

Boost and Protect Your Credit Score

Steps you take to build and protect your credit history and score can help you financially in a number of ways.

You should be aware of:

- ▶ What's in your credit reports, which are summaries of your experiences with credit and debt.
- ▶ Your credit scores, which are single numbers that indicate how well you manage credit and debt and are based on the information in those reports.

Your Credit Reports and Scores Can Impact...



How much you pay for loans



How much you pay for insurance premiums



Rent – getting a lease; your security deposit



Employment prospects

There are three credit bureaus from which your reports are compiled and your scores are generated. You actually have multiple credit scores – lenders might pull a different score depending on what you're applying for. The most widely used score is your FICO® score, which ranges from 300-850.¹

Here's an example of how much someone with a low and a high FICO credit score might pay for a loan.*

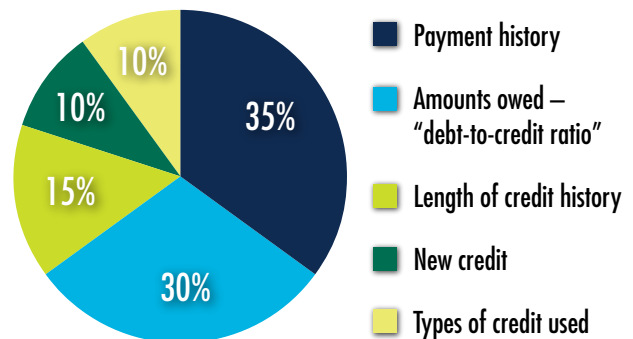
5-Year \$25,000 Car Loan	Monthly Payment	Total Interest Paid
Lowest Credit Score	\$592	\$10,495
Highest Credit Score	\$453	\$2,164

HOW IS YOUR SCORE CALCULATED?

Your FICO credit score is calculated based on five factors:

- ▶ **Payment History** – any late payments hurt your score.
- ▶ **Amounts Owed (Debt-to-Credit Ratio)** – your actual credit card balances as a percentage of your total credit limits (what's available to you). The lower the percentage the better.
- ▶ **Length of Credit History** – primarily, the age of your oldest account and the average age of all your accounts. The longer you've had credit, the better.
- ▶ **New Credit** – too many applications within a short period can hurt your score.
- ▶ **Types of Credit Used** – the more variety the better.

Payment History and Amounts Owed make up 2/3 of your total score and so generally are the most important to focus on.



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* For illustrative purposes only. Source: myfico.com, Jun. 13, 2016. Lowest credit score interest rate: 14.8%. Highest credit score interest rate: 3.3%.

¹ FICO (Fair Isaac Corporation) is the company that invented the FICO® score and is not affiliated with ICMA-RC.

IMPROVE AND PROTECT YOUR SCORE

You get the best rates for FICO scores above about 740 to 760. If you have a low score, take steps to improve it, especially before you apply for new credit or debt. If you have a high score, take steps to maintain it. Here's how:

1 Check Your Credit

- ▶ Check all three credit reports for free – www.annualcreditreport.com.
- ▶ Take steps to fix any errors that might negatively impact your credit scores.
- ▶ You can get your FICO score for a fee at www.myfico.com or may be able to get it for free from your bank or credit card company. Just be aware that some companies provide other non-FICO credit scores that are rarely used and sell unnecessary credit services.

2 Avoid Late Payments

- ▶ Get current on any overdue bills, ideally before they are reported as “late”.
- ▶ Don't forget parking tickets, library fines, and medical bills.
- ▶ Use text/email alerts to monitor upcoming bills.

3 Limit Your Credit Utilization

- ▶ Besides paying off your credit card balances in full, spend less than about 10-20% of what you could spend using those cards. For example, if your cards have total limits of \$10,000, try to avoid putting more than \$1,000-\$2,000 on those cards at any one time, even if you pay the balances in full on time.
- ▶ Beware of store charge cards which tend to have low spending limits.
- ▶ Try to occasionally use each card you own to avoid it being closed due to inactivity.

4 Boost the Length of Your Credit History

- ▶ Be careful about opening multiple new accounts in a short period of time, or closing cards you've held a long time.

5 Shop within a Short Time Period

- ▶ Apply for loans from different lenders within a short period of time so they are treated as one, minimizing any reduction in your score.

6 Variety is Good, If Appropriate

- ▶ Your ability to manage different types of credit and debt boosts your score.
- ▶ But don't obtain credit and debt, and pay costly interest, unless it truly makes sense.

7 Monitor Your Credit Reports and Scores Over Time

- ▶ Pay extra attention before you apply for a loan so that you can consider steps to take to improve your score or consider delaying your application.
- ▶ Otherwise, since you're able to check each of your reports once a year for free, monitor each yearly. You could review all three at once, say at the beginning of the year. Or, you could aim to check one report every four months.

8 Protect Against Identity Theft

- ▶ Monitor your credit card and bank accounts as well as credit reports
- ▶ Safeguard your personal information – paper and online
- ▶ Remember – a lot of perpetrators are someone the victim knew
- ▶ Learn more – www.ftc.gov/idtheft

9 Once You Have a High Score, Don't Obsess but Continue to Shop Around

Boosting an already high score probably won't help you much. But, you may be able to find lenders that do make a distinction between scores that are considered “high” and “very high”; so always shop around.

10 Don't Forget the Basics

Managing your credit score is just one part of your personal finances. Be smart also about general spending, saving, debt, and insurance decisions – you'll build a healthy foundation and boost and protect your score at the same time.

Learn more about credit – www.federalreserve.gov/creditreports

Get more personal finance tips and tools – www.icmarc.org/education