OneMain Financial®

Understanding your credit report and credit score

Credit reports and credit scores are an important part of anyone's personal finances. Your credit is a major deciding factor in whether you are approved for a credit card, personal loan, auto loan or mortgage. If approved, your credit could determine whether you pay a low or high interest rate.

Good credit gives you more choices with how you manage your money. Bad credit, on the other hand, can limit your options. Continue reading to learn more about how your credit works, why it's important and how you can build an excellent credit score.

What you're going to learn

- The value of establishing a credit score
- Ways to establish a credit score
- Ways to improve a credit score
- Factors that improve a credit score
- Ways to check your credit score
- Ways to obtain a free copy of your credit report
- Ways to dispute an error on your credit report

(A) The value of establishing a credit score

Credit scores can influence your personal finances in many ways. With a good credit score, you have higher odds of being approved for a new loan and qualifying for better interest rates. It can also save you money when opening new utility accounts or could be a factor when applying for a job.

The place you're most likely to see your credit score in action is when applying for a new account. Credit scores are used for credit cards, personal loans, auto loans, mortgage loans, lines of credit and other types of borrowing. If you are looking to buy a house or condo with a mortgage, for example, the lender will review your credit score and credit report as part of the loan review process. This is called underwriting in the lending industry.

The importance of your credit doesn't stop if you are approved. The difference between a fair credit score and an excellent score could save you hundreds or thousands of dollars over the life of a loan and help you get a lower monthly payment. This personal loan calculator from OneMain Financial shows the difference in monthly payments based on a loan amount and interest rate.

The interest rate is used to determine how much you pay for the borrowed funds. A better credit score typically leads to more favorable interest rates. A lower credit score could result in paying more.

EXAMPLE/SCENARIO

What a 1% lower interest rate saves you when buying a home

If you were looking to buy a home with a $150,000 loan, the interest rate is a major factor in your monthly payment and total interest cost.

With a **4%** interest rate and a 30-year mortgage, you would pay **$716 per month** and pay $107,804 in interest over the life of the loan. This assumes you make the minimum payment each month as scheduled.

With a **5%** interest rate, you would pay **$805 per month** and $139,844 in total interest. A difference of just 1%, in this scenario, results in paying $89 more per month and $32,040 more in interest.

Outside of banking and borrowing, your credit score could be used in other ways. If you apply for a new account with a cell phone company or utility like water or power, people with poor credit or no credit may have to put down a cash deposit or use other collateral to open their account. With good credit, deposits are generally not required. When renting a new home, landlords may review your credit as a factor in deciding whether they want you as a tenant.

If you are in the market for a new job, your credit could come into play. Jobs where you work with money, oversee security or act in a management capacity could require a review of your credit report as part of the background check process.

While you don't see the number every day, your credit score influences many parts of your life. That's why it's so important to establish good credit.

PLACES WHERE YOUR CREDIT COMES INTO PLAY

Scenario	What credit reviewers usually look at	How it affects you
Credit/Loan application	Credit report and score	Approval, interest rate
New utility account	Credit score only	Deposit requirement
Renting a home	Credit report and score	Approval, security deposit amount
Job application	Credit report only	Background check for a new job

KEY TAKEAWAYS

- Credit scores and reports are central to getting many loans.
- The better your credit, the more likely you are to be approved.
- Credit may be the deciding factor in whether you can buy a home or a new vehicle.
- With a mortgage, good credit can save you tens of thousands of dollars over the life of a loan.

(B) Ways to establish a credit score

When it comes to credit scores, everyone starts with a blank slate. Your credit score is based on information on your credit report. When you use any type of lending product, like a credit card or a personal loan, it is generally reported to one of the major credit agencies responsible for credit reporting.

To build credit, it's important to pay every credit card and loan account on time as agreed. If you make at least the minimum payment by the due date for every credit account, you should see your credit score improve over time. Missed payments and late payments, however, can damage your credit score for up to seven years.

In the past, only traditional loans and credit accounts would show up on a credit report. These days, however, some credit bureaus include non-loan accounts in your credit. Paying rent on time – as well as phone, utility and other bills – may now be included in your credit score.

The three big companies that track your credit are Equifax, Experian and TransUnion. Most lenders use a version of your credit score called a FICO score. Other credit scoring models like VantageScore could also be used by lenders.

Once you have a history of payments on your credit report, you get a credit score. In other words, it takes credit to build credit. Most lenders report details about your account to one or more of the three big credit bureaus at least once every month, so having information included on your credit report doesn't take any additional work on your part.

