



YOUR MONEY COUNTS
CREDIT



Together we thrive

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CREDIT

The word “credit” comes from the Latin word for “trust.” This means that someone is willing to take the risk of making a loan because they trust that the borrower will repay.

Simply put, credit is an agreement or contract where you receive money or a product now with the understanding that you are going to repay the lender back over time. Whether you are able to be approved for credit depends on the level of trust that a lender has in you, as well as how much of a risk they determine you are in being able to pay them back over time.

Most people don’t have large amounts of money set aside to be able to pay up front for large purchases like a house or a car. Good credit is essential for things such as renting or buying a home, obtaining a car loan or credit card, and turning on utilities. Credit also impacts how much you pay for specific goods and services. Lower credit ratings can result in higher rates for car insurance, credit cards, mortgages, car and personal loans.

Understanding how to build credit and how to use it wisely, can help you achieve many important financial and life goals.

HOW DO YOU BUILD CREDIT?

It’s a fact of life: If you want access to credit — whether through a loan or a credit card — you have to show the lender that you are willing and able to pay back what you borrow. But to get the credit you deserve, you have to do more than act responsibly. You have to make sure that your activities are recorded properly in the credit reporting system. If you are just starting out on your credit journey, your report will look very different from someone with an established credit history. It takes time to build good credit, so it is important to understand how. Here are some tips on how to make that happen.

Steps for Building Credit:

- **Pay on time, every time.**

On-time payments — for all your bills, not just credit accounts — are the foundation of a good credit history. Be sure to pay your:

- Rent/Mortgage
- Car Loan
- Utilities
- Credit Cards
- Medical Bills
- Other

TIPS:

- Use auto-pay and direct debit options so that you don't have to remember to pay.
- Consider paying online to avoid delays in the mail.
- Have alerts sent electronically to your computer or mobile device, or mark your calendar to remind you when your payment is due.
- If you have too many bills due at the same time, request a more convenient due dates from your creditors. (Be aware that the change can take up to a month to take effect.)



- **Borrow enough, but not too much.**

If you never borrow at all, lenders have no way of assessing your repayment habits. If you borrow too much, you may be overextended and unable to make timely payments. Ideally you should try to use less than 30% of your available credit. Remember your credit score is a measure at a snapshot in time. If you make a large purchase it may decrease — but in time it will rebuild as you pay down the balance.

TIPS:

- Make a budget, and keep your credit card and other loan payments — not including rent or mortgage — at less than 15 percent of your net monthly income. In high cost areas it may be difficult to keep your housing expense at 35% or less so adjustments may be needed to your budget. Is it possible to reduce transportation costs or adjust your savings?
- Stay within your total credit line, and avoid using the full amount of your available credit. Maxing out your cards can make it seem like you're having trouble with repayment.
- Manage your available credit. Too much available credit is risky for both you and your lender. Work with your credit card company to keep your total credit line at a level that you can reasonably repay.
- Over time, use different types of credit, including credit cards, installment loans or a mortgage. This shows you can handle different types of financial situations.

To maintain/build a good credit score you must use credit responsibly. This can include declining to open a store credit card to receive a discount on your purchase or ignoring the mailer containing the pre-approval notice for a new credit card. If you accept — this will be recorded on your credit report as an application for credit. Inquiries can reduce your credit score.

- Pay your balance in full each month, to minimize interest charges.
- If you can't pay in full, pay as much as you can. There are many online calculators that can help you create a plan to pay down your debt as quickly as possible.
- If money is tight, try paying the amount of new charges, plus the interest charge. This will at least keep your principle balance from growing.

- **Maintain old accounts.**

Keep at least one account open that you've had for a while. Use it occasionally — and pay it off in full — to show you have a long history as a responsible borrower.

TIPS:

- Charge one automatic expense each month (i.e. cell phone bill).
- Pay it off in full each month.

