Your Ultimate Guide to Great Credit

How you can build your credit
and improve your financial health

SALARY FINANCE

Introduction

When it comes to your financial life, few things are more important than your credit. A good credit history can help you save money when borrowing what you need for things like buying your first home, purchasing a car, or taking care of unexpected expenses. On the other hand, poor credit can make it difficult to borrow money in the first place, and significantly increase the cost for doing so if you do qualify.

The first step to achieving good credit is deepening your understanding of credit. So where do you start? This guide will provide you with an overview of how credit scores work, why you should care about yours, and all the ins and outs of building a healthy credit history.

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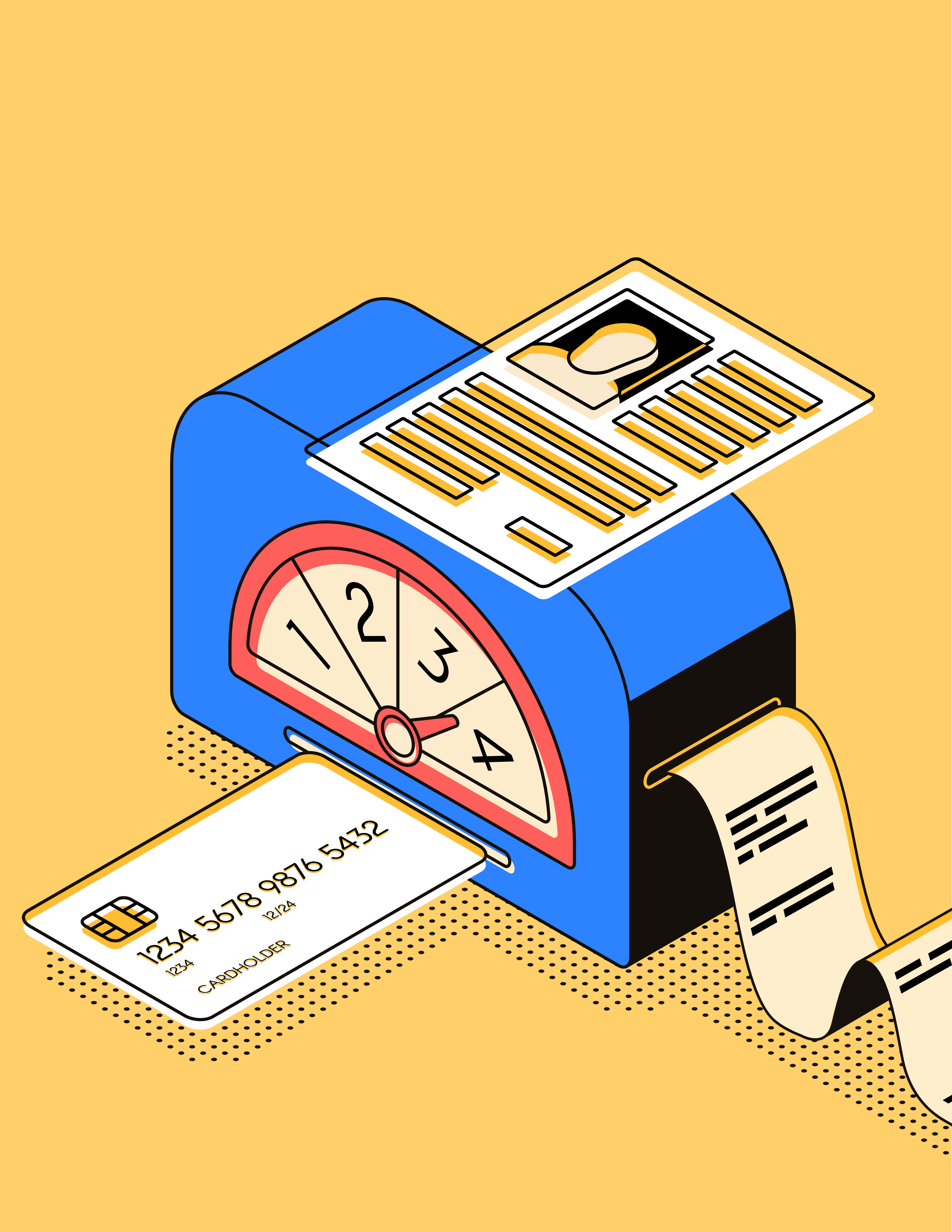
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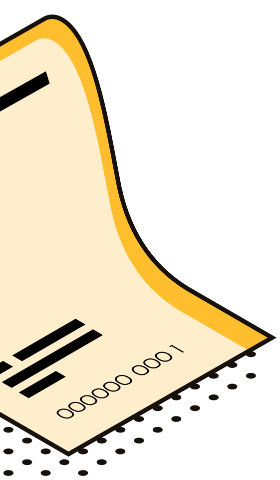
CARDHOLDER

What is a credit score?

