climb

Understanding Credit and How it Impacts You

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The value of establishing a credit score

Good credit plays an important role in your financial life. It's essential for the obvious things, like:

- Qualifying for a loan
- Purchasing a car or a house
- Getting a credit card

But it's also for less obvious things, like:

- Getting cellular telephone service
- Renting a car or an apartment
- Perhaps even getting a job or starting your own business one day

Managing your credit will also help you save for a rainy day. A strong credit history, reflected in good credit scores, will let you **qualify for lower interest rates and fees**, freeing up additional money to set aside for emergencies, retirement, and other smaller unexpected expenses.

Decreasing debt and increasing savings reduces stress and leads to greater financial freedom! After all, we want to make our money work for us.

Ways to establish a credit score

To establish a credit report and credit score, you must have an open, active credit account.

Here are five different ways to obtain an open, active credit account:

1. Apply for a secured credit card
2. Apply for a department store card or a gas card
3. Apply with a qualifying co-signer
4. Become an authorized user on a credit card
5. Pay reported bills on time

In order for a FICO credit score to be calculated from a credit report, the report must contain at least one account that has been open for six months or more. In addition, the report must contain at least one account that has been updated in the past six months. This ensures that there is enough information (and enough recent information) in the report on which to base a score.

How to read your credit report

If you've applied for any type of credit, such as a credit card, car loan, or student loan (including one from Climb), the decision you received was directly influenced by what's in your credit report. But now that you're looking at it, how do you read it? We'll go through the sections of your credit report — **personal information, credit history, public record, and inquiries** — and how to decipher what's contained within each section.

Personal Information

The first section of your credit report is dedicated to who you are. Here, you'll see the various pieces of information that have been used to identify you, both currently and in the past. So, if have two phone numbers associated with you, both might be on the report. And if you often go by your middle name, this will show up under "Also Known As." Identifying features which may be located here are:

- Name (legal, aliases, and alternative spellings)
- Address (current and former)
- Phone number (current and former)
- Year or date of birth
- Employer names
- Spouse name
- Driver's license number
- Social security number

Note: You may see some slight variations in this section, such as name misspellings or a second, mistyped social security number; sometimes letters and numbers get transposed when reported and they're simply left on the report to maintain consistency. These are often nothing to worry about, but if you have a concern, you can absolutely contact the credit bureau to find out more and check if it's something that should be corrected.

Credit History

After your personal information, there's your credit information. This is what you'll really want to pay attention to, and **if you see a mistake, you definitely want to get it corrected.** Here you can see information on all of the individual accounts (or "trade lines") in your name and whether they're in good standing or in poor standing. Relevant information will be listed for each account, and this may include:

- Creditor name
- Account number
- Date account was opened
- Responsibility (whether the account is just in your name or if you have a co-borrower)
- Account type (loan/installment, real estate, rental, revolving credit, line of credit, or collection)
- Balance (how much is still owed)
- Date updated (date the account was last reported)
- The total amount of the loan or the credit limit

Credit History (continued)

- Monthly payment amount (how much is due each month)
- Recent payment amount (how much was paid on your last reported payment)
- High balance (the highest balance reached on a credit card)
- The status of the account (open, paid, refinanced, etc.)
- Past due (do you have late/missed payments)
- Payment status (whether the account is current or late)
- Payment history (payment status for each month)

Once again, since there are three separate credit bureaus with different reports, the formatting of this section and even the information contained within will often be different.

Reading through this section carefully, though, helps ensure that there are no mistakes on your credit, trades you have forgotten about, or — most importantly — identity theft that would adversely affect your credit!

