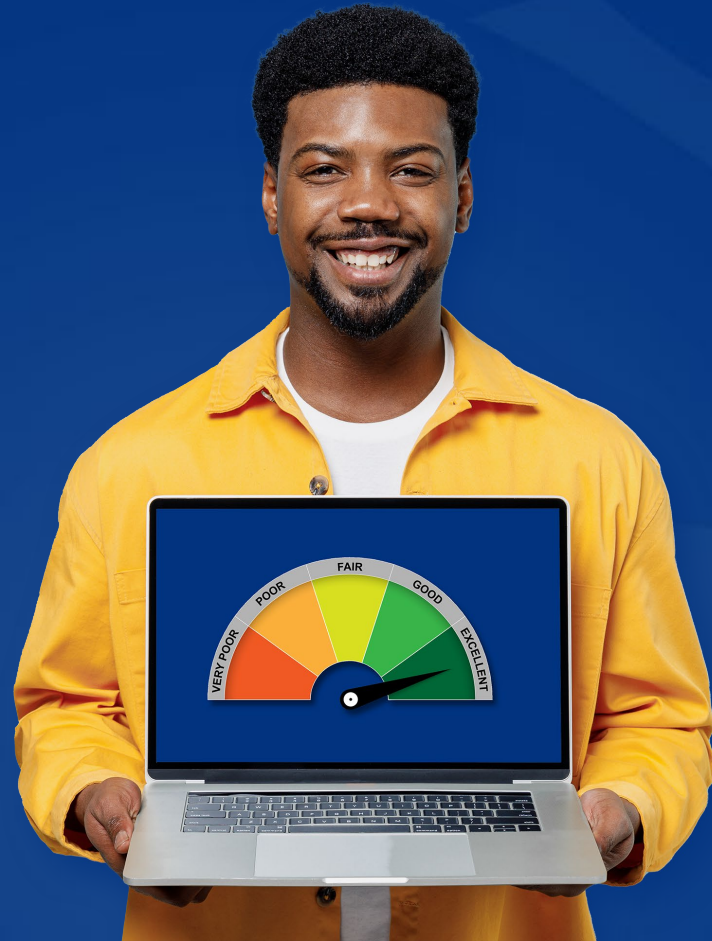




Credit Reports & Scoring

What Every Consumer Needs to Know



Created by:
National Association of Certified Credit Counselors





How Credit Scoring Began

Need to evaluate the risk of lending money

- Standardized, not based on personal judgment and first impressions.
- The Fair Credit Reporting Act passed in 1970.
- Created a regulated system to determine what information could be used to determine credit worthiness.
- Required bureaus to open files to the public & to delete negative files over time.

Credit Scoring Models

3 major credit bureaus

- Equifax, Experian, and TransUnion
- Each creates their own credit reports.
- They don't share info with each other.
- All likely to be different.

What is considered excellent for one might only be good for another.



Credit Scoring Models

Fico Scores

- Widely used by lenders.
- Credit-scoring algorithm created in 1989.
- Last updated in 2014.

Vantage Scores

- Created by Equifax, Experian & TransUnion.
- Created in 2006 to give more people scores.

Differences in Scoring Models

Fico Scores

- Based on credit reports.
- Requires at least 6 months of activity.
- Doesn't use trend data.
(Minimum payments or paying bill in full.)

Differences in Scoring Models

Vantage Scores

- Uses trend data & patterns of behavior. (payment history)
- Credit History, Amount Owed, Length of Credit ,
New Credit, & Types of Credit.
- Devalues medical accounts in collection.
- Reflects positively to pay down debt over time.

What is a credit score?

Scores range from 250 - 850



Who Uses Credit Scores?

Financial Institutions

Will they loan money and at what rate?

Landlords

How likely you are to pay rent on time.

Employers

How a candidate handles their responsibilities.

Insurance Company

Statistically, those with poor credit are more likely to file claims.

What the score is designed to do

Forecast

Forecast whether a consumer will default on certain types of accounts such as auto loans, mortgage loans, cellphone accounts and utility bills.

Estimate

Estimate the amount a consumer is likely to pay toward a delinquent account.

Predict

Predict which consumers might close a credit card or pay the balance down to zero and the probability that a consumer will respond to a direct mail credit card solicitation.

Credit Behavior Affects Your Score

Current Credit behavior has a greater affect on your score than past behavior.

Creating new tradelines and history of positive payments can increase your score or decrease your score if too many new tradelines are opened too quickly.

Scores fall quickly at first. Signal that credit behavior is becoming risky.

