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# UNDERSTANDING & IMPROVING YOUR CREDIT SCORE

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TO RECEIVE THE VERY BEST MORTGAGE RATES  
YOU MAY NEED TO IMPROVE YOUR CREDIT SCORE

*Presented By:*

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# UNDERSTANDING & IMPROVING YOUR CREDIT SCORE OVERVIEW

Learning how your credit score works and its impact on your ability to purchase goods and services will help you become a better educated user of credit. It will help you shape the financial and personal decisions you make and will make it easier for you to decide when and where to use credit.

# WHAT IS A CREDIT REPORT?



- ❖ A credit report is an accounting of your credit history

# WHAT IS A CREDIT REPORT?



Your Credit Report Records:

- ❖ Payment histories and amount of time accounts are open
- ❖ Requests for credit (inquiries)
- ❖ Results of legal proceedings and personal data

# WHO KEEPS TRACK OF MY CREDIT REPORT?



There are three major credit reporting agencies and each uses its own scoring model

# WHO KEEPS TRACK OF MY CREDIT REPORT?

These three major credit reporting agencies use the following scoring models:

- ❖ Experian – FICO (Fair, Isaac and Company)
- ❖ Equifax – Beacon
- ❖ TransUnion – Empirica

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# WHAT IS A CREDIT SCORE?



The score is a 3 digit number and typically ranges from 350 to 850. (Theoretically it is possible to have score of 0 or 999.)



# WHAT IS THE PURPOSE OF A CREDIT SCORE?

A credit score is a more objective way to determine overall credit worthiness. Statistical analysis removes the subjective, judgmental aspects of determining whether credit should be granted.

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# WHAT DOES A CREDIT SCORE INDICATE?

The 3 digit score estimates a consumer's willingness and ability to repay a debt based on previous behavior.

- ❖ A score of 500 indicates that the consumer has a 50/50 probability of repaying a debt.

# WHAT DOES A CREDIT SCORE INDICATE?

The higher the credit score, the less risk the creditor assumes.

❖ A score of 700 indicates that the consumer has a 70/30 probability of repaying a debt.

The less risk the creditor assumes the better your rate and term options are for either installment loans or credit cards.

# HOW IS A CREDIT SCORE DETERMINED?

The credit score is based on a mathematical model and has as many as 150 elements. Some of the most common elements include:

- ❖ Length of time at your current residence and whether you rent or own
- ❖ Length of time at your current job and the type of job you hold
- ❖ How much debt you currently have

# HOW IS A CREDIT SCORE DETERMINED?

Some of the most common of these 150 elements include:

- ❖ How often you use your credit card
- ❖ What type and number of credit cards and/or installment loans you have
- ❖ How many recent inquiries were made

# HOW DOES THE TYPE OF JOB I HOLD IMPACT MY CREDIT SCORE?

Each job is assigned a classification. Jobs are evaluated on risk characteristics such as:

- ❖ Job stability – is it seasonal or steady?
- ❖ Income stability – is it guaranteed or commission-based?
- ❖ Job risk – is there a greater potential for injury or death?

# HOW DOES THE TYPE OF JOB I HOLD IMPACT MY CREDIT SCORE?



These risk elements are statistically analyzed and some are weighed more heavily than others. A number is derived and the resulting figure becomes part of the credit score analysis used to determine your score.

# WHICH PARTS OF MY CREDIT HISTORY ARE MOST IMPORTANT?



35% - Your Payment History

- ❖ Number of accounts paid as agreed
- ❖ Number of delinquent accounts and severity of delinquency
- ❖ Previous bankruptcies, judgments, liens



