CREDIT UNVEILED: FROM FICO TO BUSINESS

Your Guide to the Credit World

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Credit Unveiled: From FICO to Business, Your Guide to the Credit World

The concept of credit scores are so pervasive in our society that it's easy to forget that this system didn't always exist. The use of credit scores began in the mid-1800s and has been updated many times since then, evolving with the times. Below are just some of the ways that credit scoring has changed over the years.

Early 1800 Credit Scoring

Before the early 1800s, most people acquired or built homes using their own funds rather than borrowing money, in contrast to today. Throughout early American history, credit was primarily extended to businesses and companies rather than individuals. As commerce grew in the United States, it became increasingly important for business owners to access capital to cover expenses for supplies and materials before they could sell their products for profit. Credit was provided based on a wide range of factors, with little consistency between lenders.

In 1841, the Mercantile Agency emerged as the first organization to recognize the need for a rudimentary credit scoring system. They collected information from various sources across the country to assess the character and assets of potential borrowers. However, this early system proved inadequate, as it often included information such as a borrower's class, gender, or race. This class-based decision-making could have been more truly beneficial to the lending process, but eliminating discrimination and subjective value judgments from the lending process was essential for the long-term success of such a system.

The Mercantile Agency, which later changed its name to R.G. Dun & Co. and its competitor Bradstreet Company, sought to develop a more straightforward method of gathering data. The two companies eventually joined forces, forming Dun & Bradstreet. This partnership merged their respective data and created a simple, numeric-based system for evaluating an individual's creditworthiness, paving the way for today's modern credit scoring systems.

Into the 1900s

During the mid-1900s, credit started shifting towards a more consumer-focused approach. As the middle class emerged and sought to buy homes and build long-term wealth, access to credit became increasingly important for individuals.

Retail Credit Company was among the first organizations to evaluate consumer data. They gathered information on millions of individuals, covering aspects such as political views and social lives, and even attempted to collect more personal data. However, recognizing the intrusive nature of this practice, the government prohibited the organization from collecting and using this data.

In 1950, engineer Bill Fair and mathematician Earl Isaac collaborated to develop an automated credit scoring method. Initially, the system was challenging, but they continued refining it. With the help of technology, they created a more reliable method for predicting borrower risk. In 1958 they started selling the system that eventually evolved into what is known today as the FICO scoring system, a widely used and trusted method for assessing creditworthiness.

The Evolving Landscape of Credit Reporting Laws

In the past, consumer credit information was considered personal, and the government sought ways to protect it while ensuring the accuracy of shared data. In 1970, the Fair Credit Reporting Act went into effect, mandating that credit reporting agencies, including Retail Credit Company, make their files publicly accessible and remove non-credit-related data such as disability, race, and sexual context. The law also required agencies to remove negative information after a specified period.

While the new law put pressure on Retail Credit Company and tarnished its reputation due to public backlash against the nature of the information it collected and reported, the company persisted. To revamp its image, it changed its name to Equifax in 1975.

Equifax soon faced competition from other credit bureaus, specifically TransUnion and Experian. Experian, the youngest of the three, acquired TRW Information Services, one of the largest credit bureaus. It was so prevalent that during the 1970s and 1980s, lenders commonly referred to checking credit reports as "pulling the TRW."

TransUnion, originally a railroad car leasing company, entered the credit reporting industry by acquiring a credit bureau in 1969. This bureau initially stored consumer data on index cards, a standard practice at the time. It managed the records of 3.6 million individuals using 400 filing cabinets filled with index cards.

Today, Equifax, Experian, and TransUnion operate as the primary credit reporting agencies in the U.S., handling the vast majority of credit reporting efforts for American consumers.

The Emergence of FICO Scores

Even though the three leading credit reporting agencies had been established, it was still a challenge to translate the available data into an understandable risk profile. In other words, while the data showed how consumers utilized credit, it didn't provide a straightforward method for determining whether a person was a good or bad credit risk – the essential information lenders sought.

Fair, Isaac, and Company, founded in the 1950s, collaborated with credit reporting agencies to develop a credit-scoring algorithm to simplify evaluating consumers. Today, this company is known as FICO; over time, it has established the FICO Score. The original FICO score methodology was highly effective and closely resembles the current methods still used by agencies today.

FICO Scores are employed by approximately 90% of major lenders in the U.S. to assess the creditworthiness of individuals. The FICO Score has proven to be a reliable indicator of a consumer's likelihood of repaying their loan on time, providing clear and accurate information for lenders to consider when deciding whether to extend credit to someone.

The 4 most common types of credit

Anyone who borrows money is acquiring "credit" of some kind. There are many kinds of credit, but the four most common include the following:

1. Installment loans

Installment Credit: Installment credit has been around for hundreds of years. It has four key characteristics: periodic payments, a fixed amount of credit granted to the borrower in a lump sum, a specific amount of time before the entire amount must be repaid, and the inclusion of interest. Interest is the grantor's fee for lending the money. A typical example of installment credit is an auto loan in which the borrower is lent X amount of money at a fixed or variable interest rate. A common payback period for auto loans is 60 months, or five years, with payments due on a set day each month. Home mortgages are another well-known form of installment credit.

2 Revolving charge accounts

Revolving Credit: This is one of the most common credit types because it includes most credit cards, like Visa, Mastercard, and Discover. Often incorrectly called "charge cards," these plastic forms of money allow users to borrow as much as they desire, up to a preset limit. There is a minimum payment each month, but the entire balance need not be paid off. Whatever amount of unpaid credit remains at the end of the period is rolled over to the next month. The term "revolving credit" was coined nearly a century ago to describe this common form of credit.

3. Traditional charge accounts

Charge Card Credit: Charge cards predate revolving credit, although they are still relatively new. Unlike a revolving credit card, the entire balance on a charge card must be paid off

each month. Often, the cards don't have a preset limit. Instead of interest, charge card companies profit from annual fees paid by cardholders and the companies that accept them. One of the world's most widely used charge cards is American Express.

4. Service agreements.

1. Service Credit: While many credit grantors do not report your activity to the major credit reporting agencies, service contracts are extremely common in most developed nations. Users who pay monthly charges toward ongoing contractual agreements such as health centers or gyms, utility companies, cable TV providers, and phone service providers are using a form of service credit. In most cases, service credit payments are monthly although they can be set up on any recurring basis.

2. Technically, any borrowed money constitutes credit for the person who borrowed it. Most people are familiar with mortgages, car loans, and credit cards. Over 70 percent of U.S. adults hold charge cards of one kind or another.

Most U.S. adults have at least one or two types of credit. Many have three or all four kinds. Homeowners, especially, tend to have not only their mortgage and one or more car loans (installment credit) but also credit cards (revolving credit) as well as utility accounts and social club memberships (service credit). If they also have a charge card whose balance must be paid off monthly, then they have all four kinds of major credit.

Credit grantors, like banks and credit card companies like Visa and MasterCard, report your activity to the major credit bureaus, who then use that information to create a score. Prospective employers and other credit grantors use this all-important metric to determine whether to hire you for a job or grant you more credit. One prime example of the power of credit scores is how home-loan applicants are evaluated. High credit scores mean quick loan approval, low-interest rates, and other favorable terms. A low credit score, in contrast, can mean denial of the loan or approval with high-interest rates and less favorable terms, like a shorter payback period and potentially higher penalties for late payments.

Human Impact of Bad Credit

It doesn't take a finance expert to tell you that bad credit is something you want to avoid. But the true costs of bad credit aren't always obvious. Yes, results like higher interest rates are easy to see. However, there's a whole other side to living with bad credit that most people don't even notice. There are things that people with good credit take for granted which are impossible for people with bad credit to achieve. Only when these missed opportunities are considered can one begin to grasp the true impact of bad credit.

