

# You can be **debt free**



## There is help waiting for you now.

- Reduce or eliminate interest charges.
- Consolidate credit card bills into one lower monthly payment.
- Pay off your debt in half the time.
  - Save thousands of dollars.



Consolidated Credit Counseling Services, Inc.

5701 West Sunrise Boulevard • Fort Lauderdale, FL 33313

1-800-SAVE-ME-2 • (1-800-728-3632)

[www.ConsolidatedCredit.org](http://www.ConsolidatedCredit.org) • Email: [counselor@ConsolidatedCredit.org](mailto:counselor@ConsolidatedCredit.org)

## MAKE THE MOST OF YOUR CREDIT SCORE



A free publication provided by  
Consolidated Credit Counseling Services, Inc.  
A nonprofit educational credit counseling  
and debt management organization.

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## What is a Credit Score?

A credit score is a formula that is used to predict risk for lenders.

To create a credit score, analysts use information in credit reports, account histories, or applications. Their goal is to accurately identify the consistency of your timely paid accounts, as well as your delinquent accounts. The results of all this computing and analyzing, is a number that is your credit score.

Lenders use credit scores to help decide:

- Whether to issue a new account or loan.
- Raise the credit limit on an existing account.
- Decide what interest rate to charge on a new or existing loan.

Insurance companies use insurance scores (which are based on credit information, but calculated somewhat differently) to help them decide:

- Whether to issue new auto or homeowner's policies.
- What rate to charge for those policies.
- Whether to renew existing policies.

Some employers use consumer scores (which are also based on credit information) to help them make hiring decisions.

There are different types of scores, Fair, Isaac and Company, Inc. develops many of them. These are commonly referred to as "FICO scores."

It's important to understand that your credit score is never a single number. It can vary, depending on which of the three major credit bureaus supplied the credit information used to calculate it, what kind of loan is being considered, and what formula the individual

lender uses to calculate it.

For example, mortgage lenders typically request a "tri-merge" credit report, which includes credit information and scores from the three major credit bureaus -- Equifax, Experian and Trans Union. Typically the credit score from each of those bureaus will vary so the lender will use the score that falls in the middle of the three when evaluating the loan.

Keep in Mind:

- Your credit score can change frequently as information is updated in your credit reports.
- Lenders may use different credit scoring formulas customized for their loan products when calculating your score.
- Credit scores are calculated using the information in your credit report, even if that information is not correct.

With a FICO score, the higher the number, the better the score. For example, a score of 700 is much better than a score of 600.

## What's In A Credit Score?

There are five categories of factors that go into your credit:

<b>Payment history</b>	<b>35%</b>
<b>Amounts you owe</b>	<b>30%</b>
<b>Length of credit history</b>	<b>15%</b>
<b>New credit</b>	<b>10%</b>
<b>Type of credit in use</b>	<b>10%</b>

The two most important factors that go into your credit score are your payment history (have you paid your bills on time?) and the amounts you owe (how much debt do you carry?).

Together, these categories make up about two-thirds of your credit score. That means if you want to improve your credit score focus on paying your bills on time and paying down debt. If you are having difficulties paying down your debt on your own, contact a credit counselor for free advice at 800-728-3632.

## How Can I Get My Credit Score?

You can usually purchase your credit score when you order your credit report, either through one of the major credit bureaus or through an online service that sells credit reports and scores to consumers. You can find out how to purchase your report from [www.ConsolidatedCredit.org](http://www.ConsolidatedCredit.org).

It's an excellent idea to check your credit report and find out what your score is at least six weeks before a major purchase such as a home or car, to give yourself time to correct any mistakes or problems.

## How Long Will Negative Information Hurt My Credit Score?

- Late payments can generally stay on your credit report for seven and a half years.
- Collection accounts and charge-offs can be reported for seven and a half years from the date you first fell behind leading up to the collection account or charge-off.
- Bankruptcies may be reported for ten years from the date of filing, though the major credit bureaus will remove Chapter 13 bankruptcies (where you pay back some of your debts) seven years from the date of filing.
- Unpaid tax liens may be reported for fifteen years or longer. Paid tax liens may be reported for seven years.

Keep in mind that the older negative information becomes, the less of an impact it may have on your score; and new positive credit references can help improve your score, even if your credit report still contains negative information.

That's why it is important, if you've had credit problems in the past, to establish positive credit references to boost your credit score. That does not mean you should carry debt. If you can't qualify for a regular credit card, for example, you may be able to get a secured MasterCard or Visa, which requires a security deposit. Use it from time to time for purchases you would make anyway and then pay the bill in full to avoid interest charges.

## How Much Can A Poor Credit Score Cost?

Your credit score will likely be a factor in the interest rate you are charged for loans. Here's an example:

A 4-Year Auto Loan for \$20,000

Excellent Credit Score (720 – 850): \$2,128 in total interest

Poor Credit Score (590 – 624): \$6,919

In this example, the difference between an excellent credit score and a poor one is \$4791 in interest!

## Should I Close Old Accounts?

Many consumers who review their credit reports find old credit card accounts they haven't used for years still listed as open accounts. You may think it's a good idea to close those accounts and have them listed on your credit report as closed. That's not necessarily the case. Fair Isaac Co. says that closing old accounts can't help your FICO credit score, and can only hurt it.

## Why?

Credit scores are based on information about how you've handled different types of credit over time. When you close out a lot of accounts, you may limit some of the information that could be helpful in predicting how you'll pay in the future. You may also shorten the average length of your credit history. When it comes to credit scores, a longer credit history is better.

