

# IMPORTANCE OF CREDIT HISTORY AND SUCCESSFUL SAVING

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From America Saves and Experian



# WHAT IS A CREDIT REPORT AND SCORE?

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A **credit score** is a three-digit number that measures how likely you are to repay a loan on time. It uses information from your credit report to predict the risk of you not paying that loan back 24 months after scoring.

A **credit report** is an explanation of your credit history. It states when and where you applied for credit, whom you borrowed money from, and whom you still owe. Your credit report also tells you if you've paid off a debt and if you make monthly payments on time.

## How can I get a copy of my credit report and score?

The three nationwide consumer reporting companies- Equifax, Experian, and TransUnion are required by The Fair Credit Reporting Act (FCRA) to provide you, at your request, with a free copy of your credit report once every 12 months. (Available at [www.annualcreditreport.com](http://www.annualcreditreport.com))

## How much does it cost?

You will have to pay around \$14 to receive an additional credit report within 12 months of when you received your free report. To receive a copy of your credit score, you will have to pay one of the three nationwide consumer reporting companies around \$8.

## Who do I get help from if I find something wrong?

You are responsible for correcting inaccurate or incomplete information in your report. There are two things you should do if you find an inaccuracy. First, tell the consumer reporting company (that provided the report), in writing, what information you think is inaccurate. Contact information will be provided with your personal credit report. Consumer reporting companies are required to investigate anything in question and must forward all relevant data to the organization that provided the information. Second, tell the creditor or other information provider in writing that you dispute an item.

## Who has access to my credit score?

The FCRA specifies who can access your credit report. Those who have access to your credit report include creditors, insurers, employers, and other businesses that use the information in your report to evaluate your applications for credit, insurance, employment, or renting a home or apartment.

## WHY IS SAVING SO IMPORTANT?

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It is important for all Americans to have savings. Having a savings account allows people to pay for emergencies, gives people financial freedom, and can help you avoid credit problems that could hurt credit scores. A high credit score can make it easier to rent an apartment, get utility services, and qualify for new credit.

### Paying for Emergencies

Having a savings account allows people to pay for emergencies on their own instead of turning to high-interest credit cards or payday loans. Not being able to pay off these types of loans will be shown in your credit report and can severely affect your credit scores.

### Financial Freedom

Having savings allows you to have financial freedom. People with lots of debt often say they lack peace of mind. They worry constantly about paying off debts and making ends meet. The stress of these worries affects their family life, work performance, and other areas of their lives.

### Higher Credit Scores

Having savings allows you to pay your bills on time. Paying your bills on time can lead to higher credit scores.

## HOW DO I START SAVING?

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When it comes to saving money, the sooner you start the better. It's not an act that's accomplished overnight, but a process that happens gradually and grows over time. Just remember, slow and steady wins the race.

Making ends meet can be a challenge. And you may wonder how it's possible to spare anything. But any amount saved - a quarter, a dollar - is progress. Those quarters and dollars add up. As you get into the habit of routinely "paying into your savings" you'll see the money you're setting aside grow.

The first thing you have to do to start saving is take a look at your finances and make sure that you are spending less than you earn.

- Make a budget
- Find ways to cut back on spending
- Set up automatic savings

# WHAT SAVING OPTIONS ARE AVAILABLE TO ME?

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There are many savings options available. Some are designed for short term goals while others are designed to help you save for the long term.

## Pay Off High-Cost Debt

Before you start to save, it's important to pay off any high-interest debt you have. Having these types of debts is one of the easiest ways to lower your credit scores.

If you have a \$3,000 credit card balance at 19.8%, and you pay the required minimum balance of 2% of the balance or \$15, whichever is greater, it will take 39 years to pay off the loan. With accumulating interest, you will pay more than \$10,000 in interest charges.

## Save for Emergencies

Saving for emergencies is a sound choice. Having an emergency savings fund may be the most important difference between those who manage to stay afloat and those who are sinking financially. Maintaining an emergency savings of \$500 to \$1,000 allows you to easily meet unexpected financial challenges such as repairing the brakes on your car, buying your child a new pair of needed shoes, or flying to visit a sick parent.

## Save at Tax Time

Tax time is a great opportunity to save. Your tax return allows you to deposit money directly into your savings account or purchase savings bond with all or a portion of your return.

