A COMPREHENSIVE GUIDE TO YOUR CREDIT SCORE

You hear a lot of things about your credit score and how important it is, but **how much do you really know about it?**

ARBOR
FINANCIAL CREDIT UNION

Courtesy of Arbor Financial Credit Union

arborfcu.org

This ebook explains it all:

What your credit score is and why it's important.

The things that affect your score.

How you should be using your credit cards.

Your credit report and the importance of fixing mistakes.

How to improve your score.

CONTENTS

Just for fun, take a quick look at the following statements and answer

TRUE or FALSE

about each one:

- I can only get a credit score if I have a credit card.
- Canceling my credit cards will boost my score.
- Paying off my credit cards will instantly raise my score.
- Paying my utility bills on time will increase my score.
- Too many inquiries will hurt my credit score.

If you answered false to all of them, you're in better shape than most people. There are all kinds of myths floating around about your credit score and since it is so important, we want to clear up any confusion and set the record straight for our members.

What exactly is a credit score?

First, let's tackle the biggest question of them all — what is a credit score? Very simply, it's a number that reflects how well you've handled money you've borrowed through either a car loan, credit card or mortgage. The more responsible you've been, the better your score.

Scores range from 300–850 and the higher your score, the better. Financial institutions and lenders use the number to predict what kind of risk you'll be; whether or not you'll be able to make the required payments to repay any money you've borrowed. Most times, the higher the score the lower the interest rate you'll qualify for when you're applying for a loan.

Let's say you want to take out a personal loan for $5,000. Check out the following chart to see an example of how your credit score might determine the interest rate for which you can qualify:

Credit Score	Annual Percentage Rate (APR)
720 - 850	5.512%
700 - 719	5.637%
675 - 699	6.174%
620 - 674	7.324%
560 - 619	8.531%
500 - 559	9.289%

You can clearly see that the lower your score, the higher the interest rate, resulting in hundreds of dollars in extra interest payments over the life of the loan. And if you're looking at a mortgage loan for $100,000, $200,000 or even more, a higher interest rate can cost you thousands of dollars in additional interest. The bottom line? Having a higher credit score can save you lots of money!

Who looks at my credit score?

These days, lots of people, including:

• **Insurance companies.** Studies show that those people with lower credit scores tend to have more accidents, so chances are you'll pay more for your car insurance.

• **Employers.** Potential employers are checking your credit history before they consider hiring you.

• **Housing companies.** If you're planning to rent an apartment, the management company will check to see how reliable you are at making on-time payments.

Since your payment history is the largest part of your report, it's important to know exactly how a late or missed payment is going to affect your score. How about maxing out your credit card or going over your limit? Check out the chart below to see the "damage points" you can be hit with:

Credit Mistake	If your score is 680:	If your score is 780:
Maxed-out Credit Card	Lose 10 - 30 points	Lose 25 - 45 points
30-day Late Payment	Lose 60 - 80 points	Lose 90 - 110 points
Debt Settlement	Lose 45 - 64 points	Lose 105 - 125 points
Foreclosure	Lose 85 - 105 points	Lose 140 - 160 points
Bankruptcy Loss	130 - 150 points	Lose 220 - 240 points

As you can see, the higher your score, the more you are penalized for making mistakes.

Your behavior towards your credit also affects your score, so if you made mistakes in the past but have recently changed your ways, you'll be rewarded for that. Following is how the credit rating agencies weight your behavior:

• Current 12 months - 40%
• Previous 13 - 24 months - 30%
• Previous 25 - 36 months - 20%
• Previous 37+ months - 10%

If you struggled a few years ago (or are struggling now) with making
on-time payments, don't worry. You can turn things around and your credit score will slowly, but steadily, improve.

Clearing up credit myths

Yes, there are a lot of factors that affect your credit score, but generally they are all related to how you handle borrowed money.

Just to clarify, the following items have absolutely **NO AFFECT** on your credit score:

• Your marital status, age, sex, race, religion or where you live.

• Your salary or employment history.

• The interest rates you pay on your credit cards.

• Child support payments.

