THE GUIDE TO CREDIT SCORES:

UNDERSTAND THE POWER OF GREAT CREDIT

Want to do more with your money? Improve your credit score.

You may already know it's important to have good credit to qualify for (and get a good rate on) a car loan or a mortgage, but did you know that having good credit can also positively affect other aspects of your life? Good credit can lead to lower cellphone bills and better insurance rates and may even help you land that dream job.

Your credit impacts every aspect of your financial life. That's why it's so important to take the time to build and maintain your credit reputation. In doing so, you'll be giving yourself a distinct advantage: You'll have more purchasing power today, and you'll be in a better financial position to achieve your long-term goals.

IN THIS GUIDE, YOU'LL LEARN:

- What credit is and the difference between credit reports and credit scores.
- How credit scores are determined.
- Examples of how having good credit improves your purchasing power.
- Steps you can take today to establish, build and protect good credit.

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Northwestern Mutual®

CREDIT BASICS: WHAT IS CREDIT, AND WHAT'S THE DIFFERENCE BETWEEN A CREDIT REPORT AND A CREDIT SCORE?

Credit is the exchange of value today for payment in the future. There are many different types of credit; here we've outlined three of the most common.

REVOLVING CREDIT. Most credit cards and store cards are forms of revolving debt in which you are given a credit limit and you can make charges up to that limit. You make payments on the balance each month (which can vary depending on how much you charge), and you can either pay it off entirely or you can carry a balance forward to the next month and pay interest.

INSTALLMENT LOANS. Car loans, student loans and mortgages are all examples of installment loans; you agree to pay a fixed amount in regular installments over a specific period of time. You make payments until the loan is paid off; and at that point, the loan is closed.

SERVICE (OPEN) CREDIT. Service credit is most commonly provided by utility, cable and cellphone companies. Typically, this is credit you repay monthly based on a service a particular company is providing.

As you establish and use various types of credit, your credit activity is monitored by three credit reporting bureaus: Equifax, Experian and TransUnion. Each of those agencies regularly evaluates the way you use and repay credit—information that's used, in turn, to create your personal credit report and calculate your credit score.

WHAT'S THE DIFFERENCE BETWEEN YOUR CREDIT REPORT AND YOUR CREDIT SCORE?

CREDIT REPORTS (See example from Experian)

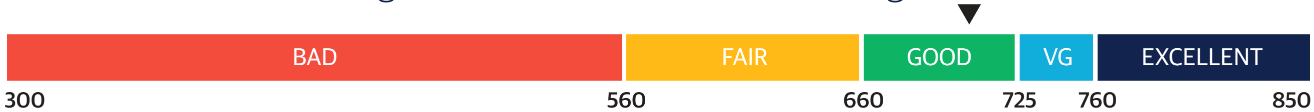
Your credit report details your history with credit. It goes back as far as 10 years and shows:

- How often you've applied for credit.
- How much credit is available to you.
- The type of credit you have.
- How long you've had credit.
- Whether you pay your bills on time.
- Whether you've had a bill go into collection, had a lien filed against you or filed for bankruptcy.

CREDIT SCORES

Based on the information contained in your credit report, each of the three credit bureaus calculates your credit score. It's a snapshot of your recent credit track record and indicates the likelihood you'll pay your debts on time. The most widely used credit score is a FICO® Score, which can range from 300-850. The higher the FICO® score, the better.

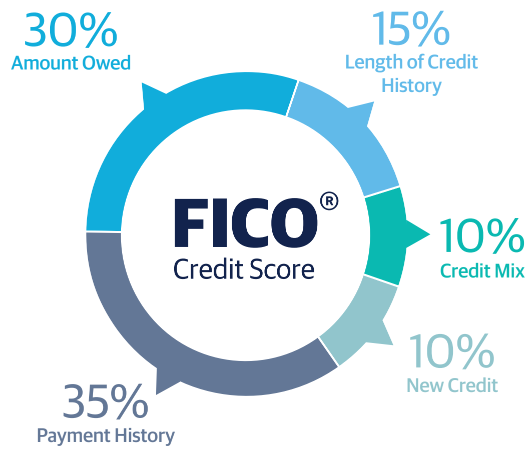
In 2015, the national average FICO® Score was at an all-time high: **695***



* FICO, US Credit Quality Continues To Climb – But Will It Level Off? August, 2015

HOW FICO® SCORES ARE CALCULATED

FICO® Scores are calculated based on five categories of information contained in your credit report, with each category carrying a weight that reflects its relative importance. For example, your payment history—the single most important factor—accounts for 35 percent of your overall credit score.



