

How do your friends and family see you? What words would they use to describe you? Loyal? Dependable? Daredevil?

Creditors see you from a very different perspective. When they look at all the things you've done, it all boils down to a bunch of numbers that they use to figure out whether or not you'll repay any loans they might give you. Here is an example credit report that shows some of the information these reports contain.

Is that a fair assessment of who you are? What if you've made some mistakes in the past, but are looking to turn over a new leaf? What if none of your actions show up in any of the numbers that banks look at to make their decisions?

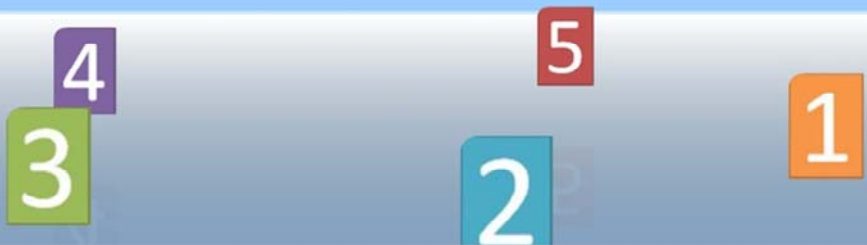
Let's take a look at how lenders evaluate potential borrowers so you can have a better idea of how *you* look to creditors, and perhaps more importantly, how you can become a good credit risk now, and in the future.

The Five C's of Credit

### Introduction

Lenders scrutinize all of the numbers in your credit report looking for the "five c's of credit" - character, capacity, capital, conditions and collateral.

Select each of the numbers for more information about each.

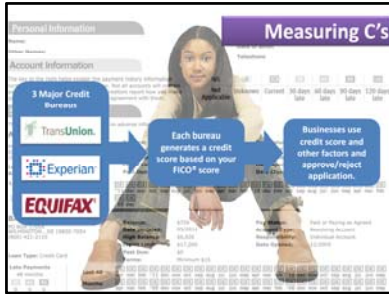


**PROPERTIES**  
Allow user to leave interaction:  
Show 'Next Slide' Button:  
Completion Button Label:

After viewing all the steps  
Show upon completion  
Next Slide

Properties...

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How do lenders quickly and easily evaluate whether you fit their conditions for credit and decide whether to accept or reject your application? As we mentioned earlier, most of this information is contained in your credit report.

Think of your credit report as your report card for credit. Just like your report card is a record of your success, or failure, in school, your credit report is a record of how well you have managed your money in the past. It's a history of your bills and loan payments and tells lenders how much credit you already have. When you apply for credit, lenders want to know how responsible you have been in paying your loans and managing your debt. This gives them an idea of how responsible you will be in the future.

Where does the information in your credit report come from? There are three national consumer credit reporting companies that track all of your payments and debts: Equifax®, Experian®, and TransUnion®. Creditors submit information about how much you owe them and your payment history to the credit bureaus as well as how much available credit you have.

Each company uses that information to generate a credit score that indicates to the potential lender how risky you are as a borrower. Your credit score may differ slightly for the three companies based on the financial data that they have and the relative importance they place on different categories. The big three credit agencies each use a formula that is based on the FICO® formula developed by the Fair Isaac Corporation, but all modify the formula somewhat.

Businesses then pay a subscription fee to the three bureaus so they can check a person's credit history and credit scores before they decide whether to lend them money. Your score changes over time as your financial situation changes and as you build up more payment history with businesses.

Select the links on the page to open any of the big three credit agency websites.

**Personal Information**  
 Name: \_\_\_\_\_ SSN: XXX-XX-XXXX  
 Date issued: \_\_\_\_\_

**Account Information**  
 The key to the right helps explain the payment history information contained in some of the accounts below. Not all accounts will contain payment history information, but some creditors report how you make payments each month in relation to your agreement with them.

