



# A Credit Smart Start

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# Agenda

- **Credit Score vs. Credit Report**
- **Credit Score Components**
- **How Credit Scoring Helps You**
- **10 Things that Hurt Your Credit Score**
- **Credit Smart in 7 Steps**
- **How to Build Credit History**
- **Questions?**



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# Credit Score vs. Credit Report



## Credit Score:

A three-digit number ranging from 300 to 850 that is used by lenders to determine loan amount and terms (interest rate, etc.). Credit scores, which are based on credit history, payment behavior and debt levels may be used along with credit reports to approve or deny a loan, and may determine the loan's interest rate.

## Credit Report:

When you apply for credit, the lender reviews your credit report before approving your application. The three major credit reporting agencies are Equifax, Experian, and TransUnion. These agencies, which are also called "bureaus," collect and report information about consumers' financial habits and put the information into a credit report. Each agency's report contains the same basic information: name; social security number; current and previous addresses; details about loans and how they've been handled; public-record information, such as bankruptcies, court judgments, or liens; and a list of companies that have reviewed the credit report.

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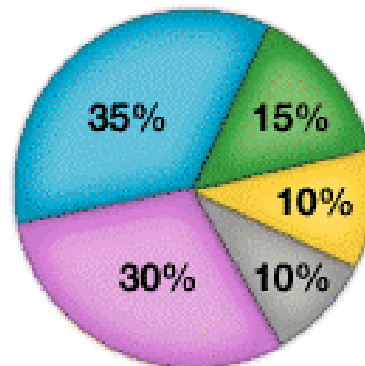


# Credit Score Components



## What Makes Up a Credit Score?

- **Payment History – Paying on Time (35%)**
- **Amounts Owed – Utilization of Credit (30%)**
- **Length of Credit History – Time on File (15%)**
- **New Credit – Search for New Credit (10%)**
- **Types of Credit – Portfolio Composition (10%)**



- Payment history
- Amounts owed
- Length of credit history
- New credit
- Types of credit used

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# How Credit Scoring Helps YOU!

Lenders use credit scores as a fast, objective measurement of your credit risk when making lending decisions.

## With Good Credit Scores:

- People Can Get Loans Faster
- Credit Discussions are Fairer
- Credit “Mistakes” Count for Less
- More Credit is Available
- Credit Rates are Lower Overall



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# 10 Things That Damage Your Score

Because creditors use your credit score to determine how creditworthy you are when you apply for credit it is important to know what things could HURT your credit score.

## 1. Paying Late

35% of your credit score is Payment History. Pay your bills on time to preserve your credit score. (Remains on report for 7 years)

## 2. Not Paying at All

Completely ignoring your bills is much worse than paying late. Each month you miss a payment brings you one step closer to charging off.

## 3. Having an Account “Charged Off”

When creditors feel that you aren't going to pay your bills/loans at all, they charge off your account. This account status is one of the worst things for your credit score.

## 4. Having an Account Sent to Collections

Creditors often use third-party debt collectors to try to collect payment from you. This status shows that the creditor gave up trying to get payment from you and hired someone else to do it.

## 5. Defaulting on a Loan

Loan defaults are similar to credit card charge-offs. A default shows that you have not fulfilled your end of the loan contract. (Remain on report for 7 years)



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# 10 Things That Damage Your Score

Continued.....

## 6. Filing Bankruptcy

Bankruptcy will devastate your credit score. It's a good idea to seek alternatives, like consumer credit counseling, before filing bankruptcy. (Chapter 13; 7 Years, Chapter 7; 10 Years)

## 7. Having Your Home Foreclosed

Getting behind on your mortgage payments will lead your lender to foreclose on your home. In turn, the late payments will hurt your score and make it harder to get approved for future mortgage loans.

## 8. Closing Cards that Still Have Balances

When you close a credit card that still has a balance, your credit limit drops to \$0 while your balance remains. This makes it look like you've maxed out your credit card, causing your score to drop.

## 9. Having High Credit Card Balances (Utilization)

The second most important part of your credit score is level of debt, measured by utilization. Having high credit utilization can decrease your credit score.

## 10. Maxed Out Credit Cards (Overlimit)

Maxed out and over-the-limit credit card balances make your credit utilization 100% utilized. This situation is least ideal for your credit score.