THE BIGGEST IMPACTS TO YOUR CREDIT SCORE

How do you know if you're doing well or not-so-well in each of the five categories? Here's a summary of what to look for and how to make improvements to your score in each category.

	How it helps your score	How it hurts your score	How to improve your score
Payment History (35%)	Paying on time and paying at least the minimum payment is the most important factor in calculating your score. Good payment history shows financial responsibility.	Having late or missing payments can have a major negative impact on your score. They will remain on your credit report for as many as 7 years.	If you don't have any credit history, start by getting a credit card (store credit cards are often easier to qualify for). Use it regularly, and pay it off completely each month. If you've missed a payment on an existing account, make it a priority to get and stay current. Over time, your score will improve.
Amount Owed (30%)	Paying installment loans and keeping your revolving debt below 30 percent of the total available credit indicates a greater likelihood you'll be able to repay lenders.	Maxing out your credit cards or even closing out a card can have a negative impact on your score. It raises the percentage of available credit used and indicates possible issues for making additional payments in the future.	Regardless of how much credit may be available to you, keep balances and overall debt low. If you're overextended, ask your lenders if they're willing to work out alternative payment plans.
Length of Credit History (15%)	The longer your track record of responsible bill-paying behavior, the better. Creditors look at the age of your accounts and how long it's been since you've used them.	If you're relatively new to credit, be careful not to open a lot of new accounts in a short amount of time. Doing so will further reduce the average age of your accounts.	Establish one or two accounts (don't open many accounts at the same time) as early as possible, and use and pay them on time. Be careful closing old accounts; they contribute to your length of credit and total amount of credit available.
Type of Credit / Credit Mix (10%)	Having a mix of credit cards and installment loans with good payment history will help your score.	Someone with no credit cards, for example, tends to be viewed as a higher risk than someone who's managed credit cards responsibly.	Aim to have more than one form of credit without opening too many accounts at one time. If you establish new accounts, make use of them appropriately.
Amount of New Credit (10%)	New credit is okay, but like most things, too much may not be a good thing.	Applying for many new accounts in a short amount of time can represent higher risk, especially if you don't have a long credit track record.	When making a major purchase like a car, avoid applying for credit at multiple dealerships for the best interest rate. Instead, do your research online, and then apply for credit only when you're ready to buy.

GREAT CREDIT MATTERS: A HIGHER SCORE INCREASES YOUR PURCHASING POWER.

It's impossible to overstate the value of good credit. Why? Because having good credit puts money in your pocket. It's that simple.

Consider the case of Natalie, age 31, who just took a job in Colorado Springs and will soon be buying a new home and a new car. Here's a comparison of what her monthly payments would be—and how much total interest she'll pay on those loans—based on two different credit scores: 650 and 775.

Home: She'll finance $300,000 on a 30-year fixed-rate mortgage.*

If her credit score is:	She'll get an APR of:	Her monthly payment will be:	And she'll pay total interest of:
650	4.33%	$1,490	$236,365
775	3.286%	$1,312	$172,159
Dollars saved with better credit score:		$178 monthly	$64,206 over the loan life

Car: She'll take out a 60-month loan for $25,000.*

If her credit score is:	She'll get an APR of:	Her monthly payment will be:	And she'll pay total interest of:
650	10.711%	$540	$7,398
775	3.302%	$453	$2,155
Dollars saved with better credit score:		$87 monthly	$5,243 over the loan life

As you can see from this example, the better her score, the better her rates. Between her mortgage and her car loan, she'll save $265 a month simply by having a higher credit score.

WHAT'S THE MINIMUM FICO® SCORE TO BE APPROVED FOR A MORTGAGE?