- **Use multiple types of credit.**

Keeping a mix of installment loans along with revolving lines of credit (not all credit cards or all personal loans), will help your score.



- **Apply for credit with a plan.**

It's important to only apply for credit when you actually need it, as too many inquiries in a short period of time can have a negative impact on your credit score.



- **Don't let errors damage your credit.**

Don't let errors, fraud or identity theft ruin your reputation as a trustworthy borrower.

TIPS:

Make it a habit to:

- Check billing statements each month for accuracy.
- Review your credit report from each of the three major credit reporting agencies at least once a year and promptly report any errors.
- Protect your credit card and account numbers from fraud.
- Act swiftly if you find errors.

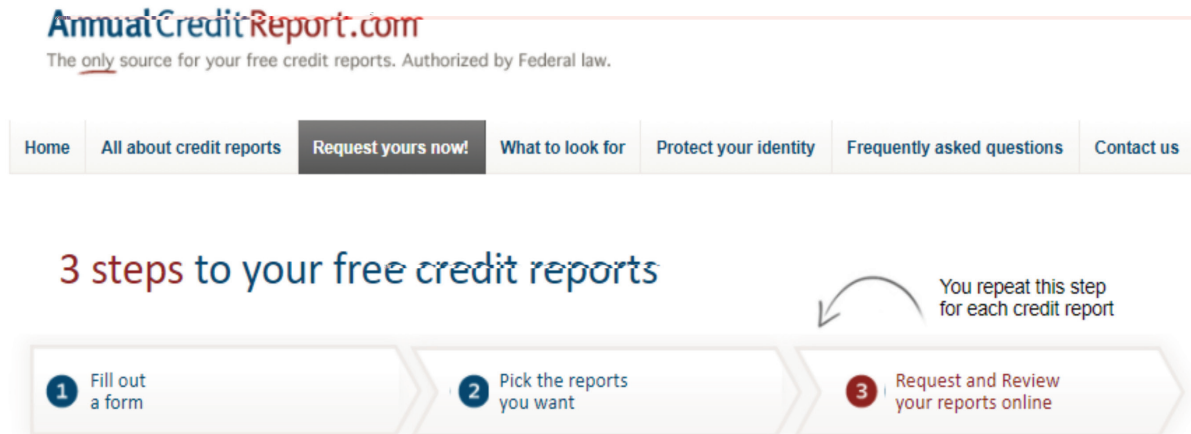
Even the most responsible people can get into credit trouble, when they lose a job or have health problems. If you are in a situation that makes it difficult to manage your payments, talk to your creditors immediately. They may be willing to work with you to come up with a solution.

RESOURCE:

For more in-depth discussions on these topics, you may wish to reach out to GreenPath Financial Wellness, a non-profit financial wellness organization. Your individual situation can be reviewed at no-cost by calling 866.692.2659 or visiting www.greenpath.org.

HOW TO OBTAIN YOUR CREDIT REPORT

Under federal law, you are entitled to a copy of your credit report from all three credit reporting agencies — once every 12 months. Note the free credit report does not include the credit score. You can request your score from each agency but at a cost, and the costs may vary. Alternatively you may be offered a free score by your financial institution and/or credit card company.



You can access your free annual credit report in 2 ways:

1. Annualcreditreport.com
2. Call 877.322.8228

You can request a free copy of your credit report from the three agencies at different times of the year. A sample timeline could be:

- Experian - January
- Equifax - May
- TransUnion - September

When you order, you will need to provide your name, address, Social Security number, and date of birth. To verify your identity, you may need to provide some information on your credit report, such as the amount of your monthly mortgage payment.

Remember that the free annual credit report does not include a credit score. A credit score can be purchased when getting your credit report. Along with knowing your credit score, you will learn what factors positively or negatively impact your credit risk.