**Satisfactory Accounts**  
 The following accounts are reported with no adverse information.

**AMERICAN EXPRESS**  
 PO BOX EL PASO (800) 877-8389  
 AnnualCreditReport.com  
 Address: \_\_\_\_\_  
 Card: 02/2011  
 Balance: \$0  
 High Balance: \$736  
 Credit Limit: \$15,000  
 Past Due: \$0  
 Remark: Account closed by consumer  
 Loan Type: Credit Card  
 Late Payments (Last 26 Months): 0 0 0  
 Months: '09 dec

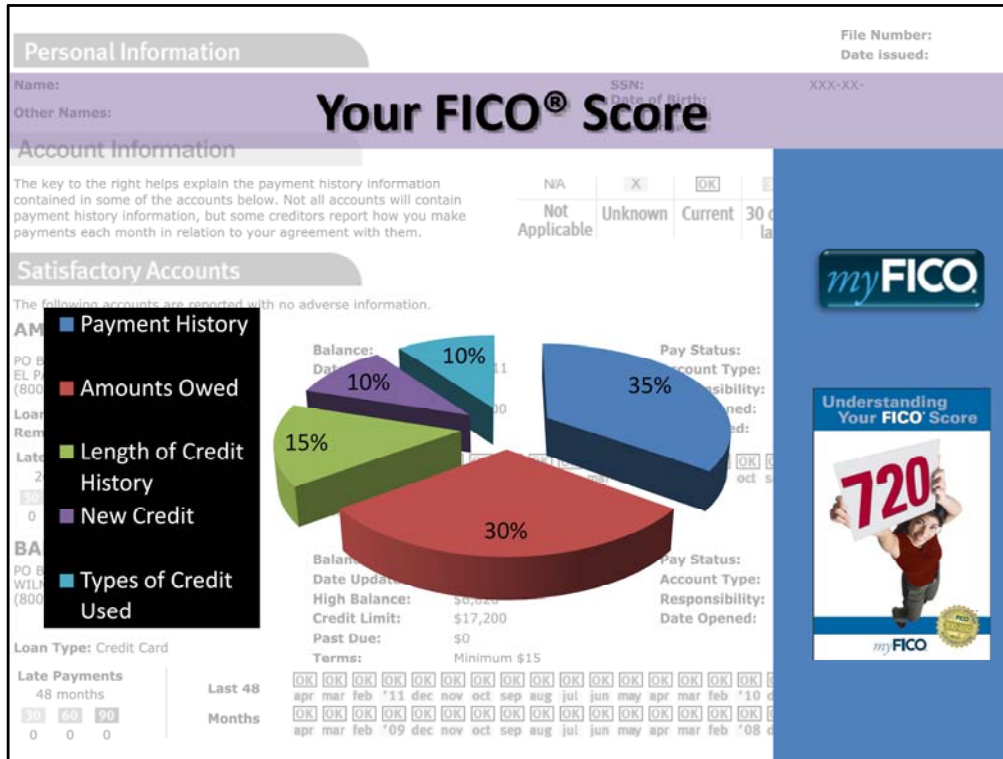
**BANK OF AMERICA**  
 PO BOX 17054 WILMINGTON, DE 19850-7054 (800) 421-2110  
 Balance: \$726  
 Date Updated: 05/2011  
 High Balance: \$6,826  
 Credit Limit: \$17,200  
 Past Due: \$0  
 Loan Type: Credit Card  
 Terms: Minimum \$15  
 Late Payments (Last 48 Months): 0 0 0  
 Months: '09 dec

**Video Player:**  
 A message from the Federal Trade Commission  
 AnnualCreditReport.com  
 0:44 / 0:44

By law you are entitled to know what information is in your credit report. You can request one free copy each year from each of the three bureaus using the AnnualCreditReport.com website. Check out the video on the right on the Federal Trade Commission website if you feel like hearing the benefits of using the AnnualCreditReport.com website in a humorous song.

As you'll learn there, AnnualCreditReport.com is the *only* website that gives you a truly free report without any gimmicks. Don't be confused by TV commercials for websites offering offer free credit reports. Those websites will try and sell you a subscription service to monitor your credit reports for identity theft or fraud. You are required to pay a fee to join in order to receive the free report, and no service can guarantee that you won't be a victim of identity theft or fraud.

While you can get a detailed history of how different creditors have reported your activities for free, you can't get your final credit scores from the big three agencies for free at this website — you'll have to buy those somewhere else. You can purchase them from each of the agencies' websites which are listed on the previous page.