Have you ever wondered how a lender decides whether to approve your application for credit? Credit scoring is a system banks and lenders use to help determine whether or not to extend you an offer of credit, and it may also be used to determine the terms or interest rate you are offered.

A credit score is a 3-digit number that is designed to give lenders a sense of how you have managed credit in the past, and how likely you are to repay debt. It takes into account information about you and your credit history, like whether you have consistently paid bills on time, the number and type of accounts you have, the length of your credit history, and more. Higher scores are more positive, and mean you have demonstrated responsible credit behavior in the past, which may give lenders more confidence in your ability to manage new credit.



Credit score ranges

Both FICO® and VantageScore® credit scoring models use a credit range of 300 to 850. While lenders set their own standards for what counts as an acceptable score, here's how Equifax generally defines credit score ranges:

300-579: Poor

580-669: Fair

670-739: Good

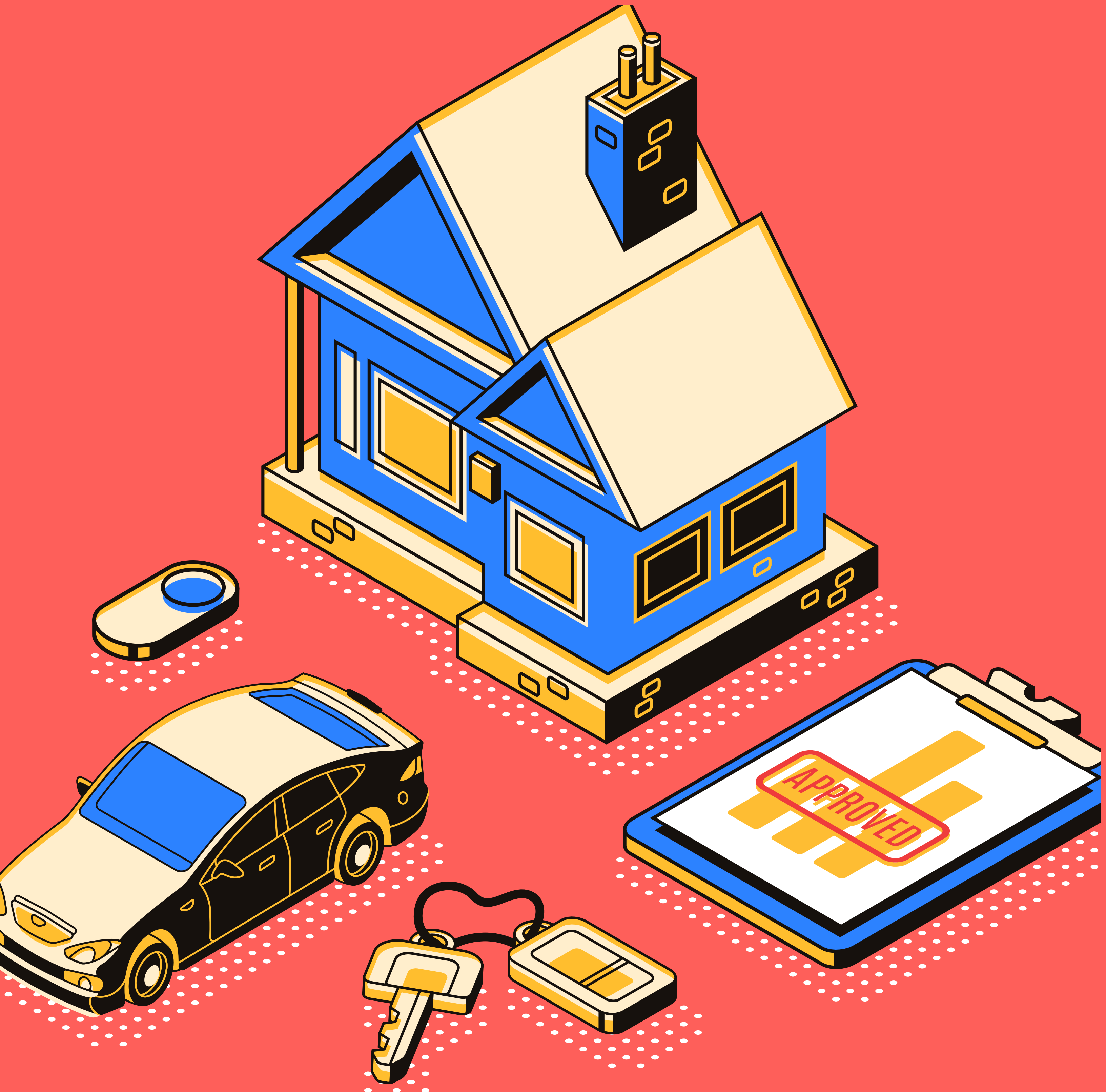
740-799: Very Good

800-850: Excellent

Where the information comes from

The information used to determine your credit score is stored by credit reporting agencies, also known as credit bureaus. The three main credit reporting agencies in the United States are Experian, TransUnion, and Equifax. These companies use records of credit usage to produce your credit score. At Salary Finance, Equifax is the agency we reference when employees apply for a Salary Finance loan, and we report repayments to both Equifax and Experian.

Lenders are not required to report credit information to credit reporting agencies, but they choose to do so because the information helps them make better decisions about risk. It's important to note that consumers do not have to give lenders permission to do this.

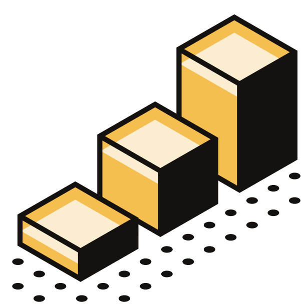

APPROVED

The value of good credit

Your credit score is one of the most influential aspects of your financial life. A good credit score can significantly reduce the cost of borrowing money over your lifetime and put you in a better position to accomplish goals like buying a home, paying for education, or starting a business.

Lenders use credit scores to decide whether to approve you for a loan or credit card and to determine what interest rate to give you. Companies may also use your credit scores to determine whether to rent to you, offer you a job, or to determine how much to charge you for insurance.

Here's a look at some of the ways in which your credit score can affect your life:



Mortgages

Your credit score will affect the amount you pay when buying a home. The higher your credit score, the lower your mortgage average percentage rate (APR) - and that can make a big difference.

According to myFICO, those with a “Fair” credit score of 620 will likely receive an APR around 6% for a 30-year fixed loan, while those with an excellent credit score of 760 or above would receive an APR of about 4.39%. If you wanted to borrow $100,000, and had a credit score of 620, using the interest rates above, you would pay $115,000 in total interest. However, if your credit score was 760 in the scenario above, your total interest would be about $80,000 - saving you about $35,000 over the life of the mortgage.

Even if you’re a renter and have no plans to buy a home, your credit score is important. Many landlords will run a credit check to make a decision on your rental application.

Credit cards

Your credit score will also impact what interest rate you pay on credit cards, or if you’re able to get one at all. Credit card companies will typically promote a range of average percentage rates (APRs) that are offered with the card, based on your credit-worthiness. The better your credit score, the lower the interest rate you could recieve. You also may be eligible for 0% APR balance transfer card, which can help you pay down credit card debt much faster.

Many credit card companies also provide rewards such as introductory offers and points, airline miles, or cash back - reserving the best rewards for those with good or excellent credit. These rewards can have a cash value equivalent of hundreds or thousands of dollars.

Loans

Similarly, when you apply for a loan - whether it be a student loan, personal loan, or auto loan - a good credit score can unlock low interest rates.

Student loans

While many federal student loans, including Stafford and Perkins loans, are not based on credit history, private education lenders will consider your credit score when making decisions about your application, and the terms of your loan. Finaid has resources to help you compare private loan options.

If you have stable finances and a good credit score, you may be eligible to refinance existing student loans. Refinancing your student loans can potentially save you tens of thousands over the life of the loan, and help you pay off your debt faster.

Auto loans

According to Experian, new car loans for people with excellent credit - around 780 or higher - will typically carry APRs around 3.23%. For those with scores between 501 and 600, APRs can get up to 11.35% or higher - costing you more money each month.

