

# Students and Consumer Credit Management

WFAA Conference 2018

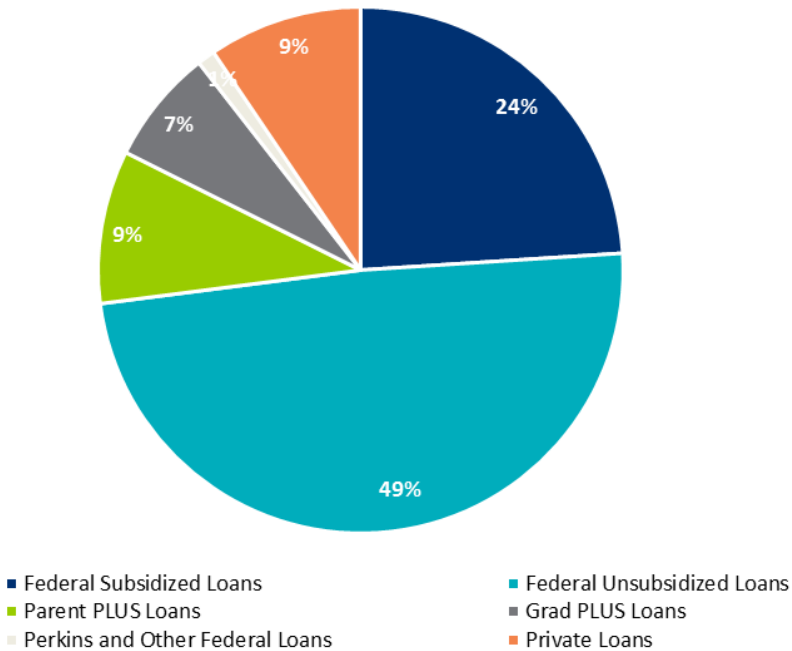


# Agenda

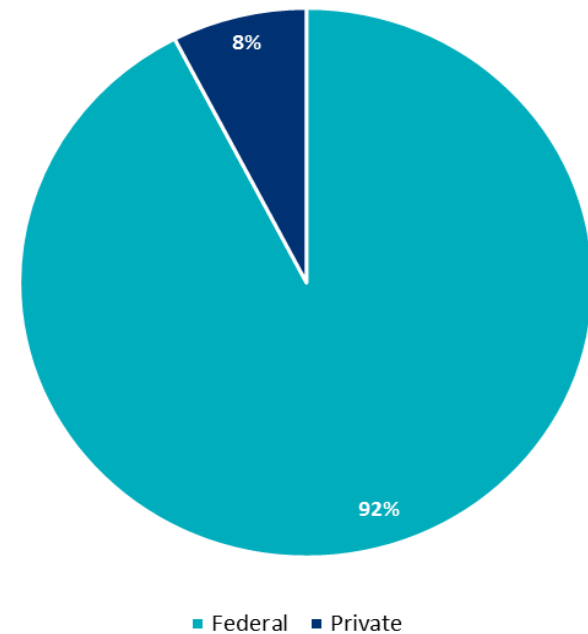
- Private credit within the student loan ecosystem and compared to other consumer assets
- Credit Reports - what is in it and what you need to know
- Tools available for borrowers, to help them better understand their credit and debt obligation
- Final Thoughts

# Private student loans represent a small portion of the pie

Distribution of Federal & Nonfederal Student Loans



Outstanding Balances



- Private loans represent 9% of new originations annually

- Private loans represent 8% of student loan outstanding

# Federal vs. private student loans – a world of difference

	Federal	Private
Objective	Provides access	Meet a consumer financial need
Screening (Dependent)	Parent	Parent & Student
Underwritten	No	Yes
Obligation	Student	Parent & Student
Originator	ED	Lender
Investment	Treasury	Private
Servicer	Multiple Contractors	Usually lender
Collector	Outsourced	Usually lender
Bankruptcy discharge	No	No
Consumer Reporting Exposure	✓	✓

