

Why is good credit so important?

If your financial goals include major purchases, you'll probably need to take out a loan. Most people don't have \$100,000, or even \$15,000, at one time, so instead, we borrow the money, and pay it back over time.

Your lenders are interested in one thing: how reliably you will pay them back—your financial future. Your financial history shown in your credit report helps lenders judge your future. Your credit report may determine whether you can get a loan, and how much the loan will cost you.

If you're worried that your financial history doesn't really reflect what you believe your financial future looks like, just remember this:

Your financial future begins today.

You can't erase the past, and your past can remain on your credit report for years. But, you can demonstrate good habits starting today that can show lenders that your financial future is a bright one.

GENERAL INFO

FICO (pronounced "FY-koh") actually stands for Fair Isaac Corporation, the company that developed the FICO score. Find out more about FICO at their web site, www.myfico.com.

Why is your credit score so important?

- It's used by lenders, insurance companies and even potential employers and landlords, to help them determine whether you are financially responsible.
- When you're opening new accounts (even phones or utilities) a bad credit report can mean that you will have to make a large deposit in case you stop paying your bill.
- A bad credit score indicates that you are more risky than other potential borrowers.

This can lead to:

- **Higher Fees and Rates**
- **Being declined for new accounts**
- **No credit line increases**
- **Being rejected for jobs or apartments or insurance**

How a good FICO score can save you money:

The higher your score, the less you may be charged for a loan. See this example of the monthly payments on a 48-month, \$10,000 used car loan. If your score is below 590, you may have to pay an extra \$40 every month in interest, compared to someone with a score of at least 720. That can add up to an extra \$1,910 in payments over the 4 years.

[SOURCE: Bankrate.com, based on average rates for a 48-month used car loan in NY May 2006.]

\$279
monthly
payment

FICO Score
below 590

\$239
monthly
payment

FICO Score
720+

Your credit score



Your credit score may be the single most important number in your financial life. It's going to be a major factor in whether you can get a loan or credit card, and if you can, what rate you'll be given.

What's a credit score or a FICO score?

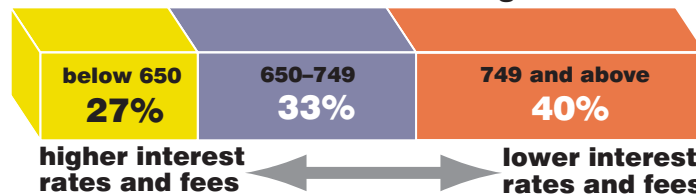
Your credit score is a number that is created based on information in your credit report (see section on credit report). The most common type of credit score used today is called a FICO score and scores range from 300 to 850. Your FICO score is updated monthly and can change when companies report information about you to the credit bureaus. If a credit report is a "financial report card," a credit score is similar to your final grade. Although creditors are not required to use the FICO score, most do use FICO and their own internal scores.

What is a "good" score?

Almost 75% of the U.S. population with scores have a score of 650 or above. Another 50 million Americans have no score at all. That means that about 74 million Americans have no score or a score below 600.

In general, though, the higher your score the better. The lower your score, the more you will likely be charged through higher fees and/or higher interest rates. To get better rates, your score should be above 720.

