seeing.



UNDERSTANDING CREDIT

Credit scores are based on information the credit bureau receives and maintains on file for each individual – lenders and companies evaluate credit scores to influence their decisions



Credit Bureau

- Collects information related to the credit ratings of individuals and makes it available to lenders, financial institutions, etc.
- Does not lend money or offer credit
- 3 major national credit bureaus: Equifax, TransUnion and Experian



Credit Report

- Historical information collected and monitored by credit bureaus
- Includes personal information such as: addresses, employment history, how you pay bills, length of time credit accounts have been opened, how much you owe, etc.



Credit Score

- Number derived by calculations run by each of the credit bureaus
- Helps potential lenders evaluate the creditworthiness of an applicant
- A FICO® score is the most commonly used credit rating



WHO'S LOOKING AT YOUR CREDIT?

Your credit score and credit report can be obtained by several types of organizations, and in some cases obtaining this information affects your credit score

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Lenders



Utility Companies



Cell Phone Companies



Insurance Companies



Landlords



Employers

Hard Inquiry

when you apply for credit such as a credit card, auto loan, student loan, mortgage, etc. These types of inquiries require your permission and typically affect your credit score for two years.

Soft Inquiry

when a company checks your credit with your permission such as part of a background check, credit card pre-approvals, employment verification, rate quote, etc. These inquiries do not affect your credit score.



IMPORTANCE OF CREDIT

Credit scores influence key life milestones especially as most private student loan lenders consider creditworthiness

Credit may...



Impact ability to borrow a private student loan



Impact graduate/professional degree goals



Save or cost a student money



Influence career decisions



Impact ability to refinance student loans



Influence where you live

Credit and Private Student Loans

- Credit allows for a good or service (tuition, room & board, etc.) to be purchased in lieu of immediate payment and paid over time.
- Creditworthiness is used to help lenders evaluate a borrower's ability to pay back a student loan.
 - Federal Direct Loans have one standard rate for all borrowers, while private student loan rates are typically based on the borrowers' creditworthiness.
- Unlike Federal Direct Loans, Private student loans are unsubsidized, have either a fixed or variable interest rate and often don't charge application, origination or disbursement fees.

Scoring models are different

FICO® Scores¹

Introduced in 1989, it's the most widely used credit score.

FICO® scores are developed by **Fair Isaac Corporation**, hence the term FICO.

Each credit reporting agency issues a credit score. There are three FICO® scores, one from each nationwide credit reporting agency (CRA):

- Equifax
- Experian
- TransUnion

A FICO® score requires at least six months of history and at least one account reported in the past six months.

FICO treats all late payments – regardless of the type of account –in the same way.

VantageScore²

Introduced in 2006

Developed by all three credit reporting agencies: Experian, Equifax, and Trans Union.

Vantage develops one score from a combined set of consumer credit files from the three CRAs.

Vantage scores range from 300 - 850.

It requires one month of history and an account reported to the CRA within the past two years. As a result, Vantage is able to score millions more consumers.

VantageScore “penalizes” late mortgage payments more than it does other types of credit.

Credit Report Inquiries Made by Lenders

- Both scoring models treat multiple inquiries posted within a focused period of time as a single inquiry, they differ in their “deduplication” methods, as:

FICO® Scores

- Uses a 45-day span
- Applies deduplication method across all types of credit (cards, autos, etc.),

VantageScore

- Uses a 14-day span
- Applies deduplication method to mortgage, auto and student loans.

HOW DOES FICO AFFECT MY LENDING NEEDS?

Your credit impacts the rate and payment a lender offers – look at these two borrowers for example, they have the same original loan amount, but different credit scores and payments

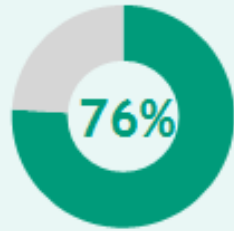
	Borrower with a 660 FICO Score	Borrower with a 750 FICO Score
RATE	6.46%	5.79%
MONTHLY PAYMENT	\$623	\$605
PRINCIPAL PAID	\$55,000.00	\$55,000.00
INTEREST PAID	\$19,806.44	\$17,578.78
TOTAL PAYMENT	\$74,806.44	\$72,578.78

this example is provided for comparison purposes and does not constitute a commitment to lend nor is intended to guarantee that you currently qualify for the example above.



