

# 6 TIPS FOR IMPROVING YOUR CREDIT SCORE



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# WHAT YOUR CREDIT SCORE MEANS AND WHY IT MATTERS

## THE POWER OF POSITIVE CREDIT

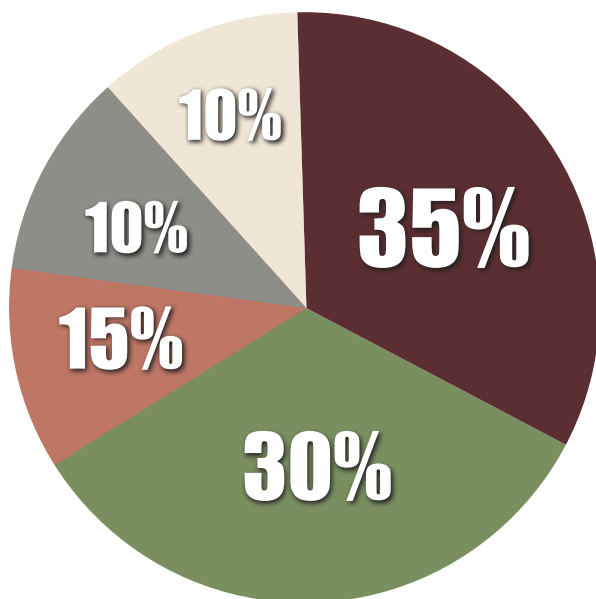
Your credit score is a powerful number. Keep it strong and it will be there to support you through car purchases and home mortgages. Let it deteriorate and you may have a tough time getting credit at the local clothing store. You can rail against the system but in a world where many people rarely have cash on them and payment cards are swiped more than 122.4 billion times annually in the United States<sup>1</sup>, it is unlikely that credit scores will become less important in time.

## WHAT IS A CREDIT SCORE ANYWAY?

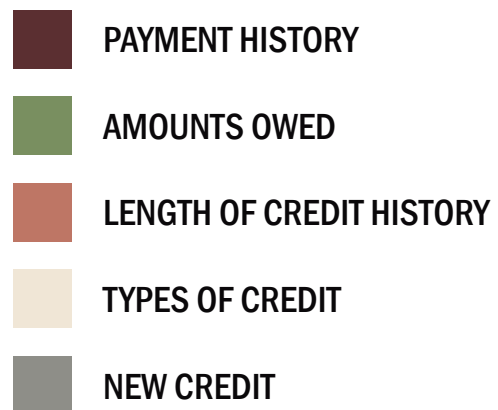
Your credit score is a number, usually between 300 and 850<sup>2</sup>, that indicates how “creditworthy” you are. You’ve heard the word trustworthy before – creditworthy is similar. It is an indication of how much lending institutions, insurance companies, landlords, or others can trust that you will pay your bills in full and on time. Those who are most creditworthy have higher scores than those who are not.

## HOW IS MY CREDIT SCORE DETERMINED?

Your score is based on an algorithm that factors in your payment history, balances owed, length of credit history, etc. as illustrated below<sup>2</sup>:



## CREDIT SCORE BREAKDOWN



<sup>1</sup> [www.frbervices.org](http://www.frbervices.org)

<sup>2</sup> There are hundreds of credit bureaus and each one uses a slightly different algorithm to determine your credit score. In general, the range will be between 300 and 850.

<sup>3</sup> California-based software company FICO, produces the most trusted and oft-used credit score algorithm based, generally, on the above formula. FICO's scoring method factors in credit report information supplied (typically) by one of three major credit bureaus – Experian, TransUnion, and Equifax ([www.myfico.com](http://www.myfico.com)).

## WHY SHOULD I WORRY ABOUT MY CREDIT SCORE?

A good credit score will benefit you if you plan to take out additional credit, invest in a vehicle or home, apply for insurance, rent an apartment, or apply for a job. If your credit is poor, you may experience:

- Rejected credit card or loan applications
- High credit card and loan interest rates
- Difficulty finding approval for home rental
- Denial for employment
- Higher insurance premiums
- Roadblocks to starting a business

### DID YOU KNOW?

47% of organizations conduct credit background checks on select job candidates and 13% conduct credit background checks on all job candidates.

