

Credit essentials for everyone:

What you need to know to
build and protect your credit.



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Experian's commitment to consumer education

Credit reports and credit scores are complex. What you need to know to make them work for you isn't complicated, though, when you have the right information.

Knowledge is the foundation of success. That's especially true when it comes to personal finances and credit. Understanding credit reports and scores empowers people to overcome barriers to financial inclusion, opens doors to better financial products and services, helps prevent and recover from fraud, and results in greater financial success over a lifetime.

That's why Experian® was the first in its industry to establish a consumer education team and why it has remained a leader in financial education for more than two decades.

I sometimes compare credit reports and credit scores to driving a car. You don't need to understand exactly how an engine works to start the car and use it to get where you need to go — you just need the keys. That's the idea behind this document. While you can read it from cover to cover, that's not the intended purpose. Rather, it should be a resource you can turn to for accurate information when you need it.

No matter where you are in your financial journey, or the barriers put in your path, the knowledge contained in it will give you the keys to unlock your credit report and scores so you can use them to get where you want to go.



Rod Griffin
Senior Director, Consumer Education and Advocacy

A history of firsts

- First in its industry to establish a dedicated consumer education program (1993).
- Founding partner of the JumpStart Coalition for Financial Literacy (1995).
- First in its industry to launch an online consumer credit advice “column” (now called a blog) — “Ask Experian” has been in continuous publication since 1997.
- Launched the JumpStart National Educator Conference for personal finance teachers with a grant from Experian (2008).
- First in our industry to engage directly with consumers through social media with #CreditChat on Twitter and Periscope (2012).
- Education Ambassador program trains employees as volunteers to support outreach in their communities across the country.
- First in its industry to provide free education resources and materials to help teachers, nonprofit organizations and others share accurate information about credit reports, credit scores, and fraud and identity theft.
- Experian partners with many nonprofit education and advocacy organizations to increase consumer financial capability and promote financial inclusion across all ages and demographics.

Overcoming barriers to inclusion

Everyone should have the right to pursue their financial dreams. Sadly, many don't have access to the financial services most of us take for granted. Low income consumers and communities of color are disproportionately "credit invisible," preventing them from obtaining low cost, traditional financial services. Even when a credit history exists, credit scores of Black and Brown people are significantly lower than other racial groups, making it harder for them to obtain financial products and resources essential to improving their overall health and well-being.

The reasons for this inequality are many and complex, but education is a critical first step to empowering people to overcome barriers to their financial success. Understanding fundamental concepts empowers you to demand fair and equal treatment, to recognize when you're being taken advantage of and to take ownership of your own financial future.

Experian is committed to being part of the solution to overcoming barriers – physical, social and societal – that prevent people from achieving their full financial potential. Sharing knowledge is the first step in empowering you to achieve your financial dreams.



Wil Lewis
Chief Diversity, Equity and Inclusion Officer

Important facts about marginalized communities and being credit invisible

"An estimated 45 million adults in the United States lack a credit score at a time when credit invisibility can reduce one's ability to rent a home, find employment, or secure a mortgage or loan. As a result, individuals without credit – who are disproportionately African American and Latino—often lead separate and unequal financial lives. Yet, as sociologists and public policy experts Frederick Wherry, Kristin Seefeldt and Anthony Alvarez argue, many people who are not recognized within the financial system engage in behaviors that indicate their creditworthiness. How might institutions acknowledge these practices and help these people emerge from the financial shadows? In *Credit Where It's Due*, the authors evaluate an innovative model of credit building and advocate for a new understanding of financial citizenship or participation in a financial system that fosters social belonging, dignity and respect."
-- Jose Quinonez, *Mission Asset Fund*

According to the Consumer Financial Protection Bureau (CFPB):

- "Almost 30 percent of adults in low-income Census tracts were credit invisible, a rate about 8 times higher than that in upper-income Census tracts." (2018)
- "According to the 2015 National Survey of Unbanked and Underbanked Households from the FDIC, only 7 percent of unbanked consumers, defined as those without a checking or savings account, report having had a credit card in the past 12 months."
- "The Bureau estimates that 26 million Americans are credit invisible, meaning they have no credit history with a nationwide consumer reporting agency."

"Black and Hispanic consumers are considerably more likely to be credit invisible, as well as have unscored credit records, than White or Asian consumers. About 15 percent of Black and Hispanic consumers are credit invisible compared to 9 percent of white consumers. An additional 13 percent of Black consumers and 12 percent of Hispanic consumers have unscoreable records compared to 7 percent of white consumers."

1.0 CREDIT



What is credit?

In the simplest terms, credit is the ability to borrow money or obtain goods or services with the understanding that you'll pay later.

- **Credit is a valuable financial tool that enables you to:**
- **Qualify for services**
- **Increase your buying power**

When you use credit to make a purchase and then demonstrate reliability by repaying the debt on time, it helps you continue to build a strong credit history that will benefit you in the future.

This guide provides the facts and tips you need to help you build and manage your credit like a pro.

It's never a good idea to use credit to live above your means...