CREDIT REPORTS

Creditors report your repayment history to the credit bureaus: **Experian**, **Equifax**, and **TransUnion**. Not all creditors report to all three bureaus. When you apply for a credit card, a loan to buy a house or car, or a line of credit to pay for a large purchase, the lender will obtain your credit report from at least one of the three main credit bureaus. The credit report is basically a financial report card, used to evaluate your credit risk and calculate your credit score. Most Americans have a credit report; generally, once you turn 18 and enter the world of banking and credit, you will automatically have a file established for you.

TIP:

Check your credit report every 4 months by requesting your report from each of the 3 agencies at different times throughout the year.

The credit report contains information about your credit history and the status of your credit accounts. This information includes how often you make your payments on time or late, how much credit you have available, how much credit you are using, and debt that has been referred to a collection agency. Credit reports also can contain public records such as liens, judgments, and bankruptcies that provide insight into your financial status and obligations.

Lenders use these reports to help them decide if they will loan you money, what interest rates they will offer you, or to increase or decrease your limit based on the status of other credit cards. Companies can purchase consumer credit reports to help inform them while making a wide range of business decisions such as providing or pricing insurance; renting you an apartment; and where allowed by law, make employment decisions about you. Under no circumstances can any company obtain a credit report that would be considered a hard inquiry without your authorization.

HOW DO YOU READ YOUR CREDIT REPORT?

A credit report lists your personal identifying information. This includes a summary of your past and present credit accounts, as well as inquiries made by lenders into your credit record. Most credit reports contain four different types of information:

Personal Information

- Name
- Date of birth
- Social Security Number
- Telephone number
- Address
- Employment information

Accounts summary

- Type of accounts (bank card, auto loan, mortgage, etc.)
- Date account was opened
- Credit limit or loan amount
- Account balance
- Payment history

Credit Inquiries

- List of lenders who accessed your credit report within the last two years
- Dates of inquiries
- Company requesting your credit record

Public Records (negative)

- Delinquency information
- Overdue debt from collection agencies
- Public record information (i.e., bankruptcies, foreclosures, tax liens, garnishments, legal suits, etc.)

Please address all future correspondence to:
Credit Reporting Agency
Business Address
City, State 00000

Your Credit Report

PERSONAL IDENTIFICATION INFORMATION

Your Name: _____
 Address: _____
 City, State 00000 _____
 Previous Address: _____
 Social Security #: 123-45-6789
 Date of Birth: April 10, 1970
 Last Reported Employment: Engineer, Highway Planning

PUBLIC RECORD INFORMATION

Lien Filed 03/93; Fulton CTY; Case number-32214; Amount-\$26,667
 Class-State; Released 07/93; Verified
 Bankruptcy Filed 12/92; Northern District of Georgia; Case Number-673HC12;
 Consumer; Amount-\$15,787; Personal; Individual
 Judgment Files 07/94; Amount-\$3,964; Plaintiff
 ABC MORTGAGE, DATE OPENED June 1993; Other ID Number-67
 ABC Mortgage (800) (800)XXX-XXXX; Assets-\$780
 Collection Reported 05/98; Assigned 06/93 to Dept. Call (800)XXX-XXXX; Client ABC
 Hospital; Amount-\$978; Plaintiff; Plaintiff
 Hospital; Amount-\$978; Plaintiff; Plaintiff
 Account; Account Number 787652JC

CREDIT ACCOUNT INFORMATION

MONTHS RECEIVED	DATE OF LAST ACTIVITY	HCA CREDIT	TERMS	BALANCE	PAST DUE	STATUS	DATE REPORTED	COMPANY NAME	ACCOUNT NUMBER	TYPE OF ACCT.	DATE OPENED
30	06/97	\$950	X	\$0	X	R1	10/97	Department St.	32514	J	10/96
		\$750	X	\$0	X	I1	4/97	Bank	1004735	A	1/88
		\$850	X	\$0	X	03	12/97	Equifax Company	129125	A	08/97
		\$4100	X	\$300	\$300	5	2/97	Equifax	500229	A	5/88