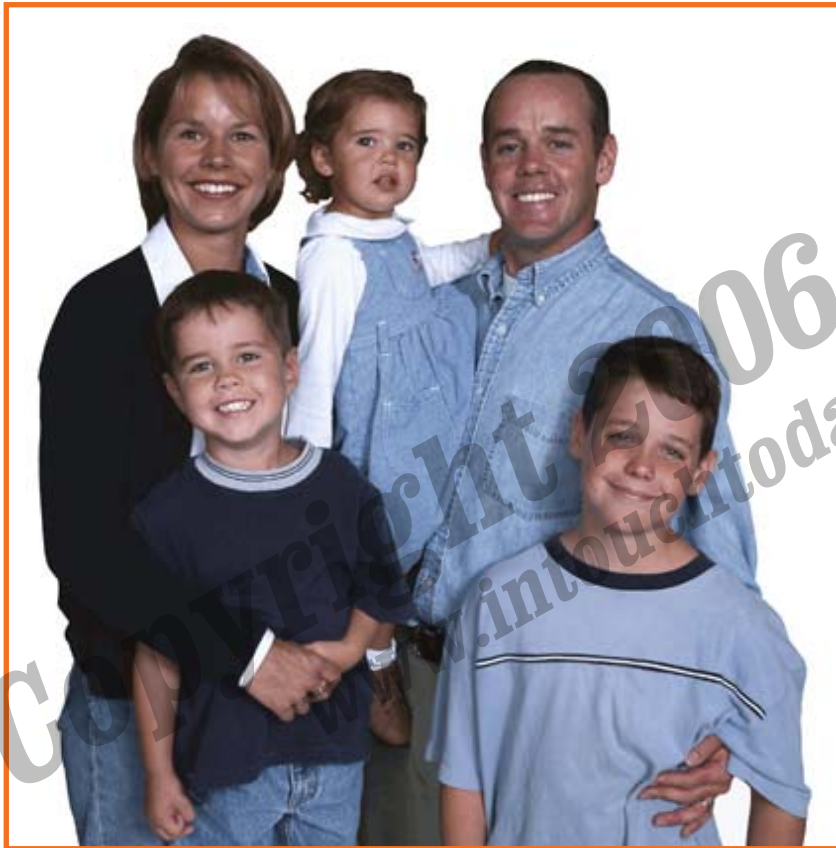
# WHICH PARTS OF MY CREDIT HISTORY ARE MOST IMPORTANT?



30% - Amounts You Owe

- ❖ How much of your credit line is in use
- ❖ Amounts you owe on installment accounts as compared to the original balances
- ❖ Number of zero balance accounts

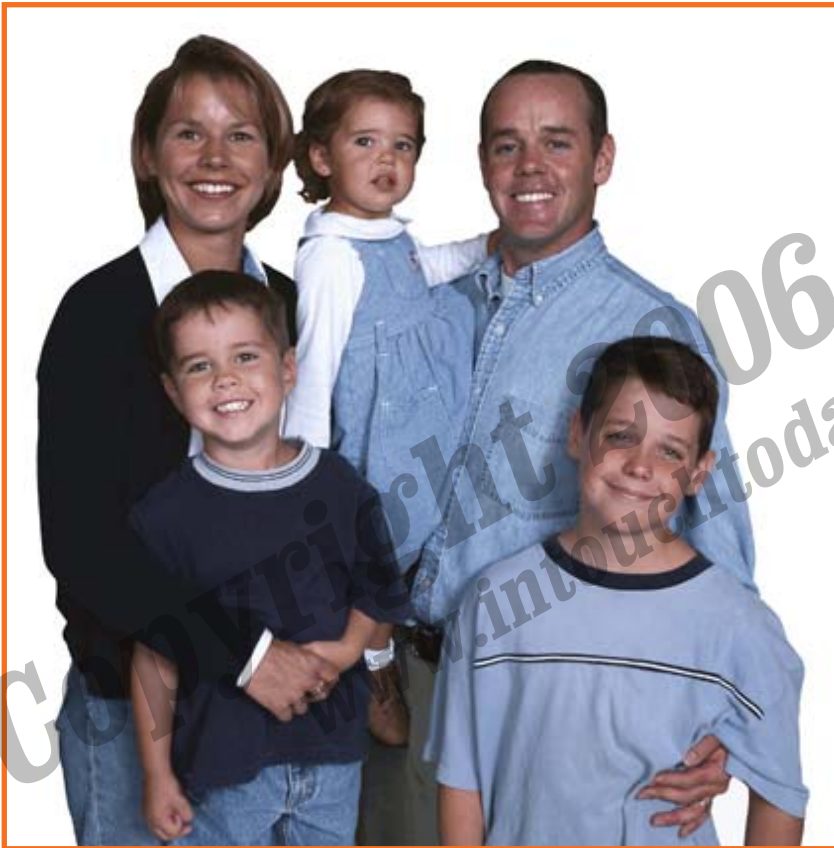
# WHICH PARTS OF MY CREDIT HISTORY ARE MOST IMPORTANT?