STEPS TO ESTABLISHING GOOD CREDIT

1. **Open a credit account**
2. **Make on-time payments every month**
3. **Make at least the minimum payment every month**
4. **Keep balances low on revolving accounts like credit cards and lines of credit**

KEY TAKEAWAYS

- **If you are new to credit, opening a new credit account like a credit card or personal loan can help you establish credit.**
- **Pay on-time every single month to build a good credit score.**
- **More credit accounts can further help your credit score, but you generally shouldn't sign up for a loan where you know you will pay interest charges solely to establish credit.**

(C) Ways to improve a credit score

If you have a credit score that you're not happy with, you are not alone. Millions of people would love to see their credit scores increase. You can improve your credit score. The key is following good credit habits and effectively managing your accounts.

Pay loans on time: The biggest part of your credit score is your payment history. Paying all loans on time every month going forward is the best way to improve a bad credit score in most cases.

Keep balances low: Paying off credit cards is typically the fastest way to improve bad credit. Many experts suggest keeping the portion of your credit used below 20 to 30%. This is called your credit utilization. The best balance for your credit score is $0.

EXAMPLE/SCENARIO

Fixing your credit can lead to more personal finance options

Dan was unemployed for a few months because of a layoff. During his unemployment period, he used credit cards to pay the bills and buy groceries. Unfortunately, the higher credit card balances lowered his credit score.

After getting a new job and paying the minimum on his cards for a few months, Dan decided to apply for a new rewards credit card. His application was denied. In a letter explaining the decision, the credit card company explained that high balances were the biggest reason for his application denial.

Paying down his credit card balances should improve his credit score. After paying off the cards, he could reapply for the credit card with better odds of approval.

Keep accounts open a long time and only apply for the credit you need: Opening and closing accounts lowers your average age of credit. Applying for new credit can have a temporary negative impact on your credit score.

Make sure your credit report doesn't have any negative errors: A huge number of credit reports have errors. It's a good idea to review your credit report at least once every year, if not more often. If you find something incorrect, you can get negative errors removed from your credit.

The most popular credit score systems used by lenders use a scale of 300 to 850. A higher score is better. A credit score below 579 is considered Poor. 580-669 is considered Fair credit and is in the range of what are sometimes called subprime borrowers. More options start to open up once you reach a credit score of 670, which is considered Good. Very good to Excellent credit scores start at 740 or above.

FIXING BAD CREDIT

Action	Why it helps
Pay all loans on time going forward	Improves on-time payment history
Pay off high balances	Lowers credit utilization ratio
Avoid closing old accounts	Maintains the length of credit history
Apply only for the credit you need	Credit scoring models evaluate how frequently and recently a consumer applies for credit, and multiple new applications for credit or hard inquiries in a short time can be concerning for lenders
Dispute any negative errors on your credit report	Removing incorrect negative information from your credit can improve your credit score

KEY TAKEAWAYS

- If you have bad credit, it can take some time to repair the damage.
- Start with a focus on the two biggest factors in your credit score: paying on time and keeping low revolving credit balances.
- It can take up to seven years for late and missed payments to drop from your credit report, so paying on time is very important for your long-term credit health.

(D) Factors that impact a credit score

Your credit score is calculated from five major areas. You are in the driver's seat in all areas. If you understand the moving parts, you can work to improve your credit over time.

The most important part of your credit is your payment history. This makes up 35% of your credit score. Paying 30, 60, or 90+ days late is a sign to lenders that you might not repay a future loan. Because it can take up to seven years for late payments to disappear from your credit report, you should always pay on time every month. If you don't, it may take the better part of a decade to improve this portion of your credit score.

Your outstanding debt makes up the second-biggest portion of your score. Your current debt balances make up 30% of your credit score. The portion of your credit card limits used is a huge part of the calculation. Keeping your credit card and line of credit balances as low as possible will help your credit score. If you can keep them at zero and pay them off in full every month, you are doing the right things here. High balances tell lenders you are at risk of not being able to pay them back.

