



Understanding Credit Scores

And How to improve them

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WHAT IS A CREDIT SCORE?

- ✓ A Credit Score is a mathematical assessment of the likelihood you will repay what you borrow.
- ✓ It is formulated from information on your credit report
- ✓ Equifax, Experian, & Transunion are the three main credit bureaus used
- ✓ FICO's credit score market dominance has been challenged by a newcomer called VantageScore.
- ✓ Both use similar scoring methods, but yields slightly different results.

HOW YOUR CREDIT SCORE AFFECTS YOU

- ✓ Used in granting and pricing loans – mortgage loans, auto loans, student loans, credit cards
- ✓ Used in granting and pricing Insurance
- ✓ Employers use in hiring and promoting
- ✓ Landlords
- ✓ Utility Companies & Cell phone companies

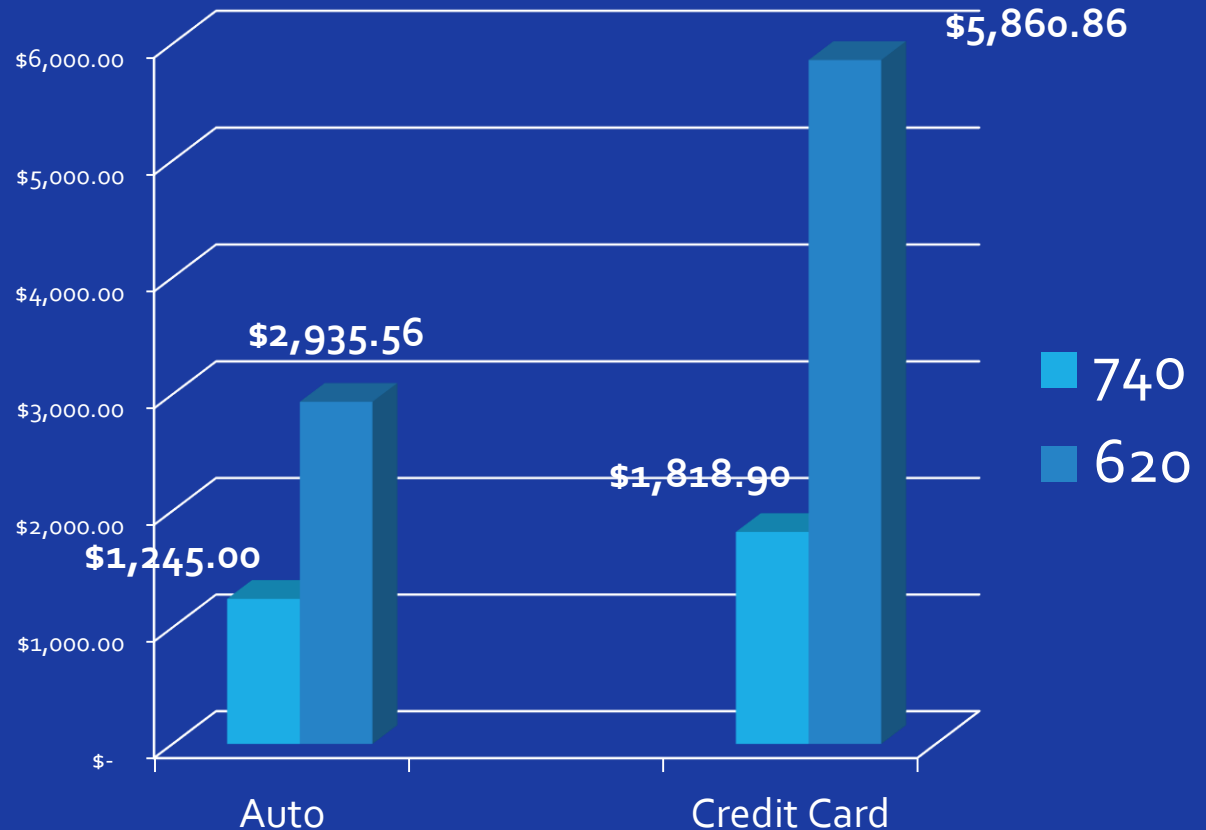
COST COMPARISON BASED ON SCORE

Auto Loan for
\$15,000 for 3 years.

