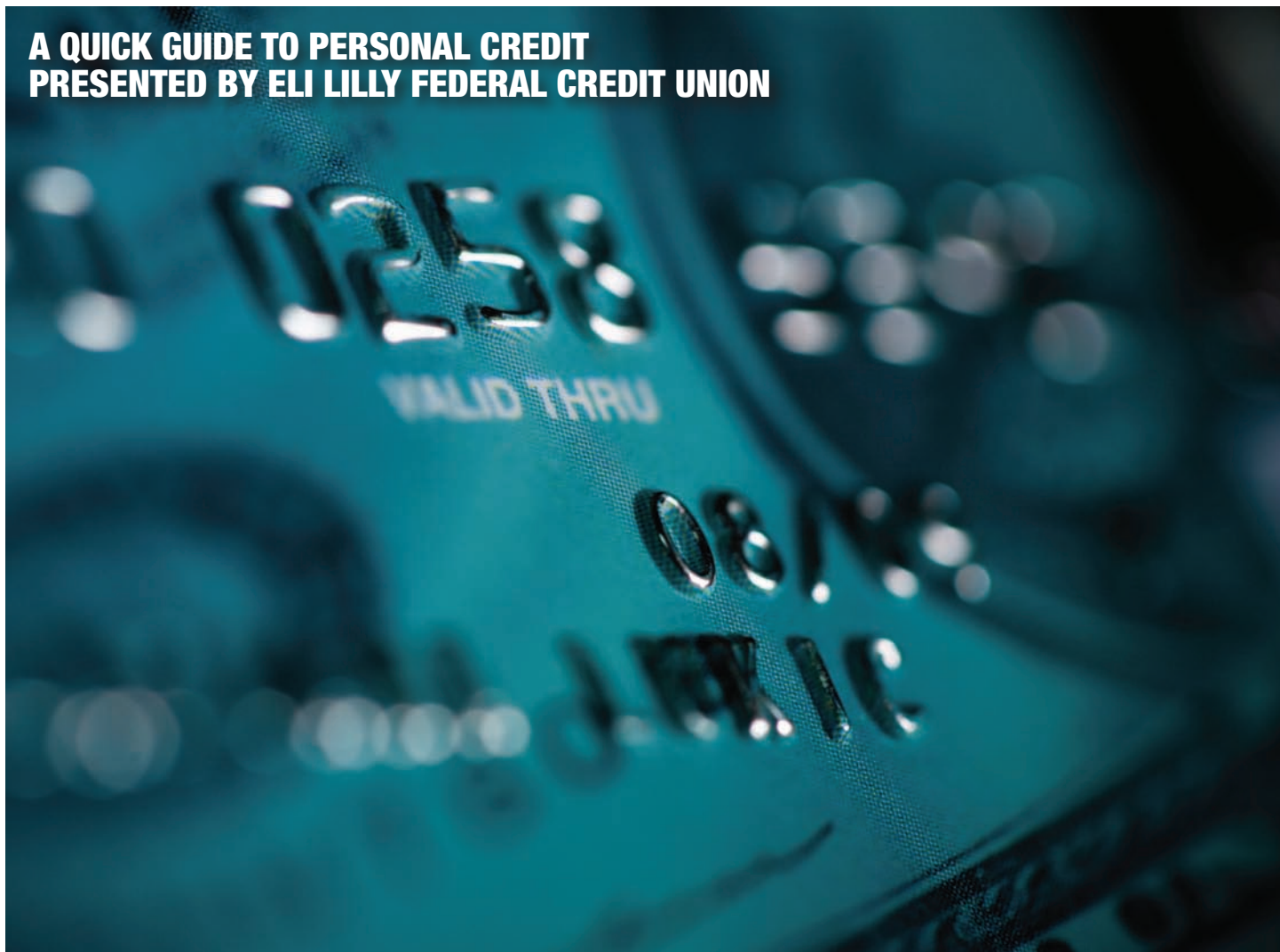


CURIOUS ABOUT CREDIT? UNDERSTAND IT. CONTROL IT. IMPROVE IT.

