

UNDERSTANDING CREDIT REPORTS AND SCORES



THE NEED FOR GOOD CREDIT

- **Some financial goals cannot be accomplished in one payment—for example, an automobile or a house**
- **You must borrow money to finance these items**
- **How do you prove your capability of repaying items purchased with credit?**

If you have studied the budgeting section in our courses, you understand how important it is to budget your money carefully in order to use it effectively. However, even when you successfully pay all your bills on time, you will find that some purchases require the use of credit.

For example, most people are unable to purchase an automobile or a house with a single payment. For large expenditures like these, people typically make their purchases using credit. However, you must establish a good track record of paying your bills in order to qualify for a loan. Lenders can only stay in business by lending money to those who have a high probability of paying them back.

How do you prove that you can manage credit and debt effectively, and will repay a loan on time?

WHY DO YOU NEED GOOD CREDIT?

- To accomplish your long term objectives
- To purchase a home or vehicle at a good interest rate
- To rent a home or apartment
- For emergency situations
- For reduction of stress and peace of mind

A good credit history is essential if you want to fulfill your dreams and keep more of your money in your pocket. Financing a home or a car can be extremely difficult, if not impossible, when you have poor credit. Since such expenditures are long term in nature, it is easy to understand that a lender will want to examine your credit history, before considering you a good candidate for a loan.

There are other reasons why a good credit rating is important. For example if you have an emergency and need to borrow money in a hurry—like an illness, injury, or accident. Or, you live in a state where potential employers are able to check your credit record. In short, your energy in establishing good credit will reduce stress and provide you with long term peace of mind.

WHAT IS A CREDIT REPORT?

- A record of your credit history
- Three credit bureaus:
 - Equifax
 - TransUnion
 - Experian
- Potential lenders, merchants, landlords are allowed to review your credit report
- The FACT Act allows you to review your credit reports (all three) once per year for free

Your credit report is the key between obtaining credit and showing a lender that you know how to manage credit and debt.

You may wonder how banks, department stores, and credit card companies decide who to lend money to? In addition to the application form you fill out when you apply for credit, lenders have an important resource that allows them to access your credit history—your credit report. A credit report is like a school report card—evaluating your ability to manage your credit and debt.

There are three major credit bureaus who compile information on individuals regarding their credit—these are Equifax, TransUnion, and Experian. Each credit bureau works independently, and each structures their report in a slightly different way. It is very important that you become familiar with the contents of all 3 of your credit reports and it is your right under the law.

The Fair and Accurate Credit Transactions Act (referred to as the FACT Act) allows you to obtain one free credit report from each major credit bureau once per year. You are permitted to receive more than one report per year, but the credit bureaus will charge a nominal fee for each report beyond the free one.



WHY YOU SHOULD REVIEW YOUR CREDIT REPORTS

- **One or more of your reports may contain inaccurate data**
- **Your credit report is of particular interest when you are planning to borrow money**
- **The credit report may reveal attempts to steal your identity**
- **You should know who is looking at your credit report and why**

We'd like to encourage you to get all three of your credit reports— from Experian, TransUnion and Equifax. Here are a few reasons why you should review these reports at least once per year.

With all of the data that is received by the credit bureaus, mistakes are bound to happen. These may be minor ones, such as misspellings, or more major ones that can affect your ability to maintain your credit. You are in the best position to determine the accuracy of the report, and you have the most to gain by correcting errors.

Your credit report is of most importance when you are planning to borrow money. The status of your credit may be a factor in determining the interest rate that a bank or mortgage company charges for your loan and in determining whether your loan application will be approved at all.

The credit report may also indicate that attempts have been made to steal your identity—an incorrect address, for example, or an unknown credit card with your name on it.

Finally, the credit report will indicate who is looking at your credit. Companies can make inquiries to either review your credit status, or to evaluate you as a candidate for promoting their product to you.

