3-1 Discussion: Credit Scores

In our Module Two discussion, we considered the impact of selecting alternative uses of an unexpected lump sum receipt of $5,000: to lower debt or invest. Based upon your answer to last week's Module Two discussion, would the alternative you chose have a positive effect on your credit score?

Provide specific rationale for your conclusion. Watch the video resources in Module Three, which detail the way various transactions impact your credit score, to gain an understanding of some expert advice on this topic.

In responding to your peers, comment on their decisions and rationale.

To complete this assignment, review the Discussion Rubric document.

Rubrics

Discussion Rubric: Undergraduate

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3-1 Discussion

Brianne Downes posted Nov 8, 2020 3:47 PM Subscribe

In The module Two discussion I chose to lower debt, and I believe this will have a positive effect on my credit score. Although it only impacts 30% of my credit score, what helps determine good credit is low debt, on time payments, and paying off your card entirely each month. If I were to lower my debt with the $5,000 it makes my debt more manageable to pay off. Paying off all my debt completely in the near future becomes attainable, which will allow me to pay my statements in full going forward as long as I'm responsible and don't overspend out of my means. Lowering my debt in Module Two help get me on a path to better credit quicker than if I invested the money, I would just need to make sure I pay all of my credit card statements off entirely and on time each month to continue on the path to better credit.

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Last post **Mon at 6:12 PM** by Gustav Olofsson

Dicussion 3-1

Terence Mattera posted Nov 10, 2020 10:47 AM Subscribe

Last discussion, I basically had a three separate plans, depending on how good or how bad the debt amount was. Depending on aboslutely nothing being done about the debt prior, all 5,000 was being distributed amongst all loans. If debt was handled to a more desirable amount before obtaining the bonus, the money would be split in half to both pay debt and invest. If my economic standpoint was good, and I wasn't one step away from living on the streets, the 2,500 would be invested for long-term goals. If the economic standpoint was poor, like it is for me right now, the money would be invested for building a short-term financial safety net incase something were to crop up. The alternative to this would be to invest all 5,000 in to a long-term savings account.

Now, judging from what the videos have mentioned, so as long as payments are equal or greater to the minimum monthly payment, and are not paid late, it will look good on a credit report. 35% of the FICA credit score revolves around timely payments, not how fast it's paid off. Investing the money in the debt payoff now would both decrease the amount of time needed to pay it off (cause accumulated interest will greatly effect how long these payments are being made for) as well as look good as a timely payment. It doesn't leave room for any investments for future goals and short-term safety measures, hence why splitting it between the two would be the best option. It would still benefit my credit situation due to having the loans paid off for that month, but it would also help with saving money towards future goals.

The alternative would have no positive benefit on my credit, since no payment would be made for that month. One late payment will linger for up to seven years on a FICA credit report, and I don't want to have to deal with bad credit this early on in life.

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Second guessing my decision

Peter Stevenson posted Nov 9, 2020 7:02 PM Subscribe

My decision last week was to invest the bonus money into a fund like the S&P 500 and rely on compound interest over time to make that money increase in value. That decision does nothing to increase my credit score as savings and investments are not part of the credit score formula. The scenario given to us last week identified 3 installment loans – mortgage, car loan, and student loans, but did not identify a balance of credit card debt. If I used the bonus money to pay any of these loans then my monthly bills would not change and I don't think that would have impacted my credit score either. If I had a credit card with a balance that I could not pay, then my debt level may be problematic and is something to consider. Specifically, debt level is a calculation of how much credit you have vs how much you are using, and a use level that is too close to the maximum limit is a negative on your credit report. If that was my situation then paying down the credit card balance would likely be a net positive for my credit report.

It is possible to understand how much debt I have in this scenario by using a debt to income ratio. Specifically, lenders look for an absolute maximum of 40% debt to income in order to approve a car loan and an absolute maximum of 43% debt to income ratio in order to approve a mortgage. Presumably I took out the student loans prior to taking out the mortgage which means that at most, 43% of my income is devoted to paying off these three loans. While this is a substantial part of my income, this amount is manageable with prudent budgeting and my credit score is not impacted if I pay off a small part of any loan.

To be honest, I do not see a scenario where paying down debt impacts my credit score unless I add more debts to the mix. Regularly using (and paying) credit cards is a way to improve your credit rating, and holding a balance is a poor financial decision, but not one that impacts my credit score.   Given the information I now have about credit ratings, I think I would be less likely to invest in long term (retirement) funds if I did not feel confident that I had sufficient funds to carry me over periods of financial uncertainty (change in job, large unexpected expense etc). Missed payments do impact my credit report and I would likely put the bonus money into a savings account if I thought I might miss some.

