



# California Consumer Credit Education Program

In accordance with Section 22304.5 (C)(1)(B)(2) of the California Financial Code this electronically written seminar is required to be available to borrowers prior to disbursing loan proceeds. This Credit Education Program can be downloaded at [www.BGenerous.com/CCEP](http://www.BGenerous.com/CCEP)

We are hopeful this free educational program provides valuable information regarding credit scores and reports. Should you have any questions about this information, please feel free to contact us at: [info@BGenerous.com](mailto:info@BGenerous.com)

## PROGRAM OUTLINE

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# The Value of Establishing a Credit Score

Anytime you apply for credit, whether that is in the form of a personal loan, a credit card, a mortgage, a student loan, or any other form, the lender will usually check your credit score and credit report which show how much credit you have obtained in the past and how well you have managed that credit.

A credit report has information about your credit history, including your current credit situation and past loan payments, provided to the credit bureaus by your creditors (lenders, credit card companies, and other financial institutions). Most people have more than one credit report. Credit reports are provided by licensed and regulated companies called credit bureaus and you have probably heard of the big three, Transunion, Experian and Equifax. You probably have a credit report with each of these credit bureaus and they are not always identical.

Building credit takes time, so it is important to establish good credit practices before you need it.

An important part of the credit report that you have probably heard people talking about is the credit score. A credit score is a three-digit number designed to represent your creditworthiness, used by lenders to evaluate the likelihood that you will repay your bills on time. If you have a long history of good credit habits, like timely payments, there is a high likelihood you will have a good credit score. Your credit score is just one part of the credit report that lenders may consider but generally speaking a higher credit score will result in being granted higher credit at better interest rates.

So it is important to develop a healthy credit relationship if you would like to secure a loan with favorable terms and rates. Low credit scores may cause a loan application to be disapproved or approved at a higher rate.

Your credit report might also be used by other businesses to determine whether to offer you insurance, rent property to you like a house or apartment, or provide you with cable TV, internet, utility, or cell phone service.

# Ways to Establish a Credit Score

Building credit can be difficult. Unfortunately, if you don't have a credit history, it's hard to get a loan, a credit card, or even an apartment all of which can help you build credit. Fortunately, however, there are ways for someone even without any credit history to start to build their credit score. Below are several suggestions on how to establish a credit history and build your credit score.

- **Get a secured credit card** – A secured card is backed by a cash deposit you make upfront to the bank issuing the card. The deposit is refunded when the account is closed or if you manage your account properly. Most banks will refund the deposit when they turn the account into a regular credit card account.
- **Get a credit builder product or a secured loan** – This is a loan with the sole purpose to assist in building credit. Usually, the funds or proceeds of the loan are held by the lender in an account and not released until the loan is paid in full. Consider it like a forced savings account and your payments are reported to credit bureaus.

- **Take out an auto installment loan** - Auto loans are among the easiest types of loans to obtain, although the interest rate and terms can vary greatly depending on who underwrites the loan for you. If you are planning to buy a vehicle, shop around for the best possible deal, secure the loan and make the agreed-upon payments on time every month. If you have trouble finding a loan on your own, you may need a co-signer to share responsibility for the payments. Other types of installment loans will also help you with building credit history, such as mortgages and personal loans.

An installment loan where you borrow a fixed amount and make fixed payments (unless a variable interest rate applies) towards the outstanding balance, allows you to establish a credit and payment history. Vehicle loans and student loans are types of installment loans. Some installment loans, for example, vehicle loans, are secured by collateral. If you obtain a loan to purchase a vehicle, the vehicle will serve as the collateral for the loan, protecting the lender from a loss in the event you fail to pay the loan. If you fail to pay the loan, the vehicle may be repossessed. You may still need to have a co-borrower for these types of loans but they are a good way to establish credit and a payment history. You should confirm with your lender that they report favorable payment history to the credit bureaus when obtaining the loan.

- **Use a co-signer** – Have another individual with you on a loan, with the understanding they will be required to pay the loan in full if you fail to pay.
- **Become an authorized user on a credit card** – When added to another individual's card, the card's payment history will be added to your credit file. You will want the primary card holder to have a long history of paying on time. You will want to ask the primary holder if the card issuer reports card activity to the credit bureaus.
- **Get credit for the bills you pay** – Use rent reporting services to report your rent (a bill you already pay) to help build a positive history of on-time payments.

Once you have started establishing credit:

- **Practice good credit habits** – Pay on time and pay at least the minimum payments due. Keep your credit utilization ratio low, don't apply for too many credit accounts, keep your credit card accounts open and current.



# Ways to Improve Your Credit Score

Having a low credit score can be discouraging. But with a solid financial plan, sticking to healthy financial habits, and a bit of patience, you can improve your credit score. Here are six tips for improving your credit score:

**(1) Review your credit score** - Knowing is half the battle. Checking and understanding the information on your credit report will help you to make healthier financial decisions. Check your credit score and reports – Keep in mind that the more you know, the more credit power you have. Review your reports for errors and keep an eye on your score. An unexpected change in your credit score can indicate an error, identity theft, or other issues you may not be aware of.