HOW TO GET YOUR CREDIT REPORT

Credit Bureau	Phone	Website
For Free Annual Report	1-877-322-8228	www.annualcreditreport.com
Experian	1-888-397-3742	www.experian.com
TransUnion	1-800-888-4213	www.transunion.com
Equifax	1-800-685-1111	www.equifax.com

To receive your free report visit www.annualcreditreport.com or call the number listed in the table above. This is an internet site that allows you to access your free annual credit report once per year, from each of the three credit bureaus. Be wary of any other websites that offer free credit reports—this is the **only** official site.

Credit reports can also be acquired by contacting each of the major credit bureaus—Equifax, TransUnion and Experian. The phone numbers and web sites for these three credit bureaus are shown on this slide. However, these reports are not free.

You can choose to receive your reports by telephone or by mail, but the most efficient method is by internet access. Using a computer connected to the internet, you can have your credit report in your hands within about five minutes. A typical internet session is described on the next page. Whether you acquire your credit report by phone, by mail, or via the internet, you will need to provide certain types of information that the credit bureau needs in order to identify you, so that the correct report can be generated.

GETTING YOUR CREDIT REPORT FROM THE INTERNET

You must provide the following information:

- Your name;
- Your date of birth;
- Your social security number;
- Your current address;

...and possibly other items to confirm your identity:

- The street name, town or zip code of a previous residence;
- The name of a company or bank that issued you a credit card or loan in the past.

Acquiring your report is a 3-step process:

1. You must enter certain required data about yourself
2. You must confirm your identity
3. You may then view your report

Before you log in, it is important to have some required information —because you will be asked to prove your identity conclusively. Here are some examples of types of questions you might be asked:

Your name;

Date of birth;

Social security number; and
Current address;

You may also be required to enter some data that only you should know. These items may vary, but could include:

- The street name, town or zip code of a previous residence
- The name of a company or bank that issued you a credit card or a loan in the past
- The name of your mortgage company or the monthly payment
- The name of your car loan company or the monthly payment

HERE IS AN EXAMPLE:

Dana Thomas Gets Her Free Credit Report

- Dana logs in to www.annualcreditreport.com to get her free annual credit report
- She fills in the required boxes for her name, birth date, social security number, and address
- She completes other questions to confirm her identity
- She requests “masking” on her SSN
- She avoids offers on the credit bureau web site to purchase additional services at extra cost

Let’s look at the following example: Dana Thomas logs on to the internet with the intent of downloading and printing her credit report on the printer connected to her personal computer.

She enters www.annualcreditreport.com in her browser address bar. Remember this is the **only** official site for free credit reports. This site allows Dana to get a current complete credit report from Equifax, TransUnion or Experian--or from all three, if she desires. Once on this site, Dana will be asked to select which bureau she wants to retrieve her credit report from first.

She will then fill in her name, birth date, social security number and address. There will be a few other questions that help Dana to prove her identity. Additionally, she has the option of “masking” her social security number. If you plan to print out your credit report, this is a good option because only a portion of your social security number will be revealed in the report.

One other thing: As you enter data about yourself, be aware of sales advertisements that might pop up on the screen asking if you want extra services at an extra price. You do not need to accept them in order to get your free credit report.

CONTENTS OF THE CREDIT REPORT

- The credit report contains these sections:
- Personal information section
- Account history (overview and detail)
 - Positive accounts
 - Negative accounts
- Inquiries Section (applications for credit and account review inquiries)
- Information from Public Records
- How to Contact the Credit Bureau

Here is an outline of the contents of a credit report.

Personal Information—name, social security number, records on file of previous addresses, etc.

Account History-You can view this information in summarized fashion or in detail. For example, you can find out if your payments to your VISA card have been on time or look at the details of individual payments you have made to your VISA provider.

You may also have a section showing accounts that are in negative standing. These would include accounts that have been sent to a third party collection agency or accounts that were included in a bankruptcy. Negative items in the account history section may remain on a credit report for 7 years.

The **Inquiries Section** is where inquiries by credit providers, landlords, insurance companies and other parties may be listed. An account review inquiry is usually from a company that you owe money to—an inquiry is verification that your credit is still good. A promotional inquiry is one in which a company is evaluating your suitability for future credit—and they may be planning to send you an offer for a credit card or other service. Inquiries remain on your credit report for 2 years.

