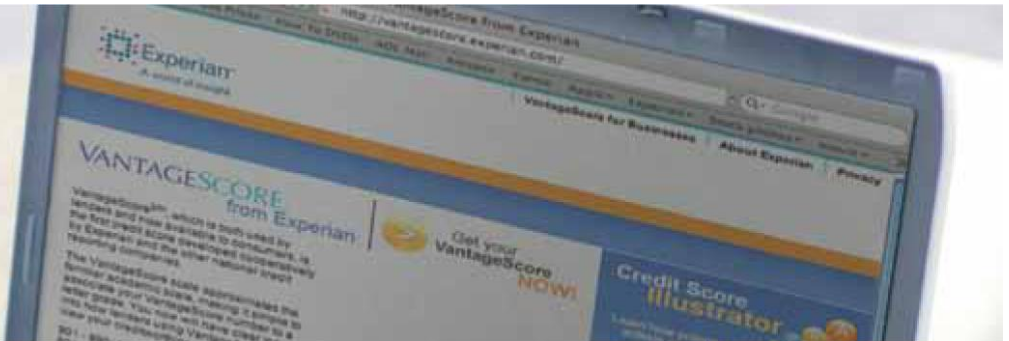


# All about credit scores



Before credit scores, lenders physically looked over each applicant's credit report to determine whether to grant credit. A lender might have denied credit based on a subjective judgment that a consumer already held too much debt or had too many recent late payments. Not only was this time-consuming, but human judgment also was prone to mistakes and bias. Lenders used personal opinions to make a decision about an applicant that may have had little bearing on the applicant's ability to repay debt.

Today, credit scores help lenders assess risk more fairly because they are consistent and objective. Consumers also benefit from this method. No matter who you are, your credit scores reflect only your likelihood to repay debt responsibly based on your past credit history and current credit status.

## What are credit scores?

Credit scores translate the information in your credit report into a simple number, enabling lenders to make more objective, consistent lending decisions — and make them more fairly and quickly. There are two types of credit scores:

1. **Generic scores:** May be used by many types of lenders and businesses to determine general credit risk and may be used by many different companies. Generic scores vary from one credit reporting company to another. To simplify the scoring model, the three national credit reporting companies — Experian<sup>®</sup>, Equifax and

TransUnion — collaborated to develop VantageScore<sup>®</sup>. VantageScore is a generic credit score that uses the same formula and assigns a letter grade, making it easier for you to understand what the number means. A grade of “C” is considered good, but for the best rates you want your history to be better than average.

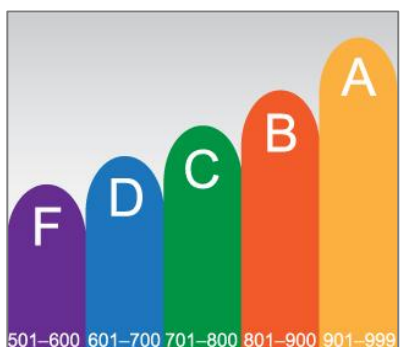
2. **Custom credit scores:** Are developed to predict risk for specific types of lending or for individual businesses, such as auto loans or retail debt. Custom scores are unique to that specific business.

## What is a good credit score?

Every credit scoring model has its own unique range of scores. Generally, higher scores represent lower risk. Because there are many different scoring systems with different scales, “good” credit scores depend on the scoring system used by your particular lender. Credit scores can be anywhere between 300 and 990, so it is important to understand where a specific score falls within the range for that scoring system. Scores reflecting good credit management can result in favorable loan terms, such as lower interest rates.

## How are credit scores calculated?

Credit scores are calculated using scoring models, or computerized formulas, that are developed by studying how millions of consumers actually performed in repaying debt over time. These credit scoring models are used to compare the information in your credit report with this proven track record to determine the relative risk that you may become delinquent on account payments or default on a loan. Credit scores represent the result of that analysis.



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## What factors are considered for my credit scores?

Credit score factors are the elements from your credit report that shape your credit score. Your total debt, types of accounts, number of late payments and age of accounts affect credit scores; however, information such as marital status, age or occupation does not. Credit factors indicate what elements of your credit history most affected the credit score at the time it was calculated.

Though the information that impacts credit scores may vary slightly depending on the score being used, understanding the credit factors that most influence the scores is the key to improvement. The factors tell you what you must address in your credit history to become more creditworthy over time, and they usually are consistent across all credit scores.

## Are credit scores part of credit reports?

Credit scoring is a separate process from credit reporting. Credit grantors obtain your score by selecting the scoring methods that are most predictive of risk for their specific kind of business. The methods then are applied, for an additional fee, to the credit reports as they are delivered from the credit reporting company during the application approval process. Consumers also may pay a fee and request that their report be scored.

## How do I find out my credit scores?

Credit scores are available from a number of sources. Any score you receive through a consumer score disclosure service, such as a credit reporting company, will explain what that number means in terms of general credit risk and will describe the factors from your credit report that most influenced the score. While the numbers you receive can vary greatly, the risk level they represent will be relatively consistent no matter which score was used or what number it produced.

## How can I change my credit use to get better scores?

Credit scores reflect credit payment patterns over time, with more emphasis on recent information. Paying your bills on time is the single most important contributor to good

credit scores. Even if the debt you owe is a small amount, it is crucial that you make payments on time. Other ways to improve credit scores generally include the following:

- **Keep balances low on credit cards and other revolving credit:** High outstanding debt can negatively affect credit scores.
- **Use caution when closing accounts:** Closing accounts reduces your available credit, which can increase your utilization rate or balance-to-limit ratio — a sign of risk that can negatively impact credit scores.
- **Apply for and open new credit accounts only as needed:** While a mix of accounts can show that you know how to manage all types of credit, don't open new accounts without understanding how they may impact your current risk position. Recent inquiries indicate you may have taken on new debt that isn't yet shown as an account on your credit report, and many inquiries in a short time might suggest you are trying to live on borrowed money. Both issues signify risk. That's why it is especially important to avoid opening new accounts shortly before applying for a mortgage or an auto loan, where your interest rate will be affected by your risk.

## How long does it take to improve my credit scores?

You don't improve your credit scores. You rebuild your credit history, which then is reflected by your credit scores. The length of time to rebuild your credit history after a negative change depends on the reasons behind the change. Most negative changes in credit scores are due to the addition of negative elements to your credit report, such as a delinquency or a collection account. These elements will continue to affect your credit scores until they reach a certain age. Delinquencies remain on your credit report for up to seven years, as do most public record items — except for bankruptcies, which may remain for up to 10 years. Inquiries remain on your report for two years.

There is no quick fix for bad credit scores. If you have negative information on your credit report, time is your ally in improving your credit scores.

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