

# The World of Credit Reports

Credit reports and credit scores influence our lives in many ways. Your history of credit management can affect the cost of the credit you receive, your ability to rent or buy a home, the insurance rates you are offered, and even your future employment opportunities. By understanding the world of credit reports, you can create a positive credit standing that will allow you to achieve your goals quickly and inexpensively. This program will cover:

- Credit Reporting Agencies
- What is in Your Credit Report
- Understanding Credit Scores
- How to Improve Your Credit Standing
- Consumer Rights and Identity Theft

## Chapter 1: Credit Reporting Agencies

There are three major credit reporting agencies, commonly called credit bureaus, in the United States: Equifax, Experian, and TransUnion. It is the credit bureaus' role to collect credit and financial information about you and compile it into a report. Most of the data is gathered from creditors, such as credit card companies and mortgage lenders, and collection agencies. Companies typically report account activity to the bureaus (usually to all three but some to just one or two) on a monthly basis. The credit bureaus also acquire information by searching court records for judgments, bankruptcy filings, and other credit-related legal actions.

The credit bureaus sell the compiled reports to interested parties, such as creditors, insurance companies, employers, and landlords. Does that mean that a nosy neighbor or relative can pull your credit report if he or she wants to? No. The only people that can see your credit report are you and those that have a legitimate business use for the information. If your employer wants to see your credit report, they must get written permission from you first. Keep in mind that the credit bureaus only supply reports – it is not their role to approve or deny you for credit or other opportunities.

When is the last time you looked at your credit reports? Financial experts recommend that you check your three credit reports at least annually. By reviewing your reports, you can catch errors and fraudulent activity, as well as see what can be done to improve your credit score. You can obtain a free copy of each of your credit reports once a year through Annual Credit Report Request Service. (Contact information is in Chapter 5). If you request the reports online, you should be able to view them immediately. You can also order your reports directly from the credit bureaus for a fee.

### Other Consumer Reports

While credit reports are the most widely used consumer reports, there are other reports that monitor your financial habits, including:

- **ChexSystems** – ChexSystems is a report frequently used by financial institutions when determining whether to allow someone to open a checking or savings account. ChexSystems reports on negative banking activities, such as overdrawn accounts and checks returned for insufficient funds. There is no standard for adding information to the report. Some institutions will report a check that bounced due to a miscalculation, where others may only report cases of fraud. Information can remain on your report for five years. Like with credit reports, consumers can get a free copy of their ChexSystems report and dispute incorrect information.
- **National Tenant Network** – Used mostly on the West Coast, The National Tenant Network (NTN) compiles information on lease violations and evictions and provides it to landlords who subscribe to their service. Potential landlords may check both your credit report and your NTN report when deciding whether or not to rent to you. You have the right to request and inspect your report and dispute inaccurate or incomplete information.

## Chapter 2: What is in Your Credit Report

Though credit reports can look different depending on where and how you access them, they all contain the same categories of information:

- **Identification** – Most credit reports begin with personal data, including your name, current and former addresses, employer, spouse’s name (if applicable), date of birth, and Social Security number.
- **Trade lines** – The bulk of your credit report provides detailed information about your credit history. The data it lists on each account typically includes:
  - o The name of the creditor and partial account number.
  - o Account status (open, closed, or charged off).
  - o The current balance.
  - o Your payment history. If you have made payments late, the number of days you are or were past due will be indicated.
  - o The date the creditor last reported to the credit bureau.
  - o The date you opened the account.
  - o The type of credit, such as revolving (e.g. credit card), installment (e.g. car loan), or collection account.
  - o The repayment length and monthly payment (for installment debt).
  - o The original amount borrowed (for installment debt) and credit limit and highest balance ever held (for revolving debt).
  - o Who is responsible for paying the account. It can be individual (only you), joint (you and someone else), or authorized user (you can use the account but are not responsible for making payments).
- **Public records** – This section shows public records that are related to credit worthiness, like liens, bankruptcies, evictions, repossessions, judgments, foreclosures, and court-ordered child support arrears.
- **Inquiries** – This section lists anyone who has accessed your credit report. Inquiries can either be “hard” or “soft”. A hard inquiry is an inquiry that results from an application or transaction

initiated by you, such as applying for a new credit card. A soft inquiry occurs when you pull your credit report or your credit report is checked for pre-approval offers. The only person who can see the soft inquiries on your credit report is you.