Unless you have a specific reason for closing accounts — you're getting divorced for example, and want to close your joint accounts — you may want to leave your old accounts as they are.

## Credit Inquiries

Anytime a lender, creditor or employer checks your credit report, an inquiry is created. Although the number of recent inquiries is not a major factor in a credit score, too many inquiries in the last six months to a year can negatively impact your score so it's best to avoid applying frequently for new credit.

The following types of inquiries do not hurt your credit score:

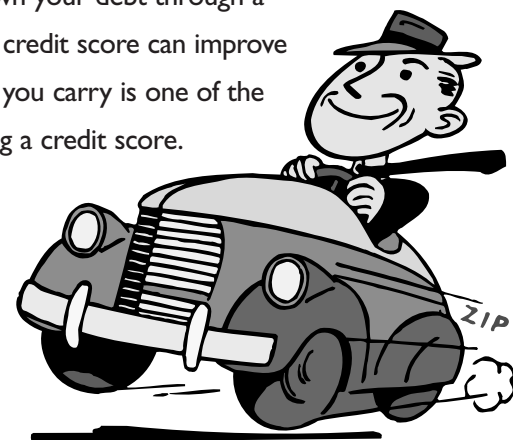
- Consumer-initiated inquiries, which occur when you order your own credit report or score.
- Promotional inquiries, which are created when your file is reviewed for a pre-approved credit card or line of credit.
- Employment or insurance related inquiries.
- To avoid penalizing consumers who shop for mortgages or car loans, inquiries for these types of loans within a short period of time are grouped together and often count as a single inquiry. There is no such buffer, however, for inquiries generated by applying for credit cards.

## How Will Credit Counseling Affect My Credit Score?

Many people worry that their credit will be damaged if they enter a debt management program through a credit counseling service. In fact, their credit score may actually improve if they successfully stick to the repayment plan. There are several reasons for this:

- Fair Isaac Co., creator of the widely used FICO scores, does not consider the fact that a consumer is in a counseling program when calculating a credit score.
- Many creditors will not report anything to the credit bureaus that indicates that an account is being repaid through a counseling agency.
- Some creditors will “re-age” accounts that are behind when a consumer enters a counseling program and sticks with it for several months. That means the late payments immediately prior to beginning the counseling program may be removed.
- By entering a credit counseling program you may avoid further late payments, credit problems and even bankruptcy – all of which can significantly hurt your credit.

If you successfully pay down your debt through a counseling program, your credit score can improve since the amount of debt you carry is one of the major factors in calculating a credit score.

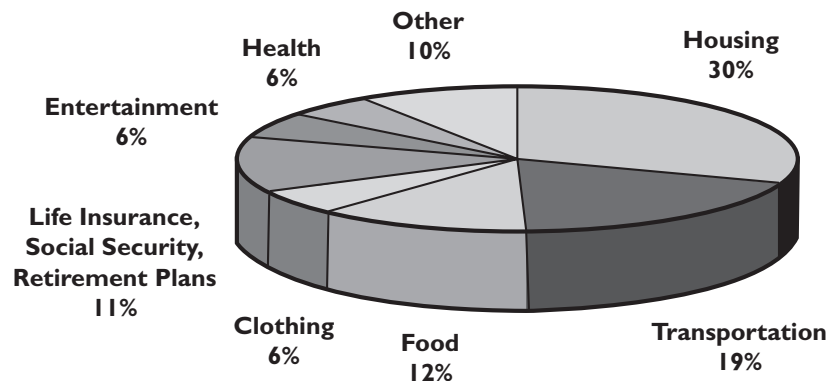


## Looking For Comprehensive Educational Tools To Guide You To Financial Freedom?

**Consolidated Credit Counseling Services' Learning Center is the place.** Log on to [www.ConsolidatedCredit.org](http://www.ConsolidatedCredit.org) and learn how to manage your money, credit, and personal finances while advancing through a series of interactive educational challenges and booklets.

[www.ConsolidatedCredit.org](http://www.ConsolidatedCredit.org) will help you:

- Clarify goals.
- Understand debt-to-income ratio.
- Prepare a spending plan.
- Get a credit report.
- Save money.
- Stop living paycheck-to-paycheck.



Source: The U.S. Bureau of Labor Statistics.

**About the author and Consolidated Credit Counseling Services, Inc.** Consolidated Credit Counseling Services, Inc. is a consumer-oriented, nonprofit, tax exempt, public education organization. We are an industry leader in providing credit counseling and debt management services throughout the United States. Our mission is to help families end financial crisis and solve money management problems through education and professional counseling.

Gerri Detweiler is Consolidated's educational director and author of this publication. She has written numerous books including *The Ultimate Credit Handbook*, which was featured in *Money* magazine as one of the five best new personal finance books of the year when it was released. Ms. Detweiler has been quoted in thousands of publications including *The New York Times* and *The Wall Street Journal*. She co-hosted an award-winning syndicated financial radio program, and has been a guest on *The Today Show*, *Dateline NBC*, the *CBS Evening News*, and *CNN*. She has testified before Congress and lobbied on behalf of consumers protection measures. She is the former executive director of Bankcard Holders of America, as well as a policy director for the National Council of Individual Investors. She has also served on the Board of Directors for the National Coalition for Consumer Education as well as Experian's Consumer Advisory Council.

Call  
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For A Free Consultation

