

What the Heck is Credit and Why is it Important?

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SPEAKERS

Introduction, Elizabeth Costa, Wil, Rosemary, Terri

-
- W** Wil 00:00
This is episode four of the Making Money Personal Podcast with Terri Connoly and me, Wilmer Infante. On today's episode we're going to be talking about credit. What it is, why its important, and a few tips and tricks on how you can improve yours. Stay tuned.
 - I** Introduction 00:23
You're listening to Triangles Making Money Personal Podcast, where we engage in real talk about financial matters that affect our community. Today's episode is sponsored by Triangle Credit Union recently voted Best Credit Union in New Hampshire. Triangle Credit Union, A Better Way to Bank.
 - W** Wil 00:40
Thank you, everyone for joining us. Today we'll be discussing the mystery subject of credit. And to really help understand this, we brought in a special guest and a dear friend of ours, Rosemary Gagne. Rosemary is one of Triangle Credit Union's Senior Loan Officers, and has been with us for over 17 years. Over that time, she has analyzed and has decided it on thousands of loan applications based on a number of factors, including credit reports, she has a ton of insight on this topic. And we are confident that you're going to learn many

useful pieces of information from this episode. So on that note, Rosemary, welcome, and thank you for being here.



Rosemary 01:15

Well, thank you for inviting me.



Terri 01:17

So Rosemary, we sent out some questions to some people who are our listeners, and also people within the credit union who deal with credit all the time. And, you know, so we end up getting quite a few questions back in terms of what they hear every day, especially in our branches and things like that. So we'll go ahead and we'll maybe address those questions for you. So what's the first one that you want to throw out there, though?



Rosemary 01:50

Well, the first question that was asked to me when I was asked you to the podcast was What is credit? And why the heck is it so important? So let's start out with what credit is. And credit is no more than spending money that you haven't earned yet. You contract with someone to use their money for an agreed amount of time, and you agreed to pay them back. Plus, there's a cost for this borrowing, which is called interest. In your credit history is actually your record of the different types of loans that you have in the history of how you've paid them back. Lenders go out and review this history and decide if they will let you borrow their money. Basically, creditors review and say, You know what, if you paid them back, you're most likely going to pay us back. Lenders don't go out and study your history, and research your history individually, they rely on the three major credit reports. There's Trans Union, Experian, and Equifax. Now your credit report is essentially a report card of how you have handled credit in the past. The credit reports actually contain four types of information, all your personal information like your name, your address, your social security number. The second section is your credit information. That's the credit accounts you have and how you've paid them. There's a section called Public Record Information. And on there is bankruptcies, monetary judgments, delinquent child support, maybe medical bills you haven't paid, unpaid rent, bounced checks that you never paid back. And then the final section is Inquiries. And these are all the lenders that you have applied for a credit with in the recent past. Potential lenders may view these these recent increases as a sign that you're overextending yourself if there's too many of them. Now, in the past credit was used very sparingly, it was like to purchase a house or car, maybe the occasional store credit. But today, things are different. Today, how you pay your bill affects you so many way more ways. Landlords look at your credit to decide if they're

going to rent you an apartment, a credit card, you need that to rent a car, or maybe a hotel room. And even your insurance companies use your credit history to decide what they're going to charge you for the premiums. And if you apply for a job where you need to be bonded, it may even affect if you're going to get the job or not. And here's another really interesting fact that Wilmer found out and brought to my attention. Nearly three quarters of American adults say that they would reconsider a romantic relationship because of another person's credit history in debt. According to a survey from finder.com.

W

Wil 04:34

Yea, we talked about that yesterday.

R

Rosemary 04:35

Yes. So this really goes beyond if you're going to buy a car, could be who's going to be with you for the rest of your life. So your your credit history is very important. And really your history, when you borrow money, you're giving your word that you're going to pay back this debt. So the most important advice that I can give you is, only borrow money when you need to, and never borrow more than you need to.

W

Wil 05:01

That's good advice, what exactly affects my credit score? So can you talk about that a little bit, Rosie?

R

Rosemary 05:08

Well, your credit score is made up of how you how you make your payments, how much credit you have, and how many inquiries you've had. There's three different credit bureaus, and they all have their own formulas for making up your score. So my advice to you is, don't worry so much about your score, okay? If you use credit responsibly, your score is going to be good. It's just like when you were in school, if you study, pay attention in class and do your homework, most likely, you're going to have a good grade. And the same thing applies to credit.

W

Wil 05:45

It's a great way to look at it.



Terri 05:46

Right. Yeah. So one of the questions that we received, that was submitted to us was, how does a young person get credit without having any history at all?



