

# Under\$tanding Your Credit Report & \$core

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**T**o be a smart consumer, it is important that you know how to get credit and what your credit score means to you. Credit - whether it be a car loan, mortgage or a credit card - has a huge influence on your life and how you get to live it. Your credit may also be taken into consideration when renting an apartment, getting a cell phone or using utility companies. Lenders want to know how to assess your risk level, and since they do not know your history of making payments, they look at your FICO score to help guide them on your credit history.

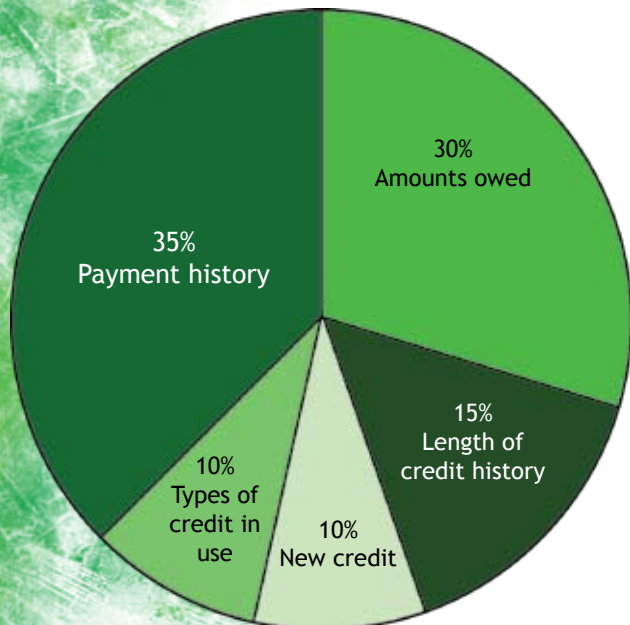
## What is FICO and how is it determined?

A FICO score is determined by Fair Isaac Corporation. It ranges from 300 to 850. There is no model of scores that determine the level you are at, but many lenders may use a "grading" scale similar to the following:

- A = 700-850
- B = 660-699
- C = 620-659
- D = 580-619
- F = 579 and below

While many lenders use these numbers to help make lending decisions, each lender is different and uses a different strategy, including the level of risk they feel you are. There is no one "cut-off" score used by all lenders.

Your score is generally broken down into 5 categories. For people that haven't been using credit long - the importance of these particular categories may be somewhat different. Remember your score is not always the same. It changes whenever you do



anything that will positively or negatively impact your score. Your score is based on your credit history and it attempts to predict what your credit behavior will be like in the future.

Many lenders price their products to fit the type of credit risk you are. For example, let's say a couple wants to purchase their first home with a 30 year mortgage and their FICO credit scores are 720. According to our scale above, they are "A" borrowers which means they qualify for the lowest rate of 5.5%. But if their scores are 580, a "D" borrower, they would probably pay 8.5% or more. That's at least 3 full percentage points more in interest! On a \$100,000 home loan, that 3 point difference will cost them \$2,400 a year, adding up to \$72,000 over the lifetime of their 30 year mortgage. So, you can see why it's so important to follow the rules on keeping your credit in order.

## How is your FICO score determined?

Items on your credit report determine your FICO score. Your credit report is a composite of information about your credit history collected by three national credit agencies that house all of your credit information. Credit agencies do not deny or approve credit, but simply collect your credit history and provide it to lenders who want more information on you.

## Building Credit

No one has a credit history or FICO (credit) score until we apply for credit. Some of the ways you can start your credit history are:

- Apply for a credit card, either a national card like VISA or MasterCard or even a department store card.
- Get a car loan.
- Buy a house.
- If you do not qualify on the basis of your own credit standing, ask to have someone co-sign on your application. The co-signer and you will have the same payment information on your credit reports.

## Establishing a good credit history

- Always pay your bills on time or early. If you have a problem remembering, use online bill pay or automatic payments to ensure you will never be late. Keep in mind that many companies report to credit agencies, even the utility companies!
- Avoid having creditors check your credit report too often, which they will do every time you apply for credit. Each credit check (inquiry) done by a creditor will adversely affect your score. So, you wouldn't want to go applying at every store in the mall, even if you do get free stuff!
- Try to keep your balances lower than your limits. It shows that you can live within your spending limits, and you don't need the credit to pay for everyday items. Also, if you have a lot of credit, it could impact your score.
- If you have a credit card that you've used for some time and you choose to transfer your balance to another card

and close the old one you might want to rethink that idea. It would be wiser to lower the limit and keep the card (even if it's paid off), especially if it's the credit that you've had for the longest time.

#### Negative ways to impact your score:

- Not paying your bills.
- Not paying your taxes.
- Paying any bills late.
- Going over your credit limit on a credit card.
- Keep in mind that if there is adverse account information on your report it will be stored for seven years from the date of first delinquency.

#### How do I find out about my credit history?

As mentioned earlier, there are three national credit agencies that have your credit history on file. Lenders typically use one of these three main agencies when you apply for credit or a loan. They are:

**Equifax** (800) 685-1111 [www.equifax.com](http://www.equifax.com)  
**Experian** (888) 397-3742 [www.experian.com](http://www.experian.com)  
**Transunion** (877) 322-8228 [www.transunion.com](http://www.transunion.com)

You should obtain your credit report at least once a year to see if there are any errors. If you do not want to pay to see your report, it is recommended that you obtain your free copy from [www.annualcreditreport.com](http://www.annualcreditreport.com). At this site, you choose which credit agency you would like to get your report from. If you pull your free credit report from a different agency every four months in a calendar year, you can get the entire year for free! You can do this every year.

You are also entitled to a free credit report if you've been denied credit within the last 60 days, you're on welfare or unemployed, or if you're a victim of fraud. Since these free reports only show your credit history and NOT your FICO (credit) score, you can pay to receive your score if you go directly to one of the three major credit reporting agencies.

If you Google "free credit report," hundreds of sites come up. Freecreditreport.com and other "free credit report" sites will give you access to a free report, usually in return for signing up for a credit protection or credit tracking program. Be careful... read through everything to make sure you understand what you are agreeing to before requesting any "free" report.

#### What if something's not right?

If you find something wrong on your credit report - dispute it. You never know, it may even be identity theft. Make sure all information is accurate and includes only those activities you've authorized. If you suspect your personal information has been stolen, take action immediately. In many cases you can do this online at the credit reporting agency's website. The credit reporting agency is required by law to investigate all disputes

within 30 days after receipt of your dispute. You can find more information on how to dispute information in your credit report at any of the three main credit reporting agencies or at the Federal Trade Commission website [www.ftc.gov](http://www.ftc.gov).

From your day-to-day life, your credit may be evaluated for everything from renting an apartment to getting a new job. It is becoming a major assessment factor in many of your financial and lifestyle decisions, so it is important that you know what it means and how it is affecting you. If you have questions about your credit report and FICO (credit) score, don't be afraid to talk to a reputable lender you know. They should be able to help you understand it better.

For more information on FICO scores, go to [www.myfico.com](http://www.myfico.com).

