WHAT IS A CREDIT SCORE?

A credit score is a number between 300 and 850, which United States consumers are given based on their history of paying their debt obligations.

Generally, a score above 750 is considered excellent; a score below 600 is considered poor.

WHO ASSIGNS CREDIT SCORES?

There are three major United States credit-monitoring agencies:

- Experian,
- Equifax
- TransUnion.

Each company has its proprietary method to determine a consumer's credit score; however, they are all based on similar factors.

HOW ARE SCORES USED?

Lenders use credit scores as a quick method to assess a borrower's creditworthiness when extending credit or making a loan.

It is also common for Landlords to screen potential renters using their credit score. Requiring a high credit score to lease a home has become more common in recent years since new laws have been passed limiting the amount of a security deposit a landlord may collect.

> ***TRIVIA -*** A credit score is also called a "FICO Score." The concept of rating consumers' creditworthiness was started by the Montana-based company "Fair, Isaac, and Company" and founders Bill Fair and Earl Isaac in 1956.

Therefore – if you do not need to borrow money or find a new home, your score is not important. However, circumstances can change quickly, and if you have a low score, it may take time to improve, so it is essential to know your score and work to keep it above 700 at a minimum.

HOW DO I GET MY CREDIT SCORE?

While many banks now provide credit scores for their customers for free, one of the best methods is to download the app Credit Karma, which will report the credit scores issued by Transunion and Equifax. While Credit Karma does not report Experian's score, all three scores are usually very close – so knowing two is sufficient.

WILL CHECKING MY CREDIT SCORE HURT ME?

No, a self check of your credit will not affect the Score – see below for the factors that do affect the score.

WHAT ARE THE TOP FIVE FACTORS THAT INFLUENCE A CREDIT SCORE?

1. **Payment History** **(accounts for 35% of your FICO score).** Payment history is the most crucial ingredient in credit scoring; even one missed payment can hurt your score. When considering new credit, lenders want to ensure you will repay your debt on time. Payment history accounts for 35% of your FICO® Score.

2. **Credit utilization** **(accounts for 30% of your FICO score)**. Your credit utilization ratio is calculated by dividing the total " Used Revolving Credit " by "Total Available Revolving Credit." This results in a percentage of 0 to 100%. The lower the percentage, the higher your score. This is a commonly overlooked factor by consumers and has a significant impact.

   To have a top credit score, credit utilization should be below 10%.

   Here is an example of how it is calculated:

Maria's Credit Cards	Used Revolving Credit	Total Available Revolving Credit	UTILIZATION RATE
Citibank - Mastercard	$500	$1,000	
TD Bank - Visa	$500	$1,000	
Wayfair	0	$1,000	
Amazon	0	$1,000	
TOTAL	$1,000	$4,000	25%

In the above example, the utilization rate was calculated.
$1,000 Used Revolving Credit DIVIDED BY
$4,000 Total Available Revolving Credit
= 25% utilization rate

CHALLENGE
What would be Maria's Utilization rate if she closed her Wayfair credit card?

What would happen to Maria's Credit Score?

When a Consumer closes an unused credit card, their Available Credit decreases; this often causes their utilization rate to increase. Once their utilization rate increases, their credit score will decrease.

3. **Average Length of Credit History** **(accounts for 15% of your FICO score).** The credit bureaus track how long each account has been open, including how long specific credit accounts have been established and how long it has been since you used certain accounts. The longer your history, the higher your score. Therefore, if you have had a credit card for a long time, consider that closing it might impact your credit score.

4. **Hard inquiries (accounts for 10% of your FICO score).** Credit Inquiries are divided into two types – soft and hard.

    - SOFT INQUIRY A soft inquiry is when a verification is made, but no debt or additional debt is being requested. This might occur when a landlord inquires or a consumer checks their credit. It can also happen if an employer makes a check, although employer checks on employee's credit scores are not allowed in some states.

    - A HARD INQUIRY occurs when a consumer applies for more credit or a loan. This happens whenever you apply for a credit card, car loan, or mortgage. It also applies when you have an existing credit card but request an increase in the credit limit. Regarding mortgage applications, in some circumstances, multiple applications made within 30 days do not trigger numerous hard inquiries, but that is up to the credit rating bureau.

