


Building Good Credit & Improving Your Credit Score



AnthemEAP

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| US Debt Statistics | Total owed by average U.S. household carrying this type of debt | | Total debt owed by U.S. consumers | |
|--------------------|---|-----------|-----------------------------------|------------------|
| | Credit cards | \$15,355 | | \$712 billion |
| | Mortgages | \$165,892 | | \$6.12 trillion |
| | Auto loans | \$26,530 | | \$1.03 trillion |
| | Student loans | \$47,712 | | \$1.21 trillion |
| | Any type of debt | \$129,579 | | \$11.91 trillion |

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Today we'll discuss....

- What is credit and why we need it?
- Cost of credit
- Your credit report
- What is FICO 9?
- Your credit score
- Improving your credit score
- What to do if you're in over your head
- Things to remember
- Resources

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What is credit?

Allows us to make purchases that we normally would not be able to afford.

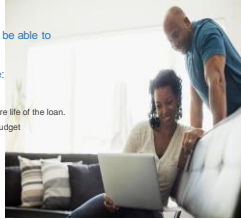
There are two types of credit available in the marketplace:

Installment Loan (mortgage- auto)

- This kind of loan has the same payment each month for the entire life of the loan.
- Sameness allows us to calculate how it will affect our monthly budget
- Tend to be less expensive
- Many have collateral attached to them

• Credit Card and Student Loan (credit)

- Compounding interest
- Hard to fit into a monthly budget
- Tends to be much more expensive



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Cost of Credit

- Money lending or credit is an ancient means of commerce both commercially and for individuals.
- Using credit is legal. The problems with credit comes when it is time to pay it back. That is when we realize how much it actually costs.
- Installment Loans are generally less expensive
 - Mortgages
 - Auto Loans
 - Compounding Interest Loans are much more expensive
 - Credit Card
 - Student Loans

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Cost of Credit continued...

- Interest is the charge the lender adds to the amount of the loan. It is always stated as percentage of the amount of the loan.
- In today's marketplace fixed interest loans generally range between 3% and 7% depending on the length and the type.
- Compounding interest loans generally range from about 6% to 28%.
- How much interest charged depends on the type of loan...
- Whether there is collateral for the loan and...
- Your personal credit score

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Credit Reports

- There are three credit reporting agencies that are most important to us:
 - TransUnion
 - Equifax
 - Experian
- Credit reports are written accounts of your past use of credit for the last 7 years.
- If you have filed bankruptcy the reports track your use of credit for the last 10 years
- You may receive 1 report from each of the three companies during a 12-month period
- annualcreditreport.com is the site that you use to view download and print each report

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Credit Reports Continued...

- Check each report for errors
- Errors occur for many reasons, but recent surveys have revealed that errors can negatively affect your score more often than they will positively affect your score
- To dispute an account on report
- Download the dispute letter from annualcreditreport.com
- Fill in the blanks
- Send it to the company that is reporting the errors
- You need to read each report and dispute any errors in each report
- Each error needs a reply from the company within 45 days that they are investigating the complaint
- Final decision occurs usually between 90 and 120 days

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What is FICO 9?

- Fair Isaac Company (FICO)
- Developed custom software back in the 1980's
- Prior to Fair Isaac credit was given out randomly, selectively and there was often discrimination
- Developed a statistical equation to make it as fair and non-discriminatory as possible
- FICO scores are used by 90% of lenders
- Your credit score will be between 300 and 850
- The higher the better

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Credit Scores

This is a numerical representation based on the 3 credit reports. This can:

- Determine your credit worthiness
- Your cost
- Your access to credit
- Impact your ability to rent housing, get insurance, or be hired for a job

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Factors that can impact your score

- FICO 9 uses more factors than previous FICO scores
- The minimum scoring criteria 1 credit account open for 6 months and 1 credit account used in the last 6 months
- Inquiries are now tracked for a twelve-month period
- Credit Card information counts more than an installment loan
- Using 30% of available credit is good
- Using 20% will be considered better
- Using 6% or less will qualify you for a super FICO 9 score
- How long has each accounts been opened 0-23 months has a higher risk than accounts open 24 – 60 months.

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Factors that can impact your score continued...

- If you only have collections on your report, you will have no score
- All paid Third-Party collection agency accounts are excluded from FICO 9
- Inquiries for consumer, mortgage and auto installment loans made within 30 days has no effect.
- Your score will be lowered if there is no activity for a 6-month period
- If you are using more than 30% of available credit this will factor into lowering your score

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Factors that can impact your score continued...

- Pursuit of new credit including the number of new accounts can cause your score to be lowered
- A recent delinquency 0-11 months affects your score more than an older one 12 – 24
- If you are a new borrower more inquiries lower your score
- Young files will be affected by inquiries more than mature or older files
- In inquiry from a landlord is now considered a hard inquiry
- It used to be considered a soft inquiry
- There are multiple FICO scores you need to ask the lender which they use

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What does a low score mean?

- It means that when you borrow money you will pay more than if you have a higher score
- It means that you will have less of the money you make available for your needs
- It means that you may not be considered for certain jobs
- It means that you may pay more for the rental of a house or apartment
- That you may pay more for Life, Auto and Health Insurance
- That additional credit may not be offered to you



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How to raise your score...

- Keep the oldest credit card account open
- Use the least amount of credit available to you
- Pay the minimum due on each credit card account on time
- Pay student loans on time
- Pay installment loans on time
- If looking for an auto, personal , or mortgage make all inquiries within 30 days
- Use some credit every six months and pay it off in full
- If you have debt collectors calling you, make arrangements to pay the account off in full if possible



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In over your head?

- If you are in over your head do something sooner than later
- Consider a budget coach
- Pay off new debts while still working to pay off older debt
- Seek professional help of a Credit Counselor
- Non-Profit
- For Profit
- Use a Credit Counselor that is physically located in the same state as you.
- Establish a formal Debt Management Plan
- Only agree to a payment plan that you can afford

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Things to remember...

- Credit will cost you money
- A "sale" does not save you any money if you use a credit card and fail pay it off when the statement comes
- "Installment Loans" are easier to fit into a budget than credit cards
- Using the least amount of credit is the best
- Do your homework before you use credit to find out how much it will cost you
- Always try to at least pay the minimum on all loans on time
- Work toward a cash-based home budget. That way when you use credit you are in charge not FICO 9

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US Federal Trade Commission
ftc.gov/org

US Federal Trade Commission
ftc.gov/credit

- ftc.gov/credit
- nfc.org
- annualcreditreport.com



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Evaluation QR Code



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