The Ultimate Beginner's Guide to

CREDIT SCORES

General Electric
Credit Union

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1 What is a credit score?

Whether you want to buy a car, get a home mortgage, or submit an application for an apartment, there's an important number factored into each process: your credit score. You may have checked this number before through various online services or mobile banking apps without truly grasping what you were seeing. This guide aims to help you understand the ins and outs of credit scores: what they are, why they matter, and much, much more.

But first, let's answer the "what." Credit scores are a numerical expression of your credit worthiness. Lenders use this number, which can be anywhere between 300 and 900, to predict how likely you are to pay back a loan on time. Much like a test, the higher your score the better.

What qualifies as a 'good' credit score?

There are three major credit bureaus: Equifax®, Experian®, and TransUnion®. Each credit bureau has its own scoring model, so your score may be considered better with one than another. If your credit score is 579, it is considered fair under Equifax's breakdown, whereas under another bureau's model your credit could be labeled as "very poor."

1 What is a credit score?

Ultimately, it's more important what your lender considers a good score. Confirm which of the three main credit bureau's your financial institution pulls credit information from so you can see where you land on each bureau's tier structure.

From there, you can work to get into a more favorable tier. If your financial institution pulls from all three of the major credit bureaus, just know the higher your score, the better your chances of securing a conventional mortgage loan. A higher score may also help you avoid triggering additional requirements.

Some financial institutions may look to different bureaus for different types of loans (e.g. they may primarily use Equifax® for consumer or auto loans, but regularly pull from all three bureaus for mortgages).

Visit: AnnualCreditReport.com yearly to access your complete credit report for free!

Did you know?

Credit scores were invented in the 1950s by engineer Bill Fair and mathematician Earl Isaac. Together, they created Fair, Isaac and Company.

2 How credit scores open doors

Besides bragging rights, there are many powerful benefits to having a good credit score. Below are just a few to serve as inspiration while you work to improve your score.

1. Lower interest rates

A lower interest rate translates to lower monthly payments. The interest rate a lender is willing to offer you depends on your creditworthiness. If you have poor credit history, a higher interest rate allows the lender to recoup some of the loan amount early on.

2. Higher limits

Proving your creditworthiness time and time again gives you leverage to ask for higher credit limits or a larger loan. Access to more funds can help you finance large expenses, like a project around the house.

3. Housing

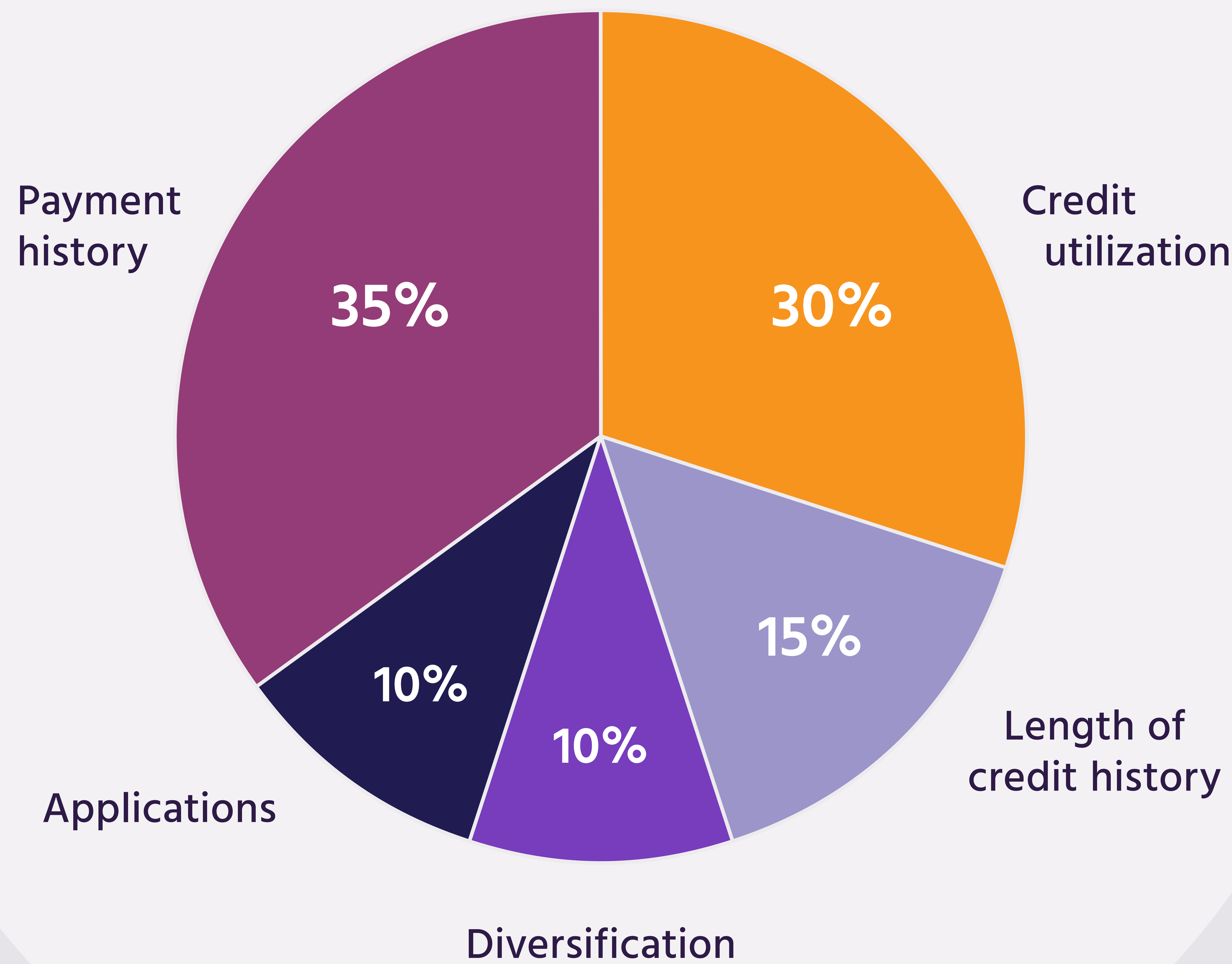
When submitting a rental application, a landlord will often complete a credit check. This helps them determine how likely you are to pay your rent each month on time.

Credit can also come in handy if you want to buy a property. The lower interest rates associated with good credit mean you can secure a mortgage with lower and more affordable monthly payments. For this reason, it pays to improve your score prior to jumping into the housing market.

4. Insurance rate

Auto insurance providers may look at your credit history and use what they learn to predict potential loss and the likelihood you'll file a claim. This is known as a credit-based insurance score. Because of this, a good credit score can in turn make your car insurance more affordable.

3 How credit scores are determined



For this example, we are going to focus specifically on FICO® Scores[1] and the factors used to determine them. A higher percentage signifies higher importance.

Payment history

Payment history is a crucial factor, accounting for 35% of the pie. "History" includes on-time payments, missed payments, and how recently payments were missed. It's important to stay on top of any payments you have, as each one made late counts against you.

Credit utilization

Credit utilization is how much you owe on loans and credit cards compared to how much credit you have available, as well as the number and types of accounts you have open (Learn more about credit utilization rate on page 16).

3 How credit scores are determined

Length of credit history

Don’t be intimidated by credit, because not having any actually hurts your credit score. Lenders want to see long periods of consistent, on-time payments. With no credit history, they will have less to review.