Public Records

Then, there's the public record portion. This section includes everything in your public record that's related to financial issues (a bankruptcy filing, tax lien, wage garnishment, or judgement). Information shown under your public record are:

- Date filed
- Reference number
- Court
- Plaintiff
- Amount

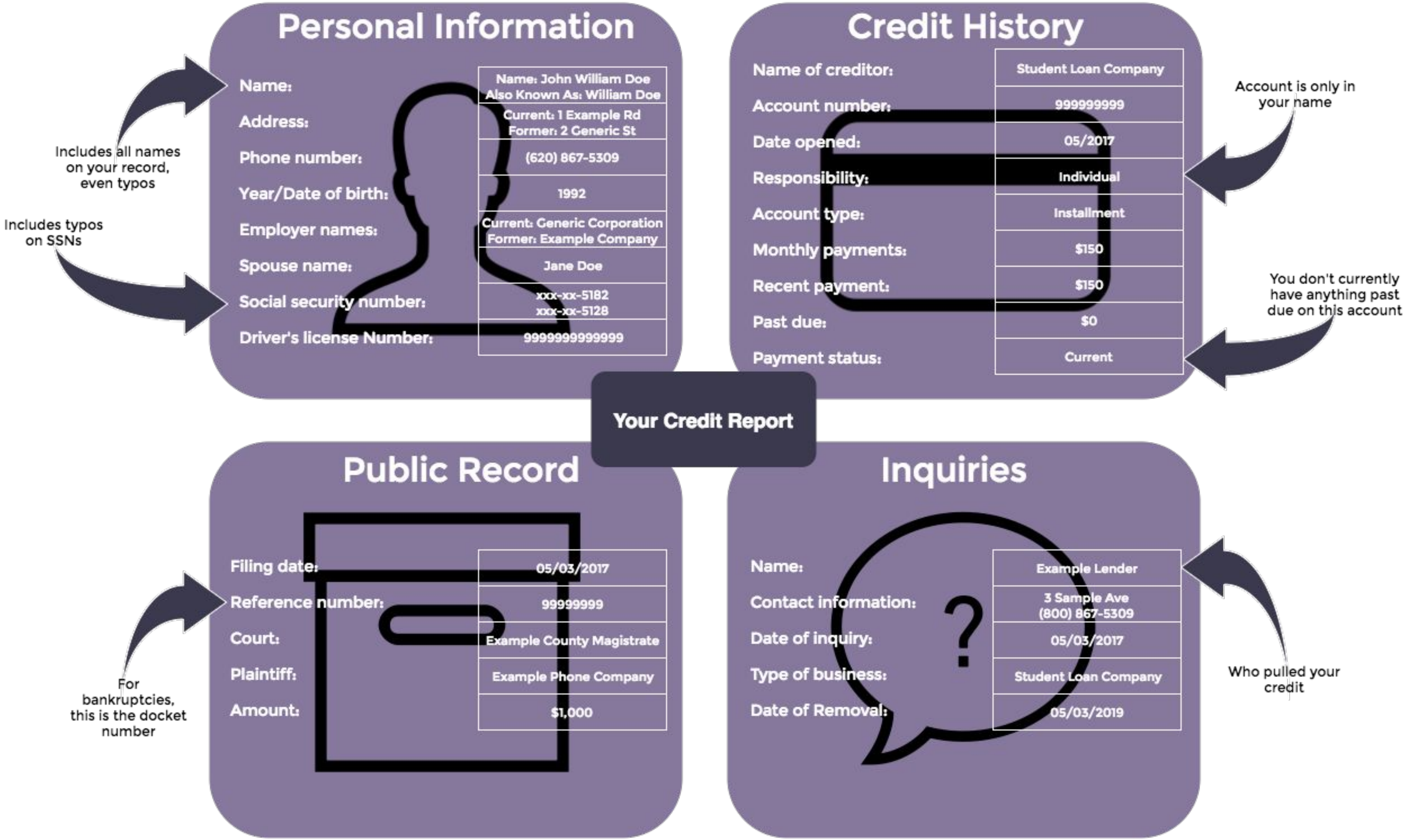
Inquiries

The final section of your report is inquiries. This is every time your report has been pulled by a company per your request for credit.

Say you take out a private student loan; the loan company will make an inquiry on your credit and pull a report. Next year, you apply for a credit card, and that company also pulls your credit.