15 % - Length of Time of Your Credit History

- ❖ Total time of credit history is tracked by the credit bureaus
- ❖ Length of time since accounts were opened
- ❖ Frequent credit card balance transfers are viewed negatively

# WHICH PARTS OF MY CREDIT HISTORY ARE MOST IMPORTANT?



10% - New Credit

- ❖ Number of recent new accounts and the proportion of new accounts to existing accounts; unsecured credit is riskier than secured credit
- ❖ Number of recent credit inquiries

10% - Other Variables

# HOW A CREDITOR USES THIS SCORE



Creditors typically assign grades to scores and use these grades to determine interest rate and loan features.

# HOW A CREDITOR USES THIS SCORE



An “A” Paper Grade Allows Creditors to Offer:

- ❖ Most competitive interest rates
- ❖ Creative financing terms including:
  - ❖ Length of loan
  - ❖ Loan type
  - ❖ Amount of documentation needed to substantiate credit request



# HOW A CREDITOR USES THIS SCORE



An “A” Paper Grade Allows  
Creditors to Offer:

- ❖ Good interest rates
- ❖ Some creative financing

# HOW A CREDITOR USES THIS SCORE



A “B” Paper Grade Allows  
Creditors to Offer:

- ❖ Good interest rates
- ❖ Some creative financing



# HOW A CREDITOR USES THIS SCORE



A “C” Paper Grade Allows  
Creditors to Offer:

- ❖ Higher interest rates
- ❖ Less creative financing

# HOW A CREDITOR USES THIS SCORE



A “D” Paper Grade Allows  
Creditors to Offer:

- ❖ Highest interest rates
- ❖ Least creative financing

# OTHER FACTORS A CREDITOR USES WHEN GRANTING CREDIT



- ❖ Length of time at your current residence
- ❖ Length of time at your job and/or chosen field
- ❖ The amount of debt you have as compared to the amount of your household income

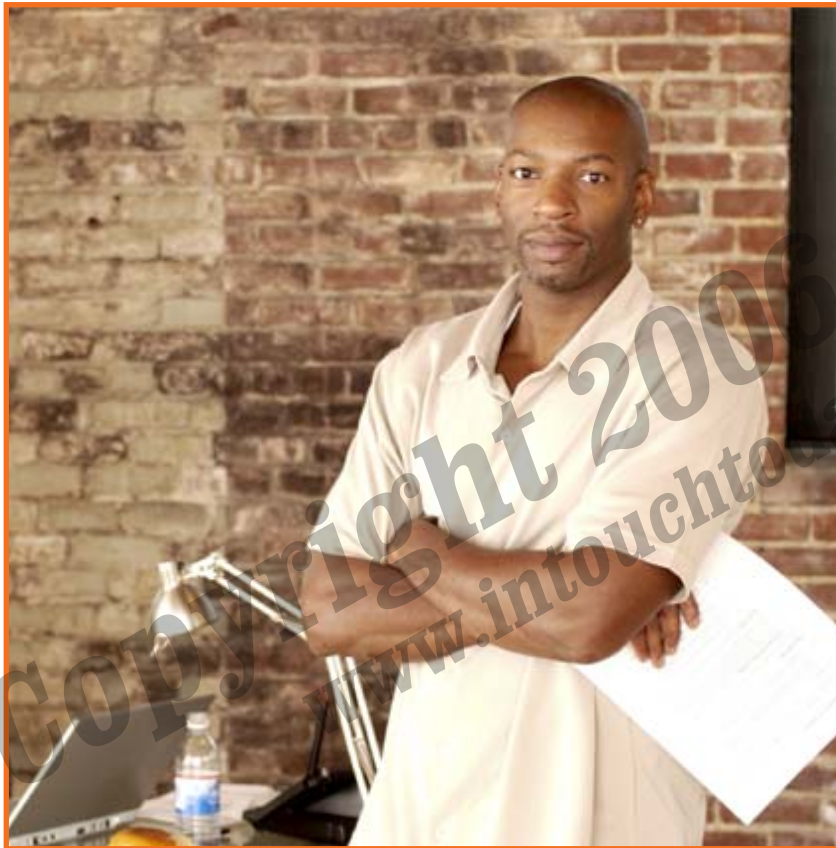
# OTHER FACTORS A CREDITOR USES WHEN GRANTING CREDIT

Your willingness and ability to pay the debt you have incurred (as indicated on your credit report)

The type of merchandise you are purchasing:

- ❖ Secured – house, car, boat, motorcycle, RV
- ❖ Unsecured – major credit cards, department store cards, gas cards

# TYPES OF CREDIT REPORT INFORMATION



A credit report typically includes four types of information:

1. Personal
2. Credit History
3. Public Records
4. Inquiries

# TYPES OF CREDIT REPORT INFORMATION

## 1. Personal

- ❖ Your name and aliases (includes misspellings and variations of your name)
- ❖ Current and previous addresses
- ❖ Social Security Number
- ❖ Birth date (often not listed or it's reported as born on the 1st of a given month regardless of actual birth date) and current and previous employers

# TYPES OF CREDIT REPORT INFORMATION

## 2. Credit History

- ❖ Lists the name of the creditor, the type of debt it is and who is responsible for the account (individual, joint, authorized user)
- ❖ Indicates all debts (of those creditors who report to the credit bureaus) and repayment history
- ❖ Indicates whether payments were paid on time or paid late



# TYPES OF CREDIT REPORT INFORMATION

## 2. Credit History

- ❖ Indicates the number of times an account was late
- ❖ Shows the credit limit for each creditor and the largest amount charged during the life of the account
- ❖ Shows if the credit line is closed or open, and if closed, why it was closed and who closed it

# TYPES OF CREDIT REPORT INFORMATION

## 3. Public Records

- ❖ Bankruptcies
- ❖ Tax liens
- ❖ Monetary judgments
- ❖ Indicates the status of these proceedings (open, closed or pending)

# TYPES OF CREDIT REPORT INFORMATION

## 4. Inquiries

- ❖ Identifies who requested your credit report, when it was requested and the reason(s) why the report was requested.

# ESTABLISHING CREDIT



If you have little to no credit, and your bureau generates no score, you can establish credit by doing the following:

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# ESTABLISHING CREDIT



1. Apply for a major credit card (Visa, Master Card, Discover, American Express Blue) and request a credit line of \$500 dollars

# ESTABLISHING CREDIT



2. Make a purchase to activate it, but don't use more than one-third of the available credit line

# ESTABLISHING CREDIT



3. Pay more than the minimum payment but less than the full amount due on time

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# ESTABLISHING CREDIT



4. Continue to pay more than the minimum payment each month until the balance is paid in full

## ESTABLISHING CREDIT

If your major credit card application is rejected, apply for a department store charge – it is often easier to obtain than a major credit card

Make a purchase to activate it, then make monthly payments on time to build a payment history

# ESTABLISHING CREDIT

If you are a recent college graduate and haven't already established credit, purchase a secured item such as a car (dealers provide incentives for recent graduates)

- ❖ Make each payment on time.
- ❖ Make a half payment two times a month. This reduces your overall obligation and establishes an excellent repayment record with the creditor.

# THE TYPE AND NUMBER OF CREDIT CARDS YOU HAVE AFFECTS YOUR SCORE LISTING CREDIT

- ❖ Major credit cards can positively affect your score
- ❖ Installment loans on secured items can positively affect your score
- ❖ Department store credit cards and private label cards (Best Buy, Circuit City, Home Depot and so on) can negatively affect your score
- ❖ Too many cards, regardless of type, will negatively affect your score when there are many active credit lines and balances
- ❖ Opening multiple accounts within a short period of time will negatively affect your score

# MANAGING YOUR CREDIT REPORT



Once you have established credit, you must take steps to protect and maintain your credit rating.

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# MANAGING YOUR CREDIT REPORT



To protect and maintain your credit rating, You need to:

Obtain a copy of your credit report and review it at least once every 12 months.

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# MANAGING YOUR CREDIT REPORT

Contact one or more of the agencies listed below to request a copy of your report

- ❖ Equifax - 1-800-685-1111 ([www.equifax.com](http://www.equifax.com))
- ❖ TransUnion — 1-800-888-4213 ([www.transunion.com](http://www.transunion.com))
- ❖ Experian — 1-888-397-3742 ([www.experian.com](http://www.experian.com))



# MANAGING YOUR CREDIT REPORT



Currently, when you request a credit report, you are required to pay a fee that ranges from \$10 - \$30 dollars.

If identity theft is suspected, you may request additional free reports.

# MANAGING YOUR CREDIT REPORT

Legislation – FACT Act (Fair and Accurate Credit Transactions) has been signed into law that requires credit reporting agencies to provide a free report to consumers annually.