# Student loans vs. other consumer assets

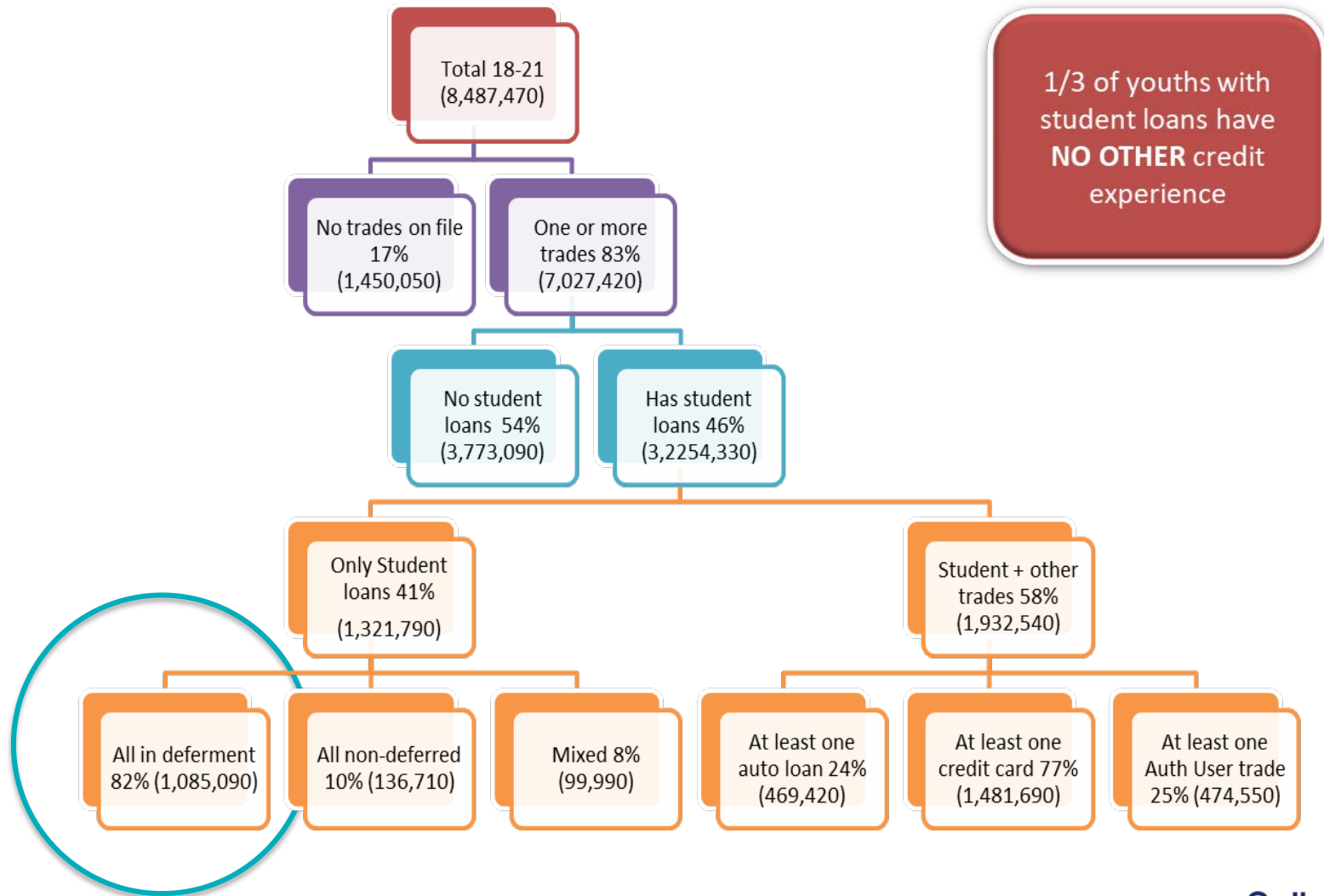
	Secured Loan	Unsecured Loan	Student Loan
Examples	<ul style="list-style-type: none"> <li>• Auto Loan</li> <li>• Mortgage</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Card</li> <li>• Personal Loan</li> </ul>	<ul style="list-style-type: none"> <li>• Federal</li> </ul>
Loan Type	<ul style="list-style-type: none"> <li>• Asset backed</li> </ul>	<ul style="list-style-type: none"> <li>• General purpose</li> </ul>	<ul style="list-style-type: none"> <li>• Need-based</li> </ul>
Underwriting	<ul style="list-style-type: none"> <li>• Consumer credit reports combined with asset valuation</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer credit report centric</li> </ul>	<ul style="list-style-type: none"> <li>• Private-Consumer credit report centric</li> </ul>
Risk Mitigants	<ul style="list-style-type: none"> <li>• Asset collateral protects the loan</li> <li>• Down payment for more security</li> </ul>	<ul style="list-style-type: none"> <li>• Limit amount borrowed</li> <li>• Limit repayment period</li> </ul>	<ul style="list-style-type: none"> <li>• Little to no risk mitigants                             <ul style="list-style-type: none"> <li>• Extended loan commitment</li> <li>• Long repayment term</li> </ul> </li> </ul>