Under the Inquiries section on the report pulled by the credit card company, the student loan company will show up along with anyone else who has pulled your credit in the last two years. When you look at this section, be sure to note who has pulled your credit and if they had a reason to:

- Name
- Contact information (address and phone number)
- Date of inquiry
- Type of business
- Date the inquiry will be removed


Personal Information
Name:
Address:
Phone number:
Year/Date of birth:
Employer names:
Spouse name:
Social security number:
Driver's license Number:
Name: John William Doe
Also Known As: William Doe
Current: 1 Example Rd
Former: 2 Generic St
(620) 867-5309
1992
Current: Generic Corporation
Former: Example Company
Jane Doe
xxx-xx-5182
xxx-xx-5128
9999999999999
Includes all names on your record, even typos
Includes typos on SSNs
Credit History
Name of creditor:
Account number:
Date opened:
Responsibility:
Account type:
Monthly payments:
Recent payment:
Past due:
Payment status:
Student Loan Company
999999999
05/2017
Individual
Installment
$150
$150
$0
Current
Account is only in your name
You don't currently have anything past due on this account
Your Credit Report
Public Record
Filing date:
Reference number:
Court:
Plaintiff:
Amount:
05/03/2017
99999999
Example County Magistrate
Example Phone Company
$1,000
For bankruptcies, this is the docket number
Inquiries
Name:
Contact information:
Date of inquiry:
Type of business:
Date of Removal:
Example Lender
3 Sample Ave
(800) 867-5309
05/03/2017
Student Loan Company
05/03/2019
?
Who pulled your credit

Ways to improve a credit score

Raising a FICO score is a bit like getting in shape — it takes time, and there's no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time.

One general tip is to make sure the information in the credit report is correct.

Check the credit report for accuracy at least **90 days before planning any major purchases** such as applying for a mortgage.

If errors are found, have them corrected by the lender as well as any credit reporting agency involved.

Specific tips for raising a score include:

- Pay bills on time. Delinquent payments and collections can have a major negative impact on a score.
- If payments have been missed, get current and stay current. **The longer a consumer pays bills on time, the better the score.**
- Be aware that paying off a collection account will not remove it from the credit report. **It will stay on the report for seven years.**
- In the event of financial hardship, work with the creditor to establish a repayment plan at a reduced monthly payment amount.
- Keep balances low on credit cards and other revolving credit. **High outstanding debt can affect a score.**
- Pay off debt rather than moving it around. The most effective way to improve a score in this area is by paying down revolving credit.
- Do not open a number of new credit cards just to increase available credit. This approach could backfire and actually lower the score.

Specific tips for raising a score include (continued):

- If your credit history is not long, do not open a lot of new accounts too rapidly. New accounts will lower the average account age, which will have a larger effect on the score when there isn't a lot of other credit information. Also, rapid account buildup can be seen as "risky business".
- FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. Therefore, do rate shopping within a focused period of time.
- Apply for and open new credit accounts only as needed. Do not open accounts just to have a better credit mix — it probably will not raise a score.
- Have credit cards but manage them responsibly. In general, having credit cards and installment loans (and paying timely payments) will raise a score.
- Note that closing an account that contains a balance does not make it go away. A closed account will still show up on a credit report and may still be considered by the score.

Stay below your credit limit

- Showing you’re not spending beyond your means each month can also give your credit a boost. So, make sure you stay below the limit on your credit cards.
- Don’t whip out a card for every purchase (or maintain a budget to keep all spending to a minimum).
- If you really need to, you can also increase the limit on your credit card — as long as you don’t subsequently increase your spending in proportion to it.

Reduce your debt

- Reducing your debt is another way to secure a good credit standing. Yes, we know, this is much easier said than done. But even small increments help, and the payoff is decidedly not small.
- The internet is filled with stories of people who paid off thousands of dollars in debt and advice for how to do so yourself. Figure out what's most effective for you and keep working at it.

