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“WORKING WITH WISCONSIN FAMILIES”

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Understanding Your Credit

“You might be planning to apply for a new job or make a major purchase. Because potential employers and creditors will want to access your credit history, you may wish to access it first,” says Lana Anderson, University of Wisconsin-Extension Family Living Educator for Dunn County. Now that Wisconsin consumers are able to get free credit reports, they have many questions about what the different types of information means for their credit rating or credit score.

Michael Gutter, University of Wisconsin-Extension State Specialist for Financial Education provides information to better understand the report. The credit score, or FICO score is based on information contained in your credit file disclosure or credit report. However, while you are entitled to a free credit report from each of the three agencies every year, you need to pay for the score itself. This is because Fair Isaac Corporation (www.myfico.com) compiles the scores, which are not free to credit reporting agencies. This web site has a credit score simulator as well as credit education on how to improve credit scores.

While the exact calculation for the FICO score is a closely guarded secret, we do know the relative importance of the types of information in your credit report. The actual weightings are important to consider in making credit management decisions, since they may help to show how changes will affect your score.

- 35% - Payment history, including late payments, accounts for 35% of your score
- 30% - Amount and relative level of debt
- 15% - Length of credit history
- 10% - New credit applications
- 10% - Types of credit used

The real implication of this breakdown is to address the all-important questions:

- 1) How do I establish credit? and,
- 2) How do I improve my credit?

Establishing credit requires one fundamental action. You must do business with someone who will report your history to a credit reporting agency. One common misconception is that many utilities do not report your payment information unless you are late. Thus, while making on-time payments to utilities may be important to some lenders, it will generally not appear on your credit report or affect your score--except

negatively. Starting with a small limit on a credit card may be a smart way to begin to establish your credit history. Or apply for a card with limited use such as a gas card. Generally, it takes a minimum of six months to build a credit history, so your score may not be as high as you would like, even with good payment history, because there is not enough time.

Improving credit may be even more confusing because of the many ads we see on TV promising to fix our credit. In fact, there is little someone can do to greatly improve their credit in the short run. Credit history (which accounts for 35% of your score) can only be replaced with new history. There is no way to erase your payment history. In addition, the level of debt (which accounts for 30% of your score) cannot be easily amended unless someone will pay this debt off for you. While consolidation may change the appearance of debt, your percentage of debt capacity may or may not improve; it depends on whether you close other accounts.

In general, if you have made regular timely payments and are not constantly maxed out, you likely have a favorable credit score. Scores range from a low of 300 up to 850. The higher your score, the less you will pay for credit. The most important time to know the actual score is when you are shopping for a car loan or mortgage. You can request the score at <http://www.annualcreditreport.com> in lieu of the report for about \$7, but this should be done strategically.

If you have not been timely with your payments, it may be important to seek help developing a spending plan or a debt repayment plan. Your local county UW-Extension office may be able to help you with this or direct you to an appropriate provider.

Some people may not have the best credit and may be tempted to seek the help of a credit clinic. The Federal Trade Commission (FTC) cautions consumers to be wary of companies that make claims regarding credit repair. These companies don't do anything for consumers that consumers cannot do for themselves at little or no cost. If any organization promises to create a new identity and credit file for you by removing late payments, bankruptcies or similar information, it is likely they are committing fraudulent practices. The FTC and state attorneys have filed action against some of these companies. Remember, the best way to improve your credit score is to make timely payments on your debt, and the only way to erase the impact of negative credit history is to create new positive history.

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