Previous Payment: _____
 Previous Status: _____
 60 days late; 2 Times 90+ days late

COMPANIES THAT REQUESTED YOUR CREDIT RECORD

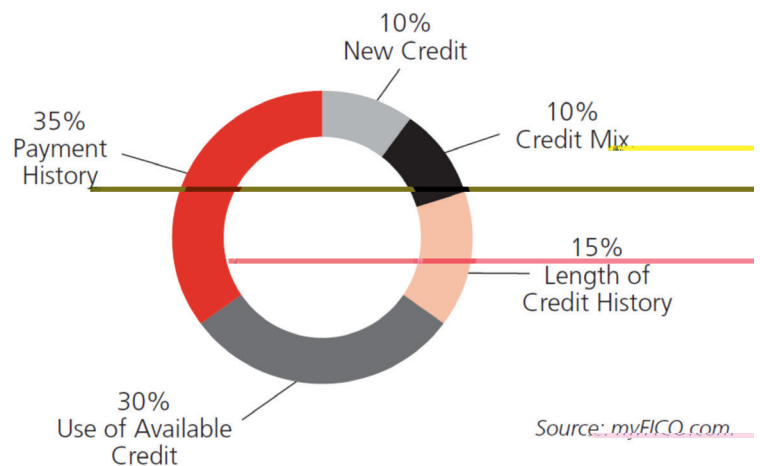
DATE	COMPANY NAME	DATE	COMPANY NAME
09/06/97	Equifax	09/06/97	Equifax
07/29/97	PRM	07/29/97	PRM
04/10/97	AM	04/10/97	ARL

HOW LONG DOES INFORMATION STAY ON A CREDIT REPORT?

Positive payment information stays on a credit report for 10 years. Most negative information such as delinquencies, collections accounts, unpaid child support, and judgements stay on a report for 7 years. Chapter 7 Bankruptcies will stay on for 10 years and Chapter 13 Bankruptcies typically stay on for 7 years from the original delinquency date. In some cases, if an account is reaffirmed (no longer part of the chapter 13 bankruptcy) the accounts would be reported like any active account. Unpaid tax liens will remain on a credit report for 15 years.

YOUR CREDIT SCORE IS BASED ON:

Data from your credit report goes into five categories and is used to calculate your FICO score. The scoring model weighs some factors more heavily, such as payment history and debt owed.



Payment History: (35 percent) —

Your payment pattern. On time? Late? Delinquent? Public record?

Use of Available Credit: (30 percent) —

How much you owe on individual and combined accounts versus your credit limit – the amount of available credit you're using on revolving accounts is heavily weighted.

Length of Credit History: (15 percent) —

How long ago did you establish credit? Are oldest accounts active?

Credit Mix: (10 percent) — Do you have a combination of revolving and installment accounts?

New Credit: (10 percent) — Are you applying for new credit? Are you applying for only what you need (mortgage) or are you overextended?

Personal or demographic information such as age, race, address, marital status, income and employment is not used to calculate a credit score.

CREDIT SCORE

In addition to the information on your credit report, lenders will also use your credit score as a factor in lending decisions. A mathematical formula is used to calculate your credit score based on the information in your credit report. A credit score is designed to predict the level of risk and the likelihood that you will make payments on time or become seriously delinquent on your credit obligations in the 24 months after scoring.

There are a multitude of credit-scoring models in existence, but the most commonly used is the FICO credit score. A FICO credit score ranges from 300-850. The higher the score, the easier it is to access credit at great terms. The lower the score, the harder it is to access credit, and the credit you have access to often comes at high interest rates and can come with additional deposit costs.

Your credit score is a snapshot in time. Your score can and will change based on different factors, such as payment history and use of available credit. The last 2 years of activity have the most impact on your score. Scores will vary by agency, as not all lenders report to each Agency. Therefore, your score from Equifax may be slightly different than your score from TransUnion and Experian.

HOW DO YOU DISPUTE INACCURACIES?

