

10 Stupid Things... That Can Adversely Impact Your Credit



Farm Credit Services of Arkansas

*AgHeritage Farm Credit Services
Farm Credit MidSouth
Farm Credit Services of Western Arkansas*



Denise Sweat

Regional Credit Analyst
Farm Credit Services of Western Arkansas
Nashville, Arkansas

Credit Is a Tool

- Obtaining a loan or using credit is a tool that affords many opportunities and achieves many goals.

“People don’t just buy things, they buy them because they imagine how using them will make them feel...”

- Using credit or borrowing money helps us buy things.
- Credit used wisely is a great tool.
- Credit used wrongly, abused, or taken for granted can wreck one’s life and those around them.

Five C’s in a Credit Decision

- Most lenders, including Farm Credit Services, use the 5 credit factors when making a loan decision.
- We call these factors the 5 C’s of Credit

Character

Capital

Capacity

Collateral

Conditions

The 5 “C’s” ...

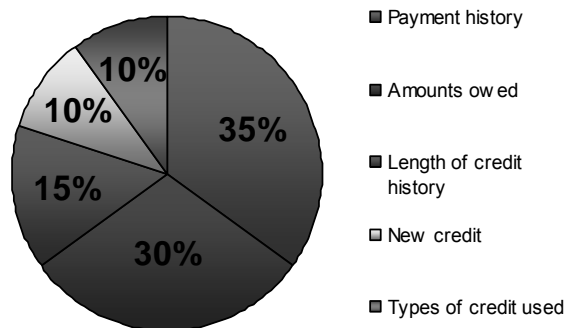
- **Character** – evaluating a person’s performance and management, which today also means your “Credit Score”
- **Capital** – your financial position – means your assets, your liabilities, your net worth or equity position
- **Capacity** – your ability to repay the loan or credit over a specified term
- **Collateral** – what you offer the lender for security should you default, or cannot repay
- **Conditions** – items a lender may require of you to assure or encourage performance

10 Stupid Things... That Can Adversely Impact Your Credit

1. Being uninformed, or ignoring things about your financial condition, your credit, your credit bureau and your credit score

- What are the credit bureau and reporting services?
- Do you know your FICO score?
- The average FICO score in the US is 723.

What’s in your FICO Score



FICO SCORES

- How FICO® Scores Work
- When you apply for credit – whether for a credit card, a car loan, or a mortgage – lenders want to know what risk they’d take by loaning money to you.
- FICO scores are the credit scores most lenders use to determine your credit risk. You have three FICO scores, one for each of the three credit bureaus – Experian, TransUnion, and Equifax. Each score is based on information the credit bureau keeps on file about you. As this information changes, your credit scores tend to change as well.
- Your 3 FICO scores affect both how much and what loan terms (interest rate, etc.) lenders will offer you at any given time.
- Taking steps to improve your FICO scores can help you qualify for better rates from lenders.

FICO SCORES, continued

- When FICO scores drop below 650 many lenders like Farm Credit take a closer look at the loan request.
- In fact, if the FICO Score drops below 620 lenders for secondary market home mortgages often will turn down the applicant.
- You may obtain a free credit bureau from each bureau once a year, but you must pay for your score.
- You can get more information at:

www.annualcreditreport.com

10 Stupid Things... That Can Adversely Impact Your Credit

2. CREDIT CARDS

- Having a number of credit cards with open commitments or limits that could be maxed out
- Making only the minimum monthly payments
- Opening store cards to take advantage of special offers or recently opened accounts
- Taking cash advances on credit cards to make payments
- Not shopping for the best interest rates

Credit Cards, continued

- Being misled by low introductory rates
- Not reading the small print
- Being late with credit card payments
- Choosing a card for the wrong reasons – i.e. rewards programs, rebates
- Not checking your monthly statement carefully

Final Word on Credit Cards

- Watch your credit card balances
- This results in more loan underwriting, verifications and conditions on future usage, plus higher tier of interest rates because of the potential risk

*10 Stupid Things...
That Can Adversely Impact Your Credit*

3. Simply not paying your bills, credit cards, loan or mortgage payments on time

- Impacts your FICO Score
- Impacts your interest rates, or cost
- Gives you a bad reputation with your lender and potential lenders or creditors as poor or bad credit risk
- Lender may require additional collateral or conditions

*10 Stupid Things...
That Can Adversely Impact Your Credit*

4. Co-Signing A Loan for children, relatives or friends

- If they don't pay or default on the loan, then guess who the lender comes after next...you.
- Be careful and have good understandings with the person or individual when you also put your name on the line.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

