

**FACTS YOU SHOULD
KNOW ABOUT
YOUR CREDIT SCORE**

MAKE A WAY® MINISTRIES INC

Facts You Should Know About Your Credit Score
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PUBLISHERS NOTE:

Did you know that most people have never seen their credit reports and have no idea what their FICO Scores are? Even more alarming is the large number of people who don't even know what a FICO Score is or how they're used or how critical they are to the making of important decisions in society that everyone needs to be aware of.

Credit Scores are important and consumers need to know about them. This publication will help you get started on the road to understanding. This is a subject you need to know more about!

This report is not by any means an exhaustive study on the subject and should be considered with other publications that help to explain credit ratings, credit repair and credit restoration. In addition, all users of this report are urged to consult with their church leadership, financial professionals and/or legal counsel to clarify any issues left unresolved.

1. Some Basic Information to Consider

When a credit file is sold to a member of a credit bureau, it contains a Credit Score that has meaning to a prospective creditor. At a glance, the creditor can determine the relative risk of granting you credit. This Credit Score was developed by the firm Fair, Isaac and Company and is known as the “FICO Score” (Equifax’s version is called a “Beacon Score”). The score range is approximately 350 to 850. The higher the score, the less of a credit risk you are. Later in this report we will examine different scales for these scores and what they say about one’s credit worthiness.

An interesting point to know is that until a few years ago, the part of the credit file that consumers had access to didn’t even include their Credit Score. It was kept secret and published only in the version provided to bureau members. Most of the bureau members are creditors and in the past, the only way for a consumer to know his/her own Credit Risk Score was to ask a prospective creditor who had reviewed the report.

However, as of 2001 credit scores became available to consumers by going on to the Fair, Isaac and Company web site – www.myfico.com. For a charge of less than \$20.00 per credit bureau, you can now access your credit report which will contain your Credit Score. Each individual credit bureau, Equifax, Experian and Trans Union also has this availability on their web site. If you are in the market for a new home mortgage or a car loan, it will be a good idea to find out your Credit Score before applying for the loan for a couple of reasons:

One is to see if there are problems which were not anticipated. In so, the problems can be addressed before applying for the loan and getting turned down. The other reason is to make certain the creditor is offering you a fair rate for the score you have. They may advise you that your score isn’t quite good enough so they can charge a higher interest rate when in fact the Credit Score is more than acceptable. On some later pages in this Report you will find a credit scoring scale that will be helpful in knowing how to gauge your particular score.

It's not just about creditors though. According to federal law, anyone with the legal right established by the *Fair Credit Reporting Act* may take a look at your Credit Scores essentially any time they want to and those folks include prospective landlords, prospective and existing employers, insurance agents and government agencies including law enforcement. Background checks are standard operating procedure these days and a credit check will almost always be a part of a thorough background check. In sum, it's vital to have a good credit rating and one's credit rating is essentially encapsulated in a three-digit Credit Score.

In addition to obtaining your Credit Scores from the sources mentioned above by paying the related fees, it is also possible to obtain one free credit report per year from each of the three credit bureaus. Simply go to www.annualcreditreport.com and download your reports. The free ones do NOT include your FICO scores though and for a relatively low additional charge you can download your credit reports with your current scores. This is probably the least expensive way to obtain your scores although the formatting is usually less user friendly than the reports purchased from the above sources.

It is also possible to get involved with one of the credit monitoring services but some of them use their own in-house proprietary scores that are not used by prospective creditors and other users in the real world. Sometimes those proprietary scores can be inaccurate and/or outdated so folks are not really getting what they think they are paying for. You should investigate a little further and find out more about any monitoring service you are considering so you can know how the SCORES are actually calculated. If you don't check it out you may get a surprise down the road when you go to apply for credit somewhere.

