

KERN SCHOOLS FCU Presents

An Evening with
"The Credit Guy"

How to Improve your FICO Score

HEADLINES

- Mervyns Retail Chain Going out of Business; Will Liquidate All Stores
- Circuit City Pulls the Plug
- Retailers may close 73,000 stores

More Good News

- Microsoft resorts to first layoffs, cutting 5,000 (AP) 
- GM Layoffs: 10,000 Dismissed; Bailout Money Goes to Brazil 
- California budget crisis may force massive layoffs 

SIGNS OF THE TIMES

**GOING OUT
OF BUSINESS**

STORE CLOSING
EVERYTHING MUST BE SOLD!

STORE CLOSING

STORE CLOSING
EVERYTHING MUST BE SOLD!

STORE CLOSING

**GOING OUT OF
BUSINESS SALE**

GOING OUT OF BUSINESS
EVERYTHING MUST GO!

**WE QUIT! GOING OUT OF
BUSINESS SALE**

GOING OUT OF BUSINESS
EVERYTHING MUST GO!

We Quit! **GOING OUT OF
BUSINESS SALE**

**GOING OUT
OF BUSINESS**

HELP FOR CONSUMERS?

- **Experian to stop selling FICO scores to consumers**
- **Don't miss a credit card payment, or the APR could soar**

Credit Scores

- Q: Which credit score is used most often?



- A: The FICO score created for all three bureaus by the Fair Isaac Company. Experians is called FICO, Trans Union calls theirs FICO Classic, and Equifax calls theirs Beacon.

FICO Scores

- What does the FICO score do?

The FICO score analyzes your credit behavior over the last 24 months and predicts your credit performance over the next 24 months.



Credit Scores

- Fair Isaac Risk Score Information

- Score Range: 350 – 850

High Score = Low Risk

Low Score = High Risk



Credit Scores

Where do I want my score to be?