Personal loans

Like student and auto loans, the interest rate you pay on a personal loan will depend on your credit score. If your credit score is below a certain threshold, you may not qualify for a personal loan, depending on the lender's application criteria. As a result, you could find yourself reliant on high-interest credit cards or payday loans if you experience a financial shock you cannot afford.

Other ways your credit score impacts your life:

Utilities

It may surprise you to know that many utilities companies check your credit before starting services. Cable, telephone, water, even cell phone service providers may check your credit.

Employment applications

An employer may check your credit report before offering you a job to see how you've managed money in the past, and look out for any negative patterns – particularly for jobs that require handling money.

Small business loans

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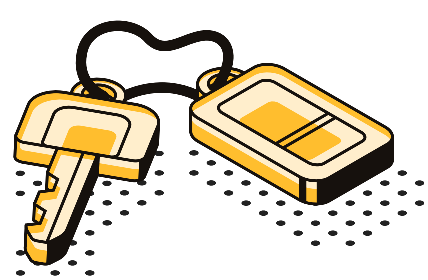
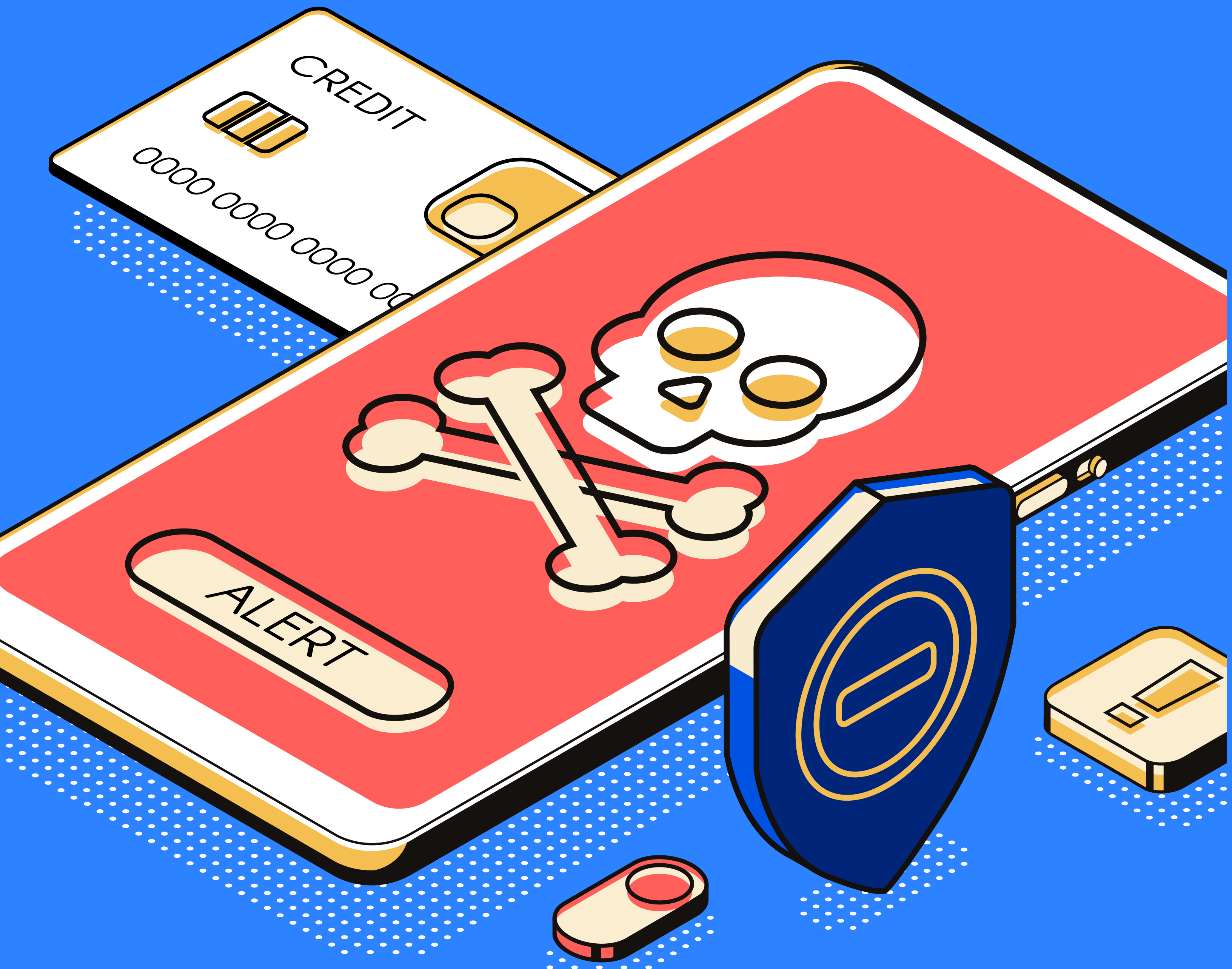