SOURCE: [www.shrm.org](http://www.shrm.org)

### FACT

**10%** of people are denied a job based on information in their credit report.

SOURCE: [www.demos.org](http://www.demos.org)

## WHAT CAN I DO TO IMPROVE & MAINTAIN MY CREDIT SCORE?

Average credit scores range between 600 and 750 and if yours is 750 or higher, you can give yourself a nice healthy pat on the back. If your number is 600 or woefully lower, you've got some work to do, but don't despair. There is plenty you can do to raise your score.

# 1

## Investigate Why Your Credit Score is Low

**You can't improve your score if you don't know why it is low in the first place.** Have you missed the mortgage payment or credit card payments? Is your balance-to-limit ratio out of control? Did you open up too many credit cards during the holiday season? Did you co-sign a loan for someone who failed to pay on time? The possibilities are (nearly) endless and may be due to a mistake made by a creditor or by a credit bureau.

The best place to begin is with a full credit report. You can get up to one free credit report every year from each of the nationwide credit bureaus – Equifax, Experian, and TransUnion. You have probably heard that too many credit checks can negatively impact your score. The good news is that YOU checking your credit will not harm your score at all. When you check your own credit, it is considered, by the credit bureaus, to be a “soft inquiry” and has zero effect on your score.



You can obtain a free credit report from any of the bureaus online at **AnnualCreditReport.com**. You will have to fill out a form and answer questions to prove your identity, but overall, the process is simple.

Your report may provide a list of your creditors, including loan amounts and credit limits. It will likely also include a list of your payments indicating on-time and delinquent payments. You may find information about entities that have tried to access your report and public information about your address, employment, etc.

# 2

## Clean Up Inaccuracies in Your Credit Report

**As you review your credit report,** you may note unfamiliar charges or other inaccuracies that are weighing your credit score down. You will want to clean these inaccuracies up as soon as possible. The cleaning process may take some time and energy but your efforts will be well worth it in the end.

The fastest route to cleaning your credit report is through direct communication with the credit bureau and the organization that entered the inaccurate information onto your report.

**Your first point of contact should be the credit bureau. During your communications with the credit bureau, you will want to:**

1. Fax or mail copies of any supporting documents related to your case
2. Identify the specific item or items that you would like to dispute
3. Provide your reasons for dispute
4. Explicitly state that you would like them to delete or correct the item(s)

**Your second point of contact will be the organization that communicated inaccurate information to the credit bureau. During your communications with the organization, you will want to:**

1. Send copies of any supporting documents related to your case
2. Identify the specific item or items that you are disputing
3. Provide your reasons for dispute
4. Ask to be copied on any communication they have with the bureau

5. Check back after 30 to 90 days to make sure the dispute has been resolved (depending on your state of residence, you may be able to request an additional free credit report for this purpose)

### BEWARE

Be wary of “credit clinics” or other companies that offer to clean your credit for you. If a company asks for money up front, doesn’t have a business address, or charges exorbitant prices to do the work, you are probably being scammed. Nobody can remove valid information from your credit report and some of these scammers will ask you to do illegal things to repair your history. If real errors appear on your credit report, you can remove them on your own.