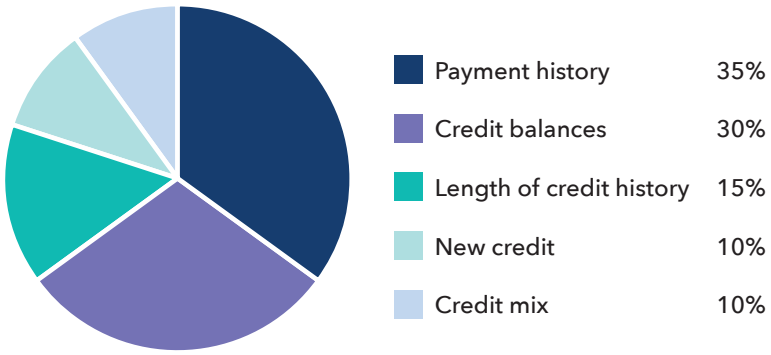
The length of your credit history makes up 15% of your credit score. A longer history tells lenders you are more likely to be responsible with credit. A lot of new accounts in a short period of time is a sign of risk because it can signal that a consumer is having trouble paying their bills or is at risk of overspending.

Speaking of new accounts, the pursuit of new credit makes up 10% of your credit score. Every time you apply for credit, the lender may look at your credit report. When they do this, it is reported on your credit. Frequently submitting new applications or opening new accounts could drag down your credit score.

The last part of your credit is your credit mix, which makes up the final 10% of your score. Having just one account or one type of account isn't great for your credit. Adding new types of accounts, such as auto loans or a mortgage, can help your score. However, it isn't a good idea to apply for a new credit account just to help your credit mix if you are already on track for good credit.

CREDIT SCORE FACTORS[1]

Percent of credit score



KEY TAKEAWAYS

- **Two factors alone make up nearly two-thirds of your credit score.**
- **Maintaining a positive credit history is easier than fixing bad credit.**
- **Resist the urge to tinker with your credit, as opening and closing accounts can damage your credit score.**

(E) Ways to check your credit score

Your credit score shouldn't be a mystery. Everyone in the United States has several free and paid options to access your credit information.

Some banks, credit card companies and other financial companies offer your credit score for free. Log in to your bank or lender's website or app to find out if you can get free access to your credit score from an existing account.

There are also websites such as Credit Karma and Credit Sesame that provide your credit score for free, but be advised that these websites use your information for targeted advertising when you visit the site or app.

If you prefer a paid option, there are many companies willing to provide credit scores and reports from all three credit bureaus for a fee. This may contain more information than the free options above. However, you should never feel that it's required to pay for your credit score.

HOW TO CHECK YOUR CREDIT SCORE

Method	Cost	Pros	Cons
Your bank or credit card company	Free	Free, the real credit score used by your financial product provider	Usually just one credit bureau, not frequently updated
Credit score websites and apps	Free	Free credit score and credit report, advice on improving your credit	Advertising supported, may not use FICO credit score
Paid credit score services	Monthly fee	Access to credit scores and reports from all credit bureaus	Not free

KEY TAKEAWAYS

- If you don't know your credit score, log in to your bank and credit card websites to see if you can find it for free.
- If you can't, consider a free credit score app to get an estimate of the credit score used by lenders.

(F) Ways to obtain a free copy of your credit report

The three big credit bureaus are required by law to give you a free copy of your credit report every 12 months. The government-mandated website for this program is AnnualCreditReport.com. You can get all three credit reports at once or space them out over the year. This credit report access does not include your credit score.

It may be wise to get one of your free credit reports every three or four months. That way you never have to go a full year without reviewing your credit report for errors.

HOW TO GET YOUR FREE CREDIT REPORT

1. Go to annualcreditreport.com
2. Enter your personal information including contact information, your date of birth and your Social Security number
3. Choose the credit bureau to receive your free report
4. Review your credit report for errors and negative information
5. Repeat with each credit bureau annually

KEY TAKEAWAYS

- Getting your free credit report takes just a few minutes.
- Even if you can get it somewhere else, using annualcreditreport.com gives you a free copy of your credit report directly from each of the big three credit reporting bureaus.
- Review your credit report for negative information that you want to work on in the future and for any errors that need to be corrected.
- Keep a digital or paper copy of your credit report as a reference until you get a new one the following year.

(G) Ways to dispute an error in your credit report

According to the Federal Trade Commission, about one in five people in the United States have an error on their credit report[2]. If you are one of the estimated 40 million Americans in this situation, you can dispute any errors and have them corrected.

Victims of identity theft may also have a slew of problems and fraudulent accounts on their credit reports. Fixing this is a bigger project, but certainly within your rights as a victim of a crime.

You can file a dispute with the credit bureau where you found the error. For example, if you find a problem with your Equifax credit report, you should contact Equifax for the correction. The three credit bureaus each have an option to submit a dispute online, by mail or by phone.