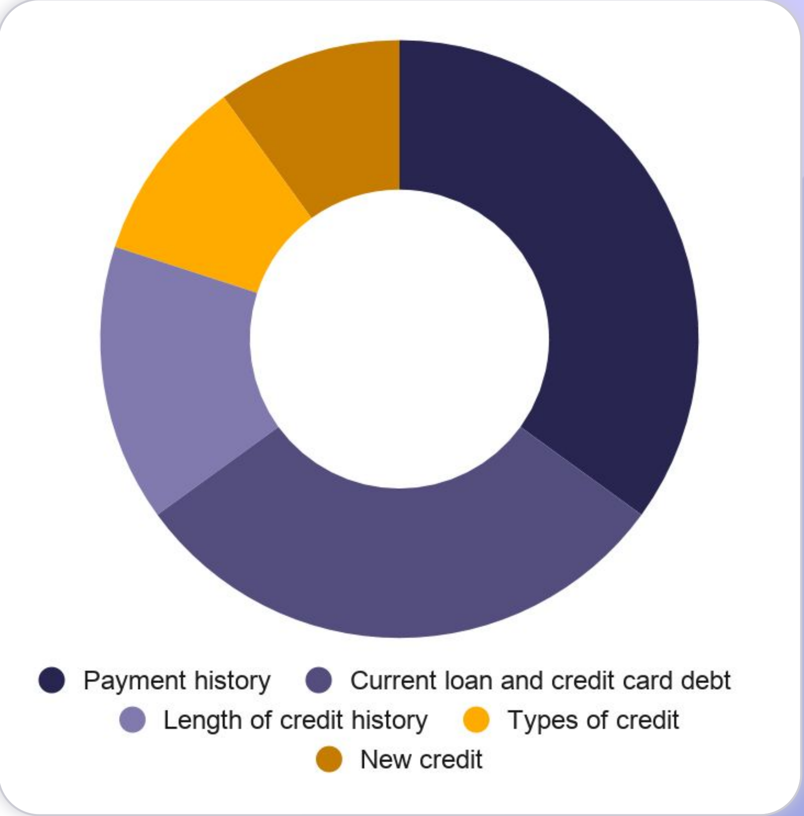
Pay bills on time

- Then, once you get familiar with your current credit situation, you'll want to get in some habits that will help keep your score as high as possible.
- Paying bills on time is one of the most important habits you can practice, and luckily there are ways to help make it easier for you:
  - Connect your bank account to ACH and schedule automatic payments, so you don't have to worry about procrastinating or missing a due date because you forgot about it.
  - Or, if you don't want to connect your bank information, you can simply schedule reminders for yourself to pop up every time you need to pay a bill.

What a FICO score considers

There are five main categories of information used to calculate a FICO score. The categories have different levels of importance:

1. Payment history
2. Current loan and credit card debt (amounts owed)
3. Length of credit history
4. Types of credit
5. New credit



In the next slides, we'll go over each category in detail.

1. Payment History: What is the track record of on-time payments?

Approximately **35%** of a score is based on this category.

The first thing most lenders want to know is whether a consumer has paid past credit accounts on time. This is also one of the most important factors in a credit score.

However, late payments are not an automatic "score-killer." An overall good credit picture can outweigh one or two instances of late credit card payments.

By the same token, the absence of late payments in a credit report does not necessarily translate into a perfect score. Approximately 60–65% of credit reports show no late payments at all. Payment history is just one piece of information used in calculating the score.

Payment history takes into account the following:

- Payment information on many types of accounts
  - These will include credit cards (Visa, MasterCard, American Express and Discover), retail accounts (department store credit cards), and installment loans (loans where you make regular payments, such as car loans, finance company accounts, and mortgage loans).
- Public record and collection items
  - Reports of events such as bankruptcies, foreclosures, law suits, wage attachments, liens, and judgments. These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts.

Payment history takes into account the following (continued):

- Details on late or missed payments ("delinquencies") and public record and collection items
  - Specifically, how late they were, how much was owed, how recently they occurred, and how many there are.
  - A 60-day late payment is not as risky as a 90-day late payment, but how recent and how frequent count too. A 60-day late payment made just a month ago will count more than a 90-day late payment from five years ago.
  - Note that closing an account on which there was a previously missed payment or satisfying a judgment or collection item does not make the late payment or item disappear from the credit report.
- How many accounts show no late payments
  - A good track record on most of your accounts will increase a credit score.