Since your credit score is a calculation based on the detailed data appearing in your credit report, it's important to verify that everything included in the reports is correct.

Credit reporting agencies don't share files, so you'll need to contact each reporting agency to make sure the information about you is correct.

You can dispute the information by visiting the website of the credit reporting bureaus:

Contact information for disputes

- Equifax (www.equifax.com)
- Experian (www.experian.com)
- TransUnion (www.transunion.com)

The creditor has 30 days to respond to the dispute and remove any error that is discovered. You can pull your report after this time to ensure everything has been corrected.

Let's look at some examples to better understand credit scores and see the impact they have on the cost of borrowing.

ALICE AND SARAH: WHO HAS A BETTER CREDIT SCORE?

	Alice	Sarah
Balance	\$900	\$10,000
Limit	\$1,000	\$20,000
Monthly Payment	Required Minimum	Required Minimum

Sarah has a better score because she uses a lower percent of her credit limit.

HOW CAN ALICE IMPROVE HER CREDIT SCORE?

Alice could pay down her balance and not use the card for any new charges. If she can make a little more than the minimum required payment each month, and continue to pay on time, she can reach this goal more quickly.

	Alice
Balance	\$900
Limit	\$1,000
Monthly Payment	Required Minimum

TIP:

Keeping your balance at or below 30% of your available credit will help your credit score.

HOW CAN SARAH IMPROVE HER CREDIT SCORE?

	Sarah
Balance	\$10,000
Limit	\$20,000
Monthly Payment	Required Minimum

Loan Payoff Results

Months Until Payoff	62
Years Until Payoff	5
Total Interest Paid	\$5,386.23
Principal Paid	\$10,000

Summary: If you make \$250 monthly payments, the total amount paid is \$15,386.23

Sarah could pay down her debts which reduces risk from a lending perspective because she won't have a high debt balance or high monthly payment. She can also continue to make timely payments to improve payment history and length of payment history.

THE COST OF BORROWING

In this example, Jack and Jordan are both looking to buy the same car. Jack has a credit score of 588. This causes him to pay more for auto insurance and a higher interest rate on his auto loan. Jordan has a credit score of 780. He enjoys the luxury of a lower auto insurance rate and pays lower interest rates on his auto loan and as a result a lower payment.

Credit Score	300-660	661-750
Interest Rate	14%	3.39%

	Jack	Jordan
Credit Score	588	780
Auto Payment	\$447	\$345
Auto Insurance	\$263	\$117
Total	\$710	\$462

\$248 more per month
\$2,976 per year
\$14,880 over a five year loan

Jordan would save \$2,976 in one year and \$14,880 over the five year loan. What could you do with an extra \$2,976 a year?

CREDIT CARD OFFERS

Pre-selected

- You are part of a select group that was mailed an offer for a credit card.

VS

Pre-approved

- Soft inquiry
- You've been approved for a credit card with a specific limit and interest rate
- Rates vary with your credit score and payment history

Have you ever received letters or offers in the mail saying you are pre-approved for a credit card? In these situations, you have not applied for credit, so it is considered a soft inquiry on your report, and will not have an impact on your score unless you act upon the offer. Often these offers have 0% promotional rates for a period of time (such as 6 months) or for Balance Transfers (transferring a balance from another credit card) in order to take advantage of 0% interest for a set period. Although this can be a useful tool, be sure that you understand all of the terms and conditions. Often there is a one-time balance transfer fee, or the new card has an annual fee that you have to pay each year, etc. Make sure that the benefits of the 0% for the promotional period outweigh any expenses of a new card. And remember, if you accept the pre-approval, you are applying for credit, and that is no longer considered a soft inquiry and can have an impact on your credit score.

TIP:

Shred all documents that contain personal information, including preapprovals and other offers.

CONCLUSION: TAKE ACTION NOW.

A good credit history and credit score can help you save money, while you work to achieve your financial goals. So make good credit habits part of your financial plan.