# Student loan lenders sign up for the burden of responsibility

- Must maintain the highest standards for PSL
  - Major debt obligation at early stage in life
  - Deals with inexperienced credit users
  - Hazard of financing an incomplete experience
- Must constantly reinforce the obligation to pay

# What do students know about credit?



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# Every student should understand what a credit report is

- Your personal credit report includes a record of your financial accounts and obligations and the identification information associated with them
- This report is sometimes called a credit file or a credit history
- Credit reporting companies collect and organize data about your credit history from your creditor's and public records



# Every student should understand why a credit report is important



## Why a credit report is important

- Lenders use credit reports and credit scores to gauge the likelihood that you will pay back a loan
- Reports are also used in other non-lending situations – employment checks, apartment rental applications, utilities, cellular phones, etc.
- Your credit report serves as your **financial references** to companies with whom you want to do business

*A strong credit history enables you to obtain a credit card, home and auto loans and other valuable credit services, and can affect the amount that you pay for those services*

# Every student should know what's included in a credit report



Identifying information



Account information



Public record information



Inquiries



Dispute instructions

# Credit report

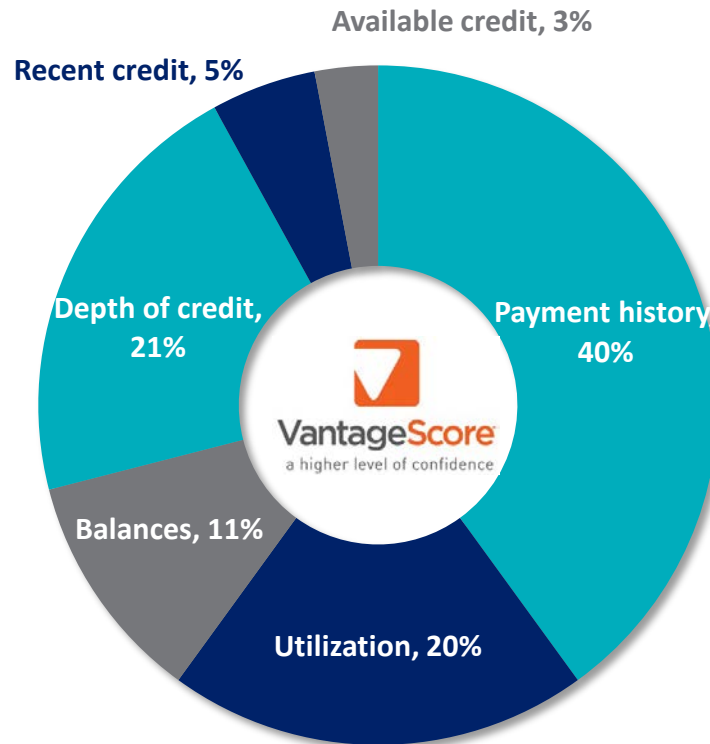
# Every student should know what a credit score is

- Valuable risk management tool used to determine an individual's risk of defaulting on a loan
- Many different models, with many different scales available from many different sources
- There is no "One Score"
- Credit scores are **not** part of a credit report