620

The Federal National Mortgage Association (also known as Fannie Mae) and most secondary-market investors require a minimum score of 620 for a conventional mortgage. However, the requirements vary depending on the type of mortgage and the amount of your down payment.

* http://www.myfico.com/crediteducation/calculators/loanrates.aspx

The rates are averages based on thousands of financial lenders, conducted daily by Informa Research Services, Inc. The 30-year fixed home mortgage APRs are estimated based on assuming FICO scores between 620 and 850 (500 and 619), a single-family loan amount of $150,000, 1.0 (0.0) points, with an 80% (60-80%) loan-to-value ratio. The 60-month new auto loan APRs are estimated based on assuming a loan amount between $10,000 and $20,000, a term of 60 months and interest rates that are fixed for the term of the loan.

BEYOND LOAN RATES: YOUR CREDIT IMPACTS EVERY ASPECT OF YOUR FINANCIAL LIFE.

Establishing and maintaining good credit impacts more than your ability to make big-ticket purchases like a house or a car. Your credit score can affect every aspect of your financial life—and at every stage of your life.

LANDING A JOB:

Almost half of all employers run credit checks on a portion of their job applicants.[1] What's credit got to do with being a good employee? For many employers, reducing theft and evaluating the overall trustworthiness of candidates are top reasons for credit checks. Good credit can also indicate responsible financial judgment, which will be especially important if you'll be managing money or a budget in your new role. (A potential employer will need your permission to run a credit check.)

LEASING AN APARTMENT:

Credit reports can help landlords evaluate whether a prospective tenant is likely to pay his or her rent on time. Forty-eight percent of landlords say the results of a credit check are among the top three factors used when deciding whether to accept a tenant's lease application.[2]

GETTING THE BEST RATES ON EVERYTHING FROM CELLPHONES TO INSURANCE:

Did you know that most cellphone providers run a credit check when you sign up for a new contract? Having poor credit may not prevent you from getting a phone or signing up for service, but it may cost you more. You may have to get a prepaid phone, pay full price up front for a phone or pay more for data than the great deals that are often advertised.

Insurance companies care about your credit, too. Whether you're applying for car insurance, renters or homeowners insurance or life insurance, insurance companies want to evaluate the likelihood that you'll pay your premiums on time. But they're also looking for risky behavior. If you're maxing out your credit cards and missing payments, you may be viewed as someone who poses too much risk.

A major cellphone carrier reports that at least **50% of its new customers** don't qualify for top sales promotions because of their credit.[3]

HOW DO CREDIT BUREAUS GET INFORMATION ABOUT YOU?

Many of the companies that extend credit to you—credit card companies, mortgage lenders, auto finance and utility companies, for example—report activity monthly to each of the three credit bureaus.

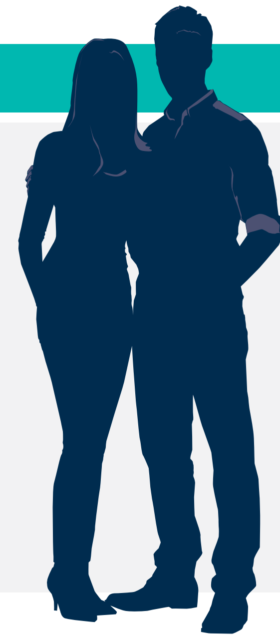
Other creditors, like doctors, dentists, phone companies and apartment managers, may not regularly report account activity, but if a bill is past due and goes to a collection agency, the delinquency will likely be reported.

[1] 2012 Society of Human Resource Management study.

[2] Source: TransUnion Survey, December 2013

[3] CNNMoney, January 2015

HOW DOES YOUR SPOUSE'S CREDIT IMPACT YOU?



It becomes a consideration only if the two of you decide to jointly apply for credit—such as having you both listed on:

- A MORTGAGE
- A CAR LOAN
- A CREDIT CARD

In those cases, according to credit bureau Experian, the lender will consider both of your credit histories when making its decision. While your history may be sparkling, your spouse's flawed history could cause you to be declined or to pay higher interest rates and fees.