REMEMBER TO MONITOR AND MANAGE YOUR CREDIT

Because they can make a difference in achieving critical life events, consider checking your credit report before applying for a new job, a student loan or even a mortgage



OF ADULTS AGES 18 TO 24
SAY THEY NEVER CHECK
THEIR CREDIT SCORES¹



YOU ARE ENTITLED TO
REQUEST A FREE COPY OF
YOUR CREDIT REPORT
ANNUALLY

HOW TO ACCESS YOUR CREDIT REPORT

- ✓ Request a free copy from each of the three major credit reporting agencies: Equifax®, Experian® and TransUnion®
- ✓ Visit [AnnualCreditReport.com](https://www.annualcreditreport.com) or call 1-877-322-8228
- ✓ You may request a free copy from each credit bureau once each year
- ✓ Stagger your request from one agency at a time to check your credit more frequently - every four months
- ✓ Beware of advertised so-called “free credit reports”! Many are scams or require enrollment in a program that cost money
- ✓ Look carefully for any accounts you don't recognize and make sure all information is accurate

¹<https://www.lexingtonlaw.com/blog/news/american-financial-tracking-poll.html>

WHAT'S A CREDIT REPORT LOOK LIKE?

A credit report is a summary of your credit history, and certain other information, reported to credit bureaus by your lenders and creditors

Experian
A world of insight

Online Personal Credit Report from Experian for
Experian credit report prepared for
JOHN Q. CONSUMER
Your report number is
1362964995
Report date
04/24/2007

Index:
- Overview, location, links
- Accounts & credit activity
- Dispute for your credit history
- Contact information
- Contact us

Report number:
You will need your report number to contact Experian online, by phone or by mail.

Index:
Navigate through the sections of your credit report using these links.

Potentially negative items:
Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for security), account status, type and terms of the account and any other information reported to Experian by the creditor. Also includes any bankruptcy, lien and judgment information obtained directly from the courts.

Status:
Indicates the current status of the account.

Public Records

Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcies, also may appear with your credit items listed later in the report.

BASE COUNTY CLERK

Address:	Identification Number:	Pincode:
123 MAIN TOWN SQ BUFFALO, NY 10000	1	ANY COMMISSIONER CL.

Status:
Civil claim paid.

Status Details:
This item was verified and updated in Apr 2007.

Date Filed:	Claim Amount:
10/15/2006	\$100
Date Resolved:	Liability Amount:
03/04/2007	NA

Responsibility:
INDIVIDUAL

Credit Items

For your protection, the last five digits of your account numbers do not display.

ABC BANK

Address:	Account Number:
100 CENTER RD BUFFALO, NY 10000 (516) 555-5555	100000...

Status: Paid/Paid due 90 days.

Date Opened:	Type:	Credit Limit/Original Amount:
10/08/05	Installment	\$500
Requested Since:	Terms:	High Balance:
11/02/05	12 Months	NA
Date of Status:	Monthly Payment:	Recent Balance:
04/08/07	\$0	\$0 as of 04/08/07
Last Reported:	Responsibility:	Recent Payment:
04/08/07	Individual	\$0

Account History:
60 days as of 12-2006
30 days as of 11-2006

If you believe information in your report is inaccurate, you can dispute that item quickly, effectively and cost free by using Experian's online dispute service located at: www.experian.com/dispute

Disputing online is the fastest way to address any concern you may have about the information in your credit report.

The 3 bureaus' reports each look slightly different, but they include similar information such as:

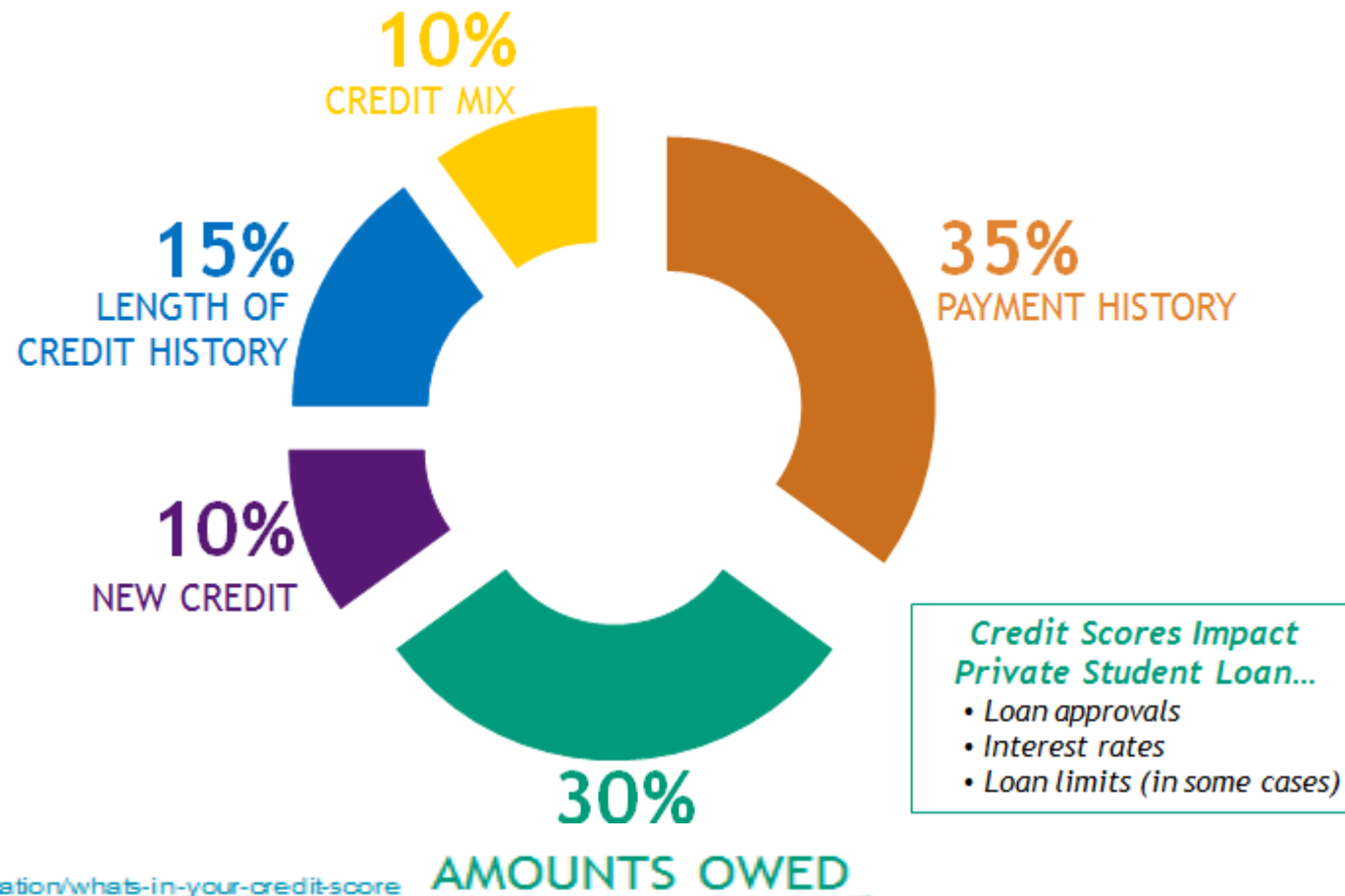
- Where You Live
- Prior Addresses
- Employment History
- How You Pay Your Bills
- How Long Credit Accounts Have Been Open
- How Much You Owe
- Whether You've Been Sued
- Have Filed for Bankruptcy
- Any Changes to Your Name

Only some of the items on your credit report influence your credit score



WHAT DETERMINES A CREDIT SCORE?

FICO Scores are calculated using five pieces of credit data from your credit report, so it's important to maintain these items to protect and build your credit

