

Raising Your Credit Scores

Consumer Alert!

1-888-995-7856 **ALLIANCE**
Credit Counseling

By Edward Tonini, Director of Education.

“The better the score, the lower the interest rate and that can save you a ton of money”

Ed Ojdana, president of Experian Consumer Direct.

(Source: www.bankrate.com/brm/green/cc/basics2-4a.asp)

Are you looking for:

- a loan or mortgage?
- a credit card?
- a new job?

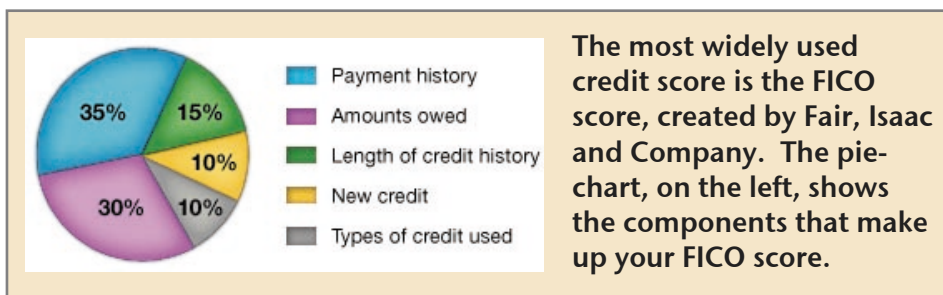
What will be the response to your application? The answer begins with your credit score.

What Is A Credit Score?

A *credit score* is a number that a company uses to rate your credit worthiness or your level of risk to a lender. Credit Scores can range from about 300 to 850 (based on the FICO scoring method). A higher number means you are more likely to pay back a debt.

What Determines Your Credit Score?

Your credit score depends on the information in a credit file about you and on the method used to calculate the score.



A credit file is maintained by a company that collects certain information about you. It sells the information for a profit. This type of company is commonly called a *credit bureau* (also called a credit reporting agency, or credit reporting company). There are several different credit bureaus and each one has their own file on you. Each credit bureau uses the FICO score differently and, as a result, you have a slightly different credit score with each company.

In 2006, the three national credit bureaus teamed up to offer a new scoring system called VantageScore. They claim the method is simpler and will improve consistency between the three scores. Scores are reported with both a number and a letter grade: 501-600 (F), 601-700 (D), 701-800 (C), 801-900 (B), 901-990 (A). However, the scoring method does nothing to address the poor accuracy of credit file information. To date, most lenders utilize FICO scores.



Why Check Your Credit Scores?

Your credit score affects your ability to get a credit card, loan, mortgage, insurance, or even a job. It also affects the terms you can get and the rates you will pay.

According to FICO, about 40% of the population has a score of 700 or better. Depending on a creditor's guidelines, the difference between a 698 and a 701 could mean several thousand dollars difference in interest paid on a mortgage. Former Equifax manager, K.E. Varner, says "If you're at the 720 mark, you have some bargaining power... If you're in the mid-700s upward, you're going to get the very best rates available" (source: www.bankrate.com/brm/news/debt/debtmanageguide/high-savings1.asp).

Contents On Back

- How To Get Your Scores
- 19 Ways To Raise Your Score
- To Find Out More



How To Get Your Scores

If you want to know your score, you must purchase it. Each of the three nationwide credit bureaus will provide you a score that can be purchased separately or together with a credit report (a statement of your credit history):

- **Equifax:** 800-685-1111
www.equifax.com
- **Experian:** 888-397-3742
www.experian.com
- **TransUnion:** 800-916-8800
www.transunion.com

You can also purchase your FICO score at: www.myfico.com.



Alliance Tip: Be cautious of “credit repair” offers. The Federal Trade Commission has stated, “the truth is, they can’t deliver... Everything a Credit Repair Clinic can do for you legally, you can do for yourself at little or no cost.”

(Source: www.ftc.gov/bcp/online/pubs/creditrepair.htm)

19 Ways To Raise Your Score

FICO advises that “raising your score is a bit like losing weight: It takes time and there is no quick fix. In fact, quick-fix efforts can backfire. The best advice is to manage credit responsibly over time.” They offer the following tips on improving your FICO score:

Payment History Tips

- ♦ **Pay your bills on time.** Delinquent payments and collections can have a major negative impact on your score.
- ♦ **If you have missed payments, get current and stay current.** The longer you pay your bills on time, the better your score.
- ♦ **Be aware that paying off a collection account will not remove it from your credit report.** It will stay on your report for seven years.
- ♦ **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.** This won’t improve your score immediately, but if you can begin to manage your credit and pay on time, your score will get better over time.

Amounts Owed Tips

- ♦ **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 your score in this area is by paying down your revolving credit. In fact, owing the same amount but having fewer open accounts may lower your score.
- ♦ **Don’t close unused credit cards as a short-term strategy to raise your score.**
- ♦ **Don’t open a number of new credit cards that you don’t need, just to increase your available credit.** This approach could backfire and actually lower your score.

Length of Credit History Tips

- ♦ **If you have been managing credit for a short time, don’t open a lot of new accounts too rapidly.** New accounts will lower your average account age, which will have a larger effect on your score if you don’t have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

New Credit Tips

- ♦ **Do your rate shopping for a given loan within a focused period of time.** 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.
- ♦ **Re-establish your credit history if you have had problems.** Opening new accounts responsibly and paying them off on time will raise your score in the long term.
- ♦ **Note that it’s OK to request and check your own credit report.** This won’t affect your score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.

Types of Credit Use Tips

- ♦ **Apply for and open new credit accounts only as needed.** Don’t open accounts just to have a better credit mix - it probably won’t raise your score.
- ♦ **Have credit cards - but manage them responsibly.** In general, having

credit cards and installment loans (and making timely payments) will raise your score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.

- ♦ **Note that closing an account doesn’t make it go away.** A closed account will still show up on your credit report, and may be considered by the score.

(Source: www.myfico.com/CreditEducation/)

Here are some additional things to do:

- ♦ **Dispute Errors On Your Credit Reports.** Look for things such as duplicate accounts, accounts that don’t belong to you, accounts that show a balance that you think you paid off, or payments reported late that you think were on time. It is up to you to report it to the credit bureau by sending them a credit report dispute. You are responsible for the accuracy of the information in your credit file, so you should check your reports at least once a year (perhaps quarterly). For information on checking your reports and filing disputes, see the last section below.

- ♦ **Request that outdated information be deleted.** Negative information must normally be removed after 7 years (10 years for bankruptcies).
- ♦ **Check each credit report for missing accounts.** A smaller or local creditor may not have reported your account information to a credit bureau. If the information is positive, you can ask the bureau to add it to your report (for a fee) although it might not be updated.
- ♦ **Ask the creditor or lender what you can do.** Because each creditor can use a different method for calculating your score, it’s best to ask the company you’re applying to for advice on what you can do to improve your score.

To see how a particular action might affect your score, consider paying for a credit “what if” simulator service (from myfico.com for example).

Finally, be aware that lenders consider other factors in addition to your score, such as your debt-to-income ratio, your employment history, the stability of your income, your net worth, length of residence, and your public record.

To Find Out More



- Detailed information about what is and what is not included in your credit score at www.myfico.com/crediteducation.
- **How To Check Your Credit Reports** (Alliance): www.knowdebt.org/education.php.
- **How To Dispute Errors On Your Credit Reports** (Alliance): www.knowdebt.org/education.php.