Applications

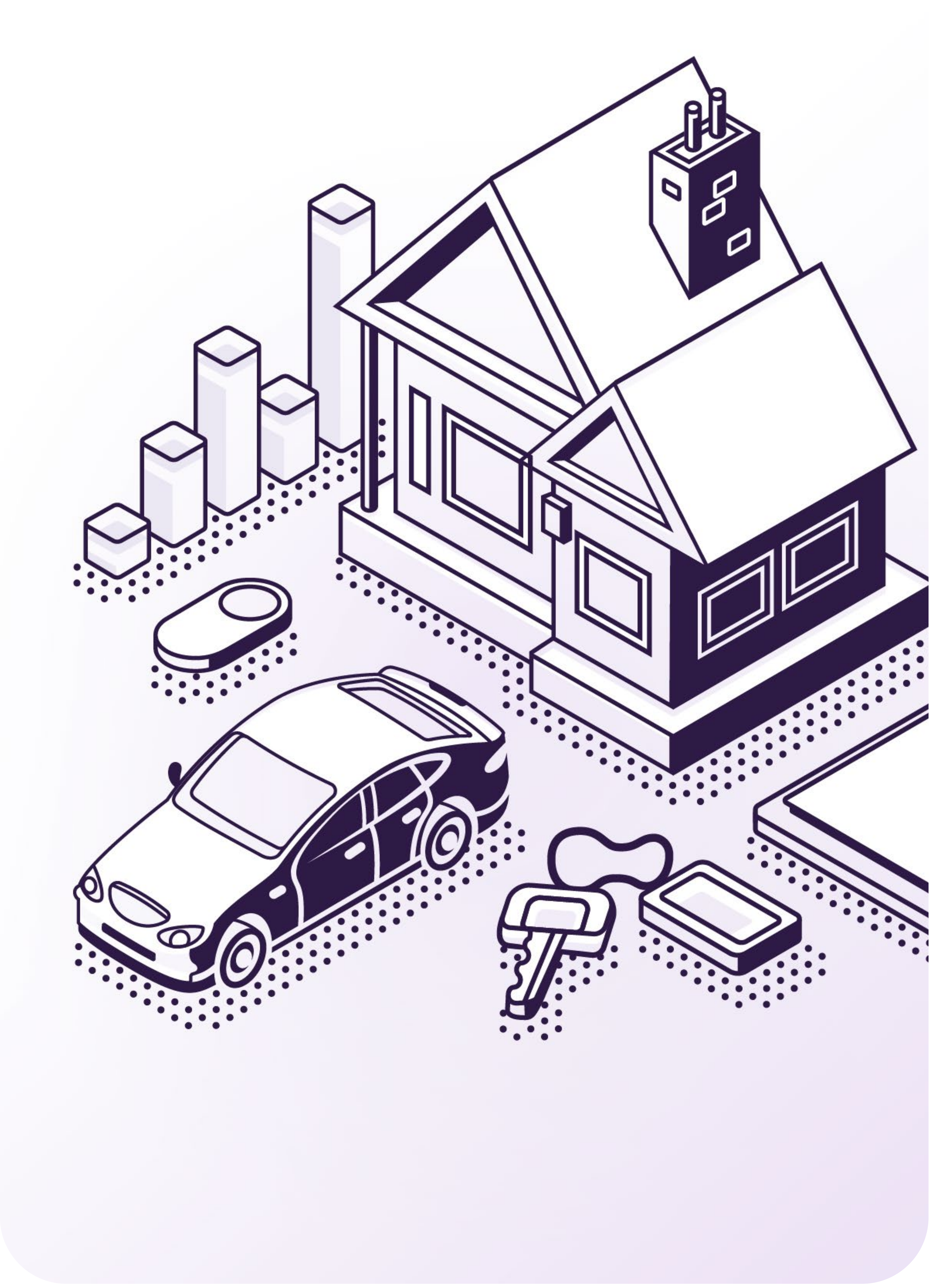
New accounts are factored into your score because opening one triggers what’s known as a hard inquiry (more on this in the next section). Because of this, it’s best not to open multiple accounts in a short time span. Doing so gives lenders the impression you are a higher risk.

Did you know?

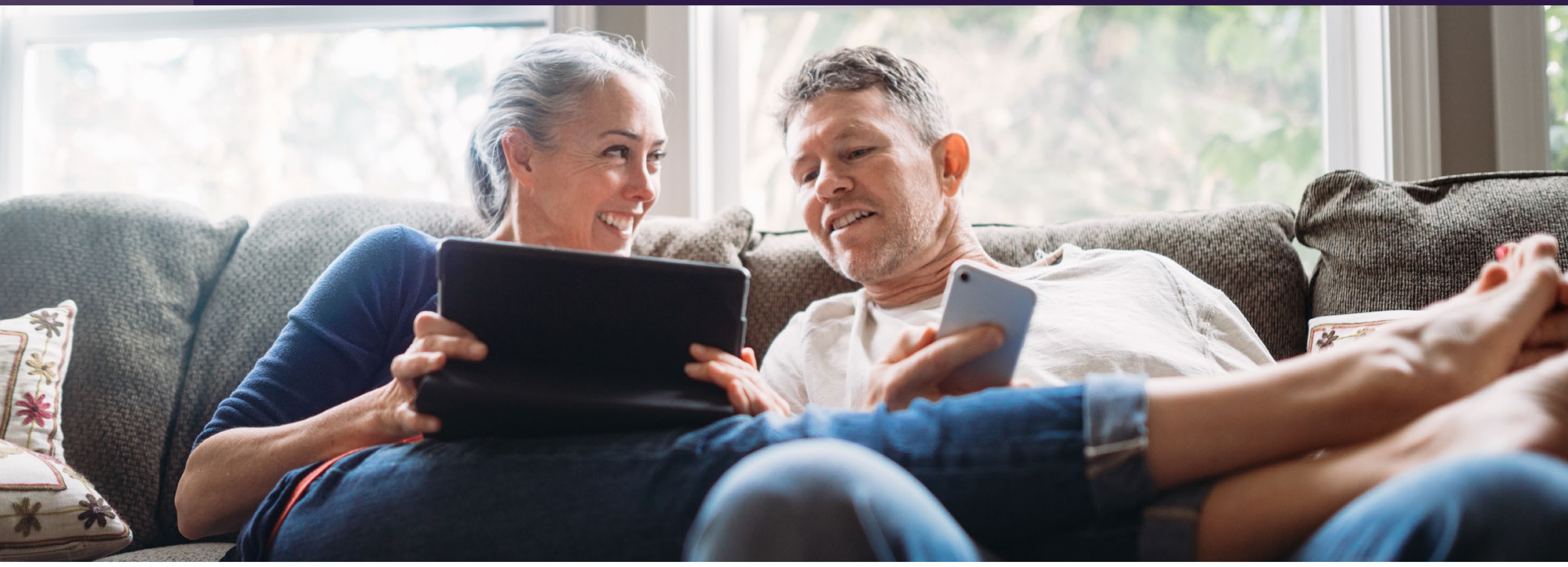
The average American has four credit cards.[2]

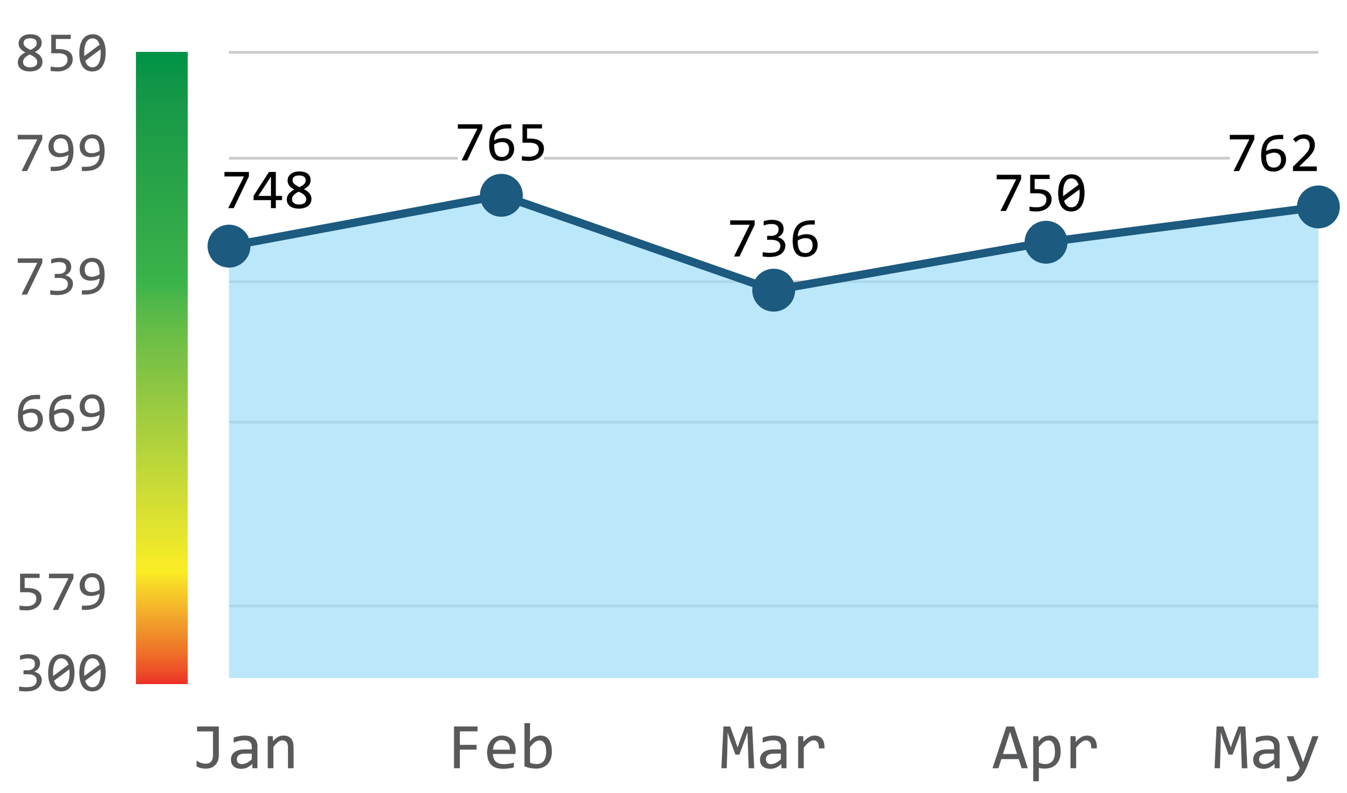
Diversification

From auto loans to credit cards, there are many different lines of credit offered by financial institutions. Lenders like seeing consistent payments on a mix of credit types because it shows you are responsible enough to manage multiple accounts.