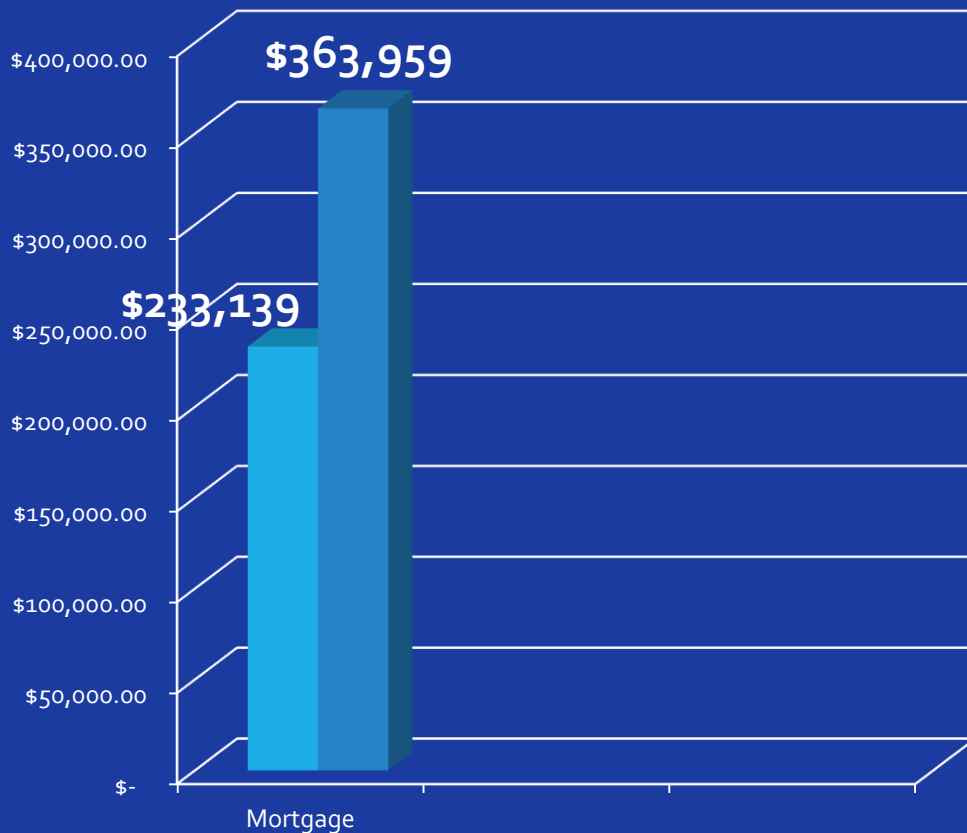
The difference in
cost is \$1,690.56

Credit Card balance
of \$5,000 with
\$150/month
payments.

The cost difference
is \$4,041.96



COST COMPARISON BASED ON SCORE



740

620

Mortgage loan for
\$250,000 fixed
rate for 30 years.

The difference in
cost is \$130,820.

WHAT IS ON YOUR CREDIT REPORT

Reports to Credit Bureaus

- Mortgages, Credit Cards, Vehicle Loans, Personal Loans, Student Loans
- Utility Companies (only reports if delinquent acct)
- Medical (only reports if delinquent acct)
- Credit Related Court Records

Does NOT generally report

- Landlords
- Insurance Companies
- Service providers (cell phone companies, Satellite dish companies, etc.)
- Pay Day Lenders
- Deposit Accounts