Public Records information may also be found on your credit report. If you have an existing lien against your property, or have missed child support payments, these items are of interest to your creditors. Public record information may remain on your credit report for 10 years.

Contact Information- Finally, the credit report will provide information on how you can contact the credit bureau in case of errors in the report.

DANA EXAMINES HER CREDIT REPORT

Dana's Personal Information

Personal Credit Report

Personal Information

Name: Dana Thomas

You have been in our files since 1999

File Number: 12666888

Date Issued: 8/10/2011

SSN: XXX-XX-9999

Date of birth: 05/1982

Telephone: 556-9456

Current Address

Address: 834 Washington Avenue #28
Tacoma, Washington 98419

Date Reported: 08/2003

Previous Address

Address: 828 West Decatur
Olympia, Washington 98565

Date Reported: 11/2001

Let's take a look at the report generated for Dana Thomas. The first section is the Personal Information section. As you can see this section contains her name, address, previous addresses, date of birth and social security number. Note that in the report, the social security number has been masked so that only the last four digits appear.

Pay special attention to the File Number for this report. The file number will allow Dana to get back to this report on the credit bureau's web site. More importantly, if Dana disputes any item on this report, she will need to provide this file number to the credit bureau so they can follow up on the validity of the item.

If you spot any erroneous items on your credit report (even in the personal information area), be sure to dispute them with the credit bureau and have them resolved.

DANA'S ACCOUNT HISTORY

Accounts in Good Standing	Account Number	Date Opened	Balance	Date Reported	Past Due	Credit Limit	Status
Key Bank	888444XXXX	8/4/2001	\$3,250	7/2011	\$0	\$4,000	Pays as agreed
<i>Show Details</i>	Status Open						
Shell Oil Company	222777XXXX	2/1/2009	\$345	7/2011	\$0	\$1,000	Pays as agreed
<i>Show Details</i>	Status Open						
Macy's Department Store	1111222XXXX	3/1/2011	\$899	7/2011	\$0	\$2,500	Pays as agreed
<i>Show Details</i>	Status Open						
AMEX	444333XXXX	4/25/2003	\$1,200	7/2011	\$0	\$5,000	Pays as agreed
<i>Show Details</i>	Status Open						
Capital One	44411234XXXX	6/1/2006	\$0	3/2011	\$0	\$0	Pays as agreed
<i>Show Details</i>	Status Closed	10/1/2012					

In the Account History section of the credit report, Dana can examine records of her credit accounts, either in summary, or in detail. For example, the report lists “Accounts in Good Standing”, which consist of Key Bank, Shell Oil Company, Macy’s Department Store and American Express.

For any of these accounts, Dana can click on the Show Details link to examine individual payments she has made on these accounts. Dana’s report also shows one closed account – Capital One.

Note that the credit report shows account numbers, the dates that the accounts were opened, outstanding balances, past due amounts, credit limits and the account status. Normally, the last 4 digits of account numbers will be crossed out for security purposes.

DANA'S NEGATIVE ACCOUNT SECTION

Accounts in Negative Standing	Account Number	Date Opened	Balance	Date Reported	Status
Alliance One	9976XXXX	10/1/2009	\$0	1/2010	Paid
<i>Show Details</i>					
Rapid Recovery Solutions	28822XXXX	4/1/2007	\$125	3/2012	
<i>Show Details</i>					

This section shows accounts that are in a negative standing on Dana's credit report. These are both third party collection agencies. In order to know who the original creditor was, Dana needs to click on the Show Details link or to contact the collection agency.

Public Records Information includes information from government sources, including such things as:

- Liens against property
- Bankruptcies
- Overdue payments for child support
- Accounts where the creditor has sued the debtor in court

Although not illustrated in the credit bureau report for Dana Thomas, a credit report may contain information of public record from the court system that a potential creditor might need to know. For example, a bankruptcy or failure to make child support payments could be reported.

It may seem to be an invasion of privacy to include such items, but they are important from a potential creditor's point of view. These items may stay on your record for 10 years.

