Meet Your Credit Character

The OppLoans Guide to Understanding Your Credit, Credit Report and Credit Score.
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Introduction

If your best friend needed a quick five dollars for a train ticket, you might hand over the money without thinking much about it. If your sister needed fifty bucks for an emergency, you probably wouldn’t hesitate to help her out.

But what if someone you don’t know asks to borrow money? Then it’s a different story, right?

When a stranger asks for money, you’d probably look at them with a healthy amount of skepticism. After all, you don’t know them, how can you say if they’re going to pay you back or just disappear with your money?

This is how banks, lenders and other financial institutions think when everyday consumers ask to take out a personal loan or access credit.

Lenders don’t know us personally, so they must judge our character by the information that’s available to them.

And what information is that?

Lenders look at a document called your credit report and a number called your credit score to determine your “creditworthiness”—or how likely you are to repay what you owe.

So how can you see your credit report? How can you check your credit score? And when you do, how will you be able to tell what it means?

If you have questions like these, you’re in the right place. This simple and easy-to-use OppLoans guide will help you understand credit, your credit report, and your credit score so you can start living a better, more informed financial life today.
Workbook Objectives

In this OppLoans workbook, we’re going to take a deep dive into the three main areas that are critical to understand if you want to take control of your financial life. We’re going to talk about credit, credit reports and credit scores.

Now, if you’ve never had much in the way of financial education, then this all might sound quite scary or complex. But don’t worry! Once you get started, you’ll be surprised by how easy—and how manageable—it all really is. The hardest part is getting started, and you’ve already done that! So congrats!

Don’t just think of this as a bunch of information to read and try to remember. This is going to be your workbook. We encourage you to print this out, read it with a pen in your hand, and use it. You’ll be glad you did!

With this workbook, you’re going to learn...

• Just what is credit?
• Why is credit important?
• What is a credit report?
• What’s in your credit report and who can see it?
• What is a credit score?
• Is your credit score “good” or does it need to be improved?
• How you can improve your credit score sooner rather than later.

This is going to be quick, easy, and helpful—and when it’s over, you’ll feel more confident about your credit and your life.
What is your credit?

You’ve probably heard of credit. It’s likely that you even already use it in the form of a “credit card.” But what is credit exactly?

Credit is simply how we borrow money to spend on goods or services, with the understanding that we will pay this money back in the future.

What are typical uses of credit?

If you use a credit card to buy gas for your car, you’re using credit.

If you open a line of credit with a bank to fund a major purchase like furniture or a home appliance, you’re using credit.

If you take out an installment loan from a lender to help pay a medical bill, you’re using credit.

If you sign up for a new credit card to access certain rewards like airline miles or points you can use at major retailers, you’re using credit.

Credit allows us to make purchases now, even if we don’t have the ability to pay for the full total of the expense at the moment. You’re essentially borrowing money (that you’ll pay back in the future) to make purchases now.

But borrowing money isn’t free. If you’re borrowing from a traditional bank, credit card company or lender, you’ll have to pay a cost for the privilege of borrowing that money. That cost is called interest.

That’s why it’s so important to understand your credit. If you use credit correctly, you can qualify for lower-interest rates and create more opportunities to improve your quality of life.
If you use credit **incorrectly**, interest charges can pile up and quickly spiral out of control. Mismanaging credit hurts your finances and holds your life back.

So, let’s understand credit as a concept.

**What Does “your credit” Mean?**

When a lender looks into “your credit”, they’re looking at several pieces of information. This includes:

- Your credit report
- Your credit history
- Your credit score
- Your credit accounts
- Your credit limit

This all adds up to a picture of your responsibility with debt and credit. Think of it as your “credit character.”

Your “credit character” is a snapshot of how you manage money and financial responsibilities.

Just like your character in real life is a picture of how you manage responsibilities, treat yourself and others, your “credit character” is a snapshot of how you manage money and financial responsibilities. Your credit character could be good, average, or bad.

**Expert Advice**

**Joann Needleman**, Consumer Financial Protection Board CAB Member

“Bad credit entraps people. Good credit liberates people. Having and maintaining good credit provides a lot more opportunities than bad credit does.”
Like it or not, credit is an important part of everyday life. If you want to have a successful financial life, understanding and managing your credit is a requirement.

You need to understand and use credit if you want to...

- Buy a house
- Buy or lease a car
- Get better rates on insurance
- And much, much more.

You can also expect potential landlords to run what’s called a “credit check” as part of an apartment application.

Many employers will also review a job applicant’s credit report when evaluating candidates before they decide to hire them or not.

Even insurance and cell phone companies factor in credit scores to help determine whether to issue insurance coverage or begin a new contract for phone service—and to help set the terms.

Whether it’s a new installment loan, a new auto lease or a new credit card, it’s not just about getting initial approval; having a “good credit” score can make the road ahead a lot smoother.
Clearly, credit is important if you want to get approved to make certain purchases, but there’s more to it than just that. If you are approved for those major purchases, your credit will determine the kinds of interest rates you’ll be charged. If you have good credit, you’ll save money on interest. If you have bad credit, lenders and creditors will charge you much higher interest rates, which can make it even more difficult to get ahead.

Even if your application for that loan, lease or new credit card is approved, your credit can have a big impact on the terms of the agreement. You may be offered less money than you need, be charged a much higher-interest rate, or be required to repay the loan in a shorter amount of time. Likewise, a credit card company may offer you a card with a low credit limit but very high interest rate. And remember the landlord scenario? You might still get the apartment—but you might also be asked to pay a much higher security deposit.1

In each of these examples, the decision-makers are trying to balance out the risk of loaning you money, issuing you credit, or approving you as a renter by requiring higher interest fees or deposits to offset their losses if you don’t hold up your end of the bargain. This means that you’ll end up paying more for the same services than someone with stronger credit—and we want to keep that from happening.
Let's Make it Personal

So now that you understand credit as a concept, let’s apply it to you! In the space below, write down your financial goals for the short term (this month), medium term (this year), and the long term (next five years). Follow our example below:

Financial Goals (OppLoans example):

**Short Term (this month):**
- Pay Rent
- Pay my gas bill
- Buy concert tickets

**Medium Term (this year):**
- Lease or buy a car
- Fly to a friend’s wedding
- Pay off my lingering payday loan

**Long Term (next 5 years):**
- Pay off all my student loans
- Buy a house
- Build a $5,000 savings account

**YOUR Financial Goals:**

**Short Term (this month):**

**Medium Term (this year):**

**Long Term (next five years):**

Take a look at what you wrote. How does this list make you feel? Excited for the future? Or nervous that you won’t be able to achieve your goals?

Well, with good credit, even your most ambitious goals will be much more achievable. On your list above, circle all the items that will require the use of credit. (Hint: If it’s a “big ticket” item like a car, it’s unlikely that you—or anyone—would be able to buy it with cash, so it will involve credit. When in doubt, circle your goal).

