

Basics of Credit Reports & Scores

What is a Credit Report?

Your credit report is a history of your credit behavior, or how responsibly you manage your money and your debt.

This history — compiled by the credit reporting agencies (Experian, TransUnion, and Equifax) from banks, lenders, and other creditors — is used to generate your credit report. Lenders and creditors then use this report, and the credit score associated with it, to determine if they will approve a loan, give you a credit card, or increase your limit on existing credit cards. Your credit history also affects the interest rates you receive.

Obtaining a Free Credit Report

- AnnualCreditReport.com is the official site that allows consumers to request a free copy of their credit report, once every 12 months, from each of the national consumer credit reporting companies: Equifax, Experian, and TransUnion.
- Consumers may also call (877) 322-8228 to request their credit report by phone.

Correcting Errors on Your Report

Federal law allows consumers to challenge inaccuracies and correct their credit files for free. If you believe there is an error on your report, submit an official dispute to each of the credit bureaus. They will investigate your dispute with the source of the data, and you will receive a response within 30 days. All consumers will receive the results of the investigation.

Sections of the Credit Report

Identifying information

- Name, current and previous addresses, telephone number, Social Security number, date of birth, and current and previous employers

Credit information

- Account information (date opened, credit limit or loan amount, balance, monthly payment and payment pattern)
- Who is on the account (whether it is a single name, joint, or co-signed account)
- Active positive credit information may remain on your report indefinitely
- Most negative information remains up to seven years

Inquiries

- Who has reviewed your credit report
 - *Hard inquiries* - Inquiries by creditors for the purpose of granting credit
 - *Soft inquiries* - Inquiries by creditors who viewed your credit report for marketing purposes
- According to the Fair Credit Reporting Act, credit grantors with a permissible purpose may inquire about your credit information without your prior consent
- This section includes the date of the inquiry and may list how long it will stay on your credit report

Public record information

- Bankruptcy information (can remain on your credit report for up to 10 years)
- Judgment (can remain for up to 7 years)
- Foreclosure (can remain for up to 7 years)
- Unpaid tax liens (can remain for up to 15 years)
- Unpaid child support (in some states)
- Other public record information can remain up to 7 years

What is a Credit Score?

A credit score is a three digit number lenders use to help them predict the likelihood (risk) that you will repay your debt as agreed. Scores are generated by statistical models using elements from your credit report. However, scores are not stored as part of your credit history. Rather, scores are generated at the time a lender requests your credit report, and then included with the report. Each of the credit bureaus, **TransUnion, Experian, and Equifax**, has their own scoring model and scores may differ from bureau to bureau. Each score is based on information that particular credit bureau keeps on file about you.

Credit scores are fluid numbers that change as the elements in your credit report change. For example, payment updates or opening a new account could cause scores to fluctuate. Depending on the type of credit scoring model that is being used, your score may differ from lender to lender.

What's Not in a Credit Score?

Credit scores do not consider:

- Your race, national origin, religion, sex, marital status or age
 - Whether or not you receive public assistance
 - Your salary, occupation, title, employer, date employed or employment history.
- However, lenders may consider this information in making their approval decisions
- Any interest rate being charged on a particular credit card or other account
 - Any items reported as child/family support obligations or rental agreements
 - Certain types of inquiries (soft inquiries). The score does not count requests you have made for your own credit report in order to check it. It also does not count "promotional inquiry" requests made by lenders in order to make a "pre-approved" credit offer. Finally, inquiries for employment purposes are not counted

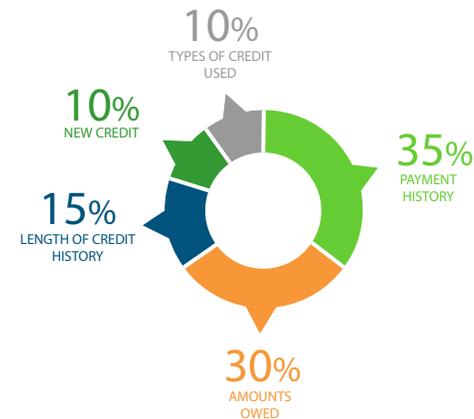
Improving Your Score

Scores reflect credit payment patterns over time, with more emphasis on recent information. Therefore, time is your ally when it comes to improving credit. In general, a score may improve if you:

- **Pay your bills on time.** Delinquent payments and collections can have a major negative impact on a score.
- **Keep balances low** on credit cards and other "revolving credit." High outstanding debt can affect a score.
- **Apply for and open new credit accounts only as needed.** Don't open accounts just to have a better credit mix — it probably won't raise your score.
- **Pay off debt rather than moving it around.** Also, don't close unused cards as a short-term strategy to raise your score. Owning the same amount, but having fewer open accounts, may lower your score.

Review your credit report regularly. Make sure everything is being reported accurately. It won't affect your score if you request and check your own credit report.

Components of a Credit Score



Your Payment History (35%) - This includes how you pay all of your credit accounts - credit cards, retail accounts, loans, etc. It also takes into consideration the presence of adverse public records (bankruptcy, judgments, lawsuits, etc.), collection items, and/or past due payments. How many accounts are paid as agreed, how many are past due, and how long the item is past due, are factors as well. This section lets future creditors know how you have handled payments to previous creditors, giving them an indication of how you will handle you future bills.

Amounts Owed (30%) - This includes both the overall amount owed, but also how much per account. For example, let's say you have 5 credit cards, all with a credit limit of \$10,000 for a total of \$50,000. It will look better if you owe \$2,000 on each card versus owing \$10,000 just on one card, even though the total owed is the same. When lenders see that you've used a large percentage of your credit, they believe there may be a problem with you paying your future bills.

Length of Credit History (15%) - This factors in how long an account has been open, as well as how long it has been since you have had activity on accounts. The longer your (good) history, the better your scores.

Types of Credit Used (10%) - It is best if you have a variety of debt reflected on your credit report. Types of debt include, credit cards, retail accounts, installment loans, mortgages and consumer finance accounts.

New Credit (10%) - This category looks at the length of time since you had a hard inquiry, as well as re-establishment of positive history following past payment problems. Only apply for credit that you absolutely need, if you want to keep your score high.