THE INQUIRIES SECTION

Requests Viewed by Others		
American Reporting Company	Date	8/9/2011
Capital One US Card	Date	4/18/2011
Macy's Department Store	Date	3/1/2011
Requests Viewed Only By You		
Chase Bank USA	Date	1/9/2011
Consumerinfo.com	Date	8/4/2010

In the inquiries section, Dana finds there are different types of inquiries. Some inquiries will be seen by anyone who reviews her credit report. Other inquiries will only be seen by Dana as they are not requests to open new credit accounts.

INQUIRIES THAT EVERYONE SEES:

Dana's applications for

- Credit or store cards
- Mortgages
- Auto loans
- General loans
- Tenant screening

Inquiries that only Dana sees:

- Her own requests for her credit report
- Inquiries by companies Dana already has an account with (account reviews)
- Promotional offers - companies evaluating Dana with the idea of possibly offering her credit

CREDIT BUREAU CONTACT INFORMATION—BY PHONE, BY MAIL AND OVER THE INTERNET

**What if You Disagree with Something in the Report?
Get the file number from your credit report and contact the credit bureau to air your dispute.**

At the end of the credit report, you will find contact information, in case you wish to contact the credit bureau. There are three approaches – by internet, by telephone, and by mail. The appropriate procedure for each method is listed on your credit report. The most probable reason for contacting the credit bureau is if you disagree with something in the report.

If you have downloaded the credit report from the internet, you will find a link on the report for disputing items contained in it. Click the link and follow the instructions. You may be directed to an 800 number for reporting the dispute. When you call, you will probably be asked for your social security number and the file number from your credit report. The credit bureau technician will then be able to view your report onscreen, and you can indicate which items appear to be in error.

The resolution of the dispute may take up to 60 days, but you will have some type of response within 30 days. The credit bureau will contact you with the results of the review. If they agree the item is in error, you are entitled to a free report so that you can verify the information has been removed. If the credit bureau states that the information is correct, you can report the issue to the Federal Trade Commission as well as appeal the decision.

Please see the **Sample Dispute** letter at the end of this book.

HOW OFTEN SHOULD YOU REQUEST YOUR CREDIT REPORT?

- Once per year free from each credit bureau via [AnnualCreditReport.com](https://www.annualcreditreport.com)
- Request all three if you have never viewed your credit report—there may be errors
- Rotate your requests among the three credit bureaus throughout the year
- Consider requesting more frequently if planning to borrow money for a house or car

You should request your free credit report from each of the three credit bureaus at least once every twelve months by using [Annualcreditreport.com](https://www.annualcreditreport.com). If you have never examined your credit report, you should begin by requesting all three reports, mainly to be sure that they are free of errors. In addition, not all creditors report to each credit bureau so you may have information on one report that is not on another.

Assuming that they are reasonably free of errors, you might then consider a strategy of rotating your requests. For example, in the second year, get a free report in January from Experian, wait four months, and then request the TransUnion report; finally, near the end of the year, get the Equifax report. This strategy allows you to continue to get free reports but stay current on your credit status.

If you have plans in the near future to borrow money for a car or house, you might request additional copies of your reports as the

current status of your credit may affect the interest rate you qualify for. Visit the main credit report agencies, Equifax, Experian and TransUnion for additional credit reports.

OTHER OCCASIONS TO REQUEST A FREE CREDIT REPORT

There are other occasions when you can request your credit report and receive it for free:

- If you have recently been denied credit
- If you have recently been denied employment or insurance
- If you expect someone has been fraudulently using your account
- If you are unemployed and intend to apply for employment within 60 days
- If you receive public welfare assistance

You will have to provide the credit bureaus with proof of any of these situations.

WHAT ABOUT YOUR CREDIT SCORE?

- **A three digit score ranging from 300 to 850**
- **Higher is better**
- **Credit Score will cost a nominal fee**
- **www.myfico.com**

What is your Credit Score? Your credit score is a three digit score ranging, typically from 300-850. Each credit bureau calculates the credit score in their own unique way, so you may find it useful to order all three. Because there is such a variance in the credit scores that credit bureaus use, each one clearly explains whether your score is Excellent, Good, Fair or Poor. You do not need to know their scoring model.