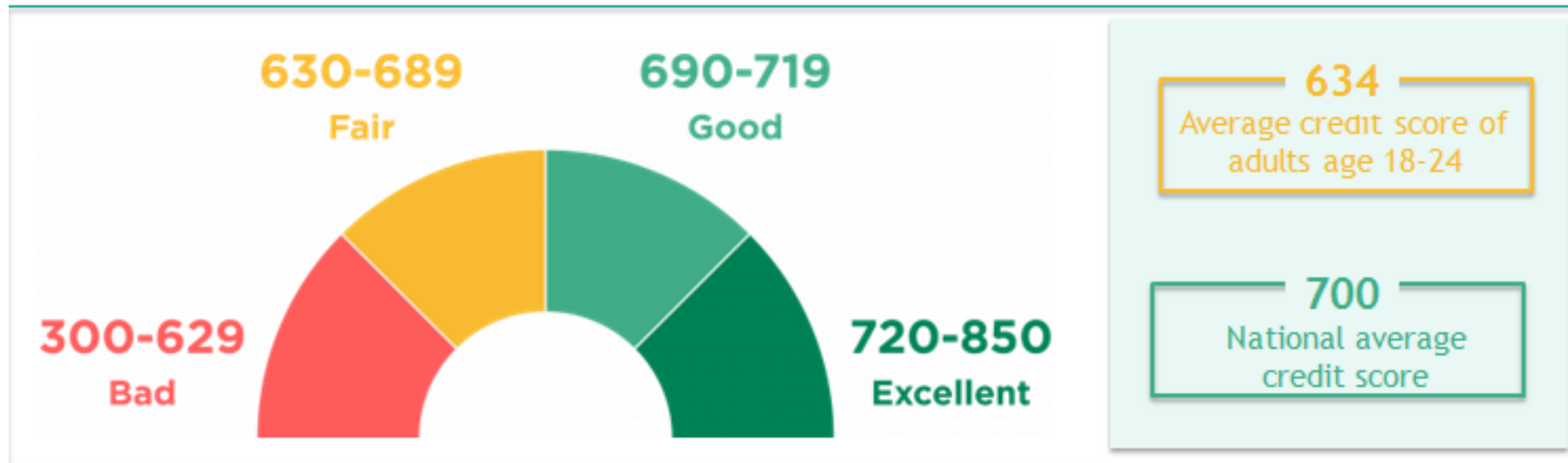


<https://www.myfico.com/credit-education/whats-in-your-credit-score>

WHAT'S MY CREDIT SCORE MEAN?

Credit scores typically determine whether you'll get access to credit, and if you do, what your interest rates will be

- Each lender may determine what they consider excellent credit based on their type of lending
- They may also have credit tiers based on product type (such as student vs. parent)
- The higher the score, the lower the risk and better the loan terms they offer you



<https://www.creditkarma.com/advice/i/average-fico-score/>
<https://www.creditkarma.com/trends/age/>

BUILDING AND FIXING CREDIT

It's important to start establishing a strong credit history early to ensure there's no delay in future financing needs



Use a qualified co-signer or co-borrower

- For Private student loans, lenders will typically look at the higher of the two credit scores
- May lead to lower interest rates on loans
- Helps establish credit