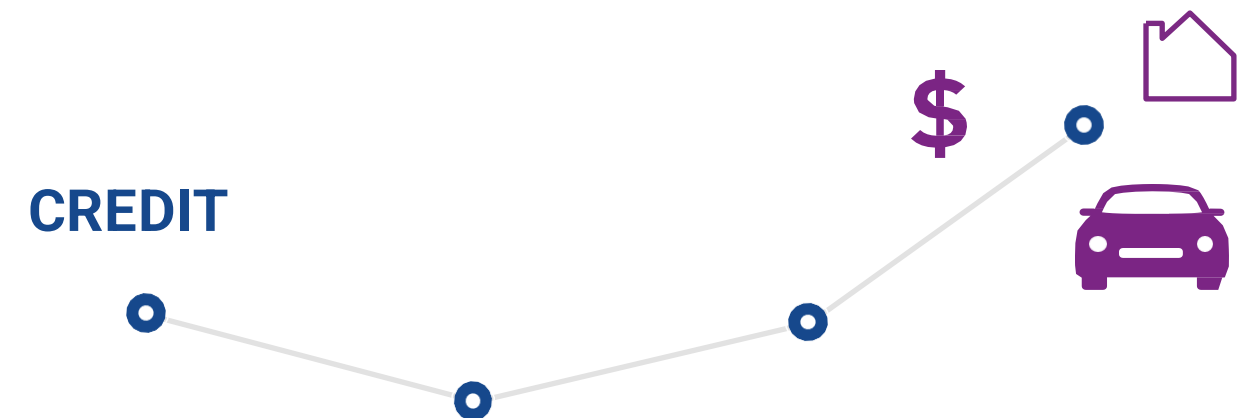
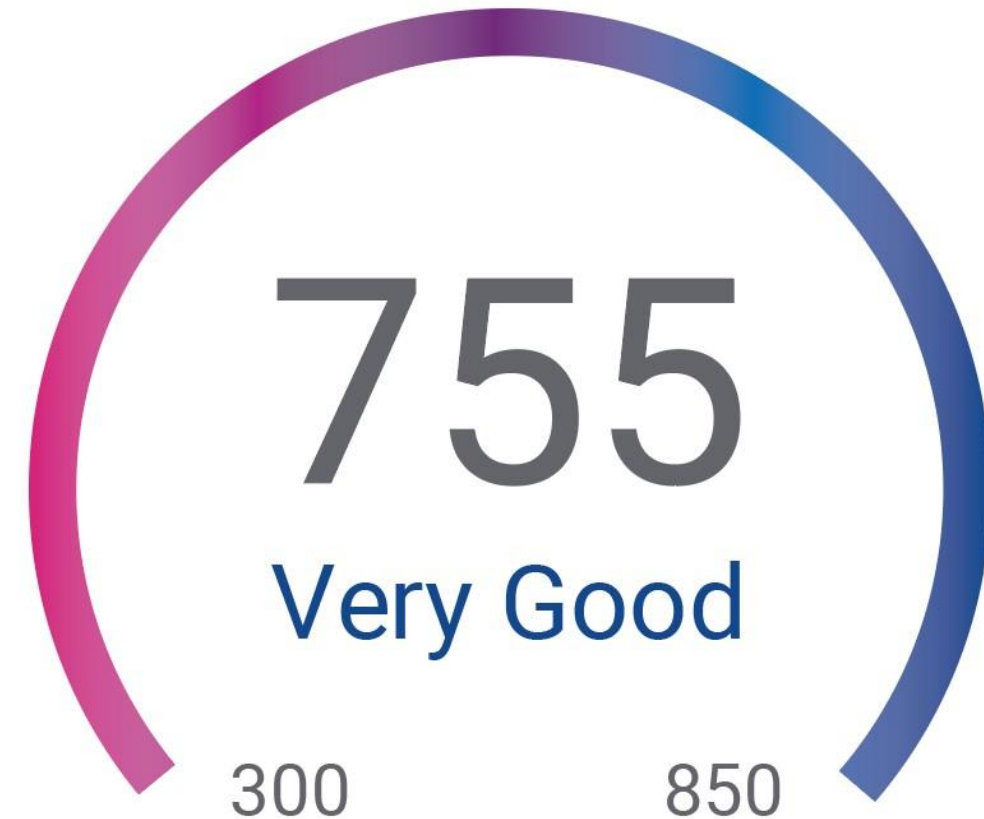
Why do you need good credit?

Good credit comes in handy for more than just opening a new credit card account.

Your credit history comes into play when you:

- **Open a cell phone account**
- **Qualify for an apartment**
- **Apply for electric service in your name**
- **Want to save money on car insurance**

Having a strong credit history tells lenders that you can be trusted to repay your debts as agreed. That trustworthiness is reflected in your credit scores. A good score can mean better interest rates and terms on loans and credit cards.



How do I get credit?

Before you can build a strong credit history, you first need to begin establishing credit accounts in your name.

Ways to begin building credit include:

- **Applying for an account with a cosigner**
- **Opening a small loan or a secured credit card account**
- **Asking a friend or family member to add you as an authorized user**

If you're opening an account in order to begin establishing your credit history, double check with the lender to ensure that they report to the three major credit bureaus. This way, your on-time payments can begin helping you establish a positive payment history in your name.



