

## SOLVING THE MYSTERY OF CREDIT REPORTS

Credit reports and credit scores are increasingly important to our lives. They affect the cost of credit we receive, where we live, insurance rates we pay – even the jobs we can get. By understanding the reporting and scoring process, your consumer rights and responsibilities, how to recover from inaccuracies, and how to guard against identity theft, you can establish, maintain, and protect a strong credit history and good credit score.

### Credit Bureaus

There are three major credit bureaus in the United States: Equifax, Experian and TransUnion. These businesses acquire and maintain files on almost every US adult. They obtain the bulk of their data from credit card companies, banks, credit unions, mortgage lenders, and retail establishments. These organizations typically report account activity to the bureaus on a monthly basis. While not all creditors report to all three credit bureaus, most do. The credit bureaus also acquire information by searching court records for lawsuits, judgments, and bankruptcy filings and by reviewing county records for tax, judgment, mechanic's, or other liens (legal claims).

All of the credit and public record data is compiled with your identification information and provided to creditors, insurance companies, employers, landlords, and anyone else who has a legitimate business use for the information, at their request.

Consumers should check their credit report for accuracy at least annually. Because of the Fair and Accurate Credit Transactions Act (an amendment to the Fair Credit Reporting Act), you may receive free copies of your credit reports once a year. The three credit bureaus have established one central website, telephone number, and mailing address to use for ordering your reports. If you request the reports online, you should be able to view them immediately.

- Annual Credit Report Request Service  
P.O. Box 10528, Atlanta, GA 30348  
www.annualcreditreport.com  
877.322.8228

Reports can also be ordered by contacting the credit bureaus directly:

- Equifax  
P.O. Box 740241, Atlanta, GA 30374  
www.equifax.com  
800.685.1111
- Experian  
P.O. Box 2104, Allen, TX 75013  
www.experian.com  
888.397.3742
- TransUnion  
P.O. Box 2000, Chester, PA 19022  
www.transunion.com  
800.888.4213

### Fair Credit Reporting Act

Credit bureaus are regulated by the Consumer Financial Protection Bureau, and must comply with the Fair Credit Reporting Act. This law is designed to promote accuracy, fairness, and privacy of information in the files of every “consumer reporting agency” (CRA). This includes credit bureaus, as they are considered CRAs. The FCRA ensures that:

- Anyone who uses information from a CRA to take action against you (such as denying an application for credit, insurance, or employment) must tell you, and give you the name, address, and phone number of the CRA that provided the consumer report.
- At your request, a CRA must give you the information in your file, and a list of everyone who has recently requested it.
- If you inform a CRA that your file contains inaccurate information, the CRA must investigate the item (usually within 30 days) by presenting to its information source all relevant evidence you submit (unless your dispute is frivolous). The source must review your evidence and report its findings to the CRA. The CRA must give you a written report of the investigation, and a copy of your report if the investigation results in any change.

- A CRA must remove or correct inaccurate or unverified information from its files. However, the CRA is not required to remove accurate data from your file unless it is outdated or cannot be verified. If an item is deleted or a statement is filed, you may ask that anyone who has recently received your report be notified of the change.

You also have the right to add a 100-word statement to your credit file, which can be helpful in the event your dispute is unsuccessful. The CRA must include your statement in future reports.

- If your dispute results in any change to your report, the CRA cannot reinsert the information unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice telling you it has reinserted the item. The notice must include the name, address, and phone number of the information source.
- You can also dispute inaccurate items with the original information source, the creditor. When you file a dispute with a creditor, they may not report the information to a CRA without including a notice of your dispute. Once you've notified the source of the error in writing, it may not continue to report the information if it is, in fact, an error.
- In most cases, a CRA may not report negative information that is more than seven years old (see "How Long Information Can Be Reported" for specific information).
- A CRA may provide information about you only to those with a need recognized by the FCRA – usually to consider an application with a creditor, insurer, employer, landlord, or other business.
- A CRA may not give out information about you to your employer – or prospective employer – without your written consent.
- You may have your name excluded from CRA lists for unsolicited credit and insurance offers. If you call, you must be kept off the lists for two years. If you request, complete, and return the CRA form provided for this purpose, you must be taken off the lists indefinitely.
- If a CRA, a user, or (in some cases) a provider of CRA data violates the FCRA, you may sue them in state or federal court.