Financial Impacts

As stated, a poor credit score makes living a financially sound life harder. High-interest payments mean that it costs more to do the same things as people with good credit. While someone with a good credit score might pay $300 for a car over five years,with someone a bad credit score might pay $500 monthly for six years.

To illustrate the difference associated with the provided example, let's assume a person is purchasing a car with a total cost of $X. Let's compare the total amount paid over the loan period for a person with a good credit score versus a person with a bad credit score.

1. Good credit score:

- Monthly payment: $300
- Loan term: 5 years (60 months)

Total amount paid: $300 (monthly payment) * 60 (months) = $18,000

2. Bad credit score:

- Monthly payment: $500
- Loan term: 6 years (72 months)

Total amount paid: $500 (monthly payment) * 72 (months) = $36,000
In this example, the person with a bad credit score would end up paying $18,000 more for the same car – literally twice as much – over the loan period compared to the person with a good credit score. This increased cost is due to the higher interest rates charged to individuals with poor credit, reflecting the increased risk to the lender.

The same is true regarding mortgages; borrowers with poor credit will end up paying more. But there's much more to bad credit's impact on living situations than simply higher payments.

Living Impacts

Bad credit can quite literally determine where individuals are able to live. A credit score is one of the main drivers for how much mortgage someone can afford. And if that score isn't up to par for the area where someone wants to live, they'll be forced to either look elsewhere or increase their down payment. Since someone with bad credit isn't likely to have lots of cash on hand, it forces their hand and makes them look in less expensive areas.

Employment Impacts

Unfortunately, credit score woes don't end with housing issues. Even if a person wants a better job to save money for a house in the area of their dreams, it's not always possible. Employers are increasingly looking to credit scores to vet prospective employees, with the idea being that a high credit score reflects overall responsibility and organization. In contrast, a bad credit score implies someone with a less-than-desirable work ethic and subpar management skills. Are these judgments fair? Not exactly. But in this world, where employers hold far more power than hopeful applicants, businesses will use any tools they can to weed out less-than-desirable candidates. And whether or not it's the right thing to do, some employers and HR staffers will hold a bad credit score against applicants.

Social Impacts

You might be okay with the negative connotations of bad credit that we've discussed so far. You might have a stable job, and you might even have a good place in a good area. But bad credit can still haunt you in various ways- some of which can make you very uncomfortable.

As we get older, it's almost expected that people will have strong credit scores. And if they don't, they don't get to play by the same rules as other people. For instance, something as simple as putting a credit card on file during a hotel room stay -- something that people with good credit don't even blink an eye at -- can cause someone with lousy credit to lose sleep at night. And that's just something the person does while making an online reservation. That anxiety is multiplied when they go out to dinner with friends, and those friends ask them to put the bill on their card, offering to pay them back later. Suddenly, this private matter of credit issues can become very public, affecting friendships and one's social standing.

But dinners and hotel rooms are just the tips of the iceberg. Someone with bad credit might be unable to rent a car after a car accident or finance an engagement ring for that special person. They might be unable to switch cable providers or move to a different wireless carrier, because that means a credit check, which might mean paying a deposit or being turned down outright. Having bad credit closes these doors, and so many more, to people that find themselves on the outside looking in on many of the fun things life has to offer.

A person with good credit wants to save on interest payments. A person with bad credit just wants to live a normal life. That's the actual cost of bad credit. It's not just about interest and paying less. It's about missing out on many great things and feeling isolated from friends and loved ones. That's as good a reason as any to do whatever it takes to avoid this situation.

The human impact of bad credit extends far beyond the financial burden of higher interest rates and less favorable loan terms. It infiltrates many aspects of an individual's life, from living situations and employment prospects to social interactions and access to essential services. A poor credit score can limit housing options, hinder career advancement, and create uncomfortable situations in social settings. Furthermore, it can prevent people from

enjoying experiences and opportunities that others take for granted. The true cost of bad credit is not only the additional financial strain but also the missed opportunities and the sense of isolation from friends and loved ones. These are just some of the reasons why it is crucial to prioritize building and maintaining a healthy credit score to lead a more fulfilling and financially stable life.

4 types of plastic cards

Plastic cards offer a range of benefits as well as some disadvantages. It's often easier to get a card than other types of credit, even if the terms aren't favorable, and they can help a person build up good credit to get personal loans, car loans, mortgages, and higher credit balances. However, they can also lead to financial debt if a person fails to make payments.

The types of plastic cards you can get will be based on your credit history, whether you will be putting up collateral, and whether it will be tied into an existing checking or savings account. Here are the four most common types of plastic cards:

Debit Cards

Debit cards are typically the first plastic card that a person will obtain. When you open up a checking or savings account, the bank will offer a debit card, which allows you to draw money directly from your bank account that's tied into the card. You can spend as much as you want ,up to the amount that you have in your bank account. You can use debit cards directly to make certain purchases and to withdraw money from an ATM. Of course, if you spend over the amount of cash that you have available, you may get hit with an overcharge fee or have the card declined. A debit card is not actually tied to your credit history or score, as your transactional history is not reported to the credit bureaus.

Some debit cards are also called check cards. While a check card is basically the same as a debit card, different rates and fees may apply depending on the type of payment you want to make. Also, the money may not immediately be taken out of the account when using the credit feature.

Prepaid Cards

Prepaid cards are neither credit cards nor debit cards. Instead, money is loaded onto the card, which can then be used to make purchases. The balance preloaded on the card is deducted each time it is used to make a purchase. Some prepaid cards can be reloaded, although the balance needs to remain within the terms and conditions of the card. Most prepaid cards are given as gifts to people instead of cash.

Secured Credit Cards

Secured credit cards are plastic cards that allow you to build credit when you have no credit history or poor credit. You can make purchases immediately based on the balance limit on the card and then make monthly payments later to the credit card issuer. Some secured credit cards are reported to credit bureaus, while others are not.

When getting a secured credit card, you must provide collateral as a security deposit. Your card limit will range between 50% and 100% of the security deposit. The security deposit will accumulate interest; you can reclaim it when the credit card account is closed. There may be finance charges, maintenance fees, application fees, membership fees, or other fees attached.

Secured credit cards are designed for individuals who must establish or rebuild their credit history. The security deposit acts as a safety net for the issuer, reducing the risk of lending to someone with no credit history or poor credit. There are pros and cons of secured credit cards.

Pros of Secured Credit Cards:

1. **Credit Building:** Secured credit cards can help build or rebuild credit responsibly. Cardholders can demonstrate responsible credit behavior by making on-time payments and keeping a low credit utilization ratio, leading to an improved credit score over time.

2. **Reporting to Credit Bureaus:** Most secured credit cards report your account activity to the three major credit bureaus (Experian, Equifax, and TransUnion), allowing you to build a credit history that future lenders can access.

3. **Access to Credit**: Secured credit cards provide access to credit for those who may not qualify for traditional credit cards.

4. **Graduation to Unsecured Cards:** Some issuers may offer the option to upgrade to an unsecured credit card after demonstrating responsible usage and maintaining a good payment history with the secured card over a period of time.

5. **Refundable Security Deposit:** The security deposit provided as collateral typically earns interest and is refunded when the account is closed or returned if the credit card company upgraded to an unsecured card, provided the account is in good standing.

Cons of Secured Credit Cards:

6. **Security Deposit Requirement:** A security deposit can be a barrier for some individuals, as often people with poor credit have limited resources available.

7. **Lower Credit Limits:** Secured credit cards often have lower credit limits than unsecured cards which may not be sufficient for the borrower's credit needs.

