# Does Your Credit Need Repairing?

*Presented by Joe Lamoglia, ChFC®, Vice President*

Many people had their financial plans derailed in 2020. You or a spouse may have lost a job or been hit with unexpected expenses for medical care, assisting family members, or other reasons. Financial stress may have forced you to make tough choices, such as deciding which bills to pay, scaling back on your savings, or borrowing from a 401(k) account. As a result, you may need to get back on track financially. One of the first areas to tackle should be your credit score.

Even if your finances didn't take a hit during the pandemic, it's wise to keep track of your credit score. A strong credit score forms the basis of a solid financial foundation. It affects your ability to get a job; your access to loans for a car, house, or education; and your ability to qualify for various types of insurance. Can you repair or upgrade your credit score? Yes, but the first step is to understand what your credit score and credit report are based on, as well as how to monitor your credit.

## Understanding Your Credit Score

Here's what you need to know about your credit score:

**Your FICO score.** The FICO score, based on a model created by Fair Isaac Corporation, is the most commonly used scoring system of a person's credit history. Lenders use these scores to evaluate your creditworthiness, which means the probability that you will repay credit cards and loans in a timely manner. A lower FICO score can result in higher interest rates for credit or loans, as well as shorter repayment terms, a requirement for a cosigner, or even outright denial of a loan.

FICO scores range from 300 to 850. Generally, scores greater than 800 are considered excellent, while scores below 640 are considered below average, or subprime. Most lenders use the average score of the three most well-known reporting agencies (Experian, TransUnion, and Equifax).

Your FICO credit score is based on five factors:

1. Payment history (35 percent)
2. Total amount owed compared with available credit, known as credit utilization (30 percent)
3. Length of credit history (15 percent)
4. Types of credit used (10 percent)
5. New credit cards or loans opened and credit inquiries (10 percent)

**Alternative credit scores.** Besides FICO, these recently adopted sources provide alternative credit scores:

- Vantage provides a single score based on the three major reporting agencies but differs from FICO in that it gives varying levels of importance to different parts of your credit report. Most websites that offer free credit scores, such as Credit Karma, use the VantageScore.
- UltraFICO, which is used only by Experian, lets consumers enhance their credit score by linking with their checking, savings, or money market accounts.
- Experian Boost helps consumers improve their FICO score by giving them credit for on-time phone and utility payments. Experian Boost is offered only through Experian.

UltraFICO and Experian Boost are intended primarily for consumers with subprime credit scores, as well as people without enough usage to receive a score. These services are especially helpful to those with borderline credit scores.

## Understanding Your Credit Report

Once you know your credit score, you'll also want to know what went into that three-digit figure—which you can find out by reviewing your credit report.

Credit reports contain a comprehensive record of your credit history, including personal information, account information, and whether you have paid your bills on time. Your credit report also contains information on any accounts that have been sent to a collections agent and whether you've filed for bankruptcy or received a bankruptcy discharge.

**Checking Your Credit Report**

With so much of your financial life based on your credit report, accuracy is important. Unfortunately, the Federal Trade Commission (FTC) estimates one in five consumers has at least one error on their report. That's why it's so important to make checking your credit report a habit. There are several ways to do so:

- Go to AnnualCreditReport.com. Everyone has the right to a free report from each of the three major credit reporting agencies each year.
- Go to Innovis, another reporting agency that provides free credit reports. Although your free report will not include a credit score, it's wise to verify information from this source because companies may use it to check your credit history.
- Go to Credit Karma, NerdWallet, and Bankrate for free access to one or two of the major credit reports, as well as additional services such as credit monitoring and free credit scores.
- Check out organizations such as LifeLock and Identity Guard which, for a fee, provide enhanced credit monitoring and identity theft protection.

**Freezing Your Credit**

Since 2018, consumers have been able to freeze their credit files free of charge. A credit freeze imposes restricted access on credit reports, making it more difficult for identity thieves to open accounts in someone else's name. During a freeze, you can still access your credit history and open new accounts—though you'll have to temporarily lift the freeze to do so.

A freeze won't affect your credit score. But you should be aware that a freeze cannot prevent someone else from making charges to your existing accounts. So, even if you have a credit freeze in place, be sure to keep monitoring your current accounts.

**Repairing Your Credit: 7 Important Steps**

Repairing your credit score will require time, patience, and discipline. Know that there is no quick fix. Instead, work your way through these steps for improving your credit score over time:

1. **Review your credit reports for errors and dispute any inaccurate or missing information.** Be aware that simply checking your credit report or FICO score will have no effect on your credit score. You'll need to take action to dispute incorrect or missing information. The FTC website provides consumer information on how to file and resolve credit disputes.
2. **Pay your bills on time.** Even if you have missed payments, get current with your bills.
3. **Tackle past-due accounts and reduce the amount of debt you owe.** You could start by paying off debts with the smallest balance to the largest (the debt snowball method) or from the highest interest rate to the lowest (the debt avalanche method).
4. **Be cautious when opening new credit cards.** New credit accounts should be opened only on an as-needed basis. Although closing unused credit cards is often seen as a short-term strategy to increase a credit score, you should know that closing an account does not remove it from your credit report.
5. **Consider consumer credit counseling.** A great resource for educational materials and workshops is the U.S. Department of Justice's U.S. Trustee Program, which maintains a list of credit counseling agencies approved to provide pre-bankruptcy advice.
6. **Be wary of credit repair services.** These companies offer to act on behalf of the consumer and negotiate with creditors, but they may also charge unreasonable fees and upfront charges, as well as mislead customers about their ability to fix credit.
7. **Consider bankruptcy only as a last resort.** Filing for bankruptcy can allow people to keep their house, car, and other property. It also has serious consequences, however, including lowering your credit score. If you're exploring bankruptcy, the U.S. Trustee Program maintains a state-by-state list of government-approved organizations that supervise bankruptcy cases and trustees.

**Meeting Your Financial Goals**

Your credit history is an important cornerstone of your financial plan. That's why making a commitment to monitor and manage your credit score and report is so important. Although the process may take time and patience, working to repair your credit is well worth the effort. It's an important part of staying on track to meeting your long-term financial goals.

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