

ABC's OF CREDIT SCORING

A credit score is a number lenders use to help them decide: "If I give this person a loan or credit card, how likely is it that I will get paid back on time?" A score is a snapshot of your credit risk at a particular point in time.

Along with the credit report, lenders can also buy your credit score based on the information in the report.

That score is calculated by a mathematical equation that evaluates many types of information from your credit report at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the score identifies your level of future credit risk.

Check Your Credit Report - You should review your credit report from each credit reporting agency at least once a year and especially before making a large purchase, like a house or car. To request a copy, contact the credit reporting agencies directly:

- Equifax: (800) 685-1111, www.equifax.com
- Experian (formerly TRW): (888) 397-3742, www.experian.com
- TransUnion: (800) 888-4213, www.transunion.com

If you find an error, the credit reporting agency must investigate and respond to you within 30 days. If you are in the process of applying for a loan, immediately notify your lender of any incorrect information in your report.

What's In Your Credit Report? - Although each credit reporting agency formats and reports this information differently, all credit reports contain basically the same categories of information:

(1) **Identifying Information**, (2) **Trade Lines**, (3) **Inquiries**, (4) **Public Record** and (5) **Collection Items**.

Credit scores provide the best guide to future risk based solely on credit report data. The higher the score, the lower the risk. No score says whether a specific individual will be a "good" or "bad" customer. While many lenders use scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders. Scoring does not consider your gender, race, nationality or marital status. In fact, the Equal Credit Opportunity Act prohibits lenders from considering this type of information when issuing credit.

Will Your Scores Be Different? - Scores range from about 300 to 850. If your information were exactly identical at all three credit reporting agencies, your scores from all three would be within a few points of each other. But here's why your scores may in fact be different at the three credit reporting agencies. The way lenders and other businesses report information to the credit reporting agencies sometimes results in different information being in your credit report at the three agencies. The agencies may also report the same information in different ways. Even small differences in the information at the three credit reporting agencies can affect your scores. Since lenders may review your score and credit report from any of the three credit reporting agencies, it's a good idea to check your credit report from all three and make sure they're all right.

How a Score Breaks Down - Percentages are based on the importance of the five categories for the general population.

Payment History - *What is your track record?* - Approximately **35%** of your score is based on this category.

Amounts Owed - *How much is too much?* - Approximately **30%** of your score is based on this category.

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Length of Credit History - *How established is yours?* - Approximately **15%** of your score is based on this category.

New Credit - *Are you taking on more debt?* - Approximately **10%** of your score is based on this category.

Types of Credit in Use - *Is it a "healthy" mix?* - Approximately **10%** of your score is based on this category.

What Scores Ignore:

- Your race, color, religion, national origin, sex and marital status.**
- Your age.**
- Your salary, occupation, title, employer, date employed or employment history.**
- 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 (requests for your credit report or score).**
- **Any information not found in your credit report.**
- **Any information that is not proven to be predictive of future credit performance.**

How fast does my score change?

Your score can change whenever your credit report changes. But your score probably won't change a lot from one month to the next. In a given three-month time period, only about one in four people has a 20-point change in their credit score. While a bankruptcy or late payments can lower your score fast, improving your score takes time. That's why it's a good idea to check your score 6-12 months before applying for a big loan, so you have time to take action if needed. If you are actively working to improve your score, you'd want to check it quarterly or even monthly to review changes.

Tips for Raising Your Score:

- **Pay your bills on time.** Delinquent payments and collections can have a major negative impact on your score.
- **If you have missed payments, get current and stay current.** The longer you pay your bills on time, the better your score.
- **Be aware that paying off a collection account, or closing an account on which you previously missed a payment, will not remove it from your credit report.** The score will still consider this information, because it reflects your past credit pattern.
- **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.** This won't improve your score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time. And you won't lose points for seeing a credit counselor.
- **Keep balances low on credit cards and other "revolving credit."** High outstanding debt can affect a score.
- **Pay off debt rather than moving it around.** The most effective way to improve your score in this area is by paying down your revolving credit. In fact owing the same amount but having fewer open accounts may lower your score.
- **Don't close unused credit cards as a short-term strategy to raise your score.**
- **Don't open a number of new credit cards that you don't need, just to increase your available credit.** This approach could backfire and actually lower your score.
- **If you have been managing credit for a short time, don't open a lot of new account too rapidly.** New accounts will lower your average account age, which will have a larger effect on your score if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.
- **Do your rate shopping for a given auto or mortgage loan within a focused period of time.** Scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.
- **Re-establish your credit history if you have had problems.** Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- **Note that it's OK to request and check your own credit report and your own score.** This won't affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.
- **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.
- **Have credit cards – but manage them responsibly.** In general, having credit cards and installment loans (and making timely payments) will raise your score. People with no credit cards, for example, tend to be higher risk than people who have managed credit cards responsibly.
- **Note that closing an account doesn't make it go away.** A closed account will still show on your credit report, and may be considered by the score.
- **Bankruptcies will stay on your credit report 7-10 years, depending on the type.**