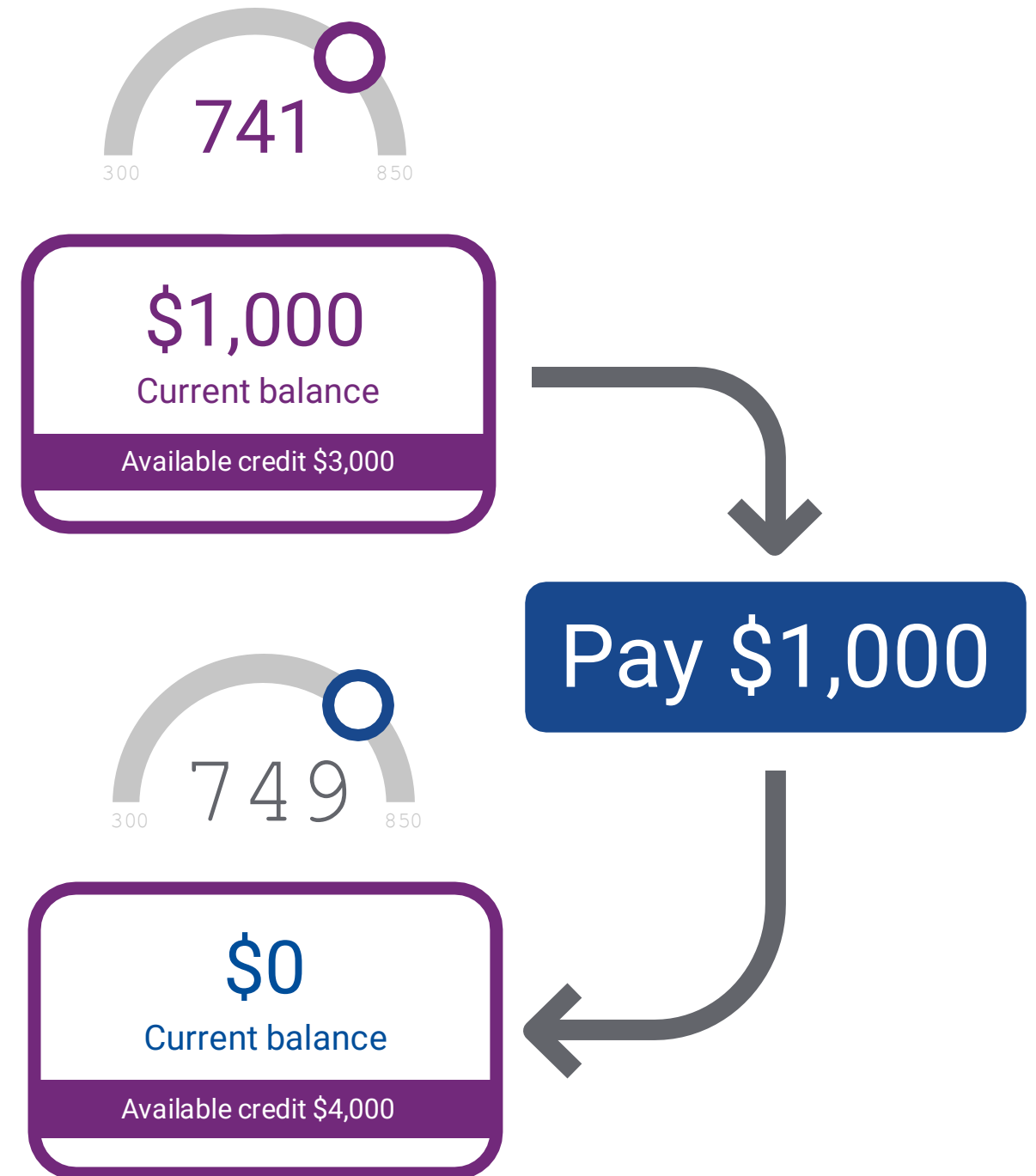
**There are easy ways
to establish credit.**

Here are some easy ways to establish credit:

- **Secured cards are good options if you're having trouble qualifying or a traditional account due to lack of credit history.**
- **A small personal loan through your bank or credit union can help you establish and build your credit.**
- **Being an authorized user on a trusted parent or partner's credit card can help add positive payment history to your report, as well.**

Once you've opened an account or two in your name, the key is to make every payment on time and keep the balances low on any revolving accounts. Ideally, you should pay credit card balances in full each month. If you think you may miss a payment, contact your lender or credit card provider to discuss your options before you become past due. If you do miss a payment, be sure to bring the account current as soon as possible.

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How does credit work?

Once you've established a credit account or two in your name, your lenders will begin reporting your account information and payment history to Experian and the other credit bureaus. Lenders voluntarily report their account information to the credit bureaus, and some lenders may choose to report to only one or two of the three major credit reporting companies, so your credit reports from each may not be exactly the same.

Your credit report, also called a credit file, includes:

- **Your personal identification information**
- **Your credit account history**
- **A list of inquiries showing who has requested your credit history**
- **Any bankruptcy filing information in your name**

Lenders use your credit history information -- and credit scores are calculated using that information -- in order to help them make lending decisions.



Lenders use credit scores to evaluate the quality of your credit history.

Also called a risk score, a credit score helps lenders predict the risk of default when approving someone for credit or services.