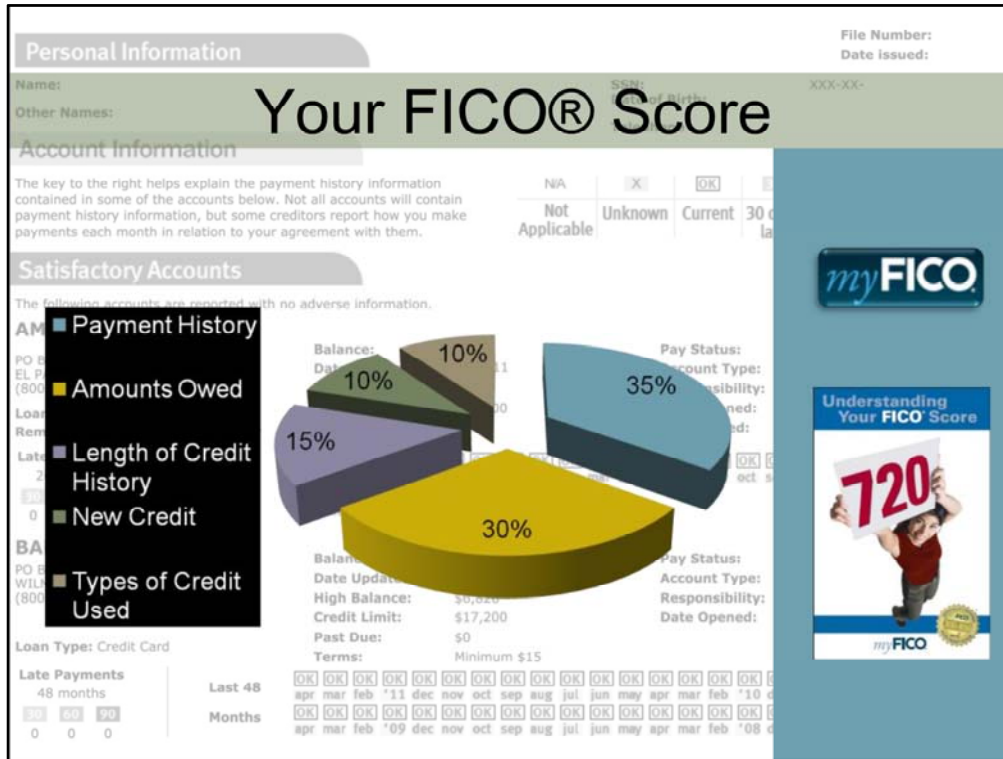


As we just discussed, the FICO® score forms the basis for the credit score that each of the major credit bureaus sends to businesses which they use to evaluate potential customers. Since it's an important part of each bureau's score, it's important that you understand how it's determined.

FICO® scores range from 300 to 850. The lower the number, the higher the credit risk that someone poses to a creditor. Being a higher risk doesn't mean that you won't be able to get credit, but it may mean that you have to make a bigger down payment or have to pay a higher interest rate. The higher the number, the lower the credit risk someone is for a lender. You'll want to have a score of at least 700 to be considered a good credit risk.

You can go find out your score at the My FICO® website for a one-time fee. Beware that there are offers on the website that say you can get a free report, however, you will have to subscribe to other services for which you'll be billed monthly. Download a copy of Understanding Your FICO® score for more detailed information about how your score is determined.

Your FICO® score is based on how you score in five categories. The graph represents how much each of these categories is weighted when determining your score. Categories with larger percentages are more important to your score. Mouse over each of the sections on the graph for a detailed description each category.



**Payment History – 35%** This number is based on how on time you are at paying your bills and other payments and is the largest component of your FICO® score. People who pay on time will get the most points. If you make any payments over 30 days late, your score will be lower.

**Amounts Owed – 30%** This number is based on how much you owe on all of your credit cards, loans, and any other type of credit you have. If you have low balances, this number will be higher. When you carry large balances on your credit cards and have a lot of debt, your number in this category will go way down.

**Length of Credit History – 15%** This tells creditors how long you have had credit. If you are just starting out, you probably won't get many points in this category since you won't have much of a credit history. When you have a long, reliable history of paying your bills, creditors know what to expect from you. People with little or no histories are bigger risks for creditors because they don't know if you will pay or not!

**New Credit – 10%** This part of your score is based on your recent applications for credit. Anytime you apply for credit, that business will contact the credit bureaus and ask for your credit report. This is called an inquiry. If you apply at a lot of places looking to finance one particular item, such as a car or house, that counts differently than if you apply for a number of different unrelated credit accounts. The first type of inquiry doesn't hurt your score, while the second type will. This number also includes how many new accounts you have as a percentage of the total number of accounts you have. Having a greater number of older, established accounts will positively impact your score.