HOW TO READ YOUR CREDIT REPORT

Credit Report Format

- Personal Information
- Score Summary
- Trade Lines
- Inquiries

PERSONAL INFORMATION

SSN: 111-11-1111

DOB: 10/1981

JANE A SMITH

JANE A WOLFE
TYPE: NICKNAME

NAME TYPE: AKA JANIE A SMITH

NAME TYPE: NICKNAME A SMITH JANE

NAME

PO Box 2222

Erie PA 16512

RPTD: 08-09 TO 11-11

NUMBER TIMES REPORTED :01

DWELLING TYPE: P, POST OFFICE BOX

4000 GREEN RD

MC KEAN PA 16426

RPTD: 08-08 TO 08-11 U

NUMBER TIMES REPORTED: 05

DWELLING TYPE: S, SINGLE-FAMILY DWELLING

E: BURGERHOUSE RPTD: 06-09 TO 11-10

E: SELF EMPLOYED RPTD: 09-08 TO 04-09

SCORE SUMMARY

----- SCORE SUMMARY ----- XPN/Fair Isaac
Risk Model V2 = 0512 SCORE FACTORS: 38,20,13,18

38 - SERIOUS DELINQUENCY AND PUBLIC RECORD OR COLLECTION FILED 20 -
TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO SHORT

13 - TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN

18 - NUMBER OF ACCOUNTS WITH DELINQUENCY

----- SCORE SUMMARY -----

XPN Bankruptcy = 0647 SCORE FACTORS: C, D, X, N

C - PRESENCE OF DEROGATORY ACCOUNTS

D - ACCOUNTS WITH PAST-DUE BALANCES

X - PRESENCE OF RECENT INQUIRIES

N - INSUFFICIENT CREDIT HISTORY OR LACK OF BANK OR FINANCE ACCOUNTS

PUBLIC RECORDS

- Bankruptcies
- Civil Judgments
- Municipal & IRS Liens
- Court Ordered Child Support
- Criminal Fines & Fees

Remain on Credit report for 10 years will report as “paid” or “lien released” when resolved

PUBLIC RECORDS

· ----- PUBLIC RECORDS -----

- | COURT NAME | STATUS DATE | \$AMOUNT | TYPE |
|------------------------------------|-------------|----------|--------------|
| * ERIE COUNTY COURTHOUSE | 06/17/09 | \$3,623 | CIV CL JUDG |
| REF#: 20000000 | | | |
| PLAINTIFF: JOHN DOW BUSINESS | | | |
| ORIGINAL FILING DATE: 06-17-09 | | | |
| ECO CODE: INDIVIDUAL | | | |
| US BKPT CT PA ERIE | 05/29/09 | | BK 13-DISCHG |
| REF #: 03030303 | | | |
| WWB ORIGINAL FILING DATE: 08-12-03 | | | |
| ECO CODE: JOINT | | | |

TRADE LINES

- Adverse Accounts (Collection Accounts) are listed first
- Paid Accounts are listed next
- Open Accounts are listed last

Adverse or delinquent accounts will remain on credit report for seven years, but will report as “paid” after it has been resolved

INFORMATION REPORTED ON EACH ACCOUNT/TRADE LINE

- Name of creditor or entity reporting
- Open date, last paid date, last activity date
- Current balance, charged off balance, and high balance (credit limit or original balance)
- Monthly payment and past due amount
- Term, payment history, and condition of account
- Account number, type of account

INFORMATION REPORTED ON EACH ACCOUNT/TRADE LINE

SUBSCRIBER	OPEN	AMT-TYP	ACCTCOND	PYMT STATUS
SUB# KOB TYP TRM	BALDATE	BALANCE	MOS	PYMT HISTORY
ACCOUNT #	LAST PD	MONTH PAY	PAST DUE	MAXIMUM BY MONTH

SALLIE MAE	03-95	\$1,313 O	PAID	CURR ACCT
xxxxxx EDU 035 1	04/30/05	04-05	(28) B	CCCCCCCCCCCC
XXXXXXXXXXXXXX	03-05			CCCCCCCCCCCC

PAYMENT COUNTERS: 28(30)00(60)00(90+)00

** ACCOUNT CLOSED AT CREDIT GRANTOR'S REQUEST. **

ERIE FCU	06-10	\$19,960 O	OPEN	DELINQ 150
xxxx xx AUT O 1	12/01/11	\$17,898		(18) 54321CCCCCCCC
XXXXXXXXXXXXXX	05-11	\$367 S		CCCCC