You can also dispute the information directly with the company that provided the incorrect information. If you have a credit card that shows a late payment when you know you paid on time, contact that credit card company. They can correct the information they sent to the credit bureau.

Disputes can be a slow and tedious process, but if you stick with it you should be able to resolve incorrect information. If you see something you don't like that is accurate, you're probably stuck with it. But if it's wrong, you can get it corrected.

EXAMPLE/SCENARIO

Jen is responsible with her finances and checks her credit report every year. When recently reviewing her newest credit report, she noticed that her car loan said she made a late payment last year. However, she always pays on time with autopay.

To remove the incorrect information, she files a dispute with the credit bureau. Shortly after, she hears back from the credit bureau that the late payment has been removed.

The next time she checked her credit report, the account showed a perfect on-time payment history.

CREDIT REPORT DISPUTES (HOW TO/STEPS)

1. Review your credit report from all three credit bureaus for errors. If you find an error, make a note of what needs to be fixed.
2. Create a dispute online, by mail or by phone with the appropriate credit bureau.
3. Contact the lender for a correction, if necessary.
4. Review your corrected credit report to confirm the error is gone.

KEY TAKEAWAYS

- About 20% of people have an error on their credit report.
- Take the time to look for errors each year.
- Work diligently with the credit reporting company and the lender until all errors are resolved. This may take multiple disputes, but it is always worthwhile to fix errors on your credit report.

Summary

Many people sit back and let their credit just sort itself out, but ignoring your credit could be a critical mistake. Because it has such a big influence on loan applications and interest rates, working to reach or maintain a great credit score is a smart idea.

Here is a summary of the important credit score and credit report information discussed:

(A) The value of establishing a credit score

A credit score helps you access a range of financial products including personal loans, credit cards and car loans. In addition to helping you get approved for new loans, your credit score can be a factor in determining your interest rate.

Outside of banking and lending, your credit score may influence other parts of your life. Utility companies may require people with a Poor credit score to make a deposit when opening a new account. Landlords might also look at credit when reviewing new tenant applications.

(B) Ways to establish a credit score

It takes credit to build credit. Opening a credit card account, paying it on time every month and keeping your balance low can help you establish a good credit score. Personal loans and most other loans are reported to a major credit bureau. The three big credit bureaus use your credit account information to calculate your credit score.

If you are brand new to credit, it may be difficult to get your first loan. In this case, secured credit cards are an option to start building credit. The credit bureaus may also use some non-loan information, like on time utility bill payments, to help consumers build credit.

(C) Ways to improve a credit score

If you have bad credit, you are not stuck with it forever. Some negative information on your credit report can take years to drop off. Other areas of your credit are within your control in the shorter term.

Paying loans on time every month, keeping revolving credit account balances low, and avoiding opening and closing accounts can help your credit score. You should also review your credit report for errors and work to have any incorrect, negative information removed.

(D) Factors that impact a credit score

Credit scores are made up of five main factors from your credit report. Two factors, your payment history and credit balances, make up about two-thirds of your credit score.

The factors in your credit score are payment history (35%), credit balances (30%), length of credit history (15%), new credit (10%), and credit mix (10%).

(E) Ways to check your credit score

Some lenders and credit card companies give your credit score at no extra cost. If you can't get it there, you can find your credit score using a free, advertising-supported app or a paid service.

Never feel that you have to pay to get your credit score. Companies are happy to give you credit information for a fee, but there are some good options that include your credit score for free.

(F) Ways to obtain a free copy of your credit report

The three big credit bureaus are required by law to give you a free copy of your credit report every 12 months. The government-mandated website is annualcreditreport.com.

You can also get a free copy of your credit report from some banks, credit card companies and apps. Like your credit score, there are also paid options to get your credit information.

(G) Ways to dispute an error on your credit report

If you find an error on your credit report, you can contact the credit reporting bureaus to dispute the incorrect information. You can also contact the lender that reported the negative information about having it removed.

It is your right to have negative information on your credit report corrected. Negative errors can hurt your credit score, so it's always worthwhile to have negative, incorrect information removed.

ENDNOTES

1 All about credit scores, Consumer Financial Protection Bureau. https://files.consumerfinance.gov/f/documents/cfpb_building_block_activities_all-about-credit-scores_handout.pdf

2 In FTC Study, Five Percent of Consumers Had Errors on Their Credit Reports That Could Result in Less Favorable Terms for Loans, Federal Trade Commission, February 2013. https://www.ftc.gov/news-events/press-releases/2013/02/ftc-study-five-percent-consumers-had-errors-their-credit-reports