Keys to Your Financial Future Step 2.5: Credit Repair or Building Plan

Use the questions to develop your credit repair or building plan.

Do you need to repair your credit history?

○ Yes ○ No

Do you want to build your credit?

○ Yes ○ No

What steps can you take to repair or build your credit?

Action Step	Resources or Information You Need	Date to Implement	Date Completed

What is Credit Score?

Have you ever hear the term credit score?

What do you know about credit scores?

Who Makes Credit Scores?

KEY CONCEPT

While Fair Isaac Corporation (FICO) is used 80% to 90% of the time to make decisions about consumers, there are other companies that make and sell credit scores.

The three credit reporting agencies have their own credit scores. These are marketed directly to consumers for "educational purposes."

- Experian has the Experian Credit Score also called the PLUS Score (this is the score advertised on television with the guy playing the guitar)
- Equifax has the Equifax Credit Score™
- TransUnion has the TransRisk Score

In 2006, TransUnion, Equifax and Experian developed the VantageScore as a joint venture.

Finally large banks may use their own credit scoring models.

A credit score is a number that summarizes key pieces of information from your credit reports. A special mathematical formula is used to come up with the number.

A higher number for your credit score is positive. A high number means you are likely to pay back your credit obligations as agreed. A low number means you may not pay back your credit obligations as agreed.

After seeing all of the information on credit reports, you may be wondering why this information even matters to you. Thinking about your credit scores may be about the last thing on your list of concerns as a young person in foster care or transitioning from foster care. But it does matter.

Creditors and lenders use scores to decide whether to give you credit. They also use it to decide how much credit to give you—***this is the amount of your loan***—and how much to charge you for the credit—***this is the interest rate and fees they will charge you***.

If you have a lower credit score, creditors may still give you credit—they just increase the cost of credit. Your interest rate and fees may be higher.

Although the lending industry has been the biggest user of credit scoring, other businesses use credit scores. They use credit scores as a "short cut" to making decisions. So who else uses credit scores?

Insurance Providers—In general, lower credit scores result in higher rates for coverage. Low credit scores may even result in the denial of coverage.

Property Owners and Landlords—Like insurers and creditors, property owners are increasingly using credit scores to assess quickly the risks of renting. Bankruptcy (as reported on credit reports) used to be seen as the primary credit-related barrier to renting a place to live. Now, credit scores can also factor into the decision.

Utility Companies—Utility companies that require consumer deposits are using credit scores to help determine deposit levels for customers. The lower the credit scores, the higher the deposit. This is because of the perceived risk that the individual with lower credit scores is likely to be late or even miss payments.

Credit scores are made by companies that collect and sell data and information about consumers. The most widely used credit scores are the one produced by Fair Isaac Corporation. Fair Isaac Corporation makes and sells the FICO scores. If you have a credit history, then you have FICO scores.

You have at least three FICO scores. One for information in each of your credit reports—a FICO score based on your Equifax Credit Report, a FICO score based on your Experian Credit Report, and a FICO score based on your TransUnion Credit Report.

FICO scores range from 300 to 850. People with FICO scores between 760 and 850 have the very best scores—they will get the lowest rates for credit and loans. The cost of credit can be very different depending on your FICO score range:

FICO Score Range	Interest Rate	Monthly Payment	Interest Paid Over LIfe of the Loan
760 - 850	3.50%	$ 449	$ 61,656
700 - 759	3.75%	$ 463	$ 66,722
680 - 699	3.90%	$ 472	$ 69,801
660 - 679	4.15%	$ 486	$ 74,997
640 - 659	4.60%	$ 510	$ 83,692
760 - 850	5.10%	$ 543	$ 95,462

This example is based on a $100,000 loan for 30 years (a mortgage).

Someone with a credit score in the 620 to 639 range will pay more than 50% more for this loan than someone with a score above 700.

FICO score ranges and interest rates are based on an example from www.myfico.com. The monthly payment and total interest paid was calculated using an Excel Amortization Table Spreadsheet.

People with rates below 620 will generally not qualify for most conventional credit. Conventional credit means credit you can get at banks or credit unions.

KEY ACTIVITY

What Makes Your Score Go Up or Down?