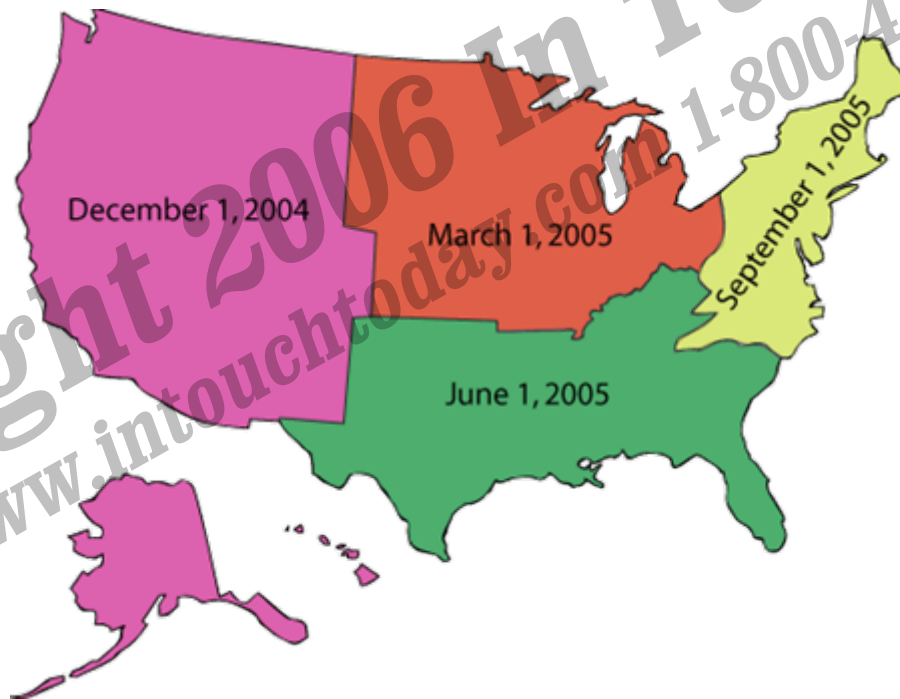
This legislation is in effect as of December 2004 and will be phased in throughout the United States during the next 9 months.

# MANAGING YOUR CREDIT REPORT

The final rule also provides for a gradual, structured roll-out of the centralized source. The centralized source will become available in cumulative stages, over a period of nine months, rolling-out from west to east beginning December 1, 2004. The entire transition will be complete by September 1, 2005.

# MANAGING YOUR CREDIT REPORT

Consumers will become eligible on the following schedule:



# MANAGING YOUR CREDIT REPORT

Western states (Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming) will become eligible on December 1, 2004



# MANAGING YOUR CREDIT REPORT

Midwestern states (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin) will become eligible on March 1, 2005



# MANAGING YOUR CREDIT REPORT

Southern states (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, South Carolina, Tennessee, and Texas ) will become eligible on June 1, 2005





# MANAGING YOUR CREDIT REPORT

Eastern states (Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia), Puerto Rico, and all U. S. territories will become eligible on September 1, 2005