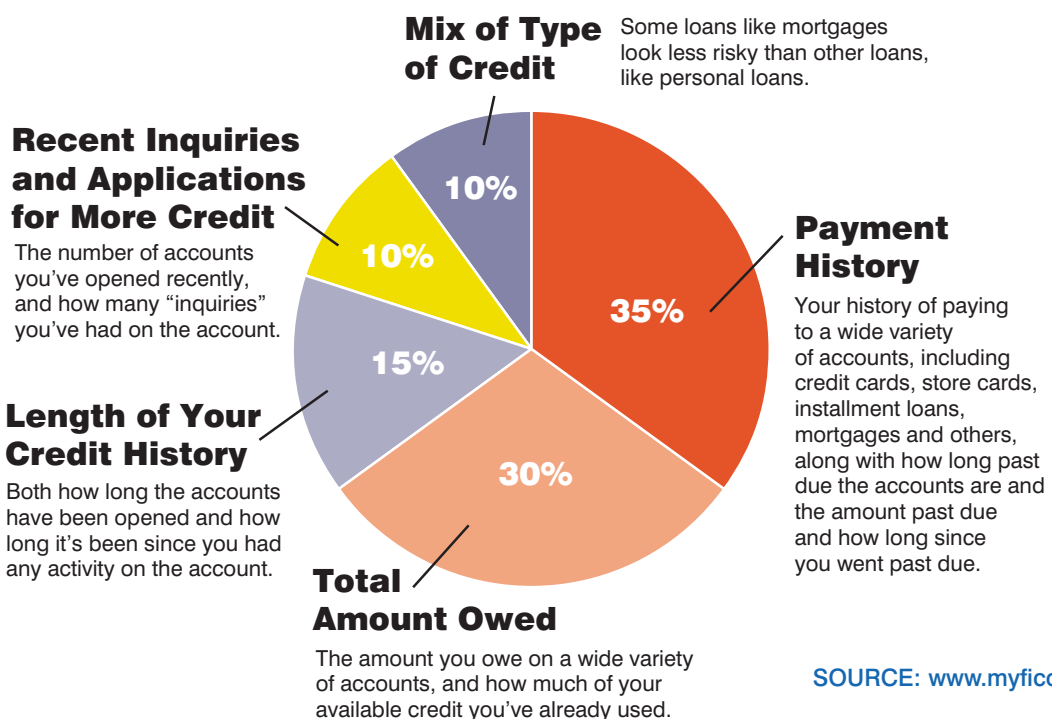
FICO scores and the percentage of scores that all into that range



SOURCE: www.myfico.com

What goes into a FICO Score?

FICO scores are figured out using a very complicated formula. The major factors and about how much they weigh in calculating your score:



SOURCE: www.myfico.com

GENERAL INFO

Debt-credit ratio: The amount of debt you owe compared to the amount of credit you have available to you. If you have more credit available than debt owed, this can help boost your credit score.

INSIDER TIP

Any time you apply for more credit, or a new loan, a lender may "inquire" about your credit. Too many inquiries could hurt your credit score. Why? Because lenders may think that you're desperate for new credit or money. Applying for a new loan occasionally is unlikely to drop your score. And creditors understand that if you're shopping around for something like a mortgage or car loan, you may have a number of inquiries from various lenders. As long as inquiries happen within a short period of time, they may be treated as a single inquiry and may not have much impact on your score.

BUILDING OR REBUILDING YOUR CREDIT



Did You Know???

Credit reports are not just for banks—they are also used by others, including insurance companies, landlords and even potential employers, who use these reports to tell them whether you have good financial habits. So even if you aren't looking for a loan, your history can affect you!

What's a credit report?

Your credit score changes when companies send updates to credit bureaus about your accounts with them. Your credit report is a detailed record of your history of borrowing money and paying it back—your “report card” about your credit standing. Any time you borrow money—personal loans, auto loans, credit cards—your payment history can become part of your credit report. The reports are used by most lenders when considering whether applicants qualify for home, credit card, car, boat, education and other loans and how much the loan will cost (interest rate and fees).

Who puts together the credit reports?

The credit reports are provided by credit reporting agencies also known as credit bureaus. There are three major national credit bureaus—Equifax, TransUnion and Experian, as well as many smaller regional and local bureaus. Credit bureaus create a credit report based on information creditors send them about their customers. There are slight differences in the information reported to the bureaus, so your report can vary depending on the bureau.

Sections of Your Credit Report

Most credit reports include the following basic information, but each credit bureau may list the information in a different order.

Personal Information Your name(s), social security number, birth date, spouse's name, current and previous phone numbers, and current and previous addresses.