**Types of Credit Used – 10%** This part of your score considers how many different types of credit you have like credit cards, mortgage loans, and installment loans. You don't want to open new accounts that you won't use in order to raise your FICO® score—it probably won't help.

Personal Information File Number:  
Date issued:

Name: **What's In Your Credit Report?** SSN: XXX-XX-XXXX

Other Names:

Account Information

**What's In Your Report**

- Social security number (first 5 digits hidden)
- Current and previous addresses
- Date of Birth
- Information about current accounts including:
  - Account current balances,
  - Credit limits,
  - When opened/closed
  - Payment history
  - Recent inquiries for credit
- Anything of public record – including bankruptcy, lawsuits, foreclosures, collection accounts, late child support, and divorce

**What's Not In Your Report**

- Checking/savings account balances
- Your age, race, religion, gender, and marital status
- Your driving record
- Your employment history – including your income or salary
- Your medical history
- Anything you purchased with cash

As we talked about earlier, your FICO® score is simply a number that reflects the data in the credit reports produced by the three main credit agencies. Other than payment history, what else is contained in your credit report? It's almost frightening how much information is in your credit report. What's really scary is that this information stays in your report for 7 to 10 years!

Here is some of the information that your report contains. You can see why many people, such as potential employers, would like to look at your credit report since it contains so much information about your life beyond just how many credit cards you have. Also, look at what's not in your report.

**Personal Information** File Number: Date issued:

Name: SSN: XXX-XX-  
Other Names: **How to Establish Credit**

**Account Information**

The key to the right helps explain the payment history information contained in some of the accounts below. Not all accounts will contain payment history information, but some creditors report how you make payments each month in relation to your agreement with them.

N/A	X	OK	30	60	90	120
Not Applicable	Unknown	Current	30 days late	60 days late	90 days late	120 days late

**Satisfactory**

- Open a Savings Account
- Open a Checking Account
- Earn a Paycheck

**AMERICAN EXPRESS**

PO BOX 98  
EL PASO, TX  
(800) 874-XXXX

Loan Type: Credit Card

Remark:

Late Payments: 26 months

30	60	90
0	0	0

Last 26 Months: '11 dec '09 dec

**BANK OF AMERICA**

PO BOX 17054  
WILMINGTON, DE 19850-7054  
(800) 421-2110

Loan Type: Credit Card

Balance: \$726  
Date Updated: 05/2011  
High Balance: \$6,826  
Credit Limit: \$17,200  
Past Due: \$0  
Terms: Minimum \$15

Late Payments: 48 months

30	60	90
0	0	0

Last 48 Months: apr mar feb '11 dec nov oct sep aug jul jun may apr mar '09 dec nov oct sep aug jul jun may apr mar

You credit history might seem like a Catch-22 situation—in order to get credit, you have to have a credit history. If you haven't gotten credit in the past, lenders aren't likely to give you any now. How can you build a good credit history if no one will give you credit to start with?

Building a good credit record is a slow process. It may take you a few years to prove you are a good credit risk.

Here are a few things you can do to start:

- Open a savings account and make regular contributions. Lenders like to see that you have a regular pattern of saving.
- Open a checking account, preferably at the same financial institution. It is very important for you to maintain your account balance with a checking account so that you don't bounce checks.
- Earn a paycheck. Lenders want to know that you have a source of income to pay your bills. It is very difficult, if not impossible, to get credit without a steady paycheck. Remember that the length of time at your job is important too. Don't change jobs every few months. This indicates lack of responsibility and instability.





After you have had your checking account for a few months, you can open a store credit account. You may have to do this with a co-signer since you are just starting out. Your parent or another adult with good credit can co-sign on the card. Being a co-signer is a big responsibility because the co-signer is legally responsible for paying the debt if you don't. After you get the card, make a few small purchases and pay them off each month. Setting up a cell phone account in your own name is another way to establish some credit—as long as you pay your bill on time!

Take out a small loan from the same financial institution where you have your savings and checking accounts. With the loan money, buy something you really need like a computer for college. Be sure to pay the loan back as agreed. Paying back a loan earlier than scheduled can help build your credit as well. A six-month loan is a good start to establishing credit. Again, you may have to have a co-signer to qualify for the loan.