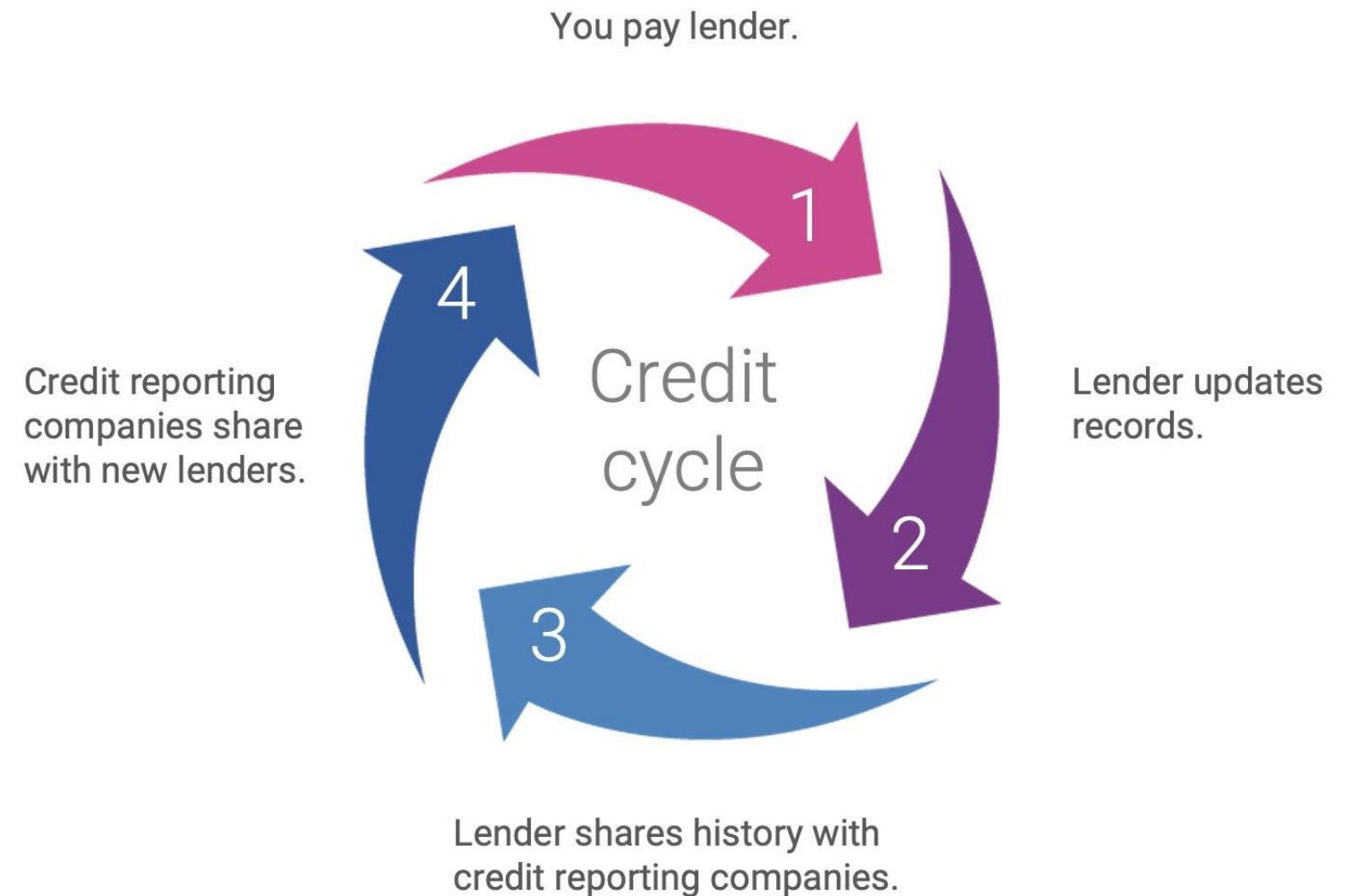
A higher score:

- **Increases your chances of being approved**
- **Helps determine whether you qualify for the best rates and terms**
- **Can lead to lower interest rates from lenders**

A lower credit score may result in:

- **Lenders declining the application**
- **Lenders requiring a larger deposit or down payment**
- **Higher interest rates from lenders**

Having credit doesn't necessarily mean having debt. When used responsibly, credit can be a valuable financial tool.



You can have credit without having debt

When it comes to credit cards, your credit limit represents the amount of funds you have been approved to borrow. When you use credit properly and only purchase items and services you're able to pay back, credit can serve as a financially empowering tool to improve your financial life.

Debt, especially credit card debt, can become overwhelming if you use credit to spend above your means.

Failure to make payments on time leads to:

- **Late payment fees**
- **Increased interest rates**

Additionally, leaving a balance on your credit card from month to month will cause you to accrue interest, costing you even more money. Keeping your balances low and making every payment on time can help you avoid credit mishaps. Managing credit wisely will make your credit report a valuable tool to help you achieve your financial goals.