The complete text of the FCRA can be found at the Consumer Financial Protection Bureau's website.

For questions regarding CRAs and creditors contact the CFPB at:

- Consumer Financial Protection Bureau  
P.O. Box 4503, Iowa City, IA 52244  
www.consumerfinance.gov  
855.411.2372

### **How Long Information Can Be Reported**

Credit reports may reflect lawsuits, paid judgments, liens, foreclosures, Chapter 13 bankruptcy, late payments, or any other negative information for seven years from the time it was reported. If you have filed Chapter 13 bankruptcy, the seven-year period begins on the date of filing. For charged-off accounts with collection agencies, the period starts from the date when the account first went delinquent with the original creditor and was then never brought current again. Judgments, if not paid, can be renewed until they are satisfied. A Chapter 7 bankruptcy will remain on a credit report for ten years from the date of filing.

The bureaus do have the right to indefinitely report bankruptcies, lawsuits, liens, and criminal records if you are applying for credit greater than \$150,000, insurance valued at more than \$150,000, or employment with an annual income of greater than \$75,000. This, however, is very rare.

Inquiries, an indication that your credit report has been accessed for a credit, insurance, employment, or other type of application, are reflected on your credit report for two years. They are, however, normally only calculated into your credit score for one year after they take place.

These timelines do not apply to positive credit information. Any accounts that have been consistently paid on time, or that were paid in full as agreed, may be reported indefinitely. Having this kind of long-term positive information on your report reflects well on you as a credit risk.

### **Your Credit Score**

A credit score is one of several factors lenders use when evaluating an application for credit. Frequently it is the most significant one. A score is determined only by the information in a credit report that is predictive of future credit performance. Income, employment history, race, religion, national origin, gender, marital status, and age are not factors in credit scoring.

Fair, Isaac and Company developed the most commonly used score. Called a FICO score, it ranges from 300 to 850, with a higher number being indicative of less risk. Generally, those with higher scores are more easily granted credit and often have more favorable interest rates made available to them. In almost every case, your FICO scores for Equifax, Experian and TransUnion will be different. This can be due to different information on the reports, or the different ways the CRAs store and calculate data.

Though each of the three major CRAs generate FICO scores, they also calculate scores using their own scoring model too. Because lenders have the right to choose the scoring model they use, they may use a FICO score, a score from ones of the CRAs, a bankruptcy predictor score, or even their own proprietary model. However, the FICO score is currently by far the most commonly-used score for lending decisions.

There are many categories of credit information used to determine your FICO score, though some are much more significant in their impact than others.

- **Payment history = 35% of score**  
Bankruptcies, judgments, and collection accounts are major factors in lowering your credit score. Late payments can have a serious impact as well, particularly if the lateness was frequent, recent, or severe. FICO scores tend to put a greater emphasis on the payment history of the most recent two year period, so the effect of late payments can be diminished with a consistent string of recent on-time payments.
- **Amounts owed = 30% of score**  
The amount of outstanding debt you have has a strong impact on your credit score. Carrying high balances, especially if those balances are close to the credit limit, can lower your score.
- **Length of credit history = 15% of score**  
Accounts that you've had for more than two years will have a more positive impact on your score than newer accounts. This can be a challenge to consumers who take advantage of "teaser rate" accounts to repay debt. While constantly transferring balances to reap the benefits of short-term low interest rates can be a tool to repay debt efficiently, the constant influx of new accounts can be detrimental to your score.
- **New credit = 10% of score**  
When, what kind, and the number of inquiries (credit applications) you make are factors in

your score. While many inquiries on your report can lower your score, all mortgage or auto loan inquiries within a fourteen-day period will be considered just one inquiry for scoring purposes, and any mortgage or auto loan inquiries made within 30 days of an application will be disregarded. Accessing your own report periodically is not damaging to your score, as consumer inquiries are not taken into account for scoring purposes. "Pre-approved" offers do not impact your score either. Those are just offers made based on your name showing up on a list of consumers with certain criteria that a creditor may purchase from a credit bureau. It will not result in an inquiry unless you actually apply for the account. Employment inquiries will also have no impact on your score.

