

Your Finances

Not Understanding Credit Scores Can Cost You

(NAPSA)—Your credit score tells lenders how likely you are to pay back a loan, but, surprisingly, few Americans know theirs. More than one-half of all Americans don't know their credit score, and this lack of knowledge may collectively be costing people billions of dollars a year.

According to a recent survey conducted by Washington Mutual (WaMu) and the Consumer Federation of America (CFA), if all Americans increased their individual credit scores by just 30 points, the total cumulative annual savings would be an astounding \$28 billion. That means the average consumer could save \$105 a year—savings that would come from reduced finance charges, since many financial institutions normally offer lower interest rates to consumers with better scores.

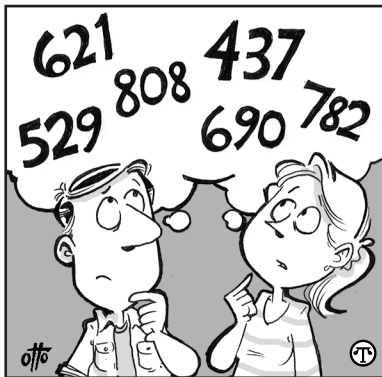
This may, however, be a bit of an uphill climb for many consumers who still don't know enough about credit scores or how the system works.

Maxing Out Lowers Your Score

According to the survey, more than three-quarters of consumers (78 percent) correctly understand that making a monthly payment more than 30 days late lowers your score, but less than three-fifths (59 percent) know that maxing out a credit card by using the entire credit line also lowers scores.

"While there has been some improvement in consumer knowledge of credit scores, there is clearly still a long way to go. The good news is consumers know more about what will affect their scores," said Tony Vuoto, president of Card Services for WaMu.

When people talk about their credit score, they are typically talking about their FICO score, a three-digit number generally ranging from 300 to 850. FICO is an acronym for Fair Isaac Corporation, the inventor of the credit score. Generally speaking, people with a FICO score of around 760 and above are considered



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"prime" and often receive the best credit card and loan offers and rates. A credit score tells lenders how likely you are to pay back a loan. The higher the number, the lower the risk to the lender.

Key Factors That Affect Your Credit Score

By paying attention to a few simple tips, consumers can improve their credit scores and save money:

- Do you pay your bills on time? If you make a monthly payment more than 30 days late, it will lower your score.
- What's the ratio of available credit to credit used? If you are close to maxing out your credit limit, your score drops. Paying off a large credit card balance can raise your score.
- How extensive is your credit history? If you have a long record of good credit, your long payment history has a positive impact on your score. Conversely, it can take years for negative events, like loan delinquencies or a personal bankruptcy, to drop off your credit report.

Factors That Do Not Affect Your Credit Score

There are some things that do not impact your credit score, even though a lot of people think they do. In the recent WaMu/CFA survey, significant percentages of consumers erroneously believe that

credit scores are influenced by income, age, marital status, the state in which they live, level of education and ethnicity.

"Many American consumers fail to understand that their credit score reflects only how they use credit and not such factors as age and income," said Stephen Brobeck, executive director of CFA. **Why Is It Important To Have A Good Credit Score?**

Credit scores are used to determine if you qualify for credit cards, auto loans, mortgages or other financing. And if you do qualify, they influence what interest rate you'll pay. Utilities, landlords and employers also check credit scores. As an example, according to recent data from Fair Isaac's www.myfico.com, a consumer with a FICO score of 760 can get a \$300,000, 30-year fixed mortgage with an APR of 6.19 percent and a monthly payment of \$1,836. But if the consumer had a FICO score between 500 and 579, the same \$300,000 loan would have an APR of about 10.31 percent, which means a monthly payment of \$2,702—or more than a 45 percent increase. In many instances, people with low FICO scores have blemishes on their credit report that may preclude their being offered credit at all.

Regularly check your credit report and make sure there are no errors. Federal law requires the three credit bureaus—Experian, Equifax and TransUnion—to make available to consumers, upon request and at no charge, one credit report per year at www.annualcreditreport.com.

These reports, however, do not include your credit score, which can be purchased for an additional fee. If you're a Washington Mutual credit card or home equity line of credit customer and have signed up for online access to your account, then you can view your TransUnion-derived credit score for free. The bank has been providing this benefit to its credit card customers since 2003.