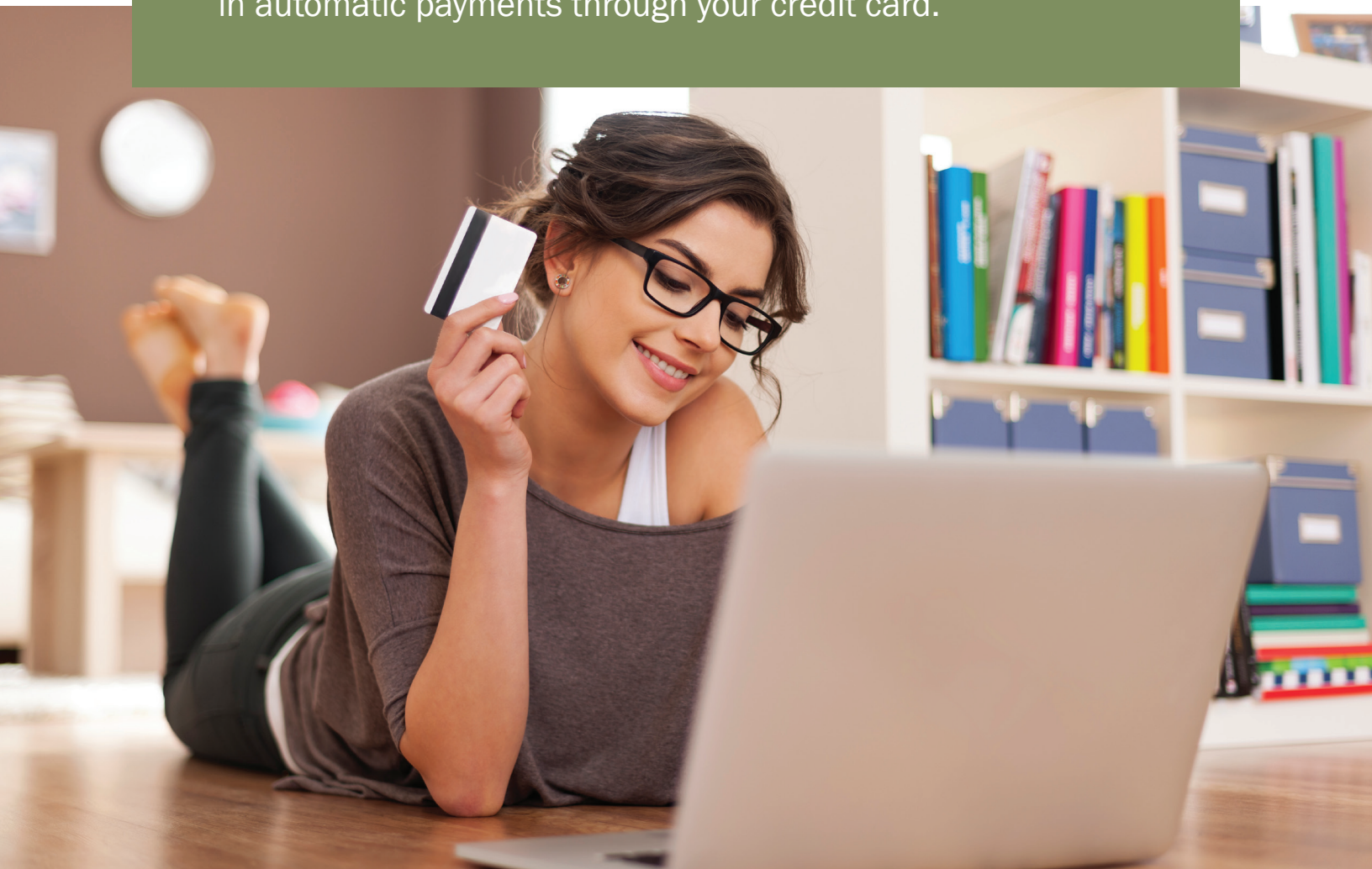
# 3

## Pay Your Bills On Time

**Though this is number three on our list of tips,** paying your bills on time is actually one of the most important and simplest steps you can take toward a higher credit score. Late bill payments are a big drag on your credit score and are easy enough to avoid.

### HELPFUL TIP

Setting up payment reminders is one way to stay on track with timely bill payments. Your bank may offer payment reminders through online and/or mobile banking. You could also enroll in automatic payments through your credit card.



# 4

## Reduce Your Debt Load

**It is easy to forget about debt you have accrued** when you are blindsided by a big ticket item you really want (but don't need). You might decide to go on a trip you can't really afford, or rationalize that you really need a new pair of boots for work, though they're far outside your budget.

**It takes some will power to keep from buying expensive things (or many small things) that you don't need, but here are some tactics that will help curb spur of the moment spending habits:**

- Stop using your credit cards. If you don't have cash, don't buy it.
- Only use your credit card when you know you can pay off the purchase within the month.
- Incentivize your savings – promise yourself a low-cost or no-cost gift (a night out, an affordable weekend getaway, etc.) for keeping your credit card balance at zero for a period of time.