8. **Fees:** Secured credit cards may come with various fees, such as application fees, annual fees, and maintenance fees, which can increase the overall cost of using the card.

9. **Higher Interest Rates:** Interest rates on secured credit cards are often higher than those on unsecured cards, leading to higher interest charges if the balance is not paid monthly.

10. **Potential for Credit Damage:** Secured credit cards can actually hurt your credit score if not used responsibly. Late payments, high credit utilization, or defaulting on the account can all damage your credit score.

While secured credit cards can be a valuable tool for individuals seeking to establish or rebuild their credit history. However, weighing the pros and cons before applying for a secured card is essential. To maximize the benefits of a secured credit card, use it responsibly by making on-time payments, keeping a low credit utilization ratio, and monitoring your credit report for inaccuracies. By doing so, you can work towards improving your credit score and eventually graduating to an unsecured credit card.

Unsecured Credit Cards

Unsecured credit cards do not require any collateral. Revolving credit cards typically have a preset limit that is higher than those of secured credit cards. The transaction history is reported to the credit bureaus. This reporting can significantly impact your credit score and limit based on your repayment history.

As with any credit card, you may have to pay finance charges, membership fees, late fees, and over-limit fees. Usually, the terms and conditions are better with an unsecured credit card than with a secured one, but these fees can still be significant.

Now that you know the difference between the 4 types of plastic cards, you can get the right one based on your finances, spending habits, and repayment habits. Always read the terms and conditions of any plastic card you receive, and make sure you are able to keep up with the required payments to avoid falling into debt and compounding bad credit issues.

Responsible Credit Card Usage and Management

Credit cards can be powerful financial tools when used responsibly, offering convenience, rewards, and opportunities to build credit. However, mismanagement of credit cards can lead to debt, high-interest costs, and damage to your credit score. This section will discuss strategies for responsible credit card usage and management, helping you to maximize the benefits of credit cards while minimizing potential risks.

1. Choose the Right Credit Card

Select a credit card that aligns with your financial goals and spending habits. When comparing cards, consider factors such as interest rates, fees, rewards programs, and credit limits. Be aware of the limits of promotional offers, such as low introductory rates, which are usually temporary and may change after a specified period.

2. Understand Your Credit Card Terms

Familiarizing yourself with your credit card's terms and conditions is crucial in responsible credit card management. Understanding the interest rates, grace periods, fees, and penalties associated with your card will help you avoid unnecessary charges and protect your credit score from potential damage.

Interest rates, generally expressed as an Annual Percentage Rate (APR), dictate how much interest you will be charged on any outstanding balance carried from one billing cycle to the next. Knowing your card's interest rate can help you make informed decisions about how much of your balance to pay off each month and the cost of carrying debt. Again, watch for temporary promotional rates, which typically expire after a limited period of time.

Grace periods refer to the time between the end of a billing cycle and the due date for the balance owed. During this period, no interest will be charged on new purchases if the balance is paid in full by the due date. Familiarizing yourself with your card's grace period can help avoid incurring interest charges and manage your cash flow more effectively.

Various fees and penalties may be associated with your credit cards, such as annual fees, late payment fees, cash advance fees, and foreign transaction fees. Awareness of these costs can help you decide which transactions to minimize or avoid and how to minimize unnecessary expenses. Additionally, knowing the penalties for late payments or exceeding your credit limit can be a strong deterrent to these habits, encouraging timely payments and responsible credit utilization.

By understanding the terms and conditions of your credit card, you'll make smarter financial decisions and avoid pitfalls that may lead to unnecessary charges or damage to your credit score. This knowledge empowers you to use your card effectively, reaping the benefits while minimizing potential drawbacks.

3. Pay Your Balance in Full Each Month

Whenever possible, pay your credit card balance in full monthly to avoid interest charges and minimize debt. Paying off your balance regularly demonstrates responsible credit usage and can improve your credit score.

4. Make Payments on Time

Always make your credit card payments on time to avoid late fees, penalty interest rates, and negative impacts on your credit score. Consider setting up payment reminders or automatic payments to ensure timely payments each month.

5. Monitor Your Credit Utilization Ratio

Your credit utilization ratio, which is the percentage of your available credit that you are using, is a significant factor in your credit score. Aim to keep your credit utilization below 30% to maintain a healthy credit profile. You can achieve this by paying off your balance regularly, requesting a credit limit increase, or using multiple cards (responsibly – do not spend more than you can repay).

6. Track Your Spending

Regularly review your credit card statements to monitor spending and identify fraudulent activity. Tracking your spending can also help you stay within your budget and avoid overspending. It is very easy to pay for things with a credit card, and charges can add up more quickly than you realize.

7. Use Credit Cards for Budgeted Expenses

Avoid using credit cards for impulse purchases or expenses you have not budgeted. Instead, use your credit card for planned expenses you know you can pay off monthly.

8. Take Advantage of Rewards Programs

Maximizing the benefits of your credit card's rewards program entails strategically using your card for eligible purchases and redeeming the accumulated rewards points for travel, cash back, or other valuable benefits. These rewards programs are designed to incentivize cardholders to use their cards more frequently, as they offer points, miles, or cash back for every dollar spent. By understanding the specific rewards structure of your card and tailoring your spending habits accordingly, you can maximize the value you receive from the program.

For instance, if your card offers bonus points or cash back on specific purchase categories like groceries, gas, or dining out, use your card for these expenses. Additionally, watch for and take advantage of limited-time offers, promotions, and signup bonuses, which can significantly boost your rewards balance. Make sure you monitor your rewards account diligently, as sometimes rewards may expire if not used within a specific timeframe.

While chasing rewards points by making additional purchases is tempting, it's crucial to remember that overspending solely to earn rewards can be counterproductive. If you are not careful, the cost of interest charges and potential debt can easily outweigh the value of the rewards earned, especially if you cannot pay off your balance in full each month. Instead, focus on using your credit card only for planned expenses and always be mindful of your budget. By balancing smart spending and effective rewards maximization, you can enjoy your credit card's rewards program without falling into additional debt.

Review Your Credit Report Regularly

In today's fast-paced financial world, maintaining a healthy credit score is crucial for accessing loans, credit cards, and other financial products. Your credit report, compiled by credit bureaus, is a detailed record of your credit history and significantly affects your credit score. Monitoring your credit report regularly is essential for a number of reasons, including accuracy, early detection of errors, and prevention of identity theft. Here, we'll take a look at why it is vital to keep a close eye on your credit report.

Accuracy Matters

Nobody's perfect, not even the credit bureaus. Ensuring that your credit card usage and other credit-related information are accurately reflected in your credit report is essential. Inaccuracies can negatively impact your credit score, which can then affect your ability to obtain loans, credit cards, and other financial products at favorable terms. Monitoring your credit report regularly allows you to identify discrepancies and take corrective action, such as disputing incorrect information with the credit bureaus.

Identifying Errors and Disputes

Errors in credit reports are not uncommon and can occur for various reasons, such as clerical mistakes, persistence of outdated information, or issues with reporting from creditors. Regularly reviewing your credit report allows you to identify these errors and initiate disputes with the credit bureaus to rectify them. Timely resolution of errors can help protect your credit score and prevent long-term damage to your creditworthiness.

Preventing Identity Theft

In the digital age identity theft is a serious concern, and one of the primary ways to detect it is by monitoring your credit report. If you notice unfamiliar accounts or transactions on your credit report, it could be a sign of fraud or identity theft. By keeping close tabs on your credit report, you can quickly detect suspicious activities early and take immediate

action to prevent further damage, such as freezing your credit or reporting the issue to law enforcement. The sooner you can spot fraudulent activity, the better it is for your credit rating.

