



Basics of Credit



Establishing and maintaining good credit is an important part of financial planning. Typically most individuals do not have enough cash on hand for emergencies, or to make major purchases such as a home, car or college education.

Accessing credit has become an important part of our lives. Most creditors rely heavily on the information in credit reports for granting loans. Knowing what is on a credit report and techniques on how to build and repair credit is an important step in the process of taking control of your personal finances.



How do credit bureaus work?

Credit bureaus are companies who gather information on consumers who use credit. These bureaus then sell that information (often in the form of credit report) to credit grantors, such as banks, retail stores, credit card companies, and mortgage companies, etc.

Credit bureaus describe in detail how much a consumer has borrowed (credit limits and monthly payments), from whom (credit card companies, car loans, student loans, etc) and how regularly these debts have been repaid (current, 30 days past due, 60 days past dues, etc).

An accurate credit report can often make the difference between getting approved, or being denied, a loan.



How do credit bureaus work?

The credit bureaus do not rate the consumer's credit; they merely provide a report detailing the consumer's past payment history. The bureaus simply gather information and store that data until a request for the information is received from a creditor. Because the credit bureaus handle millions of individual files, errors can sometimes occur. Mistakes on credit reports are frequently the result of the creditor reporting the wrong information, and less likely the fault of the credit bureau. Therefore, many credit files may contain inaccurate, obsolete, incomplete and/or misleading information.

The information that the credit bureaus sell to creditors, employers, insurers and other businesses is called a consumer credit report. It is in the consumer's best interest to ensure that the information reported is accurate. The file is presumed to be correct until the consumer initiates a dispute or claims otherwise.



What is my credit score?

- There are 3 different companies or “bureaus” that collect information and report your credit “FICO” score. They are Transunion, Equifax & Experian
- FICO credit score ranges from 300 – 850
- Information contained on your credit profile will not always be the same on each bureau. Therefore your scores will be different from each of the 3 companies.
- Lenders will use the middle of the 3 scores for underwriting purposes, this is called your “mid-score.”



Minimum requirements to receive a FICO score

- At least one account opened for at least six months (this can be an individual or a joint account)
- At least one undisputed account reported to the credit bureaus within the past six months
- May be the same account
- Deceased, disputed, or authorized user accounts do not qualify
 - Disputed accounts are accounts that the consumer has disputed with the credit bureau
 - Authorized user accounts are accounts where the user can legally use the card, but they are not legally liable for the balance




What is not included in your FICO score

- Race
- Color
- Religion
- National origin
- Gender
- Income
- Marital status
- Political affiliation
- Medical history
- Information about the consumer's checking or savings accounts
- Bankruptcies that are more than 10 years old
- Charged offs and debts placed for collection that are more than 7 years old



Key factors that determine a FICO score

- 35% based on your payment history for all accounts – *are you paying your bills on time?*
- 30% based on the amount you owe - *keep your credit card balances low.*
- 15% based on how long you have been using credit – *do you have a long credit history?*
- 10% based on your applications for new credit – *limit applications for new credit.*
- 10% based on types of credit used – *establish revolving and installment accounts.*



Inquiries that may affect your FICO score

- Any inquiry related to the extension of credit
- Credit applications in exchange for a store discount or promotional item
- Multiple auto and mortgage inquiries within a 45 day period are scored as a single inquiry



How to improve FICO scores

- Pay everything on time and the amount agreed upon. This may be the single most important factor in your credit score. Late payments cannot be fixed overnight. It will take time for your scores to rebound from these events.
- Do not come close to “maxing out” credit cards. A good rule of thumb is to use no more than 30% of your available credit limit.
- Avoid frequent credit card applications.
- Order copies of your credit report annually and before you apply for new credit. Dispute any information you find that is incorrect. All “derogatory” (ex. Charge-offs, late payments, collections, etc) information lowers a credit score. If the credit profile is wrong, get the item(s) corrected by contacting the bureau and/or the credit/debt collector. The most dramatic, rapid improvements in a credit score can come when erroneous data is eliminated from your file.

The only sure-fire strategy of boosting a credit score is to correct errors, keep credit balances modest and pay your debts on time.



Establishing or Re-Establishing Credit

- Those with Insufficient Credit – One of the best places to start is with a secured credit card. These are typically available through local banks and credit unions. The consumer deposits \$300-\$500 in a savings account, which is the security for the credit card. Make sure to ask what the annual fee is for the card, and to only sign up for a card that reports to all 3 credit bureaus.
 - Express Credit Union in Seattle offers a secured credit card with no annual fee that reports to all 3 credit bureaus.
www.expresscu.org
- There are also department store and gas cards that are may be easier to obtain than Visa or Mastercard. Be aware that on these types of cards there could be fees attached and the interest rates can be over 20%. These cards may not be the best option to start out with, unless they can be paid in full each month to avoid the high interest charges.
- Taking care of existing accounts is very important. If there is a way to keep an existing account open even after delinquency. Paid accounts that remain open do not hurt your score, and it is worth a call to the creditor to see if something can be worked out.
- One of the best ways to overcome old derogatory credit is with recent positive credit.
- The key to keeping any credit account open and in good standing is to use it. There do not need to be any huge purchases, just smaller ones that can be easily paid off. That way the creditor will see the account in use on a regular basis.



Ordering your credit Report

- www.annualcreditreport.com – This is the official free credit report under the FACT ACT. It does not include credit scores.
- You are eligible for one free report from each of the 3 bureaus per year.
- Select the option for the free report (it is not necessary to pay for scores). You will also encounter sales messages trying to sell credit scores and monitoring services for a monthly fee. These are not necessary.



Additional consumer resources

- Opt out prescreen eliminates unsolicited offers of credit via mail. www.optoutprescreen.com
- Do not call list eliminates unsolicited offers of credit via phone. www.donotcall.gov
- See the additional presentation on the Homestead website on “Improving your Credit Profile”
- Call Homestead or check out the resources page on our website to connect to other community resources.