Rosemary 05:58

Well, my advice to you with that is to establish a relationship with your local credit union, set up direct deposit, open a checking and savings, and take good care of those accounts and establish a savings account, one of the things that lenders look at is what you have for assets, and a savings account is an asset. So if you show that you have a savings account, and you have direct deposit, you're not bouncing checks, you're taking good care of your accounts. Now you can go to that credit union and maybe they will extend you a small loan to get you established, you may need a cosigner or maybe collateral to do that. But you've had that relationship with them already.



Terri 06:42

And this is a shameless plug. But I do know that for our teen club account, we do have a \$400 think it's a \$400 loan. Do you have to have a cosigner on that?



Rosemary 06:52

Yes, because your signature is not valid until you're 18. So you need a responsible adult to be signed on it with you. But it is an excellent way to for parents to teach their teenagers how to use credit responsibly. Maybe use it to buy a computer or another small item and the credit union only charges a very low rate on these.



Terri 07:13

I do remember seeing that, it's lower than most rates.



Wil 07:18

So Rosie, let's talk about Credit Karma. Why do people's scores seem to be different on Credit Karma than, you know the bank when they pull their credit? It's always different. Can you talk about that?



Rosemary 07:31

I can. Credit Karma uses the three major credit bureaus to compute your score, but they actually have their own formula for figuring it. Understand that Trans Union, Experian, Equifax, Credit Karma, they all use their own formulas. The three credit bureaus actually have different creditors report to them. You may have your car along with someone that reports to Experian, but not Trans Union. So you're going to find discrepancies with your score between the three credit bureaus to begin with. Now Credit Karma takes all the information from those three and uses their own formula. In addition, when you go to apply for credit, if you're applying for a car loan, you may have a lender that's using what's called an auto specific, in other words, a score is coming through on how you make payments on car loans. If you're applying for a credit card, it might be specific to credit cards. So Credit Karma is good to give you a ballpark of what your score is. But to say exactly that your score is going to be the same across the board will never happen.



Wil 08:38

Right, okay, that makes complete sense.



Terri 08:43

Rosie, what is the best way to improve or rebuild a credit score?



Rosemary 08:49

Wow, this is what I get asked a lot. The best advice I can give you and I can't stress this enough, pay on time. Okay. And I always tell people, nobody reaches in their pocket the day a payments due and close Oh, my, the money's not there. If you know ahead of time that you're going to have a problem making a payment reach out to your lender. Many times there were things they can do to help you through your difficult times without letting it affect your score. But now let's assume something has affected your score. Now you need to establish a new history. So going forward, you need to make your payments on time, you may have to take out a small account with say a cosigner and help you reestablish. Review your credit bureau file, make sure there's no errors out there. Today there's a lot of identity fraud out there, you may think your credit is better than it really is. And maybe there's errors out there. You can go online to Trans Union, Experian or Equifax make sure you're going directly to their website, not somebody who's offering to do that for you. Because you're entitled to one free credit bureau a year from each one of them, review them if there's areas there's dispute forms out there and instructions on how to fix them.

W Wil 10:10
And is it a free credit report you can get every year?

R Rosemary 10:12
It is free, you're entitled to one free a year.

T Terri 10:15
From each of those agencies?

R Rosemary 10:17
From each, correct.

T Terri 10:18
Okay. And is that what your recommendation is Rosie, as far as like what you know, once a year, you should be reviewing that?

R Rosemary 10:24
Well, you should be reviewing it for more than one reason. The first reason is yes, to make sure that there's no errors out there. But again, with today with the identity fraud problem, you want to make sure that someone's not using your credit. And while we're on the subject of identity fraud, let's not forget that Triangle has Better Checking, which has identity protection for you. And assistance if you are a victim of fraud.

T Terri 10:49
Good point. Really good point.

W Wil 10:51
So let's say I, you know, I download my credit report from, you know, Trans Union, let's say, and there's something on there that's derogatory, how do I remove that? How do I go about fixing that issue?



Rosemary 11:05

Well, while you're on the website, for, say, Trans Union, and you see that error, they'll be instructions for you to address that with a credit bureau. Yeah, just follow their instructions. And I will say I see it taking between 30, sometimes up to 90 days for the correction to show on your credit bureau. So I usually recommend that if you're planning on say buying a house or buying a car, go out and do your research on your credit bureau. First, it makes your application process much easier.



Terri 11:42

Rosie, the next question that we received was how do lenders make credit decisions?