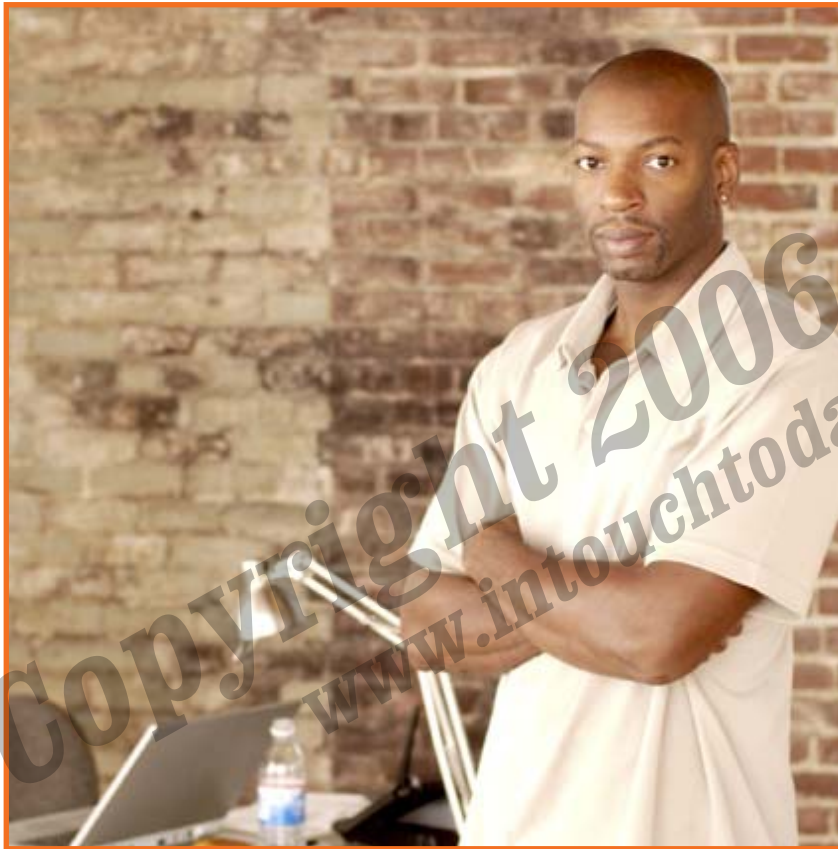


# MANAGING YOUR CREDIT REPORT



If you are denied credit, the reporting agency used to determine credit worthiness must provide you a free copy of your report upon request. Include a copy of the decline letter with your request.

# MANAGING YOUR CREDIT REPORT



Use caution when signing up for “free” credit reports. This may be a paid subscription to a credit reporting service and often includes a “negative option cancellation.”

# WHAT TO LOOK FOR WHEN REVIEWING YOUR CREDIT REPORT

These factors affect your credit score:

- ❖ Inaccurate personal data
- ❖ Unknown aliases or unknown name variations
- ❖ Incorrect or variations of Social Security Number
- ❖ Unknown address or employment information

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# WHAT TO LOOK FOR WHEN REVIEWING YOUR CREDIT REPORT

These factors affect your credit score:

Inaccurate personal data

Unknown aliases or unknown name variations

Incorrect or variations of Social Security Number

Unknown address or employment information

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# WHAT TO LOOK FOR WHEN REVIEWING YOUR CREDIT REPORT

Incorrect information will negatively affect your credit score

- ❖ Unpaid, non-credit card debts include:
  - ❖ Medical collections
  - ❖ Public service collections
  - ❖ Tax liens
  - ❖ Unpaid judgments or law suits

# WHAT IF YOU FIND AN ERROR?



You have the right to dispute errors on your credit report.

To protect your rights, report errors in writing



# WHAT IF YOU FIND AN ERROR?



After you've notified a credit reporting agency of your dispute, by law, they have 30 days to investigate.

If the credit reporting agency can't verify the information it must be removed.

# WHAT IF YOU FIND AN ERROR?



You are entitled to a corrected report free of charge. Additional reports can be sent to companies you requested credit from within the last 6 months and any employer who has requested a report in the last two years.

## WHAT IF YOU FIND AN ERROR?



If you disagree with the results of the investigation you may submit a 100-word statement that is included on your credit report.

If negative information is accurate, it will be reinserted on your report once you are notified.

# HOW TO IMPROVE YOUR CREDIT SCORE

Pay your bills on time.

If you are currently paying your bills late, contact each creditor and make payment arrangements.

Pay the full amount due on secured loans each month and pay on time.

If you can't pay the full amount due on secured loans, request to make an interest-only payment until you can make the full payment.

# HOW TO IMPROVE YOUR CREDIT SCORE

If your financial situation is serious, seek the advice of a reputable, non-profit credit counselor.

Maintain a reasonable debt to income ratio – don't live past your means.

Review your credit report annually and fix discrepancies.

# MANAGING THE CREDIT YOU HAVE



Maintain reasonable credit balances — high debt-to-credit limit ratios reduce your credit score.

Pay off debt; don't transfer it from card to card.



# MANAGING THE CREDIT YOU HAVE



Don't close unused accounts — the zero balance may help your score.

Don't open new accounts that you don't need or won't use.



# MANAGING THE CREDIT YOU HAVE



Request credit line reductions, but if you have a balance, make sure your available credit is at least 50 percent greater than the balance owed.

Request interest rate reductions.

# MANAGING THE CREDIT YOU HAVE



- ❖ Call the “opt out service” at: 1-888-5OPT-OUT (1-888-567-8688) and stop “pre-approved” credit card offers from coming in the mail.

# PRESENTED BY:

For more information:

Your Company Name

Office telephone number

Alternate telephone number

Web site address

Email address

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