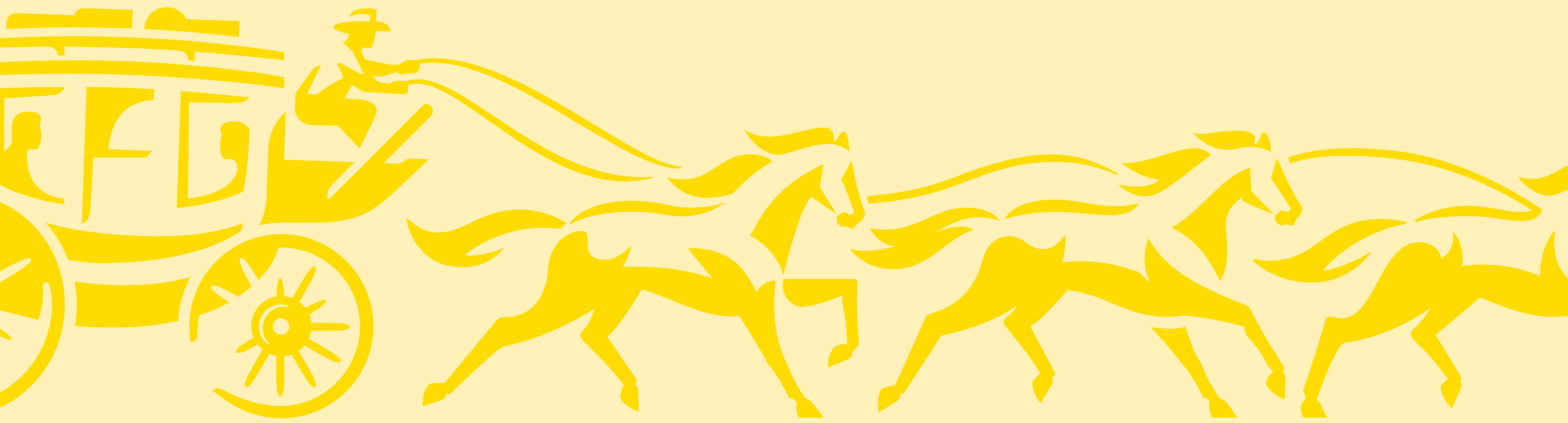
WELLS FARGO

Let's talk credit

Credit Education Guide

Welcome



Credit plays a major role in your overall financial health. Building your credit is a journey that takes time, so it's best to start sooner rather than later.

This guide, your banker, and the online tools and tips at **wellsfargo.com/smartercredit** may help you learn more and answer your questions about credit.

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The information in this document is provided for educational purposes only.

Credit basics

Credit lets you make purchases by agreeing to repay those funds later. You'll have to apply, and your application could be denied. If your application is approved, your credit limit, interest rate, and payment schedule are set by your lender. Having good credit may open the door to a variety of financing options and better rates and terms on your credit accounts.

What's a credit report?

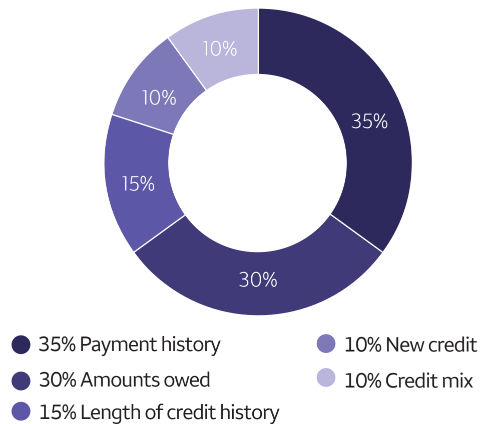
A credit report is a detailed list of your credit history. It's based on information your lenders provide about your credit accounts, your payment history, and how you manage each account. In short, your credit history reflects your ability to follow your lender's terms.

What's a credit score?

