



## What Is a Credit Score?

According to the FTC publication, Credit Score Facts, “Credit scoring is a system creditors use to help determine whether to give you credit. It also may be used to help decide the terms you are offered or the rate you will pay for the loan. Information about you and your credit experiences, like your bill-paying history, the number and type of accounts you have, whether you pay your bills by the date they’re due, collection actions, outstanding debt, and the age of your accounts, is collected from your credit report. Using a statistical program, creditors compare this information to the loan repayment history of consumers with similar profiles. For example, a credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — a credit score — helps predict how creditworthy you are — how likely it

is that you will repay a loan and make the payments when they’re due.”

A credit score is a three-digit number that tells the world a great deal about you before they even look at your credit report. Sometimes you see your credit score called an FICO score. That’s because FICO is an abbreviation for Fair Isaac and Company, the company that developed the method used by most people to calculate your score.

Your FICO score is based on the following 5 components: payment history, debt, length of credit history, credit mix, and new credit. See the chart on the next page for more information.

Credit scores were designed to help lending institutions go through the loan review process faster and decide on risk more accurately. Retail

merchants, credit card companies, insurance companies, and banks have used scoring methods since the 1950s for deciding whether or not to make consumer loans. Credit scoring is also used by mortgage lenders.

When you apply for credit, most potential lenders will request a copy of your credit report and your credit score from one or more of these credit bureaus. Lenders use the results of the FICO credit bureau score to determine specific reasons for approving or not approving your loan. You should know that the only information used to determine your credit score is the information in your credit file. Your income, savings, and the amount of money you have for a down payment for a mortgage do not affect your score nor is this information found on your credit report..

Your score can be anywhere between 300 and 850. Research studies done by lenders indicate that people who have scores higher than 680 are more likely to make their payments on time. People who have scores lower than 600 generally make payments late and are a higher risk for paying back the money they borrow.

Your credit score is important because it can affect your ability to buy a car, a home, insurance, or rent an apartment, and can also impact your ability to get some jobs. There are three major credit bureaus in the United States—Experian, Equifax, and TransUnion. Because they each calculate your score a little differently, your score will vary slightly from bureau to bureau.

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# NEWS & REVIEWS

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### First Things First

The first thing to do is make sure that the credit information that exists about you is accurate. This information resides with the credit bureaus. Ask your FFEF Counselor about obtaining an FFEF CreditScore Review. FFEF offers a Credit Score Review (CSR) which includes a three-in-one report from each of the credit bureaus listed above. This quality report has FICO credit scores and is the same report used by mortgage companies, banks, and other lenders.

The Review will teach you how to improve your credit score and how to dispute any errors. A certified Credit Report Reviewer will counsel with you and review your credit report line by line. This is NOT credit repair. Mention that you read about the Credit Score Review in this newsletter, and you will receive a discounted rate of only \$25 for single and \$49 for a joint CSR session.

If you find yourself in a position where you need to rebuild your credit and improve your credit score, don't despair. You've taken the appropriate steps with help from Family Financial

Education Foundation to learn to live within a budget, set money aside for emergencies and large purchases, pay off debt according to a plan, and ultimately become debt free. And thanks to such organizations as the Federal Trade Commission (FTC), there are tips you can use and definite steps you can take to refurbish your credit and boost your credit score.

### Fair Credit Reporting Act (FRCA)

Under the Fair Credit Reporting Act (FRCA), the credit reporting bureaus and the information providers (the people, companies, or organizations that provide information about you to the credit reporting bureaus) are responsible for correcting inaccurate or incomplete information in your credit report. If you see inaccurate or incomplete information in your credit report, take steps to get it corrected.

**1. Contact the creditor or other information provider** in writing to state what information you think is inaccurate. Be sure to include copies (NOT originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a credit reporting

company, it must include a notice of your dispute. And if you are correct—that is, if the information is found to be inaccurate—the information provider may not report it again.

**2. Have patience and take the necessary time to improve accurate but negative information.** The cold hard truth is, when negative information in your report is accurate, only the passage of time can ensure its removal. A credit reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than \$75,000 a year; and information reported because you've applied for more than \$150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the last event took place.

**3. Add accounts to your file.** Your credit file may not reflect all your credit accounts. Most national department store and all-purpose bank credit card accounts are included in your file, but not all. Some travel, entertainment, gasoline card companies, local retailers, and credit unions are among those that usually aren't included.

If you've been told that you were denied credit because of an "insufficient credit file" or "no credit file" and you have accounts with creditors that don't appear in your credit file, ask the credit reporting companies to add this information to future reports. Although they are not required to do so, many credit reporting bureaus will add verifiable accounts for a fee. However, if these creditors do not generally report to the consumer reporting company,

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## The Difference Between a Credit Report and a Credit Score

A credit report is a detailed history of the loans you've received and credit cards you've used that is offered by the three bureaus once a year. If you've had collections, they may also appear on any of the credit reports. For each account, the credit report shows your payment history, current balance, credit limit, the date the account was opened, and whether the account is open or closed.

A credit score is a three digit number based on the information in your credit report. The bureaus factor in the number of years you've had credit, how much of your available credit you're currently using, whether you've recently made any late payments, and how recently you've had any negative actions or credit applications. ■

# What is a secured credit card and should I get one?

A secured credit card requires that you deposit a specified amount of money with the card issuing company. This money becomes the amount of credit you have on that card. For example, if you deposit \$500 in the account; you can charge up to \$500. If you make the agreed upon payments for approximately one year, the card company may then release the funds held as security and issue an unsecured card. Be sure to look for hidden fees and charges. Take time to shop around for the best interest rates and lowest annual fees.