2. Amounts Owed: How much is too much?

Approximately 30% of the score is based on this category.

Having credit accounts and owing money on them does not mean a person is a high-risk borrower with a low score.

However, owning a great deal of money on many accounts can indicate that a person is overextended and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is too much for a given credit profile.

Amounts owed take into account:

- The amount owed on all accounts
  - Note that even if credit cards are paid in full every month, a credit report may show a balance on those cards.
  - The total balance on the last credit card statement is generally the amount that will show on the credit report.
- Whether there is a balance on certain types of accounts
  - In some cases, having a very small balance without missing a payment shows a consumer has managed credit responsibly and may be slightly better than no balance at all.
  - On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not generally raise a score.

Amounts owed take into account (continued):

- How many accounts have balances
  - A large number indicates higher risk of over-extension.
- How much of the total credit line is being used on credit cards
  - Someone closer to "maxing out" on many credit cards may have trouble making payments in the future.
- How much of installment loan accounts is still owed compared with the original loan amounts
  - Paying down installment loans is a good sign that a consumer is able and willing to manage and repay debt.

3. Length of Credit History: How established is an individual's credit history?

Approximately 15% of the score is based on this category.

In general, a longer credit history will increase a score.

However, even people who have not been using credit long may get high scores, depending on how the rest of the credit report looks.

Length of credit history takes into account:

- How long the credit accounts have been established
    - The score considers both the age of the oldest account and an average age of all accounts.
- How long specific credit accounts have been established
    - Different accounts are evaluated in different ways.
- How long it has been since certain accounts were used
    - FICO scores consider not only how long an account has been opened but also whether or not it is active.

4. New Credit: Is an individual taking on more debt?

Approximately 10% of the score is based on this category.

People tend to have more credit today and to shop for new credit more frequently than ever. Fair, Isaac and Company scores reflect this fact.

However, research shows that opening several credit accounts in a short period of time represents a greater credit risk — especially for consumers who do not have a long credit history.

New credit takes into account:

- Recent requests for new credit
  - Inquiries remain on a credit report for two years, although FICO scores only consider inquiries from the last 12 months.
  - Note that if a credit report is ordered from a credit reporting agency or www.myfico.com, the score does not count this, as it is not an indication that a person is seeking new credit.
  - Also, the score does not count requests a lender has made for a credit score in order to make someone a "pre-approved" credit offer or to review an account, even though these inquiries may be seen on a credit report.

5. Types of Credit in Use: Is it a "healthy" mix?

Approximately 10% of the score is based on this category.

The score will consider the mix of credit cards, retail accounts, installment loans, and finance company accounts.

It is not necessary to have one of each, and it is not a good idea to open credit accounts just to have them in the mix.

The credit mix usually will not be a key factor in determining a score, but it will be more important if a credit report does not have a log of other information on which to base a score.

Types of credit in use takes into account:

- What kinds of credit accounts there are and how many of each
    - The score also looks at the total number of accounts. For different credit profiles, how many is too many will vary:
        - 35% = Credit Payment History
        - 30% = Outstanding Debt
        - 15% = Length of Credit History
        - 20% = Credit Mix & New Credit

What does not go into a FICO score?

- Race, color, religion, national origin, sex, or marital status
  - US law prohibits scoring from using these facts, as well as information concerning public assistance or the exercise of any consumer right under the Consumer Credit Protection Act.
- Age
  - Other types of scores may consider your age, but FICO scores cannot under the Equal Credit Opportunity Act.
- Salary, occupation, title, employer, date employed, or employment history
  - Lenders may consider this information, however, as may other types of scores.
- Place of residence
- Any interest rate being charged on a particular credit card or other account
- Any items reported as child/family support obligations or rental agreements
- Certain types of inquiries (requests for a credit report)
  - The score does not count "consumer disclosure" inquiries (requests the consumer has made for his/her credit report in order to check it.)
  - It also does not count "promotional inquiries" (requests made by lenders in order to make you a "pre-approved" credit offer) or "administrative inquiries" (requests made by lenders to review an account.)
  - Requests that are marked as coming from employers are not counted either.
- Any information not found in the credit report
- Any information that is not proven to be predictive of future credit performance

Ways to check your credit score

If a consumer has been denied credit, employment, or insurance within the last 60 days, they can mail written proof of being turned down to the three credit-reporting agencies. It is important to get all three reports since the information contained on each will vary.