Access to Free Credit Reports

You are entitled to a free credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) each year. This allows you to review your credit history and ensure that your financial behavior is accurately reflected. If necessary, you can also request additional reports for a fee. Many banks and credit card companies also include complimentary access to credit reports through the institution's website. Regularly accessing your free credit reports and staying informed about your credit status can help you make better financial decisions and thereby maintain a strong credit score.

Seek Help If Necessary

If you struggle with credit card debt or managing your credit card usage, seek assistance from a financial advisor, credit counselor, or debt management professional. Early intervention can help prevent long-term financial and credit consequences.
Professionals can give you specific plans and strategies to improve your credit, tailored to your circumstances. By implementing these responsible credit card usage and management strategies, you can enjoy the benefits of credit cards while maintaining a healthier credit profile and minimizing the risk of debt and financial stress.

Legally deleting items from a credit report.

One of the most common questions consumers ask credit counselors is, "How can I remove negative items from my credit reports?" The short answer is this: It's relatively easy to remove *incorrect* information from a credit report, but removing items that are reported accurately and legally can be much more difficult. In other words, you can remove mistakes pretty easily, but if a debt is actually yours and all the particulars listed on the credit report are correct, your options for legal removal are much more limited.

However, it's not impossible. There are several ways to potentially eliminate negatives from an official credit report, even when the debt is yours and when it's listed correctly. Here are the strategies that many consumers have used to clean up their credit reports:

Paying to delete negative items: If you contact a creditor and agree to pay the debt immediately, they might consider removing it from your report. This technique is especially successful when the amount owed is large, and the delinquency is not very old. Many creditors are happy to have a large debt paid off quickly and taken off the books. They'll often agree to remove the item from your report if you ask them nicely, in writing, and as soon as possible after it has been reported to the bureaus.

Asking for a goodwill removal: After you've paid a debt, if the listing is still on your credit report, you can contact the creditor and request that they remove it. It helps to explain that you have otherwise good credit and have been current on any other accounts with them. If there were special circumstances that led to the delinquency, be sure to explain the situation to the creditor. This is a "hardship" request and doesn't always work, but it's worth trying.

Asking for verification of the debt after several years: Bureaus can keep negative items on a report for up to seven years. After one or two years, you can contact the creditor and ask for the debt to be verified. It's often the case that creditors can't verify older debts that have been paid off and closed out. If they can't verify it, then you can have it legally removed by contacting the credit bureau in writing and disputing the debt. Without verification from the creditor, the bureau is legally required to remove the listing.

It's important to remember that only the creditor has the power to remove a legitimate listing from your credit report. They are supposed to leave items on for up to seven years so that other lenders can get an accurate view of your creditworthiness by reading your report. But, as in the situations noted above, creditors are sometimes willing to remove a negative item earlier if you approach them with the right attitude and can show that you have otherwise good credit.

7 Ways to improve your credit score

People often think that once their credit score takes a dip, there's no way for them to recover and that their future will be filled with high-interest rates and loan rejections. But there's no reason to lose hope. Although there is no instant fix, you can definitely improve your credit score over time by following these simple and practical guidelines.

Check your credit report and immediately dispute any inaccuracies.

If you want to improve your credit, you have to know what you're starting with, and that's why reading through your credit report should be your first step in the process. Start by checking for any inaccuracies in the report, including any "hard" inquiries that you did not authorize. You can attempt to dispute any incorrect entries and get a head start on improving your credit score.

It's essential, however, not to dispute any valid inquiries or genuine negatives. Even if the report contains negative information, it can still give you a good sense of what actions have gotten your credit score to the place it stands.

Limit the number of inquiries on your credit report.

Excessive inquiries on your credit report can damage your credit score, so it's best to keep the number of them as low as possible while trying to improve your score. The best way to do this is to only apply for necessary credit. In other words, even applying to a lot of new credit cards at once can lower your score. It's better to pay down the balance on an existing card than to get seduced by low-interest balance transfers that require you to apply for a new card.

Pay off as much debt as you can

As you improve your credit score, it's better to avoid making large new purchases and instead focuses on paying down the debt you're already carrying. Credit evaluators may

consider you a higher risk if you have high outstanding cumulative debt, and your credit score will suffer. Create a budget that puts most of your disposable income towards your highest-interest credit cards with balances and work accordingly.

Enroll in automatic payments to ensure you pay your bills on time

Paying your ongoing bills is a simple way to improve your credit score over time reliably. To make sure you don't miss any payments, set up as many automatic payments for your utilities and regular bills as possible.

Refrain from closing unused credit cards.

You may think your credit report should eliminate any credit accounts you no longer use, but the opposite is true. If you're not carrying a balance on a card and don't have any payments to miss, it won't negatively impact your credit score, but closing out accounts can. Even if you previously had a negative item from an account and want to close it now that it's paid off, it's important to remember that closing the account won't immediately remove it from your credit history.

Shop for loan rates in a focused burst

If you're trying to secure a loan, it's best to make inquiries several at a time in one burst, which signifies that you're pursuing a single loan. This is preferable to consistently making inquiries on your credit over a more extended period, which FICO may consider more of a risk and makes it loo as if you are constantly fishing for available credit.

Apply for a secured credit card from your bank.

If your credit score is very low or you have not established any credit, you must start small and build from there.

Apply for a secured credit card from your bank.
If your credit score is very low, either due to past issues or simply a lack of established credit, you must start small and build from there. One option that can help you increase your credit score is to see if your bank offers a secure credit card. By putting a modest amount down—typically a minimum between $300 and $500—you can use the card for small purchases; making regular payments on this card will help you build your credit.

How credit scores are calculated

Everyone with an address in the US has a credit score. When the time comes to own a house, get a mortgage, or take out a loan, lenders will rely on that credit score to determine your creditworthiness. Landlords, insurance companies, and even employers are accessing credit scores to assess how responsible a person is regarding their finances.

A credit score is a cumulative number that indicates your history of handling payments and debt. If you have a high credit score, companies, landlords, and credit card issuers feel more confident that you will be able to adequately manage additional large purchases and expenses. So they will give you better rates and terms.

A low credit score will have the opposite impact. You may be denied a loan or mortgage, be required to offer collateral for a secured credit card or loan, or be required to make extra payments even to rent a home or apartment. In addition, you will probably have to pay higher interest rates and fees for any loan.

Calculating a Credit Score

Several organizations offer credit scores. Each uses their own proprietary calculation, but as they rely on the same information your scores should be fairly consistent among agencies. Two of the most common ones are FICO scores created by Fair Isaac and VantageScore 3.0. The exact formula for calculating credit scores is private, but we do know what factors are used in calculating a credit score. These factors include:

- New credit
- Type of credit accounts
- Payment history
- Amount of debt owed
- Length of credit history

Payment History: Payment history is the most important factor, determining 35% of your credit score. Credit scoring organizations look at all your credit transactions to decide whether or not you made payments on time and consistently. They also look for any issues such as bankruptcies, delinquencies, and debts that have gone into collection processes.

Let's look at an example. A young woman named Lucy lived in the bustling town of Timelyville. Lucy was generally a responsible individual who took pride in her punctuality and dedication to her job. She had a few credit accounts, including credit cards, a student loan, and a car loan. However, despite her responsible nature, Lucy sometimes struggled to keep track of her payment due dates for her various credit accounts, and consequently had a few late and missing payments.

One day, Lucy noticed that her credit score had taken a hit, and she didn't understand why. She decided to visit a local financial expert, Mr. Punctual, to discuss her situation and seek advice on improving her credit score.