Rosemary 11:48

Well, there are many, there are many different factors that lenders use to make a decision. In addition, every lending institution looks at applications in a different way. You may be denied from one, say, one lender, and apply again with someone else and be approved. Also, the interest rates vary. I can speak for myself, I look for how you pay your bills, how much money you make compared to your monthly bills, your job stability, what you own compared to what you owe. So do you have assets, more assets than what you owe out in money? And how many recent new loans you have named. There's other factors as well. But those are the main ones. I hear a lot of people say I have excellent credit, why didn't I get approved. So let's go over an example. Let's say that you're looking to buy a \$25,000 car and finance it for five years, you're getting a really good deal on this car, it's worth \$35,000 and the dealership is offering you a big discount, you apply for the loan, your monthly payments are going to be about \$460 a month, for five years, you've been on your job for five years, you make \$2,500 a month, you have a motorcycle loan that you've been making payments on for three years, you have three credit cards with small balances that you also have a good payment history with. Looks good, right? Well, now let's add this \$460 car payment to your rent payment of 600 a month, and your three credit card payments of \$25 a month and your motorcycle payment of 250 a month, you're now looking at just these monthly payments \$1,385. If you only make 2500 a month, this new pet loan payment of 460 is just not going to work. Remember, you have to consider other expenses coming out of your paycheck, heat, gas, insurance, food. If I was looking at your loan request, I would not be able to approve you for 25,000 even though you have established good credit history, however, I might approve you for a car loan with a payment say of 275 a month, something more that you could handle. See how the different factors go into looking at this loan request?

T Terri 14:04
Right. Now do we give feedback Rosie to people who have applied before? I mean, maybe not from your department, but would that be something that one of our financial service representatives would give the feedback to our member that says You know what, we can't qualify you for this amount, but we could qualify you for X amount.

R Rosemary 14:25
That's the policy here.

T Terri 14:26
Okay. That's awesome.

R Rosemary 14:28
Yeah. If we can't say yes to what you're asking for, then we will definitely tell you what we can do.

W Wil 14:33
If anything at all.

R Rosemary 14:34
And then in the case of maybe not being able to do anything at all, maybe giving you some direction for future requests.

W Wil 14:42
Right. And I think that's a great example that Rosie gave regarding, you know, you think you have great credit, you're making all your payments on time. But you know, can you really afford something? No, you can based on those numbers that Rosie gave us. So I think that was an excellent example. Yeah.

T Terri 14:42
That's awesome. I mean, just for people who, you know, especially if you're just starting out with credit, and not completely understanding the whole thing, at least you're getting

some feedback.

R Rosemary 15:10

So here's another piece of advice that I give people too. Let's say that you are told now, because of this. So you say, you know, I can afford 460 a month? Well, test yourself, put \$460 in a savings account for six months. And if you can do that, then make your argument for it.

W Wil 15:31

That's a good idea.

R Rosemary 15:34

And if nothing else, that \$460 that you've put in a month is a good down payment on that car.

W Wil 15:38

Right, right. That's a very good idea. And the car presumably should go maybe down on the price six months.

T Terri 15:47

Yeah, the only thing that I would add to that, Rosie is that if you're going to put \$460 in a month, don't touch it.

R Rosemary 15:53

Oh, yes. Oh, yes. Yes. Good advice.

W Wil 15:56

Thank you, Rosie. We definitely have more questions for you. But before we do that, what's going a little break because we have a word from our sponsor.

I Introduction 16:04

Is your New Year's resolution to pay off debt? Take the first step with Triangle's New Premier Advantage VISA Credit Card with no balance transfer fee and a low introductory rate for the first 12 months. Consolidate your debt and enjoy a lower payment. Apply now at TriangleCU.org, today. Triangle Credit Union, A Better Way to Bank. TriangleCU.org. Federally insured by the NCUA. Membership required. Subject to credit approval. Other restrictions may apply, call toll free 1-800-276-2470 or see website for details.

T

Terri 16:37

Welcome back, Rosie, you have really given us a lot of insight into the credit world. I don't know if it's bleak or well, for me, it might be a little bleak. Oh, my goodness. But can you talk to us a little bit about some of the products and services that Triangle offers in some of the things that you deal with on a week to week basis?

R

Rosemary 16:58

Well, we actually have quite a variety of loans that we offer here at Triangle. We do car loans, obviously, we have mortgage loans and home equity loans, we have personal loans that are unsecured, and we've recently offered Triangle credit cards again. One of the products we offer is a share secured loan. So let's say that you don't have a lot of credit established, or your credits has had some issues, you can take money from a savings account, we can put a hold on those funds, you borrow them at a very reduced rate of interest, and make those payments on time to help you reestablish it's called a share secured loan. That's actually a really good way to reestablish credit, you start with that, and then you come back and borrow the maybe the same amount not secured. And then after that's paid, come back and maybe a little bit higher of a loan and then maybe put some of that money towards a down payment on a car loan. And now you establish that car loan repayment history. And again, when I was talking about some of the things factors we look at, to approve loans, how you pay your loans to Triangle, weighs very heavily on the approval here. So if you've always paid your loans to Triangle on time, that goes a long way towards your approval of future loans. We offer one payment loans for some of those people who are Jeez, I'm getting my income tax and two weeks, but I need some money right now, you know, you might qualify for something like that, instead of putting it out five or six months, just do it for the one month that you need it for.