Your credit score represents how responsible you've been with credit. It's based on information in your credit report. Think of your credit score as the grade that's given to your credit report by the three national credit reporting agencies — Equifax®, Experian®, and TransUnion®. Lenders use your credit score to help evaluate your credit risk (or, the likelihood that you'll pay back the amount you borrowed plus interest). Generally, the higher your credit score, the lower your risk may be to the lender.

What makes up your credit score?

The credit reporting agencies use various measurements to calculate your credit score. The five key criteria and their impact on your credit score are listed below.



Information provided by Fair Isaac Corporation, San Rafael, California.

What does a credit score mean?

A good credit score usually makes it easier to qualify for credit. Wells Fargo has established the following standards for credit scores.

Rating	Score	Description
Excellent	760+	You generally qualify for the best rates, depending on debt-to-income (DTI) ratio and collateral value.
Good	700 – 759	You typically qualify for credit, depending on DTI and collateral value, but may not get the best rates.
Fair	621 – 699	You may have more difficulty getting credit, and will likely pay higher rates for it.
Poor	620 and below	You may have difficulty getting unsecured credit.
No credit score		You may not have built up enough credit to calculate a score, or your credit has been inactive for some time.

Debt-to-income (DTI) ratio

What is debt-to-income (DTI) ratio?

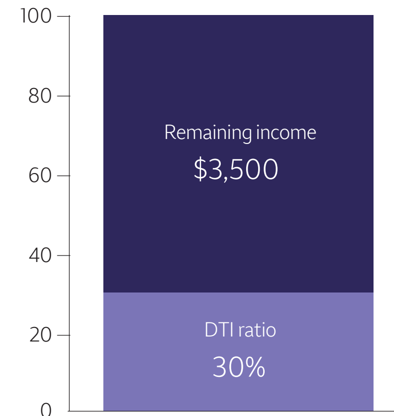
DTI ratio shows how much of your income goes toward paying your current debt obligations. Basically, it compares how much you owe each month to how much you earn.

Your DTI is based on your before-tax income, and current debt obligations may include such things as your monthly mortgage (or rent), credit card, and other credit account payments, and alimony or child support. Lenders may use your DTI ratio to assess your ability to pay back debt. A low DTI ratio is a good indicator that you have enough income to meet your monthly obligations, take care of additional or unexpected expenses, and make the additional payment each month on the new credit account.

When you apply for credit, your lender may calculate your DTI ratio based on verified income and debt amounts, and the result may differ from the one shown here. You do not need to list alimony, child support, or separate maintenance income unless you want it considered when calculating your result. If you receive income that is nontaxable, it may be upwardly adjusted to account for the nontaxable status.

DTI example

Based on $5,000 monthly income, with $1,500 in monthly debt payments:



Tip: Go to **wellsfargo.com/debtratio** to use our online calculator.

What does DTI mean?

A lower DTI ratio may make it easier to qualify for new credit. Wells Fargo has established the following standards for DTI ratios.

Looking good 35% or less	Relative to your income, your debt is at a manageable level. You most likely have money left over for saving or spending after you've paid your bills. Lenders generally view a lower DTI as favorable.
Opportunity to improve 36% – 49%	You may want to consider lowering your DTI to get into a better position to handle potential financial emergencies. If you're looking to borrow, keep in mind that lenders use different factors to determine your ability to repay, including your monthly income and financial obligations like loan payments, rent, and other bills.
Consider taking action 50% or more	With more than half your income going toward debt payments, you may not have much money left to save, spend, or handle unforeseen expenses. With this DTI ratio, lenders may limit your borrowing options.

Tip: Before taking on any new debt, estimate the monthly payments and re-estimate your DTI ratio so you can see how additional debt may change it.

The 5 Cs of Credit

What do lenders look for?

Lenders look at a number of things to evaluate your credit application, which may include the 5 Cs of Credit. While the definitions and use of the 5 Cs may vary between lenders, it's a good idea to understand the basic concepts. This way, you'll know where you stand and may be in a better position to provide as much helpful detail as possible when you apply.