Mr. Punctual reviewed Lucy's credit report and discovered that her payment history was the primary reason behind her declining credit score. He explained that payment history was the most significant factor in credit score calculations, accounting for 35% of a FICO score. He also informed her that those credit scoring organizations evaluated her credit transactions to determine whether she had made payments on time and consistently. Negative records such as bankruptcies, delinquencies, and debts that went into collections could further harm her credit score.

Lucy realized she needed to make changes to ensure timely payments on all her credit accounts, every single month.

Mr. Punctual suggested she set up automatic payments for her loans and credit cards to avoid missing any due dates. He also recommended creating a monthly budget to help her manage her finances more effectively.

Taking Mr. Punctual's advice to heart, Lucy set up automatic payments for her credit accounts and created a monthly budget to keep her spending in check. After this, she monitored her credit score regularly to ensure her payment history remained positive.

Over time, Lucy's credit score improved as her payment history began to show consistent, on-time payments. She became eligible for better loan interest rates and more attractive credit card offers. Most importantly, she felt more in control of her financial life, knowing that her responsible payment habits had paved the way for a brighter financial future.

Lucy's story illustrates the importance of maintaining a positive payment history to achieve and maintain a strong credit score. By making timely payments on all her credit accounts and adopting more responsible financial habits, Lucy was able to improve her credit score and enjoy the benefits of a healthy financial life.

Amount of Debt Owed: This factor assesses what you currently owe on all your accounts. It can indicate whether you are always spending up to your credit balance limit or over your limit, which tells lenders that you may be a future credit risk. If you are already at your limit and a catastrophe happens, such as losing a job or being involved in an accident with high medical bills, you could easily fall into financial problems and be unable to pay off the debts that you owe. This category makes up a large chunk - 30% - of your credit score.
Let's look at another example. A young man named Alex lived in the vibrant city of Spenderville. Alex had recently landed his dream job and was excited to enjoy the perks of his new financial status. He had multiple credit cards, which he frequently used to indulge in shopping sprees, dine at fancy restaurants, and take exotic vacations.

Although Alex knew the importance of a good credit score, he didn't fully grasp the concept of credit utilization and its impact on his financial health. He often found himself at or near his credit limit on all his credit cards, believing that as long as he made the minimum monthly payments, his credit score would remain unaffected.

One day, Alex received an alert from his credit monitoring app, notifying him that his credit score had dropped significantly. Shocked and concerned, he sought the help of a reputable financial advisor named Ms. Savvy, who specialized in credit management.

Ms. Savvy reviewed Alex's credit report and quickly identified the issue: his high credit utilization. She explained to Alex that the ratio of his credit card balances to his credit limits played a significant role in determining his credit score, accounting for 30% of his FICO score. She further explained that high credit utilization could signal financial difficulties and make him appear as a higher credit risk to lenders.

Alex realized that if he encountered any unexpected financial challenges, such as job loss or medical emergencies, he might not be able to repay his debts. Ms. Savvy advised Alex to aim for a credit utilization ratio below 30% to improve his credit score and demonstrate responsible credit management.

Determined to regain control of his financial life, Alex took Ms. Savvy's advice to heart. He devised a budget to curb his spending and prioritized paying down his credit card balances. Over time, Alex's credit utilization ratio dropped, and his credit score began to recover.

As Alex's credit score improved, he was better positioned to secure favorable interest rates on loans and access better credit card offers. He learned the importance of maintaining a low credit utilization ratio and adopted more responsible spending habits to safeguard his financial future.
Alex's story highlights the significance of credit utilization in managing personal finances and maintaining a strong credit score. By keeping his credit utilization ratio below 30%, Alex demonstrated responsible credit management and paved the way for a more secure financial future.

Length of Credit History: This factor involves knowing how long you have had various credit accounts and how long you have managed them. It makes up 15% of your credit score. A long-standing credit account in good standing contributes positively to your credit score. To maintain a healthy credit history, avoid closing old accounts that are in good standing, as this can shorten your average credit history length.

Let's look at another example. In the picturesque town of Creditlea, there's a middle-aged woman named Emily. Over the years, Emily has diligently managed her finances, always paid her bills on time, and kept her credit utilization low. She understood the importance of a good credit score and its impact on her finances.

Emily had been using her first credit card, which she had obtained in her early twenties, for nearly two decades. It was her oldest and most cherished credit account, reminding her of her journey to financial responsibility. She had since acquired additional credit cards and loans, but she maintained her first credit card account in good standing.

One day, Emily received an enticing offer from a new credit card company promising exceptional rewards and benefits. Intrigued by the offer, she applied for the new credit card. Upon receiving the card, Emily wondered if it was time to close her oldest credit card account, as she felt she no longer needed it.

However, before deciding, Emily decided to consult her trusted financial advisor, Mr. Moneywise. She explained her situation and thoughts about closing her oldest credit card account. Mr. Moneywise listened carefully and then shared an important piece of advice.

He explained that length of credit history accounted for 15% of her FICO credit score, and having long-standing credit accounts in good standing contributed positively to her credit score. Mr. Moneywise advised Emily against closing her oldest credit card account, as it would shorten her average credit history length and potentially lower her credit score.

Grateful for Mr. Moneywise's guidance, Emily kept her oldest credit card account open, using it occasionally for small purchases and paying the balance in full each month. She also managed her new credit card responsibly, of course, enjoying its rewards and benefits.

As the years went by, Emily's credit score flourished, thanks to her responsible credit management and the length of her credit history. She was able to secure favorable interest rates on loans and enjoyed the financial benefits that came with an excellent credit score.

Emily's story serves as a reminder of the importance of considering the length of credit history when managing personal finances. By maintaining her oldest credit account in good standing and not closing it prematurely, Emily ensured the longevity of her credit history. She reaped the rewards of a strong credit score.

Types of Credit Accounts: Organizations want to see what your "credit mix" is, which lets them know what types of accounts you have. Two basic credit accounts that most people have are *revolving credit,* where you make different monthly payment amounts (credit cards), and *installment accounts,* where you make fixed payments during a specific period (personal loans, student loans, and mortgages). This category makes up 10% of your credit score.

Once upon a time, in the bustling city of Financialsville, there was a young woman named Clarissa. A diligent and responsible individual, she knew the importance of maintaining a good credit score. She knew that having a high credit score could open doors to better financial opportunities.

Clarissa had been using a single credit card for all her expenses and had been careful to make timely payments each month. She was proud of her excellent payment history, but she couldn't help but notice that her credit score had plateaued. Despite her careful credit management, her score wasn't getting any better. Curious about ways to improve her credit score further, she sought advice from a financial advisor named Mr. Wiser.
Upon examining Clarissa's credit report, Mr. Wiser noticed that her credit mix was limited, consisting only of one credit card. He explained that a more diverse mix of credit accounts could positively impact her credit score. He suggested that Clarissa consider incorporating some installment credit into her credit profile, such as a personal loan, student loan, or mortgage.

Intrigued by Mr. Wiser's advice, Clarissa took out a small loan to finance a much-needed vacation.

She carefully planned her budget to account for the fixed monthly payments on her new personal loan. Over the next few months, Clarissa diligently made her loan payments on time while continuing to use her credit card responsibly.

As time passed, Clarissa was pleased to notice that her credit score had improved. Adding the personal loan to her credit profile had diversified her credit mix, which now included both revolving credit (her credit card) and installment credit (her loan). This diversity demonstrated that Clarissa could handle various types of credit responsibly, boosting her credit score.

Eventually, Clarissa decided to take yet another step toward diversifying her credit mix by applying for a mortgage to purchase her first home. Thanks to her now-improved credit score, she could secure a mortgage with favorable interest rates and terms. She was elated to move into her new home, knowing that her efforts to build a diverse credit mix had paid off.

