Consumer Credit Education Program

Rely Credit of California

California Financing Law License #6054860

Effective Date: May 12, 2022

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Introduction

Rely Credit is committed to providing fair and accessible credit to all borrowers. This electronically written seminar is provided to you in accordance with Section 22304.5(c)(1)(b)(2) of the *California Financial Code*. It can be downloaded at no cost from our website at RelyCredit.com

This document is intended to provide helpful information to you as you decide which loan program best fits your needs. Included is information on credit scores, credit reports, and how your credit impacts the loan options available to you.

Please contact us with any questions regarding this information or your Rely Credit loan.

Contact Us: 888-964-1024

Monday-Sunday 6:00 AM – 7:00 PM PST

How an Installment Loan Works

Installment loans are a form of credit where you borrow a fixed amount (called "principal") and repay that amount, plus interest, over a set repayment schedule. Each payment you make lowers the principal and/or interest balance until the principal amount is repaid in full.

Cost of Credit – Interest Cost

Lenders make money by charging interest on the amount of principal you borrow; when you repay the loan, your total of payments will be more than the principal amount, and the amount greater than the principal amount is the interest charge. The interest charge is presented to you as a percentage, and this is used to calculate how much each installment payment will be and the total amount you will repay. Federal law requires that lenders disclose these amounts, in addition to others, to you on the loan agreement.

For example, you might be offered the following loan terms:

Principal Amount (the amount you are borrowing): $1,000
Interest Rate: 36%
Number of Payments: 12
Payment Amount: $100.53
Payment Frequency (how often you will make a payment): Monthly
Total of Payments: $1,206.40

This means that you will make a payment of $100.53 every month for 12 months. The total amount of interest you will pay, also known as the total cost or interest cost, of the loan is $206.40.

You can use this information to compare lenders and find the one that provides the most favorable loan terms (i.e., the loan with the lowest interest cost).

Loan Payment

Installment loans are repaid based on a fixed payment amount and schedule. Your payment amount is a calculated based on the principal amount, interest rate, repayment frequency (e.g., monthly), number of payments, and first payment period (i.e., the number of days between origination and your first scheduled payment. You will pay-off your loan if you make each scheduled payment on-time and in full.

California law also allows you to pay-off your loan early at no additional cost. You are encouraged to pay as much as you can when you can. Doing so allows you to save on interest cost and reduce the overall cost of your loan.

The Value of Establishing a Credit Score

Lenders use your credit score and your credit report to evaluate how you have performed managing past credit obligations. Your score reflects your history of paying your bills on time, and it is used by lenders to predict how well you will pay future obligations. Credit scores range from 300 to 850 and having a good credit score will help you obtain more favorable credit terms.

If you've never used credit or have a history of not managing your credit well in the past, you may receive less favorable offers of credit or may even be declined. Building a good credit history takes time and effort, and it is important that you start early and work to build it before you really need it.

Ways to Establish a Credit Score

Get a Credit Card and Use it Wisely

An effective way to start building credit and improving your credit score is through a credit card, so long as you use is wisely. Credit cards can be a quick route to debt if misused but are a good tool for building credit if you follow some basic steps. Look for a card with a low spending limit and spend only what you can afford to pay-off every month. The low spending limit will help prevent you from overspending, and budgeting what you can spend each month will allow you to not incur any interest charges that increase your balance.

One option is a secured credit card. This type of credit card is backed by a cash deposit that usually equals your credit limit (i.e., the maximum amount you can charge to the card). Like a traditional credit card, you build credit by making purchases, keeping your balances low, and making on-time payments every month. These cards differ from traditional credit cards because they are secured by the cash deposit.

Another option with a credit card is to become an authorized user on someone else's card or by opening a joint account. By partnering with someone who already has established credit you are able to use their history to get a lower interest rate, and by making on-time payments, you also help to build your own credit. Both you and the other person on the account are responsible for repaying charges on the card, and both of your credit scores will be impacted by the payments made. Parents may choose to help their children build a credit history by adding him or her to their existing card.

Build Credit Without a Credit Card

If credit cards are not your thing, there are many other options to help you build your credit.

Pay your Bills on Time

Simply paying your monthly bills on-time can help you build credit. Rent-reporting companies often report your rent payments to one or more of the credit bureaus. Not all rent companies do this, and your payments may not actually affect your score even if they are included in your credit report. You can find companies who do report through a quick internet search but be sure to ask of any limitations or fees they may charge for this.

Paying your utility bill each month can help also help build your credit history. In the past, utility bills could only hurt your credit score because only non-payments were reported. This has recently changed when one of the credit bureaus, Experian, started offering a service that includes your successful utility bill payments in your credit score.

