

# Credit Scores In Today's Consumer World

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**Students Know**  
**ROFL & EOD**  
**But Do They Know**  
**FICO?**



# Numbers for Thought

- \$834 billion in credit card debt in 2018.  
Compare that to \$733 billion in 2015.
- \$96 billion in retail credit card debt.
- Average balances grow at 3%.
- **Generation Z (our college student population) balances grew at 12%.**

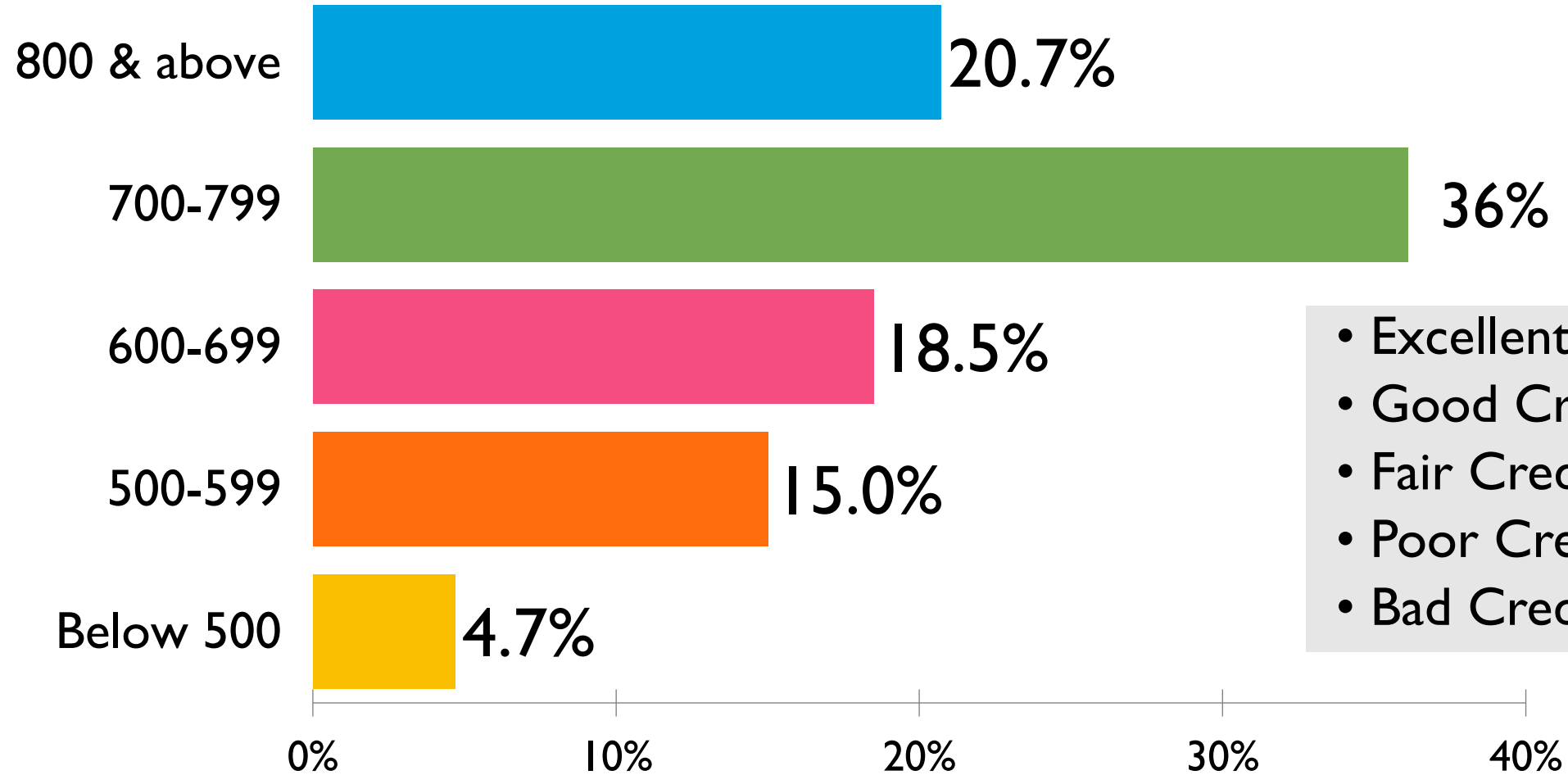
# What's In Your Wallet? Or Apple Pay?