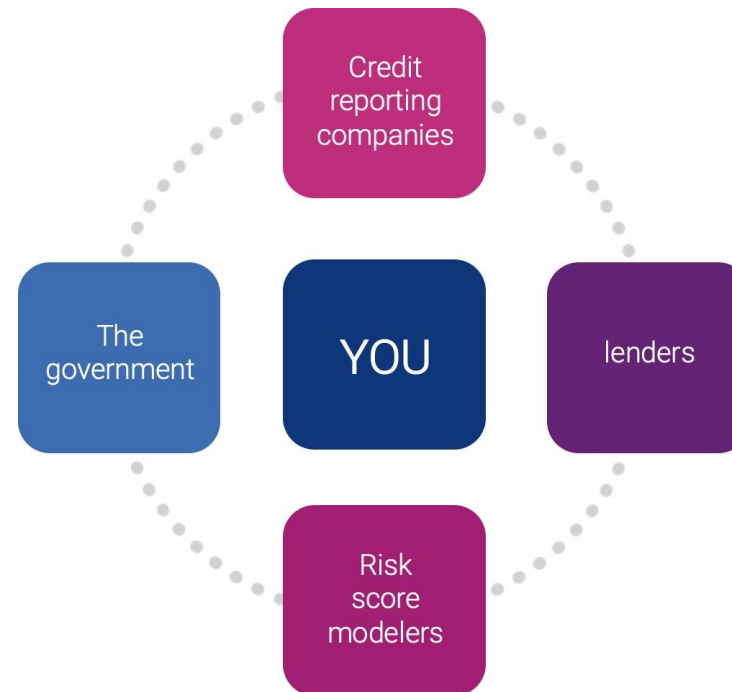
The credit system

The credit reporting system in the United States allows lower cost lending because lenders can accurately evaluate risk before extending credit.

How the credit reporting system works:

1. **Open an account**
2. **Make charges and make payments**
3. **Your lenders report your activity to Experian and the other credit bureaus.**
4. **Credit bureaus compile that information into a credit report**
5. **Lenders may request your credit information when you apply for new credit or services, using one of many credit score models available to them in order to help interpret the information contained in the credit report.**

Credit reporting is regulated under the Fair Credit Reporting Act (FCRA), which is enforced by the CFPB.

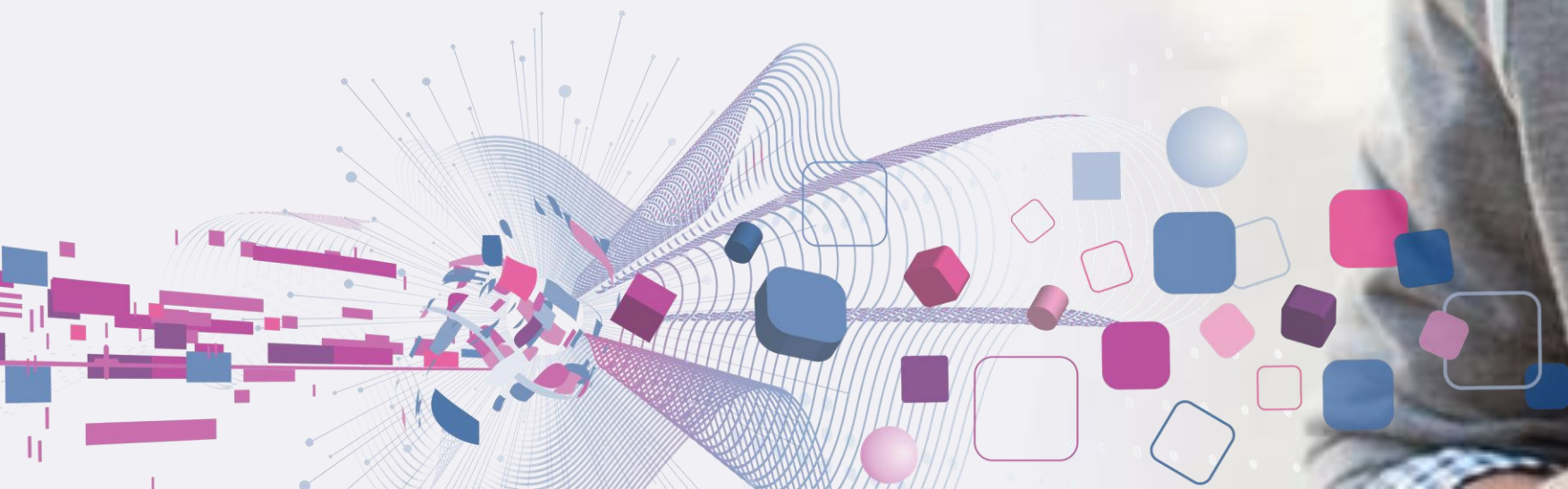


What does the FCRA do?

- **Defines your rights related to credit reports, including getting your report and how to dispute information you believe is inaccurate.**
- **Defines what information credit reports can include; the responsibilities of the credit reporting companies, lenders and those who use the reports; and restricts who can get your credit report.**
- **Ensures lenders and others must meet a “permissible purpose” specified in the law before being provided a credit report.**
- **Limits who can get a copy of your credit report and under what circumstances.**

Allows you to get a copy of your credit report as often as you like and never hurt your credit scores.

2.0 CREDIT SCORE



What is a credit score?

A credit score helps lenders predict how likely you will be to repay a debt as agreed. It reflects the information in your credit report. If you take care of your credit report, you'll have good credit scores.

