

FINANCIAL WELLNESS

Your Credit Report



If you've ever applied for a credit card, a personal loan or insurance, there's a file about you. This file is known as your credit report. It's full of information on where you live, how you pay your bills, and whether you have been sued, arrested or have filed for bankruptcy. Consumer reporting companies sell the information in your report to creditors, insurers, employers and other businesses with a legitimate need for it. They use the information to evaluate your applications for credit, insurance, employment or a lease. Having a good credit report means it will be easier for you to get loans and lower interest rates; lower interest rates usually translate into smaller monthly payments.

The Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness and privacy of information in the files of the nation's consumer reporting companies. The Consumer Financial Protection Bureau (CFPB) enforces the FCRA with respect to these companies. Newspapers, radio, TV and the internet are filled with ads for companies and services that promise to erase accurate negative information in your credit report in exchange for a fee. These are scams. It is not possible to simply erase negative information from your credit report; you have to work to get it back into good standing through a deliberate plan.

You have a right to know what is in your report, but you have to ask for the information. The consumer reporting company must tell you everything in your report, as well as give you a listing of everyone who has requested your report in the past year (or two years if the requests were related to employment).

Four basic types of information are collected and sold:

- *Identification and employment information.* Name, birth date, Social Security number, employer and spouse's name are noted. The reporting company may also provide information about employment history, home ownership, income and previous address, if a creditor asks.
- *Payment history.* Accounts with different creditors are listed in the report, showing how much credit has been extended and whether the payments have been on time. Related events, such as the referral of an overdue account to a collection agency, may also be noted.
- *Inquiries.* Consumer reporting companies must maintain a record of all creditors who have asked for the credit report within the past year, and a record of individuals or businesses that have asked for it for employment purposes in the past two years.
- *Public record information.* Events that are a matter of public record, such as bankruptcies, foreclosures or tax liens may appear in the report.



Common Questions About Credit Reporting

What kinds of information does a consumer reporting company collect and sell?

Is there a charge for the report?

Under the Free File Disclosure Rule of the Fair and Accurate Credit Transactions Act (FAST Act), each of the nationwide consumer reporting companies is required to provide you a free copy of your credit report once every 12 months if you ask for it.

How can I receive a copy of the report?

All three nationwide consumer reporting companies use one website: www.annualcreditreport.com

The above website provided is the ONLY way to receive an authorized free credit report. The website or the companies will never contact you first to ask for personal information – so if you get a call or e-mail, it is likely a scam. Also, be aware of imposter sites. Many websites will deliberately misspell a deviation of the above site, hoping

that you will mistype and end up at their site – where they will attempt to collect personal information and/or sell you products. Remember, “free” should mean FREE.

What if I believe the information in my credit report is inaccurate?

Tell the consumer reporting company, in writing, what information you think is incorrect. Include copies—not originals—of documents that support your position. Your letter should clearly identify each item in the report that you dispute as well as why you dispute it. You should request that the items be deleted or corrected. Send the letter by certified mail, with a return receipt requested.

Consumer reporting companies must investigate the items in question (usually within 30 days) unless they consider your dispute frivolous. When the investigation is complete, the company must give you the written results and a free copy of your report if the dispute results in a change. If you request, the consumer reporting company must send notices of any correction to anyone who received your report within the past six months.

Your Credit Score

Credit scoring is a system creditors use to help determine whether to give you credit and how much to charge you for it. Information about you and your credit experiences (like your bill-paying history, the number and types of accounts you have, late payments, etc.) is collected from your credit application and your credit report. Using a statistical formula, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor. The total number of points—or the credit score—helps predict how creditworthy you are; that is, how likely you are to repay a loan and make the payments on time. Credit scores range from 300 (worst) to 850 (best). Generally, anything below 620 is considered “Poor,” a range of 620 to 720 is “Good,” and anything above 720 is “Excellent.”

Improving Your Financial Situation—and Your Credit Score

If you have negative information in your report, only the passage of time can remove it. A consumer reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. Whether you find yourself in a financial bind or not, here are some ways to improve your credit score and avoid increasing your debt.

Make Payments on Time. Payment history is a significant portion of your credit report. If you are having trouble making your payments, call your creditors and explain. You will likely be able to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector.

Don't "Max Out" Your Credit Cards. Many scoring systems evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, it's likely to have a negative effect on your score. For example, someone with \$10,000 charged on a credit card with a \$20,000 limit is going to be looked upon more favorably than someone with \$900 charged on a card with a \$1,000 limit, even though it's a much lower amount.

Watch Your Credit Applications. Have you applied for new credit lately? When you apply for credit, it shows up as an "inquiry" on your credit report. Too many inquiries in a short period of time cast a negative light on your credit history. On the other hand, if you do not have a significant credit history (for example, you do not own a credit card), this can also affect your score negatively.

Pay Down Your Debt. While it seems obvious, this is the fastest way to improve your credit score. Instead of going out to the movies or on vacation, why not take that extra bit of money and apply it to what you owe your creditors?



Develop a Budget. The first step in taking control of a messy financial situation is to develop a budget. Do a realistic assessment of how much money you take in and how much you spend. Start by listing your income from all sources. Then list your "fixed" expenses—those that are the same each month—like mortgage payments, rent, car payments, etc. Next, list the expenses that will vary, such as entertainment, clothing and recreation. From this information, you will be able to see what expenses you can trim down or eliminate completely. If you are not used to sticking to a budget, it might be a good idea to get a book or computer software to help you budget successfully—or try contacting a credit counselor from a nonprofit agency.

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www.consumer.ftc.gov/articles/pdf-0032-building-a-better-credit-report.pdf.