**A QUICK GUIDE TO PERSONAL CREDIT
PRESENTED BY ELI LILLY FEDERAL CREDIT UNION**



YOUR CREDIT MEANS A LOT TO YOU AND HAS A BIG IMPACT ON YOUR FINANCIAL LIFE.

It can mean the difference between getting the lowest rate on a loan vs. the highest. Landing a job vs. getting passed over. Renting that apartment you love vs. the one you have to settle for.

Ultimately, your personal credit rating can help you or hurt you, depending on where it falls. If it's strong, you might have been able to increase your credit card limit recently. If it's not so strong, you might have been denied an auto loan to buy your dream car.

The credit counseling experts at Eli Lilly Federal Credit Union have created this guide to share their expertise and empower you with knowledge, tips, and action items. Please use this resource to understand the big picture that is your personal credit and how you can control and improve it.



ELI LILLY
FEDERAL CREDIT UNION

UNDERSTAND IT YOUR CREDIT REPORT

Your credit report is a document that keeps track of your personal information and how you manage your money over time. The data in your credit report comes from your creditors, public records, and debt collection agencies. Essentially, this report is the foundation of your finances.

There are three major credit reporting agencies:

Equifax
800-685-1111
equifax.com

Experian
888-397-3742
experian.com

TransUnion
800-888-4213
transunion.com

Although each credit reporting agency formats, presents, and analyzes information a bit differently, all credit reports contain basically the same categories of information.

THE FIVE INFORMATION ZONES

Your credit report includes the following:

IDENTIFYING INFORMATION

These details are based on the information you supply to lenders. Includes your name, address, Social Security number, date of birth, driver's license number, and employment history.

TRADE LINES

These are your credit accounts. Lenders report on each account you have established with them, including the type of account (bankcard, auto loan, mortgage, etc.), the date you opened the account, your credit limit or loan amount, the account balance and your payment history.

INQUIRIES

When you apply for credit, you authorize a lender to request a copy of your credit report. The inquiries section contains a list of everyone who has accessed your credit report within the past two years. The report will list both "voluntary" inquiries (your own requests for credit) and "involuntary" (when lenders have ordered your credit report to make you a credit offer — often by mail).

PUBLIC RECORDS

This information comes from state and county courts: bankruptcies, foreclosures, suits, wage attachments, liens and judgments.

COLLECTION ITEMS

Details from collection agencies regarding any overdue debt in your name.

YOUR FREE COPY

All American consumers are entitled to a free annual credit report, available through the website, telephone number and address listed below. You can also request reports directly from the three nationwide credit reporting agencies, but these will not be free of charge.

Online

You can view and print your report online now. It's quick, easy and secure. Visit annualcreditreport.com.

By Phone

Call 1-877-322-8228 to request your credit report by phone. You will go through a simple verification process; then you will receive your report in the mail.

By Mail

You can request your credit report by mail. Print and complete the request form available at annualcreditreport.com and send it to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Your reports will be mailed to you within 15 days. You can actually obtain a free report from each bureau, every year. Consider staggering your requests for the three individual reports throughout the calendar year so you can closely monitor your credit.

MISTAKES HAPPEN

It's important to review your credit report at least once per year and especially before making a large purchase such as a house or a car. This type of monitoring can help you detect errors or even credit fraud under your good name.

When a credit report does contain errors, it's often because the report is incomplete or contains information about someone else. This typically happens because:

- **You might have applied for credit under different names or you failed to add Jr. or Sr. to your name** (e.g. Robert Jones vs. Bob Jones).
- **Someone made a clerical error** while reading or entering your name or address information from a handwritten application.
- **You provided an inaccurate Social Security number,** or the number was misread by the lender.