RESOURCE: GreenPath Financial Wellness is a national nonprofit organization that provides financial counseling, education and products to empower people to lead financially healthy lives. In working directly with individuals, and through partnerships with other organizations, GreenPath aims to remix the American dream so it works for everyone. Headquartered in Farmington Hills, Mich., GreenPath has nearly 500 employees and operates about 60 branch offices in 19 states. GreenPath is a member of the National Foundation for Credit Counseling (NFCC), and is accredited by the Council on Accreditation (COA). For more information, visit greenpath.org or to speak one-on-one with a certified financial wellness expert, call 866.692.2659.

WHAT ARE YOUR NEXT STEPS?

It is important to take what you have learned and act on it. High credit scores bring great benefits. Complete the following action plan, and use the checklist to ensure you keep moving toward your goals. Set a date to complete the goal by, and check the box as you complete the action item.

ACTION PLAN:

- 1** **I will:** Obtain my credit report from each of the 3 credit reporting agencies each year at annualcreditreport.com. By: ____ - ____ - 20 ____
- 2** **I will:** Review information on my report for accuracy to make sure I am not a victim of identity theft. By: ____ - ____ - 20 ____
- 3** **I will:** Dispute inaccuracies with all three credit bureaus. By: ____ - ____ - 20 ____
- 4** **I will:** Create a plan to reduce balances and improve utilization. My plan will include charging less than 1/3 of my balance each month, paying off debt, and setting up recurring expenses for auto-pay. By: ____ - ____ - 20 ____
- 5** **I will:** Review my credit score quarterly for changes. By: ____ - ____ - 20 ____

Additional Notes or goals: _____

Enjoy the benefits of a great credit score!

KEY TERMS

Credit – An agreement or contract where you receive money or a product now with the idea that you are going to repay the lender back over time.

Credit Limit – The maximum amount of credit that a financial institution or other lender will extend to a debtor for a particular line of credit.

Credit Mix – Having a combination of revolving and installment accounts on your credit report.

Creditor – A person or organization that extends credit to others.

Credit Report – A financial report card used to evaluate your credit worthiness and calculate your credit score. A credit report contains detailed information on a person's credit history including personal identifying information, information on credit accounts and loans (including payment history), public records, and inquiries.

Credit Reporting Bureaus (or Agencies) – An agency which collects and sells information about the creditworthiness of individuals. The three main credit reporting bureaus are Equifax, Experian, and TransUnion.

Credit Score – A mathematical formula is used to calculate your credit score based on the information in your credit report. Your credit score is designed to predict the level of risk and the likelihood that you will make payments on time. A FICO credit score ranges from 300-850.

Hard Inquiry – When a lender checks your credit in order to make a lending decision, and impacts your credit score. You must give authorization for this to be done.

Inquiry – When a potential creditor or other party views a person's credit history to verify their ability to repay some type of loan or monthly payment.

Installments – A sum of money due as one of several equal payments for something, spread over an agreed upon period of time.

Length of Credit History – The amount of time you have established credit on your report. Keeping your longest established accounts open helps your credit score.

New Credit – Applying for new credit such as a credit card, loan, or line of credit.

Payment History – Your payment pattern, showing whether you make payments on time, late, or are delinquent.

Pre-approved – When a person is approved for a credit card with a specific limit and interest rate, with rates varying by your credit score, even though they have not applied for that credit card. This would be considered a soft inquiry on the person's credit report.

Pre-selected – When a person is part of a select group that was mailed an offer for a credit card.

Revolving Credit – Credit which may be used repeatedly up to the limit specified by the lender after partial or total repayments have been made. A credit card is an example of revolving credit.

Soft Inquiry – When you request your own credit report, or when a lender might pre-approve you for a loan or credit card. These are not actual lending decisions where you have applied for credit, so soft inquiries do NOT impact your credit score.

Use of Available Credit – How much you owe on individual and combined accounts versus your credit limit.