- **Types of Credit Used = 10% of score**  
The different kinds of credit accounts you have and use affect your FICO score too. By demonstrating that you can handle a variety of credit instruments (such as credit cards, personal loans, a mortgage) you are proving to a potential lender that you are capable of handling the different responsibilities that come with each debt type.

Your credit score constantly changes with your credit activity. It reflects payment patterns with greater emphasis on recent events. While there is no standard for what constitutes a "good" credit score, one benchmark to keep in mind is that most mortgage lenders look for a score of at least 620.

### **Improving Your Credit Standing**

While it is not possible to remove accurate negative information before the time it drops off the report, you can improve your score by using credit responsibly.

- **Pay on time, every time** – A commitment to never making a credit payment late is one of the most powerful steps you can take to improve your credit rating.
- **Reduce your debt load** – Even if you have never missed or been late with a payment, a large debt on a revolving account will lower your score. Develop a plan to reduce it. For assistance, contact your financial institution. They can provide you access to services that can help you set up an effective spending and savings plan, and determine options for efficient debt repayment.

- Limit open accounts – Two to four open unsecured credit accounts is usually perceived as a good number to have. Having too many available credit accounts can make you appear risky to a lender. You may have no or low balances today, but could easily be deeply in debt tomorrow if you chose to go on a spending spree.
- Keep your old accounts – Accounts that you've held for two years or more show sustained credit history, which indicates stability. With newer accounts, creditors only have limited information on which to base decisions.
- Avoid “maxing out” accounts – Keep your balances no more than 50% of the limit on revolving credit. High balance-to-limit ratios can imply higher risk because it gives the impression that you are applying for new credit to take the place of the “maxed out” account.
- Avoid balance transfers – While transferring balances to “teaser rate” cards can be a way to efficiently get out of debt, it can have a detrimental effect on your credit score. The accounts will be new, and likely have balances close to the limit in order to maximize the advantage of the low rate – two factors that can lower your score. However, if your goal is to get out of debt, a lower interest rate will help you repay balances faster and for less money.
- Avoid excess credit applications – Too many applications can be damaging, so only seek loans and credit you truly need.

### **Establish or Reestablish Credit**

Whether you have no credit score because you've never had credit, or your score is low because of past problems, there are steps you can take to establish or reestablish credit.

A secured credit card is a good option for many people looking to build or rebuild a credit history. Some financial institutions will issue you a secured card if you put a specified dollar amount on deposit with them. These funds are held as security, and a credit card is issued with a credit limit equal to the amount you have on deposit. If you make on-time payments for an agreed-to amount of time, the creditor may release the funds held as security and issue an unsecured card.

Another option is asking a friend or family member who has a good credit history to co-sign on a loan or credit card for you. Be especially careful with

these arrangements though – any late payments you make will not only reflect poorly on your credit report, but your cosigner's as well. After six months to a year, reapply for credit on your own.

### **Correct Inaccurate Information**

Many credit reports contain mistakes. Causes of credit report inaccuracies include incorrect identity (information from someone else's account showing up on your report because you share a similar name), old information not being dropped from the report on time, or, more seriously, identity theft or fraud. If there is inaccurate information on your report, you can correct it:

- Dispute the information with the credit bureau – Using the credit bureau's online dispute form, explain which information is incorrect, and what the correct information is. If you prefer to register the dispute in writing, enclose documents that support your claim. The credit bureau must investigate, usually within 30 days. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.
- Dispute the information with the creditor – If the credit bureau investigation results in no change to your report and you believe the information is still inaccurate, contact the creditor directly and request documentation of the debt. If they cannot provide it, let the credit bureau know; only verifiable debts can be reported. Remember to document everything as you file your disputes. Keep copies of letters, mark your calendar, and get the names of everyone you talk to. Also, send the letters certified mail, return receipt requested, so you can be sure it was received.
- Add a statement to your report – If the investigation and your efforts still do not resolve the dispute, you may add a statement to your file (in 100 words or fewer) explaining your side of the story. Your statement will be included with future reports for as long as seven years. If you want to remove it before it automatically drops off, send a written request.

