

By definition, the word credit has to do with trust—which is why credit impacts so many financial issues in our lives.

Credit can impact a financial institution's decision to extend a loan or credit card, how high your interest rate will be, insurance coverage, and even how a landlord or potential employer considers you as a candidate. Understanding how credit and credit reports work, and working to maintain good credit can help make your life easier and more secure.

What is a Credit Bureau?

A Credit Bureau is a company that keeps credit history information about consumers and compiles it for prospective creditors to view. When you buy something, you may use some form of credit—like a credit card or a loan through a bank or credit union—and this information may then be reported to the Credit Bureau.

The Credit Bureau then takes this information, and maintains a file about your credit history. This way, anyone who has a legitimate reason to want to know about your creditworthiness can pay a fee, and receive a copy of your report.

Reporting that is used today by Credit Bureaus is built upon a foundation of three fundamental characteristics:

Capacity

The ability to repay debt
(reliable income)

Character

Reliability repaying debt
(payment history)

Collateral

Insurance for the Creditor
(valuable items like a home or bank account)

There are three major credit bureaus in the United States:

By law, everyone is entitled to a free copy of their credit report from each bureau once a year.

The first time you request your report, ask for all three. Moving forward, remember that you don't need to see all three reports at once, so use this to your advantage by viewing different reports throughout the year. To receive your free credit reports, visit www.annualcreditreport.com. Keep in mind—while reports are free, getting your actual credit score will require paying a fee.

Experian

National Consumer Assistance Center

P.O. Box 2002
Allen, TX 75013

888.397.3742
experian.com

Equifax

Credit Information Services, LLC

P.O. Box 740241
Atlanta, GA 30374

800.525.6285 | report fraud
877.322.8228 | order credit report
equifax.com

Transunion

Consumer Disclosure Center

P.O. Box 2000
Chester, PA 19022

800.680.7289 | report fraud
800.888.4213 | order credit report
transunion.com

Understanding Your Report

Within your credit report, the credit bureaus break down information into four categories:

- **Identifying Information** - Your name, current and previous addresses, Social Security number, current and previous employers, and date of birth. Other information might include your driver's license number, and your spouse's name. Review all personal information closely to make sure it's accurate. It's not unusual for there to be two or three spellings of your name or more than one Social Security number, resulting from a creditor incorrectly reporting the information.
- **Public Records** - Tax liens, court judgments, and bankruptcies. You want this section to be absolutely blank. Every credit bureau has a different name for it, but they all mean the same thing.
- **Credit History** - Your history of bill paying with different creditors including retail stores, mortgage companies, banks, and finance companies. Sometimes, the individual accounts are called trade lines. Each account will include the name of the creditor and the account number, which may be scrambled for security purposes. You may have more than one account from any given creditor. Many creditors have more than one kind of account, or if you move, may transfer your account to a new location, and assign a new number.
- **Inquiries** - A list of people who have received your credit report or name and address to offer you credit. Inquiries are divided into two sections—"Hard" inquiries are ones you initiate by filling out a credit application. "Soft" inquiries are from companies that want to send out promotional information to a pre-qualified group, or current creditors who are monitoring your account. The soft inquiries are only shown on reports given to you.

Breaking Down Your Credit Score

Your credit score is a numerical forecast that gives lenders a sense of how likely successful repayment of a loan will be. These numbers are dynamic, and change based upon five factors of financial activity that are weighted by importance to calculate risk. Different financial institutions have slightly different breakdowns, but all are similar.



660 and below is Subprime

The Five Factors

- ◇ **Payment History—35%**— Late payments on bills such as mortgages, credit cards, or car loans can cause your score to drop. The more on-time payments you make, the better your score.
- ◆ **Amounts Owed / Credit Utilization—30%**— A ratio of current revolving debt (like credit cards) to total available credit; essentially, how much credit is being used at the time. You can improve your score by paying off debt and keeping balances low to offset this ratio. Balances exceeding 50% of your available credit will negatively affect your score.
- ▲ **Length of Credit History—15%**—This is exactly as it sounds; The longer you have a credit account, your score should stay stable or improve, as long as you pay our bills on time.
- ▲ **Types of Credit—10%**—This refers to what kinds of credit you have managed. A combination of things like fixed loans and credit cards shows you have experience managing multiple kinds of debt.
- ▲ **New Credit—10%**—Applying for a lot of credit in a short amount of time (especially for credit cards, retail store accounts, and personal loans), can be viewed as risky and lower your score. Only open new accounts when truly necessary.