1. **Credit history** — Your track record of managing credit and making payments over time. The way you've handled credit obligations in the past helps indicate what a lender may expect in the future.

2. **Capacity** — Your ability to comfortably manage your payments. Lenders look at your debt-to-income (DTI) ratio when they're evaluating your credit application to assess whether you're able to take on new debt.

3. **Collateral** — Something you own that you may pledge to secure a loan. Collateral is important to lenders because it offsets the risk they take when they offer you credit. Using your assets as collateral gives you more borrowing options, including credit accounts that may have lower interest rates and better terms.

4. **Capital** — Savings, investments, and other assets that you could use to repay a loan if you experience a financial setback. Capital matters because the more of it you have, the more financially secure you are, and the more confident the lender may be about extending you credit.

5. **Conditions** — The economic environment and how you plan to use the funds. Lenders are interested in conditions, because they may impact your financial situation and ability to repay the loan.

Establishing credit

You may establish credit by using credit products responsibly, paying back what you've borrowed in a timely fashion, and making your monthly payments according to your credit agreement.

Lay the foundation for good credit

Activities that don't directly impact your credit report may still be used to demonstrate your financial responsibility.

- ☑ Pay your utility, cell phone, or other bills on time every time.
- ☑ Open a checking account and use your debit card responsibly.
- ☑ Build a savings account.

Ways to get started

- Consider gasoline and retail credit cards. They might be easier to acquire than bank-issued credit cards. Be aware that they may have different terms than other cards, so make sure to review them carefully and make your payments on time.
- Become an authorized user on a trusted person's credit card. Keep in mind that not all lenders report authorized user accounts to the credit bureaus, so make sure to find out that your credit card company does.
- Apply for a loan with a co-borrower or cosigner. Remember that your cosigner or co-applicant also takes responsibility for payment. That means the credit history will be reflected on both of your credit reports.
- Charge only what you can afford.
- Avoid maxing out your credit accounts. It's generally a good idea to keep your balances under 30% of your credit limit.

How long will it take?

Each person's situation is different, so it's hard to say how long it will take for you to build your credit. Instead, think of it as an ongoing process. Keep working toward making your credit the best it can be.

Improving your credit

Improving your credit score may open doors to a stronger financial future. Here's what you may do to raise your score.

Check your credit report

You may request a free copy of your credit report from each of the three major credit reporting agencies — Equifax, Experian, and TransUnion — once a year at **AnnualCreditReport.com** or call toll-free 1-877-322-8228. If you find information that you believe doesn't belong to you or is inaccurate, contact the business that issued the account or the credit reporting company that issued the report. Checking your own credit won't affect your score.

Tip: Staggering your individual requests may help you track your credit history over the year.

Be responsible

Consistent on-time payments show lenders that you're responsible about paying back what you borrow. Your payment history makes up 35% of your credit score. If you've missed a payment, pay as soon as possible — it makes a difference.

Tip: Sign up for automatic bill pay.

Be consistent

Practice healthy credit habits, like making all of your payments on time, paying more than the minimum, and keeping your balances low.

Tip: Keep your long-standing accounts open. The length of your credit history and available credit both factor into your credit score.

Keep your balances low

Generally, avoid carrying a balance that's more than 30% of your credit limit. Also, pay more than the minimum each month whenever possible.

Tip: Building good credit depends on your ability to pay back what you borrow. Start small with what you can comfortably pay each month along with your other obligations.

Stabilize your situation

If you're working toward rebuilding your credit, set a budget and make at least minimum payments on time for each account.

Tip: If you're having trouble, contact your lenders for help creating a repayment plan that works for you.

Sample monthly payments based on credit score

Scenario is hypothetical — provided for illustration only.