4 Why does my credit score vary?





As previously mentioned, there are three main credit bureaus: Equifax®, Experian®, and TransUnion®. These credit bureaus—also known as credit reporting agencies (CRAs)—collect and maintain consumer credit information.

This could be information compiled from lenders or companies you do business with, as well as relevant public records like bankruptcy. The underlying data used to calculate credit scores differs from bureau to bureau, which is why your score may vary depending on where you are looking.

FICO® Score

FICO® Scores were developed in 1989 in an effort to find an industry-standard score. FICO® itself is not a credit bureau, but a company which created and maintains the formula used to calculate FICO® Scores. To do this, they utilize data from credit bureaus.

Today, there are a variety of FICO® Scores available, including the FICO® Score 10 and 10T introduced in 2020. The T in FICO® Score 10T stands for trended data and is a departure from previous versions because it looks back at up to 30 months of past credit data to predict consumer behavior.

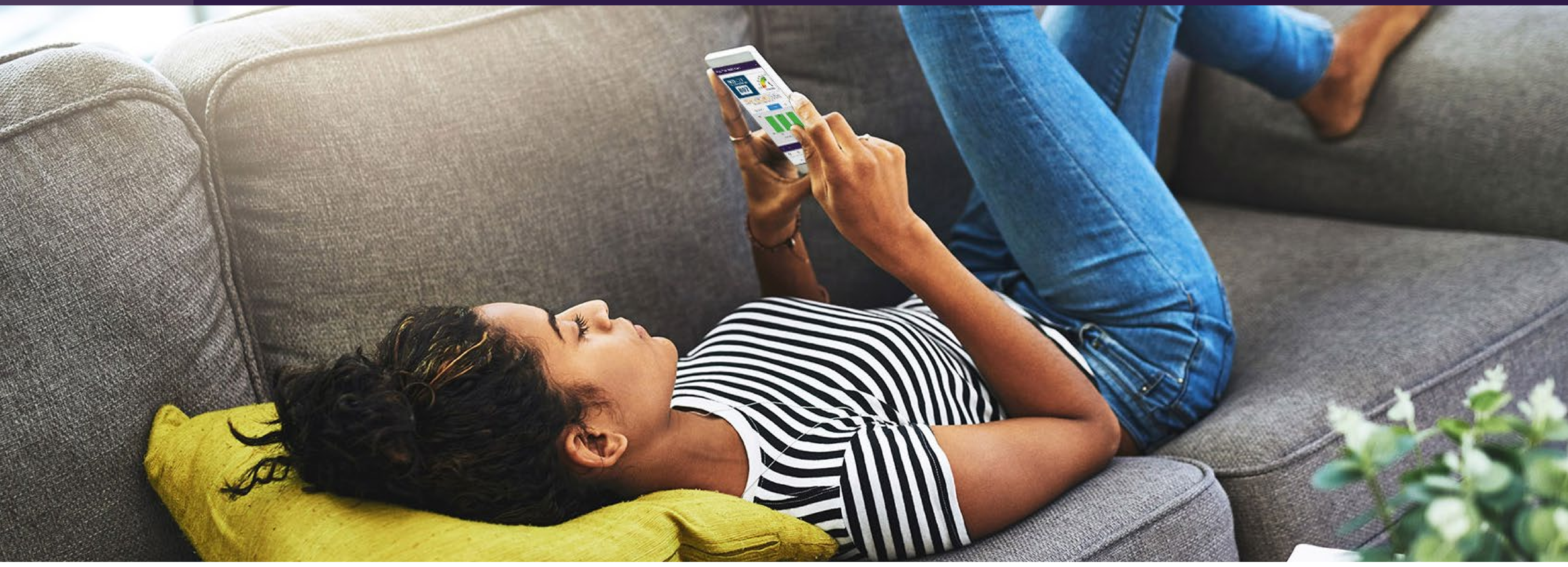
If you think of a traditional FICO® Score as a snapshot, the 10T would be more like a short video. For more information, review FICO® Score FAQs.

What is trended data?
Trended data shows changes in credit behaviors over time. This allows lenders to see the big picture. For example: say person A and person B have the same credit score, but person A's score has been steadily improving and person B's is declining. Trended data helps lenders see these changes.

VantageScore®

In 2006, the three main credit bureaus teamed up to create VantageScore® Solutions. This independently managed firm introduced its own score using trended data in 2017, known as version 4.0.

5 How to read a credit report

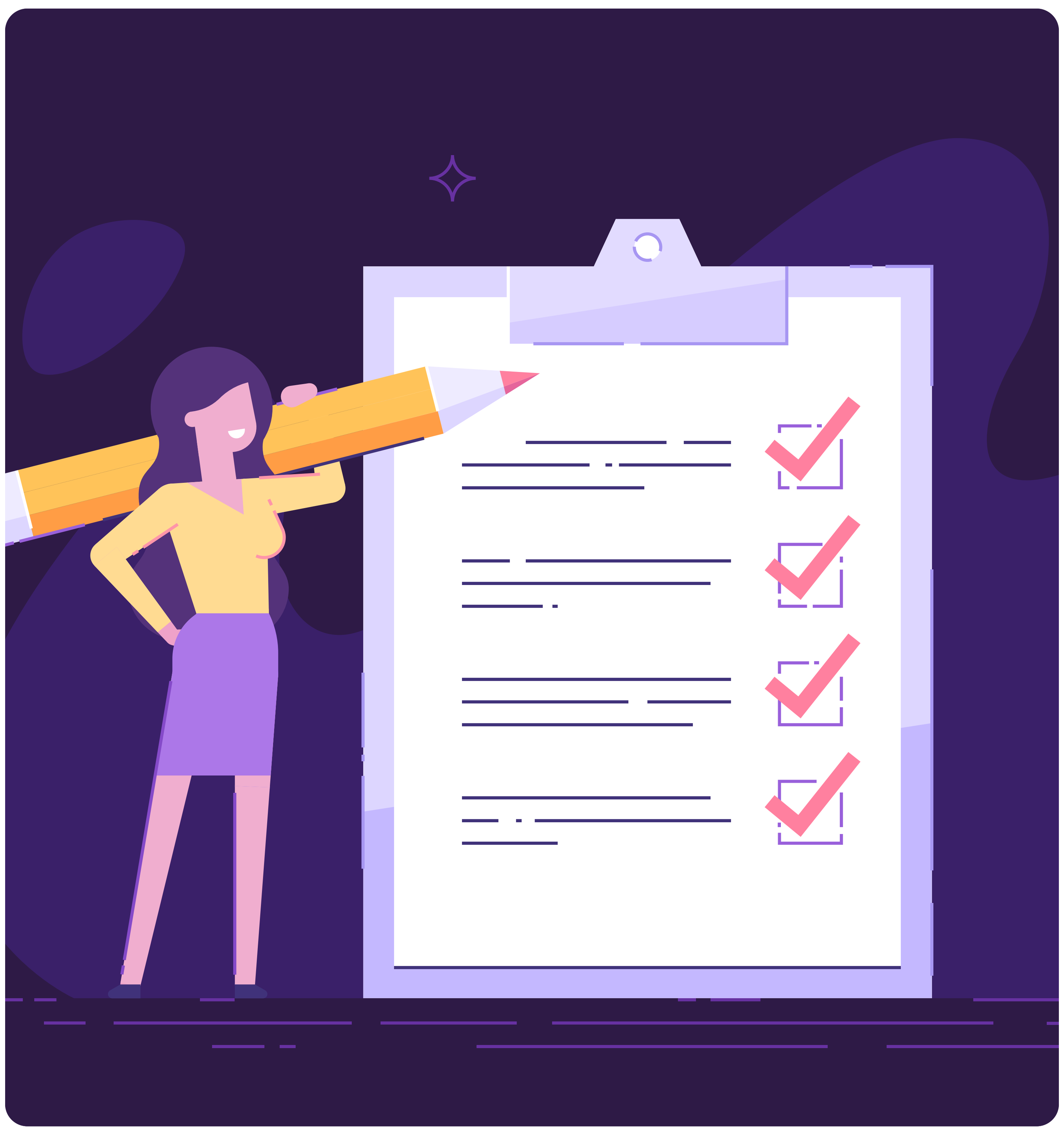


Copies of your credit report can be obtained from the major credit bureaus. You are legally entitled to view your credit report for free once a year; just visit: AnnualCreditReport.com!

Credit scores can be looked up for free as many times per year as you'd like, but keep in mind this is not the same as having access to the report. The report allows you to address inaccuracies and overall gives you better visibility into your credit history.

There are two categories of credit inquiries: a 'hard pull' and a 'soft pull.' When you check your credit score, this action falls under the latter category. Soft pulls don't impact credit scores, but they are documented on the report. Regardless, you can check your score at any time with no restrictions or consequence.