The average credit card interest rate in the U.S. for a consumer with good credit is 15% and poor credit is 23%.

# FICO Ranges/Scores in 2018

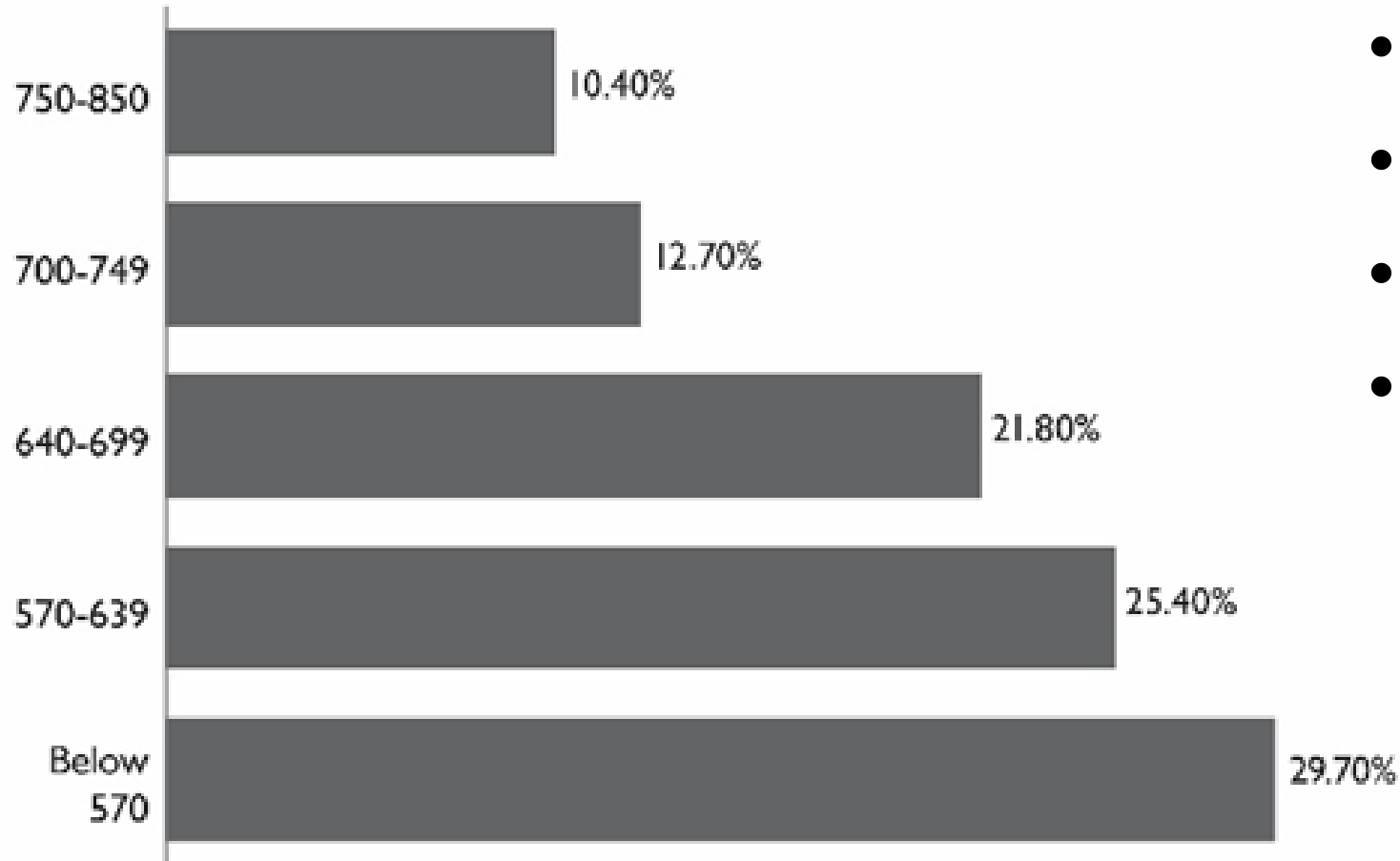
## Credit Score Distribution



- Excellent Credit: 800 & above
- Good Credit: 740 – 799
- Fair Credit: 670 – 739
- Poor Credit: 580 – 669
- Bad Credit: below 580