$15,000 loan amount	Average interest rate	Monthly payment
Fair credit	15%	$427
Good credit	10%	$391
Excellent credit	5%	$352

Managing your debt

Repaying your debt may sometimes feel challenging. That's why making a plan to manage your payments and balances may help. Take a look at these tips and discover some small steps you may take today to make managing your debt easier.

Consider debt consolidation

Transferring multiple debts, especially those with higher interest rates, into a single new loan may help simplify the repayment process and lead to a lower rate that might reduce your monthly payments.[1]

Pay off debt faster

Refinancing your debt to a shorter term may help you pay it off faster and reduce your total borrowing costs. Be advised that shortening your term could increase your monthly payments.

Lower your monthly payments to help free up cash

Contact your lenders about potentially refinancing at a lower interest rate or extending the terms of your loans. Keep in mind that extending the term of your loan may lower your monthly payments, but you may pay more in interest over the life of the loan.

Pay off your most expensive loan first

Pay off the debt with the highest interest rate first to reduce your overall interest costs.

Know your limits

Being close to or maxing out your credit cards may negatively impact your credit score. It's generally a good idea to keep your balances under 30% of your credit limit.

Sample borrowing costs based on the length of the loan

Scenario is hypothetical — provided for illustration only.

$15,000 loan amount at 7.75% interest	Interest paid	Total paid
10 years — $180 monthly payment	$6,602	$21,602
5 years — $302 monthly payment	$3,141	$18,141
3 years — $468 monthly payment	$1,860	$16,860

Getting ready to apply

A little preparation before you apply for credit may help you feel more confident and reduce surprises. As you think about your borrowing needs, here's a handy list of steps you may follow.

☐ **Identify your financial goals**

Writing down your financial goals is the first step in creating a plan for borrowing. Examples include:

- Manage everyday, online, and recurring purchases
- Pay for a large planned or unplanned expense
- Pay for college
- Purchase a home or make improvements
- Manage or consolidate debt[1]
- Build or manage credit

My Financial Goals			
Goal	Completion date	Total funds needed	Borrowed funds needed
Example: Buy a house	*By the time I'm 35*	*$250,000*	*$225,500*

☐ **Know your credit score** — your current bank or lender may provide access.
Tip: If you already have an eligible Wells Fargo account, you may access your FICO® Credit Score, tools, tips, and more through *Wells Fargo Online*®.[2]

☐ **Check your credit report** for accuracy and dispute any errors.

☐ Calculate your debt-to-income (DTI) ratio at **wellsfargo.com/debtratio**.

☐ Explore credit information, tips, tools, and options at **wellsfargo.com/smartercredit**.

☐ Talk to a banker about your credit needs and how Wells Fargo may be able to help.

1. Important information about debt consolidation: Before you apply, we encourage you to carefully consider whether consolidating your existing debt is the right choice for you. Consolidating multiple debts means you'll have a single monthly payment, but it may not reduce or pay your debt off sooner. The payment reduction may come from a lower interest rate, a longer loan term, or a combination of both. By extending the loan term, you may pay more in interest over the life of the loan. By understanding how consolidating your debt benefits you, you'll be in a better position to decide if it is the right option for you. New credit accounts are subject to application, credit qualification, and income verification. You must be a U.S. citizen or permanent U.S. resident to be eligible for this product.
2. You must be the primary account holder of an eligible Wells Fargo consumer account with a FICO® Score available, and enrolled in *Wells Fargo Online*® banking. Eligible Wells Fargo consumer accounts include deposit, loan, and credit accounts. Other consumer accounts may also be eligible. Contact Wells Fargo for details.

Important: There are many factors that Wells Fargo looks at to determine your credit options; therefore, a specific FICO® Score or Wells Fargo credit rating does not necessarily guarantee a better loan rate, approval of a loan, or an automatic upgrade on a credit card.

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Want to learn more?

Make an appointment with a banker and visit **wellsfargo.com/smartercredit**.

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