PAYMENT COUNTERS: 18(30)01(60)01(90+)03

INQUIRIES & SUMMARY

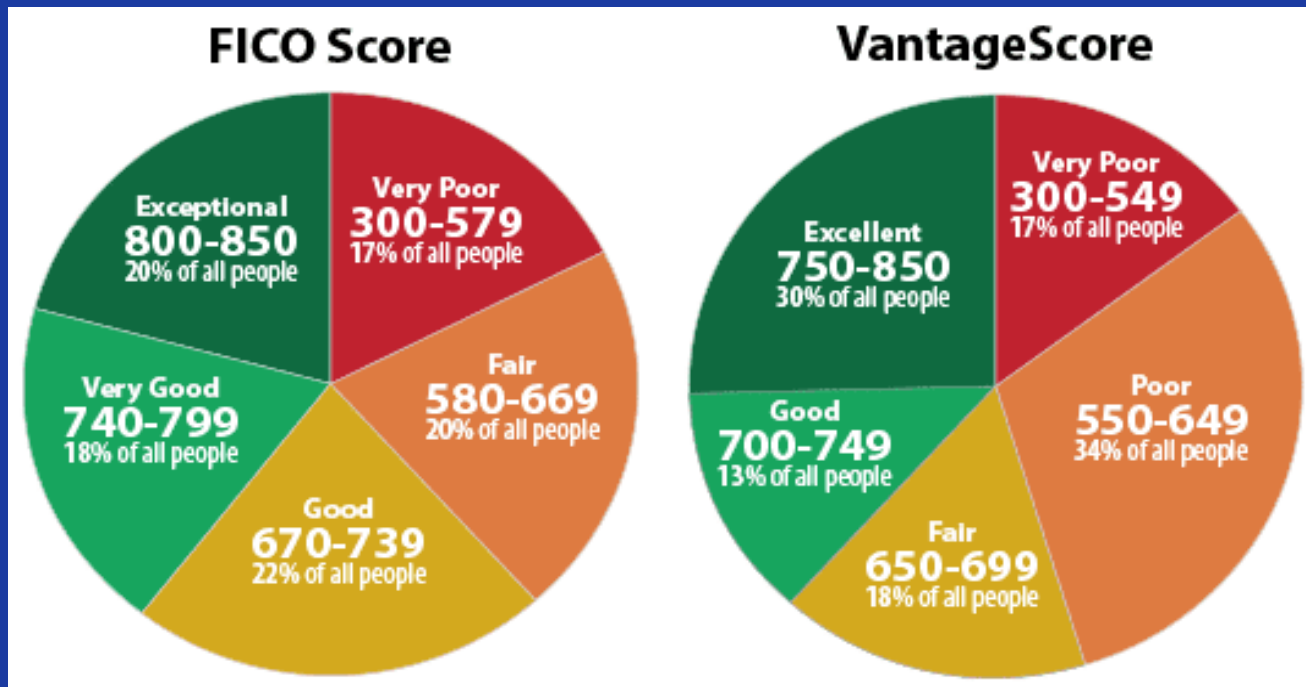
----- INQUIRIES -----

ERIE FEDERAL CREDIT UN	08/19/11	1298350	FC	UNKNOWN COL UNK
MYBANK	06/23/10	1705520	BB	UNKNOWN AUT UNK
CREDIT R US	06/22/10	3903978	ZA	UNKNOWN AUT UNK