A hard pull is done anytime you are trying to open a new line of credit. When you apply for a loan—such as a credit card or mortgage—your credit score and report are checked. Just like a soft pull, a hard pull is recorded in the credit report.



But, a hard pull stays on your report for two years and also affects your credit score. Why? Your desire for more credit is considered an indication of your credit habits.

When you do check your credit score, you may find yourself lost in the wealth of information included in the report. While report layouts may differ depending on the website you are using, much of the information you'll find is consistent:

- **Personal information:** This section shows your birth year, phone number, spouse or co-applicants, current and former employers, and any names and addresses associated with your credit.
- **Account information:** If a lender reports to credit bureaus, the revolving credit accounts or installment loans you have with them will appear on your credit report.

  Your payment history, including late payments, is also documented. A payment status may be displayed using a letter in the alphabet or acronym, e.g. 'C' is collections; 'CO' is charge off (a charge considered unlikely to be collected).
- **Collection accounts:** If an account is significantly past due, a creditor may turn over the debt to a collection agency.

  This will show up as a separate account on your credit report. Collection accounts can stay on your report for seven years.
- **Courthouse/public records:** Bankruptcy, no matter if it's Chapter 7 or Chapter 13, is the only public record on your credit history.
- **Credit inquiries:** This section lists any soft or hard pulls on your credit report.

> "You are legally entitled to view your credit report for free once a year.

Account types

There are three buckets an account may fall into:

- Revolving
- Installment
- Open

The payment on a revolving account varies month-to-month depending on your balance. A common example is a credit card.

You can opt to "revolve" a portion of your balance to the following month instead of paying off the account in full. But, lenders can charge interest on the portion you revolve.

If your account has a fixed payment for a fixed amount of time, it is an installment account. Your payment is the same every month until the loan is paid off. The annual percentage rate (APR) on an installment account is charged by the lender.

The APR may stay the same (fixed) or fluctuate over time (variable) depending on the account type. Student loans, auto loans, and mortgage loans are examples of an installment account.

Open accounts are like a hybrid of an installment and revolving account. Your monthly payment varies and is due at the end of the billing cycle. But this payment must be made in full. A utilities account is one example. Your heating costs may be lower or higher depending on the season, but you must pay the full amount of the bill.

Account owners

There can be one or multiple owners on an account.

An individual account is owned by one person. Under law, the funds in an individually-owned account will pass to the account owner's estate if they have no listed beneficiaries when they pass away.

A joint account has one owner, plus additional people with full ownership interest. Joint owners can use the account with no restrictions, such as to transfer funds, stop payments, and close the account.

All owners on the account are legally responsible for paying the bills. If one party passes away, the account will go to any surviving joint owners.

An authorized user has the same charging privileges as a joint account owner, but the primary owner is the only one legally responsible for the bills. Plus, negative account history related to an authorized user can hurt the credit score of the primary owner.

If you have little or poor credit, becoming an authorized user is a viable way to build your credit history and improve your score. When you are added to an account, the card issuer may report authorized user activity, triggering the account's history to appear on your credit report.

Consider this option if you want to build your credit, especially if you don't have any.

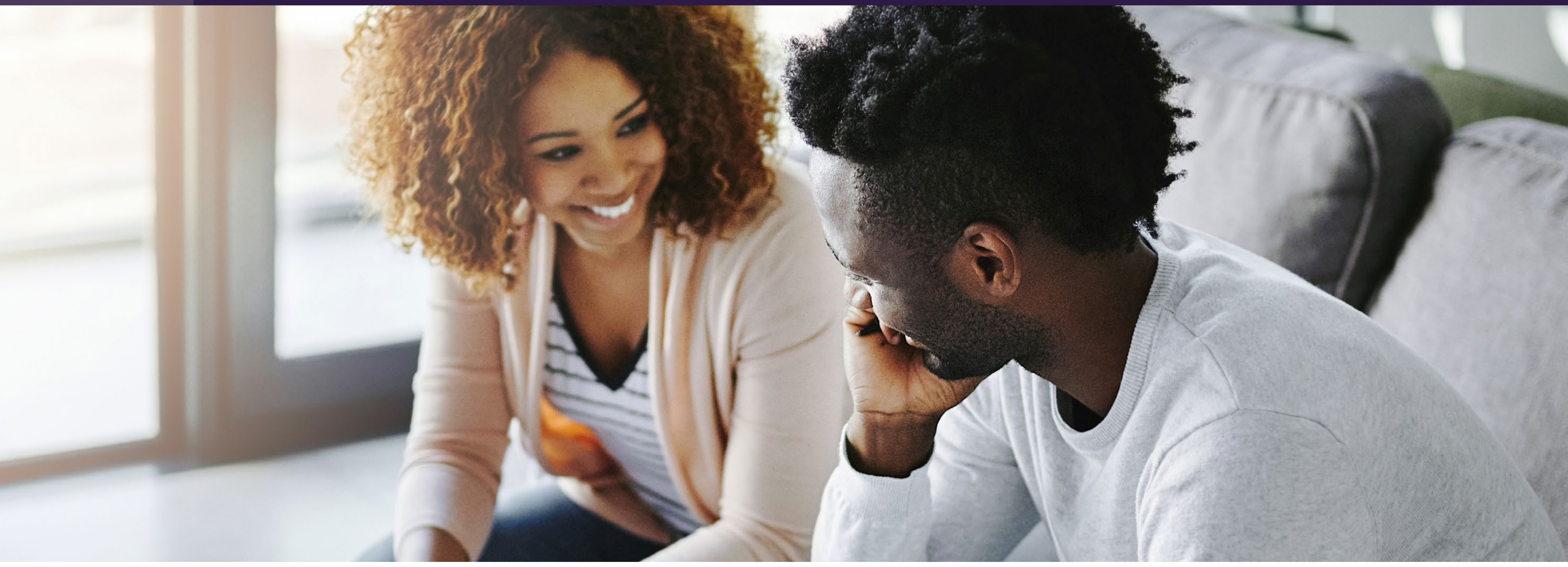
Reporting inaccuracies

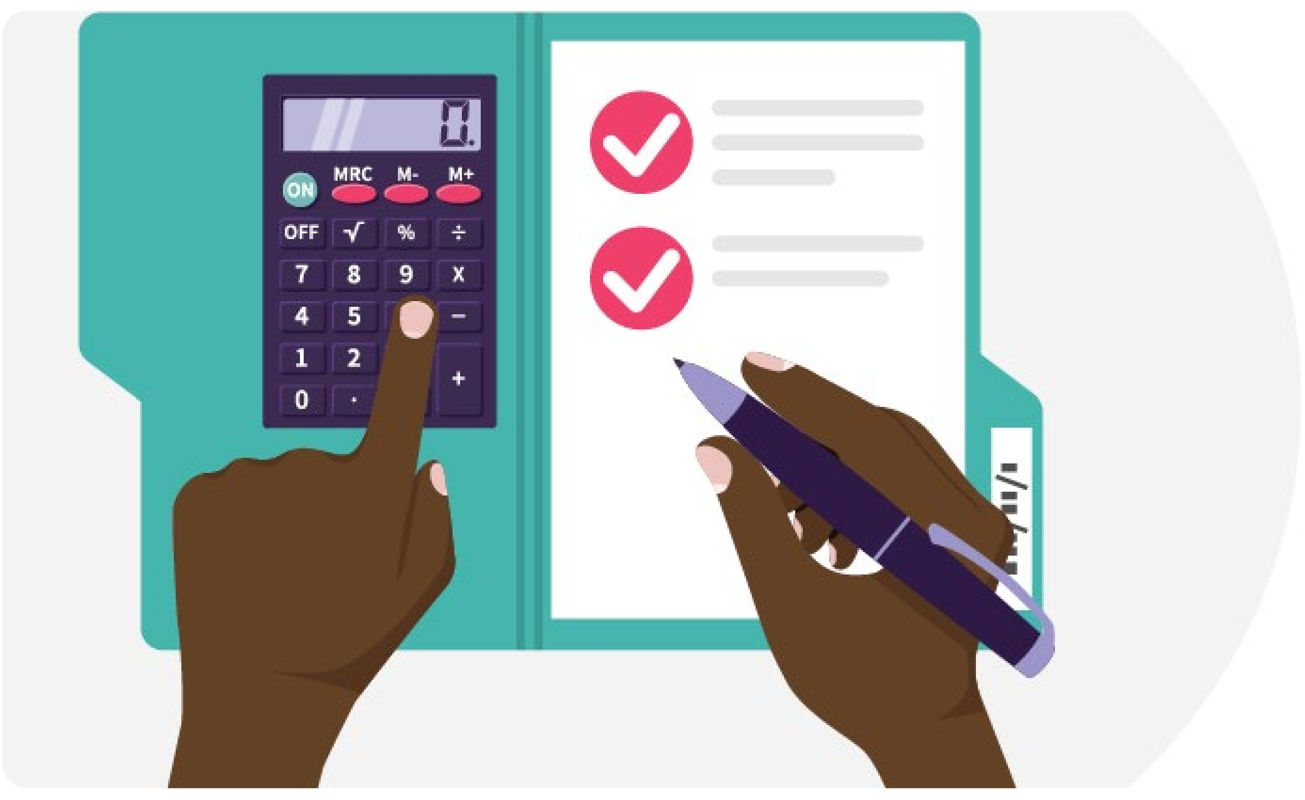
You can dispute items on your credit report directly with the credit reporting agency. Under the federal Fair Credit Reporting Act (FCRA), credit reporting agencies and the person or entity they source your credit information from are responsible for correcting inaccuracies.

