

# CREDIT. Know the score.

## CREDIT REPORTS AND CREDIT SCORES

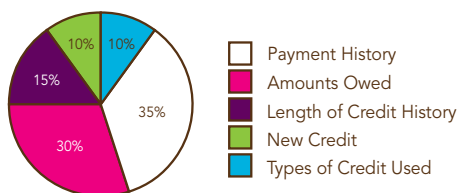
When you take out a loan or use a credit card, you are building a credit history. Whether you pay back your loan on time or are responsible with your card determines your credit rating. Companies that you want to do business with, such as lenders, apartment managers, insurance agencies, and employers, take a look at your credit report and use the information to make decisions about you. Most companies who look at your report base their decisions, in part, on your credit score.

## YOUR CREDIT SCORE

An organization called Fair Isaac Corp. developed the algorithm that determines credit scores. The resulting number, which usually falls somewhere in the range of 350-850, is your FICO or BEACON score. This score is used by creditors to determine your "risk factor" in paying back a loan. No matter what the score is called, most organizations (around 90%) use a credit score like the one developed by Fair Isaac Corp. If your score is above 720 or so, chances are you'll get the best interest rate available on any loan.

## FACTORS IN YOUR SCORE

Factors that go into your score aren't the big mystery they once were. Fair Isaac breaks down your credit as this chart shows:



You have some ability to affect your credit score. Of course, credit ratings mostly improve as negative information ages off and positive information is added. Looking at the chart we can see that 35% is based on paying bills on time and 30% is based on amounts owed. You have some control over 65% of your credit score. Paying down debts can help to boost your credit score rapidly. Of course lenders look at other factors besides your score in determining your interest rate on loans. Other factors include your income and any assets you have.

## CREDIT SCORES VARY

If you haven't had any active accounts in the past six months, you may not have a credit score. Also, since your credit history may differ slightly with each of the major credit bureaus, you may actually have a different score on your Equifax, Experian, or TransUnion credit report. A credit report is a snapshot in time and often varies from month to month.

## HOW DEBT AFFECTS YOUR SCORE

Having a lot of debt, no matter what type, can affect your credit score. If you are close to "maxing out" your credit cards, lenders may see this as a sign that you'll have difficulty paying in the future. High monthly payments can affect your score and therefore your interest rate. However, debts taken out to purchase things that appreciate in value, such as real estate, can pay off over the long haul.

## DID YOU KNOW?

A study released by the U.S. Public Interest and Research Group (June 2004) found that 79% of the consumer credit reports surveyed contained some kind of error or mistake.

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## GETTING A BETTER SCORE

Credit ratings are built on the payments you make on time, over time, to organizations that report to the credit bureaus. These include credit cards, mortgages, car loans, cell phones, and student loans. Generally, utilities and landlords only report missed payments. Here are some tips to raise your score:

- Pay bills on time: Get current and stay current.
- Contact your creditors for help: Letting creditors know that you're having trouble may minimize damage. Be truthful and nice to your creditors!
- Keep balances low on revolving accounts such as credit cards.
- Pay off debt instead of moving it around.
- Don't open a bunch of new credit card accounts that you don't need.

## HOW TO GET YOUR CREDIT REPORT AND YOUR SCORE

Each year, you should request a copy of your credit report from the major bureaus – Equifax, Experian, and TransUnion. Be sure to order reports from all three because organizations report different information to each bureau. You can order reports for free at [www.annualcreditreport.com](http://www.annualcreditreport.com), though you have to pay a fee for your score.

Of course, you can always get a free copy of your report if you're turned down for credit or believe you're the victim of fraud.

- Equifax 800.685.1111 [www.equifax.com](http://www.equifax.com)
- Experian 888.397.3742 [www.experian.com](http://www.experian.com)
- TransUnion 800.888.4213 [www.transunion.com](http://www.transunion.com)

## YOUR CREDIT REPORT

Your credit report contains four major parts:

Personal information: Name, address, employers, etc.

Inquiries: Organizations that have requested your report or have bought your name and address for marketing. To opt out, call 888.5.OPT.OUT.

Tradelines: Companies you have accounts and loans with, and a summary of your payment history. You'll see active positive information on your report for an indefinite period of time. Negative information will remain for up to seven years – longer depending on what it is.

Public record information: Any bankruptcies, unpaid child support or back taxes, judgments for wage garnishment, DUIs, etc.

## MAKE SURE IT'S ACCURATE

Be sure to check your report and note anything that shouldn't be there, such as accounts you've never opened, duplicate accounts, errors, and items that are more than seven years old.

With online reports, you can dispute errors by following the directions on the Web site. If it's a mailed report, send a copy of the error to the bureau with a short explanation. The process usually takes 30 days, and you'll receive a corrected copy of the report.

## DON'T STRESS ABOUT IT

Your credit score is an important part of your overall credit rating, but don't worry if it's low. When you pay your bills on time and avoid money pitfalls, you'll build a positive credit rating that will help you to accomplish your financial goals.

**Many employers WILL NOT hire people with a low credit score. A low credit score can make it almost impossible to get a car loan, rent a decent apartment or get a mortgage loan for a home.**