### How Long Can Information Be Reported?

Credit reports may reflect late payments, collection accounts, repossessions, and most other negative information for seven years. For an account sent to a collection agency, the period starts 180 days after you missed your first payment with the original creditor. (A collection agency selling the debt to another collection agency does not extend the amount of time it can stay on your credit report.) A Chapter 7 bankruptcy will remain on your credit report for ten years from the date of filing. While a Chapter 13 bankruptcy can technically stay on your credit report for ten years, it is customary for the bureaus to only report completed Chapter 13s for 7 years from the filing date. Paid judgments can stay on your credit report for 7 years, but unpaid ones can stay until the statute of limitations for collection (which varies from state to state) expires. Most inquiries can stay on your credit report for two years.

These timelines do not apply to positive information. Accounts that are consistently paid on time may be reported indefinitely as long as they are open. However, closed, paid-off accounts typically will only remain on your credit report for up to ten years.

## Chapter 3: Understanding Credit Scores

Your credit score is a numeric summary of the information in your credit report and is formulated to predict the risk you will not repay what you borrowed. The most commonly used scoring model is issued by the Fair Isaac Corporation. Called a FICO score, it ranges from 300 to 850, with a higher score being indicative of less risk. Generally, those with higher scores are more easily granted credit and get better interest rates. While there is no uniform standard for what constitutes a “good” credit score, one benchmark to keep in mind is that many mortgage lenders look for a score of at least 680 for approval and mid-700s for the best interest rate.

FICO scores only look at the information in credit reports that is predictive of future credit performance. Income, employment history, race, religion, national origin, gender, marital status, and age are not considered. The following are the factors used to calculate your FICO score:

- **Payment history (35%)** – If you make a late payment, your score will take a hit. The more recent, frequent, and severe the lateness, the lower your score. Bankruptcies, judgments, and collection accounts have a serious negative impact. Conversely, making your payments on time will boost your credit score.
- **Amounts owed (30%)** – Carrying large balances on personal loans and revolving debt, like credit cards, particularly if those balances are close to the credit limits, will lower your score.
- **Length of credit history (15%)** – The longer you have had your accounts, the better.
- **New credit (10%)** – This factor looks at the number and proportion of recently opened accounts and number of inquiries. While many inquiries on your report can lower your score, all mortgage or auto loan inquiries that occur within a short period of time are considered just one inquiry for scoring purposes. Accessing your own report is not damaging to your score nor

are inquiries for pre-approval offers. If you have had a history of late or irregular payments, reestablishing a positive credit history will be taken into account.

- **Types of credit used (10%)** – Having a variety of accounts, such as credit cards, retail accounts, and loans, boosts your score because it demonstrates that you are capable of handling the responsibilities that come with each debt type.

Keep in mind that while the FICO score is a popular scoring model among lenders, a lender may use a different model when you apply for credit. Furthermore, if you purchase your credit score from a credit bureau or other service, you may be purchasing something other than your FICO score. Still, while the exact formula and scoring range can vary among models, they generally look at similar factors. Making your payments on time and keeping your balances low is always beneficial, regardless of the scoring model used.

## Chapter 4: How to Improve Your Credit Standing

If your score is not as high as you want it to be, don't worry – you can change it. While you do not have the right to remove accurate negative information before it ages off your credit report, you can improve your score by using credit responsibly in the future.

Kick-start a positive credit rating by:

- **Always paying on time** – A commitment to never make a payment late again is one of the most powerful steps you can take to improve your credit rating.
- **Paying down existing debt** – Even if you have never missed a payment, a large debt load will lower your score. Explore ways you can lower your interest rates and free up cash to make more than the minimum payments.
- **Avoiding taking on additional debt** – Besides paying down existing debt, make an effort to not take on more debt in the future. For revolving credit, ideally you should not charge more than you can pay off in full the next month, but at the very least, try to keep the balance well under half of the credit limit.
- **Paying collection accounts** – If you have an unpaid collection account on your credit report, ask the collection agency if they are willing to settle for less than full amount owed and remove the account from your report in exchange for your payment. Make sure they confirm the agreement in writing before sending money.
- **Keeping your old accounts** – A long credit history with the same accounts indicates stability.
- **Avoiding frequent balance transfers** – While transferring balances to “teaser rate” cards can be a way to efficiently get out of debt, it can also have a detrimental effect on your credit score. The accounts will be new and likely have balances close to the limit to maximize the advantage of the low rate – two factors that lower your score.
- **Avoiding excess credit applications** – Each time you apply for credit, your score decreases just a bit. If you do it frequently, a creditor may see it as a sign that you need to rely on credit to pay your bills.