Hard inquiries are recorded in your credit file and lower your score. Therefore, consumers should be careful and only allow a hard inquiry when they are ready to purchase. Generally, one or two hard inquiries per year are acceptable, but more than that can have an impact.

5. **Credit mix (accounts for 10% of your FICO score).** There are different types of debt; some are considered "good," while others are considered "bad."

    - **Revolving credit** is typically associated with credit cards but can also include some types of home equity loans. With revolving credit accounts, you have a credit limit and make at least minimum monthly payments according to how much credit you use. Revolving credit can fluctuate and doesn't typically have a fixed term.

    - **Installment credit** loans are when you borrow a fixed amount and agree to make a monthly payment toward the overall balance until the loan is paid off. Student loans and Personal loans are examples of installment accounts.

    - **Collateralized Loans** – Some installment loans are backed up with property, such as a car loan or a mortgage. These loans are often referred to as Collateralized Loans. This type of debt is seen as "superior" because there is something for the lender to take back in the event of a default. When a borrower pays off a collateralized loan, their score will decrease.

Lenders use this credit mix to understand past debt experiences and how you have handled them.

IS HAVING A GOOD CREDIT SCORE IMPORTANT?

Your credit score is only necessary if you need to borrow money or rent a property. However, if you have poor credit, it can take a while (six months to two years) to change because adjustments happen slowly as the above factors change. Therefore, it is prudent to watch your score and be sure it is at least in the 700 range. It can be corrected if you score poorly, but it takes time.

HOW LONG DOES IT TAKE TO IMPROVE A CREDIT SCORE?

Certain factors, such as Credit Card Utilization or Hard Inquiries, can boost or lower a score rapidly- thus, in just a few weeks. Other factors such as payment history and length of credit take time, so count one to two years to move an inferior score to a great score.

WHAT OTHER FACTORS INFLUENCE MY CREDIT SCORE?

Late or missed payments, foreclosures, collection accounts, and charge-offs are all examples of negative information that can appear in your credit file. See foreclosure, bankruptcy, repossession, charge-offs, and settled accounts.

These typically indicate that you have defaulted on a loan and can be red flags for lenders looking to approve you for new credit. The effect negative information has on your credit score depends on your overall credit profile and what type of record it is. These records typically stay in your file for at least seven years and often up to a decade.

CAN MY UTILITY OR CELL PHONE PAYING HISTORY INFLUENCE MY CREDIT SCORE?

Your credit file does not automatically include service accounts, such as utility and phone bills. Historically, a utility account could only impact a credit score if you didn't make payments and the account was referred to a collection agency.

But this is changing. A new product called Experian Boost™† now allows users to get credit for on-time payments made on utility and telecom accounts for FREE. Experian Boost works instantly, allowing users with eligible payment history to see their FICO® Score increase in a matter of minutes.

WHAT IS THE DIFFERENCE BETWEEN A CREDIT SCORE AND A CREDIT REPORT?

A credit report does NOT give you a score but provides a list of all the debt relationships an individual has had over many years. It indicates if the borrowing relationship is open or closed, how much is due now, what the highest amount was borrowed, and whether the required payments were made on time.

HOW DO I GET A FULL CREDIT REPORT?

All Consumers are entitled to a FREE credit report from the three reporting agencies once a year. To obtain your report online, go to https://www.annualcreditreport.com.

This website will allow you to order any of the three reports – it is easy to use.
Or you can contact any one of the three credit agencies directly and request a FREE report:

Experian: POB 2002, Allen TX 75013 Ph: 1-888-397-3742. Web: www.experian.com

Equifax: POB 105873, Atlanta, GA 30348 Ph: 1-800-846-5279 Web: www.equifax.com

Transunion: POB 105281, Atlanta, GA 30348 Ph: 1-877-322-8228. Web: www.transunion.com

Handout 5.01 explains further some techniques you can use to manage credit reports.

Reviewing your full credit report is very important because that is the only way to see what the lenders are examining. A consumer will often find that a credit line was fraudulently opened under their name. Additionally, if couples have joint credit cards, the debt will be on both individual's credit reports.

WHAT SHOULD A PERSON DO IF THEY HAVE NEVER ESTABLISHED ANY CREDIT?