If you find a mistake, report it to the credit reporting agency. The agency must investigate and respond to you usually within 35 days of receiving notice of your dispute. You have the right to dispute errors on your report and ask that they be deleted. In fact, disputes can also be logged at annualcreditreport.com, the same website where you order your free credit report.

TIP

There's only one authorized online source for your free credit report: annualcreditreport.com. Be sure to spell it correctly and be cautious of "impostor sites" that look and sound similar. Others claim to offer free credit reports, but might charge you for other products if you accept a free report. Additionally, annualcreditreport.com will never send you email solicitations or use pop up ads.

TIP

Use your credit report to protect yourself. If you suspect your identity has been stolen, contact the fraud department at any of the three major credit bureaus and place a fraud alert on your file as soon as possible. Also, close any accounts that appear to have been tampered with and file both a police report and a complaint with the FTC.

UNDERSTAND IT YOUR CREDIT SCORE

For consistency each credit bureau uses the FICO® (Fair Isaac Company) scoring system to calculate a credit score based on the information in your report.

This three digit number measures your credit risk to lenders and other interested parties. It considers your debt repayment history and your likelihood to repay future debt. This score ranges from 300 to 850, and the higher your score, the better. When you apply for a loan, this score is a large factor in the creditor's decision. This score affects the interest rate you receive if approved.

A good credit score is generally considered to be 700 or higher. Individuals with a score at this level will probably find it easier to borrow on better terms and at lower interest rates. Your free credit report will not include your credit score, but you can request it for a small fee when you order your report.

CRUNCHING THE NUMBERS

The factors that make up your credit score fall into five main categories. Each one has a value that reflects the impact it has on your score:

35% YOUR PAYMENT HISTORY

Your score is based largely on whether or not you make payments on time. Considers details of missed/late payments and any public record/collection items.

30% AMOUNTS YOU CURRENTLY OWE

Almost a third of your score is based on how much credit you've been granted versus how much you've used. As the gap between your limits and your balances narrows, your credit score drops.

15% LENGTH OF YOUR CREDIT HISTORY

Looks at the amount of time since your trade lines were established — the longer, the better. This value also considers the time since and between your transactions.

10% NUMBER OF NEW CREDIT ACCOUNTS YOU'VE OPENED

New credit variables include the number of accounts you've recently opened and the time since you've opened them, plus the types of recent credit inquiries made.

10% TYPES OF CREDIT YOU USE

Analyzes the variety you have among your accounts. You should have a good mix of credit cards, retail accounts, installment loans and a mortgage. This factor also considers whether or not you're using finance companies to obtain credit, which can have a negative impact on your score.

WEIGHING THE POTENTIAL FOR DAMAGE

FICO recently revealed the impact of the most common credit mistakes on your score. “Damage points” affect borrowers differently. Consumers with good or excellent credit will be hit harder than people with average credit scores.

For instance, a late payment of 30 days or more will cost someone with a score of 780 a decrease of 90 to 110 points while someone with a score of 680 will lose 60 to 80 points. This is a good reason to maintain on-time payments, even if it has to be the minimum payment during challenging financial periods in your life.

According to FICO, bankruptcy carries the heaviest impact to a score (up to 240 points), with foreclosure next (up to 160 points). Maxing out a credit card has the lightest impact (as few as 10 points).

To learn more about your FICO score, visit myfico.com to find a wealth of information. You can check your credit score there for a small fee.

DAMAGE POINTS: HOW MISTAKES AFFECT FICO SCORES

CREDIT MISTAKE	IF YOUR CREDIT SCORE IS 680	IF YOUR CREDIT SCORE IS 780
Maxed-Out Card	Down 10 to 30 pts.	Down 25 to 45 pts.
30-Day Late Payment	Down 60 to 80 pts.	Down 90 to 110 pts.
Debt Settlement	Down 45 to 65 pts.	Down 105 to 125 pts.
Foreclosure	Down 85 to 105 pts.	Down 140 to 160 pts.
Bankruptcy	Down 130 to 150 pts.	Down 220 to 240 pts.