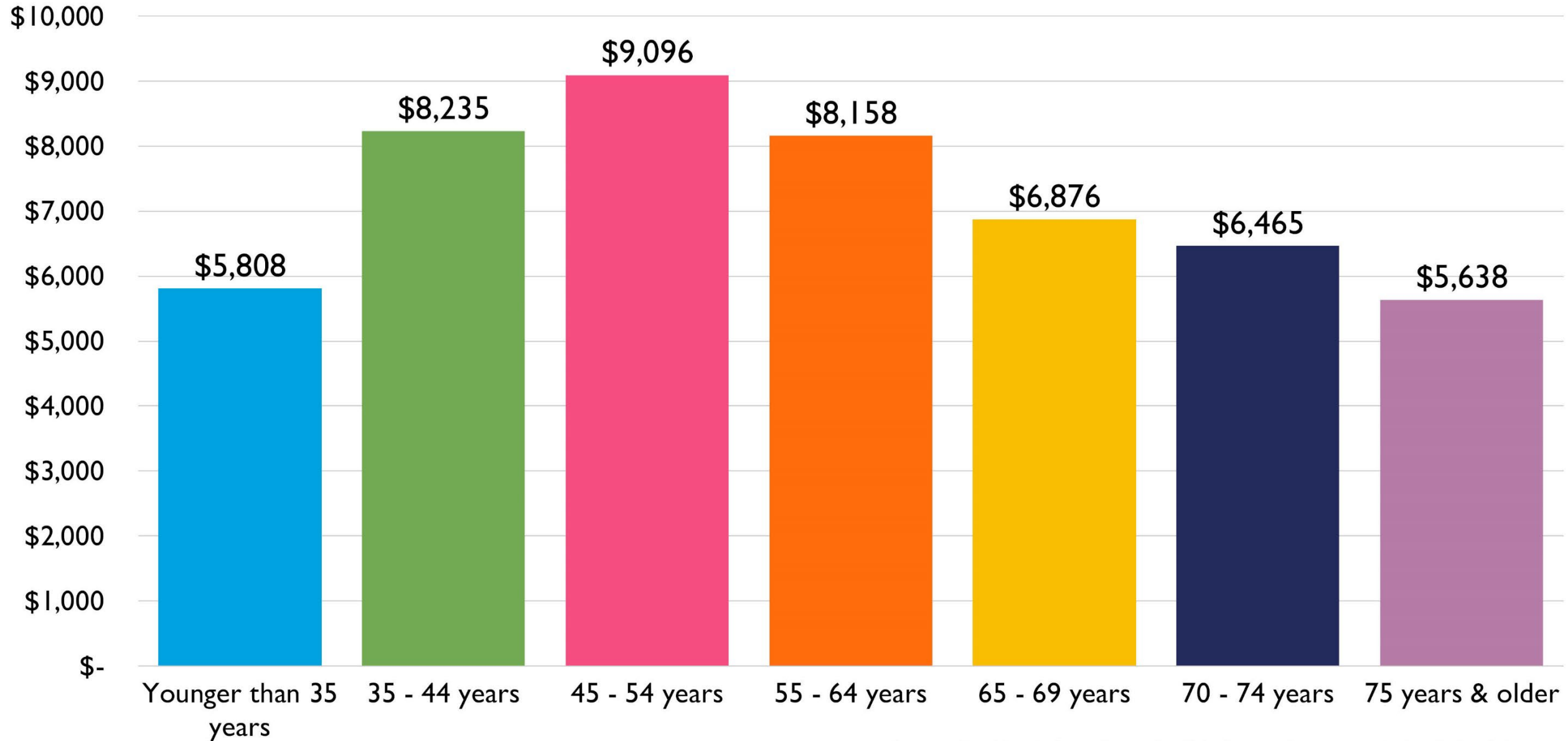
# FICO Ranges/Scores in 2014

## Credit Score Ranges % of people



- Excellent Credit: 750-850
- Good Credit: 700-749
- Fair Credit: 640-699
- Poor Credit: 570-639
- Bad Credit: below 570

# Average Credit Card Debt by Age



Source: Combined data from the U.S. Census Bureau and the Federal Reserve.



# n00b = noob, Newbie

- Who are these “n00b” spending machines?
- Carrying a credit card with a double digit interest rate.
- Making minimum payments on debt of appx. \$8,000.
- Gen Z — Average new auto payment of \$530 and used auto payment of \$381.



