COMMUNITY HOUSING
INITIATIVE

# UNDERSTANDING YOUR CREDIT

## I. WHO ARE THE CREDIT REPORTING AGENCIES?

Credit reporting agencies are companies that gather information on consumers who use credit cards and sell that information in the form of credit reports to grantors, such as banks, finance companies and retailers. Credit bureaus keep records of consumer debt and how regularly these debts are repaid. They gather information from creditors who send computer tapes and other payment data to credit bureaus, usually on a monthly basis, showing what each account-holder owes or has paid. The data show if payments are up to date or overdue and if any action has been taken to collect overdue bills. The credit bureau adds this data to existing information in consumer files, creating a history of activity on consumer accounts.

## II. HOW TO CONDUCT YOUR OWN CREDIT CHECK-UP

Even if you have not been denied credit, you may wish to find out what information is in your credit file. Some financial advisors suggest that consumers periodically review their credit reports to check for inaccuracies or omissions. This could be especially important if you are considering making a major purchase, such as buying a home. Checking in advance on the accuracy of information in your credit file could speed the credit granting process.

The three major credit-reporting agencies (or bureaus) in the U.S. are Experian, Equifax and Trans Union LLC. In order for you to know what is being reported by these agencies, you should obtain a copy of your credit report. Addresses of the three credit bureaus are listed below:

**Experian**
PO Box 2002
Allen, TX 75013-0949
(888) 397-3742
www.experian.com

**Equifax**
PO Box 740241
Atlanta, GA 30375
(800) 685-1111
www.equifax.com

**Trans Union LLC**
2 Baldwin Place
PO Box 2000, Chester, PA 19022
(800) 888- 4213
www.transunion.com

## III. WHAT DOES THE CREDIT REPORT DISCLOSE?

Credit reports vary slightly between agencies; however most reports include:

1. Identification Information - full name, last two addresses, social security number, date of birth and place of employment.

2. Detailed Information on the Accounts that are listed - name of the creditor, date the account was opened, original balance or credit limit, current balance, term of the account, late payment history and the current status of the account.

3. Public Record Information - bankruptcies, tax liens, judgments and other filings.

4. Credit Report Inquiries - each time a creditor requests a copy of a credit report (called an inquiry), it is recorded on your report as "non-evaluated" by the bureau. This can sometimes have a negative connation if there are many inquiries with no subsequent accounts opened. Other creditors who later see this might assume the consumer was turned down, even though there are other possible explanations for the inquiries.

5. Consumer Statement - There is a space on the report for you to place a personal statement. This statement allows you to challenge or explain any creditor entry in the file, 100 words or less.

## IV. WHAT IS CREDIT SCORING?

Credit scoring is a method of measuring the likelihood that an individual will repay a credit obligation, such as a mortgage loan. Mortgage lenders, retail creditors, banks, auto dealerships and others use this measuring system widely in their evaluation and review of an application for credit. The scores are based solely on information on a consumer's credit report.

The most common scoring model used by lender is FICO. Scores range from 300 - 900. The higher the score the lower the risk.

Credit scoring uses the following factors to calculate your score:

1. Payment History (35%)
2. Amounts Owed (30%)
3. Length of Credit History (15%)
4. New Credit (10%)
5. Types of Credit (10%)

## V. TO IMPROVE YOUR CREDIT SCORE

1. Don't even come close to "maxing out" on your credit cards. It's statistically better to have smaller balances on more cards than high balances relative to your credit limit on just a few cards. Keep your balances less than 40% of the total amount owed, can improve your score.

2. Pay everything on time, in the amounts agreed upon. That's probably the single most important factor in your score, but it's not something you can fix overnight. The longer you pay on time, the better the score.

3 Order copies of your credit report periodically or before you apply for new credit. Dispute any information you find that is incorrect. All "derogatory" information drags down your score. If it's wrong, get it deleted by contacting the creditor responsible. The most dramatic, rapid improvements in a credit score can come when erroneous data is eliminated from your file.

4. Don't close unused credit cards as a strategy to improve your score. This might lower the score because:
   a. Late payments don't disappear from the credit report if the account is closed;
   b. Long established account history show long history of managing credit.
   c. Having available credit doesn't lower the score.
5. Don't open a lot of new accounts just to increase the score. This may initially lower your score.

## VI. FACTS ALL CONSUMERS SHOULD KNOW

Payment in full does not remove a particular entry from a payment history. The length of time information remains on the credit file varies, as follows:

| | |
|---|---|
| Bankruptcy | 10 years from the date of entry or the date of discharge |
| Suits & Judgments | 7 years from the date of entry or until the governing statute of limitations has expired, whichever is longer. |
| Tax Lien | 7 years from the date of payment |
| Collections/Charge-offs | 7 years from the date placed in collection or from date of Charge-off |
| Records of arrest | 7 years from date of incident indictment, dispositions parole. |
| Any other adverse info. | 7 years from date of delinquency action. |
| Inquiries | 2 years from date of entry |

A divorce decree does not supersede the original contract with the creditor and does not release a consumer from legal responsibility. To release a consumer from liability, the consumer must contact each creditor and requires a legal release of obligation. Only after the release has been approved can the credit history be updated.

## VII. COMMON CREDIT PROBLEMS

You may have credit problems that will need to be resolved before you can realistically obtain financing to purchase a home. Some common problems are:

1. Poor credit performance
2. Lack of credit
3. Late payments; 30-60-90 days
4. Excessive debt (total long-term debt-over 6 months- exceeds 38-40& of your gross monthly income
5. Erroneous information on your credit report
6. Accounts which have been turned over to collection agencies
7. Judgments, IRS tax liens, and / or bankruptcies.
8. Bankruptcy
9. Charge-Offs: a.k.a. “write-off” or “non-performing asset”; a charge-off doesn’t remove the obligation. A charge-off is considered as “due in full” due to a breach of contract.

## VIII. LIMITATIONS

You may qualify in all respects except credit history. Types of credit limitations that are common include:

1. Young and working at first job
2. A married woman which has relied solely on the husband's credit
3. Recently divorced or widowed with no separate credit history
4. Always paid cash for purchases.

## IX. HOW TO BUILD GOOD CREDIT

When there is no credit history because of never borrowing money to buy a car, stereo or other goods, it's important that you establish a credit file, which shows your willingness and ability to repay debts. Here are a few suggestions that may help in establishing a credit history:

1. Open a checking account at a local bank;
2. Open a savings account and make regular deposits
3. Get a secured loan using the money on deposit at the bank as collateral;
4. Look at non-traditional debts like rent, utilities and car insurance.

Information from “Building a Better Credit Record” Produced by the Federal Trade Commission in cooperation with Associated Bureaus, Inc.