Source: FICO

WHAT'S NOT IN YOUR SCORE

These facts do not affect your FICO® score:

- Personal information such as race, religion, national origin, sex, marital status, age, and where you live
- Work information such as salary, occupation, title, date employed or employment history
- Interest rates you pay on credit cards or other accounts
- Items reported as child/family support obligations
- Rental agreements
- Whether or not you're participating in any kind of credit counseling

TIP

Derogatory information has a large impact on your score, remaining on file for 7 to 10 years, based on the type of information.

ANOTHER TYPE OF SCORE

The bankruptcy risk score (or BNI score) is another influential number and ranges from 1 to 300, with 300 being the best. The bankruptcy risk score measures how likely a person is to file bankruptcy and is geared specifically to lenders. The variables for the bankruptcy score come directly from your credit report — things such as how your credit is used, how often a bill payment is late, and the number of inquiries you've made.



UNDERSTAND IT THE PRICES YOU PAY

Most lenders today use a risk-based pricing method to determine the interest rates on your loans. Your credit score directly affects how your loans are priced.

A RISK-BASED PRICING SCENARIO

The best way to understand risk-based pricing is to consider an example. This one refers to an Auto Loan:

SALLY HAS A FICO SCORE OF 520

and wants to purchase a used SUV priced at \$20,000 for a 60 month term. At the credit union, Sally's interest rate could be 16.69% Annual Percentage Rate based on that 520 credit score. And her monthly payment would be \$496 per month.

RACHEL, WHO HAS A FICO SCORE OF 740,

could purchase the same \$20,000 SUV with the same 60 month term for \$382 per month because her interest rate could be 5.44% APR. Thanks to Rachel's higher credit score, she would be able to buy the same car on the same term and pay \$114 less per month than Sally, who pays \$6,480 more over the life of the loan!

The person with the higher credit score is considered less of a payment risk than the person with a lower score; therefore, the person with the better credit score pays a lower interest rate under the risk-based pricing system.

Here's another example of how your credit score might affect the interest you pay on a personal loan:

FICO SCORE	ANNUAL PERCENTAGE RATE*
720–850	5.512%
700–719	5.637%
675–699	6.174%
620–674	7.324%
560–619	8.531%
500–559	9.289%

*For illustration purposes only.

The Philosophy of Risk-Based Pricing

The main criticism among consumers has been that risk-based pricing can make shopping for the best interest rates much more difficult. It can be hard to determine at a glance what your interest rate might be or if you can even qualify to get an advertised rate. That's why it's important to ask questions and do your research when it comes to rates.

While risk-based pricing might seem unfair to those with lower credit scores, this system is keeping those same people from being turned down for a loan. Also, as people work to repair their credit and their credit scores rise, they should consider refinancing their loans to obtain a more favorable interest rate. With a better rate often comes a lower payment or a shorter repayment period.

In a nutshell, risk-based pricing is simply tiered-rate pricing where different interest rates are assigned to different buckets. Your individual credit score determines which rate bucket will be yours.

CONTROL IT

REVOLVING CREDIT

The way you use revolving credit can have a big impact on your credit score.

Revolving credit is any credit that you can use and reuse. Examples include credit cards and lines of credit. As long as you make payments, you continue to have access to the credit up to your limit.

As an example, if your credit limits on revolving credit total \$10,000 and your current balances total \$5,000, you have used 50% of your available credit and this will have a negative impact on your credit score. Thirty percent of your score is derived from the spread between your credit limits and your total outstanding

balance. Optimally, you should keep the percentage used below 30%.

(See "Capacity is King" on page 10.)