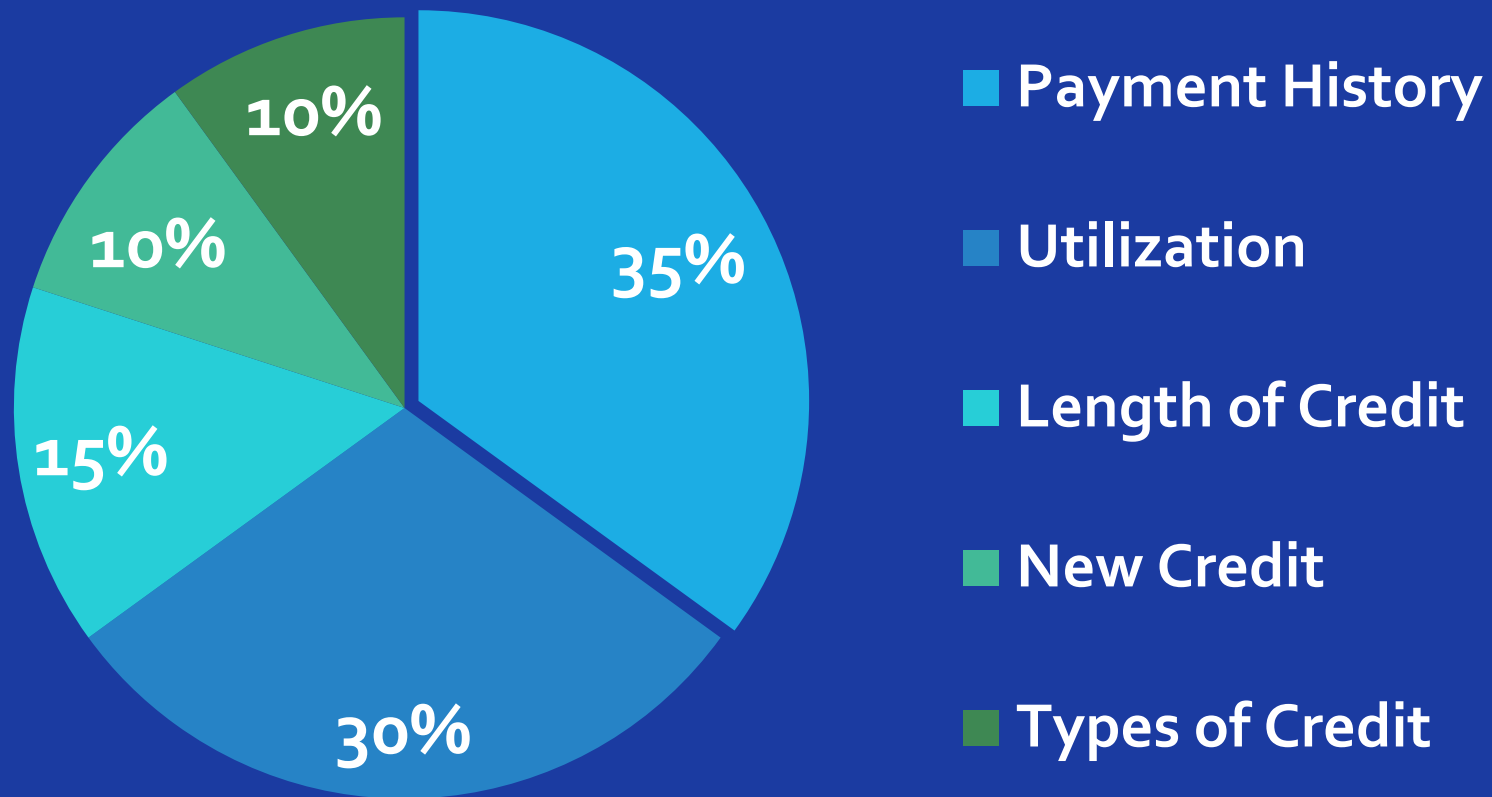
----- PROFILE SUMMARY -----

PUBLIC RECORDS 0001 PAST DUE AMT \$10,419 INQUIRIES 0003
SATIS ACCTS 007 INSTALL BAL \$22,408 SCH/EST PAY \$377* INQS/6 MO 0001 NOW
DEL/DRG 007
R ESTATE BAL R ESTATE PAY N/A TRADELINE 014 WAS DEL/DRG 000
REVOLVNG BAL \$4,492 REVOLVNG AVAIL 100% PAID ACCT 006
OLD TRADE 03-95