References:

https://www.fool.com/the-ascent/banks/articles/how-much-debt-is-too-much-debt/

http://www.realcartips.com/carloans/389-loan-based-on-income-credit.shtml

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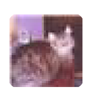

Last post **Tue at 11:18 AM** by Terence Mattera

3-1: Discussion: Credit Scores

Rebecca Bonnar posted Nov 10, 2020 12:12 PM   ☆ Subscribe

Happy Tuesday Class!

In last weeks discussion, I chose to use the $5000 to pay off current outstanding debt. My choice to use this cash to pay off debt would directly affect my credit score in a positive manner. When your debt to income ratio is off, and carrying more debt, this lowers your credit score. You want to make sure you're never really carrying more debt over from month to month. This is where I struggle. because I carry so much debt around, my credit score isn't great. What isn't totally killing me is the fact that I pay each month, on time, and always pay more then my minimum payment. At the end of the month, whatever cash is left in my account, goes straight to those loans. By doing a little more than treading water, I have been able to hold my score at the same number for a year now, which is nice. In order for my score to get better, I need to get these loans paid off faster. I have a hard time seeing how an investment could directly help your credit score? If you're investing in something, and watching that investment grow in to a larger sum of money, I would assume you have plans for that cash. Maybe you're investing over a few years so that at the end you can make a large purchase like a car or a vacation. If you are not borrowing money in order to increase your loan track record, how does that help your credit score? Borrowing money, like a loan or credit card, and then paying it off right away is a really great way in to increase your score, as well as paying all of your bills on time.

Hope everyone has a great week! And good luck with your milestone!

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Handling Personal Credit Scores

Molly Stapleton posted Nov 8, 2020 10:53 AM Subscribe

In discussion 2, I chose to pay off debt with the 5,000 bonus. The alternative would have been to invest the amount. The first choice I made in paying off debt would have a small impact on the improvement of my credit score. The impact would be minimal though in the grand scale of how the credit score is built. Using the scale, I would only impact 30% of my credit score and with the amount of debt to the amount of available credit, it would not make a great impact. (FICO Scores) Now, if I was to have more funds, then maybe it would make an impact, but still only 30% of the credit score is calculated into the amount you owe to the amount available. When I was working at the bank, I would always do a credit review with anyone that stopped in and applied for credit. I would explain to them the importance of their credit score and how making on time payments and keeping the balances low, would have the greatest impact to their scores. Most people did not know that even making one payment late would have such a negative impact to their credit score until they saw the difference. I have always been aware of my credit score since I had made numerous financial mistakes in my early 20’s. I pay for a program that gives me better insight into what is on my credit report and how my scores are doing. I also take use of the free accurate credit score once a year to make sure the program I pay for is on track with what the accurate score states.

What's in my FICO® Scores? (n.d.). Retrieved November 08, 2020, from https://www.myfico.com/credit-education/whats-in-your-credit-score

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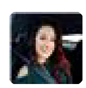

Last post **Tue at 1:01 PM** by Rebecca Bonnar

week 3

Ryan White posted Nov 11, 2020 1:54 PM Subscribe

In the previous post, I chose to pay off my debt. Now my understanding of the credit score has always been murky at best. so, from what I understand you should always have a little bit of debt so if you have a credit card always make sure the money you have available for use is more than what you owe on the card. if that is the case then because I chose to pay off my debt I hurt my credit score a little bit because I only have the condo that I am paying on. there needs to be constant movement on my credit report in the right way that helps me and paying off debt helps because you do not owe that particular loan anymore but it hurts because the movement stops. so, it's kind of a double-edged sword if my understanding is correct so it helped me and hurt me.

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3-1 Discussion

David Haun posted Nov 11, 2020 10:13 AM Subscribe

In the prior discussion, I chose to pay off debt with the $5,000 bonus instead of investing. Although paying off debt with the $5,000 would positively impact my credit score, investing it would have little to no impact. Since investing is not listed on your credit report it would not show up on your credit. However, if investing was a form of income and was a good portion of yearly income there is potential that the investments would affect your credit score. Given that there is only a $5,000 investment that more than likely would be going to a retirement account there would be no effects. If I were looking into growing my credit score I would stick with paying off debt, since 30% of your credit score is the amount you owe, $5,000 would positively affect my credit score.