## Establish or Reestablish Credit

Whether you have never had credit before or all of your accounts were closed due to past problems, you can establish or reestablish credit by:

- **Obtaining a secured credit card** – Many financial institutions will issue you a credit card if you put a specified dollar amount on deposit with them. If you stop making payments, the creditor will deduct the amount you owe from your deposit. However, if you make on-time payments for a year or two, the creditor may be willing to release the deposit and grant you an unsecured card.
- **Asking someone with good credit to co-sign** – Another option is to have a friend or family member who has a good credit history co-sign on a loan or credit card for you. Be especially careful with this type of arrangement – any late payments you make will not only reflect poorly on your credit report but your co-signer's as well. After a year or so, you may want to apply for credit on your own.

## Correct Inaccurate Information

Many credit reports contain mistakes. Common causes of inaccuracies include mistaken identity, old information not being dropped from the report on time, and identity theft. If you see an error on your report, you can correct it:

- **Dispute the information with the credit bureau** – Send a letter to the credit bureau or fill out an on-line dispute form letting them know what information is incorrect. While you are not required to provide documentation to support your claim, if you have any, such as a canceled check for a bill that still shows as outstanding, it helps to include it. The Fair Credit Reporting Act requires credit bureaus to investigate all disputes, unless they are frivolous, and respond within 30 days. While the bureau is doing research, they must report that the item is being disputed on your credit report. The credit bureau must delete the disputed information if they cannot find evidence to validate it and, if you request it, notify anyone who recently received the report of the change.
- **Dispute the information with the creditor** – If the credit bureau's investigation results in no change to your report and you believe the information is still inaccurate, contact the creditor directly to see if they will remove the information from your credit report and request documentation of the debt. If they cannot provide it, let the credit bureau know – only verifiable debts can be reported.
- **Add a statement to your report** – If contacting the credit bureau and creditor does not resolve the dispute, you can add a brief statement (100 words or less) to your credit report. Adding a statement will not boost your score, but anyone who pulls your report will know your side of the story.

## Beware Credit Repair

Some companies claim to "repair" credit reports, often for a very high fee. At best, the company is charging you for something you can do yourself for free – writing a letter to the creditor bureaus disputing inaccurate information. At worst, the company is engaging in dishonest and/or illegal tactics.

Credit repair companies frequently operate by flooding the credit bureaus with letters that dispute negative, but accurate, information. If they are unable to investigate the claims within 30 days, the

information is removed. The company then shows you a cleaned-up report. This rarely works, though. Even if the credit bureaus are backlogged with disputes, they will eventually get to your claims and just reinsert the negative information when they verify that it is accurate.

Another common tactic credit repair agencies use is to issue consumers a new identity, complete with a stolen or new Social Security number or tax identification number to use in place of a Social Security number. This is an illegal practice for which the consumer often ends up paying the price. Remember, there is no legal way to remove accurate and timely information from your credit report.

## Chapter 5: Consumer Rights and Identity Theft

### Fair Credit Reporting Act (FCRA)

Credit bureaus must comply with the FCRA. This law is designed to promote accuracy, fairness, and privacy of information in your credit file:

- If you are denied credit, insurance, or employment because of what is in your credit report, you may get a free report from the bureau that supplied it within 60 days.
- You have a right to dispute any inaccuracies on your credit report. The credit bureaus must investigate the validity of disputed items within 30 days (under most circumstances).
- Derogatory information that is outdated or unverifiable cannot be reported.
- While lenders and insurers may use the information in your credit file to market their products, you have the right to opt out of these offers by calling 1-888-5-OPTOUT (1-888-567-8688).
- Only those with a need recognized by the FCRA (usually a creditor, insurer, employer, landlord, or other business who is evaluating an application from you) may access your file.
- Employers and prospective employers can only access your report with your written consent.
- You can seek damages in a court of law if the FCRA is violated.