It’s likely that all or most of your financial goals will require or involve credit in some way. Something small like concert tickets may not—and that’s fine—but a concert is a one-time event. Once that concert is over, it’s over. Larger and more important purchases and investments, like a house, have a much bigger impact on your life. And if you want to own your home, you can bet your credit will be an important factor when it comes time to apply for a home loan.
Expert Advice

**Ian Atkins**, Analyst and staff writer at Fit Small Business.

“Credit scores are important because they are a quick summary of your creditworthiness. It is the first impression you make on a lender whether you're applying for a personal credit card, auto financing, a mortgage, or a small business loan. A bad credit score will close a lot of doors to you.”

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**Katie Ross**, Education and Development Manager for American Consumer Credit Counseling.

“A credit score is the quickest way for a potential creditor to assess an individual’s level of risk as a borrower. It is a numerical representation of a consumer’s credit history that is easier to interpret than all of the info on a credit report.”

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**David Hosterman**, credit and financial expert with Castle & Cooke Mortgage LLC.

“Credit is an extremely important thing and maintaining a good credit score can sometimes be tough but it is critical to do so. Customers with bad credit can have trouble financing a home, renting a home, obtaining credit cards, car loans, student loans, and more.”
Credit Cards

As we’ve discussed, credit itself is a concept. But how does that concept appear in daily life? The most common use of credit is through consumer credit cards.

You probably even have one or more.

What Are Credit Cards?

Credit Cards are a physical tool issued to consumers by credit card companies, banks, credit unions or other lenders. The card enables the user to make purchases “on credit.” When you head to the electronics store and use a credit card to buy a television, you’re using credit. Similarly, you can also use a credit card to make purchases online. (You can also sometimes use a credit card to draw cash out of an ATM or at a bank in a process called “cash advance”—but we never recommend that.)

The most popular credit cards are:

• Visa
• MasterCard
• Chase
• American Express
• Discover Card
Who Offers Credit Cards?

Credit card companies, banks and other financial institutions issue and manage their own credit cards.

The biggest credit card companies are Chase, Bank of America, Wells Fargo and US Bank (though there are many, many others). Many popular brick-and-mortar and online retailers (like Best Buy, Amazon, Macy’s, and others) also offer their own credit cards which frequently come with in-store benefits like points, discounts and special offers for frequent users.

Credit card companies profit from credit card usage because customers pay interest, various fees, and they help establish relationships with customers who can then be sold other financial products.1
How do Credit Cards Work?

When you swipe your credit card at the store, that purchase gets recorded electronically with your credit card company. The amount of that purchase is deducted from your credit limit (the maximum amount of money you can spend on that card or line of credit).

At the end of the month, the money you have spent is your "balance"—or what you owe to the credit card company. You can choose to pay the total of what you owe or, more likely, a smaller amount. Your credit card company will establish a "minimum payment" amount—this is the amount of money that you must pay each month against your balance.

But what about those interest charges? Most credit cards come with a thirty-day grace period, which means interest won't be tacked on until after thirty days have passed. Once that thirty day period has gone by, interest—a percentage of your purchase cost—will be added to what you owe the credit card company.

Remember: the interest (or the cost of borrowing money) will pile up the longer you don't pay the full balance. So, really, you owe two different amounts. You owe the "principal", which is the amount you've borrowed against your credit card. And you will also owe on the "interest" that the credit card company charges you for the privilege of borrowing money or accessing credit.
### What are the Advantages and Disadvantages of Credit Cards?

Like other financial tools and services, credit cards come with many advantages and disadvantages. It’s **critical** to understand the details before you sign up for any credit card. Otherwise, you may end up with a card that traps you instead of setting you free.

#### Advantages

<table>
<thead>
<tr>
<th>Purchasing Power</th>
<th>Credit Cards enable users to make big ticket purchases they might not otherwise be able to afford.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards</td>
<td>Many cards offer rewards programs that will accrue points, discounts, or other benefits like frequent flier miles.</td>
</tr>
<tr>
<td>Convenience</td>
<td>Credit cards reduce the need to carry cash. Most retailers accept credit cards and they are pretty much required for online purchases.</td>
</tr>
<tr>
<td>Trackability</td>
<td>The electronic record keeping that comes with credit cards make it easy to track your spending and identify fraud.</td>
</tr>
<tr>
<td>Use during an emergency</td>
<td>There are times when money is the simple solution to an emergency. If you get hit with an unexpected expense, credit cards can be the quick and easy solution you need.</td>
</tr>
<tr>
<td>Builds credit history</td>
<td>Responsible use of a credit card over time builds your credit history, qualifying you for better interest rates and other financial benefits.</td>
</tr>
</tbody>
</table>

#### Disadvantages

<table>
<thead>
<tr>
<th>Overspending</th>
<th>Credit cards can make life easier, but they can also make overspending easier as well. With a credit card, you’re spending money you don’t necessarily have yet. If you’re not careful, this can quickly lead to unexpected debt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and fees</td>
<td>Using credit is essentially borrowing. And you’re not borrowing for free. Mismanaging a credit card can lead not only to a high balance, or maxed-out card, but also to debt in the form of interest and fees.</td>
</tr>
<tr>
<td>Fraud</td>
<td>Credit cards (and other electronic forms of payment) carry unique dangers. Credit cards can be stolen, their numbers can be copied, and they can be used to steal your money and identity.</td>
</tr>
<tr>
<td>Mounting Debt</td>
<td>If you carry a balance on your credit card from month to month, it can be very easy for charges and interest to rack up. Many people don’t expect credit cards to be gateways to extra debt, but if you’re not careful, that’s exactly what happens.</td>
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Credit Reflections: Credit

How you use your money and your credit can tell you a lot about yourself and your priorities.

Now that you understand what credit is, use the space below to write out answers to these questions. This isn’t a quiz! This is an exercise designed to give you a better understanding of your current credit character. Be thoughtful and be honest, and you’ll see how you use credit today—and what that might say about your financial future.

1. Rate your understanding of your own credit. When it comes to credit...

   1. I don’t know enough quite yet—but I’m excited to get started!
   2. I’m not sure, but I think I’ve made some credit mistakes in the past that I still need to fix.
   3. I understand that credit is important, but I don’t have a firm grasp on my own credit.
   4. I get what credit is, but I could use a little help to improve mine.
   5. I am a credit Jedi! I have perfect credit and always will.

2. Are you comfortable with your financial life?

   1. Not at all! I’m broke, in debt, and overwhelmed. Help!
   2. There are basic things I need every month that I forego because I don’t have the money or the credit to get them.
   3. I’m better than I used to be—I’ve paid some outstanding debts—but still not where I want to be.
   4. I’m no millionaire but I have what I need, and I’m even able to save a little money every month.
   5. Partying with Jay-Z and Beyoncé is fun, but sometimes I just want to chill out on my pool deck alone.

3. How often do you check your credit score?

   1. Check my what now?
   2. Once or twice a year.
   3. Once a month.
4. How would you characterize your spending in an average month?