# Credit CARD Act of 2009

- Set some serious parameters for lenders
- Disclosure mandates
- The law restricts credit cards to anyone under the age of 21. There are two important exceptions. An adult younger than 21 can get a credit card if:
  1. *A parent or other adult co-signs on the accounts and takes responsibility for paying the bills.*
  2. *If the young adult can show proof of income or other means of repaying the card loans.*

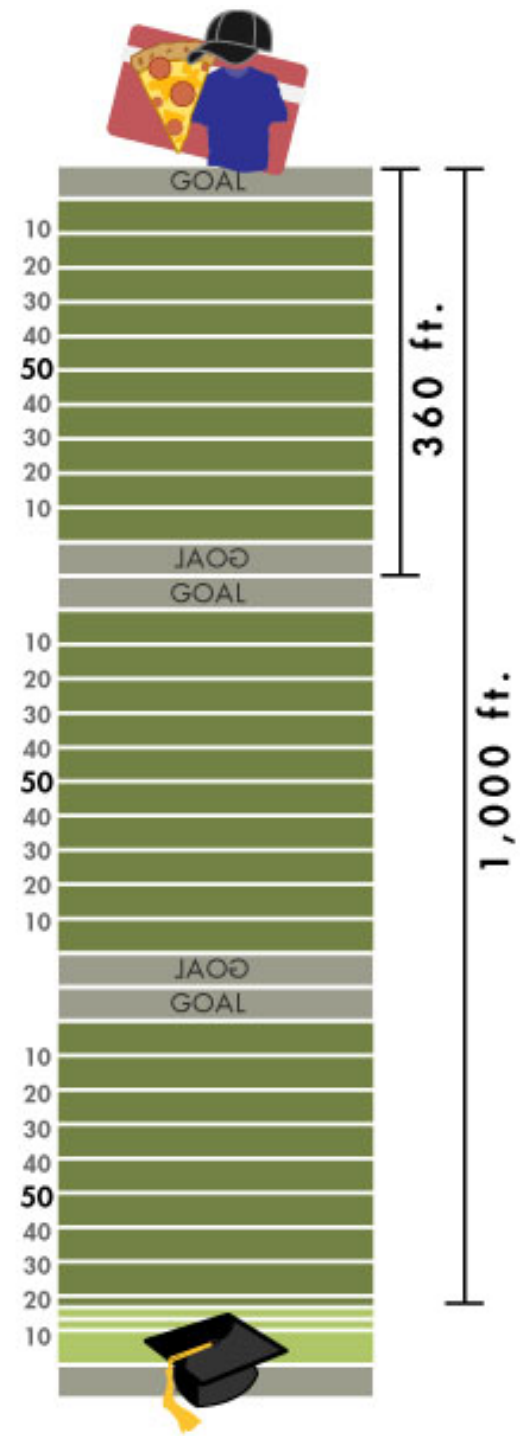
# Stay Far Away From Students

Bans card issuers from offering pizza, t-shirts, hats and other freebies in exchange for signing up for a credit card on or near campus.