After a couple of years of using credit wisely, you may want to apply for a credit card. You might start out with a secured card since they are easier to obtain. Remember to shop around for the best terms. Go for a small credit limit to start with so you get used to not overspending with your card. Be sure to make sure you have enough money coming in so that you can qualify for the card. According to FICO, paying off your entire balance every month looks good on your credit report. If you do carry a balance, make sure you have enough income to pay off your balance or pay more than the minimum amount each month. Once you prove yourself responsible with your first credit card, you will find it much easier to get additional credit when you need it.

Finally, pay all of your bills on time or early if possible. If you are going to mail your payment, be sure to mail it with enough time for it to reach the creditor before the due date! Setting up automatic reminders and payments is one of the best ways to stay current on your payments.

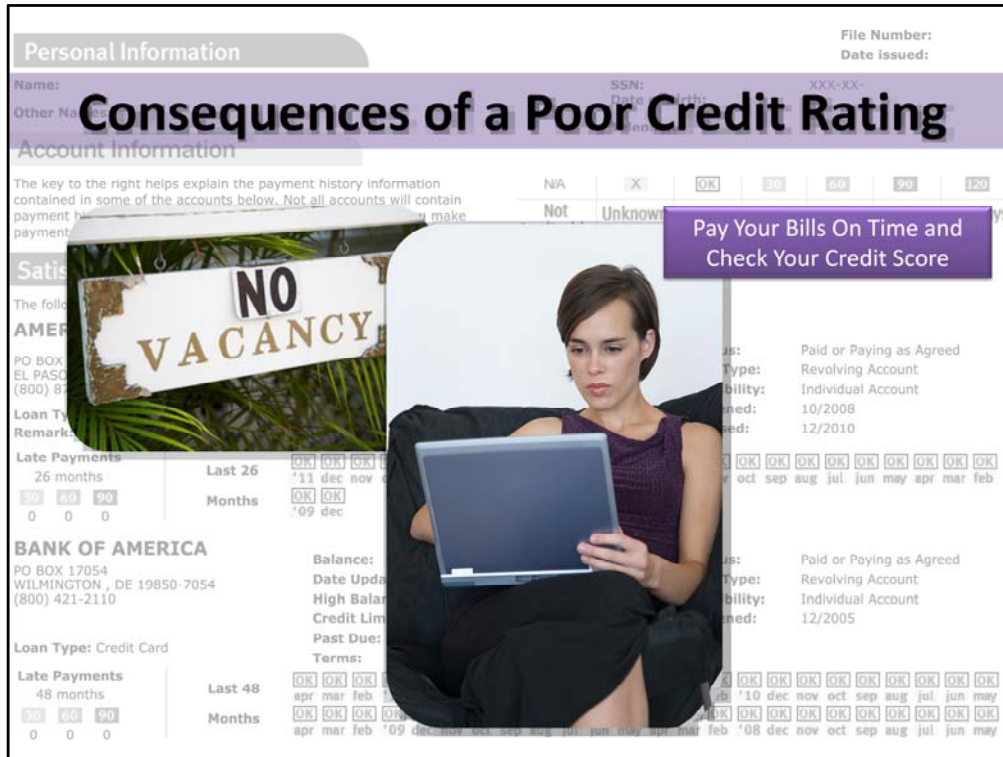


Once you have established a good credit history, you'll want to work hard to protect it. A good credit rating ensures that you'll be able to get credit faster and cheaper than those people with a poor one. The higher your credit score, the greater the number of creditors that will want to lend to you because they know they'll be paid back. As a result, they'll offer you lower interest rates than they do their riskier borrowers. Remember, the interest rate is the highest cost of using credit. The lower your rate, the less you will pay back to use the credit.

A good credit rating can also decrease your insurance rates, since insurance companies may look at how responsible you are with your finances as a good indicator of how risky you are as a customer.

Landlords often check credit histories of their potential renters because they want renters that will pay the rent on time, so a good credit history can affect whether or not they rent to you. Finally, many employers check the credit history of potential employees. This may not seem fair to you, but employers want to know if they can trust you and if you are responsible or not. If you can't handle your own money, how can they expect you to do what you are supposed to do on the job? Some employers check your credit report every year, especially if you work at a job where you handle money, like a bank.

So how do you maintain a good credit rating? It pretty much boils down to paying your bills on time, especially to those businesses that report to the big three credit agencies. If you are having difficulty making payments on a bill, it's extremely important that you contact the business to work with them so that they don't make negative reports to the main credit agencies. We'll look more at this in the next topic.

