YOUR CREDIT SCORES

Credit scores are vital to your financial health

A credit score is a number that helps lenders and others predict how likely you are to make your credit payments on time. Each score is based on the information in your credit report.

Why do your scores matter?

Credit scores affect whether you can get credit and what you pay for credit cards, auto loans, mortgages and other kinds of credit. For most kinds of credit scores, higher scores mean you are more likely to be approved and pay a lower interest rate on new credit.

Want to rent an apartment? Without good scores, your apartment application may be turned down by the landlord. Your scores also may determine how big a deposit you will have to pay for telephone, electricity or natural gas service.

Lenders look at your scores all the time. They look at your scores when deciding, for example, whether to change your interest rate or credit limit on a credit card, or whether to send you an offer through the mail. Having good credit scores makes your financial dealings a lot easier and can save you money in lower interest rates. That's why they are a vital part of your financial health.

Consider a couple who is looking to buy their first house.

Let's say they want a 30-year mortgage loan and their FICO® credit scores are **720**. They could qualify for a mortgage with a low 5.5 percent interest rate.* But if their scores are **580**, they probably would pay 8.5 percent* or more—that's at least 3 full percentage points more in interest. On a $100,000 mortgage loan, that 3 point difference will cost them $2,400 dollars a year, adding up to $72,000 dollars more over the loan's 30-year lifetime. **Your credit scores do matter.**

* Interest rates are subject to change.
These rates were offered by lenders in 2005.

CFA | FairIsaac.

publication has been prepared by Consumer Federation of America and Fair Isaac oration, and was reviewed by the Federal Citizen Information Center.

2

. .ve parts to your FICO® credit scores

As a rule, credit scores analyze the credit-related information on your credit report. How they do this varies. Since FICO scores are frequently used, here is how these scores assess what is on your credit report.

1. Your payment history—about 35% of a FICO score
Have you paid your credit accounts on time? Late payments, bankruptcies and other negative items can hurt your credit score. But a solid record of on-time payments helps your score.

2. How much you owe—about 30% of a FICO score
FICO scores look at the amounts you owe on all your accounts, the number of accounts with balances, and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

3. Length of credit history—about 15% of a FICO score
A longer credit history will increase your score. However, you can get a high score with a short credit history if the rest of your credit report shows responsible credit management.

4. New credit—about 10% of a FICO score
If you have recently applied for or opened new credit accounts, your credit score will weigh this fact against the rest of your credit history. FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. If you need a loan, do your rate shopping within a focused period of time, such as 30 days, to avoid lowering your FICO score.

5. Other factors—about 10% of a FICO score
Several minor factors also can influence your score. For example, having a mix of credit types on your credit report—credit cards, installment loans such as a mortgage or auto loan, and personal lines of credit—is normal for people with longer credit histories and can add slightly to their scores.

What's NOT in your scores

By law, credit scores may not consider your race, color, religion, national origin, sex and marital status, and whether you receive public assistance or exercise any consumer right under the federal Equal Credit Opportunity Act or the Fair Credit Reporting Act.

What is a good score?

When lenders talk about "your score," they usually mean the FICO® score developed by Fair Isaac Corporation. It is today's most commonly used scoring system. FICO scores range from 300–850, and most people score in the 600s and 700s (higher FICO scores are better). Lenders buy your FICO score from three national credit reporting agencies (also called credit bureaus): Equifax, Experian and TransUnion.

In the eyes of most lenders, FICO credit scores above 700 are very good and a sign of good financial health. FICO scores below 600 indicate high risk to lenders and could lead lenders to charge you much higher rates or turn down your credit application.

Not just one score

There are many types of credit scores. They are developed by independent companies, credit reporting agencies, and even some lenders. As a rule, the higher the score, the better.

- **Each credit reporting agency calculates your score** and each score may be different because the credit history each agency has about you may be different. Lenders may make a credit card or auto loan decision based on a single agency's score, although others such as mortgage lenders often will look at all three scores.
- **Your credit score changes** when your information changes at that credit reporting agency. This is good news! It means you can improve a poor score over time by improving how you handle credit.
- **Many insurance companies use something similar** when setting your insurance rates, called a "credit-based insurance score." You may be able to improve your insurance score by improving how you handle credit, which in turn may lower your premium payments on auto or homeowners insurance.
- **Some credit scores offered to consumers are just estimates** and are different from the credit risk scores lenders actually use, although they may appear similar. Consumer reporting agencies and other companies sometimes use an estimated score to illustrate a consumer's general level of credit risk. How might you tell whether a score is estimated? Ask the company if the score is used by most lenders. If it isn't, it is likely to be an estimated score.