1. I have to borrow money from friends or payday lenders to cover rent every month.

2. I pay all my essential bills and there is almost NOTHING left over for me.

3. I pay rent on time each month AND feed myself. I also have a little left over for entertainment and some light shopping.

4. My bills get paid, I can afford to buy new clothes and go out each month. AND I even put some money into savings.

5. I pay for my needs and my wants. If I decide to buy a home or a car, it probably won’t be too difficult for me.

5. How do you use credit?

1. I have too many maxed out credit cards and the credit card companies won’t stop calling me!

2. I rely on my credit cards for daily purchases like coffee and meals.

3. I have one or two credit cards with a very low credit limit. It’s not enough and my cards are always close to being maxed out.

4. I use credit cards sparingly for only large, necessary purchases. And I generally pay my bill on time.

5. I have mastered my credit cards. They work for me, earn me special points, and I pay the full balance every month!

23: You’re a credit professor! You understand how to make your credit work for you and you’re probably doing a fantastic job of paying your bills on time, maintaining a very high credit score, and you’ll save money on interest rates when you borrow money.

17—22: You’re a credit senior! Congrats! You use credit well, you pay more than the minimum on your credit card bills every month and you’ve probably got a pretty good credit score. Credit isn’t a major problem for you.

14—17: You’re a credit junior! Not bad! You’re probably managing your credit well enough to stay above water. You may even be able to save a little money every month too. There’s room for improvement, but you’re not in credit freefall.

10—14: You’re a credit sophomore! Things might not be great, but they could be worse. You have some credit cards and you’re struggling to pay them off on time, but through better management, you can improve your credit character.

5—10: You’re a credit freshman! The good news is there’s nowhere to go but up! You might feel overwhelmed today, but we can turn this around together so you can start living a better financial life tomorrow!

Now, add up each number that you circled and write the total here: ________
Different Types of Credit

We’ve talked about credit as a concept, and we’ve explored the most common form of credit—credit cards. But credit isn’t one size-fits-all. Just like there are many different forms of money, there are different forms of credit. You may also encounter or use credit as...

**Revolving Credit**

Certainly, the most common form (and application) of credit is a credit card. A credit card makes use of “revolving credit.” This means that the borrower can use any amount of credit up to their credit limit. You can use the card as frequently as you like, as long as you don’t exceed your limit and you pay at least the minimum payment on time. As you pay off what you owe, the balance of available credit is renewed each month.

Let’s say you have a credit card with a $500 limit. In January, you use the card to buy a $250 smartphone. At the end of the month, you can choose to make the minimum payment of $50 or you could pay off your entire $250 balance. Whichever you choose, the remainder of your credit limit will automatically be available to you in February.

**Non-Revolving Credit**

Non-revolving credit is more similar to a fixed loan than a common credit card. With non-revolving credit, the borrower pays what they owe until the entire balance is paid off. During this time, new credit is not extended to the borrower.

For example, a car loan is non-revolving credit. A borrower uses $5,000 of non-revolving credit to purchase a car. The borrower pays back that $5,000 according to the terms and conditions of their contract. As they pay, no additional credit is made available to the borrower. Once the loan is paid off, the borrower is under no further financial obligation.¹
Secured Credit

If you have bad—or no—credit, it can be difficult to qualify for a credit card. In this case, a secured credit card is a solution you may consider. A secured credit means that the credit is “secured” with collateral. The collateral is a cash deposit that’s required before the card can be activated. For instance, if you deposit $1,000 into the card, that is your credit limit—you can’t use your card to spend more than that.

If you manage your use of the card well over time, your creditor may choose to grant you additional credit without requiring a collateral deposit.

Secured credit cards are offered by credit unions, as well as other lenders. 2

Unsecured Credit

Unsecured credit is—yes, you guessed it—the opposite of secured credit. It doesn’t require any collateral to secure the credit. Most credit cards are unsecured. The creditor awards the borrower credit based on their creditworthiness, not on any collateral.

If the borrower fails to repay their balance, the creditor may pursue repayment through a collections agency or legal action like wage garnishment. 3

Short-Term Loan

A short-term loan is also a form of credit. A short-term loan is, very simply, the act of borrowing money from a lender. The lender will almost certainly charge you interest and fees for the use of the principal that you borrow.

There are many different types of short-term loans and lenders. Some are safe (like personal installment loans) and many are not (like predatory payday and title loans). To learn more about Personal Loans, visit the OppLoans product pages.
Now that you know what credit is and the different types available, let's discuss its uses. Like other forms of money, credit can be used and managed correctly and incorrectly. Let's start with what NOT to do with your credit.

**Paying only the minimum monthly payment.** Don’t do this. If you only pay the minimum every month, you’re actually just extending the life of your debt and really only paying off interest—not the principal, which is the important part. If you can’t afford to pay more than your minimum payment (calculated differently by various credit card companies) you can consider taking out a personal loan at a better rate to pay off your total balance.

**Taking out cash advances.** Definitely don’t do this. Taking out a cash advance on your credit card is an irresponsible way to get cash fast. You’ll be charged a higher-than-normal interest rate and there’s no grace period which means you’ll owe more on the money you take out.

**Spending unnecessarily to accrue points.** If you think credit is big, scary and complex, then you might be tempted to just avoid it all together. But when you do that, you actually handicap yourself. If you have a card and you let it go unused, the lender may close that account which can harm your credit. If you don’t have credit cards and aren’t interested in getting them, you should know that that will make it more difficult for lenders to assess your creditworthiness when you need credit, like when you’re trying to buy a house or car.

**Not using credit cards.** Credit, when used correctly, is useful and beneficial. Credit, when used exclusively, is a sure-fire way to rack up unintended debt. Credit isn’t meant to be your primary, everyday form of payment. It’s best used in emergencies, or strategically. If you’re using a credit card for you daily Starbucks—cut out that coffee or cut up your credit card. You’ll be better off!
Using only credit cards. Credit, when used correctly, is useful and beneficial. Credit, when used exclusively, is a sure-fire way to rack up unintended debt. Credit isn’t meant to be your primary, everyday form of payment. It’s best used in emergencies, or strategically. If you’re using a credit card for your daily Starbucks—cut out that coffee or cut up your credit card. You’ll be better off!

Credit Card Tips

Pay off your full balance every month. If you can do this, you are a credit master. Paying off your full balance every month is the quickest and best way to stay ahead of credit card debt. Because credit cards usually offer a 30-day grace period (the time between when the purchase is made and when interest starts to accrue), paying off the total balance means you’re using credit now—but not having to pay interest on it! That’s the best case scenario and if you can afford to do that every month, you’ll save money and improve your credit score.

Stay within 30% of your limit. We get it. Paying off your full balance every month isn’t realistic for everyone. If you can’t afford to do that, there is a next-best-thing though, and that is staying within 30% of your credit limit. For example, if you have a $1,000 credit limit, keeping $700 of that credit limit unused from month to month keeps your credit utilization ratio (a fancy term for how much of your credit limit you’re not spending) at 30% which is right where you want it to be if you want your credit score to rise.