## How close is near?

Fed clarified:

**1,000 feet — a distance of almost three football fields.**



# Behind the Scenes

Credit Card companies were analyzing spending patterns using MCC (Merchant Category Code) acting accordingly:

**Pawnshops — 5933**

**Wholesale Clubs — 5300**

**Bail and Bail Payments — 4900**

Buying used clothing or retread tires may be an indication of financial distress and a preamble to missed credit card payments or defaults.

***“WHERE A PERSON SHOPS, IN MY OPINION, HAS LITTLE BEARING ON WHETHER THEY CAN PAY BACK A CREDIT CARD BALANCE.”***

**– U.S. Congresswoman Maxine Waters**



# It Started With Good Intentions

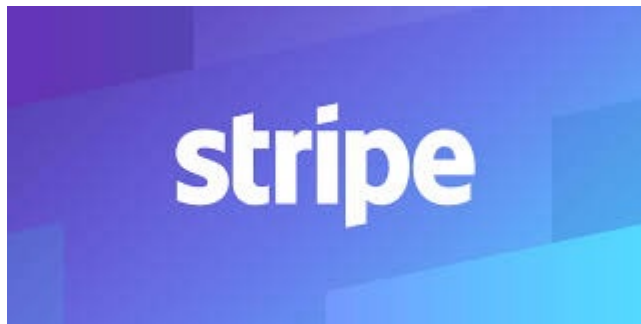
<b>Marketing</b>	Additional products/Add-on discounts. Airline ticket leads to car rental discount offers.
<b>Fraud Detection</b>	Unusual purchasing habits, out-of-area purchases.
<b>Law Enforcement</b>	Subpoena records for last known location for crime victim or suspect; Homeland Security for terrorist activity.
<b>Risk Management</b>	Pass credit limits or exhibit unusual spending habits may be at greater risk.

Instead, **REDLINING** where low income cardholders (minorities and students) were seeing decreased credit limits and increased interest rates.



# 10 Years Later...

- Hindered students' efforts to establish credit in their own names until 21.
- Asking parents to co-sign or add them as authorized users — major step backward in their quest for financial independence.
- Enters a new player — a non-traditional industry disruptor.



# What Makes Up A FICO Score?

## New Credit

How much of your available credit is new?

## Types of Credit Used

What is your mix of credit cards, retail cards, student loans, mortgages, etc.?