.ielpful tips

- When you get your credit scores, make sure you also learn the highest and lowest scores possible, as well as the most important factors that influenced your scores. These factors can give you an idea of how you can improve your scores.
- Getting your own credit scores or credit reports won't affect your scores, as long as you order them from one of the sources we list here.
- Review your credit reports for accuracy. Mistakes and omissions on your credit reports probably will affect your credit scores. If you spot an error, contact the credit reporting agency and the creditor whose information is wrong.
- If you have questions or problems with your credit scores, contact the company that provided them to you.

Boosting your scores

`ur credit scores change when new information is reported uy your creditors. So your scores will improve over time when you manage your credit responsibly.

Here are some general ways to improve your credit scores:

- **Pay your bills on time.** Delinquent payments and collections can really hurt your score.
- **Keep balances low on credit cards.** High debt levels can hurt your score.
- **Pay off debt rather than moving it between credit cards.** The most effective way to improve your score in this area is to pay down your revolving credit.
- **Apply for and open new credit accounts only when you need them.**
- **Check your credit report regularly for accuracy** and contact the creditor and credit reporting agency to correct any errors.
- **If you have missed payments, get current and stay current.** The longer you pay your bills on time, the better your score.

ma'

YOUR CREDIT SCORES

Credit

Signs of Credit Problems

Exercise

To help you see if your creditworthiness is in danger, check off all of the following that apply to you:

- ❑ I barely make ends meet with my current income
- ❑ I rely on overtime to make ends meet
- ❑ I put off medical and dental appointments because I can't afford them
- ❑ I worry that my utilities will be shut off, or that my car will be repossessed
- ❑ I find it difficult to save
- ❑ I use my savings account to pay my bills
- ❑ I have had to borrow money for expenses like taxes and insurance
- ❑ I have been denied credit
- ❑ I took out a new loan to pay off an old loan
- ❑ I have some skipped or late payments every month
- ❑ I frequently overdraw my checking account
- ❑ I get past due notices and regularly pay late fees
- ❑ All of my credit cards are at or near their credit limit
- ❑ I can only afford to make the minimum payment on my credit cards each month

TIP

You Know You're Headed for Trouble if - You've checked three or more of the statements above.

Credit

The Importance of Good Credit

It is important to establish a good credit history, primarily by making your payments on time. Your creditworthiness will not only affect your ability to borrow money or purchase goods and services on credit, but may also affect:

Your Employment

- Some employers require a credit report
- Poor credit could mean you are not offered a job (for example, if you cannot be bonded or obtain a security clearance)

Your Living Accommodations

- Landlords regularly request credit information for applicants seeking apartments
- Landlords do not want tenants who do not pay their bills

Your Finance Rate

- Individuals with better credit histories can generally negotiate lower finance rates than those who are greater credit risks

Your Convenience

- Renting a car, making hotel reservations and hundreds of other transactions are much easier if you have a credit card
- Credit cards may be difficult to obtain if you have bad credit

Why You Need a Credit History

If you have no credit history, creditors have a limited basis on which to make a decision about whether or not to give you credit – particularly if there's a major purchase involved.

- One suggestion: Establish credit by obtaining a gasoline or department store charge card and making payments on time

6

Credit

The Consequences of Bad Credit

Besides harming your credit history, you might face the following outcomes if you don't pay your bills:

You May Be Charged a Late Fee

- Anywhere between a few dollars to a percentage of the balance due

Your Credit Card May Be Frozen

- So you can't make any more purchases

You Could Be Denied Services

- If you are late on utility bills or rent, your service could be discontinued or you could be evicted
- You will have to pay any unpaid balances and expensive fees and deposits to reconnect your services

You Could Face Legal Action

- Such as garnishing your wages, where your employer is forced to send a portion of your pay to the creditor before you get your check

You Could Lose Your Property

- Creditors may seize, repossess, or foreclose on your property, such as your car or home

Did You Know? ?

Falling behind on payments can cause serious financial problems for years.

Credit

How Creditors Get Information About You

When you fill out and sign a credit application, you are giving permission to the creditor to obtain a copy of your credit report.

What's a Credit Report?