# Every student should know what factors influence a credit score

## VantageScore<sup>®</sup> 3.0 credit score





# 2017 State of Credit by Experian

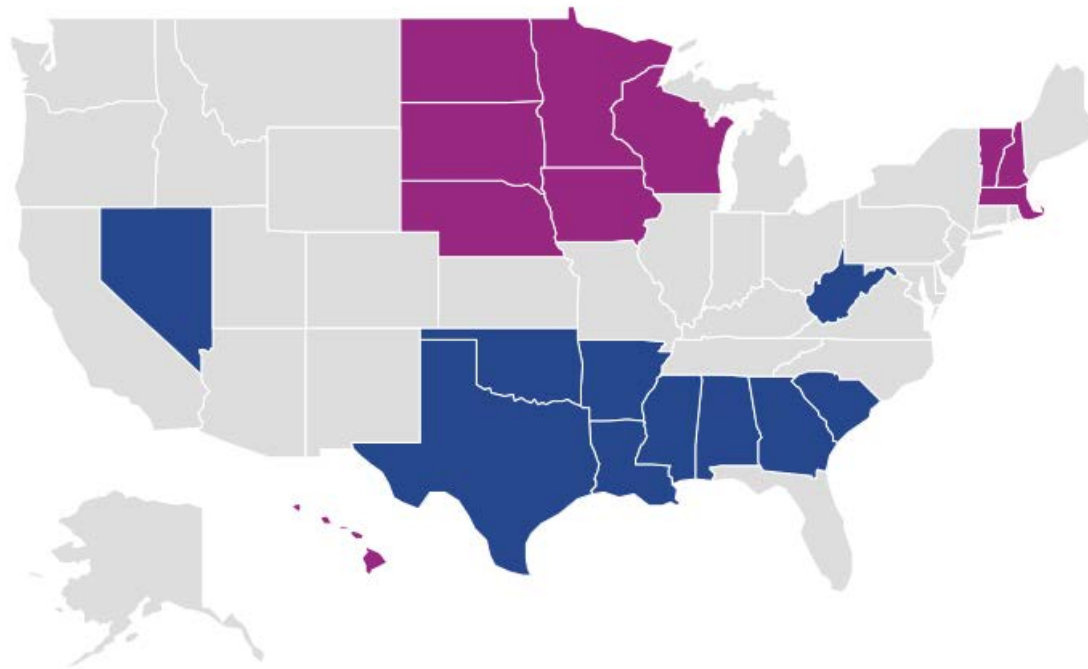
Each year, Experian publishes research on the state of credit in the nation

- **Average Vantage Score in 2017: 675**
  - Highest since 2012
  - Gen Z average: 634
  - Gen Y average: 638
- **More Americans have super high credit scores than very low credit scores**
  - 22.3% have super prime credit scores (scores between 781-850)
  - 21.2% have deep subprime credit scores (scores below 600)

*Source: Experian 2017 State of Credit*

<https://www.experian.com/blogs/ask-experian/state-of-credit/>

# 2017 Vantage Score by State



● Top 10 States with Lowest VantageScores ● Top 10 States with Highest VantageScores

## Highest Credit Scores:

North Dakota  
South Dakota  
Nebraska  
Minnesota  
Wisconsin  
Iowa  
Massachusetts  
Vermont  
New Hampshire

## Lowest Credit Scores

Nevada  
Texas  
Oklahoma  
Arkansas  
Louisiana  
Mississippi  
Alabama  
Georgia  
South Carolina  
West Virginia

**Source:** Experian 2017 State of Credit

<https://www.experian.com/blogs/ask-experian/state-of-credit/>

# 2017 Credit Snapshot of the Nation

Credit Snapshot of the Nation	
Average VantageScore	675
Average Number of Credit Cards	3.1
Average Balance on Credit Cards	\$6,354
Average Number of Retail Cards	2.5
Average Balance on Retail Cards	\$1,841
Average Mortgage Debt	\$201, 811
Average Non-Mortgage Debt	\$24,706