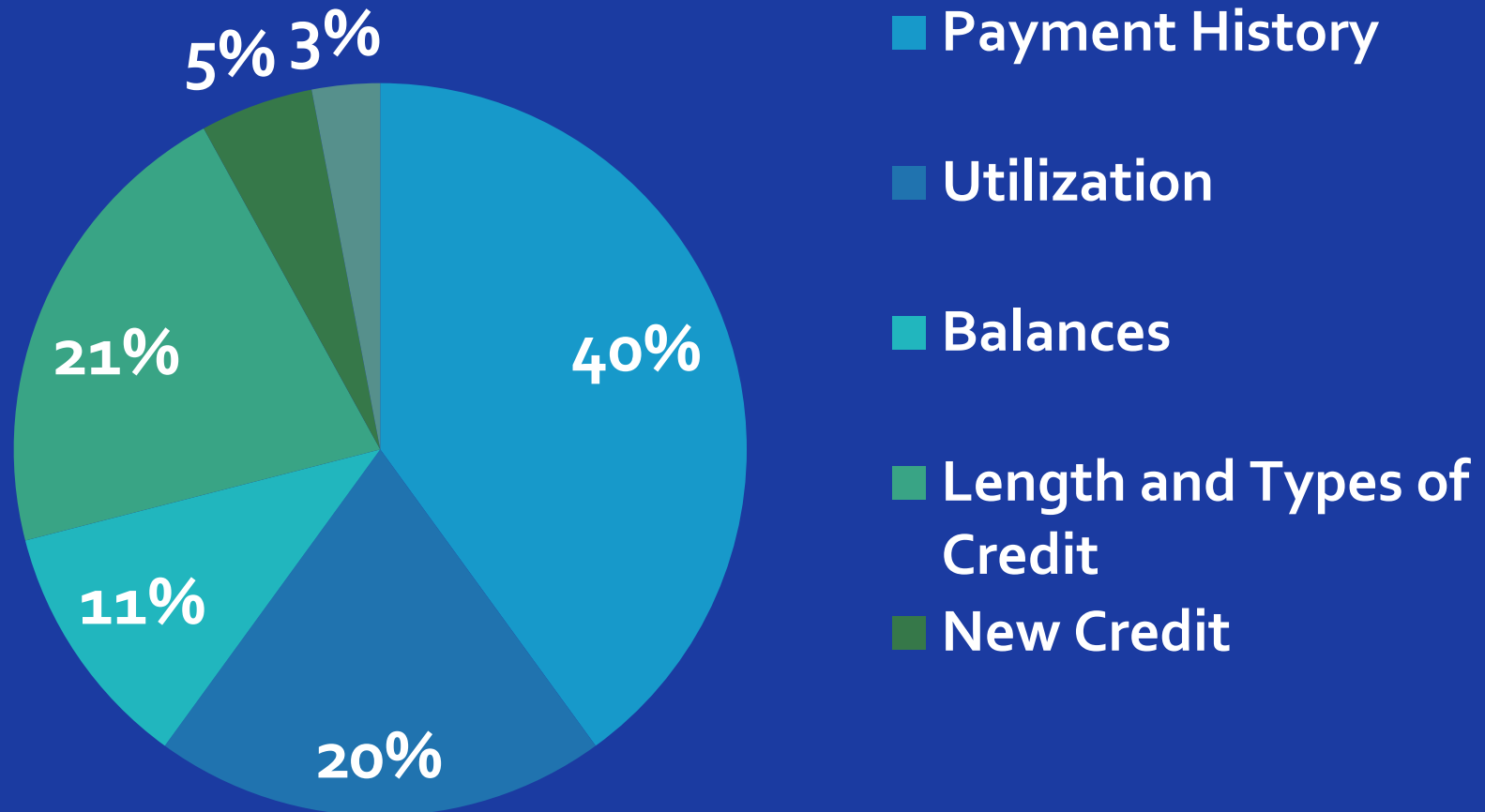
WHAT IS A GOOD CREDIT SCORE?