So long as your dispute is not considered frivolous, the credit reporting company has 30 days to investigate your claim.[3]

During this time, they share the details of your claim with the information provider. If the information provider confirms there was an inaccuracy, they must inform the credit reporting agency so the information can be corrected. Learn more about this process through the Federal Trade Commission's helpful guide *Disputing Errors on Credit Reports*.

6 Tips for rebuilding your credit score

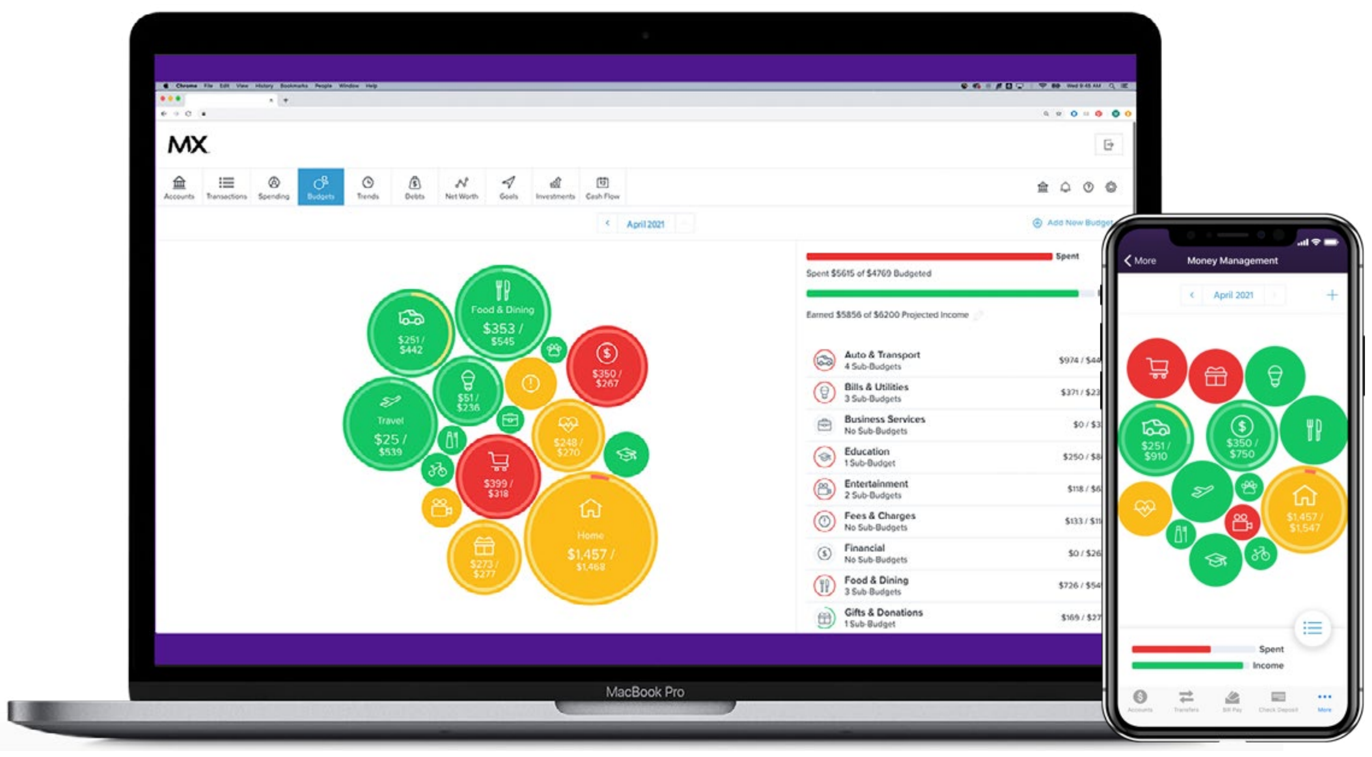




1. Create a budget

Write a list of monthly expenses, including: groceries, gas, rent or mortgage payments, utilities, and so on. Once you know how much you spend on basic needs, you can compare this to your monthly income to see how much is leftover.

Devise a plan for any leftover funds so you can be intentional about your finances. Also, review bank statements to see what you're spending money on, and if there are any habits you may need to reel in (e.g. unnecessary online shopping). There are apps available if you're unsure how to structure a budget, and some financial institutions even offer their own money management tools which can link your savings accounts, checking accounts, loans, credit cards, and investment accounts, both with them and other banks, credit unions, wealth management companies or financial services companies. This allows you to get a complete financial picture no matter where you put your money.



***GECU's Money Management**, available for free in Online Banking and the mobile app.*[4]

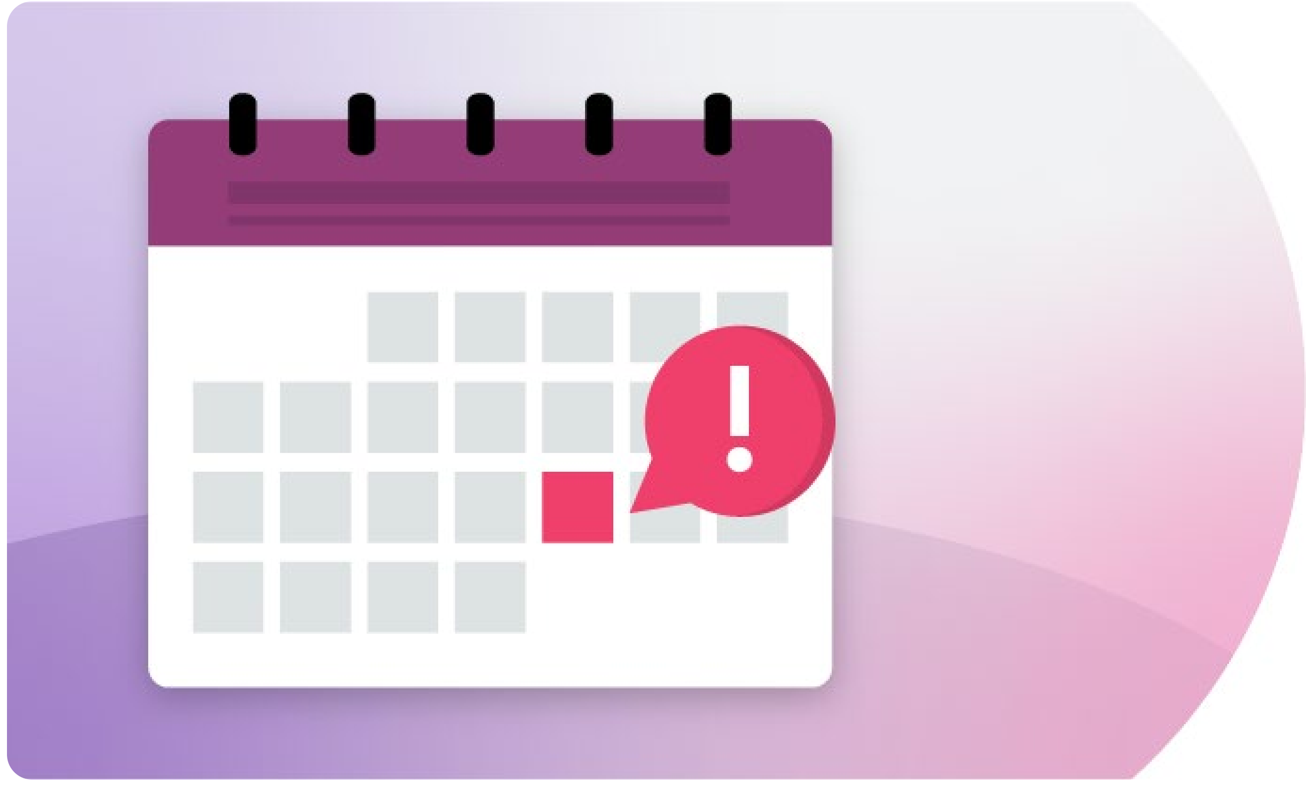
2. Get a secured credit card

A secured credit card is an attractive option for those with limited or poor credit history and have difficulty getting approved for other cards. It is backed by a cash deposit from you, the cardholder.

This deposit becomes your credit limit—e.g. if you deposit $300, your credit limit is $300. This gives you the opportunity to show your creditworthiness, so stay on top of payments, just as you would with any credit card.