W

Wil 18:45

Right. Right.

T Terri 18:47
Those are excellent options.

W Wil 18:49
Yeah, I remember. I mean, I was an FSR as you guys know, a few years ago with Triangle here. And one thing that always impressed me was when someone came in, who maybe moved here from another country, or didn't have any credit to begin with. Over the years, they did a share secure loan, for example. And they work their way up. And then by the time, you know, two, three years down the line, they were buying a pretty decent car, and they were, you know, getting approved because their credit was excellent. And they had excellent repayment history with Triangle Credit Union. So I think that just goes to show, or a testament to your point, Rosie, about, you know, if you pay Triangle that will weigh heavily on the approval process for you.

R Rosemary 19:37
That is correct. One of the other things I want to talk about a little bit is interest rates. different lenders offer different interest rates, you may go to one place that offers say 5% on a car loan, another place may offer 18% on a car loan. So it's a good idea to educate yourself on what a good interest rate is. Triangle has very competitive rates, you could go out to our website and find out rates there. The same way that you would on our savings account rates are a CD rates, look with those loan rates are. If you're looking to buy a car, or to borrow money for something coming up, go out and shop your rates, apply and get pre approved you don't have to go to the dealership and say I want my loan to be at Triangle without getting pre qualified here. It makes your process a lot easier if you come to us first say I'd like to borrow money for a car. Get yourself pre approved. Now you go shopping and you say I'm already approved just put my loan through Triangle, you can concentrate on picking your car instead of picking your loan.

W Wil 20:47
Right, right.

T Terri 20:48
The other thing too, is that I know that when we went through the mortgage process, I used the rate calculators, rate calculators, right?

E Elizabeth Costa 21:00
Payment calculators.

T Terri 21:01
Yeah. And those are actually right off our website too. And, you know, I think that you can do not just mortgage payment calculators.

W Wil 21:11
Anything, really.

T Terri 21:12
Yeah, anything right? You know, so if you're looking, you have an idea of how much you want to borrow, you have, you know, and you just plug in the rate. And that's right, off of our a rate sheet on our website, and then you just pick the term, in terms of how many months you want to repay it. And that's information, I find very valuable when we were looking for a house and you know how much mortgage we could afford. So you can do the same thing with the car payment, right?

W Wil 21:40
Yeah.

R Rosemary 21:41
Now, let's go let's stay with the car payments for a second because Triangle is also connected with what's called credit union indirect lending. A lot of times you apply online through our website for a car loan, we send you your approval, you now have a certificate that you take to the dealership and say I'm approved through my credit union through Triangle, say for 20,000. You don't even have to come back into the credit union to sign your documents. You sign them right there at the dealership and the interest rate that you were quoted on your approval is the interest rate that you will get at that dealership.

T Terri 22:19
That's outstanding

R Rosemary 22:20
Saves time.

T Terri 22:22
Yeah, very convenient.

W Wil 22:24
So Rosie, can you talk about, you know, a particular situation where you've helped a member our over the years, can you talk about that?

R Rosemary 22:34
Well, I can give you a couple of examples. I can remember more than once where parents would bring their 18 year old in and say, you know, I'd like to help him get started on his credit. They would cosign a small loan for them, I would recommend that they took out a small line of credit as an overdraft protection that we offer or today, you could also use the credit card that we offer. And council them not to ever charge more than 50% of their credit limit. That's my advice to them. That percentage of what's available on your credit cards compared to your balance affects your score. I'm not sure how much but I know it does affect it. So I always tell people just don't ever charge more than 50%. So now six, seven months, eight months go by he's had the small loan that his father co signed on, he's got his line of credit that he's not touched. So he actually had 100% of his revolving debt available. Now he's looking for a small car loan, he's put some money aside which I had recommended that he do. He had a down payment, he bought a used car. Now he's made that payment for 18 months, we pull his credit, look at his score, and he's in the high seven hundreds. That doesn't always happen. But it can happen. Again, just don't borrow when you don't have to, and only borrow what you can afford to pay back and be responsible with your lending.

T Terri 24:17
Right. Those are excellent words, wise words.