CREDIT
ALERT

What affects your credit score

Your credit score is determined by several factors that paint a picture of how you've managed credit in the past. Understanding what affects your credit score can help you build up your credit, or protect it, so that you can use your score as a tool to help achieve your financial goals.

The two major scoring companies in the United States, FICO® and VantageScore®, slightly differ in how they calculate your score, but they agree on the two factors that are most important: payment history and credit utilization.

Here's a breakdown of what influences your credit score:

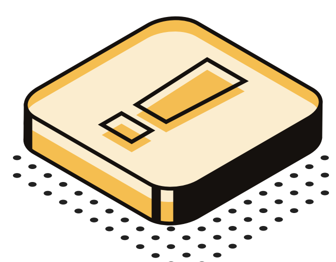
1. Your bill payment history
2. Your credit utilization
3. Your credit history length
4. Types of credit on your report
5. Number of credit inquiries
6. Negative marks on your credit report

1. Your bill payment history

One of the most important parts of your credit report is your payment history -- basically, whether you've consistently paid bills and other financial obligations on time. Lenders want to be sure that you will pay back your debt on time when they are considering you for new credit. Your payment history accounts for about 30-40% of your credit score, depending on whether the FICO or VantageScore credit scoring model is used.

2. Your credit utilization

Your credit utilization ratio is calculated by dividing the total revolving credit you are currently using by the total of all your revolving credit limits. In other words, it's how much you currently owe on credit cards and other lines of credit, divided by your total credit limit. Lenders look to see how much available credit you're using to get a sense of how reliant you are on credit. General guidance is to aim for a credit utilization ratio at or below 30% -- the lower the better -- for a better score.



3.

Your credit history length

This includes the age of your oldest credit account, the age of your newest credit account, the last time you've used each account, and the average age of all your accounts. A longer credit history generally reflects positively on your credit score, however, you still need to actively use those accounts for this to have an impact.

4.

Types of credit on your report

Having a variety of types of credit accounts, such as a car loan, credit card, student loan, mortgage, or other credit products, is generally seen as positive as well. Lenders typically like to see how well you manage a wide range of credit products.

5.

Number of credit inquiries

Each time you submit an application that requires a credit check, an inquiry is placed on your credit report. One or two inquiries won't hurt your credit score too much, but several inquiries in a short period of time can negatively affect your score. The good news is that, in general, credit inquiries have a small impact on your credit score, and for most people one additional credit inquiry will take less than five points off your FICO score. It's important to note that checking your own credit score is considered a "soft inquiry", and will not impact your score.

Keep in mind, there are two types of credit inquiries: a hard inquiry (also referred to as a "hard pull") and a soft inquiry ("soft pull"). A hard inquiry is a credit information request that includes a borrower's full credit report, typically used for a background check or credit approval. Hard inquiries result in a deduction of points from your credit score, as they usually are linked to an application for new credit. A soft inquiry occurs when you check your own credit report, or give permission to someone like an employer to review your report. They also may occur if a lender or credit card company checks your credit to pre-approve you for offers. Soft inquiries will not affect your credit score.

6.

Negative marks on your credit report

Negative marks on your credit - often referred to as "derogatory marks" are items such as collections, bankruptcy, and foreclosure. These items will typically stay on your credit report for seven years, and significantly damage your credit.

Common negative marks include:

Missed payments:

If you are over 30 days late to make a payment, you should expect a mark on your credit record. Missed payments typically stay on your credit report for seven years, and the later the payment, the greater the damage to your credit scores.

Repossession:

If you miss payments on an item, such as a car, the lender may physically take it back. A repossession will stay on your credit report for seven years.

Collections:

If a lender does not receive a payment they may send or sell the debt to a debt collection agency. Having an account in collections stays on your credit report for seven years, sometimes even after you have paid it off.

