

Improving Your Credit Score

Credit Score

- Excellent
- Average
- Poor



AGENDA

- What is a FICO Score?
- Myths of Credit
- Tips for Improving your Credit Score
- Disputing Items on your Credit Report



What is a FICO Score?



FICO® Credit Meter

SAMPLE SCORE ONLY



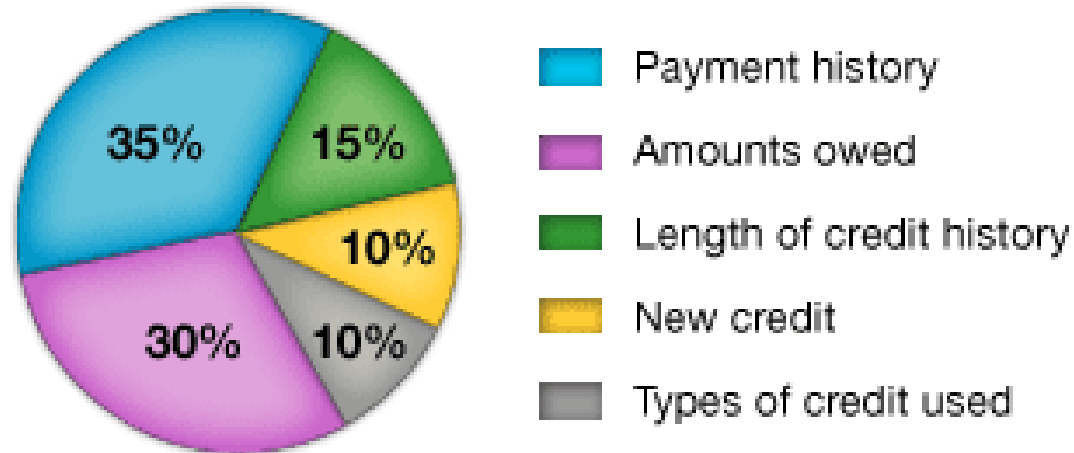
FICO Score

- Stands for Fair Isaac Corporation
- The largest and best known of several companies that provide software for calculating a person's credit score
- This is a standard credit score
- Typically used by most financial institutions and dealerships



What are the components of your FICO Score?

How a FICO Score breaks down



PAYMENT HISTORY = 35%

- Refers to the monthly payment history
- Includes public record and collection items
- How many accounts show no late payments
- Late payments report against you for 7 years
 - Heaviest weighting affecting the first 36 months
 - Moving to a lighter weighting in the last 48 months



AMOUNTS OWED = 30%

- Looks at the amounts owed on all accounts
- How much of installment loan amounts are still owed
- Also known as *Capacity* – Refers to what percentage of the total limits on all reported revolving lines of credit remain available
- The higher percentage of available credit...the higher your score
- One factor you have the most impact on month to month



LENGTH OF CREDIT HISTORY = 15%

- Broken into 3 categories
 - The age of the oldest account
 - The age of your newest account
 - The average age of all accounts
- How long specific accounts have been established
- How long it has been since you used certain accounts



NEW CREDIT = 10%

- New credit accumulation over the last 12-18 months
- Looks at the number of credit inquiries
- Length of time since credit report inquiries were made
- How long its been since you opened a new account



TYPES OF CREDIT USED = 10%

Considers your mix of:

- Credit Cards
- Retail Accounts
- Installment Loans
- Finance Company Loans
- Mortgage Loans



Myths of Credit



Myth #1:

Lenders will judge me based on my credit score alone.



TRUTH #1

- A credit score is an important factor
- Lenders also look at factors such as your:
 - Debt
 - Income
 - Employment history



Myth #2:

If I get a divorce, my spouse will be responsible for all of our debt.



TRUTH #2

- California is a community property state.
- A spouse can be liable for debts entered into by the other spouse during the marriage, even if they were unaware of them.
- In these states, debts entered into during the marriage are considered community debts, and both spouses can be liable.



Myth #3:

It doesn't matter when I pay a collection, because as soon as I pay it, it will be removed from my credit report.



TRUTH #3

- It's best to pay a collection as soon as you're aware of it.
- If you wait to pay a collection, the date will remain current affecting your score more severely.
- Paying it does not remove it.
- Remains in your file as a paid collection for the balance of the seven years.
- Paid collections are still a derogatory item but not as bad as unpaid collections.



Myth #4:

My score will drop if I apply for new credit (inquiries).



TRUTH #4

- Inquiries are a very minimal part of your score calculation (New Credit = 10%).
- Multiple inquiries from mortgage or auto lenders within a consecutive 14-day window are typically treated as a single inquiry.
- Employer inquiries from a hiring process only appear on your copy of the credit report.



Myth #5:

It doesn't matter how high my credit card balances are, as long as I make my payments on time.



TRUTH #5

- Maxed-out credit cards are viewed as a negative item. (Amounts Owed = 30%)
- Try to keep balances at or below 30% of your available credit.



Myth #6:

It's a good idea to open up an account if I'm offered a discount at the store or 0% interest for a few years.



TRUTH #6

- Opening up a new account through a finance company has a negative impact on your score. (Types of Credit Used = 10%)
- On top of this, it will likely be reported as a maxed-out revolving account – another negative factor! (Amounts Owed = 30%)



Myth #7:

I should close out old accounts that I don't really use anymore.



TRUTH #7

- Those old accounts show nice long payment histories.
- They positively add to your credit. (Length of Credit History = 15%)
- Your score is based on both positive and negative credit.
- Keep them open and use them every six months or so just to keep them active.