Secure a credit card to make purchases

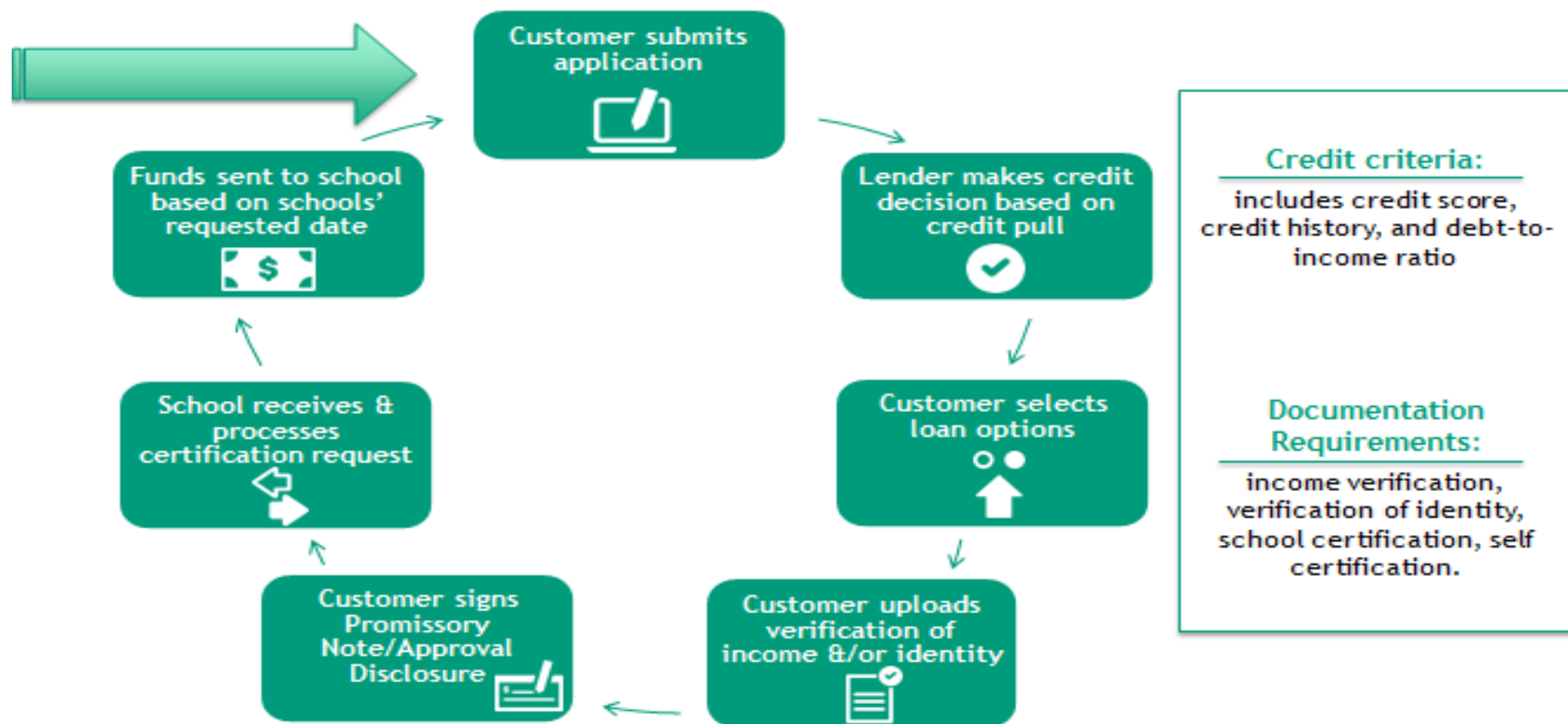
- Start slowly - don't apply for too many cards within a short timeframe
- Make purchases you can afford to pay back
- Pay balances on-time
- Make small purchases and use the card



Monitor your credit report and finances

- Ensure a good mix of credit (revolving and installment)
- Identity errors - contact the credit bureau and the organization reporting the erroneous information
- Develop a budget to take control of your financial situation

What is required in the private student loan application process?



Understanding Private Loan Approval Factors

Some loan approval factors that private lenders look at may include:

- **Credit Score** - acts like a minimum threshold for approvals generally and/or tiered interest rates.
- **Credit History** - lenders may look at both the usage and length of credit history as well as derogatory items
 - Trade lines - individual credit accounts (installment loans - this includes student loans, credit cards); balance, account status, date opened, credit limit, delinquencies, etc.
 - Credit inquiries - a list of everyone who has accessed the borrower's credit in the last two years, both voluntarily and involuntarily
- **Public record items** - collection accounts, liens, judgments, bankruptcies and wage garnishments
- **Debt-to-income** - Proof of income may also be required to verify debt-to-income ratio.

Lenders may also require documentation for:

- **Income Requirements**
 - Verification of stated income
 - Minimum income requirements
- **Employment History**
 - Length of time with current employer
 - Document history of full-time employment (references)
- **Credit Utilization Ratio**
 - Percentage of available credit currently in use
 - Difficult to determine the right mix



Private student loan options - repayment options

Immediate

Makes payments toward principal and interest while in school - least expensive option

Interest-only

Makes payments solely toward interest while enrolled in school and begin making principal and interest payments 6 months after graduation or dropping below half-time status - helps get the borrower into the good habit of making a monthly payment and gives them a sense of control over their debt

Deferred

Makes payments toward principal and interest starting 6 months after graduating, dropping below half-time status or leaving school - Interest does accrue while the loan is in the deferment status

Repayment terms

- A shorter term is most cost effective, but the monthly payments will be higher.
- Any time the term is extended, the cost of the loan increases.
- Choose based on their ability to comfortably manage payments.
- Lenders won't offer a short term if it causes payment to be outside of DTI
- Usually lenders offer their best rates on shorter term loans.

The Impact of Repayment Choices

Fixed Rate

A fixed rate will remain the same over the life of the loan, and the same monthly payment will be owed each month.