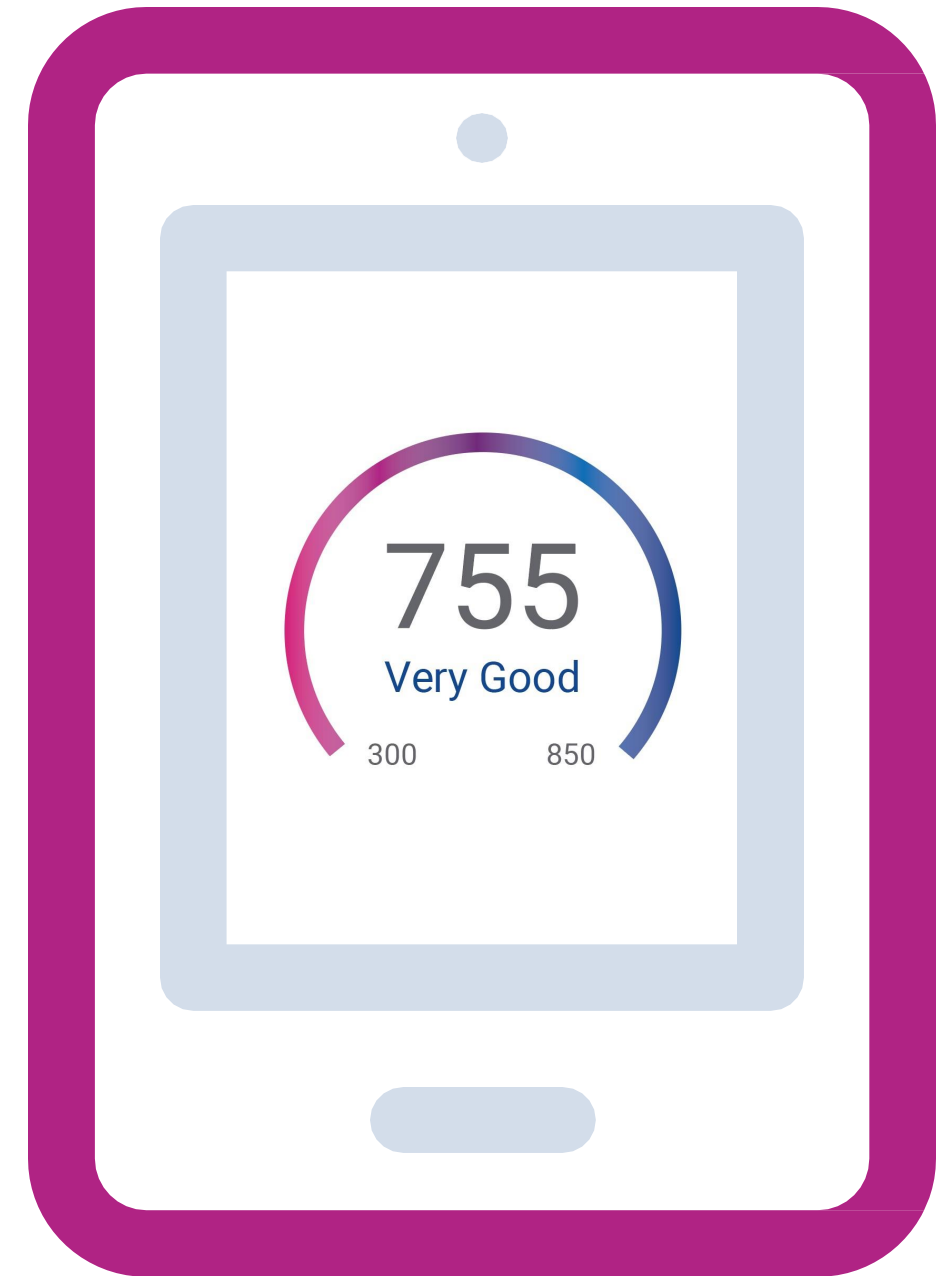
Lenders use scores to determine:

- **Whether to extend credit**
- **What interest rates to extend**
- **What terms to offer**

A high score indicates that you manage your credit well and are likely to repay your debts as agreed, while a lower score indicates a higher risk that you will be unable to repay the debt.

Most credit scores range from 300 to 850, and the higher the score the better.

Maintaining a good credit report will result in a good credit score. A good credit score is a strong indicator of financial health. It can help you qualify for the credit you need and want with favorable terms.



What factors determine a credit score?

Credit scores are calculated using the information in your credit history. There are many different credit scores available for lenders to choose from, and the criteria for each may vary, but the top risk factors tend to be the same from one score to another.

The biggest factor in calculating your credit score is your payment history.

Payment history includes:

- **On-time payment of your bills**
- **Late payments, which remain on the credit report for seven years.**
- **Missed payments**

The second most important factor in credit scores is your utilization rate, sometimes called your balance-to-limit ratio. To calculate this, add up all of your revolving account balances and divide that number by the total of your credit card limits. The lower your utilization rate, the better for your credit scores.

Other factors included in your score include:

- **Your credit “mix” (or the different types of accounts you hold)**
- **The length of your credit history**
- **The total amount of debt you owe**
- **The number of inquiries you’ve had recently**

Reviewing your credit reports frequently can help you stay on top of changes in your history and can also help you better understand your credit scores and risk factors.

Why are there different kinds of credit scores?

You only have three credit reports, but there are hundreds of different credit scores.

- **There are different credit scores for different kinds of lenders, like credit unions or national banks.**
- **There are different credit scores for different kinds of lending or business decisions.**

Credit scores all use the same information from your credit report. However, scoring formulas weigh the information differently to meet the specific needs of the business and the kind of lending being done.

The numbers can differ from one scoring system to another but will almost always represent the same thing in terms of credit risk.

When you receive a score, you should also get an explanation of:

- **The number that includes the scale it's from**
- **What it represents in terms of lending risk**
- **The risk factors from your credit report that most affected the credit score.**

If you address the risk factors from one score, all of your scores will get better.

Lenders often request and review credit scores based on all three credit reports in order to get the most complete picture.

Some businesses, including lenders and insurance companies, may even develop their own proprietary credit scores based on their experience with customers.