Some states already have laws requiring bureaus to provide consumers with one free copy of their credit report per year. As of October 2005, all states make free reports available.

You can request your credit report online by visiting each of the three credit bureau websites at:

- www.experian.com
- www.equifax.com
- www.transunion.com

You can also get one merged report online for a fee by going to www.myFICO.com. It includes consumer rights under the Fair Credit Reporting Act. Contact information for "The Big Three" are listed below:

- Experian, P.O. Box 4500, Allen, TX 75013-2104, 1 (888) 397-3742
- Equifax, P.O. Box 740241, Atlanta, GA 30374-0241, 1 (800) 685-1111
- TransUnion, P.O. Box 2000, Chester, PA 19022, 1 (800) 916-8800

Include in your request letter:

1. Your full name
2. Your date of birth
3. A photocopy of your social security card
4. A photocopy of your driver's license
5. Your current address
6. Your former address if you lived there within the last 5 years
7. A copy of letter denying credit, employment, or insurance (to receive free copy)

Ways to dispute an error in your credit score

Resolving Credit Report Errors

Only the individual can make sure the information in their credit report is correct.

Credit bureaus report what creditors tell them. They do not check for accuracy.

Many experts acknowledge that up to 80% of all credit reports have some form of error and misinformation.

Common credit reporting errors

- Information is mixed up with another report belonging to someone else with a similar or identical name.
- The name of a former spouse appears on the report.
- The name is misspelled, the address is wrong, or the social security number is incorrect.
- Duplicate accounts show up.
- Account information is inaccurate or incomplete. This includes incorrect account balances, showing closed accounts as opened, or paid off accounts still showing as delinquent.
- Outdated information is included. Negative account information must be removed after seven years. A Chapter 7 Bankruptcy must be removed after ten years.
- Unauthorized inquiries are listed.
- There is a failure to show that a tax lien has been released.

There are two things to keep in mind when fixing credit report errors:

1. There is a standard procedure for getting rid of mistakes on a report under the terms of the Fair Credit Reporting Act.
2. Erasing report errors by telephone or letter exchanges can take time. New online procedures can offer faster results.

Report errors on your credit report through the following links:

- https://www.transunion.com/credit-disputes/dispute-your-credit
- https://www.equifax.com/personal/credit-report-services/credit-dispute/
- https://www.experian.com/disputes/main.html

Resolving errors

Complete the special investigation request form that will come with the report. Follow all the form's instructions.

Attach a letter to the completed form along with any documentation that helps prove the error. This can include:

- Copies of canceled checks
- Receipts
- Account statements
- Copies of previous correspondence between the consumer and the creditor involved

Maintain a copy of the completed investigation request form, letter, and all accompanying documentation. The date on the letter will signal when a response should come from the credit bureau. According to the guidelines of the Fair Credit Reporting Act, the credit bureau must respond within 30 days of receiving an investigation request form.

Resolving errors (continued)

- Send the request by certified mail with a request for a return receipt.
- When you get the receipt, file it with the other documents.
- On the next page there is a sample letter for correcting errors on a credit report.
- Be sure to attach a copy of the credit report to the letter.
- Have the specific errors highlighted or circled.

Sample credit dispute letter template

Name of Credit Reporting Agency

Attn: Customer Relations

RE: *Your Name*

- *Your Credit ID#*
- *Your Address*
- *Your Telephone Number*
- *Your Social Security Number*
- *Your Date of Birth*

Please begin an investigation of the following items listed on my credit report that do not belong in my credit file.

Company's Name:	***Account #:***	***Reason for Dispute:***

Please update my credit report and send me a copy at the conclusion of your investigation. Send the results to the organizations that have reviewed my credit report in the past six months and/or to employers that have reviewed it during the past two years. Thank you for your help and prompt attention to this matter.

Signed,

Your Name