FIXED	AMOUNT TO BORROW: \$10,000	IMMEDIATE REPAYMENT ⓘ	INTEREST ONLY REPAYMENT ⓘ	DEFERRED REPAYMENT ⓘ
	Interest Rate	6.23% to 11.74%	6.23% to 11.74%	6.46% to 11.96%
	APR	6.23% to 11.74%	6.23% to 11.74%	6.21% to 10.86%
	Monthly Payment	\$111.03 to \$139.24	\$112.17 to \$141.96	\$143.60 to \$211.07
	Total to Pay Back	\$13,321.96 to \$16,708.72	\$15,952.37 to \$21,728.98	\$17,230.88 to \$25,327.43
VARIABLE	AMOUNT TO BORROW: \$10,000	IMMEDIATE REPAYMENT ⓘ	INTEREST ONLY REPAYMENT ⓘ	DEFERRED REPAYMENT ⓘ
	Interest Rate	5.99% to 11.10%	5.99% to 11.10%	5.82% to 11.32%
	APR	5.99% to 11.10%	5.99% to 11.10%	5.63% to 10.33%
	Monthly Payment	\$107.97 to \$135.80	\$108.97 to \$138.30	\$136.72 to \$202.16
	Total to Pay Back	\$12,955.01 to \$16,295.24	\$15,311.55 to \$21,035.26	\$16,406.04 to \$24,257.29

Variable Rate

A variable rate may change over time as it's tied to a market index (i.e. one-month LIBOR), and the monthly payment amount may change as well.

This example is provided for comparison purposes and does not constitute a commitment to lend nor is intended to guarantee that you currently qualify for the example above.



ELM Student View



<p>Citizens Bank APR & Rate Type: 5.74% - 12.09% FIXED Apply Now</p> <p>Citizens Bank Student Loan for Undergraduates (Fixed Rate)</p> <p>Get peace of mind with multi-year approval, you can apply once and qualify for the length of your degree. Customize your loan to make payments while in school or after graduation. No origination or application fees. Citizens Bank customers automatically receive .25% interest rate reduction with our Loyalty Discount. Co-signer release is available. See details for more information.</p> <p>Details Calculate Compare</p>	<p>SUNDAIR APR & Rate Type: 4.125% - 11.125% VARIABLE Apply Now</p> <p>Custom Choice Loan(R) - Variable Rate Option</p> <p>Sundair is expanding access to funding, so now even more families can pay for college. This loan offers interest rate reductions, a co-signer release option and no application or origination fees!</p> <p>Please read the important information about this loan by clicking the "Additional Details" tab.</p> <p>Details Calculate Compare</p>	<p>AAA Advantage Loans APR & Rate Type: 4.125% - 12.125% VARIABLE Apply Now</p> <p>AAA Advantage Loan</p> <p>Your college dreams can just be starting or they can be well underway. The AAA Advantage Loan is here to help you fund your education. Fixed or variable interest rates, multiple repayment options and rate reductions available.</p> <p>Please read the important information about Loan Product Features by clicking the "Additional Details" tab.</p> <p>Details Calculate Compare</p>
<p>CollegeMax APR & Rate Type: 4.27% - 11.23% VARIABLE Apply Now</p> <p>Smart Option Student Loan for Undergraduate Students (Variable Rate)</p> <p>Borrow Smartly. Suite Max offers multiple repayment options, an interest rate reduction when you enroll in and make monthly payments via auto debit, the option to apply for a co-signer release after certain requirements are met, and no origination fee. Apply at any time up to 300 days before classes start.</p> <p>Details Calculate Compare</p>	<p>PNC APR & Rate Type: 5.19% - 11.29% VARIABLE Apply Now</p> <p>PNC Solution Loan for Undergraduates (Variable)</p> <p>The PNC Solution Loan(TM) offers a convenient way to pay for college after you have exhausted your federal loan options. Borrow up to the full cost of education, less any financial aid.</p> <p>Details Calculate Compare</p>	<p>mefa APR & Rate Type: 6.62% - 7.25% FIXED Apply Now</p> <p>META Loan - Deferred Repayment</p> <p>META is a non-for-profit state authority. Benefits students from across the US attending a Massachusetts college or university and Massachusetts residents attending college in state or out of state.</p> <p>Details Calculate Compare</p>
<p>DISCOVER APR & Rate Type: 5.99% - 11.99% VARIABLE Apply Now</p> <p>Discover Variable Rate Undergraduate Loan</p> <p>Lowest rates offered include a 0.25% interest-only repayment discount and a 0.25% Active Dollar Reward. Discover Student Loans can cover up to 100% of your school-certified college costs. Aggregate loan limits apply. Cash rewards for good grades. Zero fees. Choice of in-school or deferred repayment options. 24/7 customer service.</p> <p>Details Calculate Compare</p>	<p>PNC APR & Rate Type: 6.69% - 12.29% FIXED Apply Now</p> <p>PNC Solution Loan for Undergraduates (Fixed)</p> <p>The PNC Solution Loan(TM) offers a convenient way to pay for college after you have exhausted your federal loan options. Borrow up to the full cost of education, less any financial aid.</p> <p>Details Calculate Compare</p>	<p>RISLA APR & Rate Type: 4.24% - 4.24% FIXED Apply Now</p> <p>RISLA Student Loan - Immediate Repayment</p> <p>Low interest loan for college. Fixed Rate. RI resident attending an eligible in-state or out-of-state school AND Out of State students attending an eligible RI school are eligible.</p> <p>Details Calculate Compare</p>