350 – 500 = Very BAD, D, F

500 – 600 = High Risk, D, C-

600 – 650 = Medium High, C, C+

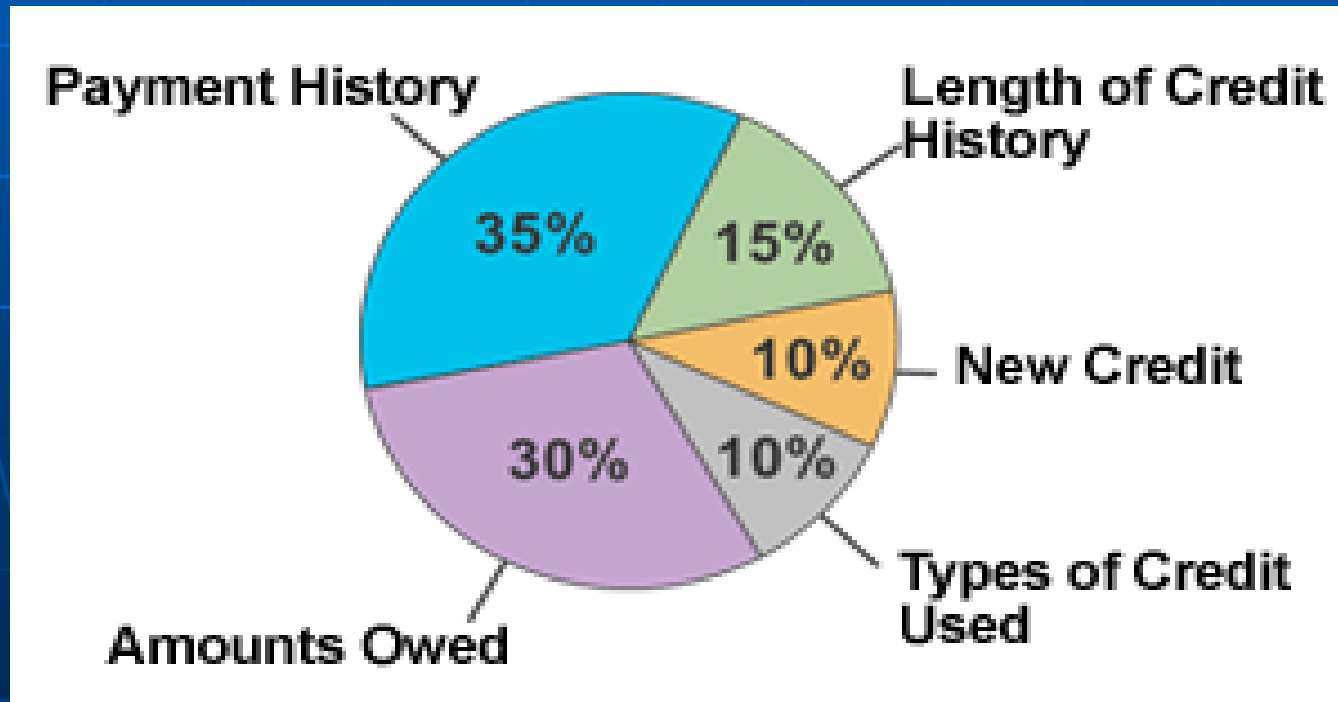
650 – 700 = Medium Low, C+, B

700 – 750 = Low risk, B+, A

750 – 850 = Lowest risk, A, A+, A++

FICO Score Calculation

- The percentages in the chart represent how important each category is in determining your risk score.



FICO Score Calculation

- What is NOT taken into consideration when calculating my credit score?
- Income, job, sex, race, religion, etc.

Anyone can have a good credit score!!

Managing your Credit Score

- Q: Why should I care what my FICO score is anyway?
- A: Most lenders use the score to, at minimum, price your loan.

Low Score = Higher price

High Score = Lower price

The Cost of Bad Credit

- A low credit score will mean that if credit is granted, chances are very good that you will pay a much higher price for that credit than someone who has a higher credit score.



How to Improve your FICO Score

- 1. Re-Evaluate your Spending/Credit behavior

Do not expect to improve your credit worthiness/credit score until you look at your spending behavior and make the necessary changes.



How to Improve your FICO Score

2. Make sure there are no mistakes on your credit report. If there are mistakes, get them corrected.

As high as 60% of credit reports contain mistakes. Review your credit report and make sure that it accurately depicts your credit history.



FACT Act

The Fair and Accurate Credit Transactions Act

WWW.ANNUALCREDITREPORT.COM

- EXPERIAN
- TRANSUNION
 - EQUIFAX

How to Improve your FICO Score

The Fair Credit Reporting Act grants consumers the RIGHT to have INACCURACIES removed from the credit report. It DOES NOT grant the right to have ACCURATE information removed from the credit report.



How to Improve your FICO Score

If you have enough money to pay a credit repair agency to fix your credit,

PAY YOUR BILLS INSTEAD!!

You can fix your own credit for free!!!

How to Improve your FICO Score

3. Pay your bills on time.

- 35% of the score calculation
- Don't be concerned about past delinquency. Just make sure it does not continue. Even making minimum payments will keep your credit from getting worse. Do not play the 30 day game and pay as close to the due date as possible.

How to Improve your FICO Score

4. Be patient

If you have experienced a speed bump, credit wise, on your road of life, time can be your greatest ally. The further you get from a negative event, the less impact it has on your score.



How to Improve your FICO Score

Example:

If an account goes delinquent or into collections today, it will have its greatest impact on your score for the next 3 months. Every month thereafter, the impact that event will have on your score will become less and less until the effect that one event has is negligible.



How to Improve your FICO Score

5. Limit your spending and consistently pay down your loan balances.

Remember: how you pay your bills and how much debt you carry, determines 65% of your FICO Score.

Payment History – 35%

Debtload – 30%

How to Improve your FICO Score

6. Keep the aggregate (total) balance to limit ratio on your revolving debt at below 50%.

General trends:

< 50% increases score

> 50% decreases score

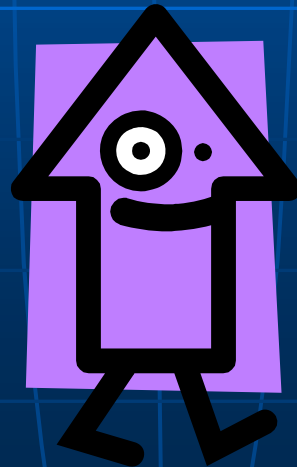
How to Improve your FICO Score

- **BEWARE OF NEW ACTIONS TAKEN BY CREDIT CARD COMPANIES**
- Do Not Miss Payments – most credit card agreements allow the creditor to review and adjust your rate and/or limit whenever they choose.
- Rate increases and Limit adjustments may negatively affect your FICO score
 - Higher minimum payments
 - Higher balance to limit ratio

How to Improve your FICO Score

7. Bring current and Pay down/off presently late accounts

86% of consumers can get their credit score increased by 3 points or more



How to Improve your FICO Score

Example:

If an account goes delinquent and you are able to bring it current the next month, you will have been able to do a lot to limit the impact of that delinquency on your FICO score. Delinquency that continues will erode your score very fast.