### **Beware Credit Repair**

Some companies claim to “repair” consumers' credit reports – often for a very high fee. They frequently operate by flooding the credit bureaus with letters that dispute negative, but accurate, information. If the credit bureau is unable



to investigate the claim within 30 days, the information is removed. This rarely works though. The credit bureaus are generally able to respond in time, and even if the information is removed due to a backlog of requests, it will simply be re-reported by the creditor later.

Another common tactic credit repair agencies use is to issue consumers a “new identity,” complete with a tax identification number to use as a social security number. This is an illegal practice for which the consumer often ends up paying the legal price.

Remember, there is no legal way to remove accurate and timely information from your credit report.

### Sections of a Credit Report

Though your credit report will look different depending on where and how you access it, reports generally contain the same categories of information:

- Identification – Most credit reports begin with your personal data, such as your name and any former names or aliases. It also lists your address and former addresses, employment history, changes in marital status, date of birth, and your Social Security number.
- Public records – The public records section reflects all lawsuits to which you are a party, as well as any liens or legal claims on your property. Any type of activity that is recorded with the county will be reflected here, including bankruptcies, judgments, foreclosures, and court-ordered child support collections.
- Trade lines – Usually, the bulk of a credit report provides detailed information about your credit history. It should be read carefully for accuracy, as well as to know when negative information should age off. It should list such vital data as:
  - The names of your creditors and their partial account numbers
  - The dates of last payment activity
  - The date you opened each account
  - Your payment history. If you have made payments late, the number of days you are or were past due will be indicated.
  - Each account’s last reported balance
  - Whether accounts are open, closed, or in collections
  - The credit limit for each account

- Inquiries – The final section of your report is a list of anyone who has accessed it in the past two years. Each time your report is pulled for review, it results in an inquiry on the credit file. This includes creditors accessing your file after you’ve applied for credit, your current creditors doing a routine credit analysis, and any potential landlords or employers you may have placed an application with and given permission to view your credit file.

### Identity Theft Protection

Identity theft is a quickly growing crime, and can be highly destructive to a consumer’s credit history and credit report. It is essential that you protect yourself against it from occurring, and know what to do if you become a victim.

Never share your personal information unless you’ve verified you’re doing so with a reputable entity. This is particularly true for any organization that begins contact with you, instead of you establishing contact with them. Online shopping has added another dimension of access to your information. Always check to be sure you are transmitting information on a secure server before sending personal information, account numbers, etc. Secure servers are denoted by web addresses that begin with “https” instead of simply “http.”

Interception of mail and trash is another common way for scam-artists to access personal information. Shred all documents that have your account numbers or Social Security number on them. If you are going to be away from home for more than a few days, contact the post office and ask them to hold your mail.

Review your credit card and checking account statements each month to ensure all transactions are accurate. If you get strange bills in the mail for accounts you haven’t 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. Some victims of identity theft had fraudulent activity going on for years before they even realized it. The longer the problems have been going on, the harder it will be to get them resolved.

### Recovery from Identity Theft

Commit yourself to becoming and remaining organized. Since you will probably be

communicating with a lot of people, keep track of who said what, and when. Keep copies of all letters and maintain a verbal correspondence log. File paperwork right away and store everything in a safe and accessible place.

### **Creditors and Financial Institutions**

If accounts have been used or opened illegally, contact the creditors immediately. Ask for fraudulent transaction documentation (you may use a uniform affidavit form, available on the Consumer Financial Protection Bureau's website), as you may need it in the future. Add "non-guessable" passwords to replacement cards and all existing accounts.