CHARTS FOR ILLUSTRATIVE PURPOSES ONLY



What happens when a student loan is denied?

Steps taken by the lender

The lender will send the borrower an Adverse Action letter as required by law within 30 days, including:

- Reason(s) for denial clearly stated
- Sources used for making credit decision (bureau)
- Credit Score obtained (sometimes)

Steps that may be taken by the borrower

- Adding a co-signer (or different co-signer)
- If DTI is reason, ensure application included all household income
- Appeal if there's proof that the information provided in the credit report is wrong (line items)
- If derogatory information has been reported incorrectly, have it corrected and re-apply
- Use the Adverse Action letter as a tool - order a credit report (for free) and work to improve credit history, score, debt-to-income
- Seek other options such as a private Parent Loan or Federal Parent PLUS Loan

THE IMPACT OF A CO-SIGNER

A co-signer could help a borrower secure approval for a private student loan, auto loan, credit card, a mortgage and even a lease agreement

A CO-SIGNER MAY BE NECESSARY FOR A BORROWER ...

- ✓ With limited credit history
- ✓ With poor credit
- ✓ Who doesn't meet the minimum income requirements
- ✓ Who has a high Debt-to-income ratio

A CO-SIGNER COULD...



Increase chances of approval on a loan, lease or credit card:
A co-signer will add sufficient strength to the primary borrower's application to get approved



Lead to lower interest rates:
Established credit history will likely result in the borrower receiving lower interest rates on a loan



Help a borrower establish credit:
With a loan in his or her own name, the borrower can begin establishing credit

REPAIRING CREDIT

It's easy to fix your credit yourself, rather than falling for scams promising easy, overnight credit repair

- ✔ Review your credit report by visiting [AnnualCreditReport.com](https://www.annualcreditreport.com) or calling 1-877-322-8228
 - If you find errors, contact the credit bureau and the organization reporting the erroneous information.

- ✔ Take steps to analyze your current financial situation and develop a budget
 - Ensure you're not spending more than you can afford each month

- ✔ Pay all of your bills on time, consider paying down debt and avoid applying for credit.
 - If you are having trouble making ends meet, contact creditors to create a payment plan or see a legitimate credit counselor



KEEP YOUR INFORMATION SECURE

While reviewing your credit report, check for errors and be sure to report immediately

What's the difference between fraud and identity theft?

Fraud

is when someone uses a legitimate account belonging to you without your knowledge.

- If this happens, you will need to dispute the fraudulent charges with the lender.
- Most common instances of fraud happen when credit card information is stolen and used for online purchases.

Identity Theft

is when personal information is stolen and used to open new credit accounts in the victim's name.

- The identity thieves don't pay the bills, and the delinquent accounts are reported on the victim's credit report.
- Inaccurate information like that could affect your ability to get credit, insurance, or even a job.

OPTIMIZE SUCCESS FOR APPROVAL ON A PRIVATE STUDENT LOAN

Keep in mind the following loan approval factors when applying for a private student loan



Solid credit history

No history of student loan delinquency/default or instance of adverse credit/collection for 7 years



Above average credit score

The higher the credit score, the lower the rate



Borrow jointly

Qualified creditworthy co-signer increase chances of approval and may lead to lower interest rates



Verifiable income and low debt-to-income

Current and prior year W2s and DTI less than 30%

Thank You For Your Time

Questions or Feedback?

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