



**GIVE**  
YOURSELF  
**SOME**  
**CREDIT**



**Your Complete Guide to Credit Scores**

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# WHAT IS A CREDIT SCORE, and why is it **IMPORTANT**?

You may hear a lot of talk about credit scores, but do you actually understand what they are and why they're important? A credit score, sometimes called a FICO® Score, is a three-digit number that lenders use to objectively measure your creditworthiness. The score is an indicator of how likely you are to repay a loan based on data in your credit report. As information in your credit file changes, so will your score. Lenders generally assume that the higher your credit score, the more likely you are to repay your debt, making you a low-risk borrower; a low credit score means you're less likely to repay, making you a high-risk borrower.

When you start looking for financing for a loan, your credit score will dictate the interest rate you receive on your loan, ultimately impacting how much you'll pay for the loan in the long run. The higher risk you are, the harder it will be for you to get a loan, and when you do, it will have a higher interest rate, meaning you will pay more over the life of the loan.

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## Why is it called a FICO Score?

FICO Scores are named for the Fair Isaac Corporation, the company that developed them. These scores are an assessment of your credit risk, and they can determine how much you pay for car insurance, vehicle loans, mortgages, credit cards, and more.

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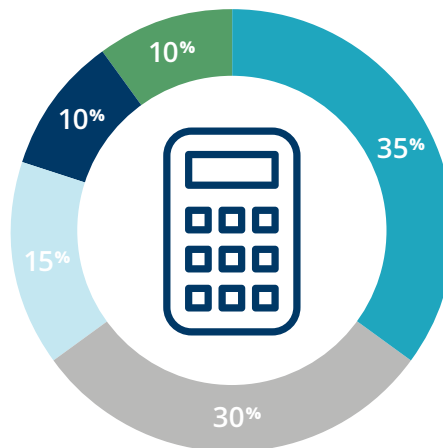
# » HOW Are Credit Scores CALCULATED?

Let's explore the way FICO and other credit-scoring models calculate the all-important credit score. Here are the major components of your credit score:

**35%** **Your payment history.** This is perhaps the most important factor. Have you ever had an account sent to collections? How many times have you been late on payments? How late or how recent were those late payments? The timeliness – or lack thereof – of your payments comprises 35% of your score.

**30%** **Your credit utilization.** Credit-scoring models look at how much of your available credit you are using. Credit utilization is the amount of credit you're using divided by the total amount of credit available to you. A good rule of thumb is to keep your credit utilization at or below 30%. For example, if you have a \$1,000 limit, don't have a balance of more than \$300 at any given time. Ask yourself questions like these: How much overall debt do you have? How many credit cards carry a balance? How many are close to their limit? How close are you to your overall credit limit?

**15%** **Length of credit history.** This is how long you've had your credit cards and loans open. Lenders want to see a long and active history with on-time payments to show you have experience with credit.



**10%** **New credit.** Opening too many new cards can appear as a red flag to creditors. Choose your cards wisely and try not to get drawn into those one-time promotional deals often found at department stores.

**10%** **The kind of credit you have.** Do you have a healthy mix of credit types: credit cards, auto loan, personal loan, mortgage and so on? A variety of credit types indicates that you are a well-rounded borrower.

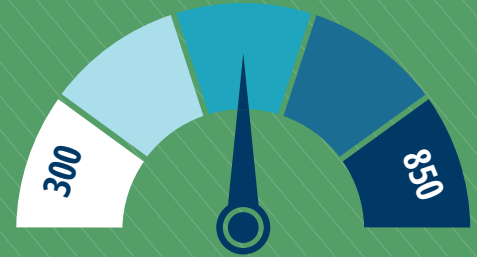


# FIND YOUR SCORE

You may be able to track your credit score via your financial institution's app or through services like Credit Karma. But be mindful that you're looking at a reputable source and be wary of scam sites. Alternatively, RiverLand FCU offers Free Credit Reviews for members. Just request one through our website.

Your credit score is based on the information in your credit report. You can obtain a free credit report from one of the three main credit bureaus (TransUnion®, Experian®, and Equifax®). Just go to [annualcreditreport.com](https://annualcreditreport.com) or call **1.877.322.8228**.

Credit scores range from 300 to 850; a score above 700 is considered good, while anything above 800 is excellent. A score below 620 is generally considered poor. Once you know your starting point, you can create a goal credit score and map out a plan of how you will get there.



## CREDIT SCORE

## CREDIT SCORES AND CREDIT CARDS: WHAT YOU NEED TO KNOW

The relationship between credit scores and credit cards is very much a two-way street. Your credit score – which reflects your credit history – will affect the interest rate you receive on your credit card. Conversely, how you handle your credit card will affect your credit score and the subsequent interest rates you'll receive on future borrowings.