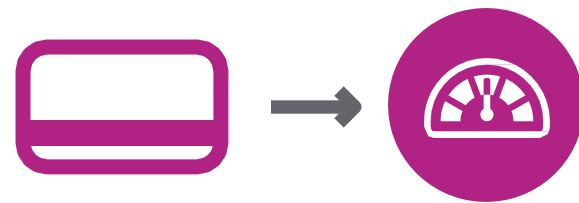


How do I get my credit score?

While there are many different credit scoring models, one of the most familiar is the FICO® Score.

You can get your FICO Score and credit report directly from Experian once every 30 days by enrolling in its free monitoring service at www.experian.com.

Certain credit cards also have partnerships with FICO® Score or VantageScore to regularly share credit scores with consumers.



Federal law also requires lenders to provide a free credit score, along with instructions to get a free credit report, if your application is declined or you don't get the best terms. The adverse action notices must provide an explanation of the score, the scale it's from and the risk factors that most affected it.



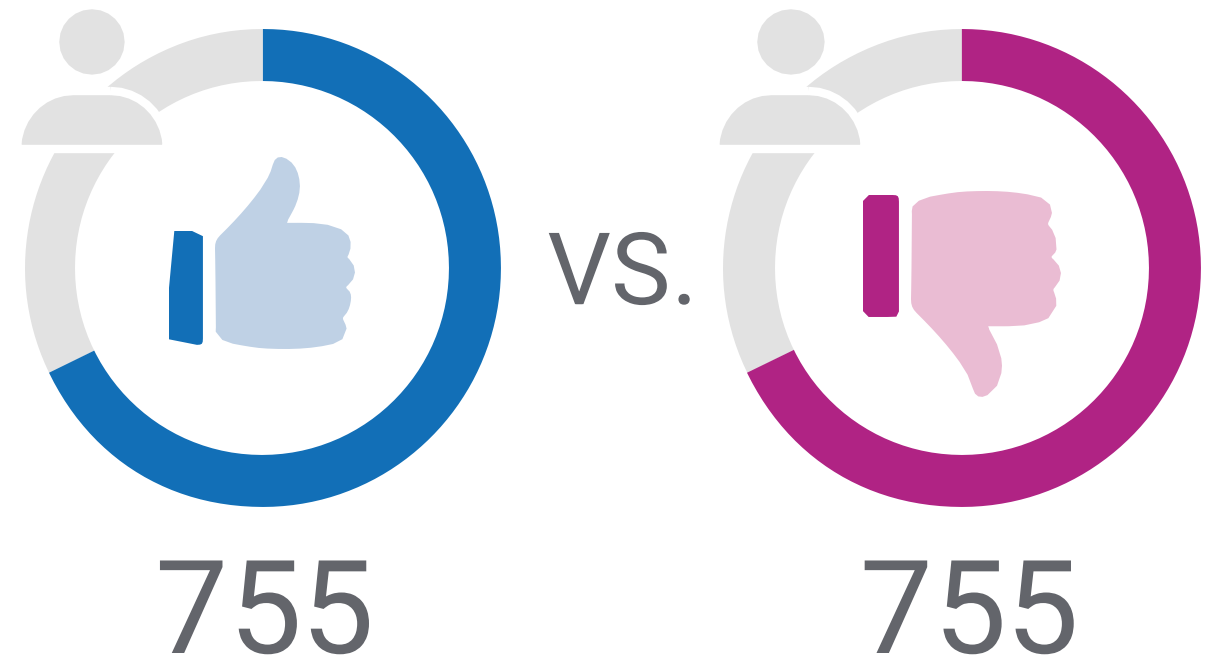
What makes a good credit score?

There is no universal definition of what a good credit score is.

- Each lender determines what scores are required to qualify based on their risk tolerance and the scoring system used.
- Because there are so many different scoring models in use, and because lenders each have their own criteria, the score you need to qualify for the best rates with one lender may be different from the score needed with another.

As a result, the credit score that matters most for you is whichever one a lender is considering in connection with your loan application.

If your credit application is ever denied based on a credit score, or if a score leads a lender to offer you credit with an interest rate higher than its best available, or an extra deposit or down payment, the lender must provide an adverse action notice that includes a score that it used, an explanation of that score and the risk factors from your credit report that most affected it.