Five Factors of Your Score

Credit History

Accounts for the largest part of your score – 35%

Amount Owed

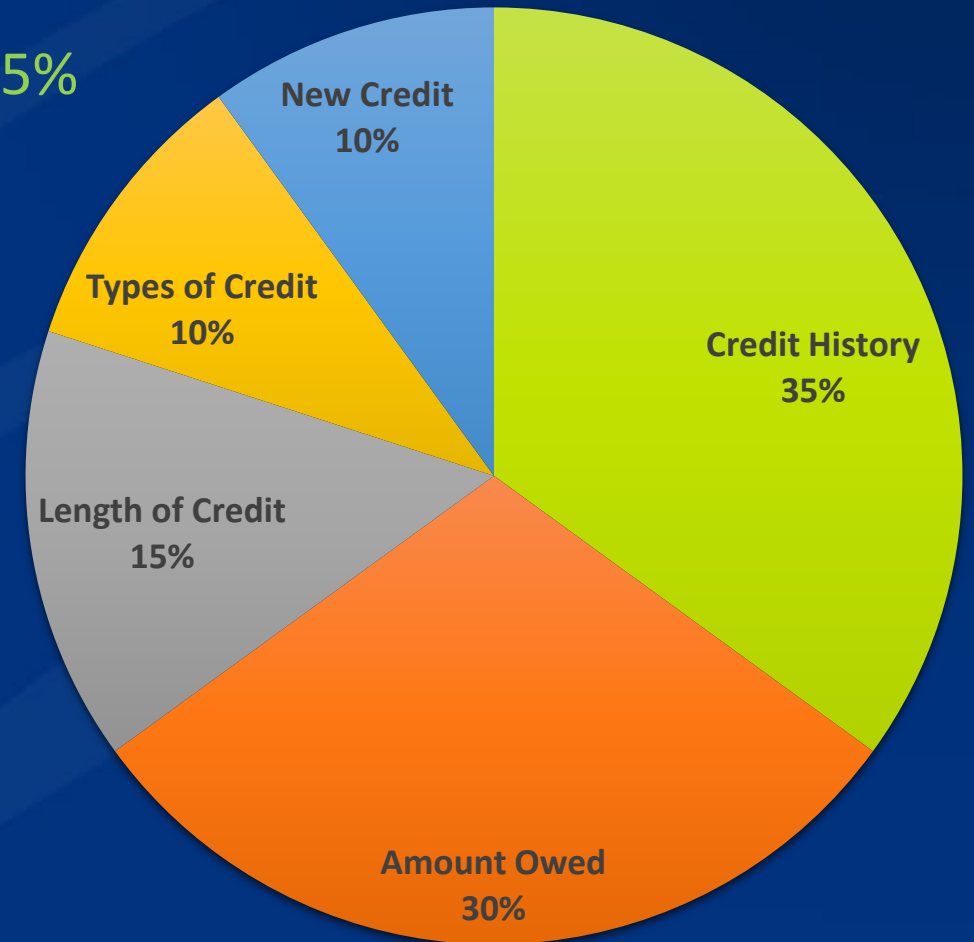
The 2nd largest part of your score – 30%

Length of Credit

Accounts for 15% of your score.

New Credit & Types of Credit

Account for 10% each of the score





The Five Factors of Your Score

1. **Payment History** – Describes your bill-paying habits.
2. **How Much You Owe** - Total amount owed on all accounts.
3. **How Long You've had Credit** – The longer history you have the better.
4. **New Credit** - The last applications or inquiries.
5. **The Types of Credit Used (Mix)** – Having revolving credit, installment account and mortgage accounts.

Why Low Credit Scores Cost You

Borrower A	Borrower B
Average balance \$8,000	Average balance \$8000
Car loans \$20,000	Car loans \$20,000
1 st mortgage \$350,000	1 st mortgage \$350,000
Never turned down for loan	Never turned down for loan

Why Low Credit Scores Cost You

Borrower A	Borrower B
Paid bills on time	Did not always pay bills timely
Paid more than minimum	Only paid minimum
Spread balances across cards	High balances on few cards
Average interest rate = 9.9%	Average interest rate = 19.9%

Credit Score = 750

Credit Score = 600

Why Low Credit Scores Cost You

Borrower B

Will pay significantly more!

\$40,000 more on credit cards

\$13,487 more on auto

\$68,261 more on 1st mortgage

\$199,984 more on 2nd mortgage

Points To Keep In Mind

- Check your credit report to make sure there are no errors. Make sure that **all accounts listed are yours and balances seem correct.**
- Make sure that your **name and social security number** are reporting correctly. Sometimes Sr. & Jr. gets mixed up on the report.
- Make sure that **addresses and places of employment are correct.**

Where To Access Your Credit Report

- [Experian.com/consumer-products/free credit report.html](https://Experian.com/consumer-products/free-credit-report.html)
- transunion.com/myoptions
- Equifax.com
- AnnualCreditReport.com

You can request your credit reports from each bureau for free once each year.



Improving Your Credit Score

- ❖ **Pay your bills on time** – One late payment can lower scores.
- ❖ **Pay down your debt** – Only use 30% of your total available credit. (Or less!)
- ❖ **Do Not Close out Accounts** – Can shorten credit history.
- ❖ **Don't apply for credit you don't need** – Triggers a “Hard Pull.”
- ❖ **View it yearly** – Watch for inconsistencies and errors.
- ❖ **Dispute errors**



Need Help? Schedule an appointment with a FECA Credit Counselor!