## Length of Credit History

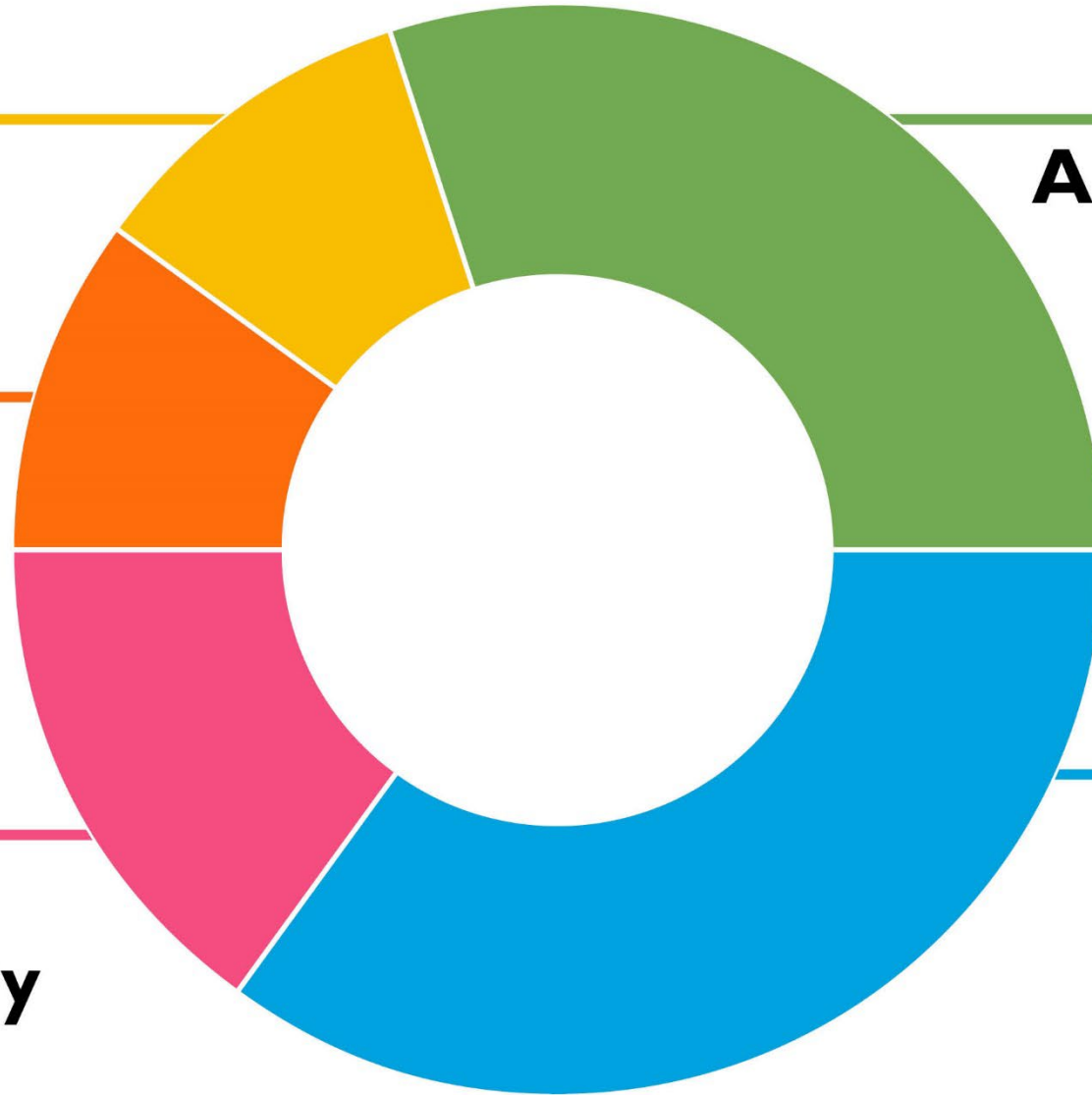
How long have you been using credit?

## Amounts Owed

How much do you owe and how much of your available credit have you used?

## Payment History

Have you paid your past credit accounts on time?





# 850 Perfect FICO

- Yes! They do exist. 1.2% of all FICO scores stand at 850.
- Credit scores are constantly changing. Even those who reach 850 don't always stay there.
- Perfect FICO scores carry debt. More trade lines, credit products, multiple credit cards.
- Less Debt. \$3,025 debt compared to the \$6,445 national average.
- Income is not a factor.



# Reality

- Millennials (23-38) have an average FICO Score of 665 — national average is 701 and average total debt balance over \$8,000.
- Generation Z (18-22) increased their average total debt amount by 26% since last year. They carry an average total debt balance of over \$10,000.
- Student loan balances increased for both Millennials and Generation Z.

86,854 views | Apr 17, 2018, 09:00am

# It's Official: Millennials Are Going Into Debt Over Their Social Lives



**LearnVest** Subscriber ⓘ

Personal Finance

*Former Contributor*

**f** *By Christine Aebischer*

**t** *This story originally appeared on LearnVest as "Are Your Friends*

**in** *Causing You to Go Into Debt?"*



Getty Images GETTY IMAGES

# Who's to Blame?



## FO-MO



### FEAR OF MISSING OUT

anxiety that an exciting or interesting event may currently be happening elsewhere.