If a collection agency attempts to collect on a fraudulent account, explain (in writing) that you are a victim of identity theft and not responsible for the debt. Ask that they confirm in writing that you do not owe the balance and that the account has been closed.

For checking account fraud, contact your financial institution to place stop payments on any outstanding checks that you did not write. Report the crime to check reporting agencies, such as ChexSystems. It is also a wise idea to cancel your checking and savings accounts and obtain new account numbers and passwords. Monitor all future account statements carefully for evidence of new fraud.

### **Legal and Government Agencies**

Report the crime and file a report with either your local police or sheriff's department or the police where the identity theft took place. Request a copy of the report and keep the phone number of your investigator handy. For additional documentation you may also pursue an investigation with your state's attorney general office. Notify your local postal inspector if someone else has used your address. If your Social Security number has been fraudulently used, alert the Social Security Administration.

### **Credit Reporting Bureaus**

The most arduous task in this process may be ensuring that your credit report lists only factual information. To know what is being reported, you will need to obtain a credit report from each of the three major credit bureaus (if you are married, your spouse should also check his or her report).

Even if the fraudulent information hasn't yet appeared on your reports, be proactive and report the crime now. In a letter to each bureau's fraud department (include copies of the report with the fraudulent activity clearly highlighted), request that a "fraud alert" be entered on your file for seven years. No new credit should be granted without your explicit approval. Write a victim's report – a brief statement describing the details of the crime – and send it to the bureaus to be added to your report.

### **The Fair and Accurate Credit Transactions Act**

The Fair and Accurate Credit Transactions Act amends the FCRA and is an important tool in the fight against identity theft. It gives consumers many powerful rights:

- Consumers may receive a free copy of their credit report once a year.
- Consumers may receive additional free reports if identity theft is suspected.
- Identity theft victims who file police reports may block fraudulent information from appearing on their credit reports.
- Identity theft victims have access to business records that list an identity thief's fraudulent transactions.
- Credit reporting agencies must ensure that all credit requests are legitimate after a credit report has been flagged for suspected identity theft.
- Active duty military personnel may place special alerts on their files when they are deployed overseas.
- Only the last five credit card number digits may be listed on store receipts.
- Lenders and credit agencies must take action even before an identity theft victim is aware of the crime.
- Debt collectors must inform a creditor of fraudulent information.

### **Other Consumer Reports**

Though credit reports may be the most important to your financial future, there are other reports that consumers should be aware of:

#### **ChexSystems**

ChexSystems is a report frequently used by financial institutions when determining whether to open a savings or checking account for a new member. The report is a record of past banking



activity such as closed accounts and checks returned for insufficient funds. Not every financial institution uses this service, and there is no standard for adding information to the report. Some organizations will report one check that bounced due to miscalculation, where others may only report in cases of bank fraud.

Accurate information remains for five years, even if the check is paid. It can only be removed by request of the financial institution. Consumers can get a free copy of this report and dispute incorrect information. It is also possible to add a 100-word statement explaining the circumstances surrounding a returned check.

- ChexSystems  
7805 Hudson Road, Suite 100  
Woodbury, MN 55125  
www.consumerdebit.com  
800.428.9623

#### **National Tenant Network**

The National Tenant Network compiles information on evictions and provides it to landlords who subscribe to its service. The network is not required to comply with the Fair Credit Reporting Act. Negative information on this report can seriously hamper a renter's ability to get an apartment, or cause a landlord to require a larger security deposit.

You have the right to request and inspect your report and dispute inaccurate or incomplete information. A brief statement can also be added to the report to explain the circumstances of an eviction.

- National Tenant Network  
P.O. Box 1664, Lake Oswego, OR 97035  
www.ntnonline.com  
800.228.0989

With a little effort and awareness, most people can have and keep an excellent credit history.

### **Schedule your private one-on-one for personalized financial tips today!**

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