Use a rewards card. Credit cards companies are a business and credit cards are a product. Creditors tempt borrowers to apply for cards by offering attractive rewards like airline miles, gift cards, and other rewards for usage. Check with your lender or bank. They almost certainly offer rewards cards that won’t cost you more in interest but will offer you monthly perks you can enjoy just for using the card.

Don’t miss payments. Set reminders on your phone, use automatic alerts from your bank, tie a string around your finger—do whatever you have to in order to remember to pay your credit card bill on time. Missing payments has a destructive impact on your credit score and will end up costing you more in interest and headaches than you bargained for. Plain and simple: pay as much of your credit card bill as you can every month, on time.

Check your credit report. This one will lead us directly into our next chapter. Your credit card balance is only a part of your credit character. The next big piece is your credit report and there are plenty of reasons to check it.

We’ll dive into this in detail in our next chapter but, in essence, checking your credit report is a safe and thorough way to make sure your credit usage is being reported accurately. It can also help you identify signs of fraud or theft. Get in the habit of checking your credit report annually and you’ll have more control over your financial life.
Credit Quiz

Okay, let’s take a break from the basics and test your retention. Answer the following questions below and, when you’re done, check your understanding!

1. Credit is a type of:
   a. Borrowing money
   b. Saving
   c. Investing

2. Which is a typical use of credit?
   a. Using a credit card to make a purchase online
   b. Taking out an installment loan from a lender
   c. Opening a new line of credit at a credit union
   d. All of the above

3. Finish this sentence: Credit is a form of...
   a. Payday lending
   b. Tax Information
   c. Budgeting
   d. Borrowing that allows us to make purchase now and pay for them later.

4. Your credit includes...
   a. Your credit report
   b. Your credit history
   c. Your credit score
   d. Your credit accounts
   e. Your credit limits
   f. All the above

5. Your credit card balance is...
   a. The cost of borrowing money
   b. The limit of money you can borrow or use on a credit card
   c. The number of airline points you accumulate through using the card
   d. What you owe the credit card company at the end of the month

6. True or False: Credit cards enable you to make large purchases and pay them off slowly over time.
   a. True
   b. False

7. True or False: Mismanaging a credit card can cause unexpected expenses in the form of interest and fees.
   a. True
   b. False

Answers: 1. a 2. d 3. c 4. f 5. d 6. a 7. a
Now that you understand credit as a concept, let’s look at how your credit is presented to potential lenders, employers, insurers and more.

In this chapter, we’re going to explore a document called a credit report. We’ll even show you how to get yours, how to read it, and what it means.

Expert Advice

Rod Griffin, Director of Public Education for Experian.

“When you get your credit score you should also get a credit score report, a document or explanation of what that score means in terms of risk. This will show you if you are a good credit risk, a bad credit risk or a marginal credit risk. And it should include the risk factors that go with that score from your credit report, so you can go back to that credit report and identify those issues.”
Meet Your Credit Report

A credit report is a document that describes a person’s creditworthiness. It captures your credit history and describes how you handle your bills, if you reliably pay your credit cards, or if you have a history of irresponsibly handling your debts—and it also assigns you a “grade.” This grade is your credit score.

Credit reports are compiled by the three major credit bureaus: Experian, TransUnion, and Equifax. They gather data from lenders, collections agencies and employers—even public records. They each take a slightly different approach to credit reporting and scoring, so your credit score may be slightly higher or lower depending on which one you check.

So, let’s go ahead and get your credit report right now. It’s free, easy to do, and—most importantly—it will not impact your score.

Under federal law, you’re entitled to a free copy of your credit report from each of the three major credit bureaus each year—that’s one free credit report every four months! Ready to take the plunge? You can request a free copy of your credit report at AnnualCreditReport.com.

Once you get to the homepage, click on “Request yours now!”

• You can choose to get a report from all three credit bureaus or just one.
• You’ll then be asked to verify some personal information and then taken to your credit report.
• No matter which bureau you select, it will look something like this...
What's On Your Credit Report?

While credit report formats can also vary slightly, there are four sections that are included in every credit score:

- Personal Information
- Credit History
- Inquiries
- Public Records

Personal Information:

Your personal information doesn’t impact your credit score—it’s just used to identify who you are—but mistakes in your personal information can cause mix-ups. Because inaccuracies in your personal information—like an address you've never lived at, or the wrong social security number—can be an identity theft red flag, it’s worth the time to give it a close read and make sure they’ve got their facts straight.

Credit History:

The credit history section is an overview of your relationship with creditors over the last seven years. In this section, you’ll find a list of your current and past creditors, the type of accounts you held with them (for example, a credit card, mortgage or car loan), how long you’ve had the account, and your payment history.

This section also records the total amount of the loan (your debt), how much you still need to pay back (your “outstanding balance”), the amount of your monthly payments, and the status of the account (for example, “open,” “inactive,” or “paid in full”). If there’s another person on the account, like your spouse or a co-signer, this person’s name will also appear in this section.
Inquiries:

The inquiry section records—you guessed it!—inquiries into your credit history. An inquiry just means that someone’s accessed your report for the purposes of determining your eligibility for a new loan, credit application or other offer.

A “hard” inquiry happens when you’ve requested consideration for a new loan or line of credit; the lender will review your credit report to determine whether or not to approve the request.

A “soft” inquiry is when an institution (like a credit card company) reviews your credit report to determine your eligibility for a loan or line of credit you didn’t request—like one of the promotional credit card offers that come in the mail. While soft inquiries won’t harm your credit score, multiple hard inquiries within a short period of time can—that’s one reason you want to carefully consider applying for any new loan or credit card.

Public Records:

The public records section contains reports of any legal action taken against your financial accounts. It only covers three types of legal action: bankruptcies, tax liens and civil judgments, and doesn’t include any legal history that isn’t related to your finances (like arrests or misdemeanors).

This section will include information like the number of times you have been sent to collections, any bankruptcies you’ve declared, foreclosures, tax liens, or civil judgments against you.

An account may also be listed as being “in good standing”—and that’s great news for you, too! It means your creditor has given you the thumbs up for holding up your end of the bargain and satisfactorily meeting the terms of your agreement. Not all creditors report “consumer credit information” (that’s the information about you that appears on your credit report), so if you don’t see one of your accounts listed, that’s probably why.

EXPERT ADVICE

Joann Needleman, Consumer Financial Protection Board CAB Member

“Credit reporting is vitally important. You have to remember, credit reports are used for job applications. Employers look at credit reports. How you meet the responsibilities of your bills and your payments says a lot about your character and who you are.”
Expert Advice

Rod Griffin, Director of Education for Experian.

“A credit report is the information about how you pay your debts. So it has info about your credit cards, installment loans, and so on, and whether you paid them on time or not. When a lender asks for a credit report, they can also ask that a credit score be calculated, or they can calculate it themselves, using that information from the credit report. The score is a representation of that information at that moment in time.”