A credit report is a document that:

- Contains information about you and your payment history, collected and organized by a credit reporting agency
- Is available to those who are considering granting you credit

How Credit Report Information Is Collected

- Each time you are granted credit or make a payment on an account, that information is gathered by the nation's three major credit reporting agencies:
  - Equifax
  - Experian
  - TransUnion
- Creditors provide data to the credit reporting agencies
  - Example: The type of account you have – such as revolving or installment credit – and how often you pay.
- These credit reporting agencies:
  - Collect and sort the information obtained from all over the country
  - Package and sell the information in the form of a credit report
    - Your current and potential creditors can then buy the credit report and evaluate whether or not to approve or deny you credit

Did You Know? ?

Credit reporting agencies simply report the facts on your credit background objectively – they do not approve or deny your request for credit.

What Your Credit Report Says

Your credit report provides a lot of useful information, including answers to such questions as:

- Do you pay your bills on time?
- How many credit obligations (such as credit cards and loans) do you have?
- What is the total amount of credit that has been extended to you?
- How much do you actually owe on all of your accounts?

Did You Know? ?

What's contained in your credit report can impact both the decision to grant you credit and the rate that you will pay.

Credit

WHAT'S IN YOUR CREDIT REPORT?

Generally, there are five types of information that your credit report reflects:

1. Personal Identification Information

- Your name, spouse's name, Social Security number, current and previous addresses, birthdate, and current and previous employers
- This information comes from your past credit applications, so it is important to completely and honestly fill out forms every time you apply for credit

2. Public Records Information

- Includes bankruptcies, tax liens and monetary judgments, and – in some cases – overdue child support

3. Adverse/Collection Account Information

- Information that reflects non-payment of a debt, supplied by either the original creditor or a collection agency

4. Credit Account Information

- Each of your accounts with banks, stores, credit card issuers and/or other sources
- Information includes date opened, amount, balance, monthly payment and payment pattern going back several years
- Some information is kept for as many as ten years

5. Inquiry Information

- Who requested and obtained copies of your credit report, usually within the past two years

Credit

WHAT'S NOT IN YOUR CREDIT REPORT?

Did You Know? ?

Your credit report DOES NOT contain:

- Certain personal information such as your race, religious preference, medical history, personal lifestyle, personal habits, social life, friends or relatives, political preference or criminal record
- Information about your checking or savings account, or major purchases paid with cash or check

Credit Report Exercise

Test your Credit Report IQ. Answer "yes" or "no" regarding what is – or is not – in your credit report:

1. **Late payment on your furniture loan**

   Yes_____ No_____

2. **Employment information**

   Yes_____ No_____

3. **On-time payments made on your department store card**

   Yes_____ No_____

4. **Your birthdate**

   Yes_____ No_____

5. **Your race**

   Yes_____ No_____

Credit

Get a Copy of Your Credit Report

Get a Copy of Your Credit Report Every 12 Months – Free!

It's a good idea to review your credit report on a regular basis. Checking that your credit report doesn't include any credit cards or loans that you didn't apply for is your best defense against identity theft. Also, checking your report helps to make sure that your credit score is being calculated on the basis of accurate information.

You can request a free credit report once every 12 months from each of the nationwide consumer credit reporting agencies: Equifax, Experian and TransUnion.

For information on how to request your report, go to **www.annualcreditreport.com** or call toll-free (877) 322-8228.

Get a Copy of Your Credit Report Whenever You Want – For a Fee

If you want to receive a credit report more frequently than the free one you can get once a year, you can – for a small fee – obtain a copy of your credit report from any of the three major credit reporting agencies listed below. Call them toll-free or visit their websites for more information.

- **Equifax** (800) 685-1111 or **equifax.com**
  P.O. Box 105496
  Atlanta, GA 30348-5496
- **Experian** (800) 311-4769 or **experian.com/consumer.com**
  P.O. Box 9600
  Allen, TX 75013
- **TransUnion LLC** (800) 888-4213 or **transunion.com**
  Consumer Disclosure Center
  P.O. Box 1000
  Chester, PA 19022

Credit

Mistakes Happen – But You Can Correct Them

If you find mistakes on your credit report, take action immediately.

TIP

What to Do if You Find Credit Report Errors - Contact the credit reporting agency immediately with the following information:

- Your name and address
- Identify the item(s) that is(are) incorrect
- Provide documents to support your position
- Request that the error be corrected

The credit reporting agency must look into your request within a reasonable period of time (usually 30 days) and delete any information they can't verify.