**If you want to minimize the amount of interest you'll pay and prevent a dip in your credit score, follow these guidelines:**

- Always pay your bills on time. Even if you can only afford the minimum payment, make sure you at least pay your bills by their due dates.
- Don't spend more than 30% of your credit limit. As we just learned, maintaining a credit utilization ratio of 30% is ideal. While it's not the end of the world if you use more than 30%, don't make a habit of it, as this is an important aspect of your credit score.
- Check your credit report each year. Simply go to [annualcreditreport.com](https://annualcreditreport.com) to request your free report. Check to make sure all information is accurate and there are no signs of identity theft.



# How to Build Credit AT EVERY AGE

As previously mentioned, a good credit history goes a long way in helping you achieve some of your biggest life goals, such as buying a car or financing a home. But to build a credit history, you need a loan, and to get a loan, you need a credit history.

## SO, HOW DO YOU EVEN START?

No one comes into this world with a credit history. As you live your life, how you manage your finances begins to paint a picture of either a person who is reliable and responsible with their money or one who isn't. A favorable credit history will help you get lower interest rates on loans and credit cards and get approved on leases for rental properties.

Creating debt isn't necessarily a bad thing. You just have to do it responsibly. In other words, it's best to give yourself a leg up as early as you can.



## In Your **Youth**

***If you can, start in your late teen years to lay the foundation for a stable credit history. Here are some ways to do this:***

- Parents with good credit can add their teenagers as authorized signers on credit cards, so teenagers can build credit with supervision and minimal risk.
- Teenagers can apply for a secured credit card, where the credit limit matches an amount placed on deposit with a financial institution.
- Parents can co-sign for a small loan in the teenager's name. A co-signer is an added layer of security for financial institutions and is responsible for making payments on the loan if the signer does not.

***If you take out a credit card, be careful to only make purchases you can pay in full every month. You never want to have a high credit utilization ratio or "max out" your credit card.***

## As a **Young Adult**

***Taking out a loan to purchase a car is common at this point in your life. As you begin car shopping, keep price in mind, and look for auto financing from RiverLand, as your credit union often has more benefits than dealers do.***

It may also be time to apply for a credit card of your own. Watch your timing, though. When you apply for loans, lenders request your credit history from the credit bureaus to see how reliable you are. Multiple queries in a short span of time can lower your credit rating.

Be sure to avoid credit cards that charge large fees, like annual fees. There are plenty of affordable options out there. RiverLand offers Mastercard® credit cards with low rates and no annual fees.

While they can be a pain, student loans can show you're conscientious about paying off debt. If you've started paying these off, make payments by the monthly due dates to continue improving your credit rating.

## Your **Middle Years**

*Around this time, you've probably begun to build a decent credit history, and maybe you're thinking about buying your first home. A mortgage is a great way to diversify your credit.*

Remember the “credit utilization” term we talked about earlier? With the credit products you've likely taken advantage of by this point, now is a good time to look into the ratio of how much credit you have versus the credit you're using. As much as possible, you should try to use no more than 30% of your available credit. One strategy to do this is to request a credit limit increase on an existing credit card.

Avoid borrowing more than you can repay. A bankruptcy or foreclosure will damage your credit rating for a long time.

## As an **Older Person**

*At this stage in your life, you've worked hard for your credit rating. Now, the most important thing to do is keep it safe.*

- Check your credit report regularly and challenge discrepancies.
- Watch for signs of identity theft. If you see suspicious activity on your credit report, put a credit alert on your account.
- Fraudsters tend to prey on older adults, especially online, so check your account activity frequently.
- Keep your credit cards active, and make sure you can pay off the balance every month.
- Continue to pay your bills on time.

**LEARN MORE ON PAGE 8**



# » IMPROVING Your Score



If you're mentally, emotionally, and financially ready to make your next major purchase, it's a good idea to check your credit score first. If your credit score is lower than you'd like due to missed payments or maxed-out cards, it's in your best interest to put off making your next major purchase until your credit score rises.

With a few strategies and a commitment to smart money management, you can boost your score and save yourself a lot of money in the long run. Just follow these tips:

## **DON'T CLOSE OLD CREDIT CARD ACCOUNTS.**

Part of your credit score comes from how long you've had credit, and the longer a card is open, the higher your score will be. Keep old accounts open; they can help boost your score and balance out newer lines of credit.

## **PAY DOWN YOUR CREDIT CARD BILLS.**

Start by paying down your card with the highest interest rate first and aim to get all balances below 50% of your credit limit. Since 30% of your credit score is based on the amount you owe, work on relieving your debt in any way that you can.

## **MAKE ALL YOUR PAYMENTS ON TIME.**

Even if you can only afford to make the minimum payment, make sure you at least pay your bills on time. Consistent on-time payments for only one month can raise your credit score by up to 20 points. If you have the funds, aim to pay bills twice a month instead of once. This will help your payment history as well as keep your credit utilization low, another factor in your credit score.

## **DON'T OPEN NEW CARDS THAT YOU DON'T NEED.**

Avoid opening new cards at department stores or gas stations for one-time promotional discounts. New cards carry 10% of your credit score and can bring down the average age of your credit, lowering your score even more.