The credit score is used by financial institutions to evaluate your credit worthiness and determine the interest rate you will receive and whether or not you will qualify for a loan. The higher the score, the lower the interest rate you will qualify for.

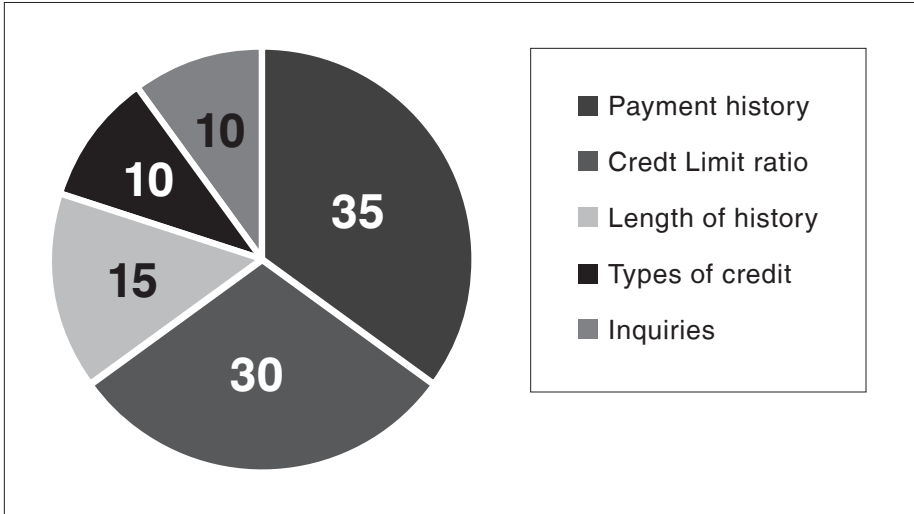
Credit scores cannot be used to determine eligibility for employment or for renting a home or apartment.

At this time, your credit score is not provided by Experian, Equifax, or TransUnion with your free Credit report. You can, however, obtain your score for a nominal fee. Consider doing so if you are planning a major purchase, such as a house or a car.

In addition, if you are denied credit you are entitled to see the credit score the lender used in making their decision. You should receive the score within four weeks of the decision.

Fair Isaac and Company (FICO) is one of the most widely used scoring models in determining credit worthiness. According to FICO the model is comprised of five sections which make up 100% of your credit score.

CREDIT SCORE



- 35%: Payment history – are payments made on time
- 30%: Debt-to-credit limit ratio – how much revolving debt you have in relation to the credit card limits. It is best to keep balances at 30% or less of the available credit limit
- 15%: Length of credit history
- 10%: Number of inquiries on the report – recent requests to open new credit accounts
- 10%: Types of credit accounts on the report – these may be credit cards, student loans, auto loans, or mortgages

For more information about how your credit score is calculated and to receive all 3 FICO (Fair Isaac and Company) credit scores at once visit: www.myfico.com

Improving Your Credit

Here are some tips for improving your credit report and your credit score.

- Manage your bills carefully. Make all payments on time; don't skip payments; if you are having trouble making a payment, contact your creditors and see if they can postpone your payment for a period of time or accept a smaller payment.
- Pay all of your bills on time. Doing so prevents anything negative from being added to your credit report.
- Consider adding positive information to your credit report. Talk to your bank or credit union about opening a secured credit card. A secured credit card allows you to add positive information to your credit report by using the card in a responsible manner. It also lessens the risk to your bank or credit union if you fail to pay card charges. You provide a deposit to the bank or credit union and they give you a credit card with a limit equal to the deposit. Use the card responsibly and build credit as well as trust with the financial institution.
- Monitor your checking account carefully to avoid bouncing checks.
- View your credit reports (all three) once per year and challenge any errors that you discover.
- Avoid moving your debts around from one credit card to another unless there is good reason to do so.
- Consider that some items on your credit report will stay there for a long time--which is a good reason to make sure they say good things about you. Positive information can remain on your credit report as long as the creditor continues to report it – even after an account is closed.
- Stay away from Credit Repair Companies, there is no quick fix for bad credit and you are able to do anything they propose to do yourself without paying a fee.
- Get help if you need it, from an accredited non-profit credit counseling agency.
- Above all, live within your means.