Bankruptcy:

A personal bankruptcy will stay on your credit report for a period of time, depending on the type. A Chapter 7 bankruptcy will stay on your report for ten years, and a Chapter 13 bankruptcy will stay on your report for about seven years.

Foreclosure:

If you fail to make payments on your mortgage and the bank seizes it, a foreclosure will be reported. Foreclosures stay on your credit report for seven years.

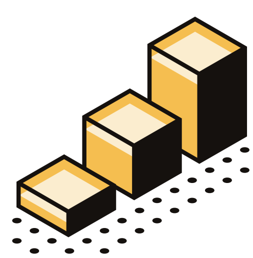
While improving your credit score when you have one or more negative marks on your report may seem overwhelming, consistently making payments on-time and paying attention to your credit utilization ratio can make a big difference.

How to improve your credit score

Your credit score is an important part of your financial health. If your credit history is not where you want it to be, you're not alone, and while improving your score takes time, your future self will thank you.

Here are some steps you can take to improve your credit score:

1. Check your credit reports
2. Pay your bills on time, every time
3. Pay off debt and keep an eye on your credit
4. Think twice before closing credit cards
5. Be mindful when applying for new credit accounts



1. Check your credit reports

You may find it surprising to learn that you don't have just one credit score. While you can't control which credit score a lender will use to assess your application, you can view your credit reports to understand your credit health and identify potential fraud or errors.

You can check your credit reports from Equifax, Experian, and TransUnion for free at AnnualCreditReport.com once a year, and federal law lets you dispute any mistakes with the appropriate credit reporting agency.

2. Pay your bills on time, every time

Your payment history is one of the most important factors in determining your credit score, so one of the best ways you can positively influence your score is to pay all bills on time or early each month. Late payments, or settling an account for less than what you originally agreed to pay, will negatively impact your scores.

Consider setting up automatic payments or calendar reminders to ensure you are making payments on time, and not just on credit cards and loans: late payments on student debt, utility bills, rent, phone bills, and even tolls can all negatively affect your credit score. At Salary Finance, we take repayments on payday so you have peace of mind that you won't miss a payment.

3. Pay off debt and keep an eye on your credit utilization rate

Credit utilization ratio (essentially how much you owe on credit lines, divided by your credit limit) is another very important part of your credit score. A general rule of thumb for healthy credit score is to keep your credit utilization ratio at or below 30% – this gives lenders confidence that you haven't maxed out your credit cards, and that you most likely know how to manage credit well.

If you have existing debt, focus on creating a realistic debt payoff plan and limit additional card usage wherever possible. If at all possible, find it in your budget to make at least the minimum payment each month to avoid further damage to your credit score.

4. Think twice before closing credit cards

Closing a credit card account may increase your credit utilization ratio if you end up owing the same amount but on fewer accounts. Because of this, you should consider keeping your account open, even if your use is limited, as long as it is not costing you extra in annual fees.

5.

Be mindful when applying for new credit accounts

While having a mix of credit types is a factor in your credit score, it doesn't always make sense to apply for new accounts. If you don't need additional credit, applying for it in an attempt to improve your score could lead to the opposite due to additional hard inquiries or tempting you to overspend and get into more debt.

Keep in mind:

Most negative marks on your credit score - such as missed payments and collections - can stay on your credit report for up to seven years. While negative marks can seriously lower your score, the good news is that their impact diminishes over time.

If you have a limited credit history, you may have no score at all. If you check your score and realize you fall into this category, continue reading the section below.

How to establish a credit score

According to the Consumer Financial Protection Bureau, roughly 45 million American consumers may be denied credit because they have a limited credit history. It's a Catch-22 - you need a history of managing credit in order to have a credit score, yet it can be difficult to access credit without one.

Those without a credit history often face higher costs for borrowing money, and may experience barriers to housing and employment. If you find yourself in this position, there are several options you may want to consider, depending on your personal circumstances. Here's an overview of how you can build up credit without an existing credit history:

How to build up credit:

1. Check to see if you have a credit score
2. Apply for a secured credit card
3. Consider a co-signer
4. Become an authorized user on a credit card
5. Get your rent payments added to your credit report
6. Developing healthy credit

1.

