FAMILY ECONOMICS & FINANCIAL EDUCATION

UNDERSTANDING CREDIT REPORTS

WHAT IS A CREDIT REPORT?

When a consumer chooses to apply and/or use credit, the information is kept in a *credit report*. A **credit report** is a record of a consumer's *credit history*. **Credit history** is a record of transactions involving the use of credit. Individuals do not have a credit report if they have not previously used credit. A credit report affects one's ability to acquire credit.

INFORMATION IN A CREDIT REPORT

- Name and aliases
- Current and past addresses
- Marital status
- Date of birth
- Employment history
- Public records (judgments, criminal, and bankruptcy)
- Payment history
- Financial records
- Loans/leases
- Number of **credit inquires**—evaluation of a consumer's credit report each time they complete an application
- Late medical payments

BUILDING CREDIT HISTORY

Building a credit history is important for a consumers planning on purchasing big ticket items, such as a house, on credit. It affects a young adult's ability to rent an apartment, buy a car, or purchase appliances and other merchandise on credit in the immediate future. Strategies to build a credit history include: receiving a loan from financial institution, having store or credit card accounts. Although the following are all positive financial practices, a credit history is not built if a consumer performs the following actions:

- Having no history of credit use;
- Not having any credit accounts in own name;
- Paying cash for all major purchases;
- Paying phone and utility bills on time.

An example of implementing a strategy to build a credit history is to acquire a small loan from a financial institution. By paying the loan off in timely payments, a positive credit history is developed.

61% of Americans said their knowledge of credit reports is fair to poor.

Only 3% of Americans can name the three main credit bureaus.

Consumer Federation of America

POSITIVE CREDIT

Although there are many ways for a consumer to build credit, it is important the credit history be positive instead of negative. A consumer must work on building and maintaining positive credit. Strategies include:

- Practicing good banking techniques such as not bouncing any checks;
- Paying bills consistently and on time;
- Keeping public records free of bankruptcy;
- Having no criminal record;
- Keeping a reasonable or small amount of debt;
- Keeping the number of credit inquires low;
- Holding a low number of credit/store cards;
- Checking credit report annually to remove errors;
- Maintaining reasonable amounts of unused credit.

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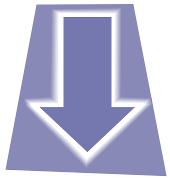
NEGATIVE CREDIT



If a consumer is irresponsible with his/her credit, he/she can develop negative credit. There are many ways a consumer can 'hurt' their credit. Habits performed on a daily basis which may seem unimportant or a simple mistake may actually be hurtful to one's credit in addition to the negative impact of large financial mistakes. Ways a consumer may develop or keep negative credit include:

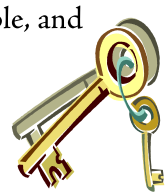
- Bouncing checks;
- Routinely paying bills late;
- Having a criminal record;
- Holding large amount of debt;
- Obtaining a high number of inquires;
- Carrying many credit/store cards;
- Having a public record of bankruptcy;
- Defaulting on a loan;
- Holding an unreasonable amount of unused credit;
- Having any credit/store cards surpassing the credit limit;
- Not paying utility accounts on time.

GENERAL RULE

Keep the amount of debt currently held at 25% of the total amount of available credit.

KEYS FOR SUCCESS

- Check credit report once a year.
- If worried about identity theft, check the report twice per year.
- If purchasing a large ticket item, check credit reports from each of the three major credit reporting agencies to be sure information is correct before applying for loan.
- Be proactive, responsible, and repair credit damage.



