



Enterprising Rural Families™

Chat This Month

Reminder: The chat this month is scheduled for North America: Pacific Time- 6 p.m., Mountain Time- 7 p.m.; Queensland, Australia: Eastern Time-12 Noon. The topic is “*Understanding Credit Reports*”

Suggested Progress by Group:

In order to stay current, by the end of this month you should be completed to:

Antarctic –

Arctic –

Atlantic –

Baltic –

Bering – End of Module 7

Black – 2nd Week of “Project” in Module 6

Caribbean - End of Module 5

Coral – 2nd Week of Module 4

Indian – End of Module 2

Mediterranean - End of Module 1

Pacific -

Red -

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Consumer Debt: Understanding Your Credit Reports (Part Two)

In part one of *Consumer Debt: Understanding Your Credit Reports*, Desiree Olson explored the issues of determining a person’s creditworthiness before extending credit, including the importance of the FICO score in determining how risky an individual will be in repaying credit liability. **Part two provides background information about credit reports and addresses the credit report process.** Part three, available in the next issue of the Enterprising Rural Families™ newsletter, will unravel some of the mystery surrounding the credit score.

Risk-Based Pricing

We must face the new reality of risk-based pricing (also called tiered lending) in the credit card and insurance industries if we are to understand the trend in borrowing levels and debt access. Not long ago, we were either denied or approved 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. According to E. Thomas Garman, Professor Emeritus at Virginia Tech, “tiered lending is the credit industry’s idea of price discrimination as the interest rates are higher for borrowers who have less than perfect credit histories, perhaps 28 percent, and lower for low-risk customers, perhaps 18 percent.” 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 integrity screening measures. A 2002 National Retail Security Survey conducted by University of Florida reported that 40.7 percent of the employers used credit history checks with an expected increase of 11 percent employers turning to credit reports as a pre-employment screening strategy the next year.

[Note: An employer or potential employer cannot request information about your credit file from a consumer reporting agency without your written consent. Written consent generally is not required in the trucking industry. For more information, go to <http://www.ftc.gov/credit>.]

The Basics of the Credit Report

A credit report is not just a statement of your credit payment history, it is a document that can determine how much you pay for a variety of services, whether you can rent an apartment, or get a job. 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 Trans Union. CRAs are subject to the Fair Credit Reporting Act, and they must take care to ensure that their customers are legitimate businesses and financial institutions have an allowable purpose to request credit reports.



Contact following e-mail for further course information:

information@eRuralFamilies.org



Continued from page one – Consumer Debt: Understanding Your Credit Reports

• A *credit bureau* is a company that provides credit reports to its members. Most towns once had their own local credit bureaus. The records were kept manually, and the credit reports were often done verbally. Over the past 20 years, most local credit bureaus have been acquired by Experian, Equifax, and Trans Union. Most of the approximately 2,000 that remain independent have an affiliation with one of the three nationwide CRAs.

(Source: <http://www.101-creditreport.com/glossary.htm>)

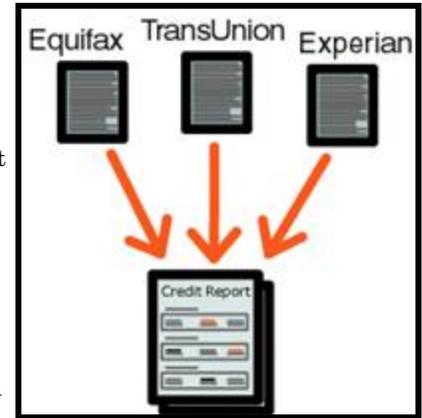
Each of the three CRAs probably has a file on you. They don't share information with each other, so it is likely that differences exist in your credit file from one agency to the next. When you apply for a loan, a credit card, rental housing, insurance, utilities, or cell phone service provider, or you 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. Since it is a voluntary system, creditors are free to subscribe to whichever agency – or none at all.

