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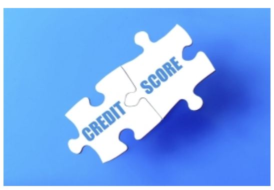
All About Credit Scores



Every consumer is entitled to a free credit report every 12 months from each of the three major credit reporting agencies:

- ***Experian***
- ***TransUnion***
- ***Equifax***

Besides the annual report, you may be entitled to an additional free report under certain circumstances. Visit AnnualCreditReport.com for more information.

It's difficult to imagine functioning in today's world without credit. Whether buying a car or purchasing a home, credit has become an integral part of our everyday lives. Having easy access to credit goes hand in hand with having a good credit score, so it's important to know how to maintain a positive credit score and credit history.

The importance of having a good credit score

Your credit score is based on your past and present credit transactions. Having a good credit score is important because most lenders use credit scores to evaluate the creditworthiness of a potential borrower. Borrowers with good credit are presumed to be more trustworthy and may find it easier to obtain a loan, often at a lower interest rate. Credit scores can even be a deciding factor when you rent an apartment or apply for a new job.

How is your credit score determined? The three major credit reporting agencies (Experian, Equifax, and TransUnion) track your credit history and assign you a corresponding credit score, typically using software developed by Fair Isaac Corporation (FICO).

The most common credit score is your FICO score, a three-digit number that ranges from 300-850. What's a good FICO score? For the most part, that depends on the lender and your particular situation. However, individuals with scores of 700 or higher are generally eligible for the most favorable terms from lenders, while those with scores below 700 may have to pay more of a premium for credit. Finally, individuals with scores below 620 may have trouble obtaining any credit at all.

Factors that can negatively impact your credit score

A number of factors could negatively affect your credit score, including:

- **A history of late payments.** Your credit report provides information to lenders regarding your payment history over the previous 12 to 24 months. For the most part, a lender may assume that you can be trusted to make timely monthly debt payments in the future if you have done so in the past. Consequently, if you have a history of late payments and/or unpaid debts, a lender may consider you to be a high risk and turn you down for a loan.
- **Not enough good credit.** You may have good credit, but you may not have a substantial credit history. As a result, you may need to build your credit history before a lender deems you worthy of taking take on additional debt.
- **Too many credit inquiries.** Each time you apply for credit, the lender will request a copy of your credit history. The lender's request then appears as an inquiry on your credit report. Too many inquiries in a short amount of time could be viewed negatively by a potential lender, because it may indicate that you have a history of being turned down for loans or have access to too much credit.
- **Uncorrected errors on your credit report.** Errors on a credit report could make it difficult for a lender to accurately evaluate your creditworthiness and might result in a loan denial. If you have errors on your credit report, it's important to take steps to correct your report, even if it doesn't contain derogatory information.

When disputing an error with a credit reporting agency, you should also try to resolve the issue with the creditor that submitted the inaccurate information in the first place. If the creditor corrects your information as a result of your dispute, it must notify all three credit reporting agencies to which it provided the inaccurate information.

Fixing credit report errors

Because a mistake on your credit report can negatively impact your credit score, it's important to monitor your credit report from each credit reporting agency on a regular basis and make sure all versions are accurate.

If you find an error on your credit report, your first step should be to contact the credit reporting agency, either online or by mail, to indicate that you are disputing information on your report. The credit reporting agency usually must investigate the dispute within 30 days of receiving it. Once the investigation is complete, the agency must provide you with written results of its investigation. If the credit reporting agency concludes that your credit report does contain errors, the information on your report must be removed or corrected, and you'll receive an updated version of your credit report for free.

If the investigation does not resolve the issue to your satisfaction, you can add a 100-word consumer statement to your credit file. Even though creditors are not required to take consumer statements into consideration when evaluating your creditworthiness, the statement can at least give you a chance to tell your side of the story.

If you believe that your credit report error is the result of identity theft, you may need to take additional steps to resolve the issue, such as placing a fraud alert or security freeze on your credit report. You can visit the Federal Trade Commission (FTC) website at [ftc.gov](ftc.gov) for more information on the various identity theft protections that might be available to you.

Finally, due to the amount of paperwork and steps involved, fixing a credit report error can often be a time-consuming and emotionally draining process. If at any time you believe that your credit reporting rights are being violated, you can file a complaint with the Consumer Financial Protection Bureau (CFPB) at [consumerfinance.gov.](consumerfinance.gov)

How student loans affect your credit score

If you've graduated college within the last few years, chances are you're paying off student loans. The way in which you handle your student loans during the repayment phase can have a significant impact--positive or negative--on your credit history and credit score.

Your main goal when paying back student loans is to make your payments on time. Being late with even one or two loan payments can negatively affect your credit score. If you are in default on your student loans, don't ignore them--they aren't going to go away. If necessary, contact your lender about loan rehabilitation programs; successful completion of such programs can remove default status notations on your credit report. Of course, if you are making your loan payments on time, make sure that any positive repayment history is being correctly reported by all three credit bureaus.

Even if you are paying your student loans in a timely manner, having a large amount of student loan debt can have an impact on another important factor that affects your credit score: your debt-to-income ratio. Having a higher-than-average debt-to-income ratio could hurt your chances of obtaining new credit if a creditor believes your budget is stretched too thin, or if you're not making progress on paying down the debt you already have. Fortunately, there are steps you can take to help improve your debt-to-income ratio:

- Consider a graduated repayment option in which the terms of your student loan remain the same but your payments are smaller in the early years and larger in the later years.
- Consider extended or income-sensitive repayment options. Extended repayment options extend the term you have to repay your loans. You'll pay more interest over the long term, but your monthly payments will be smaller. Income-sensitive plans tie your monthly payment to your level of discretionary income; the lower your income, the lower your payment.
- If you have several student loans, consider consolidating them through a student loan consolidation program. This won't reduce your total debt, but a larger loan may offer a longer repayment term or a better interest rate.