CAMBRIDGE
CREDIT COUNSELING CORP
Trusted debt relief solutions

Cambridge Quarterly
NEWSLETTER

March 2022
Volume 80

IN THIS EDITION

How many credit scores?

One of the most frustrating aspects of applying for financing often comes when interest rates are calculated according to your credit score. Lots of you have reported to us that, although you may have checked your score the same day you applied for a loan, your lender quoted an entirely different number! What gives? The confusion stems from the fact that there are actually 16 versions of FICO's formula currently in circulation. FICO 8, introduced in 2009, and FICO 9, introduced in 2014, are still the most popular FICO versions used by creditors, utility companies, landlords, and prospective employers, in short, the folks who pull reports on you to determine your creditworthiness. Many lenders prefer those older versions because they've become comfortable with them over the years. They have a good idea who will repay and who will struggle, based on the credit scores derived from those two formulas.

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FINANCIAL TIP!

Track your expenses! In order to improve your financial health, it's important that you examine all of your expenses to better understand your spending habits. Tracking your expenses for a month or two is a great way to identify and cut down on unneccessary purchases and build savings.

THE Cambridge Connection is on the air!

Why is "THE" capitalized? Well, you'll have to listen to our radio show to find out. That's right, Cambridge is on the air and in your podcasts! Every week at 9:30am EST on 101.5 FM and 1400 AM you can hear our host, Gordon Oliver, talk about a wide spectrum of financial topics. Every show also features an unsung hero with dependable expertise in their area.

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How many credit scores?

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Complicating matters further is the fact that there are specific formulas for specific types of lenders. Mortgage lenders have access to FICO formulas that are slightly different from the formulas used by credit card issuers, while auto lenders have versions unique to their business. And in 2020, things got even more complicated. FICO 10T and VantageScore 4.0 (which is the kind of score you see on Credit Karma) began using what's called "trended data" or "time-series data." This method of data collection and interpretation attempt to identify patterns in a consumer's habits, changing the way our credit scores are calculated. For example, trended data will differentiate between consumers who pay their credit card balances in full every month, vs. consumers who carry a balance from month to month.

What we do know is that there are five key elements used to determine your score no matter what formula is involved.

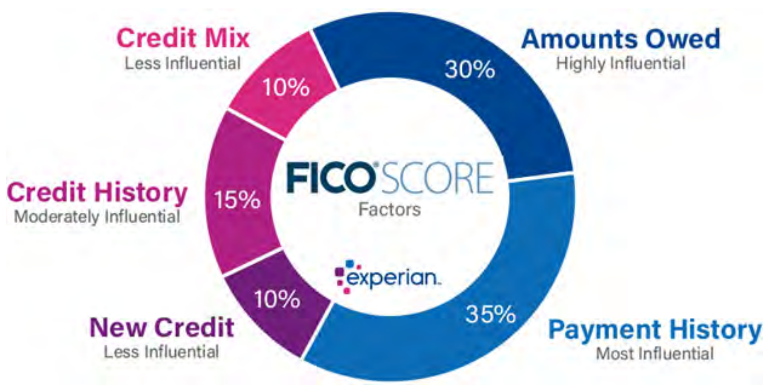
1. Your payment history is 35% of your score. Looking to improve your score? Start paying on time and keep paying on time.

2. The amounts you owe, sometimes called your credit utilization rate, represents 30% of your score. How much of your credit limits are you currently using? If you want to improve your score, pay down your balances. Every penny, literally, will help reduce your utilization rate.

3. Your credit history is 15% of your score. How long have you been using credit? If you want to improve your score, don't close your older accounts. Keep them open and performing.

4. New applications for credit represent 10% of your score. Are you submitting a lot of applications for new credit? Please note, however, that if you're shopping for a car loan, mortgage or student loan, and you confine your inquiries to a 14- to 45-day window, the credit scoring models will rationalize that you could simply be shopping for the best rates, batching all of your applications as a single inquiry. (This only applies to these 3 types of loans.)

5. The different types of credit you have available account for 10% of your score. Do you have experience with a variety of types of lines of credit like credit cards, student loans, or a mortgage? Have you resorted to subprime or payday lenders? This category looks at they types of credit you carry.



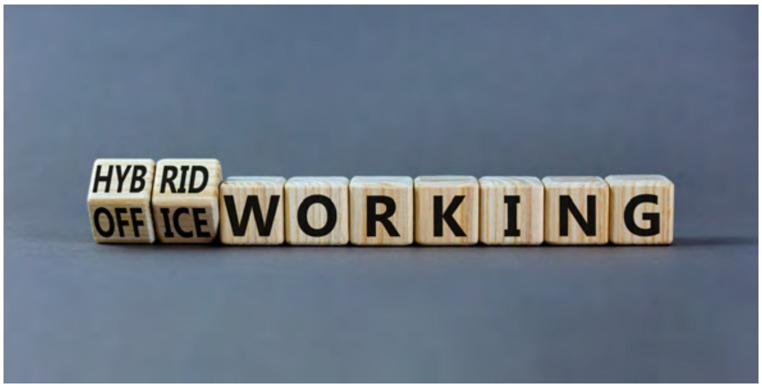
The newest scoring methods consider these five main factors, combined with trended data when generating our credit scores. They're very similar to previous models, but now there is confirmation of our good and bad habits.