## **BE WARY OF MULTIPLE LOAN APPLICATIONS IN A SHORT TIME SPAN.**

Multiple hard inquiries on your credit are a red flag to creditors. If you've recently applied for other loans, like an auto loan or a home loan, hold off on applying for a credit card or another loan unless you absolutely have to. Let your credit score take a breather.

## **RAISE YOUR CREDIT LIMIT AND IMPROVE YOUR CREDIT UTILIZATION RATIO.**

Before you open a new card to raise your credit limit, try raising the limit on your existing cards. If that's not possible, remember to only open one card at a time.

## **DON'T BE AFRAID TO ASK FOR HELP.**

Sometimes credit scores and reports are overwhelming. Don't hesitate to contact one of RiverLand's helpful financial counselors for a free credit consultation. Our counselors can assess your unique situation and help you map out a plan for improving your credit score.





## THE DIFFERENCE BETWEEN

# HARD & SOFT

## Credit Inquiries

*If you've applied for a mortgage, loan, or credit card recently, you may have been told you'd receive a "hard inquiry" (or "hard pull") on your credit.*

*On the other hand, when you check your own credit report, authorize a person or company to perform a background check, or if a credit card issuer preapproves you for an offer, these are all considered "soft inquiries" (or "soft pulls"). These do not affect your credit score.*



### So why do hard pulls matter?

Put simply, a hard inquiry occurs when a financial institution checks your credit when making a lending decision. This could lower your credit score by a few points, which is why financial experts suggest not taking out multiple loans, credit cards, or mortgages at once. This could suggest you're short on cash, making you more of a high-risk borrower to lenders and credit card issuers.

However, one hard inquiry won't significantly impact your credit, and the impact will lessen over time.

How to Dispute an

# ERROR

## in Your Credit Report



It's important to dispute an error in your credit report as soon as you can. Even relatively small errors, like a misspelled name, wrong address, or transposed digits in a Social Security number can adversely affect your life. The dispute process can be time-consuming, but it's worth the effort in the long run. Here's what to know about disputing errors.

### YOU HAVE RIGHTS

Consumers have certain rights under the Fair Credit Reporting Act:

- You have the right to receive a copy of your credit report from the credit bureau.
- You have the right to know the name of anyone who received your credit report in the last year for most purposes or in the last two years for employment purposes.
- Any company that denies your application must supply the name and address of the credit bureau they contacted if the denial was based on information given by the credit bureau.
- You have the right to a free copy of your credit report when your application is denied because of information supplied by the credit bureau.
- If you contest the completeness or accuracy of information in your report, both the credit bureau and the furnisher of information are legally obligated to investigate.
- You have a right to add a summary explanation to your credit report if your dispute is not resolved to your satisfaction.

# DISPUTING ERRORS

All three of the major credit bureaus – TransUnion, Experian, and Equifax – allow you to file a dispute online, but it’s a good idea to send your dispute using certified mail or another method that requires the recipient to sign for the material. Keep copies of everything, including any delivery notifications.

Disputing the information in your credit report is easy, but it takes time and requires diligence on your part. To ensure the error gets corrected as quickly as possible, contact both the credit bureau and the business or organization that provided the information to the bureau. Both these parties are responsible for correcting your report under the Fair Credit Reporting Act.

- 1 Send a dispute letter to the credit reporting agencies and the company or organization that provided the incorrect information. The credit bureau must investigate – usually within 30 days. Include copies (NOT originals) of documents that support your position. You can find a sample letter on the Federal Trade Commission’s website at [consumer.ftc.gov](https://www.consumer.ftc.gov).
- 2 Clearly identify each item you dispute. State the facts and explain why you dispute the information. Include any evidence you have, such as police reports, correspondence with your creditors, canceled checks, paid receipts, etc. Tell the credit reporting agency if you are being prevented from obtaining credit, such as a mortgage, credit card, or auto loan, or if you are being harmed in other ways. Ask that the incorrect information be corrected or deleted.
- 3 Review the credit reporting agency’s response. If they request additional information, provide it promptly.
- 4 In 45 days, check for updates to your credit report.

## Where to Submit a Credit Report Dispute

### Equifax

PO Box 740256  
Atlanta, GA 30374-0256  
1.800.685.1111  
[equifax.com](https://www.equifax.com)

### TransUnion

Consumer Dispute Center  
PO Box 2000  
Chester, PA 19016  
1.800.916.8800  
[transunion.com](https://www.transunion.com)

### Experian

PO Box 4500  
Allen, TX 75013  
1.888.397.3742  
[experian.com](https://www.experian.com)



## FINAL THOUGHTS

Your credit history is the work of a lifetime of financial habits, and it will likely change over time. When it comes to your credit score, remember to use your cards, pay your bills on time, don’t borrow more than you’ll be able to repay, and don’t max out your credit cards. These key steps will put you on the path to building a robust credit history, and keeping your credit score strong will have positive effects on your finances for years to come!



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