2. Main Factors That Determine Your Score

The calculations that make up a Credit Score are developed by looking at the way millions of consumers manage their credit. Credit Scores have proven over time to be a reliable indicator of whether or not a consumer would repay a loan. A score is determined by summarizing many factors in your credit report. The following are these factors along with approximations of how each are weighted according to Fair, Isaac and Company:

Payment History (approximately 35% of score) – How you paid your bills in the past gives the lender some indication of how you can be expected to pay them in the future. How often you have been late paying your bills, how recently your payments have been late as well as how long you remained delinquent on any bill at one time are important factors. For instance, being 90 days late will affect the score much more than being 30 days late. Generally late payments more than 2 years old don't impact the score as much.

Outstanding Debt (approximately 30% of score) – The lender wants to know proportions of balances to credit limits. In other words, they want to know how much credit you have and how much you have used. Research has shown that the number of credit accounts you have as well as how much of your available credit is used is important. If your total debt is more than 75% of your credit limit, your score is drastically reduced. It is best to keep the balance under 40% of the credit limit.

Length of Credit History (approximately 15% of score) – Generally, the longer you have had and have successfully managed credit, the higher your credit score. To be able to have a very high credit score, you will normally need to demonstrate at least 10 years of positive account history.

Number of Credit Cards / Credit Inquiries (approximately 10% of score) – The rule of thumb is that you need at least four revolving accounts (credit cards) to be able to have a good score. However, more than ten credit

cards may lower your score. Applying for too much new credit is probably one of the easiest ways for people to inadvertently harm their credit scores. Too many inquiries in a short period of time signals that a consumer is seeking credit because of a financial problem. The score will reduce with more than 2 inquiries in the last six months and 6 within the last two years. However, the credit report data used to calculate credit scores does not include auto or mortgage loan inquiries that occur in the 30-day period prior to the score being calculated, and auto and mortgage inquiries that occur in any 14-day period are always considered one inquiry.

Types of Credit (approximately 10% of score) – A mixture of types of credit such as credit cards, personal loans, mortgages, etc. is more positive than having just a certain type of established credit. Typically, at least one “installment” tradeline (e.g. mortgage or auto loan) is necessary to have a high credit score. If you have indebtedness strictly with finance companies instead of bank credit cards, it will be a negative for your score because the perception is that you have had to go to high interest finance companies due to past financial problems.

3. Additional Factors That Affect Your Score

There are also other factors that are taken into account when determining the score. These factors are somewhat related to the ones already listed but the amount that each one weighs in the scoring model is not known, Nevertheless they are important and should be considered:

Unsatisfied Debt – Old debt obligations that are in the form of collection or charged off accounts look worse than even a bankruptcy. This affects the score significantly as prospective lenders do not want to offer credit to someone who has the profile of not honoring their obligations. Also, if there is an unpaid debt of significance, mortgage lenders may not want to approve a loan if there is the potential of an additional lien holder who can utilize the court to obtain a Judgment. Therefore it is always better to pay off an unsatisfied debt. A paid charge off or collection account will increase the score as opposed to just keeping the account unsatisfied. If the creditor is willing to offer a lump sum settlement in order to get a particular debt resolved, the remarks on the credit report will most likely read “settled in full” which may cause the score to be lower than if the debt was paid in full.

Zero Balances – Research shows that consumers with no balances get lower scores than those with moderate balances. The reason is that lenders fear the consumer can go on a spending spree with the available credit and incur new debt. That is why if you practice never carrying a balance, which is certainly commendable, then having cards with moderate credit limits is recommended. However, if you pay off the credit card at the end of each month, the scoring models will pick up your charges but not the fact that you paid them off immediately. Therefore, you will want your charge balances to stay below 50% of your credit limits. Closing out cards that you never use will also help with the issue of too much available credit. Remember that it is better to close newer credit card accounts than older ones because you want to preserve the positive payment history.

Balance Transfers – Generally, two or more balance transfers over a 12-month period will lower your score. It is perceived that consumers who have to transfer balances use debt beyond their means. If you do transfer between accounts, you should close the old account and plan on staying with the new account for at least two years.