W Wil 24:21
Yeah, she's been doing this for a while. She's seen everything.

R

Rosemary 24:26

A lot longer than I want to think about some times. And it's kind of a sad thing that my generation because I'm a baby boomer. So my generation did the next generation a disservice we took you shopping with the magic card and we went into the store and you handed this plastic card to somebody and you got all this stuff for free. But we didn't show you the other half and the other half is sitting down to pay this money back. Right. So as you teach your teenagers about credit, and your your young adults on how to handle credit, make sure they're seeing you pay that money back, not just spending it.

T

Terri 25:05

You know, just to capitalize on what you just said too Rosie, I'm going to take it one step further. Because not only do we have debit cards, and we do have credit cards in our family, but we do online banking, like online bill pay. And my two daughters don't ever see currency. You know or I guess that's what currency is. It's about flowing, right? Everything is flowing like the money's flowing. But in terms of dollar bills, you know, that's really detrimental sometimes, you know, to actually have that money, the actual paper money leave your hand.

W

Wil 25:45

Yeah, that's what I hear. That, you know, if you have \$100 bill, paper, it's much harder to spend that than it is to use \$100 on your debit card or credit card. I don't know what it is about it. But it's definitely harder.

R

Rosemary 26:03

Well, you know, back when I was learning about it. I'm sure people my age, remember their parents having the envelopes. And when you got paid, you put money in each envelope. And when you went shopping, what was in the envelope is what you could spend, you know, that was your credit limit per se.

W

Wil 26:19

Right, and it was all in cash.

R

Rosemary 26:21

So you couldn't go over the limit, because there was there was only so much money in the

envelope. But today you have more than and again, what was in that envelope was what you could afford to spend. Now with credit cards, if you're not careful. You're allowed to spend more than you can afford to pay back.

T Terri 26:40
Yeah, exactly.

W Wil 26:43
Scary. You have to be really careful.

R Rosemary 26:47
I'll say it again, is just make sure that you use credit don't let credit use you. It's like if you own a house that you can't afford, ou don't own it, it owns you. I'm sure you've all heard that saying the same thing. Any credit.

W Wil 27:02
Right.

T Terri 27:05
Exactly.

R Rosemary 27:07
And when you get into situations where- and life happens. So let's say you have issues and your credit has now been compromised quite a bit. And it's time to try to reestablish, remember when you go out to the credit bureau, monitor it anyway, get a copy of your credit report, you can also report to your credit bureau.

W Wil 27:30
Really? I didn't know that.

R Rosemary 27:31

Absolutely. So yeah, so an explanation of why all the sudden your credit was bad. Maybe it was an illness or a loss of a job or a relationship issue. You can also it's not going to erase the bad credit. But for a lender who's reviewing your credit file, it's going to offer an explanation of what happened.



Wil 27:54

So you're saying that if let's say I apply for a loan, and you pull my credit on my credit report, you'll be able to see kind of my explanation for why my credit is what it is.



Rosemary 28:04

They'll be a consumer report.



Terri 28:07

Do not put "Terri borrowed my card."



Wil 28:11

That's exactly what I was planning on doing.



Terri 28:13

I know. I could see it in your eyes. Thank you so much, Rosie, is there anything else that you'd like to add? You have given us so much insight, and I hope that this episode is going to be eye opening for the people who are listening. Parents, please share this with your children and children, please share this with your parents so that everybody has a better understanding.



Wil 28:36

And share it on social media.



Terri 28:39

Good plug. Shameless.



Rosemary 28:40

And you know, just before we go, I actually happen to think when you said that, but let's take it all the way to the end, let's take my age group who are heading towards retirement, we might be thinking about not having the income that we're used to having. And maybe it's time that we reviewed our debt and worked on lowering those monthly payments, so they won't be in the way of us enjoying those retirement years.



Terri 29:07

Right. Right. Exactly. Yeah.



Rosemary 29:09

Just not for the young kids. And thank you for allowing me to put my words out. I look forward to meeting our members lending needs in the future. And if any questions come up, I'd be more than happy to answer them.



Wil 29:25

We really appreciate all your useful and insightful information.



Terri 29:30

Absolutely. Thank you, Rosie. Really appreciate it. Alright. Thank you. This has been the Making Money Personal Podcast with Wil and Terri. For more information on all of Triangle Credit Union's products and services, feel free to visit us at TriangleCU.org. If you have any questions or a subject that you'd like us to cover in a future episode, we'd love to hear from you. shoot us an email at TCUpodcast@TriangleCU.org and we'll do our best to cover it on the show. Thank you and take care.



Wil 29:58

See you later guys.