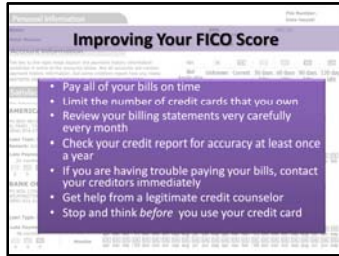


A bad credit rating can have some very serious consequences. Since potential employers, landlords, and lenders may review your credit history, you may have trouble getting a job, renting an apartment, or getting a loan for a car or other things you may need. Your insurance rates may go up as well. Since you'll be a riskier credit bet, there will be a smaller number of lenders willing to extend credit to you, usually at a much higher interest rate. In other words, it will cost you more money to borrow *if* you can find a lender that's interested in your business.

If you apply for a job that requires a security clearance, you may not even be considered with a bad rating. A bad credit rating can really affect your ability to function in the world on your own!

You can protect yourself from this situation by paying your bills on time and checking your credit record to make sure it's accurate using the AnnualCreditReport.com website. Look for any inaccurate items that are bringing down your credit rating.

Finally, it's a good idea to check your credit record before you apply for credit. You need to know your score so that you will know whether or not you are likely to be approved and also what types of interest rates to expect. It can be very embarrassing to be denied credit because of your report. If you are denied credit, be sure to request your report so you can find out the reason and begin working the negative things on your report so you can raise your rating.



Unfortunately, it's much easier to hurt your credit rating than it is to fix it. Think of your grades again. If you have a 100 average in a class and you get a zero, what happens to your grade? It drops dramatically. No matter how hard you work, you may never make it back to an A! The same goes for your credit rating. A missed payment can really bring down your credit score. It can take years to improve a bad rating. Fortunately, the items on your credit report only stay there for seven years, so if you do miss a payment, you'll be able to get rid of it someday, if you don't have any more late payments.

Here are a few things you can do to improve your credit score:

Pay all of your bills on time! This can't be said too often. It is extremely important! Mail your payment at least five working days before the due date to avoid late fees. Pay the balance in full every month on your credit cards, if you can. If that's not possible, pay more than the minimum due.

Limit the number of credit cards that you own. Have one or two credit cards, but use them responsibly and keep the balances low. Apply for new credit only when absolutely necessary.

Review your billing statements very carefully every month. If you find an error, don't wait. Write a letter to the creditor explaining the error. Send copies of any documentation you have to support your claim. Do NOT write a note on the bill and then send it back. You must send a separate letter to the address on the back of the statement. It is also important that you know how much you owe at all times.

Check your credit report for accuracy at least once a year so that you know there aren't any errors, and contest any errors you do find.

If you are having trouble paying your bills, contact your creditors immediately to talk about a payment plan. Do not just skip payments! Be sure to send something to each creditor.

If necessary, get help from a legitimate credit counselor. We will talk more about this in the next topic.

Personal Information File Number:  
Date issued:

Name: **Improving Your FICO Score: DON'TS** SSN: XXX-XX-XXXX Date of Birth: XXX-XX-XXXX

Other Names:

Account Information

The key to the right helps explain the payment history information contained in some of the accounts below. Not all accounts will contain payment history information, but some creditors report how you make payments.

N/A	X	OK	30	60	90	120
Not	Unknown	Current	30 days	60 days	90 days	120 days late

- Don't lend your credit card to anyone!
- Don't apply for more credit cards if you are already carrying a balance
- Don't apply for a credit card because of a promotional deal
- Don't charge anything you can't pay for
- Don't ignore the problem and get help!

**Federal Reserve Board**

Loan Type: Credit Card  
Past Due: \$0

Late Payments  
48 months

30	60	90
0	0	0

Now that you know what you should do, let's look at the things you should NOT do to protect your credit:

- Don't lend your credit card to anyone! Keep your information safe and secure to prevent fraud and identity theft.
- Don't apply for more credit cards if you are already carrying a balance on a card you already own.
- Don't apply for a credit card because of a promotional deal. That free t-shirt and pizza comes at a price.
- Don't charge anything you can't pay for with the next bill.
- Most importantly, if you find yourself in over your head, don't ignore the problem. Get help right away because your debt will only get worse. Contact your creditors immediately if you start having problems paying your bills. We will discuss this more in the next topic.

For more tips on improving your FICO score go to the Federal Reserve Boards website.