Account Information For each account, the report may list some or all of the following categories, depending on what information creditors have reported. They may be separated into Accounts in Good Standing and Derogatory Accounts (accounts with negative information reported).

Creditor information Name of creditor, mailing address, phone number and your account number.

Status Open, Closed, Paid, Never Late, In Collections, Charged-Off, etc.

Date opened

Date of last report

Type of account Usually revolving like credit cards or installment like auto loans, or mortgage

Responsibility Whether you are an individual account holder, co-signer, authorized user, or other

Public Records Details of public records like bankruptcy, liens, overdue child support or alimony, court actions, etc. These records can remain on your credit report for 7 to 10 years.

Credit limit or Original loan amount

High balance The most you've owed on this account

Recent balance The amount you owe now

Recent payment The most recent amount reported as paid

Late payments Date of missed payments, # of times late, how late payment was (30, 60, 90 days, etc.)

Other Some creditors report a history of your balances or your credit limits

Your Credit Report

Personal Information

Name: John Smith, Johnny Smith, JJ Smith
Spouse: Jane Smith
DOB: 12/11/900
SSN: 99999-9999
Phone #s: 404-555-1212, 202-555-1212, 646-555-1212
Addresses: 123 Main Street, Anytown, US 33333
456 Go Street, Anytown, US 44444
789 New Street, Othertown, US 55555

Accounts in Good Standing

Account #	Creditor	Account Type	Open Date	Last Report Date
123456789	ABC Bank	Credit Card	01/15/2018	03/15/2024
987654321	DEF Finance	Auto Loan	06/01/2020	03/15/2024
567890123	GHI Lending	Mortgage	09/10/2019	03/15/2024

Derogatory Accounts

Account #	Creditor	Account Type	Open Date	Last Report Date	Status
234567890	JKL Finance	Credit Card	03/01/2021	03/15/2024	Charged-Off
345678901	MNO Lending	Auto Loan	08/15/2022	03/15/2024	In Collections

Public Records

Record #	Record Type	Date
101101101	Bankruptcy	05/15/2023
202202202	Liens	01/10/2024

Requests for Information

Request #	Requester	Request Date	Request Type
303030303	XYZ Bank	02/01/2024	Soft Inquiry
404040404	ABC Finance	03/10/2024	Hard Inquiry

Inquiries or Requests for Information List of businesses who received information from your credit report by the credit reporting agency. “Soft requests” are requests you did not initiate (current creditors reviewing your report or potential creditors looking to send you a pre-qualified offer) and do not harm your credit score. “Hard requests” occur when you apply for credit and these can affect your credit score.

Disputing information on your credit report

When you get your credit report, look at all of the sections closely. Remember that information can remain on your report for seven years or more, so it's important to get errors cleared up as quickly as possible.

INSIDER TIPS

Want to buy a car later this year? You may want to act now, since it's a lot easier to damage a credit score than to rebuild it. Positive changes generally take between 3 to 6 months to show up on your credit report, and even longer to make a big impact on your credit score.

ACT

If you find any information that you think is wrong:

1. Contact the company or creditor using the contact information on the credit report. After you call them, write a letter (try to keep it to 1 page or less), and send it by certified mail.
 - Include your name, account number and an explanation of the information you are disputing.
 - Include copies (not originals) of any documents you have to prove your claim.
 - Save the receipts, records and copies of everything that you send.
2. Contact the credit reporting agency directly, in writing, if the creditor does not respond. Provide copies of all the correspondence you sent to the creditor, and also include your birth date and Social Security number.
3. It's also possible to file disputes online at the credit agencies' web sites: www.experian.com, www.equifax.com and www.transunion.com.

Credit agencies are not required to change the report, but they will investigate a dispute and, if they decide to correct it, will notify you, usually within 30-45 days. Get another copy of your credit report afterwards to make sure that the error has been fixed.

Find out more about correcting errors on your credit report, including sample dispute letters, at www.ftc.gov/credit.