TAKE CONTROL OF YOUR CREDIT: TAKE THESE FOUR STEPS TO GET THE CREDIT YOU DESERVE.

Whether you need to establish, improve or monitor your credit, take these steps:

1. **Know where you stand.** Have you ever checked your credit report? Do you know your credit score? The first step in taking control of your credit is to know where you stand. Yet, in a recent survey conducted by LendingTree®, nearly 60 percent of Americans stated they don't know their credit score.[4]

2. **Get credit report errors fixed.** Once you get a look at your credit report, check it carefully for errors; mistakes are common. The Federal Trade Commission estimates that one in four consumers find errors on their credit reports that might affect their credit scores.[5] The good news is, if you find a mistake, it's relatively easy to clear it up. Each of the credit bureaus has an online process for submitting disputes; and when you bring an error to their attention, they are legally required to respond to you or resolve the issue within 30 days.

YOU CAN GET ONE FREE CREDIT REPORT EACH YEAR

The three major credit bureaus will provide you one report each year. You can order them at AnnualCreditReport.com.*

The free reports include:

- ✔ Detailed credit and payment history information
- ✖ Doesn't include your credit score—must be purchased separately

[4] LendingTree Survey Finds Nearly 60% of Americans Don't Know Their Credit Score, LendingTree, June 2015

[5] FTC Study on Credit Report Accuracy, January 2015

* Note: Only AnnualCreditReport.com is federally authorized to provide your free report. Other sites that advertise "free" reports or monitoring are not part of the program and often have strings attached.

3. **Take steps to improve your credit profile.** Start by reviewing your credit report. It may clue you in on potentially negative items that you can begin to address.

   Best practices to improve your credit score:

   a. **Make payments on time.** FICO® recommends setting up payment reminders or having payments automatically debited from your bank account.

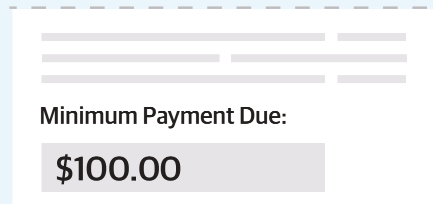
   b. **Reduce debt smartly.** Make at least the minimum monthly payment on all your bills. If you are able, pay more than the minimum on your high-interest credit cards in order to pay them down faster. It'll save you money over the long run.

   c. **Be proactive.** If you're overextended and worry that you won't be able to make all your payments, own up to the situation early and be proactive. Ask your lenders if they're willing to work out alternative payment plans so you won't fall further behind. Many will.

4. **Stay on top of it.** Your credit score will change over time, especially if you are proactively trying to improve your credit profile. So make sure to check your credit report regularly; it'll be gratifying to see the impact you're having on boosting your score. And, of course, you'll be able to spot errors quickly if they occur. The worst thing you can do is wait for a major life event (new job, divorce, marriage, home purchase) to check your credit or begin to establish credit.

THINKING OF BUYING A HOME? LEARN MORE ABOUT THE IMPACTS OF MINIMUM PAYMENTS ON DEBT.

As of June 2016, mortgage lenders have access to "trended data" showing not only that you make your monthly payments on time, but whether you pay more than the minimum. If you do, you'll be considered a lower credit risk.



Credit bureau TransUnion predicts that with this change, tens of millions of additional people will now either qualify for a mortgage or qualify for better rates and terms.[6]

SUMMARY

Financial security means so much more than having a respectable balance in your checking account. To have real purchasing power, you need good credit. Your credit impacts every aspect of your financial life, so don't leave it to chance. Be proactive about establishing credit or improving your credit score, and be diligent about monitoring your credit report. You'll be putting yourself in a better position to achieve other financial goals—both today and in the future.

In addition to establishing and maintaining good credit, creating a secure financial future also means taking steps to pay down debt, establish an emergency fund and protect your ability to earn a living with disability income insurance. So if you're not already working with a Northwestern Mutual financial professional, give us a call. We can help you see your whole financial picture and help you put a plan together to reach your goals.

[6] TransUnion CreditVision Study, 2015

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