Check to see if you have a credit score

If you think you may already have a credit history, you can check your credit scores for free at AnnualCreditReport.com. This will help you get a baseline of where you are, and how to start building your credit. Keep in mind that you typically need to have at least one account open for a period of time before it can be used to calculate your credit score.
You may not realize that there is more than one credit score, here are the differences.

You may want to consider a signing up for a credit monitoring service to track your credit score over time. Keep in mind that some of these services charge fees, depending on the service level.

2.

Your credit utilization

Apply for a secured credit card are a great option for those without a credit score to start building up credit. Secured credit cards are different from traditional credit cards – they are “secured” because they require a cash deposit that serves as collateral to lower the credit card company’s risk if you miss a payment. In some cases, the deposit will also serve as your credit limit.

Credit card companies that offer secured cards usually report your payment history to the three major credit bureaus (Equifax, Experian, and TransUnion), which can lift your credit score, so long as you are making regular payments.

3. Consider a co-signer

If you find yourself in need of a loan in the near-term but have a limited credit history, you may want to consider asking a family member or close friend to co-sign. Having a co-signer generally lowers a lender's risk, because it holds another person accountable to pay back the loan in the event that you cannot. That's why it can typically help you get a loan or credit card, even if you have little to no credit history.

You will want to make sure that your co-signer has healthy credit before submitting your application, so that you can avoid being denied or paying high-interest rates.

Important note: Salary Finance does not allow co-signers for employee loans at this time, however, our underwriting model does allow us to approve people without credit scores in some cases.

4. Become an authorized user on a credit card

Becoming an authorized user on a family member, significant other, or close friend's credit card account is a simple tactic that may help you build credit. If you're added as an authorized user, in many cases, the activity on the account will be added to your own credit reports. However, this method isn't guaranteed to work, as not all credit card companies will report the activity of an authorized user this way, so make sure that they do report the activity before you get added.

Keep in mind, you'll only want to be added as an authorized user if the account is in good standing, and the credit utilization rate is relatively low to avoid having it count against your credit score.

5.

Get your rent payments added to your credit report

While mortgage payments nearly always get reflected on your credit report, rental payments rarely do. While you can't report rental payments yourself, there are many rental reporting services that can facilitate this for you - ranging in cost from free to around $100 a year.

Keep in mind that not all of these services report to all three major credit reporting agencies, and you may need information from your landlord in order to get set up.

6.

Developing healthy credit

While the steps above are a great way to start building credit, they are just the beginning of the path to a strong credit score. If you want to see your credit score continue to rise, focus on making on-time payments and keeping your credit utilization low.

How to check your credit reports and scores

Whether you're looking to build, improve, or maintain your credit score, having a sense of where you currently stand is a good place to start. So how exactly can you do that? Here are a few ways you can check your credit reports and scores to get a better picture of your credit health.

How to check your credit reports:

Request a free report from AnnualCreditReport.com.

Federal law requires each of the three main credit reporting agencies to provide you a free credit report every 12 months if you ask for it. You can visit AnnualCreditReport.com or call 1-877-322-8228 to request a free copy of your credit report.

According the the Consumer Financial Protection Bureau, you can request additional reports if you fall into one of the following categories:

You received a notice that you were denied credit, insurance, or employment or experienced another "adverse action" based on a credit report, you have a right to a free report from the credit reporting company identified in the notice. To get the free report you must request it within 60 days after you receive the notice. Other types of "adverse action" notices you might receive include notice of an unfavorable change in the terms or amount of your credit or insurance coverage, or unfavorable changes in the terms of your employment or of a license or other government benefit.

You believe your file is inaccurate due to fraud.

You have requested a credit report from a nationwide credit reporting company in connection with the placing of an initial fraud alert (you may request two free copies for an extended fraud alert).

- You are unemployed and intend to apply for employment within 60 days from the date of your request.
- You are a recipient of public welfare assistance.
- Your state law provides for a free credit report.

Through April 2021, Equifax, Experian, and TransUnion are all offering free weekly credit reports to help your protect your credit during COVID-19.

Contrary to popular belief, your credit report typically does not include your credit score. While this will give you a good understanding of your credit situation and is the basis from which your scores are calculated, to see your actual score, follow the instructions below.

How to check your credit scores:

Use a credit score service or free credit scoring site.

There are several sites that allow you to monitor your credit score on a regular basis, either for free or for a monthly fee. Be sure to pay attention to the terms and conditions before signing up.

Get your credit scores directly from a credit reporting agency.