• Rental agreements.

• Participating in credit counseling.

What things affect my credit score?

There are five factors that make up your credit score:

1. **Your payment history - 35%.**
Do you make your payments on time or do you make them late or miss them altogether?

2. **Amount you currently owe - 30%.**
This refers to your capacity; in other words, how much of your available credit are you using? You should keep the amount you owe to 35% or less of what you are able to borrow to keep your credit from being negatively affected.

3. **Length of your credit history - 15%.**
The longer you've had credit available to you, the better. If you're considering closing any accounts, don't close the ones you've had open for a long time; better to close the newer ones.

4. **Number of new credit accounts - 10%.**
This includes new credit card accounts you've opened and any recent inquiries into your credit history. Opening a new credit card account causes the average age of your credit history goes down and produces a new inquiry into your credit history, both of which can make your score go down slightly. If possible, keep the number of each to a minimum.

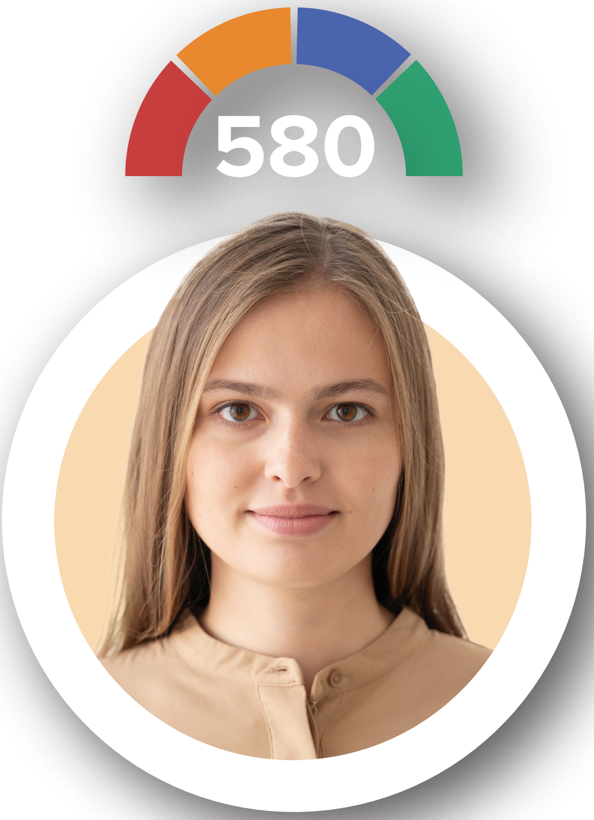
5. **Types of credit - 10%.**
It's best to have a balanced mix of credit cards, retail accounts, installment loans (like a car loan) and a mortgage.

You’re more than your credit score

No one wants to be known as a number, but the reality is that your credit score is always going to be a part of your life. If it’s good, there’s no need to worry about it. Just be sure to go over your credit report at least once each year to make sure there are no mistakes and keep doing what you’ve been doing to stay on top of any loan payments you may have.

If your credit score isn’t where you’d like it to be, come to the credit union for some personal assistance. One of our financial advisors will be happy to sit down with you, go over your credit report, and work with you on ways to improve your score.

As a member, you’re much more to us than just a number and we know that your credit score doesn’t always tell the whole story. If you need help, please let us know. Tell us about your challenges and goals and we’ll work with you to develop a plan to improve your whole financial outlook.



The proper care and use of your credit cards

Since a credit card is very often the first method used to begin establishing a credit history, we want to make sure you are using it correctly. We've all heard far too many horror stories of people who are tens of thousands of dollars in debt because of overspending on their credit cards. It's easy to do, especially if you have several you use at different stores.

Just follow these simple rules to help ensure your credit cards work for you rather than against you:

✓ **Avoid late payments.**
Not only can they negatively affect your credit score, the card issuer is likely to increase your interest rate.

✓ **Pay them off every month.**
If you can't manage that, do your best to pay as much as you can on them each month.

✓ **Read the fine print.**
Check out the paperwork that comes with your card. Be aware of due dates, late fees, annual fees, rate increases, etc...