What Should I look for in my Credit Report?

So now that you know what you’re looking at, what are you looking for? Three key things: [*]

Incorrect information. You’ve already checked to ensure your personal information is accurate. Next you’ll want to go through your report and make sure all of the information reported is also correct. This is not only important to make sure you’re not getting unfairly dinged for a bill you paid on time—your credit report can also serve as an early warning system to alert you to identify theft.

Did you know? 1 in 5 consumers have errors on their credit report.

**Suspicious information.** Unfamiliar addresses, incorrect social security numbers, new activity on an account you don’t use, new lines of credit that you didn’t open, unfamiliar accounts, "surprise" delinquencies and collections proceedings or overdue notices on accounts that should be current are all potential identity theft red flags. You should also note the appearance of any hard inquiries when you haven’t applied for a new loan or credit card, as this can also signal identity theft. 

**Outdated information.** As a rule, most reported information stays on your credit report for seven to ten years, depending on the type of information (you can view [Equifax's list here](https://www.equifax.com) for a complete list). While that’s not exactly a short stay, the good news is that there is an expiration date. You’ll want to make sure that you don’t have any unwanted credit history overstaying its welcome and weighing down your credit score—and if you do, that you request its removal.

It’s always a good idea to check your credit report from each of the three major credit reporting bureaus each year to guard against incorrect reporting and suspicious activity. If you do find a mistake on your credit report, never fear. You can report possible identity theft, errors and outdated information to the credit reporting bureau from which you ordered the report.
**Expert Advice**

**Ian Atkins,** Analyst and staff writer at Fit Small Business.

“Make sure that you can verify all of your accounts. That payment history, credit limit, current balance, and high balance are all accurate. If they are in accurate, work with the lender and bureaus to correct the reporting. Also, make sure recent inquiries from creditors check out. If you haven’t been applying for new credit but see a lot of recent creditor inquiries, it might be a signal that your information has been compromised and you’ll want to consider putting a temporary fraud alert out on your credit through the credit bureaus.”

**David Hosterman,** credit and financial expert with Castle & Cooke Mortgage LLC.

“It’s very important for consumers to frequently check their credit to make sure everything is being reported accurately. We see many cases where items have been paid off a year or more ago but they are still being reported on a consumer’s credit report and in some cases negatively impacting their scores. In these instances, creditors forget to inform the three bureaus that items have been paid off so it still reflects on a consumer’s credit report.”

**Katie Ross,** Education and Development Manager for American Consumer Credit Counseling.

“Within the info on your report is a complete listing of all your accounts and balances. This includes current accounts as well as those that have been closed. You should look to see if any accounts are being used without your knowledge or if any of your accounts are showing payments as being late or in default. Finally, looking for potential errors in what is reported is important for ensuring your credit score is accurate so that you’re being fairly considered for credit. Errors can arise from mistakes in reporting to the agencies or from someone else’s info ending up on your report due to having similar names. Getting these errors corrected is important for getting the best possible rates on loans and credit cards.”
Credit Reflections: Credit Report

Your credit report is a tool. You can use it well, poorly, or not at all. So, let’s use it well! Print out your credit report and let’s look at it together.

Credit reports will generally contain the same categories of information. It may be arranged differently depending on which report you look at. For example, the “Personal Information” section in a credit report from Equifax may appear at the end of a report. The “Personal Information” section in a credit report from TransUnion, may appear at the beginning.

In this “Credit Reflections” exercise, we’ll use a TransUnion credit report as an example.

No matter which bureau you received your report from, let’s review it together now.

1. **Locate the Personal Information section on your credit report.**

Read the information in this section and ask yourself, is it accurate? You probably will be able to tell right away.

- Confirm that your name is correct.
- Confirm that your address is correct.
- Review your "Employment Data Reported" information. You will likely see some of your employers but not all. Not every employer reports your employment to the credit bureaus. You can always contact the credit bureau to update this information or correct any mistakes.
- Note your "Report Number"—this is the identification number you will need when and if you choose to call the credit bureau to correct any misinformation on your credit report.
- Note your Social Security Number (SSN). It may be “masked” for your security (in which case, usually only the four final numbers will be shown).

Do you recognize all your previous addresses, employers, and phone numbers? Is your name and your social security number correct? Check all of this thoroughly.

Write down anything that you see that looks incorrect or that you question here.
2. **Locate your Public Records section.**
The Public Records section on your credit report will list court judgements against you, liens, or bankruptcies.

Review the information here thoroughly.

*Note: The Public Records section should also include an estimated date of when any negative items will be removed.

**Write down any potential errors or question about your Public Records section here.**

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3. **Locate your Adverse Accounts section.**
Your Adverse Accounts section will list any credit accounts in your name that show late or missed payments. It's important to review this section thoroughly because errors may be lowering your creditworthiness and if you find them here, you can report them and improve your credit.

Negative accounts should be automatically removed after seven years. But you need to check and make sure that they are.

Review the following in your Adverse Accounts section:
- Check the creditor and balance of each account. Do you recognize it?
- Review the “Pay Status” of each adverse account. The Pay Status shows the current status of the account. Is it now paid in full or is it still outstanding?
- Review any “Collateral” items listed in your Adverse Accounts. If you’ve put up collateral for something like a title loan, it will show here. Review these carefully because when it comes to collateral, you DON’T want any surprises.

**While you review your Adverse Accounts section, write down any accounts you don’t recognize. You’ll want to inquire about these immediately.**

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Write down all your outstanding accounts and the amount you currently owe.

4. **Locate your Satisfactory Accounts section.**
   This section all accounts where no adverse information has been reported. Good job! These are the accounts that you are on top of and managing well.

   Review the following in your Satisfactory Accounts section:
   • Do you recognize each account?
   • Check the “Pay Status” have you completed paying this debt or are you still paying as agreed?

5. **Locate your Personal Statement section.**
   Your personal statement section is where you can submit a comment or dispute a single credit account that you feel is inaccurate or a more general comment addressing all of your credit history (like if you wanted to explain a period of debt due to unexpected job-loss.)

   While you should certainly dispute inaccurate information, be careful about submitting a general comment. Those stay on your credit report for a period of two years (which in some cases might be longer than the negative information will remain on your report).
Sample Dispute letter

Need help getting started? Use the following template to write a letter to the credit bureau requesting specific information be changed.

[Your Name]
[Your Address]

[Date]

[Credit Bureau Name]
[Credit Bureau Address]

To Whom It May Concern:

I am writing today to dispute particular information on my credit report #[you number here]. I have included a copy of my credit report and have marked the information that is [inaccurate or outdated].

Please also see the attached material [list the specific documents that support your claim]:
[Document 1]
[Document 2]
[Document 3]

Because [this particular information] is [inaccurate or outdated] I would like it [removed/adjusted]. Please contact me once this information has been corrected or let me know if there are questions I can answer to further clarify.