Establishing Credit

It is important to have a credit history so that you have proof of your ability to borrow and pay back money. If you've never had a loan or it has been a long time since you had a financial account open, you may not have a credit report or a credit score, making it more difficult to get a loan or a credit card.

One way to establish a credit history is to get and use a credit card. Make sure that your payment history is reported to the credit bureaus. Continue to make on-time payments on an account, you may qualify for higher credit lines or other financial products.



INSIDER TIPS

- Most lenders will consider your payment late if you pay less than the minimum required or if your payment arrives even one day after the due date. Some lenders require the payment to arrive before a certain time on the due date.
- Check your account terms to find out the due date and cut-off time for each lender.
- Some creditors will take overnight payments at a special address or offer pay-by-phone services to help you get a payment in on time.



What steps can you take to improve your credit?

Build a Solid Payment History—

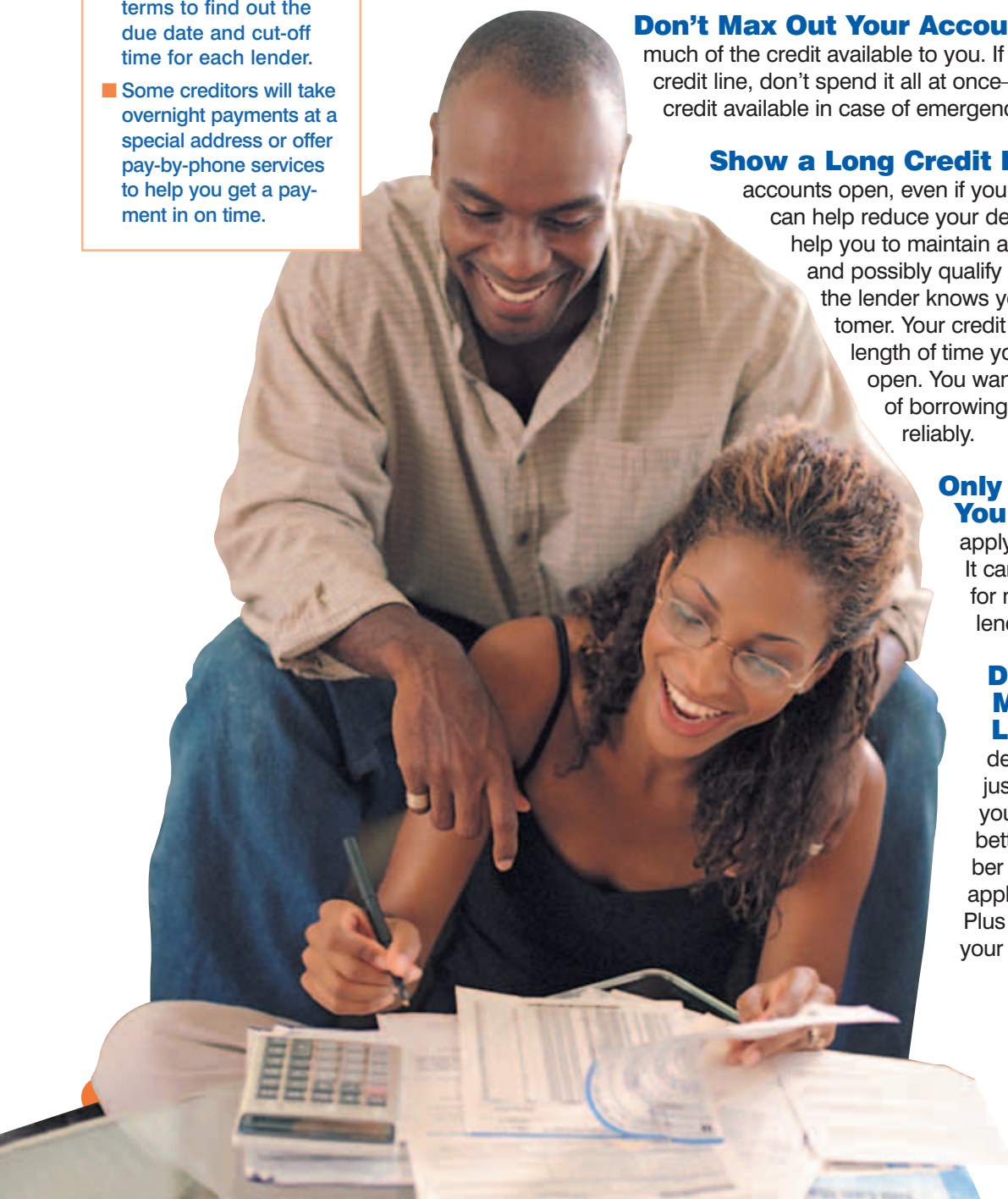
- Pay all of your bills on time, even if it's just the minimum payment. Make sure that you send in the full payment due every month, and that your payment reaches the company before the due date.
- Remember that all payments are important. Your credit report may include missed payments to various creditors such as your phone or electric companies or a debt buyer. Also, bankruptcy filings, failure to pay child support or civil suits can show up in the “public records” section of your report and hurt your credit.