✓ **Limit yourself to one or two cards.**
It's much easier to keep close track of what you spend and when your payments are due.

✓ **Don't open lots of store-branded cards.**
They usually have higher interest rates and lower limits.

✓ **Set up automatic payments.**
This way you'll never miss one.

Out of control?

If you're wondering whether or not your credit card spending is out of control, ask yourself if any of the following statements apply to you:

- ☐ I am at my limit on most of my credit cards
- ☐ I don't know the total amount of my debt.
- ☐ I use cash advances from my credit cards to pay my bills.
- ☐ My credit card was denied when I was trying to make a purchase.

Having a credit card is pretty much a necessity these days. They're great to have for emergencies and they're safer and more convenient than cash. Get one. Use it responsibly. And pay it off every month!

Get your FREE credit report every year

Your credit report is a history of how you've managed your money and is used as the foundation of your financial life; it's an important document. Your report is based on information provided by three credit bureaus that track your credit history:

Experian	Equifax	TransUnion
888.397.3742	800.685.1111	800.888.4213
experian.com	equifax.com	transunion.com

You have three FICO credit scores, one for each of the three bureaus: Equifax, TransUnion and Experian. Each FICO Score is based on information the credit bureau keeps on file about you, but they all say basically the same thing.

You are entitled to **one free report from each agency every 12 months.** You can get your report online at annualcreditreport.com or by calling 877.322.8228. Your report includes the following:

Identifying information – name, address, social security number, birth date, driver's license number and employment history.

Trade lines – your credit accounts including bankcards, auto loans, mortgage, etc..., the date you opened the account, your credit limit or loan amount, your current balance and your payment history.

Inquiries – a list of everyone who has accessed your credit report within the last two years, typically lenders from whom you've applied for credit.

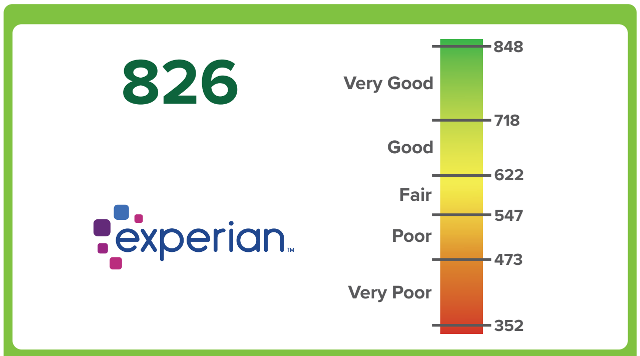
Public records – bankruptcies, foreclosures, liens and judgments.

Collection items – information about delinquent accounts from collection agencies.

Once you get your report, it's important to **read through it carefully to look for any errors.** (It's best to get a report from each agency every four months. By checking your reports three times each year, you're more likely to catch any errors that might occur.) Check all the accounts to make sure they're yours — all too often mistakes happen because of clerical errors or an incorrect social security number. (If you're divorced, be sure to check to make sure your ex-spouse isn't still attached to your credit accounts.)

If you find an error, report it to the credit agency as soon as possible so they can correct it. You can also log your dispute directly on annualcreditreport.com. If you need help reading and interpreting your report, please contact Arbor Financial at 269.375.6702.

The credit union also offers a great program called ID Protection (**www.IDProtectMe247.com**) for just $2.00/month. In addition to identity theft protection, it constantly monitors your credit report through all three credit agencies. With ID Protection, you can log on and download your credit report and get your Smart Score (a compilation of all three credit scores) at any time. By keeping a close eye on your report, it's easy for you to catch errors and correct them before they damage your score.



*Note: credit score will update automatically when you pull a new credit report.

How can I improve my score?

If you've recently tried to get a loan or a new credit card and were turned down, it might be because your credit score is low. People with low scores are generally seen to be irresponsible with money, so lenders are wary of giving them access to borrowed money.
If you're in credit trouble, there are several things you can do to improve your score:

• Bring your accounts current if you've missed or been late on payments.

• Stop applying for new credit sources until your score improves.