## Washington:

Average Vantage Score: 693

Average # of credit cards: 2.99

Average balance on credit cards: \$6,592

**Source:** Experian 2017 State of Credit

<https://www.experian.com/blogs/ask-experian/state-of-credit/>



# Experian's 2017 Credit Snapshot by Generation

Credit Snapshot by Generation					
	Silent Generation	Baby Boomers	Gen X	Gen Y	Gen Z
Average VantageScore	729	703	658	638	634
Average Number of Credit Cards	3.0	3.5	3.2	2.5	1.4
Average Balance on Credit Cards	\$4,613	\$7,550	\$7,750	\$4,315	\$2,047
Average Number of Retail Cards	2.3	2.7	2.6	2.0	1.5
Average Balance on Retail Cards	\$1,354	\$1,931	\$2,122	\$1,626	\$770
Average Mortgage Debt	\$156,705	\$188,828	\$231,774	\$198,302	\$160,411
Average Non-Mortgage Debt	\$15,161	\$27,513	\$30,334	\$22,784	\$6,963

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# Education resources on the web

## Free annual FACT Act credit report

- [www.annualcreditreport.com](http://www.annualcreditreport.com)  
Access to free report from each of the three credit reporting companies

## Experian

- [www.experian.com/crediteducation](http://www.experian.com/crediteducation)  
Ask Experian advice column, sample consumer report, frequently asked questions
- [www.experian.com/live-credit-smart/10tips.html](http://www.experian.com/live-credit-smart/10tips.html)  
Credit trends and information to inspire consumers to use credit wisely
- [www.experian.com/consumereducation](http://www.experian.com/consumereducation)  
Electronic versions of published materials, sample credit report, videos, PowerPoint presentations with talk notes and more





# Tips for Building and Improving Credit

## 2018 Tips for all consumers:

- **Revolvers, pay down your balance**  
The single biggest step you can take immediately to improve your credit score is to pay your bills and pay down your credit card balances. Credit utilization – the amount of debt you hold relative to your credit card limits – is a major factor in your score. Work hard to get that utilization rate below 30%.
- **Use your tax cut to pay down debt**  
If you are lucky enough to benefit from the tax cuts, some of which began to show up with February 2018 paychecks, don't spend that windfall. Instead, consider taking that money and use it to pay down credit card balances.
- **Be careful taking out new credit**  
You might still be struggling to make ends meet, but if you are tempted to open a new credit card account, do so judiciously. A new card might have a short-term negative impact on your score, if you pay it off regularly and use only a small portion of the credit limit, it can help your score long-term.
- **Pay off debt rather than moving it around**  
Also, don't close unused cards as a short-term strategy to improve your credit score. Owing the same amount but having fewer open accounts may lower your credit score.
- **Building your credit and improving your credit score takes time; there are no shortcuts.**

Source: Experian 2017 State of Credit



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## Start the journey...wisely

- Credit is not something that will be automatically ready for you when you need it. It has to be built, carefully and thoughtfully over time.
- Understand that credit is a **privilege**. With proper credit knowledge and demonstrating good credit behaviors, you will reap the rewards of a stellar credit history and score.

# Final thoughts: 6 easy steps to help your students & families

1. Educate yourself – done!
2. Remember that credit is starting for your students at the doorstep of your institution
3. Have conversations about the impact of debt on your students' future
4. Discuss the benefits of making monthly payments while in school
5. Sample Credit Report – use a sample credit report to talk to your students about what's on it. See: <http://www.experian.com/assets/consumer-products/credit-educator/experian-sample-report.pdf>
6. Use the tools made available to you through Jump Start, credit bureaus, etc.

The credit cycle



FILE FROZEN DUE TO STATE LEGISLATION. Options

Add statement(s)

Add personal statement

back to top

Potentially negative items

No Public Records appear on your report.

Account name	Account number	Recent balance	Date opened	Status	Options
123 CREDIT CARDS	40034424904...	\$273 as of 06/03/2015	11/2013	Open	Dispute
2000 MAIN ST ANYTOWN, USA 12345 No phone number available Address identification number 0122669651	Type Credit card Terms Revolving	Credit limit or original amount Not reported High balance \$14,219 Monthly payment \$10 Recent payment amount \$0 Past due amount \$20	Date of status 06/2015 First reported 12/2013 Responsibility Individual		

Account history

2015 May Apr Mar Feb Jan Dec 2014 Nov Oct Sep Aug Jul Jun May Apr Mar Feb Jan Dec 2010 Oct Sep Aug Jul Jun May

Payment history guide

30 days past due as of Jun 2015



# Thank You

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