Be aware of factors that can negatively affect your score:

- Being late on credit card bills and other payments
- Applying for multiple credit lines during a short period of time
- Owing over 50% of the limit of your credit lines
- Having charged off accounts
- Having a short credit history
- Declaring bankruptcy

How to Improve Your Score

- **Correct Errors.** Clear up any inaccurate information you find on your report. Are all the accounts that have been closed listed as closed? Do you show open balances that are incorrect? If you find a mistake on your credit report—an account that isn't yours or a disputed amount—you'll need to fill out the form that comes with the report or follow the instructions on the explanatory sheet. Some credit bureaus also allow you to file a dispute online. The process takes time because the creditors have 30 days to respond to a charge of a discrepancy. As long as a charge is in dispute, that dispute will show up on your report.
- **Pay on Time.** Try to get current on any past-due bills and make future payments on time. The longer you make timely payments, the more your credit score will improve.
- **Clear up Debt.** Try to pay off your debt instead of moving balances around. Every time you accept a new credit card, you are impacting the "new credit" consideration affecting your score.
- **Keep Balances Low.** Keep your balances low in relation to available credit limits. When a creditor is reviewing your credit report, they consider the percentage used of available limits. High balances (over 50%) that aren't "maxed out" can still have a negative impact.
- **Acquire a Variety of Credit.** A combination of things with fixed monthly payments, (like car loans or mortgages), and revolving loans (credit cards) will demonstrate that you can manage a variety of types of credit.

Building or Re-Building Credit

If you're looking to build your credit score because you have a limited credit history, then you can do a few things:

- Ask your Bank or Credit Union if you qualify for a credit card with a small balance. This low-risk option is a great introduction to managing credit, and proves to higher-risk creditors that you can be trusted.
- Consider applying for a small credit-building loan to pay for something that you need. For instance, UMassFive College Federal Credit Union offers loans to pay for a computer, bicycle, or even a farm share! A small installment loan with low monthly payments will help you build credit without the temptations associated with credit cards.

If your score has dropped, you may need to be prepared to do some of the following to repair your credit:

- Make a large downpayment
- Accept a higher interest rate
- Use a Co-Signer or Co-Borrower
- Set up Automatic payments to ensure timely payment

Always remember—your credit score isn't something you can pay someone to repair. Credit repair companies simply charge a fee for unfounded advice, or offer the same insights as this booklet.



Credit Card Basics

Terms you'll want to consider when shopping for a credit card:

- **APR** - (Annual Percentage Rate)
The cost of credit expressed as a yearly interest rate.
- **Daily Periodic Rate** - (or Daily Interest Rate)
APR divided by the number of days in a year.
- **Grace Period**-
A span of time between date of purchase, and when interest begins to accrue.
- **Transaction Fees & Other Common Charges**-
Fees may be charged for card membership, cash advance, late payment, balance transfer, or inactivity.
- **Additional Benefits**-
Many credit cards come with additional features like discounts, rebates, insurance, and services. There may or may not be an additional cost associated with them.

What Makes for a Good Credit Card?

Look for a card with:

- No Annual Fees
- No Inactivity / Low Balance Fees
- Low Interest Rate
- No / Low Balance Transfer Fees
- No / Low Cash Advance Fees
- Locally Owned by Your Financial Institution
- No Penalty Default Rates

Always Ask:

Is there an introductory interest rate?
What is it, and how long does it last?

After the introductory rate ends, what will my interest rate be?

When and how can a variable rate be changed?

How will I be informed of any changes in my contract?

Is there an application fee or processing fees?

Is there an annual fee associated with this card?

What happens if I go over my limit, or if I am having trouble paying my bill?

Is there an account termination fee?

Most Importantly—Avoid the Temptation to Overspend

Keep in mind that credit is not an extension of income or an invitation to live beyond your means.

Having the use of credit can be a great financial advantage, and can be a real benefit in emergency situations. It increases financial flexibility and can help you obtain some of the luxuries that improve the quality of your life.

Even though these are all positive aspects of credit, you must guard against poor credit management.

Mismanagement can negatively impact your credit history, and lead to financial hardship and severe stress.

