

PA HealthCare Credit Union

The Credit Clinic

The PA HealthCare Credit Union contributes to the financial success of our members.

Agenda

- Welcome & Introduction
- Overview
- “Product” Rate
- Credit Report Information
- Debt to Income Ratio
- Putting it All Together
- Question & Answer

Welcome & Introduction

- The PA HealthCare Credit Union is proud to sponsor this event to better educate members and non-members alike to the importance of improving one's individual credit worthiness.
- Paul Fero is the CEO of the PA HealthCare Credit Union and is also part of the Adjunct Faculty of Robert Morris University, LaRoche College and the University of Phoenix teaching in areas of Economics and Finance.
- **DISCLAIMER:** The views and comments, are solely the views of the speaker and not necessarily that of anyone affiliated, directly or indirectly with the PA HealthCare Credit Union.

Overview

- The rate you receive on a loan is the investment of the financial institution so factors such as liquidity risk, credit risk and default risk determine your final rate.
- The interest rate is comprised of three general areas and may differ by institution based on their own criteria such as:
 - “Product” i.e. automobile, home equity, unsecured etc.
 - Credit History/Credit Score
 - Debt to Income Ratio
 - Other factors i.e. length of employment, owner/renter, etc.
- With credit score illustrating your past credit ability and debt to income ratio as your current ability to repay the loan.

Product Rate

- The product rate is based on the liquidity nature of the loan product. For example, if the collateral is repossessed, it is easier to sell a car than a boat. Therefore, a new car will have a lower rate than a new boat.
- The interest rate for secured products are lower than unsecured products. In addition, even for secured products, rates may vary depending on “age” such as for vehicles.

Product Rate

Here's a general illustration for a Automobiles:

	<u>Model Year 2006-2005</u>	<u>Model Year 2004-2003</u>	<u>Model Year 2002-2001</u>	<u>Model Year 2000-1999</u>	<u>Model Year 1998-1997</u>
12 month	5.25%	5.50%	6.00%	6.50%	7.00%
18 month	5.50%	5.75%	6.25%	6.75%	7.25%
2 year	5.75%	6.00%	6.50%	7.00%	7.50%
3 year	6.00%	6.25%	6.75%	7.25%	8.00%
4 year	6.24%	6.50%	7.00%	7.50%	8.25%
5 year	6.50%	6.75%	7.25%	N/A	N/A
6 year	6.75%	N/A	N/A	N/A	N/A
	N/A	=	Not Available		

Credit Report Information

An individual's credit report contains some of the following information:

- Payment History
- Amounts Owed
- Length of Credit History
- New Credit
- Types of Credit Used

Credit Report Information

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

Amounts Owed

- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

Length of Credit History/New Credit

Length of Credit History

- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

New Credit

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening, by type of account
- Time since credit inquiry
- Re-establishment of positive credit history following past payment problems



Types of Credit Used

- Number of (presence, prevalence, and recent information on) various types of accounts
 - credit cards
 - retail accounts
 - installment loans
 - mortgage
 - consumer finance accounts, etc.

FACT Act

- As part of the updated Fair Credit Reporting Act (FACTA) passed in January 2004, U.S. citizens have the right to annual free credit reports from all three major reporting agencies. The program expanded to Pennsylvania on September 1, 2005.
- This central site, www.annualcreditreport.com, allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.
- You can request them three ways: Over the Internet by going to www.annualcreditreport.com; by phone, by calling toll-free at 1-877-322-8228; or by completing the Annual Credit Report Request Form, located on the Federal Trade Commission website, and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA, 30348-5281.