Get an Installment Loan

An installment loan is where you borrow a specific amount of money and repay it through regularly scheduled payments. Most installment lenders will report your successful payments to credit bureaus, and this can help to improve your credit history.

There are different types of installment loans to consider, and each has their own risks and benefits. Vehicle and student loans are types of installment loans. Vehicle loans are one type, and the loan is secured by the car; the lender has a right to take the car if you fail to repay the loan. This protects the lender if you are unable to repay the loan. Student loans are used to help pay for your education. They are often unsecured, but they also have specific rules you must follow for repayment.

There are other unsecured loans that can be obtained through internet or store-front lenders. Unsecured loans tend to have higher interest rates, making them more expensive, but can also be obtained without substantial credit history. It is important that you read and understand the loan contract prior to signing for any loan.

You may need a co-borrower for an installment loan if you have little to no credit history. Like a joint credit card, a co-borrower on a loan is someone with established credit who is also responsible for making sure the loan is repaid.

No matter what type of installment loan you choose, be sure to ask the lender if they report favorable payment histories to the credit bureaus.

Ways to Improve a Credit Score

Know Where You Stand Today

The first step to improve your credit score is to first understand what your score is today. This can be done online for free. Your score will also include information about which factors are affecting your score the most, and these help you understand what changes you can make to start improving the score. All three of the major credit bureaus offer a way to check your score, and you can order your report for free at www.annualcreditreport.com.

Pay Your Bills on Time

Your credit score reflects your willingness and ability to fulfill your obligations. The best way to improve this score is to meet these obligations on-time and in full. Lenders look to your past performance as in predictor of your future performance.

You can influence this by paying all your bills as agreed. Paying late or paying less than you owe can negatively impact your credit score. It's a good idea to leverage available tools to help you meet your obligations. Things like automatic payments and calendar reminders help you keep on track.

If you fall behind, it's important that you catch up as soon as possible. Negative information stays on your credit score for seven years, but its impact declines over time as you bring yourself current.

Payoff your Debt and Keep Balances Low

One important aspect of your credit score is your credit utilization. This is calculated by adding all your credit card balances at a given time and dividing that amount by your total credit limit. For example, if your monthly balance is $3,000, and your total credit limit is $10,000, then your credit utilization is 30%.

It is best to keep your utilization under 30%, and lower is always better. Lenders look to this ratio as an indication of how you manage your credit. You can lower this utilization by:

- Keeping your overall balances low
- Payoff as much debt as you can
- Becoming an authorized user on another person's account and making on-time payments

Only Apply for New Credit as Needed

Use credit only as you need it; don't open accounts just to have a better credit mix. Having many open accounts can harm your credit score by creating too many inquiries on your credit report, and by tempting you to overspend.

Don't Close Unused Credit Cards

It's a good idea to keep unused credit cards open, if they don't have annual fees that cost you money. By closing the account, you are lowering your credit utilization, and this can negatively impact your credit score.

Be Careful How Many Times You Apply

Applying for credit causes hard inquiries on your credit report; the lender requests your credit information from the credit bureau, and the credit bureau records this. Too many of these inquiries can lower your credit score. Hard inquiries remain on your credit report for two years.

Monitor Your Credit Report

Just as you need to know where you stand today, it is also important that you actively monitor your credit report and dispute any inaccurate information. Incorrect information on your credit report can lower your credit score. You should check your credit report at least annually and verify that the accounts listed are correct. Any errors you find should be disputed and correct right away. Errors can be disputed by contacting the credit bureau and/or the lender.

Factors that Impact a Credit Score

The Top Five Factors

There are many things that impact your credit score, but here are the most common:

1. **Payment History**
   Your past performance in repaying credit obligations is the most important aspect of your credit score. Even one payment can negatively impact your score. Lenders want to know that you make payments on-time and in the agreed upon amount. Payment history accounts for approximately 35% of your FICO credit score
2. **Credit Utilization**
   Your credit utilization is your total balances divided by your total credit limit. This ratio tells lenders how much of your available credit you're utilizing and gives them an idea of how reliant you are on non-cash funds. You want to keep your credit utilization under 30%. Credit utilization accounts for approximately 30% of your credit score.
3. **Credit History Length**
   How long you've held credit accounts makes up approximately 15% of your FICO credit score. This is determined by the age of your oldest credit account, the age of your newest credit account, and the average age of all your accounts. Typically, the longer you've held credit, the higher your credit score.
4. **Credit Mix**
   Your credit score can be improved by holding a diverse mix of credit account types. Different account types include car loans, credit cards, student loans, mortgage loans, and other loan types. Most credit score models consider both the types of accounts you hold, how many of each you hold, and how well you can manage different account types. Credit mix accounts for approximately 10% of your credit score.
5. **New Credit**
   Opening many new accounts at one time can lower your credit score. Too many accounts or inquiries can indicate to lenders that you are an increased risk, and this hurts your credit score. The number of recently opened accounts makes up approximately 10% of your credit score.