"I realized I was a lifelong sufferer of FOMO"



Instagram



Houseparty





# Welcome to the World of Frictionless Payments

- Uber
- Disney MagicBands
- Starbucks Mobile Order
- Amazon Go convenience stores
- One-click ordering  
(eBay, Amazon, Nordstrom, Best Buy)
- In-App purchases

# 21...21...21...Can't Drink — But Can They Have Credit?

**Option 1:** With a job, even a part time job, **apply for a low-limit credit card**. Spend with it occasionally. Never carry a balance. Pay on time.

**Option 2:** **Apply for a secured credit card**. Require a deposit or link to a savings account that's usually equal to your credit limit. Same rules as above apply.

**Option 3:** **Become a co-signer**. Open an account as a joint owner. Both are responsible to repay the balance. Activity is reported to credit bureaus to help build credit history.

**Option 4:** **Become an authorized user**. Authorized user can make purchases with the card, but they are not on the hook for payments. Still reported, but FICO credit scoring model gives less weight to authorized user activity because they are not ultimately responsible for paying.



# Credit Card Musts

1. Pay bills on time. Every account should be set on AutoPay — even if it's the minimum balance.
2. Do not spend close to your credit limit every month.
3. Change Spending Habits. Deactivate Instagram for a few months, stick to a lean budget, review monthly payments.
4. Apply for a 2<sup>nd</sup> or 3<sup>rd</sup> credit card only when you need it. Match your lifestyle to your credit card.



# Match Your Card to Your Lifestyle

TYPE OF CARD	COST	INCENTIVES
<b>REWARD CARD</b> <i>(American Airlines, 76 Gasoline, Marriott)</i>	Medium-High	Perks in the form of rewards and points
<b>CASH BACK CARD</b> <i>(Bank or Retailer)</i>	Medium-High	Percent of spent \$\$\$ back in the form of cash credit
<b>STORE CARD</b> <i>(Target, Macys, GAP)</i>	High	One time discount, email marketing with additional discounts
<b>BANK CARD</b> <i>(CEFCU)</i>	Low	No incentive



# APR (Annual Percentage Rate)

- You may have several different finance rates on one card — one for balance transfers, one for cash advances, etc.
- The lower the rate, the less the cardholder will pay in interest.
- Credit card companies can change the APR, even if the rate is “fixed,” which is one reason to check your statement monthly. Look for change-in-terms notices.
- Beware of penalty rates.



**Credit Summary**

Your credit limit \$  
Your available credit \$

<b>Interest rates</b>	<b>Annual</b>
Regular purchases	19.50%
Cash advances	19.50%

wiseGEEK

# Late Payments

- Although it may be fewer than 30 days late, a late payment on a credit card can be reported as late to the credit bureaus and impact your credit score.
- Late payment fees range from \$20.00 to \$45.00 and up.
- Late payments can also impact your interest rate in the form of a penalty fee.





# Put Down the Credit Card Application!

Missing payments or carrying too much debt can hurt your credit score. But did you know that it's a mistake to fill out too many credit card applications?

There are 2 kinds of inquiries: **hard and soft.**

- **Soft inquiry:** NO adverse effect on your credit score.
- **Hard inquiries:** Result of actions YOU take.

# Best Practices

- Stick to 2 to 3 cards (VISA, Mastercard, American Express, Discover).
- If you carry a balance, keep it under 30% of the available balance.
- Monitor your statements for unusual activity and accuracy.
- Pay on time.
- Never be afraid to ask.
- Pull your credit annually.
- **BEWARE OF SCAMS. HIGHLY SOPHISTICATED.  
NO RECOURSE.**

# Back to School Scams

## How to Identify and Avoid Scams That Target College Students

Beginning a college education can be one of the most exciting experiences in a person's life. However, that excitement can often blind students to the fact that less-than-honorable parties are often looking to exploit prospective learners for their own financial gain. This guide is designed to break down some of the common scams that new and continuing students may encounter during their academic careers, including financial aid and scholarship scams, roommate and housing scams, phone and phishing scams, and online and social media scams. Students can also utilize this page to better understand warning signs that typically accompany these scams and what to do if they have fallen victim to one.