**(2) Make a plan to pay your bills on time** - Making on-time, in-full payments is one of the most simple and effective ways to rebuild your credit. When lenders review your credit report and request a credit score for you, they're very interested in how reliably you pay your bills – not just your credit card bills or loans, but also rent, utilities, and so on. That's because past payment performance is usually considered a good predictor of future performance. Late payments or settling an account for less than you originally agreed to pay, can negatively impact your credit score.

As you work to improve your credit score you will want to have a budget. Budgets help to provide visibility into your cash flow and spending habits. Be sure your budget allows you to pay all your bills and obligations in full.

**(3) Manage your credit cards wisely** - It may seem counterintuitive, but a credit card can be an important tool in rebuilding your credit. Getting rid of credit cards isn't always the answer to a bad credit score. In fact, closing down accounts may hurt your score. Apply for and open new credit accounts only as needed.

If you're unable to make your credit card payments, reach out to your lenders to explain your situation. You can find their contact information on your credit report or most recent bill. You may ask whether they offer forbearance or allow you to place your account in deferral. When an account is deferred or in forbearance, you're allowed to temporarily stop making payments on the account.

If you're wondering how a hardship or forbearance plan may affect your credit, consider asking your lender how they will report your account to the credit reporting agencies.

**(4) Pay off debt and keep balances low on credit cards** to improve your credit utilization rate. As you think about how you're using your credit cards, keep your credit utilization rate in mind. This is a calculation that shows how much credit you're using compared to what you have available. For example, if you have \$20,000 in available credit, and you're using \$10,000 of it, your credit utilization rate would be 50%. Generally, you want to keep your credit utilization rate at 30% or less. The lower it is, the better.

**(5) Do Frequent Financial Checkups** and dispute any inaccuracies on your credit reports. Be sure to keep tabs on your progress as time goes by. You should check your credit reports at all three credit bureaus – TransUnion, Equifax, and Experian. Any inaccuracies could negatively impact your report.

**(6) Practice good credit habits** – Pay on time and pay at least the minimum payments due. Keep your credit utilization ratio low, don't apply for too many credit accounts, keep your credit card accounts open and current.

**(7) Check your credit utilization ratio** – This is another important number in credit score calculations. It is calculated by adding all your credit card balances at any given time and dividing that amount by your total credit limit. For example, if you typically charge about \$2,000 each month and your total credit limit across all your cards is \$10,000, your utilization ratio is 20%. To figure out your average credit utilization ratio, look at all your credit card statements from the last 12 months. Add the statement balances for each month across all your cards and divide by 12. That's how much credit you use on average each month. Lenders typically like to see low ratios of 30% or less, and people with the best credit scores often have very low credit utilization ratios. A low credit utilization ratio tells lenders you haven't maxed out your credit cards and likely know how to manage credit well.

# Factors that Impact a Credit Score

## Top 5 Credit Score Factors

1. **Payment History** – This is the most important factor that impacts your credit score. Even one missed payment can negatively impact your score. This accounts for 35% of your FICO credit score.
2. **Credit Utilization** - Your utilization ratio is calculated by dividing your total revolving credit currently outstanding by the total of all your revolving credit limits. Essentially it is looking at how much of your available credit is being used, reflecting how reliant you are on non-cash funds. Using more than 30% of your available credit is a negative to creditors. This accounts for 30% of your FICO credit score.

3. **Credit History Length** – How long have you held credit accounts makes up about 15% of your FICO credit score. This includes the age of your oldest credit account to the age of your newest credit account and an average age of all your credit accounts. Commonly, the longer your credit history the higher your credit score.
4. **Credit Mix** – A diverse portfolio of credit accounts is often an indicator of top credit scores. A diverse portfolio might include a car loan, credit card, student loan, mortgage, or other credit products. This accounts for 10% of your FICO score.
5. **New credit** – The number of credit accounts you've recently opened, as well as the number of hard inquiries lenders make when you apply for credit accounts for about 10% of your FICO credit score. Too many inquiries or accounts can signal increased risk and hurt your credit score.

# WAYS TO CHECK YOUR CREDIT SCORE

- 1. Check your credit card or other loan statement.** Many major credit card companies and some auto loan companies provide credit scores. The score is usually listed on your monthly statement or can be found by logging into your account online.
- 2. Talk to a non-profit counselor.** Non-profit credit counselors and HUD-approved housing counselors can often provide you with a free credit report and score and help you review them.
- 3. Use a credit score service.** Many services and websites advertise a “free credit score”. Some sites may be funded through advertising and not charge a fee. Other sites may require that you sign up for a credit monitoring service with a monthly subscription fee in order to get your “free” score. These services are often advertised as “free” trials, but if you don’t cancel within the specified period (often as short as one week), you could be on the hook for a monthly fee. Before you sign up to try one of these services, be sure you know what you are signing up for and how much it really costs.