**In addition to curbing your spending habits, you can devise a plan for paying off your debt. Here is a step-by-step process to help you:**

1. Make a list that includes all of your debt (loans, credit cards, etc.).
2. Write down the amounts you owe and the interest rates charged by each vendor.
3. Create a payment plan that allocates larger payments to debts with higher interest rates.





# 5

## Eliminate Credit Card Debt

**We've already covered reducing your overall debt** but it's important to reduce or (ideally) eliminate your credit card debt in particular. Because credit card debt is a high-interest, unsecured debt, it has the greatest potential to destroy your credit score. If you follow the steps to pay off your debt outlined above, you will naturally pay down your credit card debt first because credit card debt generally carries a higher interest rate than other types of loans.

### DID YOU KNOW?

Your balance-to-limit ratio affects your credit score.

#### **What is it?**

The balance-to-limit ratio is applied to revolving credit accounts (like credit cards) where your credit limit is set and you have daily control over the balance through charges and payments. The ratio divides your overall revolving credit limit by your balance to come up with a percentage.



#### **What is a good ratio?**

A balance-to-limit ratio of 30% or lower is considered good. Much higher than that and your credit score could be negatively affected.

# 6

## Allow Good Debt to Linger

**It is true, not all debt is created equal.** There is good debt and there is bad debt. But how can you tell the difference?

### **GOOD DEBT**

is generally lower interest, longer term debt that is incurred as an investment that will grow in value or will help you generate income. Examples of good debt include education loans, mortgages, auto loans, etc. This is the type of debt that can strengthen your credit score if you pay it down responsibly, making sufficient payment or overpayment in a timely manner.

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### **BAD DEBT**

is debt that is incurred through purchases that will NOT grow in value or help you generate income over time. Debt can also be considered bad if it carries a high interest rate. The most popular form of bad debt is credit card debt.

The rule of thumb for debt is to pay off bad debt immediately or, at the very least, quickly. Pay down good debt per the agreement you made with your financial institution and pay it down quickly if you like, but don't worry about it hurting your credit score. Good credit that is handled well is great for your credit. It shows that you are responsible and are able to follow through on your promise to pay your debts in full.

# THE BOTTOM LINE

Once you have identified the issues in your credit report, cleaned up inaccuracies, and begun to take better care with your credit, you should monitor your credit. You can order one free credit report from each bureau each year, so check in every four months to ensure that you are moving in the right direction.

Checking your own credit report will not affect your credit score, as long as you work directly with the credit reporting agency or credit bureau (Equifax, TransUnion, and Experian, etc.).

Checking in on your credit report will be good for a number of reasons. Not only will you discover inaccuracies or fraud before they injure your report and create barriers to future mortgages or loans; you will also find yourself thinking more rationally about your expenditures.

Credit monitoring services will check your credit daily and alert you to any fraudulent or questionable activities in your report, while tracking your credit score. Most people don't need that kind of oversight however. In most cases, periodic checks will suffice.

Making your credit top of mind raises the priority level of your financial health. As a result, you may find yourself spending more responsibly and considering each purchase before you make it. Over time, you may even find yourself spending less on frivolous items and saving more for more important and long-lasting things. Of course, we can't promise that will happen, but it wouldn't be a bad outcome, would it?



## **ADDITIONAL RESOURCES**

[www.experian.com](http://www.experian.com)

[www.transunion.com](http://www.transunion.com)

[www.equifax.com](http://www.equifax.com)

[www.myfico.com](http://www.myfico.com)

[www.annualcreditreport.com](http://www.annualcreditreport.com)

[www.consumer.ftc.gov](http://www.consumer.ftc.gov)

[www.federalreserve.gov](http://www.federalreserve.gov)

## **CREDIT-BUILDING RESOURCES**

Ways to [Build Credit](#) with VSECU

[Simple borrowing with savings secured and certificate secured loans](#)

[Credit Builder Credit Card or Secured VISA® VERMONT Platinum Credit Card](#)

## **ABOUT VSECU**

VSECU is a not for profit banking alternative for all Vermonters that is owned and controlled by its members and governed by an elected volunteer board of directors.

The credit union offers a full range of affordable financial products and services to its member-owners.

People eligible to join the credit union include anyone who lives or works in Vermont.