Types of Accounts that Impact Credit Scores

Your credit file contains information about the credit accounts you maintain, these are typically categorized as installment loans or revolving credit.

- **Installment loans** are those where you borrow a fixed amount and repay that amount, plus interest, through regularly scheduled payments. Student loans, car loans, and mortgage loans are examples of installment loans.

- **Revolving credit** accounts are open-ended accounts where you are given a limit that you may have outstanding at any given time, but you can make multiple draws for different amounts based on your needs. You repay the amount borrowed through scheduled payments based on how much you have outstanding. Home equity loans, credit cards, and personal lines-of-credit are examples of revolving credit accounts.

How Does Having Different Accounts Affect Your Credit Score?

The mix of credit you maintain – the diversity of your credit accounts – is an important factor in your credit score. By maintaining different types of credit, such as mortgages, car loans, etc., shows future lenders that you can successfully manage different types of debt at one time. It is not recommended that you open a lot of credit accounts just to achieve this mix, it is recommended that you consider your credit mix when making credit decisions.

What Can Hurt Your Credit Score

There are many different aspects to your credit score, and, consequently, many things that can negatively impact it. Here are a few of the most common:

- Missing Payments
    - Your credit score reflects your ability to repay credit. Therefore, your payment history is the most important aspect of your credit score. Even one missed payment can lower your score.
- Using too much credit
    - A credit utilization exceeding 30% can be a red flag to future lenders that you are dependent on credit and will be unable to repay a future loan. Credit utilization accounts for approximately 30% of your credit score.
- Applying for too much credit
    - A hard inquiry is recorded on your credit file each time you apply for new credit. These inquiries stay on your file for two years, and they can lower your credit score. Too many inquiries in a short period indicate to lenders that you are in a tough financial spot or that other lenders have denied you credit, and both negatively influence your credit score.
- Defaulting on accounts
    - Negative outcomes on credit accounts, such as foreclosures, repossessions, charge-offs, settlements, etc., can stay on your credit file for up to a decade and significantly lower your credit score.

How to Check Your Credit Score

It is important to actively monitor your credit score and record. There are many ways to do this:

- Visit the free credit scoring website www.annualcreditreport.com. This site consolidates reports from the major credit bureaus and allows you to obtain your report for free once a year.

  Contact the bureaus directly and request a copy of your credit report. The three major bureaus (Experian, TransUnion, and Equifax) each have programs that allow you to request a copy of your report, although fees may apply.

To purchase a copy of your report, you may contact the three credit reporting bureaus:

Experian	**TransUnion**	**Equifax**
1-888-397-3742	1-800-916-8800	1-800-685-1111
www.experian.com	www.transunion.com	www.equifax.com
PO BOX 4500	PO Box 2000	PO Box 740256
Allen, TX 75013	Chester, PA 19016-2000	Atlanta, GA 30374-0256

How to Obtain a Free Copy of Your Credit Report

AnnualCreditReport.com

The free credit scoring website www.annualcreditreport.com allows you to obtain a copy of your credit report free of charge one time each year. Federal law gives you the right to get a free copy of your credit report every 12 months.

To order, visit www.annualcreditreport.com, call 1-877-322-8228, or complete the *Annual Credit Report Request Form* and mail it to:

Annual Credit Report Request Service
PO BOX 105281
Atlanta, GA 30348-5281

Adverse Action Taken Against You

If a company takes adverse action against you, such as denying you credit, insurance, or employment, based on information in your credit report, federal law requires the company to provide you a copy of your credit report at no charge. You have up to 60 days from the action to request a copy of the report. The notice the company must provide you will include the name, address, and phone number of the credit reporting agency used to obtain your credit file.

Other Sources of a Free Report

You are entitled to a free report each year if you are unemployed and plan to look for work within 60 days, if you are on welfare, or if your credit report is inaccurate because of fraud or identity theft.

How Dispute an Error on Your Credit Report

Discovering an error on your credit report can be stressful, but there are ways to dispute and correct inaccuracies. Correcting inaccuracies can improve your credit score.

You should check all your credit reports for accuracy, and file disputes with each credit bureau separately to ensure that your information is corrected everywhere. Under the Fair Credit Reporting Act, both the credit bureau and the information provider (i.e., the person, company, or organization that furnished your credit information to the bureau) are responsible for correcting inaccurate or incomplete information.

To dispute anything on your credit report, contact both the credit bureau (using the information provided above) and the information provider.