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# Credit Smart in 7 Steps

## 1. Keep Certain Credit Card Accounts Open

### Closed Accounts Reduce Your Available Credit

Card 1 - \$3,000 Limit with \$1,500 Balance = 50% Utilized

Card 2 - \$2,000 Limit with \$500 Balance = 25% Utilized

Card 3 - \$3,000 Limit with \$0 Balance = 0% Utilized

Total Balances = \$2,000 (\$1,500 + \$500)

Total Available Credit = \$8,000 (\$3,000 + \$2,000 + \$3,000)

Credit Utilization Ratio = 25% (\$2,000 / \$8,000)

Now, if you decide to close Card 3 because it's old and you never use it your Credit Utilization Ratio looks like this:

New Credit Utilization Ratio = 40% (\$2,000 / \$5,000)

You can see that your Credit Utilization Ratio rose from 25% to 40% by closing the unused credit card.

Length of Credit History is Important to Credit Score

Only Consider Recently Opened Accounts for Closure



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# Credit Smart in 7 Steps

## 2. Use Credit Cards Responsibly

Create a Budget & Live Within Your Means  
Be Prepared to Use It or Lose It

Issuers May Stop Reporting Highly Inactive  
Accounts to the Credit Bureaus thus Reducing  
Your Available Credit

## 3. Manage Your Outstanding Balances

Sign Up For Online Account Access & Management  
Use of Too Much Credit Can Trigger Red Flags  
(High Utilization)

Credit Scores Weigh Multiple Low Balances More Favorably  
Than One Large Balance



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# Credit Smart in 7 Steps

## 4. Don't Apply For New Credit Repeatedly

Limit the Number of Accounts You Have (2-6 cards)  
New Accounts Lower the Average Age of Your Credit History

Applications for Credit Cause Inquiries on Your Credit Report

- Single Inquiries Are Not Extremely Damaging to a Credit Score
- Multiple Inquiries in a Short period of Time Can Raise Concern



# Credit Smart in 7 Steps

## 5. Pay Fines on Non-Credit Card Bills

Unpaid Medical Bill

Forgetting to Pay a Parking Ticket or Library Fine May Negatively Impact Your Credit Score

## 6. Address Credit Report Mistakes

Review Your Credit Report Regularly

Mistakes Can Sometimes be Remedied Easily & Quickly

[www.annualcreditreport.com](http://www.annualcreditreport.com)



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## 7. Pay on Time

Late & Skipped Payments Will Decrease Your Credit Score – 35% of your score!!

Set Up Automatic Payments

Recent Negative Activity has the Most Weight on Your Credit Score

Credit Score is used as a Predictor of Future Risk



# How to Build Credit



**Your Credit History is one of the most important factors behind what ultimately makes up your three-digit Credit Score, and one that takes years to establish. And though the two overlap, without a credit history, a credit score means very little.**

**Over time, the use of credit cards, student loans, auto leases and mortgages will play a major role in determining whether you're able to obtain financing, and at what terms. It's important to make the right decisions early on to ensure you're able to GET CREDIT in the first place. The funny thing is that establishing credit is somewhat of a catch-22 because it's tough to get credit if you don't have it to begin with.**

**The best way to get started is by opening a checking and/or savings account with a financial institution. Once in place, the bank may extend you credit offers, such as a credit card to go along with your existing account. This is a simple way to build your credit history, and should open the door for more offers.**

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## Credit Score Components

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- Length of Credit History – Time on File – 15%
- New Credit – Search for New Credit – 10%
- Types of Credit Used – Portfolio Composition – 10%



## Credit Smart in 7 Steps

1. Keep Credit Card Accounts Open
2. Use Credit Cards Responsibly
3. Manage Your Outstanding Balances
4. Don't Apply for New Credit Repeatedly
5. Pay Fines on Non-Credit Card Bills
6. Address Credit Report Mistakes
7. Pay on Time

## Credit Resources

Free Credit Report (Annually): [www.annualcreditreport.com](http://www.annualcreditreport.com)

FICO Website: [www.myfico.com](http://www.myfico.com)

Credit Score Estimate: [www.mycreditscore.com](http://www.mycreditscore.com)

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# Questions?

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