### Drug Enforcement Administration

DEA Headquarters  
[@DEAHQ](#)

March 13, 2019

Contact: National Media Affairs Office

Phone Number: (202) 307-7977

## DEA warns of alarming increase of scam calls

WASHINGTON – The Drug Enforcement Administration urges its DEA-registered members of the public to be cautious of telephone calls from criminals posing as law enforcement personnel threatening arrest and prosecution for supposed violations of federal law. The DEA has received reports of an alarming increase in scam calls involving drug-trafficking activities.

DEA continues to receive reports from practitioners and the general public, alike, who have received calls threatening legal action if an exorbitant fine is not paid immediately. Scammers typically identify themselves as DEA personnel and instruct their victims to pay the fine to avoid arrest, prosecution, and imprisonment.



**AS IF SCAMMING  
THE MOST VULNERABLE  
WASN'T BAD ENOUGH...**

# The Rise of FinTech

- Financial tech companies have emerged in recent years and adapted online lending, banking, payment processing and credit.
- FinTech providers are working with several types of credit channels to help make lending “easier” for consumers.
- Using alternative data reports.
- Relative to the numbers, millennials open more loans with FinTechs than any other age group.





# What's Alternative Data?

- 80% of lenders rely on a credit report (FICO, Vantage Score) to make a credit decision.
- 20% use alternative credit data to further evaluate a consumer for a more rounded view of their credit and payment history.
- This is in the form of cell phone bills, rent and utility payment history and short term loans.
- As well, other trending data and attributes such as social media.

# The Good, The Bad, The Ugly

- **The Good:** For many, a history of rent and utility payments is great. It helps build the entire picture for someone who does not have too much credit history. *2019 Launch—Experian Boost helps consumers with limited credit build their profile to include rent, mobile phone history, etc.*
- **The Bad:** Trending also incorporates what we include with social media. Photos of back to back weekends at Coachella coupled with hundreds of photos of extra curricular activities.
- **The Ugly:** Peer-to-Peer lending with no rules, no regulations, no boundaries.

# Peer-to-Peer Lending

## Upstart

- Uses alternative data such as education, employment history and whether applicants know their own credit score to underwrite and price loans.
- After five years of training its algorithms, it now approves 47% of loans without human intervention and with some of the lowest default rates in the industry.



# Affirm

- Makes instant 3, 6 and 12 month loans for purchases from 1,500 online merchants.
- A handful of sellers subsidize 0% rates, but most loans carry annual interest rates of 10% to 30%.
- More than 1 million loans issued. Partners include Wayfair and Expedia.

## AIR JORDAN

AIR JORDAN 1 HIGH OG TS SP "TRAVIS SCOTT"



\$1,250

[Prequalify from \\$105/month at 0% APR with !\[\]\(830769b31eeeaca920791081939ff8ba\_img.jpg\)](#)

### DELIVERY & RETURN

NEW

USED



### Big purchase? No problem.

With Affirm, you can buy now and pay monthly. Checking your loan eligibility **won't affect your credit score.**

 **Continue**



### Make easy monthly payments over 3, 6, or 12 months

\$111.67/mo. based on a purchase price of \$1,340.00 at 0% APR for 12 months. Rates from 0–30% APR.



#### Quick and easy

Enter a few pieces of information for a real-time decision.



#### No hidden fees

Know up front what you'll owe, with no hidden costs and no surprises.

**See if you qualify**

Checking your eligibility won't affect your credit score.

Subject to credit check and approval. Down payment may be required. For purchases under \$50, limited payment options are available. Estimated payment amount excludes taxes and shipping fees. Affirm loans are made by Cross River Bank, a New Jersey State Chartered Commercial Bank, Member FDIC. See [www.affirm.com/faqs](http://www.affirm.com/faqs) for details.

# Kabbage

- Lending platform offers nearly instantaneous small business loans. Uses creative alternative data to underwrite loans — such as the number of UPS packages a business sends and receives over time.
- Over \$4 billion in originations to 130,000 small businesses.

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