## Save for Retirement

Many employers allow employees to participate in an employer-sponsored retirement plan, such as a 401(k) plan. But even if your employer doesn't offer a retirement plan, you can still save for retirement, and get some tax benefits in the process, by putting money in an Individual Retirement Account (IRA).

## Save for a Home

Almost anyone can afford to own a home with proper preparation. Develop a savings plan to build up money for a down payment at purchase, for moving expenses, and for post-purchase emergency expenditures such as needed home repairs. Having a good credit score will allow you to save on your mortgage payments because having a better score will allow you to secure a lower interest rate.

# WHY IS GOOD CREDIT MANAGEMENT SO IMPORTANT?

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Good credit plays an important role in your financial life. Not only is it essential for obvious things like qualifying for a loan or getting a credit card, but also for less obvious things like getting cellular telephone service, renting a car, and perhaps even getting a job.

Managing your credit will also help you save for a rainy day. A strong credit history, reflected in good credit scores, will let you qualify for lower interest rates and fees, freeing up additional money to set aside for emergencies, retirement, and other smaller unexpected expenses. Decreasing debt and increasing savings reduces stress and leads to greater financial freedom.

The good news is that having good credit is not difficult. Simply follow these five fundamentals of good credit management and you will build and maintain a credit history that will enable you to get the credit you need, when you need it.

## 5 TIPS FOR BUILDING GOOD CREDIT

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### 1. Establish a credit report

To establish a credit report you must have an open, active credit account. To get your first credit account talk to your bank or credit union.

### 2. Always pay as agreed

Make at least the minimum payment due each month and never be late. Delinquent payments and payments that don't meet at least the minimum contractual amount will have the most immediate, negative impact on your credit report and credit scores.

### 3. Keep your balances low

Keeping your balances low as compared to your available credit limits is a sign of good credit management and shows lenders you are a good credit risk. Your utilization rate, also called your balance-to-limit ratio is a key component to credit scores.

### 4. Apply for credit wisely

Do not apply for multiple accounts in a short period of time. Taking on large amounts of debt in a short time is a sign of high credit risk. Apply for credit when you need it, and only in the amount you need. Just because credit is offered, doesn't mean you have to accept it.

### 5. Demonstrate good credit habits over long periods of time

In order to have good credit scores you must demonstrate a habit of good credit management over a long period of time.

# FREQUENTLY ASKED CREDIT QUESTIONS

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## **Do Missed Payments Affect My Score?**

How many payments you miss, if you don't pay the debt at all, and how long ago late payments occurred are all important. The further in the past a late payment occurred, the less impact it will have on credit scores and lending decisions. That is why it is important to catch up on your payments if you have fallen behind.

## **How Can I Get Credit if I Can't Open a Credit Account?**

If you cannot get a credit account through a bank or credit union, you may need a friend or family member to cosign for you or add you as an authorized user on an existing account.

## **Will Closing Accounts Raise My Credit Score?**

Be cautious about closing accounts. Doing so will reduce your available credit limits and will increase your overall utilization rate, making it appear as if you have suddenly taken on more debt. The result is a temporary negative impact on your credit scores.

## **Will Applying for New Accounts Raise My Credit Score?**

Each time you apply for credit an inquiry is added to your credit report. Inquiries are a record that a lender has reviewed your credit report in response to your application for credit. They indicate that you may have new debt that is not yet shown as an account in your credit report, and so represent an unknown risk to lenders. For that reason, recent inquiries can have a small but meaningful impact on credit scores. However, that impact is temporary.

## **How does Shopping for a Car or Home Affect My Score?**

Inquiries for auto purchases and mortgage loans are unique. Because lenders recognize you will shop for the best auto and mortgage loan rates, inquiries for those types of loans in a short period are counted as a single inquiry by credit scoring systems. Doing so enables you to find the best rates with little or no impact on your credit scores.

## **What is the First Step to Rebuild My Credit Score?**

The first step in rebuilding strong credit scores after having credit problems is to bring your accounts current. Before your credit scores will improve significantly, however, you must show that you have regained control of your credit by making on-time payments over time. The more serious your past credit difficulties, the longer it will take to rebuild a positive credit history and strong credit scores.