Let's pause for a moment and talk about one of the greater credit myths out there, how maintaining a modest balance (less than 30% of your available credit limit) affects your credit score. Long story short? According to Experian, it didn't, but now it does. Trended data looks closely at your balances, your minimum payments, and the amounts you've paid over the last 24 months. The new scoring model will distinguish between those of us who frequently carry a balance as a higher credit risk, versus those who pay off their entire balance each month. FICO 10T looks at your recent payment history to see if you're "reducing, maintaining, or increasing your balances over time." It's all about identifying patterns and habits.

So, do you need to be overly concerned about changes to the scoring formulas? Not really. It will take years for lenders to get used to the concept of trended data, if they ever do, which gives you plenty of time to adjust your bill-paying habits. The best bet is to keep doing your best to keep those five credit scoring factors in check and work on paying down your balances every month.

The Great Resignation

There's an unexpected, unprecedented movement happening across America that press accounts are referring to as "The Great Resignation," and it's making labor experts re-examine long-held beliefs about worker behavior.



As COVID infection rates soared in March 2020, many industries were hit hard, and layoffs and business closings soon followed. Unemployment rates skyrocketed, and it looked like another major recession, perhaps even another Depression, might be inevitable. The federal government stepped in with several rounds of relief/stimulus payouts, while unemployment claims rose precipitously. Major banks offered temporary payment forbearances, and the federal government suspended payments on federal student loans, a moratorium that may or may not expire in May 2022. Those relief efforts helped keep millions of families afloat while we waited for the pandemic to break.

By the summer of 2021, COVID seemed to be relaxing its grip. Vaccines and boosters had been developed and become widely available – for free, and many states and businesses began to re-open. Unemployment rates steadily declined. And then came August, when a staggering 2.9% of the workforce left their jobs. What was going on?

It's not the first time that the country experienced a wave of resignations, but there hadn't been anything on this scale. A small percentage of workers tend to leave or move on at any time when the market is flush with opportunities, and that was certainly true in August 2021, but interviews and surveys pointed to another reason – our experiences during the pandemic had changed how people felt about their work.

> *Work was made for man, and not man for work.*
>
> - J.G. Holland

The ability to work from home now mattered, especially when it allowed for a reduction in childcare costs and other work/home balancing acts (Think about not having to take a day off just to wait for the cable repair person or plumber, and you'll get the idea.). The amount of face-to-face contact mattered, as experience with variant surges made hospitality jobs seem like a risk that could be avoided. That old adage about a job being more than just a paycheck suddenly rang true. And thanks to the various relief efforts that had been enacted, many workers had the opportunity to reassess their situation in light of their changing work priorities, and a sizable percentage decided to leave their current jobs in search of something better.

Will workers continue to apply their new ideals? Experts suggest that this will likely be the case, at least for a generation, citing post-war German attitudes about inflation and post-Depression wariness about the stock market as prime examples of how experience shapes long-term economic behavior.

THE Cambridge Connection

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Most shows also include a visit from Tinamarie Cangemi, an independently certified counselor with more than 20 years of experience here at Cambridge. She helps people by answering their questions, working with them to develop a reasonable budget, and helping them explore the various options to pay down their debt. Tinamarie usually shares a "Cambridge Credit Success Moment," true stories about clients who've regained control of their finances, paying off significant debts through our program. These stories really are incredibly affirming, and we hope that people who hear them take comfort in knowing that there's a way out of debt. Your situation really can get better.

We consider our new radio show a labor of love, and we especially want our listeners to know more about the full range of services we offer. These days, Cambridge is more than just credit counseling. We also provide student loan counseling, reverse mortgage counseling, first-time homebuyer counseling, bankruptcy counseling, and foreclosure counseling, just to name a few. The one thing all of our services have in common, of course, is counseling. We talk with you, and we share our expertise in an informative, non-judgmental conversation.

THE Cambridge Connection is just one more way of showing how passionate we are about personal finance. If you'd like to start a conversation on our show, we'd love to have you! Just email your questions or suggestions to connect@cambridgecredit.org. We take time to answer client questions every week. The show is available on your favorite podcast streaming site or by visiting **whmp.com/podcasts/shows/cambridge-connection**.

Friendly Reminder for Student Loan Holders

1. Unless the government issues another extension, the moratorium on federal student loan payments is set to expire on May 1, 2022. If you're holding federal loans, your servicer should have contacted you to let you know when your first payment will come due. (At the time we went to print, rumors were circulating that another extension might be granted, but no official announcements had been made.) It's probably a good idea to prepare your budget now for the resumption of payments, making sure you can pay on time and in full. If yet another extension is granted, you could set aside some of those funds for whatever month payments resume.

2. The Public Service Loan Forgiveness (PSLF) waiver opportunity is proving to be immensely popular, and Cambridge's counselors have been doing our best to spread the word about this temporary program. For a limited time, the federal government has waived two of the critical requirements for loan forgiveness – the need to have Direct loans, and the need to have made 120 payments through an income-based plan. Until October 31, 2022, people who've been making payments on FFEL loans, Perkins loans, and/or who've been repaying through an ineligible repayment plan (any plan other than an income-based plan) can still qualify for PSLF. Contact our Student Loan Counseling Department as soon as possible to take advantage of the waiver opportunity, even if you won't reach 120 payments before October 31st.