You can purchase your scores directly from one of the three major credit reporting agencies (Equifax, Experian, or TransUnion), or another provider, such as FICO.

Check your credit card or loan provider.

Some credit card companies and lenders provide their customers with free access to their credit scores, either through their monthly statement or online banking tools. Check your account or contact your lender to see if this option is available. Please note: Salary Finance does not provide this service at this time -- but it's coming soon!

Contact a nonprofit credit counselor.

Many credit counselors are able to pull scores for you for free and walk through what they mean. A credit counselor is a certified professional who can review your financial challenges and goals, and help you put together an actionable plan to conquer debt, make a budget, and improve your overall financial health.
The National Foundation for Credit Counseling has resources available to help connect you with a credit counselor.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ERROR

How to dispute an error in your credit report

Your credit report includes information about where you live, how you manage credit, and even whether or not you have been sued or arrested. According to a study by the Federal Trade Commission, five percent of consumers had errors on one of their three major credit reports that could lead to them paying more for things such as auto loans and insurance.

Federal law requires both the credit reporting company and the information provider (the person, company, or organization that provides information to a credit reporting company) to correct inaccurate or incomplete information in your report.

Steps:

1. Review your credit report
2. Look for information to support your claim
3. Dispute error
4. Receive and review response

Step 1:

Review your credit report

Vsit AnnualCreditReport.com or call 1-877-322-8228 to request a free copy of your credit report from all three major credit reporting agencies. There may be small differences among your reports, because some creditors don't report your account activity to all three bureaus. If you notice an error on one report, it may or not appear on the other two, so it's important to review all three reports.

While you're reviewing your reports, you will want to keep an eye out for information that could damage your scores, or suggest identify theft, such as:

- **An incorrect account status, such as a payment being reported late**
- **Negative marks that are too old to be reported - most must to be removed after seven years**
- **Accounts that do not belong to you**
- **Incorrect credit balances or limits**
- **An ex-spouse incorrectly included on a loan or credit card**

If you find any suspicious information that you think could be a sign of identity theft, check with the source of the information - such as a bank or creditor - to learn more. If you've been victimized, follow the Federal Trade Commission's steps to report identity theft.

Step 2:

Look for information to support your claim

If you've identified one or more errors, begin to gather information you could provide the credit reporting agency or information provider that disproves it. The information will depend on the error, but may include bank statements, loan documents, or a divorce certificate. The goal of this step will be to compile information that will make it quick and easy to validate your complaint.

If you've reported identity theft, make a copy of your Federal Trade Commission complaint or police report to include. There is no cost to dispute, and you can dispute as many items as you like.

Step 3:

Dispute error

Equifax, Experian, and TransUnion all have the option to dispute an error online or through mail. You may also call the credit reporting agencies, however, you may not be able to finalize the dispute over the phone. Here's the contact information for each agency:

Equifax

Use the Equifax online portal.

Write to Equifax, P.O. Box 740256, Atlanta, GA 30374-0256.

Call 866-349-5191 and follow the prompts to speak to an agent.

Experian

Use the Experian online dispute form.

Write to Experian National Consumer Assistance Center, P.O. Box 4500, Allen, TX 75013.

Call 866-200-6020 to see if your dispute can be resolved by phone.

TransUnion

Use the TransUnion dispute online help page.

Write to TransUnion LLC, Consumer Dispute Center, P.O. Box 2000, Chester, PA 19016.

Call 866-200-6020 to see if your dispute can be resolved by phone.

See this guide on how to dispute your TransUnion credit report for details.

When submitting your dispute, be prepared to include copies of the documents supporting your case, as well as proof of identity.

Step 4:

Receive and review response

Once you submit a dispute, the credit reporting agency must investigate it and then tell you the outcome in writing. Under most circumstances, they have to respond within 30 days.

If the credit reporting agency agrees that it's an error, they will remove it and send a new copy of the credit report. You have the option to request that the credit reporting agency communicate the correction to anyone who received it within the past six months, or two years, in the case of an employer.

The credit reporting agency or information provider may disagree with your dispute and choose not to remove the information. If you're sure the item on your report is incorrect, contact the Consumer Financial Protection Bureau, a government regulatory agency that oversees federal financial laws that protect consumers. Explain what you're disputing and provide copies of your proof. The CFPB will investigate it, and you can follow progress with the email updates it sends or by logging in to the website.

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