Hard Pulls vs. Soft Pulls

- **Hard Pull**

A credit inquiry is performed when you attempt to open a new line of credit. Such as applying for secured loans and credit cards. These can affect your score.

- **Soft Pull**

When you request a copy of your credit report. Also when an employer or landlord pulls your credit history. These do not count against you or lower your score.

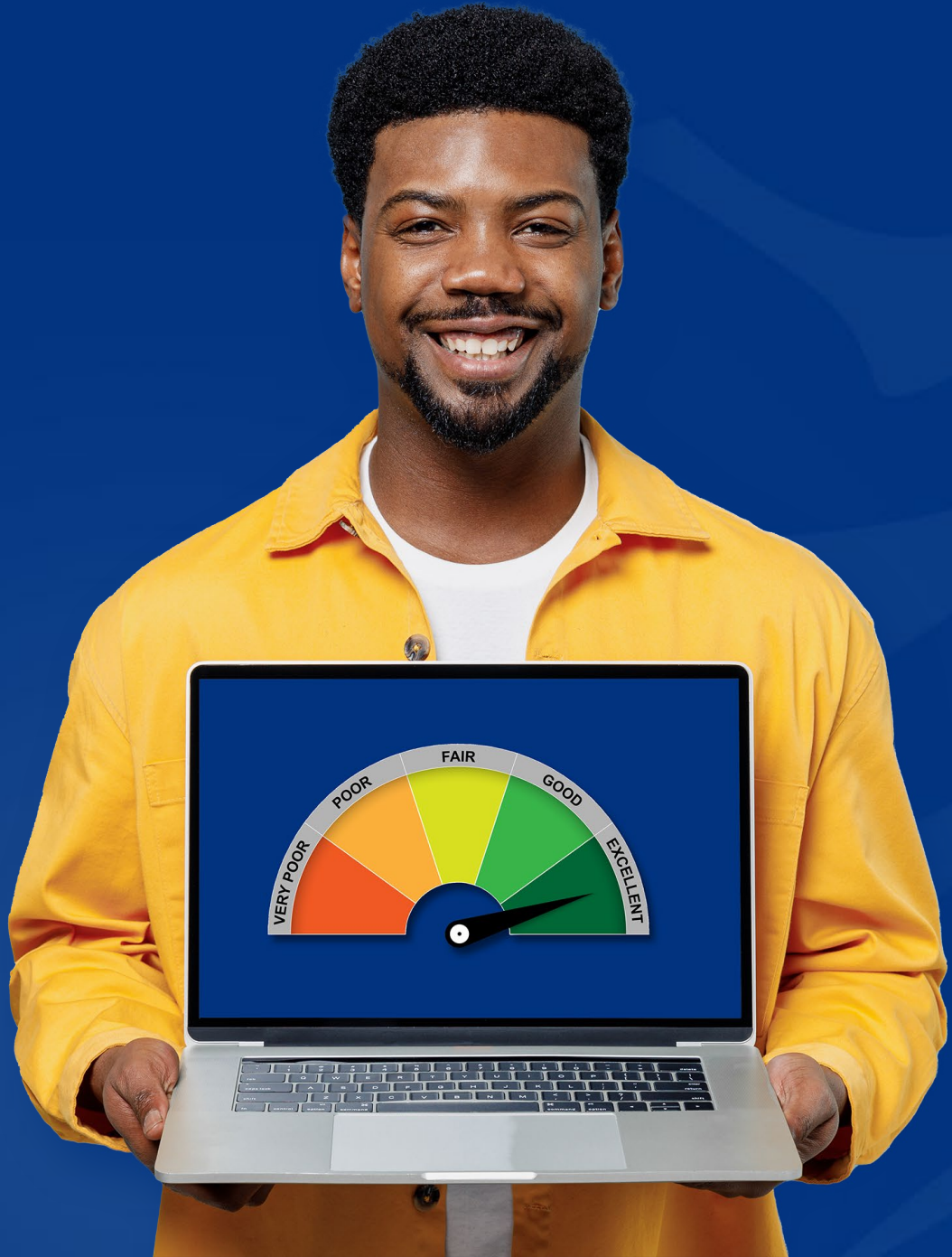


Disputing Errors Online

The three major credit bureaus have links on their website to dispute and check the status of disputes.

Creditors are given 30 day to respond to a credit bureau investigation but could settle in less time.

Disputing and correcting errors online can save you time... and aggravation.



FECA can help you take the first steps.

Schedule an appointment with a FECA Credit Counselor!

Got questions? Contact us!

- Message us within the FECA mobile app.
- Leave a message online: fecca.com/contact-us
- 800-228-8513 or 901-344-2500



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