Thank you,
[Your signature]
[Your printed name]
Credit Quiz

Okay, let’s take a break from the basics and test your retention. Answer the following questions below and, when you’re done, check your understanding!

1. A Credit Report is a document that describes your…
   a. Creditworthiness  
   b. Savings and checking accounts  
   c. Online banking habits  
   d. Voting record

2. Credit Reports are generated by Credit Bureaus. A credit bureau is...
   a. A company that extends credit  
   b. A company that offers personal loans  
   c. A company that collects information about a consumer’s credit rating  
   d. A company that investigates fraud

3. You’re entitled to 1 free credit report every...
   a. Month  
   b. Six months  
   c. 12 months  
   d. 24 months  
   e. Never

4. What is NOT a section in your credit report?
   a. Personal Information  
   b. Credit History  
   c. Criminal History  
   d. Inquiries  
   e. Public Records

5. The Credit History section of your credit report contains information dating back...
   a. 1 year  
   b. 5 years  
   c. 7 years  
   d. Forever

Continues on next page.
6. A Hard Credit Inquiry is...
   a. A credit inquiry run by the police
   b. A credit inquiry run by a promotional credit card companies
   c. A credit inquiry that does not affect your credit
   d. A credit inquiry generally run when you’ve requested a new loan or line of credit

7. A Soft Credit Inquiry is...
   a. A credit inquiry that won’t harm your credit
   b. A credit inquiry that will harm your credit
   c. A form of identity theft
   d. None of the above

8. True or False? The Public Records section of your credit report contains your legal history like arrests and misdemeanors.
   a. True
   b. False

9. True or False? You can dispute information on your credit report that you believe is inaccurate.
   a. True
   b. False

10. What should you look for in your credit report?
    a. Incorrect information
    b. Suspicious information
    c. Outdated information
    d. All of the above

Answers: 1. a. 2. c. 3. c. 4. c. 5. c. 6. d. 7. a. 8. b. 9. a. 10. d.
So, What is Your Credit SCORE, Anyway?

You did it! You took the plunge and downloaded or printed out your credit report. Nice job! Now as you can see, your credit report is a thorough document with lots of information. You probably want to know the bottom line: Are you in good credit shape or not?

Well, you’re in luck, because there is a simple and easy way to find out. It’s called your FICO credit score. And your credit score is one helpful number. This number represents your credit “grade” (it describes how well you use credit and pay your debts).

So, let’s find yours now. Most credit reports do NOT contain your credit score, but there are simple and easy ways to get yours.

To learn your credit score, you can:

- Check your credit card statement. Many of the major credit card companies offer your credit score on your monthly statement which you can usually access online.

- Buy your score directly at MyFico.com.

- Get your “free” credit score from subscription sites like FreeCreditScore.com/ or Credit.com/free-credit-score/ (“Free” can sometimes mean signing up for a monthly subscription that includes a free trial period. Always make sure you understand what you’re signing up for.)

Once you decide how you want to get your score, go ahead and do it. You’ll be glad you did.

Ready?

Go for it!
Your Credit Score

Once you find your score, write it down here.

As of ____________, my credit score is ____________.

(Date) (FICO Score)

Now, looking at the chart below, where do you fall? Are you in the “Prime Category”? Or “Near Prime”? Or “Subprime”? Even if it’s subprime, don’t worry. You can improve your credit score over time.

Your FICO credit score is a number from 300 to 850 that summarizes your history of money management over the last seven to ten years.

As we discussed in the previous chapters, banks, lenders, landlords, and a variety of other entities use your credit score to determine how “creditworthy” you are—the level of confidence they have that you’ll make payments on time and manage money responsibly.

You could think of “creditworthy” as just another word for “trustworthy.”

The closer to 850 you fall, the better. A credit score between 720 and 850 is considered “excellent.” A score between 719 and 680 is considered “good.” A score between 679 and 630 is labeled “fair.” 629-550 is “subprime,” and anything below 550 is considered “poor.”
The good news? No matter where you currently fall on the credit spectrum, your credit score does not define your money management potential. Even better, it’s not set in stone. There’s a lot you can do to get your credit back on track. But for now, let’s work on demystifying your credit score and credit report to lay the groundwork for those next steps.

**Expert Advice**

**Ian Atkins**, Analyst and staff writer at Fit Small Business.

“Your credit score is built from the information in your credit report. The credit score is the result of a calculation that weighs and summarizes different information from your credit report. While most lenders use a scoring system that’s very similar to FICO (300-850), any lender or company can have their own scoring system.”

**David Hosterman**, credit and financial expert with Castle & Cooke Mortgage LLC.

“A credit score is a way of grading your creditworthiness or “trustworthiness” to lenders. It’s a numeric score usually falling in a scale between 300 and 850. The better your credit score, the lower risk you are to lenders. They’ll see you as someone they can trust to repay the money they may lend you. You will also generally qualify for lower interest rates, which will save you money.”

**Katie Ross**, Education and Development Manager for American Consumer Credit Counseling.

“A credit score is all of the data contained on a credit report, which includes credit history and current account statuses, all compiled into one number using the same method for every consumer so it is standardized. The score is a tool for creditors to quickly assess borrowers, to make initial product and interest rate offerings without performing a full credit inquiry.”
How is My Score Determined?

FICO (the acronym for Fair Isaac Corporation) is the most commonly used credit scoring methodology, and has become pretty much synonymous with the term “credit score.” While FICO keeps the wraps on its exact scoring system, there’s a lot we do know about how your credit score is determined.

Think of your credit score as a recipe with five ingredients—the five categories of your financial history that FICO reviews in determining your credit score. Like most recipes, these “ingredients” don’t make up equal parts of the final product; some are weighed more heavily, and others fall a bit closer to the “just a dash” category—they’re still important, but they’re not the main ingredient. It breaks down like this:

**FICO Credit Score Recipe:**

- Three and a half cups payment history (35%)
- Three cups accounts owed (30%)
- One and a half cups age of credit history (tip: the older, the better!) (15%)
- One cup new credit (10%)
- One cup credit mix (10%)

Mix all that up, and you’ve got yourself a credit score. So where’s FICO picking up these ingredients? Right off your credit report—and right alongside all the banks, credit card companies, landlords and others we previously mentioned. Basically, even if you’re not checking your credit report and score, you can bet a lot of other important folks are.

**Expert Advice**

**Ian Atkins,** Analyst and staff writer at Fit Small Business.

“The two biggest areas of impact are your payment history and your debt to credit utilization ratio. Make your payments on time and keep your credit utilization under 30% and you should be fine. The rest is made up of how long you’ve had the accounts, the mix of accounts that you have, and recent activity. The longer a track record you have, the better. A healthy mix of types of financing is seen as better than say, only credit cards. And a flurry of recent activity (use, applications, opening new accounts, etc.) is considered a warning sign of future default and will hurt your score.”
Congratulations! Now that you’ve read this e-book, you’re more informed about credit, credit reports, and credit scores. But before we go, we wanted to give the last word to Rod Griffin from Experian who can tie it all together for you.