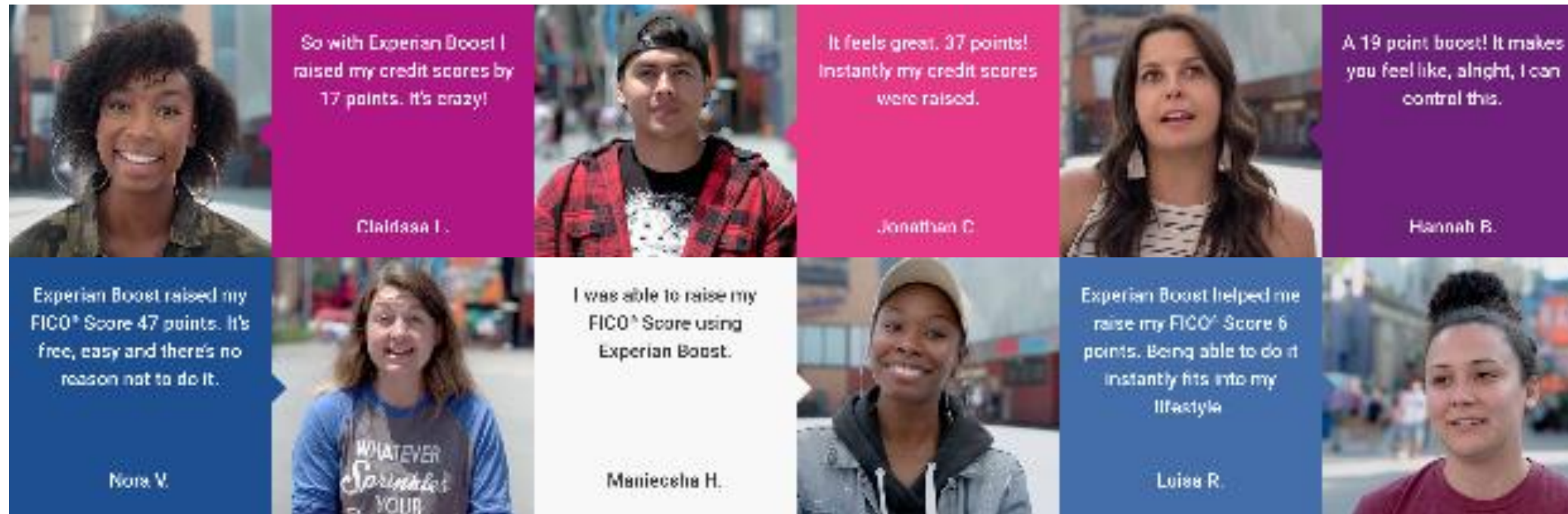
How can I improve my credit score?

1. Order a fresh credit report and credit score to ensure you have the most recent information, a baseline score and the risk factors for the score. Enrolling in Experian's free monitoring service will provide you with a free credit report and score each month.
2. Carefully review your credit history and pay close attention to the risk factors included with the score you received.
3. Bring any past due accounts current. While most negative information remains part of your credit history for seven years, your recent payment history counts the most. The best thing you can do to help your scores is to make every payment on time going forward.
4. Pay down credit card balances. High balances on your credit cards is the second most important factor in most credit scores. Reducing your balances can bump up your scores almost immediately.



Experian Boost

- Experian Boost, introduced in March, 2019 is a first in credit reporting history
- Add positive utility, streaming and telecom payments to **instantly improve your credit scores**
- **Payment information** from your checking or savings account, or credit card account
- Only with **your** permission
- Most effective for people with **thin credit files** or credit scores **below 680**
- Average score boost of **13 points**

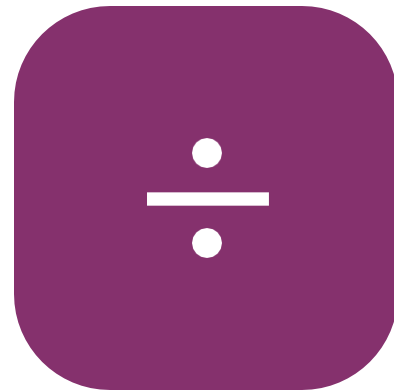


What can hurt my credit score?

There are several factors that can negatively affect your credit score, such as missed payments and high credit card balances.



Payment history is the most important ingredient in a credit score, and even one missed payment can have a negative impact on it. Lenders want to be sure that you'll pay back your debt on time and will factor that into considering you for new credit. Payment history accounts for 35% of your FICO® Score, the credit score used by most lenders.



Your credit usage is a powerful factor in your credit scores. It's calculated by dividing the total of your credit card balances by the total of all your credit card limits. This ratio gives a snapshot of how reliant you are on non-cash funds. Using more than 30% of your available credit is a negative to creditors.



The longer your positive credit history, the better your score. So keep an eye on things and make sure you don't close any accounts too soon.



People with top credit scores often carry a diverse portfolio of credit accounts including a car loan, credit card, student loan, mortgage or other credit products. Credit scoring models consider the mix of accounts and how many of each you have as an indication of how well you manage a wide range of credit products.



Your credit score is the first impression your creditors get of you. 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 10% of your FICO® Score. Too many inquiries or new accounts opened in a short period of time can indicate increased risk, and as such, can hurt your credit score.

Is a credit score part of a credit report?

CREDIT REPORT



- Record of your credit history and credit-related debts
- Includes information your lenders have reported
- Details of bankruptcy info and who has checked your report

CREDIT SCORE



- Tool used by lenders to assess lending risk
- Determines a number that represents likelihood of paying debt on time
- Removes personal biases and prejudices for fair scoring

A credit report and credit score are two different things.

- **A credit report is a record of your credit account history and credit-related debts.**
- **A credit score is a tool used by lenders to analyze the information from a credit report to help them assess lending risk.**

A credit score isn't part of a credit report, but you may receive a score along with your credit report. Credit scores are derived from the data in your credit reports. They predict the likelihood a person will be unable to repay a debt.

- **You can get a free credit report and FICO® Score from Experian every 30 days by enrolling in its free credit monitoring service. You'll also receive notices if something changes in your report, as well as tools and information to help you improve your credit, and alerts to changes in your credit score.**
- **Through April 20, 2022, you can request a free credit report each week through AnnualCreditReport.com to help you protect your financial health during the sudden and unprecedented hardship caused by COVID-19.**

Additional Resources:

www.Experian.com

www.Experian.com/consumereducation

www.Experian.com/creditchat

www.Experian.com/Boost