## **IS CREDIT REPAIR A GOOD IDEA?**

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Every day, companies target consumers who have poor credit histories with promises to clean up their credit report so they can get a car loan, a home mortgage, insurance, or even a job once they pay them a fee for the service. The truth is, these companies can't deliver an improved credit report for you using the tactics they promote. It's illegal: No one can remove accurate negative information from your credit report.

## **WHAT IS LOAN CONSOLIDATION?**

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A Direct Consolidation Loan allows a borrower to consolidate (combine) multiple federal student loans into one loan. The result is a single monthly payment instead of multiple payments. Use a loan consolidation calculator to find out if this is a good option for you.

## **WHAT IS A DEBT MANAGEMENT PLAN?**

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Organizations that advertise credit counseling often arrange for consumers to pay debts through a debt management plan (DMP). In a DMP, you deposit money each month with a credit counseling organization. The organization uses these deposits to pay your credit card bills, student loans, medical bills, or other unsecured debts according to a payment schedule they've worked out with you and your creditors. Creditors may agree to lower interest rates or waive certain fees if you are repaying through a DMP. Some organizations that offer DMPs have deceived and defrauded consumers. If you are paying through a DMP, contact your creditors and confirm that they have accepted the proposed plan before you send any payments to the organization handling your DMP.

## **WHERE CAN I GET HELP WITH DEBTS I CANT AFFORD TO PAY?**

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In most communities, there are agencies that can help you manage your debts. The most helpful and most widely available are non-profit Consumer Credit Counseling Services (CCCS). CCCS counselors can work with you privately to help you develop a budget, figure out your options, and negotiate with creditors to repay your debts. Call 1-800-388-2227 to locate the office nearest you.

If your debts are too large, you may want to consider bankruptcy. It can give you a fresh start, but declaring bankruptcy is a serious step that can make it harder to get credit for years. Call your local Legal Aid or Legal Services office for advice. If you don't qualify for their services, ask them for a referral to a bankruptcy attorney.

# FDIC MODEL SAFE ACCOUNTS TEMPLATE

The FDIC Model Safe Accounts Template provides insured institutions with guidelines for offering cost-effective accounts that are safe and affordable for consumers. The accounts reflect the following guiding principles: transparent and reasonable rates and fees and access to banking services that are FDIC insured.

**Elements of the FDIC Model Safe Accounts**

	<b>Transactional Account</b>	<b>Basic Savings Account</b>
<b>Core Features and Fees</b>		
Card-based electronic account	√	√
No overdraft or NSF fees	√	--
Interest bearing	--	√
Direct deposit	Free	Free
Automatic saving	Free	Free
Online and mobile banking/ bill pay	Free	Free
Electronic statements (with consumer's consent)	Free	Free
Opening balance	\$10 - \$25	\$5
Monthly minimum balance	\$1	\$5
Monthly maintenance fee	Up to \$3	None, if minimum balance is met
Money orders/e-checks	2 free per month, additional for a fee that is reasonable and proportional to the cost	--
Check cashing	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost
General funds availability (subject to appropriate exceptions, e.g. large deposits)	Same day or next day from an established customer	Same day or next day from an established customer
<b>Auxiliary Services and Fees</b>		
Financial education	Free	Free
Linked savings account	Transfer fees that are reasonable and proportional to cost	--
Line of credit	Rates and fees that are reasonable and proportional to cost	--
Small-dollar loans (less than \$2500)	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans
Kiosk bill payment	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost
Domestic and international wire transfers	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost

# ADDITIONAL RESOURCES

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## Industry Resources:

Consumer Federation of America's Vantage Credit Score Website

<http://www.creditscorequiz.org>

<http://www.creditscorequiz.org/espanol>

Financial Industry Regulatory Authority (FINRA) website

<http://www.finra.org/>

Live Credit Smart, Experian credit education

<http://www.livecreditsmart.com>

My Fico, About Credit Scores

<http://www.myfico.com/crediteducation/creditscores.aspx>

Money Under 30, Understanding "Your Number"

<http://www.moneyunder30.com/what-is-a-credit-score>

Bankrate, Credit Scores Explained

<http://www.bankrate.com/brm/news/cc/20010223a.asp>

## Government Resources:

U.S. General Services Administration, Federal Citizen Information Center and Fair Isaac Corporation (2008)

<http://publications.usa.gov/USAPubs.php?PubID=3379>

Federal Trade Commission's, Facts for Consumers (2011)

<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre34.shtm>