Rod Griffin is Director of Public Education for Experian. He leads Experian’s national consumer education programs and supports the company’s community involvement and corporate responsibility efforts. Rod works with consumer advocates, financial educators, and others to help consumers increase their ability to understand and manage personal finances and protect themselves from fraud and identity theft.

1. Why is your credit score important?

Credit scores are a tool used by creditors to predict lending risk. The numbers reflect the information in your credit report. A good credit report, reflected in good scores, will save you money. Good scores result in lower interest rates, reduced security deposits for things like utilities, help you qualify for a lease, and reduce your insurance costs.

2. How can credit be used wisely?

Credit and debt are not the same thing. They are obviously very closely related, but you can have credit without debt. For example, you can use a credit card to make purchases that earn points, airline miles, cash back or other benefits and pay the bill in full each month. You get the benefits offered by the credit but don’t have any debt or pay any interest or fees. Wise use of credit helps you qualify for services at better terms, which saves you money. Another example is reserving a rental car and then paying cash when you return it. Rental companies often require a credit card to rent the vehicle; simply to protect them from damage to the car or a person driving away in it. Most people cannot afford to purchase a home with cash. Wise credit use, reflected in a good credit history and high credit scores helps you qualify for a mortgage loan at a low rate, saving potentially thousands of dollars. It also helps you pay lower deposits for utility service and possibly lower insurance rates. Neither are debt, but good credit use can save you a lot of money.
3. **How can credit be used poorly?**

Using credit to purchase things you cannot afford, in order to live beyond your means, is poor credit use. If you are taking on credit card debt, ask yourself what you are buying. If you can name exactly what you’ve bought, it’s just a bunch of stuff and you’ve used credit poorly. Poor credit use is making credit purchases, taking on debt, without a plan that specifies why you are taking on the debt, how it will be repaid, when it will be repaid, and what other purchases you will either delay or not make until that debt is repaid. Using credit is always a tradeoff. Any time you take on debt you have to know what other things you’ll need to give up until it is repaid.

4. **What is a credit score?**

A credit score is a tool used to analyze the information in a credit report to predict the risk of doing business with someone. Usually, a credit score helps lenders determine the risk that a person will not repay a debt as agreed. However, credit scores are also used for other purposes. For example, insurance companies may use a credit score to determine whether a new customer will pay their premiums on time. Or, a landlord may use a credit score for insight into whether a person will pay the rent on time.

5. **How is your credit score determined?**

Credit scores use the information in a credit report to do the calculation. They simply reflect the information in the credit report at the moment the report is requested. Your payment history is the most important factor to all credit scores. Paying your bills on time is essential to having good credit scores. The second most important factor is your utilization rate on credit cards. Utilization is simply the total of your balances divided by the total of your credit limits. A high utilization rate shows that you are overusing your credit and so represents serious risk. Those two factors account for between 60 percent and 70 percent of a credit score. Scores also consider how long you’ve used credit, what your mix of credit types is, and what has happened recently in your credit history.

6. **What does it mean to have bad credit?**

Bad credit is a term used to describe a credit history that represents high lending risk. It usually means the person has late payments, collection accounts or other serious issues such as bankruptcy in their credit history. The result is that lenders will be reluctant to grant credit to the person, and if they do qualify, it will be at higher interest rates or with increased down payment requirements. Bad credit costs you money.
7. **How can you improve your credit?**

Time and changing your credit management behavior is the key to improving credit. You have to bring delinquent accounts current, make all of your payments on time and reduce your debts, especially credit cards. Over time, the negative information will be deleted from your credit report and the positive information will remain.

8. **Predatory lenders like Payday prey on those with poor credit scores and little financial understanding. What are the general practices someone can take today to improve their relationship with credit and ultimately protect themselves from predatory lenders?**

The first thing a person should do is establish a credit history and work to maintain it. That means they need to open a credit account, or have their positive rent payments reported. Over time that positive history will enable them to qualify for lower cost credit and break the cycle of predatory lending. Everyone should check their credit reports at least once a year to ensure it is accurate, that there is no sign of fraud and that their credit will work for them. Reports are free once every twelve months at [AnnualCreditReport.com](http://AnnualCreditReport.com).
Improving Your Credit and Your Credit Score

If your credit score is lower than you want it to be, you’re not alone. It’s estimated that 30 percent of Americans have bad or subprime credit. But the good news is that your credit score CAN be improved. And it’s actually not all that difficult—though it does take time. But don’t worry. You can start today. Here’s how:

1. Pay outstanding bills and debts on time.

Okay, We hear you. If you could pay your outstanding debts, you wouldn’t have bad credit. So, if you have low income, bad credit, and a lot of debt, what can you do? Well, this is going to be one of those times when the simplest answer is the best one: Stop spending. You’re going to have to budget and cut out all the expenses you can do without. It isn’t hard once you get started. If you have a $5-a-day Starbucks habit, cut it out for a week. That’s $35 dollars right there you can spend on a utility or credit card bill. It’s not fun, but it is responsible. And it’s the most important first step you can take on the road to credit recovery.

2. Stop using your credit cards, pay them off and keep them open.

You’ve probably heard about people cutting up their credit cards or even freezing them in blocks of ice to keep themselves from overusing it. We don’t necessarily recommend doing something that drastic, but if hiding your credit card from yourself helps you not use it—go for it! When you don’t use your credit card, you’re not racking up debt. Which will make it that much easier to pay down. Set a goal to pay off your credit card or cards and see it through. Paying off a credit card is a major achievement, but then keeping that card open and not using it is even better! This will free up available credit and help improve your score over time.
3. If you can’t pay off your credit card, get your balance down to 25 or 30 percent. This is your credit utilization ratio.

If paying off your card completely isn’t possible right now, don’t worry. Just get it down to 30 percent of your credit limit. Here’s what we mean: If you have a single credit card with a thousand-dollar limit, reduce your balance to $300. You’ll have $700 of available credit—put another way, 70 percent of your credit limit will be unused. This is the magic number. Paying off the card in total is best, but if you can’t do that right now, get your balance down to 30 percent of your total limit. This will help improve your score over time.

4. Consider taking out an installment loan with a reputable lender who reports payments to credit bureaus.

A personal installment loan can improve your credit if you make your monthly payments on time. The trick is to find a lender who reports your payments to one, two or all three credit bureaus. On-time payments will get reported and reflect positively on your credit usage. This can elevate your score. But be careful, there are predatory lenders out there like payday and title lenders. They’re not interested in helping you improve your credit. They’re only interested in trapping you in debt or taking your car! Shop for a lender with high customer ratings and a Better Business Bureau accreditation. And then, work with them to structure a loan that you can afford to repay on time and ultimately pay off.