### The Fair and Accurate Credit Transactions (FACT) Act

The FACT Act amends the FCRA and is an important tool in the fight against identity theft. It gives you many powerful rights:

- You may receive a free copy of your credit report from each of the three credit bureaus once a year.
- You may receive additional free reports if identity theft is suspected.
- You may block fraudulent information from appearing on your credit report.
- You have a right to access business records, such as credit applications, that document an identity thief's fraudulent transactions.
- You have a right to place a fraud alert on your credit report if you believe you have been the victim of identity theft. The initial alert lasts 90 days but can be extended for up to seven years if you have filed a police report. Creditors must ensure that all credit requests are legitimate after a credit report has been flagged.
- Active duty military personnel may place special alerts on their files when they are deployed overseas.
- No more than five digits of a credit card number may be listed on store receipts. The card's expiration date cannot be listed either.
- Creditors must implement identity theft prevention programs.
- Debt collectors must inform a creditor of fraudulent information.

If a creditor or credit bureau violates one of these laws, you can submit a complaint with the Federal Trade Commission.

### **Protect Yourself Against Identity Theft**

Identity theft occurs when someone uses your personal information to commit fraud or other crimes. Thieves often use the information they steal to get credit cards or other types of credit. There are several ways you can thwart identity theft and protect your credit report:

- Only share personal information with reputable sources. Be wary of any organization or person that initiates contact with you. When someone calls you, the safest thing to do is disconnect and call the company back at a verified number.
- When shopping on-line, make sure your information is being transmitted on a secure site. Look for a closed lock on the status bar and web address that starts with https.
- Don't leave your mail and trash vulnerable. Shred all documents that have an account number or your Social Security number on them.
- Review your credit card and checking account statements each month to ensure that all transactions are accurate. If you get strange bills in the mail for accounts that you have not opened, don't just throw them away – contact the company and report it.
- Check your credit report periodically to make sure all of the accounts and balances are yours.

If you become the victim of identity theft, being proactive can minimize its impact on you. If a credit card or checking account has been used or opened illegally, contact your creditor or financial institution immediately. They should close accounts that are not yours and change the account numbers and passwords for accounts that are yours. Monitor all future statements carefully for evidence of new fraud. You may also want to report the identity theft to the police. Be sure to request a copy of the police report – a credit bureau or creditor may require you to provide one to investigate and remove fraudulent information. Check your credit report and dispute any fraudulent items. Remember, you can also place a fraud alert on your report.

### **Resources**

*Please note: since contact information can periodically change, confirm addresses before sending a letter containing personal information.*

- Equifax  
PO Box 740241  
Atlanta, GA 30374  
(800) 685-1111 (to order credit report)  
(888) 766-0008 (to report fraud)  
[www.equifax.com](http://www.equifax.com)
- Experian  
PO Box 2104  
Allen, TX 75013  
888-397-3742  
[www.experian.com](http://www.experian.com)

- TransUnion  
PO Box 2000  
Chester, PA 19022  
(800) 888-4213 (to order credit report)  
(800) 680-7289 (to report fraud)  
[www.transunion.com](http://www.transunion.com)
- Annual Credit Report Request Service  
PO Box 105281  
Atlanta, GA 30348  
(877) 322-8228  
[www.annualcreditreport.com](http://www.annualcreditreport.com)
- Fair Isaac Corporation (FICO)  
(800) 319-4433  
[www.myfico.com](http://www.myfico.com)
- ChexSystems  
7805 Hudson Rd Ste 100  
Woodbury, MN 55125  
(800) 428-9623  
[www.consumerdebit.com](http://www.consumerdebit.com)
- National Tenant Network  
PO Box 1664  
Lake Oswego, OR 97035  
(800) 228-0989  
[www.ntnonline.com](http://www.ntnonline.com)
- Federal Trade Commission  
600 Pennsylvania Ave NW  
Washington, DC 20580  
(877) 382-4357  
[www.ftc.gov](http://www.ftc.gov)