CREDIT REPORTING AGENCY

A **credit reporting agency** keeps records of a consumer's credit transactions and compiles credit reports. There are three main credit reporting agencies in the U.S.: Equifax, Experian, and Trans Union. These credit reporting agencies acquire information from several different types of lenders. Lenders who report a consumer's payment history may include:

- Store accounts
- Credit card companies
- Mortgage and other loan lenders
- Utility accounts
- Financial institutions
- Landlords
- Cellular phone accounts
- Delinquent accounts

Consumers should contact all three agencies for a copy of their credit report. A lending company may report to only one credit reporting agency and the CRA's are independent of one another. Therefore, information may be different on all three reports. It is the consumer's responsibility to have all three reports free of errors. Contact information:

Equifax	Experian	TransUnion
1.800.685.1111	1.888.397.3742	1.800.860.7289
www.equifax.com	www.experian.com	www.transunion.com

REQUESTING A CREDIT REPORT

A consumer can request a credit report any time. Under the Fair and Accurate Credit Transactions Act, consumers will be able to obtain one free credit report annually from each of the three reporting agencies. After September 1, 2005, the entire United States will be able to take advantage of this new mandate. Consumers are not the only individual able to request their credit report. A consumer's credit report may be requested by a business when the consumer is seeking credit with them. Any time a consumer requests credit from a business, they are able to review the consumer's credit report. This may include:

- Landlords;
- Insurance agencies;
- Current and potential credit companies;
- State/local child support agencies;
- Government agencies;
- Financial institutions inquiring for lines of credit;
- Potential employers—may request a credit report only if there is a written request from applicant.

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Mistakes in Credit Reports

In July 2000, *Consumer Reports* cited a study stating the two main errors appearing in credit reports were fraud and mistaken identity. Mistaken identity occurs when a lender reports a credit transaction and information is recorded on the wrong person's credit report, usually of a similar name. In 1971, the Fair Credit Reporting Act was enacted to protect the consumer. It states consumers have the right to know what information is in their credit report and to correct any errors. This legislation was designed to promote accuracy and ensure privacy of consumer information in consumer credit reports. To correct an error on a credit report, follow these steps:

- Contact the particular credit bureau that has incorrect information;
- The bureau has 30 days to investigate the information;
- Information must be removed from a file if a CRA cannot verify it or corrected if information contains errors;
- If the consumer disagrees with the result of a CRA investigation, they have the right to submit a 100 word explanation which gives their version of the dispute. After seven years, negative information is removed except for bankruptcy which is removed after ten years.

> *Remember you can obtain one free credit report annually from each of the three reporting agencies.*
> ***www.annualcreditreport.com***

If a consumer is denied credit in the past 60 days, they will receive a letter telling them which credit agency the information came from. Consumers should check their credit report once a year to make sure the information is accurate and up-to-date.

What is a Credit Score?

A **credit score** is a mathematical tool created to help a lender evaluate the risk associated with lending a customer money. A credit score is not listed in a credit report because each CRA has an independent scoring system based upon a standard percentage of five different categories. This means a consumer's credit score may be different depending upon the type of independent scoring system used. CRA's can tell a consumer what is in his/her credit report and what his/her score is, but only the lender can tell them how they calculated the score. Consumers can ask lenders what factors are used in calculating their credit score and how to improve it.

Calculation of Credit Scores

Scores are calculated by five different categories.

1. 35% - Payment history: the timely manner in which a consumer did or did not pay the debt.
2. 30% - Outstanding debt: the amount of debt currently held in credit card debt and installment loans.
3. 15% - Credit history: takes into account how long the consumer has held credit accounts and how often they are used.
4. 10% - Pursuit of new credit: assesses how much credit is acquired over the length of the consumer's credit score.
5. 10% - Types of credit in use: may include credit cards, gas cards, store cards, loans, etc.

Other factors may be calculated into a credit score including length of time at current address, current income, financial information, late payments, amount of outstanding credit, amount of credit in use, and length of time credit has been established.

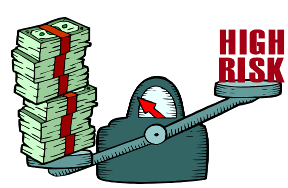
Credit Scores Affect Financial Ability

High Score

- Low interest rate on loan
- Ability to receive loan/credit
- Reflects borrower is a low risk to lenders
- Ability to acquire conveniences such as: cell phone, credit card, and utility accounts

Low Score

- High interest rate on loan
- Inability to receive loan/credit
- Reflects borrower is high risk for lenders
- Inability to acquire conveniences



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