With your partner, complete the exercise to see what makes your score go up or go down. Figure out your ending credit score.

Your Starting Credit Score	750

Action	Impact	Balance

Ending Credit Score	

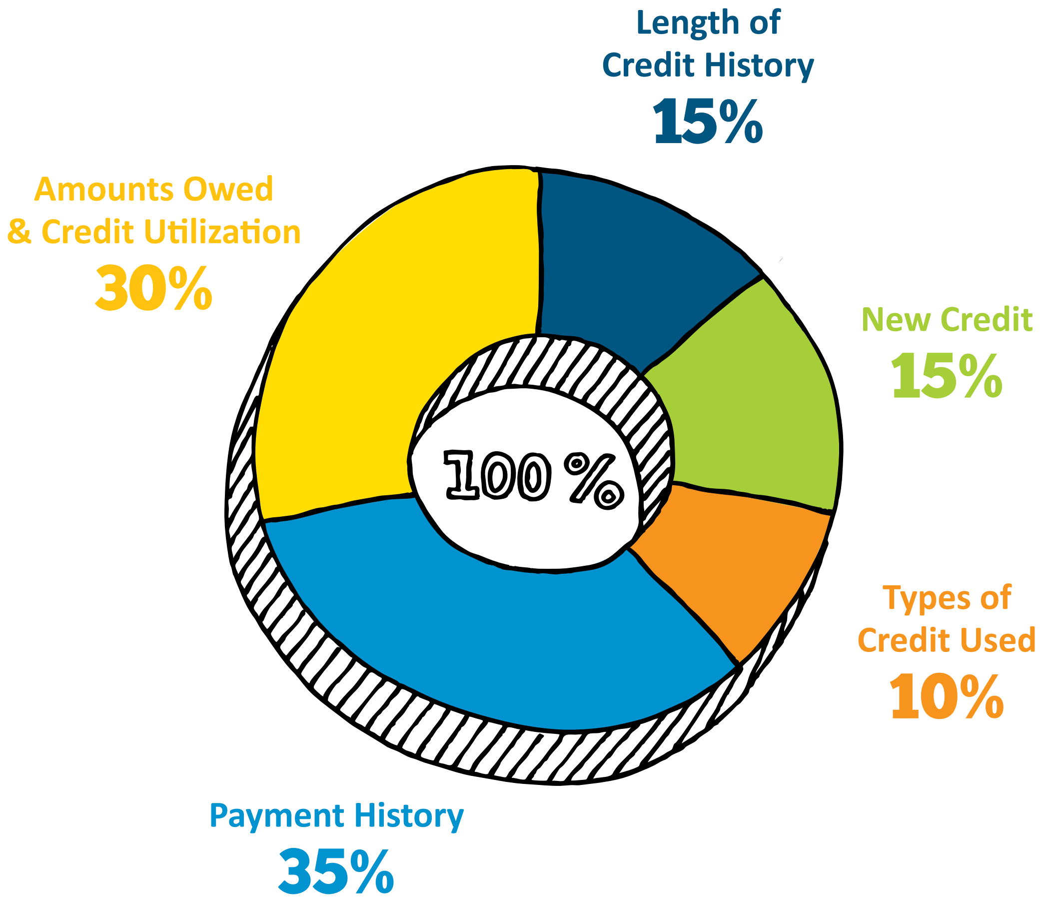
Example based on information from the Consumer Federation of American and Fair Isaac Corporation.

What's in Your Score

Most credit scoring models include information about the following:

- How you have handled your accounts including your repayment history.
- Whether you are paying down balances on loan and other credit consistently.
- The rate at which you are using credit versus the amount of credit you have available.
- How many different types of credit you have
  (revolving versus installment loans; secured versus unsecured loans).
- Length of credit history.