Don't Max Out Your Accounts—Don't use up too much of the credit available to you. If you get an increase in your credit line, don't spend it all at once—it is also good to have more credit available in case of emergencies.

Show a Long Credit History—Keep your card accounts open, even if you pay a card off in full. This can help reduce your debt-to-credit ratio. It can also help you to maintain a relationship with your lender and possibly qualify you for better credit terms if the lender knows you have been a good customer. Your credit score takes into account the length of time your accounts have been open. You want to show a long history of borrowing and paying back money reliably.

Only Apply For Credit You Need—Don't take out or apply for too many loans at once. It can make you look desperate for money—not a good sign to lenders.

Don't Take Out Too Many Types of Loans—Don't take out new department store credit cards just because they are offering you a discount. It's generally better to carry only a small number of cards at once, and not apply for credit you don't need. Plus it is easier to keep track of your payments with fewer cards.



Protecting your credit and your identity

Your credit is your responsibility and you have the power to protect it. In addition to having good payment habits, you also need to make sure that your credit report is accurate and to be on the lookout for Identity Theft.

ACT

Monitor Your Credit Report for Accuracy

- Check your credit reports at least 3–4 times a year. Make sure that all the information is accurate and up-to-date.
- Know your rights. You are entitled to one free credit report each year from each major national credit bureau, and also whenever you're denied employment, credit or a loan based on a negative credit profile.
- Quickly dispute charges that are inaccurate. Don't wait until you are applying for a new loan to do this. It takes time for disputes to make their way through the system, so take care of problems as soon as you spot them. (See "Disputing ..." on page 15.)

ACT

Watch Out for Identity Theft

There are many reports now about "Identity Theft" and how that can harm your credit. Identity theft is when someone steals your personal information. Sometimes, the thieves can use this information to open financial accounts or make purchases. To combat identity theft, remember: Prevent, Detect, Act.

- **Prevent.** Shred or tear up mail with your personal information on it (including credit card numbers and social security numbers) before throwing in the trash. If you lose your wallet, credit cards or checkbook, contact your banks or lenders immediately.
- **Detect.** Monitor your credit report and even your account statements.
- **Act.** If you think someone has used your personal information, contact the three national credit reporting agencies (TransUnion, Experian and Equifax) immediately and have a "fraud alert" placed on your credit file. File a local police report so you have evidence of the identity theft.

Building good credit doesn't happen overnight.

It takes time and effort. But the benefits of a good score—the money saved, the confidence you'll have when you begin shopping around for home and auto loans—make it all worthwhile.

One more thing—Like an expensive car or a fine piece of jewelry, a good credit score is a valuable thing, and you need to protect it and care for it. Remember that these skills—paying on time, not borrowing more than you can afford to pay back, and monitoring your credit report—should become lifelong habits.