- Your rights, including what steps you can take to correct your credit, can be found by reviewing the Fair Credit Reporting Act at:
  - **www.ftc.gov/os/statutes/fcra.htm**
  - Toll-free (877) FTC-HELP (382-4357)

- You can also write to:

Federal Trade Commission
CRC-240
Washington, DC 20580

Add a Consumer Statement

If you dispute information on your credit report and the investigation does not resolve the dispute, you may:

- Send in an explanation of any errors or adverse items which will be posted as a consumer statement on your credit report
  - Write your statement in 100 words or less and send it to the credit reporting agency in question

12

How Do Creditors Evaluate Your Credit Report?

When your creditor receives your credit report, it usually comes with a score.

Additionally, many creditors have a method to take the information from your credit report and your credit application and translate that into their own numerical score.

Credit scoring is the scientific process where a mathematical model determines a consumer's credit risk by comparing information about one consumer to the credit performance of many others with similar credit profiles.

What Is a Good Score to Get?

Scores range from 500 to 850, but the great majority of scores are in the 600s and 700s. The higher the score, the less risk there is for the creditor, so a score of 750 may qualify you for a better rate than a score of 625.

The math is simple: The higher the score, the better.

How a Score Breaks Down

Your credit score from a credit bureau (also known as your FICO score) is based on five factors. Here is how much each factor contributes to the overall score:

- Payment history – 35%
- Current total debt – 30%
- Requests for new credit – 10%
- Types of credit in use – 10%
- Length of credit history – 15%

TIP

For more information on credit scoring visit **www.myfico.com**

Credit

How Do Creditors Evaluate Your Credit Report?

TIP

Four Things That Make Creditors Smile - 1) You pay your bills on time; 2) You have a small amount of total debt; 3) You don't have a lot of open credit; and 4) You are stable and responsible.

You Pay Your Bills On Time

- You are considered a good credit risk if you have a history of paying your bills on time

You Have a Small Amount of Total Debt

- Make sure your total debt is not too large
  - If a large portion of your income each month is already committed to paying off other credit, creditors will need to think about extending you new credit

You Don't Have a Lot of Open Credit

- Excess open credit can result from having too many credit cards
- You may think having a lot of credit cards with high limits is a sign that you have good credit, but creditors may look on your available credit as being a potential debt
  - In other words, creditors may believe too much open credit may lead you to overextend yourself in the future

You Are Stable and Responsible

- Creditors look for signs of stability and responsibility
  - Numerous changes in address and/or employment may hurt your rating

Credit

How Do Creditors Evaluate Your Credit Report?

TIP

Three Things You DON'T Want to Do - 1) Don't be late paying your bills; 2) Don't apply for every credit offer that comes your way (creditors may believe you're in trouble and looking for a quick way out!); and 3) Think very carefully before ever filing for bankruptcy.

Don't Be Late

- Having a history of late payments will hurt your credit rating
  - The later the payment (whether 30, 60 or 90 days), the more negative your rating

Don't Apply for Every Offer

- Whenever anyone checks your credit report because of your application, an inquiry is added to the report
- Too many inquiries could count against you
  - Creditors may believe you are applying for lots of credit because of financial difficulties, or that you are potentially overextending yourself by taking on more credit obligations than you can pay

Don't File for Bankruptcy

- Bankruptcies and charge offs – where a creditor writes off the amount you owe because of your inability to pay – are viewed negatively
- If you are in financial difficulty, try first talking to your creditors and arranging a schedule for paying off your debt over time
  - For help, contact any of a number of non-profit credit counseling services – check online or in your phone directory for a counseling service near you

Credit

Review Regarding Credit

Answer the following questions as a review on Credit:

1. **Why is it important to maintain a good credit history?**
   a. Because your family will inherit it, and it's important to plan for their future
   b. Because anyone can access your credit history at any time to learn about you
   c. Because a good credit history can generally help you negotiate for a lower finance rate
   d. Consumer protection laws state it is your responsibility to maintain good credit

2. **What might happen if you fail to make several payments on purchases that you made a year ago?**
   a. The item(s) can be taken away from you, if the item(s) secured the credit obligation you took on when you bought the items
   b. Negative information may be added to your credit report
   c. You could be denied credit in the future
   d. All of the above

3. **How can you find what your credit history looks like?**
   a. Contact a credit reporting agency
   b. Ask a private investigator to find out all they can about you
   c. Look yourself up on the Internet
   d. Check your family's credit history

