UNDERSTANDING YOUR CREDIT REPORT (Part 1)
By Bill Taylor

Most studies about consumer debt have only focused on credit cards and mortgages. However, personal debt also may include medical expenses, school loans, insurance, alimony and back child support, car loans, personal loans, legal bills, old utility bills, unpaid property or income taxes and other bank lines of credit. Other causes of debt, which may not as obvious, are things like gambling debt, daycare costs, drug addictions or recurring payments such as gym memberships or subscriptions.

The average debt load per household was estimated in 2003 at $18,700, and this figure only represents credit card debt and car loan debt.

A person's credit history may be recorded with any or all of the three different consumer reporting agencies: Experian, TransUnion and Equifax.

It is important for an individual to look over their credit reports at least once a year, because any flaw can seriously damage a person's credit rating. Information may have been mistakenly reported or someone may have stolen a person's identity and opened accounts under their name.

By law everyone is entitled to an annual free credit report. Consumers may obtain their free annual credit report via the website at *www.annualcreditreport.com*, or by calling the toll-free telephone number *877-322-8228*, or by completing the Annual Credit Report Request Form found at *www.ftc.gov/credit* and mailing it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

There are two things to look for in a credit report, 1) the overall validity of it and 2) the FICO score. Even though the credit report is free, a person is still charged a fee to obtain their FICO score which is what all lenders consider before deciding to extend credit. The FICO score is calculated using a mathematical calculation from five types of data obtained in a credit report:

- Payment history
- Amounts owed
- Types of credit used
- New credit
- Length of credit history

FICO scores can go as low as 150 and as high as 950, but usually range from approximately 500 to 850. The higher the score the lower the interest rate and payments. A score of 620 or less is categorized as the riskiest category, known as subprime, in which a person will incur the highest borrowing rates.

Overall, FICO scores determine how risky an individual will be in repaying a credit obligation. FICO scores are not just limited to the mortgage industry; they apply to all aspects of the credit industry: credit card companies look at FICO scores to determine how high to set interest rates; they are used when applying for a car loan or personal loan; employers are now pulling credit reports to help determine a person's character; insurance companies are obtaining FICO scores to determine rates on their policies. One can assume then that a person's FICO score is probably the single most vital statistic to Americans.

Credit institutions may use two other factors to help determine a person's creditworthiness: the three C's of credit and the debt-to-income ratio. The three C's of credit are: *capacity* – the ability to repay, *collateral* – what forms of assets the consumer has and if any late payments have been made, and *character* – what is the length of stay at current and past jobs.

The Debt To Income Ratio is the amount of debt divided by the consumer's total income. Ten percent or less is considered great; this, however, does not include mortgage or rent, utilities, etc. When including mortgages and all other loans and debt obligations a Debt To Income Ratio should not exceed 36 percent of the gross monthly income.

UNDERSTANDING YOUR CREDIT REPORT (Part 2)

We have to realize the reality of the new risk-based pricing (also called tiered lending) in the credit card and insurance industries. Not long ago, we were either denied or approved for credit based on our credit history. Now, rather than being rejected as a high–risk borrower, we are granted credit or insurance at different rates that reflect the "risk" that is revealed in our credit history. Insurance companies and other service providers are spending more resources to conduct routine reviews of our accounts not only with them, but with other creditors and service providers to spot any new problems that indicate greater risk, thus justifying their right to reset insurance premiums, to initiate higher interest rates for credit card accounts, or to set prices for their services.

Prospective employers increasingly are turning to credit reports in their pre-employment screening. An employer, or potential employer, cannot request information about your credit file from a consumer reporting agency without your written consent, except in the trucking industry.

Most credit reporting is done by credit bureaus or consumer reporting agencies.

- A *consumer reporting agency* is a company that gathers and stores personal credit histories, and provides credit reports upon request to its customers. The three main consumer reporting agencies (CRA's) are Equifax, Experian, and TransUnion, and they must take care to ensure that their customers are legitimate businesses and financial institutions having an allowable purpose to request credit reports.
- A *credit bureau* is a company that provides credit reports to its members. Most local credit bureaus have been acquired by Experian, Equifax, or Trans Union.

The three CRAs don't share information with each other, so it is likely that differences exist in your credit file from one agency to the next. When you apply for a loan, a credit card, rental housing, insurance, utilities, or cell phone service, or you borrow from your credit union, or fill out a job application, you often don't know which agency will be used. In many cases, it is all three.

Most of us refer to the report as a “credit report.” Technically, the report sent to creditors is a “credit report” or “subscriber version.” The version sent to you is called a consumer disclosure or credit file disclosure.

Credit file disclosures don't affect your credit history or credit score, and the fact you've looked at your credit is not revealed to lenders, landlords, or employers. A credit file disclosure provides you with all of the information in your credit file, and also includes a record of everyone who has received a credit report about you from the CRA within a certain period of time. It also includes certain information that is not included in a credit report, such as the inquiries of companies for pre-approved offers of credit or insurance and account reviews, and any medical account information. You are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer reporting companies.