Different credit scoring models weigh each of these items differently.
FICO scores are calculated using the following weights:



	What Does it Mean	Questions Asked
Payment History (35% of the score)	Your track record with paying back your debts	➔ Have you paid on time? ➔ Do you pay in full? ➔ How often do you pay late? ➔ How late are you? ➔ Have any of your accounts been charged off? ➔ Have any of your accounts gone to collections? ➔ Have you filed bankruptcy?
Amounts Owed (30% of the score)	The debts you owe right now	➔ On all your credit sources, how much debt are you carrying? ➔ Are you paying down these balances in a consistent manner? ➔ Are you using 30% or less of the credit available to you (credit utilization rate)?
Length of Credit History (15% of the score)	Your "credit age"	➔ How long have you had credit?
New Credit (10% of the score)	A clue to see if you are stretched too thin and using lots of credit to catch up	➔ Have you opened any new credit lines recently? ➔ What kind and for how much?
Types of Credit Used (10% of the score)	Your line up of revolving, installment and other forms of credit	➔ How many credit or department store charge cards do you have? ➔ How many auto loans? ➔ Do you have any mortgages or student loans? ➔ Are you able to manage many different kinds of credit?

What is Not Included in Credit Scores

Some things cannot be included in the credit score calculations. The Equal Credit Opportunity Act prohibits the following from being used to determine someones credit scores: [10]

- Race
- Color
- Religion
- National Origin
- Sex
- Marital status
- Receipt of public assistance
- Whether the individual has "exercised any consumer right under the Consumer Credit Protection Act"

In addition, FICO specifically does not include an individual's age, salary, occupation, job title or employer, employment history, or place of residence. FICO also does not consider interest rates being charged on credit accounts, child or family support obligations or rental agreements, or whether the individual is participating in credit counseling.

FICO also does not count certain inquiries against a person's credit, including the following:

- Inquiries made by the consumer to check his or her credit report.
- Inquiries made by lenders and other businesses to make offers such pre-approved credit offers.
- Inquiries that are considered administrative.[11]

In general, FICO does not use any information that is not found on a credit report produced by one of the three major credit bureaus. Other credit scoring models may consider some of these factors even though FICO does not.

How Can You Improve Your Credit Scores

Since all of the information that goes into a credit scores comes from the credit reports, the first step in improving your credit scores is ***ordering and reviewing your credit reports regularly***. Once you are 18, you should do this at least one time per year. Order your report from each of the national credit reporting agencies one time per year through **www.annualcreditreport.com**.

Make sure you are ***paying all of your bills on time***. This has the biggest impact on your credit scores. Remember, it accounts for 35% of your FICO scores and is a big factor in other credit scoring models, too.

Ensure you are ***not using more than 30% of the credit available to you***. The rate at which you are using your credit is called your credit utilization rate.

If possible, try to ***have a diversity of credit*** (revolving credit and installment loans; secured and unsecured loans). Be sure to work closely with someone if you decide to take on more credit to build your credit scores. Taking on too much credit and failing to pay as agreed will lead to far worse results than having only one kind of credit.

[10] Consumer Federation of American and Fair Isaac Corporation. Your Credit Scores. Federal Citizen Information Center. **www.pueblo.gsa.gov/cic_text/money/creditscores/your.htm**

[11] **www.myfico.com**

Credit and the Opportunity Passport™

Having a good credit history and credit scores can open doors for you. As you transition to financial independence, the Opportunity Passport™ wants to ensure you start out with positive credit.

You can use your matched savings account to improve your credit—both your credit history and your credit scores. What does this mean? It means you can apply your matched savings to repair your credit history and improve your scores by paying for different expenses:

- Accounts you may be late on.
- Debts in collections.
- Accounts you risk becoming late on.
- Dealing with legal or other issues resulting from identity theft.

"If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability."

— HENRY FORD

To build your credit history and improve your scores, you can use your matched savings to do the following:

- Secure a credit builder loan to build credit.
- Secure a credit card to build credit.

Before deciding to use your matched savings to build credit, be sure you have taken these steps:

- Ordered your credit report.
- Reviewed your credit report with Opportunity Passport™ staff or someone they have referred you to.
- Considered other asset building opportunities you may be giving up to use your matched savings for credit repair or building.

Good credit—having a good credit history and positive credit scores—is a productive asset. Good credit can help you get and keep other assets. Investments of time and money now to deal with credit issues make credit accessible, loans more affordable, jobs more available, insurance affordable, and renting an apartment possible.