Tip: Open a Classic Secured credit card with General Electric Credit Union (GECU) and enjoy no annual fee and free access to your FICO® Score![5]

Another option is to consolidate your credit card debt onto one card. You may get access to a lower rate to keep debt from snowballing. Plus, you won't have to keep track of multiple payments.



3. Pay on time

On-time payments are crucial when it comes to building good credit. Whether you mark a paper calendar or use your phone's calendar app, make sure you know payment due dates. Set up reminders if you have a hard time keeping track.

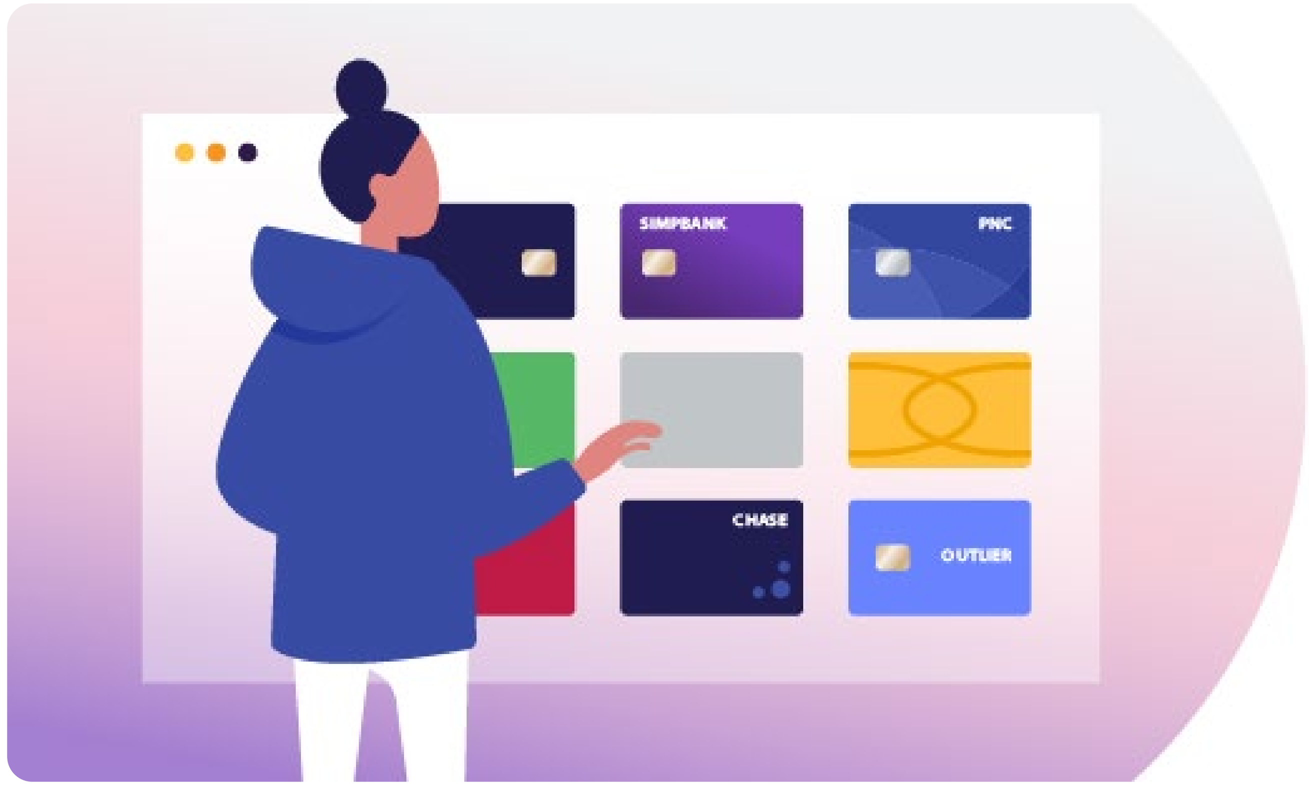
Tip: Pay off your loans with funds from a GECU checking or savings account. Or, stay on top of credit card debt within Online Banking or our mobile app for a fast and easy way to set up payments.

Knowing a payment is coming allows you to plan in advance to ensure enough funds are available. Paying before the due date is

Credit Card Fees: Regular Annual Percentage Rate (APR) applies.

also an option so you don't have to wait until the last minute and potentially risk forgetting.

See if you can set up automatic payments through your bank or credit union's online banking platform or mobile app. This allows you to set it and forget it, but make sure you have the funds in your account when it comes time.

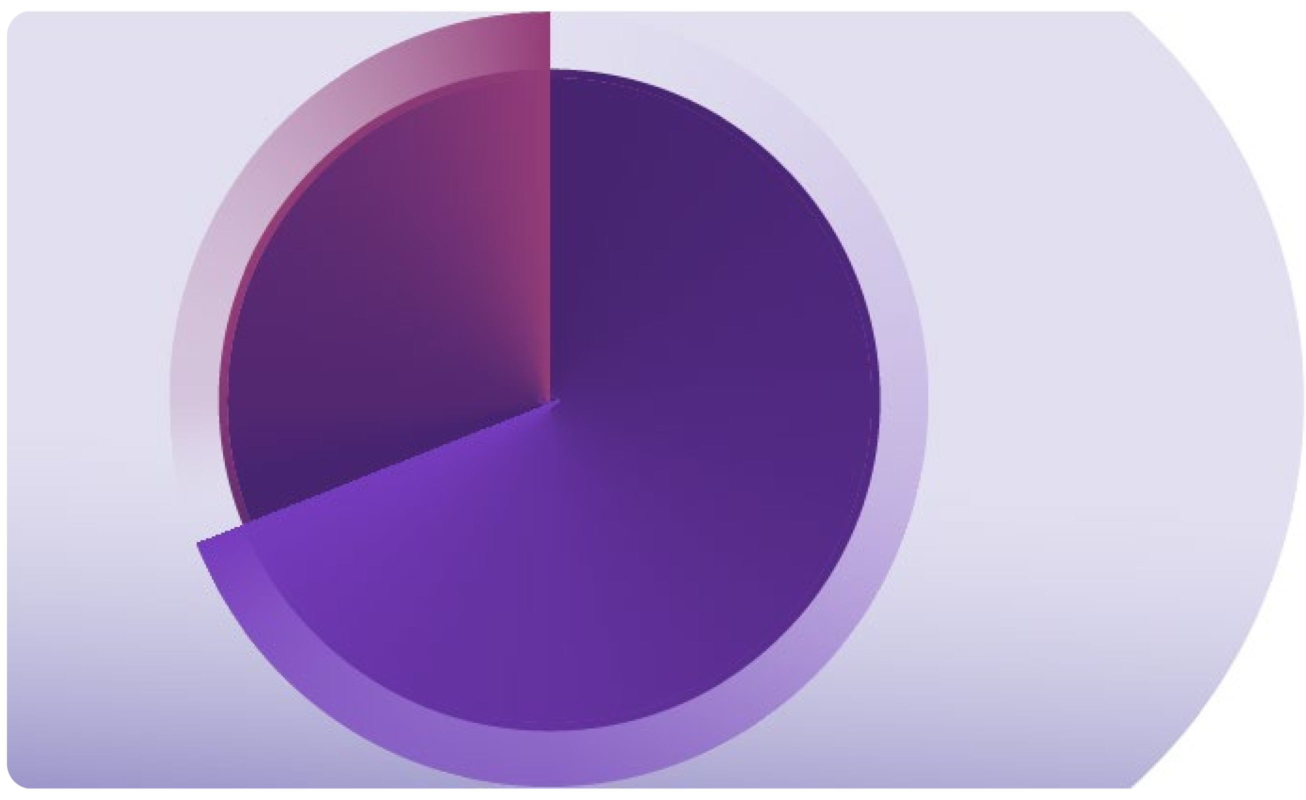


4. Know your utilization rate

Even if you're no longer using a line of credit, you should still keep the account open. Closing it lowers the amount of credit you have available. Because of this, your credit utilization rate—the amount of revolving debt vs. your total credit limit—can change.

Say you have two lines of credit: one is $1,000 and one is $5,000, and you have a balance of $700 between the two of them. Your credit utilization rate would be around 11%. But if you close the $5,000 line of credit because you no longer use it, your credit utilization rate would increase to 70%.

It's important to keep track of your credit utilization rate because it accounts for 30% of your FICO® Score. To calculate this, divide your current balance by the credit limit, then multiply the number by 100 to get a percentage.



5. Know your limits

You may be wondering, what is a good credit utilization rate? A rule of thumb is to stay at or below 30%. This will help you keep credit card payments manageable, especially if you've struggled to do so in the past. It also shows you handle credit responsibly. Adjust your spending habits if your rate is higher to improve your credit score over time.

6. Add utility payments into the mix

Utility companies don't usually report to the three major credit bureaus (Equifax®, Experian™, and TransUnion®). But, this doesn't mean your payment history is invisible to every lender.