How to Improve your FICO Score

8. Pay attention to the current economic signals.

As much as we don't like to hear the bad news, research opportunities and restrictions. If you must buy on credit, make sure you are in the best negotiating position possible.



How to Improve your FICO Score

What should I expect if I have gone through a foreclosure?

1. Your chance at home ownership has not been terminated but it will likely be modified.
2. Your credit score/rating will be severely altered.

How to Improve your FICO Score

PRACTICE PATIENCE

This to shall pass but it wont pass tomorrow. Post foreclosure, you will be required to prove your credit worthiness to a different standard than ever before. You wont get there quickly.

How to Improve your FICO Score

- My house is worth less than when I bought it and I owe more than it is worth. Should I walk away from it? What options do I have?

Loss of value is not a reason to walk away from your home or the responsibility to pay for it.

How to Improve your FICO Score

COMMUNICATE WITH YOUR LENDER!!!

Many lenders have adjusted their workout/modification/foreclosure mitigation policies and rules. Many lenders are willing to modify your terms or even take a short term writedown to avoid foreclosure. The only way you will know whether help is available, is to communicate. Don't wait for the government to bail you out.

How to Improve your FICO Score

SHORT SALE

Right now this is a better option than foreclosure. It will not hurt your credit as much as a foreclosure. Could minimize loss for the lender.

How to Improve your FICO Score

BEST OPTION

If, **for verifiable economic reasons**, you simply cannot pay your mortgage anymore, request/seek a modification of your mortgage terms.

A modification can take the form of lower payments, extended term, principle reduction, interest rate reduction, payment deferral, etc.

How to Improve your FICO Score

*** A modification by your lender will not, in itself, reflect negatively on you, from a FICO score/credit rating standpoint.

*** Any accurate delinquency prior to any modification, will remain and many lenders require you to be delinquent before they will consider a modification. Check with your lender for specific requirements/qualifications.

Important Facts about Credit

1. You CAN live without it.
2. Bad credit does NOT last forever
3. You have 100% control
4. FICO scores don't matter
5. Your personal economics do matter
6. Your lender wants to help and does not want your home
7. We all pay for failure

Potential Pitfalls

- If you have a collection or charge off that has been unpaid for some time and you pay it off, your score will drop 92% of the time.



Potential Pitfalls

Pay off but do not close revolving accounts. By closing the accounts you take your credit limit from whatever it was, to \$0.00, increasing your balance to limit ratio to 100%.



Myths and Legends

MYTH:

- If I opt out of pre-approved offers, my credit score will increase.

TRUTH:

- Opting out has nothing to do with your score. Do this only if you do not want anymore junk mail offers.

Myths and Legends

Myth:

- I do not control my credit score.

Truth:

- The Bureaus may create the score, but your behavior controls the score.

The bureaus and creditors only report the activity you initiate. Control your behavior and you control your score.

Myths and Legends

Myth:

- My credit score is 750.

Truth:

- A FICO Score is a snapshot at a point in time and is only created when a Credit Report is accessed. Until the credit data is formatted into a report, the credit score does not exist.

How to Improve your FICO Score

- Be conservative in your money management and spending
- Prepare for the worst and hope for the best
- Start a savings account – do not spend coins, save them.
- Always have a plan – protect yourself
 - What if I lose my job?
 - What if I get hurt?

The Key to Good Credit and a Good Score

1. Create a plan
2. Share the plan with your family
3. Execute the plan
4. Exercise discipline and restraint
5. Communicate – Secrets Kill
6. FOCUS on your goals
7. Pay attention to what is going on around you

RESOURCES

www.myfico.com

www.annualcreditreport.com

www.ftc.gov

www.consumeraffairs.com

www.bankrate.com

www.ksfcu.org

www.ccisinfosolutions.com