

WHAT IS A CREDIT SCORE?

A credit score is a number that lenders use to judge how likely someone is to pay back a loan. Credit scores range from 300 at the low end to 850 at the high end. The higher a credit score, the better it is.

The better your history of paying back debts, the more likely a lender is to give you more credit. Someone who doesn't pay their debts on time, or doesn't pay them back at all, is less likely to have a lender extend credit to them.

A good credit score can open or close doors for you. Good credit can affect getting a job, renting an apartment, getting a utility or cellphone account or accessing better interest rates and terms on credit cards or loans.

PARTS OF A CREDIT SCORE



There are 5 parts of a credit score:

- Payment history: consistent and on time payments, 35%
- How much you owe: the lower the debt, the higher the score, 30%
- Length of credit history: length of time you've established credit, 15%
- New or recent credit: recently opened accounts and inquiries, 10%
- Types of credit used: types and mix of credit, 10%

BECOME CREDIT SMART

HOW DO I READ MY CREDIT REPORT?

Prospective lenders, like banks and car dealerships, need to know what your credit behavior is before they can loan you money with confidence.

They use credit scores, published by credit bureaus, to gauge whether someone will be a reliable borrower. The information a bureau uses to create that score is from credit reports.

REVIEW YOUR CREDIT REPORT AT LEAST EVERY YEAR

You should review your credit report with each major credit bureau (Experian®, Equifax®, and TransUnion®) every 12 months. This process will give you a clearer picture of how your credit activity is affecting your credit score and if there is any incorrect information you need to correct and/or dispute.

There are also financial tools, sometimes called **FinTech** tools, that you can use to see a version of your score.

Sites/apps like Credit **Karma™** and **NerdWallet™** help people understand what they can do to improve their scores. The score they provide is an **educational VantageScore®**, different than the **FICO®** scoring model that most lenders use to evaluate loan or credit applicants.

DEALING WITH ERRORS IN YOUR CREDIT REPORT

A credit report can have errors. If this happens, it's important to correct those errors so that your report will have the best possible standing. You can do this by sending a dispute letter to the credit bureau where you see the error. Let's look at an example.

Ruth's credit report includes a vehicle repossession that never happened. She wants to clear this up by sending a dispute letter to the credit bureau.



BECOME CREDIT SMART

Robyn sent the following letter to Experian:

Ruth Brown
1234 5th Street
City, State

ATTN: Complaint Division Experian P.O. Box 4500 Allen, TX 75013

This letter is to dispute an item in my credit report dated 2/17/2021 pulled from Experian. A copy of the credit report is attached, and I have circled the item that needs to be corrected. The credit report identifies repossession of a 2018 Ford F-150 truck by Mango Bank. I have not purchased this vehicle, and this information should be removed from my credit report.

I would like this error to be corrected as soon as possible. Please send me confirmation that this has been done along with a copy of my updated credit report.

Sincerely, Ruth Brown

Note: Ruth identified the issue and asked for confirmation once the credit issue is resolved. She must also include documentation—such as a statement from the bank that no repossession occurred—that might support her case to ensure that it is resolved, and her credit report is accurate.



Bright idea When you pull your free annual report, you can use this letter as a template to try and correct any errors. Be prepared to also include any documentation that proves the error in the report. You want to review your report each year and correct any problems you find.



Apply It

Use annualcreditreport.com to get your own credit report. Examine it for accuracy and get a clearer understanding of the information that makes up your credit score.

Here is a list of things to check for accuracy when reviewing your report:

Personal information • Accounts • Inquiries • Public records • Balance