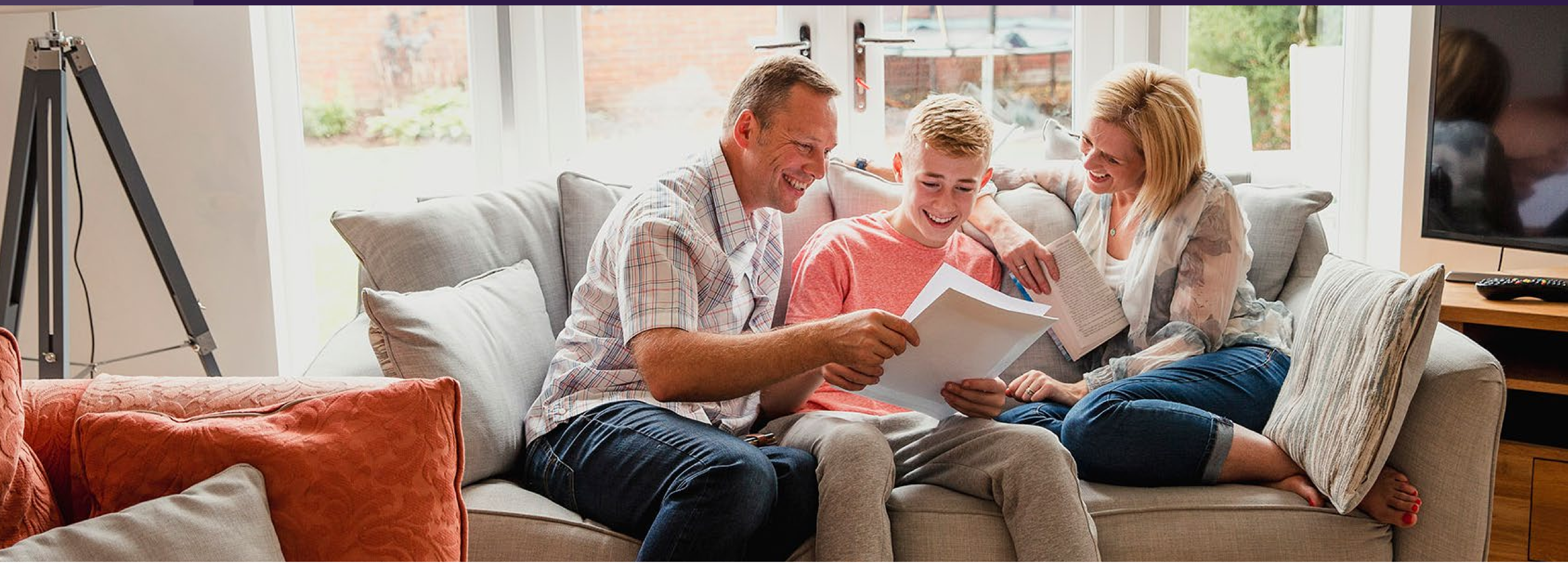
Some lenders use an alternative credit-scoring method and factor in utility and rent payments. The thought process behind this is many people do not have enough borrowing history, and this alternative method will help these individuals generate a score.

If you're always on top of utility and rent payments, you can sign up for services like Experian Boost™ to have them factored into your credit score.

Note: Services such as Experian Boost will only help if the lender you choose pulls credit from Experian.

> "Even if you're no longer using a line of credit, you should still keep the account open. Closing it lowers the amount of credit you have available.

7 Life events and your credit score



Going to college

If you've finished college within the last few years, chances are you're paying off your student loans.

As of 2021, there is nearly $1.7 trillion in student loan debt in the U.S.[6] What you do once you hit the repayment status on your slice of this figure will either have a positive or negative affect on your credit score. Always make your student loan payments on time to avoid hurting your credit score.

To improve your score, it's also important to confirm any positive repayment history is correctly reported, especially if your credit history is sparse. If you find your student loans aren't being reported correctly, you should contact the credit bureau to remedy the issue.

But even when it's there for all to see, a large student loan debt may impact your debt-to-income ratio.

A large student loan debt may especially hurt your chances of getting new credit if you're in a low-paying job, and a prospective creditor feels your budget is stretched too thin to make room for the payments any new credit will require.

Moreover, if your principal balances haven't changed much (and they don't in the early years of loans with long repayment terms) or if they're getting larger (because you've paused your student loan repayments through forbearance and the accruing interest is adding to your outstanding balance), it may look to a prospective lender like you're not making much progress on paying down the debt you already have.

Like many in this same situation, you may have put off buying a house or a car because you're overburdened with student loan debt. So what can you do to improve your situation? Here are some suggestions to consider:

- Pay off your student loan debt as fast as possible. Doing so will reduce your debt-to-income ratio, even if your income doesn't increase.
- If you're struggling to repay your student loans and are considering asking for a forbearance, ask your lender to let you make interest-only payments instead. Your principal balance may not go down, but it won't go up, either.
- Ask your lender about a graduated repayment option. In this arrangement, the term of your student loan remains the same, but your payments are smaller in the beginning years and larger in the later years.

  Lowering your payments in the early years may improve your debt-to-income ratio, and larger payments later may not adversely affect you if your income increases as well.

- If you're really strapped, explore extended or income-sensitive repayment options. Extended repayment options extend the term you have to repay your loans.

  Over the long term, you'll pay a greater amount of interest, but your monthly payments will be smaller, thus improving your debt-to-income ratio. Income-sensitive plans tie your monthly payment to your level of income; the lower your income, the lower your payment.

- If you have several student loans, consider consolidating them through a student loan consolidation program. This won't reduce your total debt, but a larger loan may offer a longer repayment term or a better interest rate. While you'll pay more total interest over the course of a longer term, you'll also lower your monthly payment, which in turn will lower your debt-to-income ratio.
- If you're in default on your student loans, don't ignore them—they aren't going to go away. Student loans generally cannot be discharged even in bankruptcy. Ask your lender about loan rehabilitation programs; successful completion of such programs can remove default status notations on your credit reports.

Getting married

Marital status won't make your credit score go up or down, and you and your future spouse's credit scores will remain separate and be determined by your individual credit factors.

The only exception is for credit factors you share, such as a personal loan you apply for together. Payment history on this account would then affect both of your credit scores.

No matter who is responsible for making payments each month, make sure you are both on the same page about the importance of on-time payments. If you aren't, someone may end up surprised by an unknown late payment and subsequent ding to their credit score. While marrying someone with bad credit won't hurt yours, it is beneficial to check your scores. Doing so can help you identify if one or both of you needs to improve your credit related habits.

While everyone's path looks different, many couples' next step after marriage is to buy a home. In order to do so, you will likely have to secure a home loan. Your mortgage rate, and sometimes even your ability to get a mortgage at all, is tied to your credit score (among other factors).

The lower your credit score, the higher your mortgage rate is likely to be. Over time, the higher rate can add up. Over 20 years on a $244,000 mortgage, someone with a 680 – 699 credit score can pay over $20,000 more in interest than someone with a higher score.[7]

