

Understanding Your Credit Report

What is credit?

Credit is the use of someone else's money in exchange for a promise to pay it back on a given date. There are two major types of credit: Revolving and Installment.

The best example of **revolving credit** is a credit card. If you are approved for a credit card your creditor makes a certain amount of money available to you when you want to use it. The maximum amount is called a limit. You are able to "borrow" from the credit card company up to that limit. If you have a balance with the credit company, each month you must make at least a minimum payment until what you borrowed is paid down. The more you pay down, the more you can borrow again. Here is a specific example:

From a \$1500 limit, I borrow \$500. This means I could still use my credit card up to \$1000, but it also means that I will owe at least a minimum monthly payment each month until that \$500 is paid down to \$0. Once it is paid down to \$0, I will have \$1500 available to me again.

The best example of **installment credit** is a loan. If you are approved for a loan your creditor gives you a check for the amount of money for which you were approved. In return you will be required to make monthly payments of a set amount for a certain number of months or years, depending on what terms the creditor has specified as part of your loan package. Here is a specific example:

I obtain a personal loan from my bank for \$1500. They give me a check for \$1500. Now, I must pay them X amount each month until I have paid back the full \$1500.

What is interest?

In both of the above cases, the creditor will charge you **interest**. Interest is the cost to you of using someone else's money. The amount of interest charged is set as a percentage of what you owe. It is usually expressed as an annual percentage rate. When you make your monthly payment to a creditor part of the payment is what you borrowed and part of the payment is the interest you owe.

In the case of revolving credit, you only pay interest when you have a balance. For example, if I used my credit card for \$500 worth of purchases, I now have a balance, which means I will have to make payments. Part of my monthly payment (a percent of the balance) will go to the interest charge for the use of someone else's money and part will go to paying down **the principal**, which is the amount that I owe.

In the case of installment credit, the situation is very similar. Part of my set monthly payment will go to interest and part will go to principal. At the time that I am approved for the loan I will be told what my annual interest rate will be. By the time I have finished paying my \$1500 loan I will have paid back more than \$1500. I will have paid back the \$1500 + the interest charged as a percent of my balance each month.

How do you build credit?

Many people are denied credit because they have little or no credit in their name. To build a credit file, you must borrow money and repay it according to the terms of the loan. You could obtain a credit card, then use it a little each month and pay it off regularly to generate a credit history. You do not build a credit history, however, if you apply for a credit card but never use it. You must use the card and make payments for a credit record to accumulate. Paying down your student loans is another way to build credit.

Why is having "good" credit important?

By using or making payments on your credit card or making repayments on your loan you are building a record of on-time payments that will prove that you are "**credit worthy.**" Potential creditors will look at your credit history to determine if they believe that you will repay them. A history of on-time payments will prove to the creditors that you would pay them on time as well. Conversely, late payments will reflect on you poorly and make creditors think you are a credit risk. As such, they will be less likely to lend to you or will lend to you at a higher rate of interest, making it more expensive for you to get credit. This can affect you when you buy a home or obtain a student loan or when you obtain a business or personal loan.

Additionally, many different types of companies that aren't lenders have started looking at your credit history to determine your level of responsibility. Often potential landlords or employers will look at your credit history as part of their decision to rent you an apartment or offer you a job. Even cell phone companies often check credit these days. If you have no credit or damaged credit you may be denied a cell phone contract or be forced to put down a security deposit in order to obtain the phone.

What is a credit report?

Your credit report provides a summary of your credit history and allows creditors to analyze whether or not you would be a risky borrower. A credit report is much like a report card that you would get in school- It is a report card for your level of credit responsibility. Your credit report includes your name, address, birth date, social security number, and the name of your employer. Various accounts with creditors (loans, credit cards, and certain other debts) are listed, showing how much credit has been extended and whether you have paid on time. If an account has ever been overdue or referred to a collections agency, this will also be noted.

Public information such as bankruptcies, foreclosures, or tax liens will be included in your credit report. There will be a record of any request for your credit record within the past year and a record of any request related to employment for the past two years. It may also have information about your employment history, home ownership, income and previous addresses.

What is a credit score?

If the credit report is a report card, then the credit score is your grade. The credit bureaus synthesize your payment history, amount of debt, amount of credit cards and loans, and length of credit history to come up with a number between 400 and 800 that indicates your credit worthiness at a glance. Anything below 650 and you



may have trouble obtaining a loan. Anything about 700 and you are deemed as having excellent credit.

How do you get a copy of your credit report?

It is important to know what is in your credit report, and to correct any inaccurate information from time to time. You have the right to obtain a copy of your credit report, and to have credit bureaus correct any inaccurate information in it. Negative information can make the difference between getting a loan and being denied, so it is crucial that you examine your credit report carefully and make sure it is accurate.

Everyone is entitled to request a **free credit report** from each of the three major credit bureaus each year. To do so, visit www.annualcreditreport.com or call 1 877-322-8228.