• Limit how often you use your credit cards and bring your balances to
less than 30% of your capacity.

•Accept any offers to increase your credit limit, which increases your capacity to borrow. This will also help lower your percentage of borrowed money.

• If you need to close out some accounts, close the newer rather than the older accounts.

• If you've got quite a bit of debt, consider a consolidation loan which usually has a lower interest rate and shorter pay-off period.

•Consider refinancing your car loan ormortgage at a lower interest rate and automate your payments so you'll never miss one. You'll have better cash flow each month which might help decrease how much you rely on credit.

• Unfortunately, improving your score takes time — it's not something you can fix overnight. For instance, inquiries remain on your report for two years, bankruptcies for 7-10 years and delinquencies for seven years. If there are errors on your report that are causing you to have a low score, get those fixed as soon as possible and you could see an improvement in your score in 30 -60 days.

Q&A
FREQUENTLY ASKED QUESTIONS

Here are some commonly asked questions concerning credit scores and reports.

Q: Who actually qualifies for those 0% car loan rates? rates?
A: Only those people with the very highest scores qualify — say over 750, but lenders don't just look at your score. They'll look at other factors in your credit history, including whether or not you have had any cars repossessed in the last few years.

Q: I've just finished school and started a job. What's the best way to start building my credit score?
A: If you can, get a credit card with a very low limit, say $500, and make small purchases that you can pay off and on time every month. If you can't qualify for a regular credit card, apply for a secured card that requires you to put down a security deposit. For example, if you put $500 down, your limit on the card might be $500. This is a very safe, responsible way to begin building your credit.

Q: Where and how often can I get my credit report?
A: The best place to get your report is at annual creditreport.com. It's the only federally authorized credit report site where all three credit agencies share their information. You can get a free report every 12 months from each agency so you can pull all three at the same time or stagger them throughout the year to keep close tabs on what's going on with your credit history.

Q: My credit score is awful. What should I do?
A: First, you may want to talk with a budget counselor at the credit union or at a credit counseling agency to help you can get a complete and honest picture of your finances. If you're behind on your loan or credit card payments, contact your creditors to try to work out a repayment plan. If you're in credit card trouble, start by paying off those with the highest balances, look into getting a consolidation loan so you'll have just one monthly payment to worry about. It will take time, but each of these steps will have a positive affect on your credit score.

Q: I pay for everything with cash so I won't buy things I can't afford and go into debt. Is this a good way to increase my credit score?
A: Unfortunately, no. While it's smart not to run up a big credit card bill, the only way you can establish a credit history is by borrowing money and paying it back. Without a credit card, you will need to have a car loan, student loan or a mortgage.

Q: I have utility bills. Do those count toward my credit score?
A: T hey can hurt your score but they really can't help it. For example, if you don't pay your cell phone bill and your carrier reports you to a collection agency, that will go on your credit report and affect it negatively. Paying that same bill on time every month doesn't positively affect your score because you're not borrowing money from anyone.

Q: If I get a raise at work, will that increase my credit score?
A: Congratulations on your raise, but it has no affect on your credit score. Again, you have to borrow money and establish a record of repaying it in order to establish a credit history.

Q: If my credit score improves, can I refinance my car loan?
A: Absolutely. With a higher credit score, you should qualify for a loan with a lower interest rate. This is a great way to lower your monthly payments, freeing up cash to put in savings or to use to pay down other debts you may have.

Q: Does my credit score really make that much of a difference when I go to get a loan?
A: Yes it does. Let's look at two people, Susan and Miranda. They both want to purchase a beautiful used SUV (with really low mileage!) that costs $20,000.

Borrower	Credit Score	Qualifying APR	Loan Term	Monthly Payment
Susan	520	14.74%	60 months	$474
Miranda	740	2.74%	60 months	$357

Because of her higher credit score, Miranda will save $117 each month for a total of $7,020 over the life of the loan.

Got any unanswered questions concerning credit reports or scores? Email us at hello@arborfcu.o rg and let us know!

arborfcu.org

Sources: annualcreditreport.com | myfico.com | WhatMyScore.org