As Clarissa's financial journey continued, she remained mindful of maintaining a diverse mix of credit accounts. She carefully balanced her credit card usage with her installment loans, always ensuring that she made timely payments and managed her debt responsibly. Over time, Clarissa's credit score continued to rise, and she reveled in the financial freedom and opportunities that her strong credit profile had unlocked.

Clarissa's story serves as a reminder of the importance of a diverse credit mix in building and maintaining a strong credit score. By incorporating various types of credit accounts into her financial life, Clarissa demonstrated her creditworthiness and paved the way for a brighter financial future.

New Credit: New credit is the final major category, comprising 10% of your credit score. It shows how often you have applied for new lines of credit. If you apply for a bunch of credit in a short period of time, it may indicate that you are experiencing financial issues, which will negatively affect your credit score.

Some credit scoring organizations may also include other factors besides the ones we've covered here. By understanding the categories used in making a credit score, you can do things to help improve it, such as making payments on time and only taking out enough credit for your lifestyle.

Let's look at another example. A young man named Sam lived in the quiet town of Credithorpe. Sam had recently graduated from college and started his first job, excited to embark on his journey toward financial independence. While he had some knowledge of the importance of a good credit score, he was still learning the ropes of personal finance.

As Sam settled into his new life, he realized he needed a car to commute to work and a credit card for daily expenses. Eager to build his credit score and acquire what he needed, he quickly began applying for auto loans and multiple credit cards. Sam believed having more credit accounts would improve his credit score faster and demonstrate his financial responsibility.

However, within a few weeks, Sam noticed that his credit score had dropped unexpectedly. Confused and concerned, he sought the advice of a financial counselor named Ms. Prudent. Ms. Prudent carefully reviewed Sam's credit report and pointed out that submitting multiple credit applications within a short timeframe had negatively impacted his credit score.

Ms. Prudent explained that new credit accounted for 10% of his FICO credit score, and frequent credit applications could signal financial stress to credit scoring organizations. She advised Sam to be cautious about applying for multiple credit accounts quickly and in the future to space out his applications in order to avoid harming his credit score further. Taking Ms. Prudent's advice to heart, Sam prioritized his financial needs. He focused on securing an auto loan for his car and selected one credit card, which best suited his requirements. Over the next several months, Sam made on-time payments on his auto loan and credit card while carefully managing his credit utilization ratio. He didn't apply for any more lines of credit during this time.

As time went by, Sam's credit score began to recover, reflecting his responsible credit behaviorHe learned that while FICO scores assigned specific weightings to various factors, other credit scoring models like VantageScore could have slightly different weightings. Sam realized the importance of understanding these factors to maintain and improve his credit score.

Sam's financial journey ultimately taught him the value of being cautious when applying for new credit accounts. By understanding the factors contributing to his credit score, he

could make better financial decisions and work towards a stronger credit profile. Sam's story serves as a reminder of the importance of responsible credit management and the need to consider the potential impact of new credit on one's credit score.

Types of Loans

Different Types of Loans: Mortgage, Auto, Personal, and Student

At various stages of life, we often find ourselves in situations where we require financial assistance to achieve our goals, whether purchasing a home or car or funding higher education. Loans are a common solution to these financial needs and can provide the necessary funds to help make these dreams a reality. However, navigating the complex world of loans can be overwhelming, especially for those new to the process. This chapter aims to simplify the loan application and management process, providing essential information on different types of loans, understanding loan terms and conditions, and guiding you through the application process.

Loans come in various forms to cater to specific financial needs. Understanding the differences between the primary types of loans - mortgages, auto, personal, and student loans - will enable you to choose the best option for your situation. In this section, we'll explore each loan type, discussing its purpose, typical terms, and other essential factors to consider when applying.

Mortgage Loans

Mortgage loans are designed to help folks purchase residential properties. These loans are secured by the property being purchased, which means that if the borrower fails to make timely payments, the lender has the right to foreclose on the property (confiscate it). Mortgages generally come with lower interest rates than other types of loans due to the significant amount of collateral involved. The most common types of mortgage loans

are fixed-rate mortgages and adjustable-rate mortgages, which have different interest rate structures. Mortgage terms typically range from 15 to 30 years, and borrowers must make monthly payments, including principal, interest, and sometimes additional fees such as property taxes and insurance.

Auto Loans

Simply put, auto loans are obtained to finance the purchase of a new or used vehicle. As with mortgages, auto loans are secured by the asset being purchased, in this case, the car. If the borrower fails to make payments, the lender can repossess the car. Auto loans typically have repayment terms ranging from 3 to 7 years, and interest rates will vary depending on the borrower's credit score, vehicle age, and other loan terms. Shopping around for the best loan rate and terms is essential, as lenders may offer significantly different deals based on these factors.

Personal Loans

Personal loans are versatile, unsecured loans that can be used for a whole bunch of reasons, such as consolidating high-interest debt, funding home improvements, or covering unexpected expenses. Since personal loans are unsecured, they do not require any collateral, so interest rates are generally higher than they are for secured loans. The repayment terms for personal loans can vary, but range from 1 to 10 or more years, and the loan amount can vary depending on the borrower's credit score and financial situation. Evaluating your needs and considering the interest rates and terms before applying for a personal loan is essential to ensure it aligns with your financial goals.

Student Loans

Student loans are designed to help individuals finance their education, including tuition, room and board, and other related expenses. Federal loans and private loans are the

two primary types of student loans. The U.S. government funds federal student loans and offers several advantages, such as fixed interest rates, flexible repayment options, and the potential for loan forgiveness. Private student loans, in contrast, are provided by banks, credit unions, and other financial institutions. They typically have higher interest rates and less flexible repayment options than federal loans. While personal circumstances can vary, the prevailing advice is that students should exhaust all federal loan options before considering private student loans.

By understanding the differences between these four primary loan types, you can make an informed decision when applying for a loan that best suits your financial needs and goals. In the following section, we'll discuss essential loan terms and conditions to help you navigate the borrowing process more effectively.

Understanding Loan Terms and Conditions

When applying for a loan, it's crucial to understand the terms and conditions associated with the borrowing process. This knowledge will enable you and your clients to make more informed decisions, avoid pitfalls, and find the best loan for your needs. This section will discuss key loan terms and conditions, including interest rates, repayment terms, fees, and other aspects that can impact your borrowing experience.

1. Interest Rates

Interest rates are the cost of borrowing money, expressed as a percentage of the loan amount. Charging interest rates is the primary way that lenders make money. They are a significant factor to consider when choosing a loan, as they directly affect the total cost of borrowing. Generally, lower interest rates result in lower overall costs. Interest rates can be fixed or variable. Fixed rates remaining constant throughout the loan term, while variable rates can change based on market conditions. Your credit score, loan type, and loan term can also influence the interest rate you receive.

2. Loan Term

The loan term is the time you have to repay the loan. Longer loan terms usually result in lower monthly payments but higher overall interest costs. Conversely, shorter loan terms lead to higher monthly payments but lower overall interest costs. It's essential to find a balance between affordable monthly payments and minimizing the total cost of borrowing.

3. Principal

The principal is the amount of money borrowed, not including interest or other fees. As you make payments on your loan, the principal balance decreases. Understanding how your loan payments are allocated between principal and interest is essential, as it will affect how quickly you pay down the loan balance.