- 4. Buy a score.** You can buy a score directly from the three credit reporting companies (TransUnion, Equifax, and Experian). You can buy your FICO credit score at [myfico.com](https://myfico.com). Other services may also offer scores for purchase. If you decide to purchase a credit score, you are not required to purchase credit protection, identity theft monitoring, or other services that may be offered at the same time.

Note: some credit score sources provide an “educational” credit score, instead of a score that a lender would use. The scores may be significantly different from the credit score a lender would use. When choosing where to get your credit score, find out what kind of score it is.

# Ways to Obtain a Free Copy of Your Credit Report

You're entitled to one free credit report every 12 months from each of the three major credit reporting agencies (TransUnion, Equifax and Experian). To order, visit [annualcreditreport.com](http://annualcreditreport.com), call 1-877-322-8228, or complete the Annual Credit Report Request Form (found on the website) and mail it to:

Annual Credit Report Request Service  
P.O. Box 105281  
Atlanta, GA 30348-5281

A credit reporting company may charge you a reasonable amount for another copy of your report within a 12-month period. However, you're entitled to additional free reports if:

- A company takes adverse action against you, such as denying your application for credit, insurance, or employment, based on information in your report. You must ask for your report within 60 days of receiving notice of the action.
  - You're unemployed and plan to look for a job within 60 days
  - You're on welfare
- 
- You may also contact each of the credit agencies directly

Experian-1-888-397-3742 [www.experian.com](http://www.experian.com)

Experian

P.O. Box 4500

Allen, TX 75013

TransUnion-1-800-916-8800 [www.transunion.com](http://www.transunion.com)

TransUnion Consumer Solutions

P.O. Box 2000

Chester, PA 19016-2000

Equifax-1-800-685-1111 [www.equifax.com](http://www.equifax.com)

Equifax Information Services LLC

P.O. Box 740256

Atlanta, GA 30374-0256

# Disputing Errors on Your Credit Report

Creditors (e.g., banks, credit card companies) report information about you and your financial history to credit reporting agencies (aka credit bureaus). Unfortunately, due to human error or technical issues, error in reporting may occur, and it's up to you to identify and fix them. Mistakes may include incomplete or inaccurate information (name, address, employers, credit accounts, balances, or payment history). Errors may even include someone else's information that got mixed up with yours. This often occurs if names are similar.

So, how do you keep your credit report as accurate as possible? You may take these steps:

- 1. Download your free credit reports on a regular basis.** Since the big 3 credit bureaus are required to each provide a free credit report annually, stagger when you request them and then review them.
  
- 2. Look for credit report errors.** Not a fun task, but you should review every item on each credit report and make sure the information pertains to you exclusively – not a spouse, family member, or stranger with the same or similar name. As well as checking your basic identity details, check the following:
  - Credit, mortgage, loan or other accounts that do not belong to you
  - Incorrect payment information (payments marked as late or not received that you paid on time)
  - Employers you didn't work for
  - Inaccurate collections, tax liens, or judgements
  - Any negative information that shouldn't be in the report, such as a bankruptcy that's more than 10 years old.

**3. Dispute credit report errors with credit reporting bureaus by writing a letter, filling out and submitting an online form, or calling their customer service number.** Each credit bureau has its own requirements for disputing an error on your credit report, but in general you will need to provide the following:

- Contact information – complete name, address and telephone number
- Report confirmation number, if available
- Clearly identify each mistake, such as an account number for any account you may be disputing
- Explain why you are disputing the information
- Request that the information be removed or corrected
- Enclose a copy of the portion of your credit report that contains the disputed items and circle or highlight the disputed items. Include copies (not originals – retain those) of all documents that support your position.
- You may choose to send your letter of dispute by certified mail and ask for a return receipt, so you will have a record that your letter was received.

Filing a dispute does not impact your credit score, but once the process is complete, any changes to your credit report will be reflected in your credit scores. The impact to your score depends on what you're disputing and the outcome.

If you disagree with the outcome of your dispute, the best next step is to contact the information provider – the entity that originally provided the disputed information to the credit bureau—in writing. You may also add a statement of dispute to your credit report which will appear whenever it's accessed or requested.

# Sources/Further Reading

- [5 Reasons Why Having Good Credit Is Important \(thebalance.com\)](#)
- [Credit Report | TransUnion](#)
- [Where can I get my credit score? | Consumer Financial Protection Bureau \(consumerfinance.gov\)](#)
- [What Affects Your Credit Scores? – Experian](#)
- [How to Dispute Credit Report Errors | GOBankingRates](#)
- [How to Build Credit - NerdWallet](#)