If you are denied credit (turned down for a loan or a credit card), you are entitled to a free copy of your credit report, as long as you request it within 60 days of the credit denial. You can also get your report free if you are unemployed, if you are receiving public assistance or if you believe your credit file contains inaccuracies resulting from fraud.

The three largest credit bureaus are:

Equifax

P.O. Box 740241 Atlanta,
GA 30347
(800) 658-1111
<http://www.equifax.com>

Experian

P.O. Box 949
Allen, TX 75013
(888) 397-3742
<http://www.creditexpert.com>

Trans Union

P.O. Box 2000
Chester, PA 19022
(800) 888-4213
<http://www.tuc.com>

How do you correct errors in your credit report?

By law, credit bureaus are responsible for investigating and correcting inaccurate or incomplete information on your credit report. To have them do so, you must contact the credit bureaus in writing to inform them of the information you believe is inaccurate. In addition to your name, address, and Social Security Number, your letter should state each item in the report that you dispute, what you believe to be the correct information and why. Request a correction and include copies of any documents that support your position. You may want to enclose a copy of your report with the specific items circled. Send the letter by certified mail and request a return receipt so you can document that the credit bureau received your letter. Keep copies of all of your correspondence.

Credit bureaus are required to investigate disputes within 30 days (unless they consider your dispute frivolous). They must also notify the creditor involved, as well as all other credit bureaus, of the correct information. Finally, they must give you a free copy of your credit report if the dispute results in a change. We have included a sample dispute letter for your reference:

Sample Dispute Letter

Your Name,
Address,
Date
Complaint Department



Name of Credit Reporting Agency
Address City, State, Zip code

Dear Sir or Madam:

I am writing to dispute the following information contained in my credit report. The items I am disputing are circled on the attached copy of my report.

This item **[identify item by name, source, date, and type of item]** is **[inaccurate or incomplete]** because **[describe what is wrong and why]**. I am requesting that the item be **[deleted or changed]** to reflect the correct information.

Enclosed are copies of **[describe your documentation, such as payment records, receipts, canceled checks, court documents]** supporting my position. Please investigate this matter and **[delete or correct]** the disputed item as soon as possible.

Thank you for your assistance with this matter.
Sincerely,

(Your Name)

Enclosures: [list what you are enclosing, with one item listed on each line]

What about negative information in your credit report?

Negative information may appear in your credit report if you have ever made late payments, declared bankruptcy, or gone to a collections agency, etc. Most information – positive and negative – remains on your credit report for seven years. Exceptions to this rule are:

- Bankruptcy information may remain on your report for 10 years
- Information about a lawsuit or an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer
- Information about criminal convictions has no time limit
- Credit information reported in response to an application for a job with a salary of more than \$75,000 has no time limit
- Credit information requested for an application for more than \$150,000 worth of credit or life insurance has no time limit

How do you repair your credit?

A low credit score can be caused by bills that have been paid late or not at all, inaccurate information, or too much overall debt for your income. If you have a low credit score, repairing your credit will take time and discipline. You may want to get counseling to assist you in consolidating your debt or creating a budget that allows you to pay your bills on time.

Most creditors will negotiate payment plans or settlements with someone who has fallen behind. A **payment plan** involves closing your account, freezing the balance at a certain amount, and paying back a set amount each month (based on what you



can afford until you have paid your debt off). A **settlement** is usually preferred by creditors. If you are unable to pay your full balance, you can make a deal to pay an agreed upon reduced sum. You have to make this payment in one or two parts, however, so you will need to have the money available.

If your account has been passed on to a collection agency, then the original creditor has decided to stop trying to collect your debt. Instead, they have opted to sell the right to collect to the collections agency. This agency now owns your account and can legally collect payment from you. If your account is in collections, this will appear on your credit report. Making a payment plan or settlement agreement with the collections agency this will also appear on your credit report. Making payment arrangements is better than having late payments on your credit report but does not have the same impact on your credit as if you had paid on time. The most important thing to remember when negotiating with either a collections agency or a creditor is not agree to payment arrangements that you cannot afford to pay.

How does being married affect your credit report?

You are responsible for your own debts and any debts that you incur jointly with your partner (or anyone else). You are not responsible for your partner's individual debt. For example, if you and your partner have a credit card in both names, you are jointly responsible for the bills if you both signed the application.

What about divorce and my credit records?

You are responsible for all joint accounts in which you both applied to be listed on the account. You are not responsible for your partner's individual accounts.

Many people find their credit history impacted negatively by a divorce. Bills may be paid late when there is disagreement as to who is responsible for paying which bills; one partner may refuse to pay on joint accounts, or may try to hold the other responsible for all of the debts. In this scenario, it is important to apply for credit in your own name and build your own file. It is also important to discuss this issue with your attorney at the time of your divorce. If you divorce, you may want to close joint accounts or accounts on which your partner can sign.

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