5. Placed for Collection, repossession, voluntarily repossession, foreclosure, tax liens, judgments and bankruptcy

- These kinds of credit problems destroy your credit rating and cost thousands more as one tries to rebuild their credit.
- Placed for collection can occur more than you know, especially with medical bills and/or payments that one may have thought were resolved or that insurance was to have taken care of or was disputed. We see a number of medical claims issues on credit bureau reports.
- You can be forgiven for your prior debt management, but it is never really forgotten when a lender sees a credit bureau with these items.
- All of these issues are all a derog on one's credit bureau and impact the person for a number of years.
- Many lenders are unforgiving of a major derog, others are, but the cost of obtaining a loan with them can be substantial.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

6. Divorce

- A divorce can do more to impact one's credit than you can imagine.
- Keep in mind just because you divide the property, doesn't mean the lender releases a party from the debt. You remain liable unless you obtain a formal release, or request the loan be refinanced to either parties name.
- Also, while divorces are proceeding, credit cards can be maxed out by one or both parties.
- Default in payments also are common when one party thinks the other is responsible for the payments.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

7. Home Equity Loans

- These are a great tool, but don't fool yourself.
- Borrowing money on the equity in your home is common for tax purposes.
- However, using your home equity loan or line of credit, which typically is from 15-30 yrs, for short-term needs, such as to pay off credit cards, vehicles, boats, ATV's, vacations, etc., which should be paid off between 1-5 yrs, is just bad credit management.
- Use your home equity for long-term purposes-remodeling, additions, purchasing a lot or acreage to build on later...these items are what your home equity loan was really designed to do.



*10 Stupid Things...
That Can Adversely Impact Your Credit*

8. Not Protecting Yourself against Identity Theft

- Avoid giving out your social security number whenever possible.
- Never carry your social security card in your wallet in case it is lost or stolen.
- You should request that your driver's license number is a number other than your SSN.
- Don't leave printed personal or financial information lying around your home.
- Minimize the risks of mail theft, shred bank and credit statements and credit card offers.
- Get your bank statements sent electronically.
- Secure your home computer –firewall and virus protection.
- Be smart about choosing passwords, don't use the same one for all your accounts.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

Signs of Identity Theft

- ▶ Unexpected phone calls from creditors
- ▶ Strange credit card charges
- ▶ Getting turned down for credit unexpectedly
- ▶ Accounts usernames, passwords, ATM PIN # no longer work
- ▶ Missing bills when you are used to getting billed for services
- ▶ Strange information in your files

*10 Stupid Things...
That Can Adversely Impact Your Credit*

9. Having no credit

- This is typically reported on your credit bureau as insufficient information to score.
- This is caused by having no or little credit that is reported to the credit bureau.
- If you are married, tell creditors or stores to report shared accounts in your name as well as your spouses name.
- Make sure credit bureau's have a file on you and that shared accounts are listed.
- If you're no longer married, you can still apply for credit on the basis of accounts you shared with your former spouse.
- Whatever your marital status, you should establish your own credit history, have your own checking, savings accounts, have a credit card in your name.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

10. Living beyond your dreams or means!

- This is usually reflected by the level of credit card debt an individual has.
- There are typically several different accounts that are all maxed out.
- Do you really know your annual living expenses?
- Do you maintain a monthly budget?
- Do you maintain a reserve savings account?
- Understand what mortgage lenders look at when it comes to ratios:
 - 28% -PITI = Principal, Interest, Taxes and Insurance
 - 36% TMO = Total Monthly Obligation
- When you exceed these ratios it can be a red flag for lender, increased credit risk, additional cost in rates or fees.

*10 Stupid Things...
That Can Adversely Impact Your Credit*

If you ever encounter credit problems- the key is to...

- Communicate with your creditors
 - ▶ Discuss your situation
 - ▶ Confront the issues
 - ▶ Seek and offer solutions
 - ▶ Work together to resolve



**On behalf of everyone here from
Farm Credit Services
in Arkansas, we appreciate the
opportunity to be a part of the
2006 Women in Ag Conference.**

Just like Arkansas, we're a diverse resource for farmers. Our experienced agri-professionals offer everything from real estate loans to home loans, crop loans to crop insurance, equipment loans to land appraisal, life/disability insurance to leasing services and a whole lot more.

At Farm Credit Services.....We do it all!

FARM CREDIT SERVICES OF ARKANSAS

1-800-444-FARM

www.farmcredit.com