Reading Your Credit Report

For years, consumers have complained that credit reports were hard to read and difficult to understand. Although Equifax, Experian, and Trans Union have changed the report formats to make them more readable, consumers still have trouble understanding them. The confusion begins from the very beginning with the terminology. Most of us refer to the report as a “credit report.” Other terms used are “consumer reports,” “consumer credit reports,” “consumer disclosures,” and “credit file disclosures.” Technically, the report sent (sold) to creditors is a “credit report” or “subscriber version.” Your credit report is called a consumer disclosure or credit file disclosure when it is provided directly to you, because it discloses, to you, the contents of your credit file.

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 maintained by a CRA that it could provide in a credit report about you to a third party, such as a lender or insurance company. A credit file disclosure also includes a record of everyone who has received a credit report about you from the CRA within a certain period of time. The credit file disclosure also includes certain information that is not included in a credit report about you to a third party, 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.

Each of the three CRAs varies the format and information in the report but all reports contain basically the same categories of information as follows:



• *Identifying Information* – This information includes your name, current addresses, Social Security number, date of birth, and spouse's name (if applicable). Updates to this information come from data you supply to the lenders. When you review your credit file, don't just skim over this information, read it carefully to make sure everything is correct.

• *Credit History Section* – This is your credit account information and payment history. Lenders report on each of your accounts including the type of account (bank loan, credit card, auto loan, mortgage, personal loan, etc.), the date your account was opened, your loan amount or credit limit, the account balance, and your payment history, including late payments and historical delinquencies. The basic format for this section is as follows:

- Company Name – Identifies the company that is reporting the information.
- Account Numbers – Lists your account number with the company.
- Whose Account – Indicates who is responsible for the account and the type of participation you have with the account. Abbreviations may vary depending on the consumer reporting agencies but the most common are:
 - I - Individual
 - U - Undesignated
 - J - Joint
 - A - Authorized User
 - M - Maker
 - T - Terminated
 - C - Co-maker/Co-signer
 - S - Shared
- Date Opened – This is the month and year you opened the account with the creditor.
- Months Reviewed – Lists the number of months the account history has been reported.
- Last Activity – Indicates the date of the last activity on the account. This may be the date of your last payment or last charge.
- High Credit – This represents the highest amount charged or the credit limit. If the account is an installment loan, the original loan amount will be listed.
- Terms – For installment loans, the number of installments may be listed or the amount of the monthly payments. For revolving accounts, this column is often left blank.
- Balance – Indicates the amount owed on the account at the time it was reported.

- Past Due – this column lists any amount past due at the time the information was reported.
- Status – A combination of letters and numbers are used to indicate the type of account of the timeliness of payment. Abbreviations are as follows:

- O - Open
- R - Revolving
- I - Installment
- Abbreviations for Timeliness of Payment vary among agencies. Numbers are used to represent how current you are in your payments. Current or paid as agreed is usually represented by 0 or 1. Larger numbers (up to 9) indicate that an account is past due.

Date Reported – Indicates the last time information on this account was updated by your creditor.
(Source: Consumer Credit Counseling Service of Orange County, California)

- **Inquiries** – This section shows every company that has accessed your report in the last two years. There are two types of inquiries – soft and hard. *Soft inquiries* occur when you or one of your creditors pulls a credit report, including promotions by creditors that sent you “pre-approved” credit cards applications or other credit offers. Soft inquiries purportedly have no effect on your credit score. *Hard inquiries* occur when your credit report is pulled as a result of your applying for more credit. These inquiries do affect your credit score and include credit card, charge card, cell phone, bank loan, insurance and other credit inquiries. Exceptions are made for auto loans and mortgage inquiries. All auto and mortgage inquiries within 30 days from Scoring are ignored. Auto and mortgage inquiries in any 14 day period count as one inquiry.
- **Public Record / Collection Items** – This information is collected from state and county courts, and collection agencies. It includes bankruptcies, courts and default judgments, liens, and foreclosures, delinquent accounts that have been turned over for collection, and charge-off accounts. A charge-off occurs when a creditor decides that a debt is unlikely to be repaid, and considers it a loss for accounting purposes. The debt still is in default and could be subject to further collection action. If it gets paid, it is reported as a recovery.