4. Repayment Options

Loans come with various repayment options that can will have an impact on the monthly payments and overall cost of the loan. Some loans offer fixed monthly payments, while others may have graduated or income-based repayment plans. For student loans, deferment and forbearance options may be available, allowing borrowers to pause payments temporarily in specific situations, sometimes for several years. It's essential to understand the repayment options available for your loan and choose the one that best fits your financial situation.

5. Fees and Penalties

Loans usually include various fees and penalties, such as origination fees, late payment fees, prepayment penalties, and more. The lender charges origination fees for processing the loan, and is often expressed as a percentage of the loan amount; these are unavoidable. Late payment fees however are incurred when a borrower fails to make a payment on time, while prepayment penalties may apply if the borrower pays off the loan early. Knowing

these fees and penalties is crucial when selecting a loan and deciding how and when to repay them.

6. Loan Security

Loans can be secured or unsecured, depending on whether they require collateral. Secured loans, such as mortgages and auto loans, require the borrower to pledge an asset (e.g., a house or car) as collateral, providing the lender with assurance in case of default. (In other words, if the borrower doesn't repay the loan, the lender can take the collateral.) Unsecured loans, like personal loans, don't require the borrower pledge collateral, resulting in higher interest rates due to the increased risk for the lender. Understanding the security requirements for a loan is essential when determining the best borrowing option for your needs.

By familiarizing yourself with these key loan terms and conditions, you'll be better equipped to navigate the borrowing process, negotiate with lenders, and make informed decisions about your financial future. Next we'll discuss the loan application process and tell you what to expect when applying for a loan.

How to Apply for a Loan and What to Expect

Applying for a loan can be daunting, but understanding the steps involved and knowing what to expect can make it more manageable. This section will guide you through the typical loan application process, from gathering necessary documents to preparing for lender inquiries and understanding the loan approval process.

1. Assess Your Financial Situation

Before applying for a loan, evaluating your financial situation and determining the loan amount, repayment term, and monthly payment that best aligns with your needs and budget is essential. Review your credit report, calculate your debt-to-income ratio, and identify areas where you can improve your creditworthiness before applying. If you have

stronger credit, you will be in a better position to negotiate for good loan terms. Likewise, if you have poor credit, it is unrealistic to expect lower interest rates or favorable repayment terms.

2. Research Loan Options

Investigate various loan options and compare lenders to find the best fit for your financial needs. Factors to consider include interest rates, loan terms, fees, and the lender's reputation. Online resources, financial advisors, and personal recommendations can help you identify suitable loan options. Different lenders may offer you different terms for the exact same credit score.

3. Gather Necessary Documentation

Making sure you have everything you need will make the application process as smooth and efficient as possible. Prepare the required documents for your loan application, which may include the following:

- Proof of identity (e.g., driver's license, passport)
- Proof of income (e.g., pay stubs, tax returns)
- Proof of employment (e.g., employer's contact information)
- Financial statements (e.g., bank statements, investment accounts)
- Credit report
- Details of existing debts (e.g., credit card balances, outstanding loans)
- Collateral documentation (for secured loans)

4. Complete the Loan Application

Submit your loan application online (most common) or in person, providing all requested information and documentation. Be accurate and thorough, as complete and correct

information can ensure your loan application is completed on time. Leaving parts of the application unfinished may result in additional delays or even rejection of your application.

5. Prepare for Lender Inquiries

Lenders may request additional information or clarification during the loan application process. Be prepared to truthfully answer any questions about your financial picture including income, employment history, credit history, and the purpose of the loan. Promptly responding to lender inquiries can help expedite the approval process.

Loan Approval Process

Once you submit your loan application, the lender will review your credit history, income, debt-to-income ratio, and other factors to determine your creditworthiness. Depending on the loan type and lender, this process can take a few hours to several weeks.

Loan Approval or Denial

If and when your loan application is approved, the lender provides a loan agreement outlining the terms and conditions, including interest rate, repayment schedule, fees, and other relevant information. It is critical to review the contract carefully and ask questions if clarification is needed on any aspects of the loan. If you agree to the terms, sign the agreement to finalize the loan.

If your loan application is denied, the lender is required to explain their decision thought something called an "adverse action" notice. Common reasons for loan denial include low credit score, high debt-to-income ratio, insufficient income, and unstable employment history. Sometimes, you can address the issue and reapply for the loan once you have done so.

Following these steps and understanding what to expect during the loan application process can increase your chances of obtaining a loan that is inline with your financial needs and goals. In the upcoming sections, we will explore strategies for managing your loan effectively and maintaining a strong credit profile throughout the repayment process.

Some company owners, especially sole proprietors, neglect to consider the importance of business credit. Many believe they'll never need it, but the world of commerce is highly unpredictable, and no one can predict the future. Even tiny firms often grow and discover they need to borrow money, get favorable terms from vendors, lease property, or partner with other companies. All those activities require a solid credit rating, even for a one-, two- or three-person firm. How to begin establishing a favorable corporate credit rating? There are a few discrete steps, some strikingly similar to how individuals build credit. But there are some differences too. Here are five essential methods companies employ to create a good credit score:

Do the necessary paperwork to establish the company: Get an EIN from the Internal Revenue Service as soon as possible after incorporating. Then, open bank accounts in the company name and do the same for a dedicated phone line. Finally, every new company should acquire a DUNS number by registering with Dun & Bradstreet.
The reporting agencies can't begin to build a credit score for a company until they know it officially exists. Make sure you have taken all the necessary steps to create and register the company appropriate for the type of business and state where you live.

Get a business credit card and open trade lines with vendors: Open a few vendor lines of credit with stores from which you'll need to purchase supplies or services, even if that only means the local office supply store and office cleaning company.

Pay bills early: It is even more important to pay bills on time for businesses than for individuals. That's true for two reasons: corporate credit relies more heavily on payment behavior, and early payment is a unique factor in business credit ratings (it doesn't affect personal credit ratings, but it does for businesses). In fact, within the scoring range of 0 to 100 on corporate credit scores, to rank above 80 or 85, companies will need to pay bills early, not just on time.

Keep an eye on your credit score: This is especially crucial for newly established and smaller companies. During the first few years of growth, a so-called "business credit score" might be primarily based on the individual owner's score. This is particularly true if the owner signs a personal guarantee to open a vendor line of credit.

It's always wise to avoid putting personal assets on the line, but most owners of small startups have no choice. In any case, by maintaining strong personal credit, a company owner can ramp up the corporate credit score early and then may not need to sign personal guarantees for new lines of credit after that.

Monitor all the data in your report: Business credit reports contain much more information than personal reports. In addition to standard facts like name, address, number of employees, and length of time in operation, these highly detailed reports often list a suggested amount of credit that new lenders should extend to a given company, tax liens, any pending or settled lawsuits, sales figures, historical use of credit, collection activity, and information about subsidiaries, if applicable.

Because nearly every piece of data in a business credit report is so important, owners need to regularly access the reports (even though that means paying a fee) and verify every item of information. When mistakes are discovered, it's vital to contact the reporting agency immediately and get them corrected.

Stick with it: Establishing a solid business credit score takes time. That means, as suggested in the steps above, constant vigilance over the data in your report, a regular effort to build new (but not unnecessary) credit lines with vendors, and paying all bills on time or early.

What is a Business Credit Score (and Why Do Companies Need One)?

Business credit scores, unlike personal ones, range from zero up to 100. They are a matter of public record (anyone can see them) but unlike personal reports they are not free (there's a fee to see reports). They are based on similar but not identical factors as personal credit reports, and are not standardized. Companies need to establish a good credit score as

early as possible in their corporate life cycle to open vendor accounts on good terms, borrow money from a financial institution, lease property, get reasonable rates on insurance policies, and purchase company vehicles.