If you want to establish and build your credit but don't have a credit score, consider:

Get a secured credit card. A secured credit card can be used like a conventional credit card. The only difference is that a security deposit—typically equal to your credit limit—is required when signing up. This security deposit helps protect the credit issuer if you default and makes them more comfortable taking on riskier borrowers. Use the secured card to make small essential purchases, and be sure to pay your bill in full.

CAN HAVING A GOOD CREDIT SCORE SAVE MONEY?

A good credit score influences your borrowing rate when purchasing a home. The mortgage lender may adjust the interest rate based on your credit score. However, that is the only time it will result in monetary savings. Most of the time, you will be denied additional credit if you have poor credit.

SUMMARY – HOW CAN A PERSON IMPROVE THEIR CREDIT SCORE?

Improving your credit score can be easy once you understand why your score is struggling. It may take time and effort, but developing responsible habits now can help you grow your score in the long run. An excellent first step is to get a free copy of your credit report and score to understand what is in your credit file. Next, focus on what is bringing your score down and work toward improving these areas.

Here are some common steps you can take to increase your credit score.

1. Pay your bills on time. Because payment history is the most important factor in making up your credit score, paying all your bills on time every month is critical to improving your credit.
2. Pay down debt. Reducing your credit card balances is a great way to lower your credit utilization ratio and can be one of the quickest ways to see a credit score boost.
3. Make any outstanding payments. If you have any payments that are past due, bringing them up to date may save your credit score from taking an even bigger hit. Late payment information in credit files includes how late the payment was—30, 60 or 90 days past due—and the more time that has elapsed, the larger the impact on your scores.
4. Dispute inaccurate information on your report. Mistakes happen, and your scores could suffer because of inaccurate information in your credit file. Periodically monitor your credit reports to make sure no inaccurate information appears. If you find something that's out of place, initiate a dispute as soon as possible.
5. Limit new credit requests. Limiting the number of times, you ask for new credit will reduce the number of hard inquiries in your credit file. Hard inquiries stay on your credit report for two years, though their impact on your scores fades over time.

CHALLENGE

Can you determine your Credit Utilization Rate?

- Run your FULL credit report
- Add up the balances the report shows as due on all your credit cards.
- Add up the credit limits the report shows as available on all open cards.
- Divide the total balance by the total credit limit.
- Multiply by 100 to see your credit utilization ratio as a percentage.
- CHECK your numbers against what Credit Karma shows as your Utilization Rate – the app will give you the exact percentage

NOW THAT YOU HAVE READ THE HANDOUT ABOVE –
read this interesting article below published by BUSINESS INSIDER

Credit score anxiety fueled by companies costs people a lot of money

Emily Stewart
Aug 29, 2024 | 5:44 AM ET

Worried about your credit score? Maybe you weren't before, but now that I mention it you may be wondering when the last time you checked it was. Even if you're pretty sure it's fine, the topic is often enough to cause a moment of panic, a sinking feeling followed by an "Oh God, what if something's happened?"

That little three-digit number is a big deal in our financial lives. It serves as a sort of grade for how you handle money. An A gets you approval for an apartment and a decent rate on your car loan; an F gets your rental application turned down and makes your car insurance more expensive. You might not have even realized it, but your credit report could even make a difference in whether you land your next job.

The anxiety around credit scores is palpable. It's also lucrative. Credit bureaus, startups, and even one-man operations can make a lot of money by playing into people's fears about their credit. They offer services that monitor credit scores and alert you when yours changes, or they say they can help you repair your damaged credit — for a price, of course. Many of these costly solutions do not work as well as promised or deliver much, if any, bang for your buck.

"The credit-scoring companies have figured out how to profit on the anxiety of consumers with credit watch and credit monitoring and all of these add-on programs," said Aaron Klein, a senior fellow in economic studies at the Brookings Institution, a nonpartisan think tank. "When companies find a way to profit off of anxiety, they have an incentive to create anxiety."

What these companies won't tell you is that the best things to help ease your credit-related worries are cheap, even free. You can check your credit regularly at no cost from a lot of sources — your credit-card company likely tells you your score, and you can access your report weekly free of charge too. Freezing your credit also doesn't run you anything. It's important to be aware of your credit score, but you don't need to obsess over it — or let marketers convince you to pay for a bunch of stuff you don't really need because you're panicked.

