Credit History and Credit Scores



Learning Target

I will demonstrate my understanding of credit history and credit scores.

What is a Credit History?

- A credit history is a report of a person's payment activity over time
 - When a person applies for loans or credit cards, the lender checks the borrower's credit history
 - It contains information such as where you live, where you work and the type of credit you already have, as well as outstanding debt information
 - It also reports credit problems, such as past-due payments or accounts turned over to a collection agency

What is a Credit History?

Your credit history affects all aspects of your life including your ability to open a **bank account**, **buy a car**, get a **cell phone**, obtain a **credit card** or **rent** an apartment

It may also affect the price you pay for car insurance
 Insurance companies check credit history because they think there is a correlation between risky financial behavior and risky driving behavior

What is a Credit History?

If you do not demonstrate the ability and willingness to repay what you have borrowed in the past, your ability to obtain credit in the future will be limited
 The cost of future credit may be higher as well
 You may have to pay a higher interest rate because you are considered a risky borrower

How a credit score is calculated





It includes whether or not one pays on time The total amount of available credit The total amount and type of debt a person has > The number of **open** and **active** accounts one has The longevity of a person's relationships with creditors The information is compiled by the credit reporting companies (CRCs) – Equifax, Experian, and TransUnion

- A consumer's credit score is typically a three-digit number
 It ranks a consumer's likelihood to pay his/her debts compared to all other consumers
- A higher score means that a person is more likely to pay their debts
- A lower score means that a person is less likely to pay their debts

Mortgage lenders, auto lenders, and credit card issuers may use credit scores to help determine whether a person can qualify for credit and what interest rate they might pay

Cell phone companies may use credit scores to help determine which plan a person may be eligible for and whether any security deposit is required

Utility companies may use credit scores as they evaluate whether or not to require a security deposit and the amount of such deposit

Landlords may use credit information and scores to help determine the amount of the deposit that may be required for a particular property

What Influences a Credit Score?

Characteristic	Description	Maintaining a good credit score
Payment History	Repayment behavior (current, late or charged-off)	Pay all bills on time.
% of Credit Limit Used	Proportion of credit amount used/owed on accounts	Keep revolving balances low, under 30% of credit limits.
Total of Balances	Total amount of recently reported balances (current and delinquent)	Reduce the amount of debt owed.
Age and Type of Credit	Length of credit history and types of credit	A mix of accounts (credit cards, auto, mortgage) and a longer history will improve a credit score.
Recent Credit	Number of recently opened credit accounts and credit inquiries	Don't open too many new accounts too quickly.
Available Credit	Amount of credit available	Only open the amount of credit needed.

What is a Good Credit Score?

Excellent credit: 750+
Good credit: 700-749
Fair credit: 650-699
Poor credit: 600-649
Bad credit: below 600

What is a Good Credit Score?

The highest score is 850 and the lowest is 300

- What is the magic number that will get you the best interest rate?
 - If your credit score is above 760, you will get the best rates
- How hard is it to get that number?
 For people 25 to 34 years of age, the average score is 628
 - For people age 45 to 54, the average is 647
 - For those **55-plus**, it is **697**
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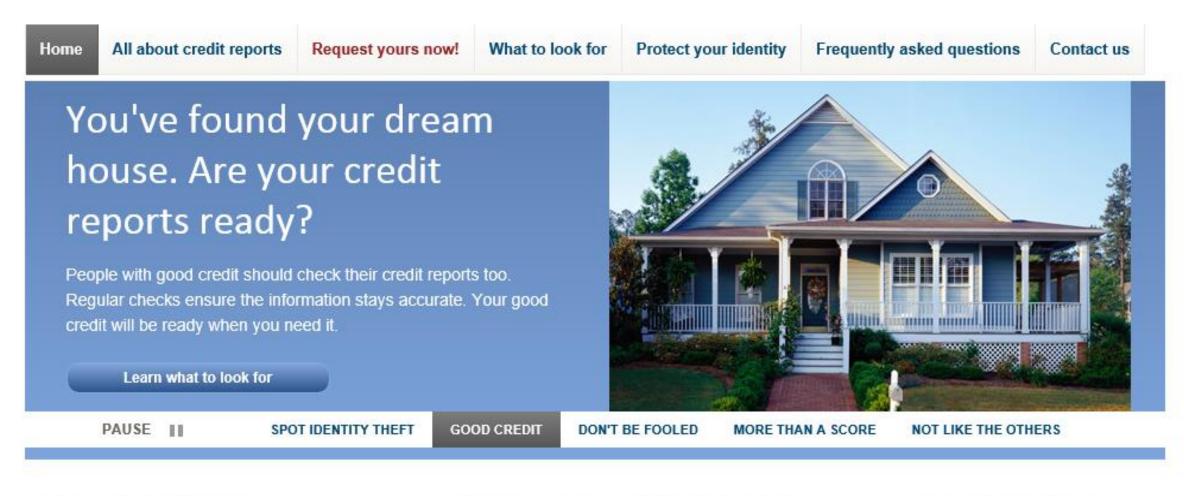
How to Improve a Credit Score

Pay bills on time

- Apply for credit only when it's needed; do not open new accounts frequently or open multiple accounts within a short time span
- Keep outstanding balances low a good rule of thumb is not to exceed 30% of available credit limit with each account
- Pay any delinquent accounts as soon as possible and then keep them current
- Everyone has the right to obtain their credit reports for free through the website annualcreditreport.com

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