

## Understanding Your Credit Score

In today's world, most loans are "score driven." This means a creditor makes a decision about whether to give you a loan and the interest rate they will charge based on your credit score. The biggest advantage to credit scoring is that it avoids discrimination. It's all based on a number-your credit score. Although this number is not part of your credit report, the number is generated by data used in your credit report.

### What IS in Your Credit Score?

Credit scores are calculated from a variety of credit data in your credit report. Scores are assessed as follows:

**Your payment history = 35% of your credit score.**

- Pay your bills on time – Late payments or delinquent items lower your credit score. The severity of the delinquency (how long a bill is past due) is also an important factor. A good track record of paying your bills on time will increase your credit score.
- Bankruptcies, collections and adverse public records (example: foreclosures, law suites, wage garnishments, liens and judgments) lower your score.
- Even though there may be unfavorable data in your credit report, a recent history showing positive change helps to raise your score.

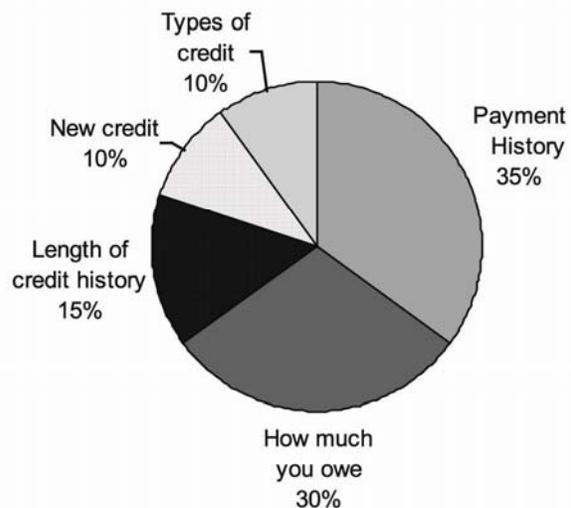
**How much you owe = 30% of your credit score.** Credit scores look at the amount you owe on each of your accounts, the number of accounts you have with a balance, and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

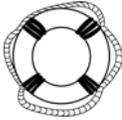
**Length of credit history = 15% of your credit score.** A longer credit history will increase your score. However; you can still get a high score with a short credit history if the rest of your credit report shows responsible credit management.

**New credit = 10% of your credit score.** Applying for several new lines of credit within a short period of time can hurt your credit score. Lenders consider this behavior a sign of greater risk of living beyond your means, resulting in possible nonpayment.

**Types of credit used = 10% of your credit score.** Having a mix of credit types on your credit report-credit cards, installments loans such as mortgage or auto loan and personal lines of credit - is normal for people with longer credit histories and can add slightly to their scores.

**Credit Scoring Factors**



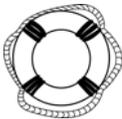


**Life Saver:** If you need a loan, do your rate shopping within a focused period of time, such as 30 days to avoid lowering your FICO score

## Building a Credit Record

If you have never used credit, you may have no credit history. There are several ways to establish a credit history.

- Work at a part-time or full-time job for 6 to 12 months before applying for credit.
- Open and maintain checking and savings accounts in your own name. Although these accounts aren't considered "credit," many lenders view these accounts as a sign of financial stability. Time will show that you can handle money responsibly, meet your financial obligations and establish a savings habit.
- Apply for a secured loan at a local lender, using your savings as collateral.
- Apply for an account or credit card issued by a local store. Local businesses are sometimes more willing to extend credit to someone with no credit history. Once you establish a pattern of making payments on time, major credit card issuers will be more likely to extend credit to you.
- As a last resort, ask a parent or friend to co-sign a loan for you. You still need to make your payments on time because failure to do so will harm your credit as well as your co-signer.



**Life Saver:** Reviewing your credit report frequently will help you identify potential identity theft or errors. Consider requesting your credit report every four months from a different credit reporting agency.

