

## YOUR CREDIT GUIDE

### What You Should Know About Credit

For generations, owning a home has been considered a part of the American Dream – but one critical element for realizing this dream is developing and maintaining good credit.

### What is credit?

Credit simply means you are using someone else's money to pay for a purchase with a promise to pay that money back. This borrowing usually involves interest –the additional money you pay for the privilege of borrowing money.

### Why is good credit important?

Good credit shows potential lenders a positive history of borrowing and paying back money. It will help you obtain a loan when you want one, with favorable terms, and it also gives you more control when shopping for loans.

### Why not pay with cash?

Paying cash for smaller items, such as clothing and groceries, is generally a good idea. However, using credit cards for larger purchases, such as appliances, can help you establish the good credit history that will help when it comes time to make even larger purchases, such as cars and homes. But remember: your credit is only as good as how well – and on time – you pay your monthly debts.

### Does it matter how many credit cards I have?

Yes. Having numerous credit card accounts open, even if the accounts have low or zero balances, may affect your ability to get a loan. This is because a potential lender considers all available credit limits – not just debts – when deciding if you would be a good credit risk.

### What happens if I don't make timely payments?

Each time you make a payment after its due date, you may have to pay penalties or late fees. In addition, a history of making late payments may affect your credit history and ultimately mean higher interest rates on subsequent loans. For example, someone with good credit may get a mortgage with a 5% interest rate, while someone with poor credit may have to pay 8%. This means that if each person borrows \$100,000 over 30 years, the 5% borrower would pay \$93,256 in interest while the 8% borrower would pay \$164,155 in interest over the life of a 30-year mortgage – that's a difference of \$70,899. As you can see, your credit can have a significant impact on your current and future financial picture.

### What is considered a late payment?

Generally, a payment is considered delinquent if it's received 30 days past its due date. A mortgage payment, however, is considered late when it's received 15 days after its due date. If an account has payments that are 60 or 90 days late, that account is considered to be in serious delinquency. Any late rent or mortgage payments in the past 12 months could affect your qualification for a mortgage loan and its interest rate.

### How does a potential lender know if I have good credit?

The primary source a potential lender uses to evaluate your credit is a credit report. A credit report includes information about your repayment history, submitted to one or more credit-reporting agencies by the companies you do business with when you open a new credit account or borrow money.

### What appears on my credit report?

A typical credit report is made up of four types of data: personal information, credit information, public record information and inquiries about your credit.

Personal information includes your name, current and previous addresses, telephone number, Social Security number, date of birth, and current and previous employers.

Credit information includes details for all loans and lines of credit: the date it was opened, the credit limit or loan amount, the total balance and the monthly payment amount. The report also shows your payment history over the past several years and the names of anyone else responsible for paying an account, such as a spouse or a co-signer.

A credit report may include information taken from public records about bankruptcies, foreclosures, liens for unpaid taxes and monetary court judgments, such as lawsuits. It also will show every time someone has obtained a copy of your credit report and every time you have applied for credit over the past two years. A lender might see several recent inquiries about your report as a credit risk.

### Can I get a copy of my credit report?

Yes – in fact, you should request a copy at least once a year to verify that all of the information is correct. To get a copy of your report (which may involve a small fee), visit the website of one or more of the following credit-reporting agencies:

**Trans Union**  
[www.transunion.com](http://www.transunion.com)

**Experian**  
[www.experian.com](http://www.experian.com)

**Equifax**  
[www.equifax.com](http://www.equifax.com)

The information on the three credit reports may vary because not all creditors report information to each agency. For this reason, you may want to get a report from all three agencies.

### What is a credit score?

A credit score is a statistical measurement used to predict how likely you are to repay a loan. The score is drawn from information on your credit report and data from millions of consumers. It provides lenders with a fast, objective way to evaluate your credit history.

### What factors influence my credit score?

Any action you take related to your credit practices influences your credit score, from timely, regular monthly payments (which will have a positive influence) to minimum payments on maximum credit card balances (which will have a negative influence).

### What is a good credit score?

Credit scores typically range from 300 to 850. A credit score that falls between 680 and 850 is considered more favorable and a lesser credit risk.

### Can I change my credit score?

Yes – in fact, you are the only person who can change it. You can improve your score by paying off loans, reducing credit card balances and making monthly payments on time. After a period of time, generally a year or two, such practices will usually be reflected in your credit score.

### Does a lender take anything else into consideration when I apply for a loan?

Yes. Although lenders rely heavily on credit scores, other factors are taken into consideration, including your job history, income, savings and checking accounts, the types of loans you currently have and the type of mortgage loan you want.

### What can I do if I don't have credit?

If you don't have credit as reported by the credit-reporting agencies, most lenders will accept alternative sources of credit. This could include “credit references” in the form of bills you have paid on a regular basis for rent, utilities, cable TV or insurance.

Can I "start over" by declaring bankruptcy and clearing away all my old debt?

Declaring bankruptcy is not an automatic "start over." Declaring bankruptcy, having a car repossessed, having a house foreclosed on or not paying a loan will likely have a major effect on your ability to get a new loan. In fact, information about a foreclosure or repossession can stay on your credit report for seven years and a bankruptcy for up to 10 years.

Can someone help me "fix" my credit?

If you are having problems paying your debts, a not-for-profit credit counseling organization can help by working with you and your creditors at little or no cost to set up repayment plans.

You may want to stay away from "credit repair" or "credit consolidation" companies that offer to "fix" your credit history for a fee. Only you can repair a bad credit history by repaying your debts and making your monthly payments on time. To discuss strategies for improving your credit score, talk to an experienced loan consultant at (855) 550-8500