Around the time of the Super Bowl, I noticed that the Kansas City Chiefs tight end Travis Kelce was appearing in ads for Experian, one of the big three bureaus responsible for keeping track of everyone's credit scores. I decided to write about it and, in the process, created an Experian account. The company has been hounding me ever since. I get near-daily emails that range from run-of-the-mill product offers and "credit alerts" to nerve-racking warnings that my information may have been part of a data breach. When I click for more information, lo and behold, I'm confronted with a paid service. For $25 a month, I can sign up for "Experian CreditWorks Premium," which includes quarterly credit reports, credit monitoring, and identity protection. Once I decline that offer, which is kind of tricky, I can also find an offer to "lock" my credit for $5 a month. It's similar to a credit freeze, which blocks creditors from accessing your credit file, but can also do things like notify you if someone tries to access your Experian credit report. Here's the thing, though: A lot of the services it's offering are already free.

"There's no reason ever to pay for credit monitoring," said Chi Chi Wu, a senior attorney at the National Consumer Law Center. "There's no reason to pay for a credit score or pay for service for the credit score."

In Wu's view, Experian is an especially bad offender — not just for its suite of likely unnecessary products but because, as part of its standard agreement, the company makes customers agree to mandatory arbitration, meaning you don't get to sue if Experian has a big screwup later. In an email, a spokesperson for Experian said that the company is "committed to financial inclusion" and that its free membership has tools to help consumers improve their financial health. "Millions of members find value in having Experian as their financial co-pilot helping them improve, manage, and protect their financial profile," the spokesperson said. They did not address the arbitration agreement.
But Experian is hardly the only company out there selling credit-related services that drain consumer dollars. The credit-monitoring and identity-theft-protection industry, according to IBISWorld, is worth about $5.4 billion in annual revenue. The growth of the industry makes sense — in this day and age, data breaches are constant, and a fraudulent ding on your credit report or someone opening an account in your name can be an enormous headache. Guarding against that outcome seems like a small price to pay for a lot of people, except that paying any price above $0 may not actually be worth it.

A 2022 brief from the NCLC described credit-monitoring bundles as often "expensive and ineffective" and argued that they failed to meaningfully benefit consumers. It noted that most identity theft takes

place in existing accounts, meaning monitoring services that alert consumers to newly opened accounts miss it. They also often fail to catch fraud related to medical services or tax refunds. And even when they do catch identity theft, they do so after the fact.
"Some people might be like, 'Well, I'd rather pay and not deal with the time,'" Wu said. "But the thing is those products aren't all that effective."

A 2017 report from the Government Accountability Office was pretty negative on the whole monitoring and identity-theft-protection business, too, saying it's just not clear how helpful a lot of this stuff is. The report also looked at identity-theft insurance and noted that while it covered expenses related to dealing with the theft, it generally excluded actual financial losses.
While credit monitoring falls into the waste-of-money category, other credit-related services can cross over into potentially predatory territory — for example, credit-repair operations. The idea behind these services is pretty simple: Credit reports often include some mistakes that can ding people's scores. So, for a fee, the companies will dispute a bunch of items in hopes of boosting the score. This may improve people's reports temporarily while the disputes are being investigated, but since the firms are basically disputing anything negative, when they lose, everything goes back to how it was, and the customer is just out more money.

"They're basically charging people with the false promise that they're going to be able to fix their credit reports and credit scores permanently when they can't," said Sarah Chenven, the CEO of Working Credit, a nonprofit that helps people build credit.

Credit-repair companies often target people with lower incomes and people desperate to improve their credit reports and scores. Gen Zers and millennials, who tend to have lower credit scores than older generations and may not have extensive credit files, may be more likely to find themselves looking at a credit-repair service to get negative items off their reports or at some sort of credit-building service to just help them develop a record. Credit-monitoring companies can really appeal to anyone worried about their credit and identity theft. Some of these businesses also make money by marketing various financial products to people — a well-off boomer might get one type of credit-card offer, a struggling student another.

The companies also don't do anything people can't do on their own — if there's an error, you can and should dispute it yourself. In fact, credit-repair agencies can be less effective than the average person at getting mistakes wiped from their credit histories because, as Andrew Pizor, a senior attorney at the NCLC, explained, the law says that credit-reporting agencies have to respond only to dispute letters directly from consumers. Credit-repair businesses try really hard to make it seem like disputes are from consumers, and the agencies try just as hard to sniff out whether that's going on.
"Most of the letters that you're paying for are going into the garbage," Pizor said. He added that if your dispute letters are going unanswered, you don't need a repair service — you need a lawyer.