Perhaps the most significant advantage of a healthy business credit score is the ability of a company to borrow money without having to sign a "personal guarantee." When a good corporate score is on the books, owners no longer need to risk their own personal assets to borrow funds. It usually takes a while, up to a year or two, before companies reach this point, but it is a significant milestone in the life of a business.

Issuers of business credit cards, banks, various trade associations, vendors, and other entities send payment information to multiple credit bureaus, just as with personal credit bureaus. However, unlike for personal credit, with business credit bureaus, there is no single, agreed-upon method for verifying or collecting data. They all have different ways of operating. Often, individual pieces of data need to be corrected. This is often the result of bureaus using outdated sources or simple clerical errors.

Mistakes in corporate credit reports are more common than in personal reports because of the lack of consistency between agencies. Company owners need to access their reports regularly and ferret out those mistakes, update basic company data (like addresses and phone numbers) and report them at once to the credit bureau that made the error. Fortunately, most bureaus are quick to adjust data discrepancies. The primary business credit bureaus are Experian, Equifax, and Dun & Bradstreet. Other smaller bureaus are trying to break into the top tier, but for now, three major players dominate the business credit reporting segment. Dun & Bradstreet, in particular, is a company that any business looking to understand its credit profile should know about.

What is Dun & Bradstreet's DUNS Number?

Since 1962, a major business credit bureau, Dun & Bradstreet, has been issuing a proprietary "DUNS" number. The Data Universal Numbering System helps to link up, validate the existence of, and identify upwards of 300 million companies all over the globe. Every entity within the

DUNS network is issued a 9-digit number that identifies a separate, geographically unique (i.e. it has its own address) economic unit. In simple terms, even individual offices of the same company get their own DUNS number, so a large corporation might have thousands of DUNS numbers, while a sole proprietorship might have just one.

In many respects, the DUNS number knows no bounds because it counts every non-residential location as a distinct entity. That means non-profits, sole proprietorships, government agency offices, partnerships, corporations, and other physical business locations each get a DUNS number.

The number has a long, actually permanent life. It always stays the same even when a company's corporate structure changes. Nor does the DUNS 9-digit number change if a firm goes through bankruptcy, changes its name, moves to a new address, or gets new owners.

For this reason, viewing the DUNS number as nothing more than a numeric identifier would be a mistake. It is much more than that. It is a uniquely valuable categorization system with potentially enormous reach. The information behind each number is constantly updated, usually accurate, and amazingly comprehensive.

DUNS numbers are a critical piece of data that lenders and potential business partners can examine before extending credit or engaging in business with a company. The number is a clear indicator of a corporation's financial stability and overall reliability and is often required for any company that wants to bid on private or government jobs. Despite noticeable differences, some people even equate the DUNS number to an individual's Social Security number, which is an apt analogy.

A Short History of Dun & Bradstreet

A New Jersey-based company founded in 1841, Dun & Bradstreet provides a wide range of analytics, useful commercial information, and key financial insights to businesses that subscribe to their services. Boasting a massive database containing detailed business

records on more than 300 million entities worldwide, Dun & Bradstreet (or D&B, as it's more popularly known) offers a vast menu of services and products for professionals in marketing/sales, supply, logistics, finance, and operations businesses.

D&B also markets research reports that provide keen insights and research reports on economic issues that affect global markets. The company's principal customers include government agencies, companies in multiple industries, and key players in markets large and small.

The company began with a single goal: to offer a centralized method for corporate credit reporting. In 1859, Robert Dun acquired The Mercantile Agency from Lewis Tappan, and 74 years later, family member Graham Dun merged the firm with John Bradstreet's company to form Dun & Bradstreet.

Over the decades, D&B has acquired many other companies and continued to expand its number of clients, as well as its global information and data reach. Today, the company is the largest organization of its kind, especially after the 2001 acquisition of Hoover's and Harris InfoSource International.

Businesses of all sizes need to establish good credit in order to maximize their opportunities to grow and thrive. It's helpful for every owner to know the company credit score and work to maintain it once it is established. There are many ways to build good credit, leading to substantial growth, financial prosperity, and business longevity. As with personal credit, managing resources responsibly, paying bills on time, and knowing your credit profile is crucial to effective credit score management.

Having good credit is essential for individuals and companies alike. It makes it easier and less expensive to borrow money, which opens up possibilities to make the most of their opportunities and succeed in their goals. While there are some differences between individual and company credit management, knowledge is key for both. Understanding how credit works, how each factor contributes to your credit score, and what you can do to maintain or improve a good score is a good first step toward building a stable financial future and advising your clients properly.

Glossary of Credit Terms

1. **Annual Percentage Rate (APR):** The annual cost of borrowing money expressed as a percentage, which includes the interest rate and any applicable fees.

2. **Balance Transfer:** The process of moving debt from one credit card to another, often to take advantage of a lower interest rate or promotional offer.

3. **Credit Bureau:** An organization that collects and maintains credit information about consumers and provides it to lenders and other businesses in the form of a credit report.

4. **Credit History:** A record of a consumer's past borrowing and repayment behavior, including loans, credit cards, and other forms of credit.

5. **Credit Limit:** The maximum amount of credit a lender extends to a borrower on a credit card or line of credit.

6. **Credit Report:** A detailed report of an individual's credit history, including personal information, credit accounts, payment history, and public records.

7. **Credit Score:** A numerical representation of a consumer's creditworthiness based on their credit report, typically ranging from 300 to 850.

8. **Debt-to-Income Ratio (DTI):** A financial ratio calculated by dividing a borrower's total monthly debt payments by their gross monthly income, expressed as a percentage.

9. **Default:** Failure to fulfill the terms of a loan agreement, such as not making required payments or violating other conditions.

10. **Fixed Interest Rate:** An interest rate that remains constant throughout the term of a loan or credit account.

11. **Grace Period:** A period during which no interest is charged on new credit card purchases, typically lasting from the end of a billing cycle to the payment due date.

12. **Hard Inquiry:** A request by a lender or creditor to review a consumer's credit report as part of a credit application process, which may have a temporary negative impact on the consumer's credit score.

13. **Interest:** The cost of borrowing money, expressed as a percentage of the loan amount.

14. **Late Payment:** A payment made after the due date specified in a loan agreement or credit card account, which may result in fees, penalty interest rates, and negative credit reporting.

15. **Line of Credit:** A flexible borrowing arrangement in which a lender extends a specified amount of credit to a borrower, who can draw on the credit as needed and repay it over time.

16. **Minimum Payment:** The smallest payment a borrower is required to make on a credit card or loan each month to avoid penalties.

17. **Origination Fee:** A fee charged by a lender for processing a new loan or credit account, often expressed as a percentage of the loan amount.

18. **Prepayment Penalty:** A fee charged by some lenders if a borrower pays off a loan before the end of its term.

19. **Principal:** The original amount of money borrowed, not including interest or other fees.

20. **Revolving Credit:** A type of credit, such as a credit card or line of credit, that allows borrowers to repeatedly draw on and repay funds up to a specified limit.

21. **Secured Loan:** A loan that requires collateral, such as a house or car, which the lender can claim if the borrower defaults on the loan.

22. **Soft Inquiry:** A request to review a consumer's credit report that does not impact their credit score, such as when a consumer checks their own credit or a lender pre-approves a credit offer.

23. **Unsecured Loan:** A loan that does not have collateral, and consequently has higher interest rates due to the increased risk for the lender.

24. **Variable Interest Rate:** An interest rate that can change over time based on market conditions or other factors specified in the loan agreement.

25. **Credit Utilization Ratio:** The percentage of a borrower's available credit that is currently in use, this is calculated by dividing the total balances on the credit lines by the total credit limits.