HOW IS A CREDIT SCORE CALCULATED FICO



HOW IS A CREDIT SCORE CALCULATED VANTAGE



HOW IS A CREDIT SCORE CALCULATED

Payment History

- ✓ The largest impact on a credit score
- ✓ All late payments over 30 days are reported
- ✓ The more recent, frequent, or severity will decrease the score
- ✓ A late payment will be considered for 24 months
- ✓ Collections accounts (Charged-off, Collection, Repossession, Foreclosure) and legal actions have the greatest impact

HOW IS A CREDIT SCORE CALCULATED

Utilization and Balances

- ✓ Carrying large balances will lower a score
- ✓ Revolving debt, like credit cards, with balances over 40% of limit will lower your score
- ✓ Numerous accounts with balances will lower a score

HOW IS A CREDIT SCORE CALCULATED

New Credit

- ✓ Recently opened accounts will lower your score
- ✓ 3 or more inquiries a year will lower your score

Types of Credit Used

- ✓ Having a variety of accounts increases your score (credit cards & loans)

Available Credit

- ✓ Keeping revolving balances low will increase your score

DIFFERENCES

- ✓ A history of late payments impacts both your FICO Score and your VantageScore. Both models consider:
 - ✓ How recently the last late payment occurred
 - ✓ How many of your accounts have had late payments
 - ✓ How many payments you've missed on an account
- ✓ FICO treats all late payments the same. VantageScore judges them differently. VantageScore applies a larger penalty for late mortgage payments than for other types of credit payments.
- ✓ If you've had late payments on your credit cards, it will impact your FICO Score and VantageScore the same. But if you've had late payments on your mortgage, you might find you have a higher FICO Score than VantageScore.

DIFFERENCES

- ✓ VantageScore and FICO both penalize consumers who have multiple hard inquiries in a short period of time, and they both do “deduplication.” Deduplication is the practice of allowing multiple pulls on your credit for the same loan type in a given timeframe without penalizing your credit.
 - For example, when searching for the best deal on a car loan or mortgage loan, your credit may be run several times within a short period of time. These will only count as 1 inquiry.
- ✓ FICO uses a 45-day span to deduplicate your credit inquiries. VantageScore limits its focus to only a 14-day range. FICO gives you a longer time period to find the best deal.

DIFFERENCES

- ✓ However, FICO considers only mortgages, auto loans, and student loans in its 45-day period. VantageScore deduplicates multiple hard inquiries for all types of credit, including credit cards in the 14 day period.
- ✓ FICO ignores all collections where the original balance was less than \$100.
- ✓ VantageScore, on the other hand, ignores all collection accounts that are paid off.
- ✓ VantageScore makes allowances for consumers impacted and affected by natural disasters

OBTAINING YOUR SCORE

- ✓ www.annualcreditreport.com – free report annually from all three bureaus, but does not include your score
- ✓ www.creditkarma.com – free report that includes your score. Will send an e-mail when score changes.
- ✓ Creditors must provide you with your score if you are denied credit or are not given the best interest rate available
- ✓ All three bureau's will provide complete reports & score for a minimal cost

OBTAINING YOUR SCORE

You are entitled to a free report when any of the following occur:

- ✓ Turned down for credit, insurance or denied employment based on your credit history
- ✓ Believe your identity was stolen
- ✓ Are on welfare
- ✓ Are unemployed & looking for employment

IMPROVING YOUR CREDIT SCORE

- ✓ Always pay on time / Keep all accounts current
- ✓ Pay down existing debt / Maintain low balances
- ✓ Avoid taking on additional credit
- ✓ Pay off collection accounts
- ✓ Check your report for accuracy
- ✓ Keep your old revolving accounts in good standing open
- ✓ Limit balance transfers
- ✓ Avoid excess credit applications
- ✓ Be patient

FIXING ERRORS

- ✓ Dispute the information with the credit bureaus
- ✓ Dispute the information with the creditor
- ✓ Add a statement to your report

Establishing Credit

- ✓ Obtain a secured credit card or loan
- ✓ Obtain a loan with a co-signer
- ✓ Obtain a “New Start” loan

RESOURCES

- <https://www.balancepro.net>
- <https://www.balancepro.net/ontrack>
- www.annualcreditreport.com
- www.creditkarma.com

<https://www.eriefcu.org>





Thank you