## Credit cards are a fact of life.

In today's world, it is almost impossible to make a hotel reservation, buy

a plane ticket, or rent a car without a credit card, even if you plan to pay cash. Some department stores require a credit card to accept your check. So where does that leave you if you've never had credit or need to repair a poor credit history? A secured credit card may be the best way for you to establish or rebuild your credit.

## Where can you get a secured credit card?

If you belong to a credit union, ask about the possibility of getting a secured card. About half of the nation's credit unions offer secured cards to their members and may offer lower interest rates and waive annual fees. If

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# How Is a FICO Score Created?

Your FICO score is computed by three separate credit agencies and follows a fairly complicated formula. It is based loosely on the following percentages:

**35% Your payment history**  
(on time payments to accounts)

**30% How much you owe** (debt)

**15% Length of your Credit History**

**10% Credit mix** (what types of credit you have)

**10% How much new credit**  
you have (includes new credit inquiries)

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the added items will not be updated in your file.

**4. Keep your credit clean.** To help establish good credit and ensure your credit report is painting a positive picture of you, follow these tips:

- **Pay your bills on time.** You're already a step ahead when it comes to paying your bills on time because of your involvement with Family Financial Education Foundation. Nothing helps your effort to improve your credit standing faster than keeping current on all bills.
- **Avoid consumer debt.** Eliminate or reduce the number of credit cards you have and keep the balances low. It's wise to have just one or possibly two major credit cards and use them only for emergencies. If you must charge something, make sure you can pay it off at the end of each month.

- **Limit the number of inquiries into your credit and don't open several new accounts at once.**

The fact is, too many inquiries over a short time period may be perceived as an indication that you are seriously seeking credit, perhaps due to financial troubles or desperation. Similarly, opening several new accounts at the same time could also be seen as a sign of a rough financial patch. To avoid this perception, be choosy when you shop for credit and limit the number of creditor inquiries, and keep the number of credit accounts and balances to a minimum.

- **Check up on your credit report at least once a year.** Chances are that even if you've been good about paying your bills on time, there may be incorrect or outdated information on your credit report that is hurting your credit profile. To ensure the accuracy of your credit report, review it at least once a year. Ask your FFEF

Counselor about obtaining an FFEF CreditScore Review. The FFEF CreditScore Review will help you understand your credit report and how to improve your credit score and dispute any errors that you find on the report.

**5. Apply for unsecured credit.** A local department store may be more likely to issue you a credit card than a national creditor. If the store does grant you credit, demonstrate your financial responsibility by paying all of your bills on time. Just remember that the interest rates or finance charges of the typical department store card are quite high, even 20% or higher, so be sure to charge only what you can afford to pay off each month and not carry a balance with such a high interest rate.

**6. Apply for secured credit.** If bankruptcy is in your past or if you have had your credit cards revoked, you need to demonstrate that you can handle credit responsibly. One way to do this is to apply for a secured credit card.

# TIPS & TRICKS

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that's not possible, do some research at [www.bankrate.com](http://www.bankrate.com). This website provides a list of companies that issue secured credit cards. Beware of taking offers that arrive in your mail. These often include high fees so be sure you check them out carefully.

Rather than offering secured cards, some banks prefer offering unsecured cards with lower limits and higher interest rates and fees. While you don't have to deposit money to begin with, you may end up paying a lot more. Secured cards are often a better choice—and sometimes your only choice.

### What kind of fees will you have to pay?

Some cards charge an application fee so look for one that doesn't. You may be required to pay an annual fee and these can vary greatly. Some will demand that you buy an insurance policy along with the card. This is not a good offer. Be sure you read the fine print or have someone explain

the terms to you if you're not sure you understand what is said. Your FFEF counselor can help you with this. If you're not careful, it is possible to have a large chunk of your deposited money eaten up in fees. Also, find out if it is possible to have the card changed to an unsecured credit card if you demonstrate you have control of your finances and how long it takes before that can happen.

### How much will I have to put down?

The amount will vary by the card. Most are \$300 to \$500. Your credit limit will either be the amount of your deposit or some percentage above that amount.

### How should I use the card?

A secured card is a vehicle for building a good credit history. Use it for a few purchases and pay it off in full every month. It is only a stepping stone so don't keep it any longer than you have to.

## Budgeting Tips from FFEF Credit Counselors.

My story starts when I was 20. At that time I did not care about credit, savings, or sticking to a budget until I started working at FFEF. I started using a budget and coupons for groceries. I also plan my meals for two weeks and save a lot of money because I just buy what I need. Being committing to staying within my budget has helped me a lot!

— Aimee H

Find more great money saving ideas on our web site, [FFEF.org](http://FFEF.org)

Understanding your credit score is the first step toward improving your financial life. A high credit score is the key to better interest rates and making your money work for you. Learn more today.

Don't forget to share your wealth of knowledge with friends and family. Our budget planning programs and credit counseling are available to everyone. Call today for more information.

[www.ffef.org](http://www.ffef.org)  
[www.accesseducation.org](http://www.accesseducation.org)  
**(877) 789-4175**



## Business Hours!

Mon.-Thurs.: 7:00 a.m.-8:00 p.m.  
Friday: 7:00 a.m.-7:00 p.m.  
Saturday: 8:00 a.m.-1:00 p.m.

## Family Financial Education Foundation

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**If you know of someone who would benefit from this information, please pass this newsletter along.**

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