

Carnegie Mellon

Enrollment Services

What is Credit Scoring?

Your credit score represents your history of how you have handled previous financial transactions and is an indication of how you will handle future financial situations. The lower your credit score, the more likely you are to default on your loan. A higher credit score represents a lower risk to the lender.

Your credit score can affect the cost of your debt, with lower interest rates and fees reserved for borrowers with better scores. Lenders may subject those with lower credit scores to lower loan limits and may restrict loans to only being spent on school charges.

FICO (Fair Isaac Corporation)

The most popular credit score is the FICO score. FICO scores range from 300 to 850, with 850 being the best possible score. A credit score of less than 650 is usually considered a higher risk.

Education lenders generally use the FICO score in combination with other factors (debt-to-income ratio and recent bankruptcies) to determine eligibility for private student loans.

Student Loans & Credit Scoring

Most lenders rely on your credit score to determine eligibility for alternative student loans and PLUS loans. The PLUS Loan requires the borrower to not have an adverse credit history (being more than 90 days late on any debt or having Title IV debt within the past five years subjected to default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off.) Typically, you will not be able to obtain a private alternative loan if you have a FICO score below 630-650.

Undergraduate borrowers whose parents are denied a PLUS loan will be eligible for increased unsubsidized Stafford loan limits. Stafford and Perkins loans DO NOT depend on your credit score.

If You Have a Low Credit Score

If you have a low credit score, a co-signer with a high credit score can help make you eligible for an alternative loan. Even if you already have a good credit score, a co-signer with an even better score may help reduce the interest rate and fees you'll have to pay on the loan.

You may also get a better interest rate if you agree to make payments on your loan while you're in school. Some lenders give better rates when students begin repayment immediately or make interest-only payments.

If you are denied an alternative student loan, ask the lender about their appeals process. Sometimes lenders will make an exception if an unusual circumstance leads to the denial, especially if the negative event is not likely to occur again. Appeals may also be accepted if the denial was the result of inaccurate information on your credit report that was subsequently corrected.

Know Your Credit History

Students should request a free annual credit report from www.annualcreditreport.com. This will allow you to pull your credit report from all three credit reporting bureaus.

If you have been denied credit or know that your credit problems are likely to result in a loan denial, you should assess your credit report. After completing this assessment, make an appointment to talk to an assistant director in The HUB.

For more information on credit scoring, please go to www.finaid.org (<http://www.finaid.org/loans/creditscores.phtml>).