Myth #8:

If I cosign on a loan, it won't affect my credit.



TRUTH #8

- By cosigning, you are signing on as a responsible party for that loan.
- This loan **WILL** appear on your credit report too.
- If the person responsible makes their payments on time, that will help your credit score.
- If the person responsible makes frequent late payments, this will negatively impact your score.



Tips for Improving your Credit Score



Overview

Repairing bad credit is a bit like loosing weight

- It takes time
- There is no quick-fix
- Quick-fix efforts are most likely to backfire
- Beware of any advice that claims to improve your credit score fast
- The best advice for rebuilding credit – manage it responsibly over time



Check your Credit Report

- Credit score repair begins with your credit report
- Contains the data used to calculate your score
- Obtain a copy of your credit report
 - Looks for errors
 - Make sure no late payments are incorrectly listed
 - Make sure that the amounts owed on each open account are correct
 - Make sure lines of credit report BOTH the limit and the current balance
- If you find errors, dispute them immediately



How to obtain a copy of your credit report

- Obtain a copy on an annual basis
- A **FREE** copy of your report is available from:
 - www.creditkarma.com
 - www.annualcreditreport.com
- Obtain a copy if you have been denied credit, employment, or insurance based upon a credit report, you have the right to a free copy of your credit report.



Setup Payment Reminders

- Making payments on time is one of the biggest contributing factors to your credit score
- Consider enrolling in automatic payments



Reduce the Amount of Debt you Owe

- Reducing the amount you owe will improve your credit score
 - Easier said than done!
 - Stop using your credit cards
 - Come up with a budget
- Use the Snowball Effect
 - Put most of your budget towards the card with the highest balance
 - Maintain minimum payments on the other accounts
 - Once that balance is paid in full; add THAT payment amount to the minimum payment on the next biggest balance
 - Keep the snowball rolling until ALL credit is paid in full!



Snowball Effect

Example:

Credit:	Balance:	Monthly Pmt:
Credit Card	\$9,450	\$400
Credit Card	\$8,370	\$150
Installment Loan	\$6,429	\$100

1. First CC balance paid in full in 23 months
2. Add \$400 to the \$150 minimum; now paying \$550 on Second CC.
This balance paid in full in 9 months.
3. Add \$550 to the \$100 minimum; now paying \$650 on Installment loan.
This balance paid in full in 5 months.

Debt Free in 37 Months!



Payment History Tips (35% of your score)

- Pay your bills on time
- If you have missed payments, get current and stay current
- Be aware that paying off a collection account will not remove it from your credit report (7 years)
- If you are having trouble making ends meet – Contact your creditors



Amounts Owed Tips (30% of your score)

- Keep balances low on credit cards
- Pay off debt rather than moving it around
- Don't close unused credit cards as a short-term strategy to raise your score
- Don't open new credit cards just to increase your available credit



Length of Credit History Tips (15% of your score)

- Don't open a lot of new accounts too rapidly
- New accounts will lower your average account age
- Also, rapid account buildup can look risky to a lender



New Credit Tips (10% of your score)

- Do your rate shopping for a given loan within a focused period of time – 2 weeks
- Re-establish your credit if you have had problems
- **Note:** It's **OK** to request and check your own credit report



Types of Credit Use (10% of your score)

- Apply for and open new credit accounts only as needed
- Have credit cards – but manage them responsibly
- Closing an account doesn't make it go away



Improve your Credit Score - Summary

- Find and fix any errors on your Credit Report
- Follow the guidelines to maintain consistent, good credit history
- Raising your score after a poor mark takes patience and discipline



Protect your Credit Report & Your Identity



Protect your Credit Score

- Bare Minimum: Credit Monitoring
 - Recommend www.CreditKarma.com
- Best Practice: Credit Monitoring and Credit Restoration after identity theft/fraud occurs
 - Meriwest refers our Members to Deluxe Provent Identity Theft Protection
 - Deluxeprovent.ezshield.com
 - Enter Meriwest's Routing Number - 321176833



Reporting Identity Theft / Credit Fraud

Consumers **MUST** follow the steps below:

1. **MUST** notify the local law enforcement agency based on where the consumer LIVES; not where the fraud or identity theft took place.
 - File a police report.
 - Purchase a copy of the report.

A copy of the police report will be required when filing with the Federal Trade Commission and when disputing fraudulent information being reported by the source/lender in Step 4.



Reporting Identity Theft / Credit Fraud

2. **MUST** make an online report with the Federal Trade Commission at www.consumer.gov.idtheft
3. **MUST** contact one credit bureau (Experian FRAUD Assistance, PO Box 1017, Allen, TX 75013 or telephone 1-800-301-7195)
4. **MUST** contact the source/lender reporting the fraudulent information



Disputing Items on your Credit Report



Dispute Items on Your Credit Report

- Contact **BOTH** the credit bureau and the organization that reported the item
- Clearly identify each item in your report that you dispute
- State the facts and explain why you dispute the information
- Request deletion or correction



Credit Report Contact Information

- Free Annual Credit Report:
www.annualcreditreport.com
- Federal Trade Commission: www.consumer.gov.idtheft
- Experian: Consumer Assistance: 1-888-397-3742 or
www.experian.com
- Equifax: Consumer Assistance: 1-800-685-1111 or
www.equifax.com
- Trans Union: Consumer Assistance: 1-800-888-4213 or
www.transunion.com



Thank you...and Cheers for
Healthy Credit!