Ordering Your Credit File Disclosure

The reports will not automatically be sent to you. You can obtain a free annual report from the three CRAs through AnnualCreditReport.com, which is a centralized service for consumers to request annual credit reports. It was created by Equifax, Experian, and TransUnion for consumers to access their annual credit report for free. You can request your credit file disclosures in one of three ways, 1) go to <http://www.annualcreditreport.com>, 2) call the toll-free telephone number 877-322-8228, or 3) complete the Annual Credit Report Request Form, which can be found at <http://www.ftc.gov> and mailing it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta GA 30348-5281.

AnnualCreditReport.com is the only service authorized by Equifax, Experian, and Trans Union for this purpose. As a precaution, consumers should never provide their personal information to any other company or person in connection with requesting free annual credit reports under the FACT Act. AnnualCreditReport.com will not approach consumers via email, telemarketing or direct mail solicitations. (Source: <https://www.annualcreditreport.com/cra/helpabout>)

You may order all three credit file disclosures at the same time or order one now and others later on. The advantage of reviewing the three reports at once is that you can get a complete picture of your consumer credit report history that could be reported to others.

The advantage of spacing the reports out over the year is that you can keep track of any changes or new information that may appear on your credit file discloser. If you choose to monitor the accuracy of your credit files throughout the year (for example one every four months), order a report individually from each of the three CRAs by contacting the centralized source, AnnualCreditReport.com.

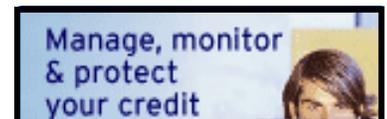
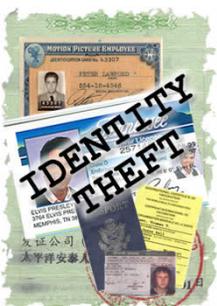
Monitoring Your Credit

Among the services offered by credit reporting agencies is a credit monitoring service in which the CRA will notify you for a fee if anything unusual or suspicious shows up on your credit report. A credit monitoring service can be pricey. Consumers Union, a nonprofit publisher of Consumer Reports, states that fees may range from \$48.00 to \$150.00 per year. An effective way to monitor your credit at no cost and to make sure that your reports represents you fairly and accurately is by ordering and regularly reviewing your credit reports from the three major reporting agencies.

Upon receiving one or more of your credit file disclosures, here are some tips that will help you to maintain accurate, complete, and up-to-date credit files:

- Review each report for errors. 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 from the credit report. You should receive amended reports within a week after the changes take effect. Information corrected on one CRA report does not necessarily mean that it was corrected on the others, so check the other CRA reports and request corrections where needed. If you have complaints about your credit report and are unable to have them quickly resolved, contact the Federal Trade Commission at 1-877-FTC-HELP or <http://www.ftc.gov>.

- If you think that you are the victim of identity theft, you will need to contact your creditors, report the crime to the police, and file for a 90-day security alert with the consumer reporting agencies. Visit the Federal Trade Commission at <http://www.ftc.gov> for more information on reporting inaccuracies and preventing identity theft.



- Close unused accounts that are listed as still active on your credit reports. An unused account is an opportunity for identity fraud. If you close an account, ask that it be listed as “closed at the request of the consumer.”
- Avoid “credit repair” businesses claiming to be able to remove valid data in consumers’ credit histories. The Federal Trade Commission warns that no one can legally remove accurate and timely negative information from a credit report. The law allows you to ask for an investigation of information in your file that you dispute as inaccurate or incomplete.

To Be Continued Unraveling the Mystery of Your Credit Score

This article addressed how the credit report process works, but we still need to tackle how lenders use a credit scoring system to rate applicants. Credit scores are important because they dictate whether or not you will be granted credit and at what interest rates. In the next part of this three-part series, we will explore the complexities of the credit score. For more information on personal finance and the management of rural family enterprises, check the Enterprising Rural Families website at <http://eRuralFamilies.org>.

Author: Gail M. Gordon, UW Extension Business Development & Family Economics Specialist; May 2005.

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**Fix bad credit or
watch your money fly
out the window!**



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