Besides the information contained on the credit report, the score is also based on certain demographic characteristics such as:

- Married is better than single with the most favorable age group being 25–65. Also, more than three dependents will tend to lower your score.
- Steady employment is a positive for the score especially after 6 years. Also, occupation is a factor with professionals getting the higher scores, skilled workers next and unskilled employees achieving the lowest scores.
- The score will be better if you are a homeowner as opposed to a renter.
- Income under \$1,000 per month is a negative and over \$3,000 a positive.
- The score will be better if you have a bank account and a telephone in your name.

4. Credit Scoring Scale

The following is an example of a credit scoring scale that most lending institutions adopt in the approval process. Similar score ranges as shown play a significant part in determining the interest rate a lender gives:

Above 750 = Excellent

720 to 750 = Very Good (720 minimum score for Fannie Mae Mortgages)

700 to 719 = Good

680 to 699 = Above Average

660 to 679 = Solid

620 to 659 = Fair (620 minimum score for FHA Mortgages)

600 to 619 = Marginal

580 to 599 = Below Average

550 to 579 = Well Below Average

525 to 549 = Poor

500 to 524 = Very Poor

Under 500 = Unacceptable

5. How to Dispute Negative Information

Once you review your credit reports you're likely to find errors and/or out-of-date information from one or more of the credit bureaus. Analysis reveals that more than 70% of all credit reports contain erroneous information.

According to federal law you are allowed to challenge (aka DISPUTE) such information and you would do that by writing DISPUTE letters to each of the credit bureaus. Federal law also requires credit bureaus to respond to any DISPUTE within 30 days from the date they receive your letters. You are allowed to DISPUTE any information you find in your reports and require the Bureaus to "re-verify" that what they are publishing about you is appropriate. Understand: this is your right under federal law. If the credit bureaus are not able to re-verify the information you DISPUTE within the 30-day window, they are required by law to immediately remove the DISPUTED item (s).

You can use the following mailing addresses to contact the three national credit bureaus with your written DISPUTES:

Experian
PO Box 2002
Allen, TX 75013

Trans Union
PO Box 2000
Chester, PA 19022

Equifax
PO Box 740241
Atlanta, GA 30374

While this article will certainly help you with a better understanding of credit scores, it is limited to the essential information about this subject. You can obtain additional information, including templates of Dispute

Letters that have a proven track record, by purchasing the following publication from Make A Way Ministries on Amazon.com:

Credit Repair that Reduces Monthly Payments

https://www.amazon.com/Credit-Repair-Reduces-Monthly-Payments/dp/1536946591/ref=sr_1_9?ie=UTF8&qid=1524677066&sr=8-9&keywords=Dr.+Bill+Miller

6. About Make A Way Ministries

For your information, *Make A Way Ministries* is the publisher of this report and a 501(c)(3) non-profit corporation. If you have any questions regarding this report or the counseling services offered by this ministry, you can reach us as follows:

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Make A Way Ministries has been providing credit and financial counseling across the US since 1987. All teaching and counseling is based on biblical principles and great care is taken to provide service that truly benefits our customers. We would never recommend a service to you just to take your money. On the contrary, we promise to recommend services only when they will be a benefit and a blessing.

Sinners' Prayer

If you have never invited Jesus to become the Lord of your life, you can do so today by saying the following simple prayer:

Jesus I believe in you and I believe that you were resurrected from the grave so that I can be born again and receive eternal life. Therefore, I

receive you today as my Lord and Savior and I thank you for forgiving my sins.

If you were sincere as you prayed this prayer, God has already come into your life and you are a new creation. Congratulations! Now ask the Lord to lead you to a good bible teaching church where you can be developed to fulfill your potential in the Kingdom of God. And please send us an e-mail advising your decision so we can rejoice for you in our prayers. If you're unable to find a church, give us a call and we'll help you find a good one.

Donations

If you would like to make a donation to help cover the cost of this publication, please make your offering payable to *Make A Way Ministries* and send it to the address shown above. By the Word of God we are certain that He will multiply your donation back to you. Gifts to Make A Way Ministries are tax deductible. May God bless you with His abundant harvest in return for sowing your precious seed into this Ministry!

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