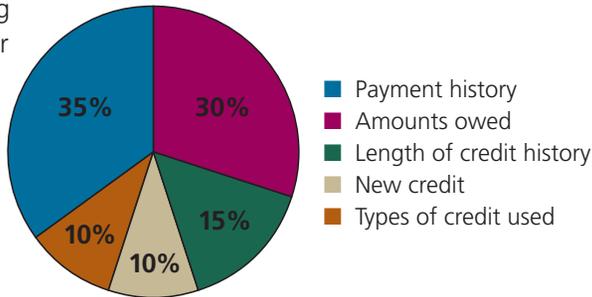


Basics of Credit Reports and Credit Scores

What is a Credit Score?

A credit score is a number lenders use to help them predict the likelihood (risk) that you will repay your debt as agreed. For this reason, credit scores are also called “risk scores.” Scores are generated by statistical models using elements from your credit report. However, scores are not stored as part of your credit history. Rather, scores are generated at the time a lender requests your credit report and then included with the report. Each of the credit bureaus, **TransUnion, Experian, and Equifax**, has their own scoring model and scores may differ from bureau to bureau. Each score is based on information that particular credit bureau keeps on file about you.

Credit scores are fluid numbers that change as the elements in your credit report change. For example, payment updates or opening a new account could cause scores to fluctuate. Depending on the type of credit scoring model that is being used, your score may differ from lender to lender.



What's Not in a Credit Score?

Credit scores do not consider:

- Your race, national origin, religion, sex, marital status or age
- Whether or not you receive public assistance
- Your salary, occupation, title, employer, date employed or employment history. However, lenders may consider this information in making their approval decisions.
- Where you live
- Any interest rate being charged on a particular credit card or other account
- Any items reported as child/family support obligations or rental agreements
- *Certain* types of inquiries (soft inquiries). The score does not count requests you have made for your own credit report in order to check it. It also does not count “promotional inquiry” requests made by lenders in order to make a “pre-approved” credit offer. Finally, inquiries for employment purposes are not counted.

Correcting Errors on Your Report

Federal law allows consumers to challenge inaccuracies and correct their credit files, and the three credit bureaus encourage consumers to dispute incorrect data. There is no fee. If you believe there is an error on your report, submit an official dispute to each of the credit bureaus for fast resolution. They will investigate your dispute with the source of the data and you will receive a response within 30 days. All consumers will receive the results of the investigation.

Payment History (35%)	Amounts Owed (30%)	Length of Credit History (15%)	New Credit (10%)	Types of Credit Used (10%)
<ul style="list-style-type: none"> • Number of accounts paid as agreed • Negative public records or collections • Delinquent accounts: <ol style="list-style-type: none"> 1. Total number of past due items 2. How long you've been past due 3. How long it's been since you had a past due payment 	<ul style="list-style-type: none"> • How much you owe on accounts and the types of accounts with balances • How much of your revolving credit lines you've used — looking for indications you are over-extended • Amounts you owe on installment loan accounts vs. their original balances — to make sure you are you paying them down consistently • Number of zero balance accounts 	<ul style="list-style-type: none"> • Total length of time tracked by your credit report • Length of time since accounts were opened • Time that's passed since the last activity • The longer your (good) history, the better your scores 	<ul style="list-style-type: none"> • Number of accounts you've recently opened and the proportion of new accounts to total accounts • Number of recent credit inquiries • The time that's passed since recent inquiries or newly-opened accounts • If you've re-established a positive credit history after encountering payment problems • In general, checking to make sure you aren't attempting to open numerous new accounts 	<ul style="list-style-type: none"> • Total number of accounts and types of accounts (installment, revolving, mortgage, etc.) • A mixture of account types usually generates better scores than reports with only numerous revolving accounts (credit cards)

Sections of the Credit Report

Identifying information

- Name, current and previous addresses, telephone number, Social Security number, date of birth and current and previous employers
- “Statements of dispute” may also be added by you or your creditors when you challenge an account’s status with them

Credit information

- Account information (date opened, credit limit or loan amount, balance, monthly payment and payment pattern)
- Who is on the account (whether it is a single name, joint, or cosigned account)
- Active positive credit information may remain on your report indefinitely
- Most negative information remains up to seven years

Inquiries

- Who has reviewed your credit report
 - *Hard inquiries* – Inquiries by creditors for the purpose of granting credit
 - *Soft inquiries* – Inquiries by creditors who viewed your credit report for marketing purposes
- According to the Fair Credit Reporting Act, credit grantors with a permissible purpose may inquire about your credit information without your prior consent
- This section includes the date of the inquiry and may list how long it will stay on your credit report

Public record information

- Bankruptcy information (can remain on your credit report up to 10 years)
- Judgment (can remain for up to 7 years)
- Foreclosure (can remain for up to 7 years)
- Unpaid tax liens (can remain for up to 15 years)
- Unpaid child support (in some states)
- Other public record information can remain up to 7 years

Obtaining a Free Credit Report

- *AnnualCreditReport.com* is the official site that allows consumers to request a free copy of their credit report, once every 12 months, from each of the national consumer credit reporting companies: Equifax, Experian and TransUnion.
- Consumers may also call **(877) 322-8228** to request their credit report by phone.

Improving Your Score

Scores reflect credit payment patterns over time, with **more emphasis on recent information**. Therefore, time is your ally when it comes to improving credit. In general, a score may improve, if you:

- **Pay your bills on time.** Delinquent payments and collections can have a major negative impact on a score.
- **Keep balances low** on credit cards and other “revolving credit.” High outstanding debt can affect a score.
- **Apply for and open new credit accounts only as needed.** Don’t open accounts just to have a better credit mix — it probably won’t raise your score.
- **Pay off debt rather than moving it around.** Also, don’t close unused cards as a short-term strategy to raise your score. Owing the same amount but having fewer open accounts may lower your score.
- **Review your credit report regularly.** Make sure everything is being reported accurately. It won’t affect your score if you request and check your own credit report.

The Effect of Scores on Loans

No matter whether you’re getting a home loan, cell phone, a car loan, or signing up for credit cards, the higher your credit score, the less you pay to borrow money. **For example*, on a \$150,000, 30-year, fixed-rate mortgage:**

If your FICO score is	And your interest rate is	Your monthly payment is
760-850	4.759%	\$783
700-759	4.981%	\$803
680-699	5.158%	\$820
660-679	5.372%	\$840
640-659	5.802%	\$880
620-639	6.348%	\$933

*Using national rates from *myfico.com* from 2nd quarter 2010

As you can see in the example above, a person with a FICO score of 760 or better will pay \$150 less per month than a person with a FICO score below 639. **THAT’S A SAVINGS OF NEARLY \$1,800 A YEAR.** You can see that it pays — literally — to improve your FICO score!