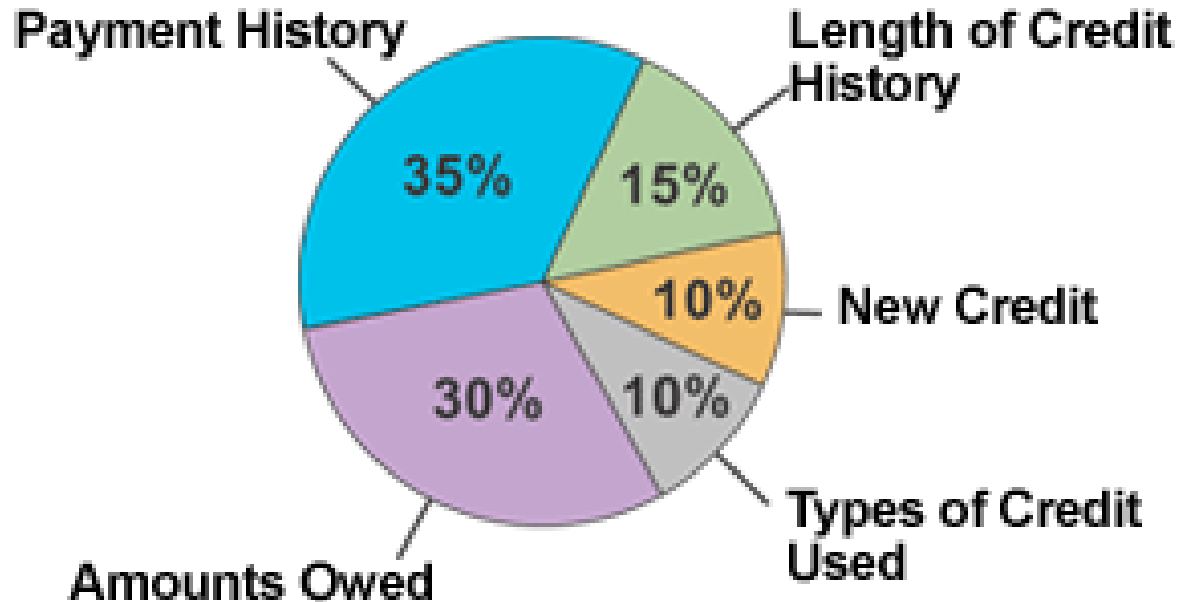


FICO Score

- Credit bureau scores are often called "FICO scores" because most credit bureau scores used in the US are produced from software developed by Fair Isaac and Company. FICO scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion.
- By using FICO scores, lenders can speed the loan approval process, credit decisions are "fairer", credit imperfections account less as time goes by, more credit is available, and credit rates are lower overall.



