

Credit Counseling Tips

Understanding Your Credit Score

Credit scoring is a system creditors use to help determine whether to give you credit. It also may be used to help decide the terms you are offered or the rate you will pay for the loan. Information about you and your credit experiences, like your debt-payment history, the number and type of accounts you have, whether you make your payments by the date they're due, collection actions, outstanding debt, and the age of your accounts, is collected from your credit report. Using a statistical program, creditors compare this information to the loan repayment history of consumers with similar profiles.

For example, a credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points — a credit score — helps predict how creditworthy you are: how likely it is that you will repay a loan and make the payments when they're due.

Your credit report is a key part of many credit scoring systems. That's why it is critical to make sure your credit report is accurate. Federal law gives you the right to get a free copy of your credit reports from each of the three national credit reporting companies once every 12 months. To order your free annual credit report from one or all of the national credit reporting companies, visit www.annualcreditreport.com, or call toll-free 877-322-8228.

How to Improve Your Credit Score

Credit scoring models usually consider the following types of information in your credit report to help compute your credit score:

Have you paid your bills on time?

You can count on payment history to be a significant factor. If your credit report indicates that you have paid bills late, had an account referred to collections, or declared bankruptcy, it is likely to affect your score negatively.

Are you maxed out? Many scoring systems evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, it's likely to have a negative effect on your score.

How long have you had credit? Many scoring systems consider whether you have applied for credit recently by looking at "inquiries" on your credit report. If you have applied for too many new accounts recently, it could have a negative effect on your score. Every inquiry isn't counted: for example, inquiries by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not considered liabilities.

Have you applied for new credit lately? Many scoring systems consider whether you have applied for credit recently by looking at "inquiries" on your

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How many credit accounts do you have and what kinds of accounts are they?

Although it is generally considered a plus to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many scoring systems consider the type of credit accounts you have. For example, under some scoring models, loans from finance companies may have a negative effect on your credit score.

Debt Consolidation Plans

If you are having trouble making payments on your debts, a credit counselor may be able to help you with advice or by organizing a debt consolidation or "debt management plan" for all your debts. Typically, under a debt management plan you make a single payment to the credit counseling organization each month or pay period and the credit counseling organization makes monthly payments to each of your creditors. Under debt management plans, credit counselors usually do not negotiate any reduction in the amounts you owe—instead, they can lower your overall monthly payment. They do so by negotiating extensions of the periods over which you can repay a loan and by asking creditors to lower the interest rates and waive certain fees.

Typical Credit Score Ranges:

Credit Score	Rating	% of People
580-669	Fair	17%
670-739	Good	21%
740-799	Very Good	25%
800-850	Exceptional	21%

Borrowers with scores above 740 generally receive better interest rates and access to higher borrowing limits, depending on the lender.

For more info see:

<https://www.consumerfinance.gov/ask-cfpb/what-is-credit-counseling-en-1451/>

<https://www.consumer.ftc.gov/articles/0152-credit-scores>

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