

CREDIT SCORES

Learn how credit card lenders operate, avoid falling in to credit card debt and understand the importance of maintaining a high credit score and how these scores are determined.



Credit scores help lenders predict whether loan applicants will repay their loans. Your credit scores affect whether you will be approved to receive credit and the interest rates you will pay for credit cards, mortgages, auto loans and other types of loans. Attaining and maintaining high credit scores enable you to borrow money more easily and can save you money through lower interest rates. A landlord may review your scores before approving you to rent an apartment. Your credit scores also may determine the amount of the deposit you will be required to pay for telephone and utility service. Even employers may review the scores before making you a job offer.

How to Get Your Credit Report

Credit scores are based on payment history contained in credit reports. Paying your bills on time will improve your credit scores while making late payments or defaulting on loans will lower your scores. The agencies that collect these reports are called credit bureaus. There are three credit bureaus:

Equifax	equifax.com	Phone 1.800.685.1111
Experian	experian.com	Phone 1.888.397.3742
TransUnion	transunion.com	Phone 1.800.888.4213

These bureaus collect your information and sell it to lenders to give them a better picture of what kind of borrower you are. Each of the three credit bureaus will have a different credit history based on the information sent to it by your creditors. Prospective employers and landlords also have access to these reports.

You can request a free copy of your credit report annually from one or all three of the credit bureaus from annualcreditreport.com. You should order your report and review it for errors. If you find an error, notify the credit bureau, who then processes your dispute. The credit bureau should either resolve your dispute or provide you with contact information of the business submitting the erroneous information. The business must share information with you and promptly investigate the disputed information. It is extremely important that you ensure that your credit history is correct because it is the basis for determining your credit score.



FICO Score

The most commonly used credit score is the FICO score. The FICO score was developed by Fair Isaac Corporation. FICO scores range from 300-850 with most of the scores falling between 600 and 800. Here is the formula that is used from your credit report to determine your FICO score:

- 1. Paying your bills on time - 35%** Paying your bills late can hurt your score while paying on time helps your score. Make sure that you always pay at least the monthly minimum amount due on all of your credit cards.
- 2. Debt to credit ratio - 30%** Ratio of your credit card balances to credit limits. The lower you can keep your outstanding balances, the higher your FICO score will be.
- 3. Length of Credit History - 15%** The longer you can show that you manage credit wisely, the better your credit rating will be.
- 4. New Credit - 10%** Users opening new credit accounts should do so a few at a time. FICO scores distinguish between applying for one loan and applying for multiple loans. Multiple inquiries can hurt your score, so avoid opening multiple cards within short periods of time. If you are comparing lenders for a single loan, try to make all of your applications within a short period of time (such as two weeks) so that your FICO score will count this as only one loan.
- 5. Credit Mix - 10%** A mix of forms of credit can also add to your credit score. Those with mortgages, school loans and credit cards can help their credit score with these diversified forms of credit.

By law, credit scores may not consider race, color, religion, national origin, health status, sex or marital status.

Students should shoot for a score of at least 760. You can obtain your FICO scores at www.myfico.com. There is a charge of about \$50 to obtain your FICO scores from all three of the credit bureaus. Mortgage lenders generally use all three FICO scores in making their lending decisions while car lenders often use only one.

Insurance Companies Many insurance companies purchase similar credit scores when determining the premium charged to customers. The insurance companies have found that there is a direct link between the credit scores and the probability of customers filing claims. Keeping your credit scores high can save you money on the amount of premiums you pay for car insurance and other types of insurance.

Tips for Improving Your Scores

- Try to pay your entire credit card balance each month but **ALWAYS** pay at least the minimum amount due each month.
- Keep total amount of debt as low as possible.
- Ensure you pay rent, utilities and all other bills on time.
- Check your credit report regularly for accuracy and report any errors immediately.
- Make excellent credit management a priority in order to develop a long record of success