Also keep in mind, when you use revolving credit and make only the minimum payment each month, a balance as low as \$1,900 could take up to 23 years to pay off and the interest you pay could far exceed the original \$1,900 you charged. This is the reason you hear about people borrowing from another source to pay off credit card debt. In many cases, restructuring your debt and moving it from credit cards can save you money on monthly payments and on your interest paid.

AVOID A DOWNWARD SPIRAL

It's easy to experience a fall from grace when it comes to credit cards. Take these items into consideration to prevent a pattern of credit behavior that can be tough to change:

- Any late payment on your credit report can trigger a rate increase on your credit cards. While utility bills are not reported to the credit bureau each month, they should still be paid on time.
- Make your payment before the actual due date. In some cases, the deadline for your payment is a specific time in the morning or afternoon. If you pay after that time on the due date, you're still considered late.
- Late fees add up. They're either fixed or percentage-based. The latter can cost you hundreds of dollars if you carry a large balance.
- Your rates and fees are continually changing. Stay in the know about the pricing on your cards.
- Going out of the country? Count on paying a 1 – 3% fee on all purchases plus a standard 1% exchange rate fee.
- Cash advances carry higher APRs as well as percentage-based fees.
- Once you've established hefty credit card balances, you might notice an influx of "debt relief" and "credit counseling" marketing offers in your mailbox. Be selective about these services and aware of charges for this.

PAY OFF YOUR PLASTIC

If you already have credit card debt, take control of it now. Here's where to start:

- Stop swiping. Put your cards away so you won't add to your debt.
- Pay beyond the minimum on each card every month. Budget as much as you can afford toward paying off your cards.
- Combine your debt. You could save by transferring balances onto your cards with lower interest rates.
- Consider taking out a loan to pay off your cards. Your loan might get a lower interest rate than your cards and you will have a confirmed payoff date.
- Call your creditors and ask for lower rates.
- Don't put all your money into paying off debt. Put some cash aside for emergencies.

ADVICE ON BALANCE TRANSFER DEALS

When considering a balance transfer to another credit card with a lower interest rate, always read the fine print. For example, a zero percent interest rate can jump to 35% if your payment is received as little as one day late. There is no going back to 0%. You have to determine if the deal is worth the risk.

If you decide to go ahead and open a new card and transfer the balance, don't close your old card. Closing cards decreases the amount of your available credit and directly affects your credit score. Keeping old cards at a zero balance requires financial discipline. The worst thing you can do is transfer a balance to a new card and then run up a new balance on an old card, leaving you with two balances to pay down.

Also be aware that when you transfer a balance you might start near the new card's limit. The first time you use it, you could max out and get hit with over-limit fees right away.

TIP

Remember: The large print giveth; the small print taketh away.

IS YOUR CREDIT OUT OF CONTROL?

Review the following list to determine if these circumstances apply to you:

- You're at or near your credit limit on your credit cards.
- You count on the "float" in order to pay your bills — writing a check hoping you'll be able to cover it by the time it clears your account.
- You're unsure of the total amount you owe on all your debts.
- You take out cash advances on your credit card to pay other bills.
- You've tried to make a purchase with your credit card and have been declined.
- You've been denied credit.
- You bounce checks.
- You get calls from collectors.
- You're not honest with your family members about your spending.
- You hide credit card statements from family members.

If you agreed with any of these statements, you might have a problem with credit and debt. Take action now!

IMPROVE IT

STEPS TO IMPROVE YOUR CREDIT

As referenced, your credit score can be checked by a number of influential people, including loan officers, potential employers, life insurance providers, landlords and utility companies.

With a good score you can usually get loans and credit more easily and at better rates.

A lower score is viewed as an indicator of irresponsibility and can hurt your chances of getting a loan, mortgage, or insurance.

HOW TO BRING UP YOUR SCORE

- Bring all your accounts current as soon as possible to avoid keeping late or missed payments on your record.
- Wait until your score improves to apply for any new credit. Rejected credit shows up negatively on your credit report.
- Don't open multiple new accounts too rapidly. This can bring down your score.
- Adjust your credit usage. Keep your account balances well below your available credit limit.
- Never close your oldest revolving account. A long-term relationship with a creditor can have a positive impact on your score.