Before applying for new or additional credit, review your current financial situation and consider your future financial plans. Then ask yourself the important question: ***“How much debt can I comfortably handle?”***

Helpful Resources

Office of Consumer Affairs and Business Regulation

www.mass.gov/consumer

617.973.8700 (General Information)

617.973.8787 (Consumer Hotline)

Email: consumer@state.ma.us

Office of Attorney General

(Consumer Complaints & Information)

www.mass.gov/ago

617.727.8400 (Consumer Hotline)

Email: emailcomplaints@state.ma.us

National Foundation for Credit Counseling

www.nfcc.org

800.388.2227

GreenPath Financial Wellness

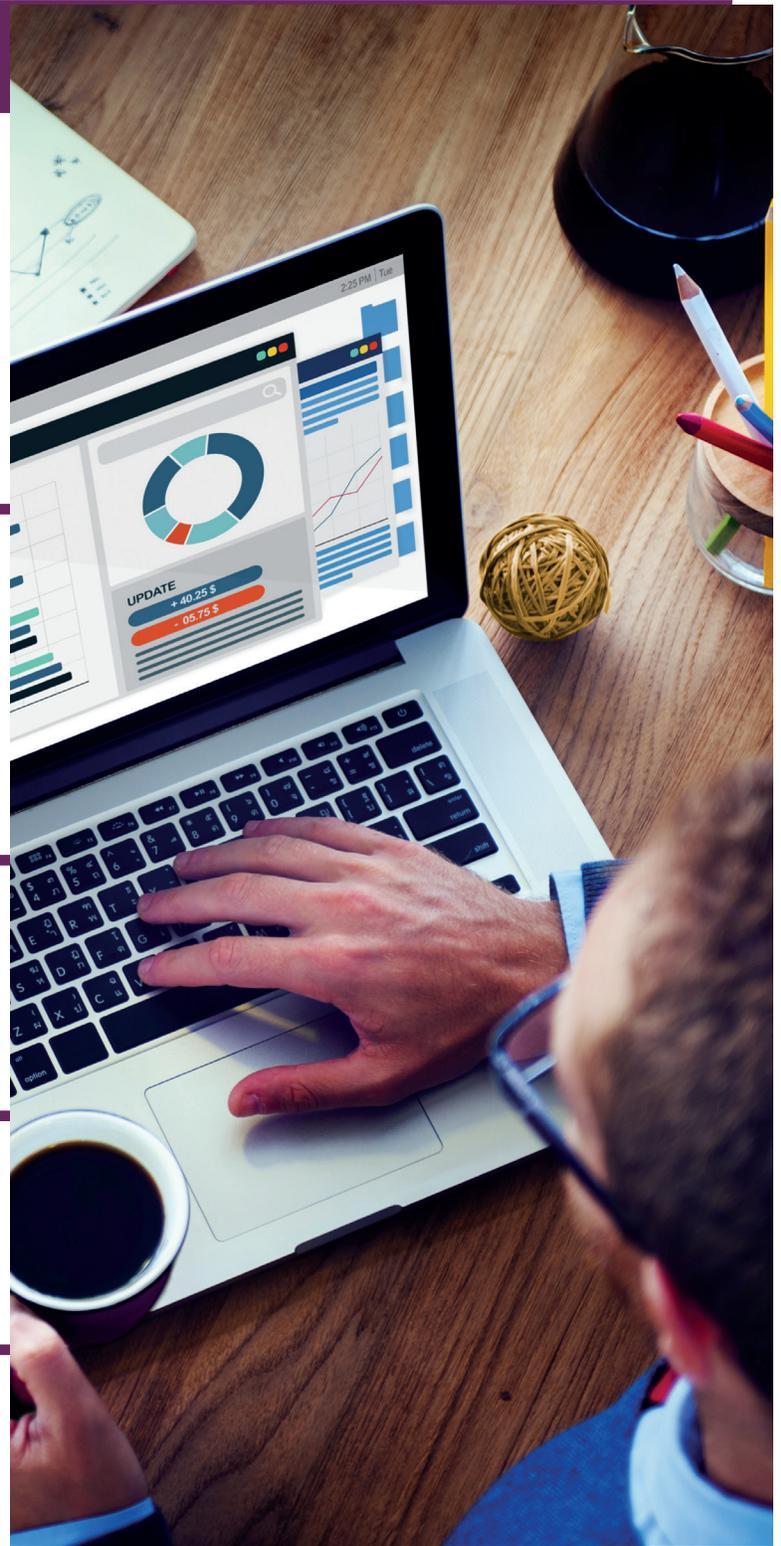
www.greenpath.com

877.337.3399

Consumer Credit Counseling Services (CCCS)

www.credit.org

800.431.8157



Amherst • Hadley • Northampton • Springfield • Worcester
800.852.5886 • umassfive.coop • member NCUA



*Knowledge is
Empowering.*