ORDER YOUR CREDIT REPORT

If you have not done so already this year, choose one of the three credit bureaus and request your credit report by phone, Internet or by mailing in the form on the left. Read the report carefully, and check it for accuracy. Follow up with the credit bureau on any mistakes you find, or items you do not understand. File the report in a safe place, and keep track of the date of the report, as well as the file number. This is a great step toward managing your credit.

WORKBOOK REVIEW

- How credit is used and why it is important
- Requesting your credit report
- The different parts of a credit report
- Your credit score
- Improving your credit report and credit score

SAMPLE DISPUTE LETTER

Date

Your Name

Your Address, City, State, Zip Code

Complaint Department

Name of Company

Company Address

City, State, Zip Code

Dear Complaints Dept:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my dispute. Please reinvestigate this (these) matter(s) and (delete or correct) these disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing.)

QUIZ—Understanding Credit Reports and Credit Scores

1. Why do you need good credit?

- a. To accomplish your financial goals
- b. To increase your borrowing capacity
- c. To help with employment prospects
- d. All of the above

2. The Fair and Accurate Credit Transactions Act allows you to:

- a. See your credit report at any time
- b. Receive one free credit report from each of the three major credit reporting agencies per year.
- c. Remove things from your credit report
- d. All of the above

3. You should check your credit report each year to:

- a. Check that all data is accurate
- b. See if you owe any money
- c. Apply for a loan
- d. Find out who your creditors are

4. In order to receive your credit report, you must supply which of the following information:

- a. Name, address, credit card numbers and balances
- b. Name, address, date of birth and social security number
- c. Name and address of everyone in your family
- d. Name, address and all bank account numbers

5. To dispute an error on your credit report, you must reference:

- a. The creditor balance
- b. The creditor address
- c. The credit report file number
- d. Your home address

6. Your credit score is:

- a. Calculated by annualcreditreport.com
- b. Used by financial institutions to evaluate your credit worthiness
- c. Used to determine the interest rate you will receive
- d. Both b and c

7. You can improve your credit score by:

- a. Transferring credit card balances
- b. Taking out several loans
- c. Making your bill payments on time
- d. Opening another bank account

8. You are entitled to see your credit score for free when:

- a. You order your credit report through AnnualCreditReport.com
- b. You apply for an auto loan
- c. You apply for credit and are turned down
- d. Any time a creditor accesses your credit report

9. A good way to try and improve a credit report is:

- a. Hire a credit repair company to fix it
- b. Make all payments on time
- c. Use a secured credit card that reports payment history to the credit bureaus
- d. Both B and C

10. Inquiries that may negatively impact a credit report or credit score include:

- a. Applications for new credit cards
- b. Applications to rent an apartment
- c. Requests made by you to see your credit report
- d. Requests made by potential employers to see your credit report

Visit our website for more financial information and classes. We have a resources page full of financial information to help you make the most of your money and credit. These include:

- Articles
- Financial calculators
- Online classes
- Links to other financial resources

PARTICIPANT CONTACT INFORMATION

If you would like to receive a certificate for completing this course, please:

- Complete the quiz on the preceding pages
- Complete the form below
- Mail both items to:
American Financial Solutions
Attn: Education
263 4th Street
Bremerton, WA 98337
- Or fax to: (888-282-5811)

Understanding Credit and Credit Reports

Please print your name (as it will appear on your certificate):

Name: _____

Please select your preferred method to receive your Certificate of Completion

Email: _____

FAX: _____

US Mail:
address _____

city _____

state _____ zip _____

WORKBOOK REVIEW:

- Importance of your credit report
- Obtaining and reading the credit report
- Disputing errors
- Understanding credit scores



**AMERICAN
FINANCIAL
SOLUTIONS**

a nonprofit credit
counseling agency