TIP

To reduce the number of inquiries against your credit, opt-out of direct mail offers and preapprovals by requesting a block via the credit agencies, calling 888-567-8688, or visiting optout.com.



CAPACITY IS KING

Consumers often pay off credit cards and immediately close the accounts to improve their credit score. Little do they know that closing accounts can have a negative impact because they're reducing their credit capacity.

One way to raise your score is to raise your capacity. The scoring model looks at your total revolving limits available. The more you can pay off and leave open, the better off your score will be.

For example, your credit card limits total \$10,000 and your balances total \$4,000, so you have 60% available. As the gap between your limits and your balances narrows, your credit score drops. So you shouldn't close your cards as you pay them off. You need to keep those accounts open to help your ratio. In fact, a best practice is keeping your balances below 30% of your available credit. Zero balances will help you achieve this.

TIP

If you've closed any revolving accounts recently, hoping to improve your score, try this: call the lenders of the accounts you've just closed and ask to reopen them with your original open date.

TIP

Use an old card at least every few months, and pay it off in full.

CONSOLIDATE AND REFINANCE

Reduce the time it takes to pay off your debt, improve the rates you're paying, and raise your credit score by consolidating and refinancing your existing credit obligations.

Consolidating credit cards to a closed-end loan usually results in a much lower rate and discourages you from racking up more debt, which is what happens with revolving credit.

A home equity loan is often a smart way to consolidate:

- Interest rates on home equity loans are almost always less than what you're paying on your credit cards.
- You can combine several credit card balances into one monthly payment, which will probably be lower than your combined minimum payments on the cards.
- Home equity loans give you the added bonus of possible tax-deductible interest. (Be sure to consult with a tax advisor.)

Refinancing certain loans you're carrying is another good idea. For starters, think about how you pay for your car. Consider these aspects of moving your auto loan:

- You can adjust your term to suit your budget.
- You might find a better rate.
- You might be able to set up an automatic transfer, so you won't even have to think about your payment.

Once you've consolidated and refinanced your debt, you'll be on your way to a healthier financial situation, including a stronger credit score over time.



YOUR CREDIT UNION

TALK TO US FIRST

CREDIT COUNSELING CAN HELP

The topic of personal credit is a daunting one for individuals and families at all socio-economic levels. That's why many companies prey on consumer vulnerability in this area. Some disreputable debt relief companies even use and abuse non-profit status as a way to get around licensing requirements.

On the other hand, there's your credit union—a non-profit financial institution that seeks to educate members about money matters so they can improve their quality of life. Our credit counseling experts offer you complimentary, personal and confidential assistance that focuses on:

- Understanding your credit report
- Controlling your credit cards
- Improving your credit score
- Creating a budget
- Using Credit Builder savings and loan products
- Consolidating and refinancing debt

A great way to get started with our credit counseling program is to arrange for a review of your budget and credit report.

Contact Elaine Petrisin at ELFCU to schedule a personalized credit consultation: **317.276.6807** or epetrisin@elfcu.org

Meanwhile, we hope you'll find this guide useful as you chart a course toward stronger personal credit.



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HELPFUL RESOURCES

Your Free Annual Credit Report – annualcreditreport.com

Federal Trade Commission – ftc.gov

My FICO – myfico.com

An award-winning destination for credit information, tools and products that help you take control of your financial situation and save money.

What's My Score? – whatsmyscore.org

Everything you need to know about your credit, geared to college students. Sponsored by Visa.

The Three Credit Bureaus

equifax.com — experian.com — transunion.com

Each agency offers unique services aimed to help consumers learn more about their credit score and how it can be managed.

To Eliminate Prescreened Credit Offers – optout.com

Your Credit Union – elfcu.org