Federal regulators have gone after several companies accused of playing it fast and loose with the way they approach consumers. In 2017, the Consumer Financial Protection Bureau settled with TransUnion over charges related to how it was marketing its products, including credit monitoring, and ordered it to stop deceptive practices. In 2022, it sued TransUnion, accusing it of violating that order. In 2005, it dinged Experian for marketing free credit reports that weren't so free. Last year, the CFPB entered into a $2.7 billion settlement with a ring of credit-repair brands accused of illegally collecting fees for their services. Over a decade ago, the Federal Trade Commission and 35 states reached a $12 million settlement with LifeLock after alleging that it had made false claims about its identity-theft-protection services.

These companies and credit-related services aren't necessarily evil. A significant part of the issue is that the ecosystem is a mess. Our credit-reporting and -scoring system is outdated and confusing, and so are a lot of the businesses that have sprung from it. Even the seemingly good products and services out there are a sign of the deep rot at the core of the whole system. Credit-building loans, which are loans designed to help people without much credit history build some, can help people get on better financial footing, even if there is usually some cost involved. Immigrants and young people in particular can benefit.

Companies such as Credit Karma that let you access a lot of your information easily and for free make it so your credit score isn't such a mystery. The downside there is that they make their money by giving your information to a bunch of third-party financial products and taking a cut if you sign up for one of them. For consumers, the whole thing feels like a maze. It's tough to separate the good actors from the bad and to understand the trade-offs at hand. It's not always clear what you're signing up for, whether you need it, or what you're going to wind up paying.

"The credit system and the financial system, and I hate to sound a little preachy, but it's a black box," said Ryan Steckler, a vice president of product and general manager at Credit Karma. "Given that situation, we're in the business of empowering our consumers by giving them access to the same data those financial institutions have."

It would be neat to be able to say that some concrete help is on the way, but the truth is we're stuck with some not-so-fun realities around credit scores for the foreseeable future. As screwed up as the system is, it's probably not going anywhere anytime soon, even though there are better alternatives out there.

There is this sense of existential dread around credit scores. A negative one can really drag people down. An impaired record makes loans more expensive, makes accessing certain financial products impossible, and may even put your next apartment or job out of reach. Klein, from the Brookings Institution, has recently been conducting focus groups with low-income consumers about their financial knowledge and concerns. He's been shocked at how much credit scores have come up.
"I was very surprised at the attention to detail folks of more modest income have on the impact of financial products and choices on their credit scores," he said. "The more I thought about it, the more I realized this focus is based on experience. At some point, their low credit score has negatively impacted their lives."

Frederick Wherry, a Princeton sociologist who leads the Debt Collection Lab, an initiative focused on understanding debt collection, added: "As soon as we are asked about our credit scores, or in a moment when we can't get something we need or we get it at too high a price, that's when we realize that this thing has been hanging over our heads."

It's unwise to bury your head in the sand, ignore your credit score, and hope for the best. But you don't need to obsess over it, let alone spend a bunch of money on it. If you're not in the market for a house or apartment or in need of a new loan, you can freeze your credit for free, meaning no fraudsters can take out a loan in your name. Under federal law, the bureaus have to give you one free credit report a year, and since the pandemic they've been letting people access their reports for free once a week. If you see something weird on your report, you can dispute it on your own. And you really do not need to be checking that much — once a month or once a quarter is fine, kind of like your 401(k).
"If you have a credit score over 720 or 780, stop worrying. Don't be obsessed with getting an 800 or 820," Wu said. "This is not your SAT score."

If you're in trouble, there are nonprofits out there that can help you figure out what to do, for little or no money.

"If you've got bad credit, if your credit score is low, where I'd start is with a nonprofit credit counselor," Pizor said.

If you want to sign up for identity-theft protection or credit monitoring, fine. But those services aren't a fail-safe, so you'll want to walk in with your eyes wide open. The credit experts I spoke with were very wary about credit repair across the board. The next time you start to worry about your credit score, take a beat. Not to get too woo-woo here, but really, there's only so much you can control.
"I mean, the magic bullet is building a better system," Wu said.

Emily Stewart *is a senior correspondent at Business Insider, writing about business and the economy.*