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Last post **yesterday at 1:56 PM** by Ryan White

Week Three: Personal Credit

Maurice Drewry posted Nov 11, 2020 5:38 AM Subscribe

In the previous discussion, I chose to invest the $5000 bonus instead of paying on my school loan. I decided to invest because of the investment's future value and not wanting to spend the money. Having a good credit score minimizing my debt-to-income ratio is key to raising my score and receiving the best interest rates on loans. "The debt-to-income (DTI) ratio is a personal finance measure that compares an individual's monthly debt payment to their monthly gross income. Your gross income is your pay before taxes, and other deductions are taken out. The debt-to-income ratio is the percentage of your gross monthly income that goes to paying your monthly debt payments"(Murphy, 2020). I would still invest the bonus and focus on the future. Currently, I have a credit score in the 700's and have a debt-to-income ratio of 28%. I plan for an emergency, including loss of employment, family issues, or car problems, with help to decrease my chances of defaulting on a loan or increasing my DTI with overuse credit.

references

Murphy, C.(22 September 2020). DTI. Retrieved from:
https://www.investopedia.com/terms/d/dti.asp

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1 **Unread** 1 Replies 2 Views

Last post **yesterday at 2:10 PM** by Ryan White

3-1

Lee Downs posted Nov 11, 2020 5:36 PM Subscribe

Good afternoon class,

Last week during our discussion I said that I would invest my $5,000 bonus rather than pay off my debts. There are many benefits to investing the money rather than paying off debts to a degree but one thing that I did not discuss was the benefits to my credit score from paying down my debts. Credit is receiving something and paying for it later, one example of credit that the class is without a doubt familiar with is a credit card. These credit cards are used to purchase things and at the end of the month to pay back the balance due to the institution that the credit card was received from. If someone is unable to pay back their statement in full then they'll have to pay back the money from the annual percentage rate or APR which is interest due for borrowing the money. I personally have several credit cards and pay them all off in full at the end of each period to save myself from paying any interest. These forms of credit are issued based on your credit score which comes from a credit bureau such as TransUnion, Equifax, and Experian. Your credit scoring comes from a variety of things such as your payment history, amounts owed through lines of credit, types of credit used, new credit, and the length of time that you've been using credit. The two biggest impacts on credit score are a high amount of debt from credit and not paying your credit off in a timely manner. If I was to pay off my credit in the last discussion rather than invest then there is a good chance that my credit score would've gone up. I without a doubt would have used my bonus to help pay my mortgage and car loan if I was unable to pay it from my job. This choice would be due to my payment history and amounts owed making up 35% and 30% of my credit score respectively. Having a good credit score is important especially when it comes to applying for a mortgage or credit card due to a low credit score disqualifying a person from receiving a good interest rate on their mortgage or even from accessing certain forms of credit. In addition to this, having bad clearance can hurt your ability to receive a security clearance. For my job I need a secret clearance to access certain work materials and without my clearance I'd be disqualified from my current job and others. The federal government ran a credit check when I applied and every "five to 10 years, depending on clearance level" I can expect another credit check to be ran (Camilli & Friedman, 2018). In conclusion paying off debt or investing a bonus is a very situational decision. If someone is unable to maintain payments on a form of credit such as a mortgage or an auto loan then I would without a doubt focus on my debt to work on my credit score.

References:

Camilli, A., & Friedman, J. (2018, August 20). WARNO: New security clearance guidelines make it more important than ever for servicemembers to monitor their credit. Retrieved November 11, 2020, from https://www.consumerfinance.gov/about-us/blog/warno-new-security-clearance-guidelines-make-it-more-important-ever-servicemembers-monitor-their-credit/

Discussion 3-1

Daniel Stone posted Nov 11, 2020 6:24 PM Subscribe

Hello all and great week,

last week I stated that I would diversify my cash into several different investments types. Of course this is to maximize my income in the long run off of the small amount as the base. However the opposite decision to use the money to focus on paying different revolving lines of credit or other credit based accounts such as mortgage loans or auto loans etc. doing this would allow me to focus on creating a safe spending account that would surly show creditors that i can more then handle juggling multiple forms of credit without a negative log. So to answer the question in short, yes, had I chosen to focus on a credit boosting or standing type of return then I would have chosen the other options instead of focusing on trying to get percentage gains from the $5000 through investments.