FICO Score General Breakdown

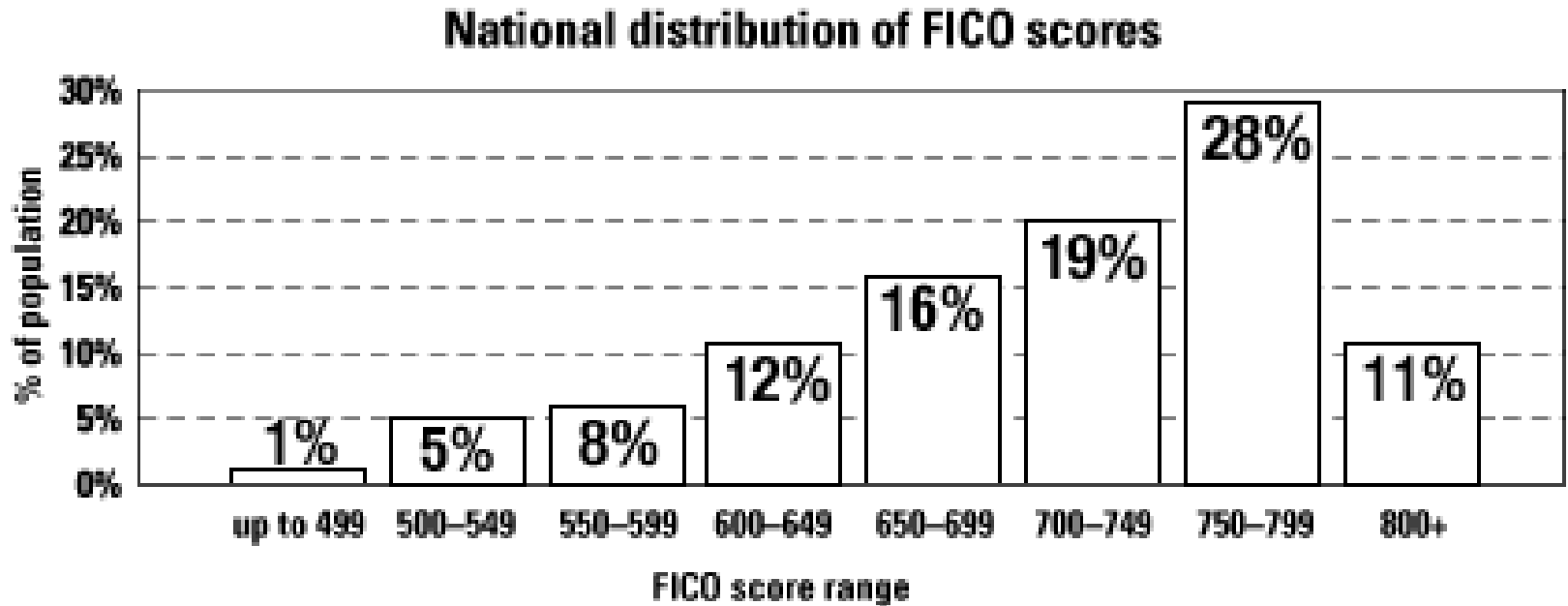


Source: www.myfico.com

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FICO Score Distribution



Source: www.myfico.com

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FICO Score Impacts on Rate

Here's a general illustration:

		BASE						
		800 & up	799 - 750	749 - 700	699 - 650	649 - 600	599 - 550	549 and Below
		A+	A	B	C	D	E	F
1 year		- .250	-	+ .500	+1.250	+2.500	+ 5.000	+ 7.500
18 month		- .250	-	+ .500	+1.250	+2.500	+ 5.000	+ 7.500
2 year		- .250	-	+ .500	+1.250	+2.500	+ 5.000	DECLINE
3 year		- .125	-	+ 1.000	+ 2.500	+ 5.000	+ 7.500	DECLINE
4 year		- .125	-	+ 1.000	+ 2.500	+ 5.000	+ 7.500	DECLINE
5 year		- .125	-	+ 1.000	+ 2.500	+ 5.000	+ 7.500	DECLINE
6 year		-	-	+ 1.500	+ 3.000	+ 6.000	+ 8.750	DECLINE
7 year		-	-	+ 1.500	+ 3.000	+ 6.000	+ 8.750	DECLINE
10 year		-	-	+ 2.000	+ 4.000	+ 8.000	+ 10.000	DECLINE
15 year		-	-	+ 2.000	+ 4.000	+ 8.000	+ 10.000	DECLINE
20 year		-	-	+ 2.500	+ 5.000	+ 10.000	DECLINE	DECLINE
25 year		-	-	+ 2.500	+ 5.000	+ 10.000	DECLINE	DECLINE
30 year		-	-	+ 2.500	+ 5.000	+ 10.000	DECLINE	DECLINE



Debt to Income Ratio

- One's Debt to Income Ratio compiles one's monthly obligations and divides this into monthly gross income to determine your debt to income ratio.
- A lower ratio illustrates one's a greater ability to repay the obligation.
- For example:
 - Monthly Debt: \$1,500
 - Monthly Income: \$3,000
 - Debt Ratio: $(\$1,500/\$3,000) = .50$ or 50%



Debt to Income Ratio

		BASE					
		Below 35	35 - 44.99	45 - 54.99	55 - 64.99	65 and above	
1 year		- .250	-	+ .500	+2.500	DECLINE	
18 month		- .250	-	+ .500	+2.500	DECLINE	
2 year		- .250	-	+ .500	+2.500	DECLINE	
3 year		- .125	-	+1.000	+5.000	DECLINE	
4 year		- .125	-	+1.000	+5.000	DECLINE	
5 year		- .125	-	+1.000	+7.500	DECLINE	
6 year		-	-	+1.500	+7.500	DECLINE	
7 year		-	-	+1.500	+7.500	DECLINE	
10 year		-	-	+1.500	DECLINE	DECLINE	
15 year		-	-	+1.500	DECLINE	DECLINE	
20 year		-	-	+2.000	DECLINE	DECLINE	
25 year		-	-	+2.000	DECLINE	DECLINE	
30 year		-	-	+2.000	DECLINE	DECLINE	

Putting It All Together

Example:

A borrower wants to secure a five year automobile loan for a new 2006 vehicle. The individual has a credit score of 725 and a debt to income ratio of 48%. Using the information from the tables previously illustrated, the rate is determined as follows:

Product Rate	6.50%
+ Credit Score	1.00%
+ Debt Ratio	<u>1.00%</u>
= Final Rate:	8.50%



Questions & Answers

Q&A