5. Work with a credit counselor.

There are credit counselors available to help you at no (or low) cost. Credit counselors work with you to create a debt repayment plan and they can even negotiate on your behalf with your creditors. But, as always, there are scammers to watch out for. Don’t go with a credit counselor who makes outlandish promises that seem too good to be true—they probably are. Instead, work with legitimate, trained counselors you can find through: The National Foundation for Credit Counseling (800) 388-2227 Financial Counseling Association of America (866) 694-7253

Credit Reflections: Credit Score

You’ve done it! You checked your credit report and your credit score. The hard part is over. Congrats! Now let’s take a minute and reflect on what this new information means.

1. The national average credit score is 687. What is yours?

2. Finish this sentence: My credit score is...
   a. Very low. I really need to improve it if I want to have more financial freedom.
   b. Not horrible, but there’s a lot of room for improvement.
   c. Average. I’m not doing worse than most Americans, but I’m certainly not doing much better.
   d. Strong. I’m feeling pretty good about my credit score right now.

3. Improving your credit score is usually just a matter of reevaluating your spending habits, making changes to how you spend money, paying off debt and freeing up credit on your cards. What is holding you back from accomplishing this today? List your challenges here:

(Example) my income is too long

4. What are the steps you will take today to address your challenges:

(Example) I can pick up extra shifts at work for more money
Take a few minutes and think about what you’ve learned about your credit, your credit report and your credit score. It all adds up to a picture of your trustworthiness or your creditworthiness, essentially—it’s your “credit character.” How does yours make you feel? Is your credit score an accurate depiction of your character? If not, what led to this score? How can you change your behavior and your thinking about money to improve your credit character over time? Write down what you’ve learned, how this makes you feel, and what steps you’re going to take next to build your credit and your character.

49% Vs. 40%

Childless adults tend to have better credit than parents.

Credit Quiz

A credit score is a quick and easy way to see your “credit character,” but there’s more to it than just a number. Let’s review what you’ve learned here.

1. Lenders, landlords and insurance companies use credit scores to...
   a. Predict the risk of lending to a potential borrower
   b. Determine how much interest they’ll charge a potential borrower
   c. Determine what rate a new customer will pay on their premiums
   d. Determine how much a security deposit will be required before a renter moves into an apartment or house
   e. All of the above

2. True or False: A payday loan can help improve your credit score.
   a. True
   b. False

3. True or False: An installment loan can help improve your credit score.
   a. True
   b. False

4. Which of the following is a legitimate credit counselor?
   a. Payday lenders
   b. Title lenders
   c. The National Foundation for Credit Counseling
   d. Online credit repair companies that charge fees before any services are provided.

5. Credit scores can be improved by:
   a. Paying someone to “erase” your bad credit
   b. Practicing better credit management over time
   c. Taking out payday and title loans
   d. Lending money to your friends and family

Answers: 1. e. 2. a. 3. b. 4. c. 5. c. 6. e. 7. b. 8. a. 9. c. 10. b.
Conclusion

We know it can be hard to take that first step. But remember—even if you’re not up-to-speed on your credit history, others will be—decision-makers who can seriously impact your ability to move forward in life.

We can’t fix what we won’t face, so the first step towards rebuilding positive credit is to take a good, long look at your credit score and credit report, reminding yourself as you do that this is just where you’re starting from—not where you’re going.
Glossary of Important Terms

**Credit:** Credit is a modern way of borrowing money from a lender, bank, credit union or credit company to pay for purchases now—and then repay the lender at a later date. Using credit isn’t free—you’ll be charged interest for the privilege of using someone else’s money now. The most common form of credit is a credit card.

**Credit Bureau:** A credit bureau is a company that collects and reports information about your credit. There are three main credit bureaus: Experian, TransUnion, and Equifax.

**Credit Report:** A credit report is a document that’s issued by one of the three major credit bureaus. It contains four main categories of information about your use of credit and your creditworthiness. These categories are: Personal Information, Credit History, Inquiries and Public Records.

**Credit Score:** Your credit score (most typically a FICO score) is a numeric “grade” between 300 and 850 that represents your creditworthiness. The higher your score, the better your credit—which means you’ll qualify for lower interest rates on loans, credit cards, and insurance rates. Your credit score is important.

**Interest:** Using credit sounds great. You get to spend money you don’t have now, and pay it back over time later. As great as it is, it’s not free. Interest is the cost of borrowing money. If you borrow $100 from a lender, they might charge you $10 for the privilege of doing so. You would then have to repay $110 at the end of the term of your loan.

**Interest Rate:** The amount of interest you are charged when you borrow money is most often expressed as an interest rate. That is, the percent of the money you borrow (or credit you use). If you borrow $100 and your lender charges you $10 for the privilege of borrowing that money, the lender is charging you 10% interest.

**Lender:** Want to borrow money? A lender is who you borrow from. A lender could be anyone from a bank, to a credit card company, to an online loan company, to a parent or a friend. Lenders charge different interest rates and offer different types of credit or personal loans.
About The Experts

**Ian Atkins (@FitSmallBiz)** is an analyst and staff writer for Fit Small Business. He covers small business finance with a focus on traditional and alternative small business lending. Ian has over 9 years working in personal and small business finance.

**Rod Griffin (@Rod_Griffin)** is Director of Public Education for Experian. He leads Experian’s national consumer education programs and supports the company’s community involvement and corporate responsibility efforts. Rod oversees the company’s financial literacy grant program, which awarded more than $860,000 in 2015 to non-profit programs that help people achieve financial success. He works with consumer advocates, financial educators and others to help consumers increase their ability to understand and manage personal finances and protect themselves from fraud and identity theft.

**David Hosterman (@CCMortgageLLC)** is a credit and financial expert. He began working as a loan officer with Castle & Cooke Mortgage, LLC in 2008 and became a Branch Manager in 2015. David has been featured in CBS Money Watch, Forbes, MSN Money, and elsewhere.

**Joann Needleman (@jneedleman)** serves as a navigator to her clients seeking advice and guidance in the complex regulatory environment facing the financial services industry. A member of the Consumer Financial Protection Bureau’s (CFPB) Consumer Advisory Board, Joann has been able to provide her clients with useful strategies in order to prepare for new areas of regulatory scrutiny, specifically in the alternative lending and “fin-tech” space.

**Katie Ross (@ACCC_helps)** joined the American Consumer Credit Counseling (ACCC) management team in 2002 and is currently responsible for organizing and implementing high performance development initiatives designed to increase consumer financial awareness. Ms. Ross’s main focus is to conceptualize the creative strategic programming for ACCC’s client base and national base to ensure a maximum level of educational programs that support and cultivate ACCC’s organization. Ms. Ross is certified by the Center for Financial Certifications as a Certified Personal Finance Counselor.
About Us

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We emphatically believe all borrowers deserve a dignified alternative to predatory lending. Currently rated 5/5 stars on Google, Facebook, and LendingTree, OppLoans is redefining online lending through innovative technology and caring customer service.

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Works Cited