## What if I Want to Know My Score?

If you have never checked your credit score, consider doing so to have a general idea of how you are doing. Although your credit report is free, you will have to pay a small fee to get your credit score. The fee varies per agency, but it is usually less than \$20. This option will appear when you are on the Web site, or you can mail in your fee with your credit report request.

**Credit reports** or **credit scores** may be **purchased** at a low cost from:

Experian

[www.experian.com](http://www.experian.com)

1-888-EXPERIAN (397-3742)

Equifax

[www.equifax.com](http://www.equifax.com)

1-800-525-6285

Trans-Union

[www.transunion.com](http://www.transunion.com)

1-800-680-7289

Fair Isaac Corp.

[www.myfico.com](http://www.myfico.com)

## Interpreting Your Score

Credit scores range from 300 to 850. The higher the score, the lower the predicted loss for lenders. Approximate distribution of score ranges are as follows:

Below 600-15%  
600-649-12%  
650-699-15%  
700-749-18%  
750-799-27%  
800+-13%

Nationally, the average credit score is 693 (August, 2009).

Lenders receive up to four “score reason codes” with each credit score. These reasons explain why your score was not higher. The reasons can be more helpful to consumers than the actual score. They can show consumers the areas where their score may be improved over time. The most frequently given score reasons are:

- Serious delinquency
- Serious delinquency, and public record or collection filed
- Derogatory public record or collection filed
- Time since delinquency is too recent or unknown
- Level of delinquency on accounts
- Number of accounts with delinquency
- Amount owed on accounts
- Length of time accounts have been established
- Too many accounts with balances

## Improving your score

To improve your credit score, concentrate on:

- Paying your bills on time
- Paying down outstanding balances
- Keep balances low on credit cards and other revolving credit products
- Apply for and open new accounts only as needed

## How do credit scores impact interest rates?

Lenders use credit scores as a component in determining the interest rate they will charge for a loan. However, the actual interest rate for which you qualify will depend on several additional factors including income, down payment, debt-to-income ratios, additional credit related evaluations and other lender specific criteria.

The following table shows examples of the impact of FICO scores on average annual percentage rate (APR) for several credit options in August 2009.

<b>Home Mortgage—30 Year Fixed</b>						
<b>Credit Score</b>	< 619	620-674	675-699	700-719	720-850	
<b>APR</b>	N/A	6.975	5.825	5.228	5.163	
<b>Home Equity Loan</b>						
<b>Credit Score</b>	500-559	560-639	640-659	660-679	680-719	720-850
<b>APR</b>	12.365	11.115	9.615	8.840	8.340	8.040
<b>60-Month New Auto Loan</b>						
<b>Credit Score</b>	500-589	590-624	625-659	660-689	690-719	720-850
<b>APR</b>	16.709	15.567	11.506	8.800	7.403	5.92

*Note: These rates represent average by credit score ranges. Each lender determines its own credit score ranges for the interest rate terms they offer.*

## What happens if I am denied credit because of information on my credit report or credit score?

The Fair Credit Reporting Act requires the lender to provide the name, address, and phone number of the credit reporting agency that supplied the information. Contact that agency to find out what your report said. You can receive a free copy of your credit report if you request it within 60 days of being turned down for credit. The credit reporting agency can tell you what's in your report; however, only the lender can tell you why your application was denied.

If you have been denied credit, or did not get the interest rate or credit terms that you want, inquire if a credit scoring system was used. If so, ask which factors were used in that system and the best way to improve your application. If you were granted credit, ask if you are getting the best terms available, and if not, why. If inaccuracies in your credit report were the causes of higher rates, take action to dispute the inaccurate information in your credit report.

Adapted by: J. Tucker. (2008) Charting Your Course to Home Ownership. Baton Rouge, La: LSU AgCenter

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This material made possible by a grant from the FINRA Investor Foundation

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 Pub. Misc 50 11/09

Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 & June 30, 1914, in cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension Services provides equal opportunities in programs and employment.