4. **Which of the following is not something a creditor will look at before granting you credit?**
   a. If you pay your bills on time
   b. Where you live and your living arrangements
   c. How many credit obligations you have
   d. How much you owe on all your accounts

Credit

Review Regarding Credit

True or False:

5. If you dispute information on your credit report, you can add a consumer statement explaining the circumstances.
   a. True
   b. False

6. If you can't make your car payment, it's best to wait until the next month to catch up on th payments.
   a. True
   b. False

7. If you are denied credit, the creditor is not legally required to explain why.
   a. True
   b. False

8. When creditors evaluate your income, they can't legally refuse to consider income from public assistance in the same manner as other income.
   a. True
   b. False

9. Your credit report is available to anyone, regardless of the reason.
   a. True
   b. False

10. A creditor can deny you credit based on your marital status.
    a. True
    b. False

..w meet Don and Doris

Behavior or action	Change in score	Don's current FICO score
March 2004 Don and Doris* are married and in their 50s. They have twin sons who graduated from college a year ago, have good jobs and live in different states. Don and Doris have been managing their money carefully for 30 years. They are making payments on a mortgage, three credit cards with large balances, and a $50,000 bank loan that paid for their sons' college tuition. Now that their sons are on their own financially, Don and Doris focus on paying down their credit card balances by making larger monthly payments and using their cards sparingly.	— —	
March 2005 After a year of steady payments, their credit card balances are significantly lower. They continue to manage their credit well and haven't opened any new accounts.		
June 2005 The couple decides to go on an extended vacation, taking leaves of absence from their jobs so they can tour the U.S. in a motor home. They buy their motor home with help from a new bank loan at a favorable rate, thanks to their good credit scores. But opening the new loan lowers their scores a bit. Since their plans will keep them on the road for three months, they put one of their sons in charge of paying their monthly bills.		
September 2005 They have a wonderful vacation. When they return, they find they had neglected to tell their son about the bank loan. He didn't open the invoices they received from the bank thinking they were monthly account statements. Now their bank loan payment is 60 days late.		
October 2005 Doris calls the bank, explains the mix-up and sends in the overdue payments immediately. A couple of weeks later their bank conveys their new account information to the credit reporting agencies, where it is available to influence their credit scores.		
April 2006 After six more months of on-time payments, their credit scores have steadily improved. Although the late payment will remain on their credit reports for seven years, it will impact their scores less as time passes. Don and Doris are on track once again to regain their good FICO credit scores in the 700s.		

* Don and Doris have separate FICO scores, but in this example, their scores would rise and fall together.

18

..ant Examples?

Meet Vera, a single mother

Behavior or action	Change in score	Vera's current FICO score
March 2004 Vera and husband Dave have been married for 10 years. They have one daughter April, age 4. Financially they are making payments on time for two car loans, one mortgage and four credit cards which have low balances. But sadly, their marriage has deteriorated and they agree to divorce. In the settlement Vera retains custody of April. Dave takes one of the cars and responsibility for its loan. He also takes two of their four credit cards, and agrees to pay 50 percent of the monthly mortgage payments.	— — —	
May 2004 Dave struggles financially following the divorce and runs up his two credit cards to nearly their limit. Vera doesn't realize her name is still on the card accounts Dave is using.		
July 2004 Dave continues to struggle and misses payments on both cards. Both cards still are nearly maxed out.		
August 2004 Vera gets a call from her bank about the missed payments. Once she understands what has happened, she contacts Dave and asks him to roll over the balances on ›oth cards to a new card that he opens in his name only, which he does. Paying off the two accounts improves her score.		
February 2005 Vera continues to manage her money carefully, paying her bills on time and keeping her two card balances low. Meanwhile the two missed payments get older on her credit file and have less impact to her score. Dave lands a better job and makes his part of the mortgage payments on time.		
March 2005 Vera's car breaks down. Since she relies on it to get to work and to take April to preschool, she has no choice but to have it repaired. To pay the garage she maxes out one of her credit cards.		
April 2005 Since Vera needs a reliable car, she asks her bank about auto loan rates. They tell her that her credit score is too low to qualify her for their best rate. Since money is tight, she waits to buy a car.		
July 2005 Vera has steadily paid down her high credit card balance and monitored her score. When her score has improved, Vera applies and is approved for an excellent rate on an auto loan. She buys a used car and feels good about how she has managed her credit.		