



VALUING PEOPLE. VALUING MONEY.
MANAGING IN TOUGH TIMES INITIATIVE

FAMILY FINANCIAL MANAGEMENT

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THIS MONTH'S TOPIC:

Understanding Credit Scores and Credit Reports

Many people are aware that their credit score is important but they really do not understand how it is derived or how to build a strong credit score. Your credit score is an indicator of the likelihood that you will be able to repay a loan according to the original loan terms—whether you pay your full monthly payment on time. The higher your credit score, the more likely you are to qualify for the most desirable loan rates. Credit scores are often used to determine credit worthiness for home mortgages, vehicle loans, and credit card applications.

Your credit score is based on your credit history and can range from 300 to 850. Credit score can be a deciding factor for whether a lender qualifies you for a loan; furthermore, it can directly impact the price you pay for the loan, which could include a higher interest rate, larger down payment, mortgage insurance, and additional fees.

A formula is used to calculate your credit score, which includes your payment history, your current amount of outstanding debt, the length of your credit history, the number of recent inquiries to your credit report, and the types of outstanding debt such as credit cards and home mortgages.

A good credit score can make a big difference in the amount paid over the life of a loan. Consider the following scenario for a 30 year fixed rate \$200,000 home mortgage.

FICO Score	Interest Rate	Monthly Payment	30 Year Amount
760	5.9%	\$1,187	\$427,320
650	7.2%	\$1,358	\$488,880
590	9.3%	\$1,653	\$595,080

Over the lifetime of this loan, a borrower with a 590 credit score, would pay \$167,760 more than a borrower with a 760 credit score.



Your credit score is directly linked to your credit report

If you are spending on credit, you need to make maintaining a good credit score a priority. Your credit score is directly linked to the items that appear on your credit report. It is possible for inaccurate information to appear on your credit report, which can hurt your credit score.

Your credit history or credit report is compiled by a credit reporting agency. Experian, TransUnion, and Equifax are the three major credit reporting agencies. Your credit report contains information about your payment history to creditors and the amount of credit you currently have available. Furthermore, public record information such as bankruptcies, foreclosures, tax liens, and court-ordered child support may also appear on your credit report. Credit reporting agencies acquire information for your credit report from retail store credit accounts, credit card companies, mortgage and finance companies, utility accounts, landlords, cell phone companies, and collection agencies. Lenders review this information to determine if and how you have repaid other loans in the past.

Most information will remain on your credit report for seven years; therefore, it is very important that you check your credit report regularly to be certain there are not any errors. You are entitled to one free credit report per year from each of the three main credit reporting agencies. Instead of requesting a report for each agency at the same time, order one at a time, spread out over the course of 12 months. If you time it right, you could request a free credit report every four months. There are several ways to obtain a free credit report. Be careful about responding to ads on television and on the internet. You can receive a free copy of your credit report online at www.annualcreditreport.com or by phone at 1-877-322-8228.

You may also request a copy by mail by submitting an online request form and mailing it to Annual Credit Report Request Service. You do not need to request your credit score to ensure the accuracy of your credit report.

If you are denied credit due to a poor credit history or a low credit score, there are things you can do to rebuild your credit worthiness, including paying your bills on time and reducing your debt load. To build a good credit history be certain you make at least the minimum payments on all of your debts. You want to pay all of your bills on time every month, including credit cards, utilities, car payments, and rent payments. Double check your credit report to ensure that these payments are being reported accurately.

Finally, it is important to realize that there are other reasons for being denied a loan; it is always a good idea to schedule a meeting with your lender to identify the specific reason. Once you identify the rationale behind being denied, you may be able to pursue different financing options available from other financial institutions or government lenders.

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