Becoming a parent

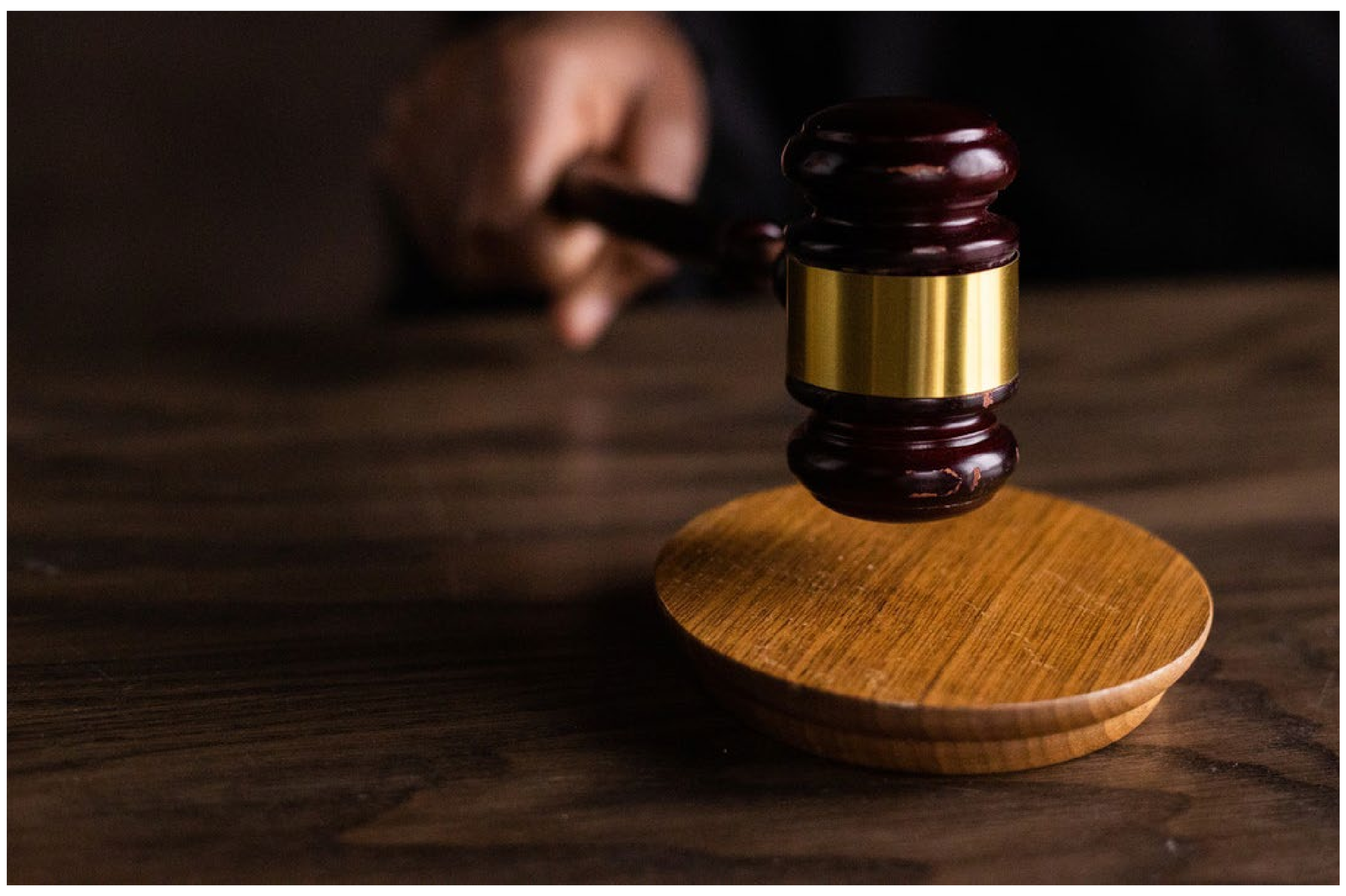
Whether you are currently expecting or the idea of having children is still just a faint blip on your radar, you likely already know raising a child can be expensive (according to the United States Department of Agriculture, the cost is around $233,610).[8] Having a baby doesn't make your credit score fluctuate, but any associated debt will.

In the months before you officially become a parent, work on a family budget so you don't overextend your finances. This may mean budgeting in the monthly price of diapers and nixing weekly visits to your favorite restaurant. You must change your spending behaviors to accommodate for new responsibilities and needs.

If you are considering adoption you should know adoption agencies do look at financial information.

This is done to ensure you can meet the basic needs to raise a child. Agencies may review your income, debts, and potentially even your credit score. Keep in mind this will differ depending on the agency. Some couples fund the adoption process by taking out a personal loan. A good credit score may help you secure a better rate on a loan. If your credit score is an area of concern for you, enlist the tips in this guide before beginning the adoption process.

One in ten couples of child-bearing age face fertility issues.[9] Thankfully, there are options to help these individuals conceive. In Vitro Fertilization (IVF) is a common example. These treatments can come with a steep price tag, which is why some couples choose to finance them through a personal loan. You're more likely to get a loan with a favorable rate and lower monthly payments if your credit is good.



Getting a divorce

As mentioned earlier, marital status does not affect your credit score. However, just like getting married, getting a divorce can have indirect effects on your credit score.

The judge may have ruled for you and your ex-spouse to each pay a certain amount of the balance on a joint credit account. Even if this is the case, an ex-spouse could put off making payments and subsequently affect both of your scores despite the fact they were ruled responsible for the payment.

Refinancing may be beneficial if one party plans to keep the home. This is the process of replacing an existing mortgage with a new one. In a divorce it can also remove the names of parties who no longer have an interest in ownership (AKA the ex-spouse moving out). If you plan to refinance, keep in mind you will be applying for the new mortgage solo and therefore have to depend on your own creditworthiness during the approval process.

Try to establish a relationship of mutual respect with your ex-spouse during the divorce. This will help ensure both of you hold up your end of the deal financially. The average cost of divorce in Ohio is $9,350, including filing fees, attorney fees, and other divorce costs.[10] This significant amount of money may lead to you falling behind on bills or becoming overly dependent on credit cards.

Consider resolving issues through divorce mediation or ask your attorney if payment plans are available to potentially reduce costs.

Child support is required in any divorce involving minor children. If you have to pay child support and fall behind on payments, the municipality or agency collecting the debt reports it to the credit bureaus once it reaches a certain threshold (either an amount or time threshold).

Experiencing the death of a spouse

The death of a loved one is often followed by a period of getting their affairs in order, including their credit report. The credit report belonging to a recently deceased individual is not automatically closed and sealed.

To prompt this step, call the three major credit bureaus to notify them of someone's death. They may ask you for your loved one's legal name, social security number, date of birth and death, and your name and address. Be prepared to send a copy of your loved one's death certificate.

The credit bureaus will then flag your loved one's credit file to indicate they are deceased. Some thieves attempt to steal the identity of deceased individuals, so sealing your loved one's credit report in a timely fashion helps prevent fraud.

In addition to closing the credit report, it's also important to take stock of any debts your loved one had. Typically, a deceased person's estate covers the debt. An estate is simply your collection of assets including personal belongings, real estate, investments, and more.

If the debt is more than the estate can cover, it may go unpaid. There are exceptions to this. If you co-signed the obligation or have a joint account, such as a credit card or loan, you are legally responsible for the debt.

You and your spouse should have conversations about finances so there is a clear picture of any debts you may be responsible for should they pass away unexpectedly. This may spur a desire to budget in monthly payments for any outstanding balances.

Tip: Watch GECU's free on-demand webinar What to Do When a Loved One Passes to learn more.

Credit score tracker

This printable worksheet is a perfect way to brainstorm your credit score goals and strategize ways to get there. Print it out, fill it out, and slap it on your fridge. Seeing it will be a daily reminder of what you're working toward and how you'll get there.

CURRENT CREDIT SCORE	CREDIT SCORE GOAL

TOP THREE PRIORITIES

ACTION STEPS	IMPACT ON SCORE
Set up loan payment reminders	

Financial goals

To motivate you to adopt or maintain good credit habits, it can help to establish your 'why.' Why do you want good credit? What do you hope to achieve with it? Below, fill out your short-, mid-, and long-term goals to identify your top motivators.

Short-term goals	Mid-term goals	Long-term goals
What do I want to achieve **this year**?	What do I want to achieve in the next **five years**?	What do I want to achieve in the next **ten years**?
1.	1.	1.
2.	2.	2.
3.	3.	3.
4.	4.	4.
5.	5.	5.
6.	6.	6.
7.	7.	7.
8.	8.	8.
9.	9.	9.
10.	10.	10.

From Greater Cincinnati's best credit union: *Thank you!*

Whether you're new to the topic of credit or simply needed to brush up on some knowledge, we hope you found this eBook helpful! Here at GECU we strive to *Improve the Quality of Financial Lives* with everything we do.

If you have a thin credit history and want to remedy this, apply for one of our industry-leading credit cards! We have options to fit every lifestyle, including our Classic Secured credit card designed to help you build or rebuild your credit.

And if you ever want to check your FICO® Score, doing so is quick and easy for GECU members enrolled in Online Banking or the mobile app. The best part? It's *free* if you have a qualifying loan or deposit account, including a:

- Consumer loan, such as: Auto, boat, RV, motorcycle
- Credit card
- Personal loan, including the Anytime Line of Credit
- Home loan/mortgage
- Home equity loan or line of credit
- Simply Free, Choice, or Amplified High-Yield Checking

Sources

1. **FICO** is a registered trademark of Fair Isaac Corporation in the United States and other countries. General Electric Credit Union and Fair Isaac are not credit repair organizations as defined under federal or state law, including the Credit Repair Organizations Act. General Electric Credit Union and Fair Isaac do not provide "credit repair" services or advice or assistance regarding "rebuilding" or "improving" your credit record, credit history or credit rating.
2. CNBC Americans Have an Average of 4 Credit Cards—Is That Too Many?
3. Federal Trade Commission Disputing Errors on Credit Reports
4. We provide **Online Banking** and our **mobile app** to you for free; however, message and data rates may apply. Contact your service provider for details.
5. **Classic Secured Card:** Your Annual Percentage Rate (APR) will be 13.49% – 17.49% APR, based on your creditworthiness. The APR may vary (increase or decrease) on a quarterly basis and is determined by adding our margin to the Prime Rate as published in The Wall Street Journal effective for the first day of January, April, July, and October of every year. Full terms and details of this program will be included with your card and can also be found in our Classic Secured Card Terms and Conditions.
6. Forbes Student Loan Debt Statistics In 2021: A Record $1.7 Trillion
7. Forbes How Your Credit Score Affects Your Mortgage Rates
8. USDA The Cost of Raising a Child
9. The Fertility Institute How Common Is Infertility? Your Guide
10. Findlaw How Much Does a Divorce Cost By State?