All reports contain basically the same categories of information:

- *Identifying Information*
- *Credit History* – This is credit account information and payment history and includes:
    - Company Name
    - Account Numbers
    - Whose Account
    - Date Opened
    - Months Reviewed
    - Last Activity
    - Highest Credit Amount Used
    - Term or Length of a Loan
    - Balance
    - Past Due Amounts
    - Present Status
    - Date Reported
- *Inquiries* –this shows every company that has accessed your report in the last two years. *Soft inquiries* occur when you or one of your creditors pulls a credit report and these have no effect on your credit score. *Hard inquiries* occur when your report is pulled as a result of your applying for more credit and do affect your credit score. Exceptions are made for auto loans and mortgage inquiries.
- *Public Record/Collection Items* –these are from state and county courts, and collection agencies, and include bankruptcies, courts and default judgments, liens, foreclosures, delinquent accounts, and charge-offs.

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You have the right to dispute any errors, no matter how small, that appear on your credit report by contacting all of the CRAs with your change. Disputed information must be verified by the CRA within 30 days or removed.

UNDERSTANDING YOUR CREDIT REPORT (Part 3)

The worse your credit score, the more you pay in mortgages, insurance, loans, and credit cards. The better your credit score, the more favorable terms you will get on interest rates and premiums. Electric utilities use credit scores, home insurance companies, landlords, cell phone companies use them.

The standard measure of credit risk used in the United States and Canada is the FICO or Fair Isaac & Co score.

After years of secrecy, California took the lead in forcing Congress to provide customers with their scores. In 2003 Congress passed the Fair and Accurate Credit Reporting Act, giving consumers the right to view their score as well as get an explanation of the factors that went into the score.

You have <u>three</u> current FICO scores – one for each of the three national Consumer Reporting Agencies or CRAs. Fair Isaac develops FICO scores based solely on information on consumer credit reports maintained at the agencies. For this reason, it is important that you obtain credit reports from the CRAs so that you can verify that your credit history is correct. The way lenders and businesses report information to the CRAs often results in different information in your credit reports so you most likely will not have the same score from all three.

A 2002 study found that there were wide disparities between credit scores reported by Equifax, Experian, and Trans Union mainly due to major difference in the underlying data colleted by each of the three agencies. Often times, the differences in the three FICO scores occurred because information had been mistakenly reported or someone had stolen a person's identity and opened accounts under their name. Any error can seriously damage a person's credit rating.

Credit scores are three–digit numbers based on a FICO formula. The scores, ranging from about 300 (worst) to 850, analyze your credit history based on five categories: payment history, amount owed length of credit history, new credit, and types of credit in use. The median FICO score in the United States is 723. A FICO score can be calculated if your credit file contains at least one account that has been open at least six months and the report contains at least one account that has been updated in the past six months, and it will change each time your credit report changes.

A credit score consists of:

- Payment History: approximately 35% of your score. This takes into account payment information on many types of accounts (credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans), and it evaluates public records and collection items, delinquencies, and how many accounts show no late payments. One of the most important factors in the credit score is whether you have paid past credit accounts on time.
- Amounts Owed: approximately 30% of your score. This includes the amount owed on all accounts and on different types of accounts, whether you are showing a balance on certain types of accounts, how many accounts have balances, how much of the total credit line is being used on credit cards and other revolving credit accounts, and how much of installment loan accounts is still owed compared with the original loan.

- Length of Credit History: approximately 15% of your score. This scores how long your credit accounts have been established and how long has it been since you used certain accounts.
- New Credit: approximately 10% of your score. This looks at how many new accounts you have and how long each has been opened, and how many recent requests for credit you have made in the last 12 months.
- Type of Credit in Use: 10% of your score is based on what kinds of credit accounts (a mix of credit cards, retail accounts, installment loans, finance company accounts, and mortgage loans) you have and how many of each.

Fair Isaac does not consider the following factors:

- Your race, color, religion, national origin, sex, or marital status.
- Your age, salary, or location of residence.
- Any interest rate being charged on a particular credit card or other accounts.
- Any items reported as child/family support obligations and rental agreements.
- Certain type of inquiries (requests for your credit report or score) such as any requests you make, any requests from employers, and any requests lenders make without your knowledge.
- Any information not found in your credit report.
- Any information that is not proven to be predictive of future credit performance.

Many people who have ordered their free annual credit file disclosures mistakenly believe that the report includes your three–digit credit score. You will have to specifically order your credit score and pay a certain amount per score, and financial experts recommend that you do so. Credit reporting agencies must provide credit scores and information on up to four key factors negatively affecting your credit score.

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The University of Wyoming, United States Department of Agriculture, and Weston County Office cooperate.

THREE MAJOR CREDIT BUREAUS CONTACT LIST

Experian

National Consumer Assistance Center
P.O. Box 2104
Allen, TX 75013
888-888-8553
helpqspace@qspace.com
www.experian.com

Equifax

Credit Information Services
P.O. Box 740256
Atlanta, GA 30374
800-685-1111
www.equifax.com

TransUnion

Consumer Relations
P.O. Box 2000
Chester, PA 19022
800-888-4213
contactdesk@transunion.com
www.tuc.com