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Credit Scores

Cole Stoker posted Nov 8, 2020 4:32 PM Subscribe

In my response last week, I decided to pay off my $5,000 debt in order to avoid risk and prevent the debt's gradual interest increase over time. Having any sort of debt lowers your credit score if they remain on your credit report. Keeping all debts paid off will allow for easier growth of one's credit score, as debts are responsible for 30% of your total credit score. If you are ever late on a debt payment, it will damage your scores significantly. Your score may go down temporarily if you pay smaller debts first as your average amount due will become higher, however over time your credit score will bounce back. It will make it easier to get to good credit over time as it will also assist in avoiding late payments as the loans will become easier to pay off, which will assist the 35% of your credit score based of payment track record.

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Last post **yesterday at 6:25 PM** by Daniel Stone

Discussion 3-1

Gustav Olofsson posted Nov 9, 2020 6:05 PM Subscribe

In the Module Two discussion I chose to pay off debt which would have a positive effect on my credit score. I thought it was important to immediately start paying down your principal and therefore lowering the amount of interest on your loans. Looking back at the discussion and even the credit tutorials, its very important to know the little cheats to establishing credit first and foremost and then bettering it from there. It obviously defeats the purpose if you're paying your mortgage and all your bills each month and you still shop a ton with your credit card and the amount is too close to your monthly limit. Or if you're opening and closing credit accounts because you think that the new AMEX card has better rewards than the Chase card you were using. Prior to school and during and short thereafter, since it is so hard to establish credit and get the long standing trust from paying bills on time and regularly I think it still is super important to get started as soon as possible and to make sure paying off your debt is prioritized. When you're 20-30 and you're looking to buy your first home or car and the loan officer runs your credit it will help a ton that you have built a decent credit score for yourself.

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Last post **yesterday at 6:27 PM** by Daniel Stone

3-1 Discussion

Guy Chirichiello posted Nov 11, 2020 6:43 PM Subscribe

Last week I chose to invest the $5,000 bonus in the stock market. I chose this decision because using time as a factor will help increase the value of that money. This decision had no impact on my credit score, however, the student loans, condo, and car do. Thus is due to utilizing loans in order to acquire my education, residence, and vehicle. When every a person decides to take out a loan for what ever reason the financial institution used will run that person's credit score. A person's credit score is basically their entire loan history quantified. Every time a person opens up a line of credit, like a credit card, this information is sent to three major reporting agencies Experian, Equifax TransUnion. These agencies report your whole credit history from the first time you opened a loan at a financial institution that reports to those agencies. The credit score that these agencies quantify derive from your credit history. All of the instances recorded on your history are taking into account like late payments, accounts sent to collections, inquiries, and much more and formulated into a score. Banks and other lenders use this score in order to judge the risk involved in giving a loan to a individual. Since your credit score embodies all of the good and bad of your credit history banks can tell the risk you pose by your score. People with high credit scores generally display perfect payment history, credit utilization, long credit history, and other positive determining factors. People with high credit scores that pose less risk get rewarded with lower interest rates (the rate that is being charged in order to acquire the loan), and people with low scores seen as riskier get a higher interest rate. The higher interest compensates the bank for taking on the extra risk.

I still choose to invest the bonus money because with all these extra payments I have acquired. I believe it will be hard to save up this lump sum to invest in the future. Further, by already having the vehicle, student loans, and condo my credit score has already been lowered. Using the bonus money would barely lower my debt, and I don't believe it would significantly increase my score in the grand scheme. Moreover, the only way my score can lower further at this point is by not making the payments (which I don't believe is possible, since I graduated I would have budgeted for the extra monthly payments to make sure I can afford them comfortable), or if I rack up more debt. Already having a new car, career, education, and home I do not see myself needing my score to be perfect in the near future. Having these new things I should not need to make a significant purchase in the near future. Making a budget plan so that I can make payments on my debt accordingly will lower my score over time. As long as my payments are on time and I do not seek further credit my score will recover as the debt is paid down. As someone who has been in an embarrassing situation of trying to purchase a new bed and could not due to being rejected for a loan. I know how important credit is, especially, for those who do not have money and want to buy things.

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Reflect in ePortfolio

Activity Details

- Task: Reply to this topic

Starts Nov 7, 2020 11:59 PM

Assessment

Discussion Rubric: Undergraduate

Last Visited Nov 9, 2020 10:45 PM