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CREDIT REPORTS

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Credit Reports

What is a Credit Report?

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A credit report is a detailed file of information about an individual's credit history that is prepared by a credit bureau, an agency that gathers and sells credit information. These agencies are also referred to as consumer reporting agencies. Credit reports are used by lenders and other agencies to determine the credit worthiness of that individual. Generally there are two types of credit reports: investigative and consumer.

INVESTIGATIVE

Investigative reports are more like background checks as opposed to the traditional concept of a credit report. They contain information regarding a person's character, general reputation, personal characteristics, or lifestyle as obtained through personal interviews with neighbors, friends, and other associates. An investigative report should not contain information about late payments since this report cannot be used to grant monetary credit.

Employers, insurance companies, and rental housing agencies are typically who use investigative reports. To obtain this report the requestor must either receive your explicit permission or the credit bureau must notify you directly about the request. In any case you have the right to add your own statement or comments to the report before it is forwarded to the requesting party.

CONSUMER

This is the report that lenders and other creditors use to determine whether or not they will grant someone a loan or other line of credit. This report reveals in-depth information about your credit history and includes a report summary, personal information, detailed account information, and lists recent inquiries.

The summary is a quick overview of the details contained in the report. It will total how many different types of credit you have, the number of open and closed accounts and the number of late payments, collection accounts, or other public records.

The personal information section identifies your full name, any aliases used, social security number, current address, and previous addresses. It may also include your age or year of birth, phone number, and employer information.

The account information section breaks out each credit account you have from your mortgage and auto loans to your credit cards and store accounts. It will also show the creditor name, highest balance, current balance, and payment history. The payment history notes any late payments and how late each payment was made.

Recent inquiries are the names of those who obtained a copy of your credit report in the past year. For investigative reports, recent inquiries will include all requests for the last two years.

Your credit report should never contain information irrelevant to determining credit worthiness such as race, color, gender, national origin, marital status, or political persuasion.

What Your Credit Report Reveals About You

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Your credit report reveals how much of a risk you are to the creditor. It helps them determine if you have the ability to pay, how likely you are to pay, and how likely you are to make payments on time. In the case of investigative reports, it helps agencies determine whether or not you might be a good rental tenant or a reliable employee. There are four main areas addressed in your credit report:

1 Your Level of Debt

How much money do you owe to individual creditors? This includes mortgages, auto loans, and revolving credit accounts.

2 Your Bill-Paying Habits

Did and do you pay on time? Do you have delinquent accounts? Did the creditor send your account to a collection agency? Have you filed for bankruptcy?

3 Length of Credit

How long you have had credit? A 20 year old will have a shorter credit history than a 30 year old. The amount of time you have managed or mismanaged your accounts does make a difference in how creditors view your risk level to them.

4 Inquiries Made About You

How many credit applications have you made? Regardless of whether you obtain the credit, it is the number of times you applied that is detailed here. This includes inquiries made by insurance providers and employers.

Getting a Copy of Your Credit Report

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Currently, there are three main, independent bureaus that compile credit reports. Each bureau has its own method for collecting and reporting information; therefore, what appears in your report from one bureau may not be the same as what another bureau reports. It is for this reason that you should check your report from each of the three bureaus.

You are entitled to receive one free copy of your credit report from the bureau of your choice each year. You may request your free report online at www.annualcreditreport.com. This report will not contain your credit score. Usually you must pay an additional fee for your report to contain that score. You may also request a free copy of your credit report anytime you are denied credit, are on welfare, or your report is inaccurate because of fraud.

Other ways to get your report:

Over the Internet. There are many places online that offer credit monitoring services. Be careful when selecting this type of service. Many places may state the service is free; however, they will ask you for your credit card details and you must then remember to cancel your ‘subscription’ within 30 days or you will be charged a monthly fee for the service.

The advantage of using an online service is it allows you immediate access to your report instead of having to wait for it to come in the mail. Also, if you have been a victim of identity theft, paying for the monthly subscription could be to your benefit as you will be notified immediately of any changes that post to your file which will help you closely monitor potential fraud.

In Writing. You may send a letter directly to each of the credit bureaus requesting a copy of your credit report. Be sure to include the following when writing to these bureaus:

- Your full name including suffixes such as Sr., Jr., III, etc.
- Any aliases you have used
- Current and past addresses for the last 5 years
- Social Security Number
- Birth Date
- Telephone Number

A sample letter for requesting a credit report is included on page 17. You may contact each of the three credit bureaus at the following:

Equifax - www.equifax.com
800-685-1111
P.O. Box 740241, Atlanta, GA 30374-0241

Experian - www.experian.com
888-EXPERIAN (397-3742)
P.O. Box 2002, Allen TX 75013

Trans Union - www.transunion.com
800-888-4213
P.O. Box 1000, Chester, PA 19022

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What is a Credit Score?

A credit score is a statistical computation of the information contained in an individual's credit report that is reflected as a numerical value ranging from 300 to 850, 850 being the best. The most well-known type of credit score is the Fair Isaac, or FICO score.

This numerical value is how most creditors determine under what terms they should extend credit to an individual. For example, someone with a high credit score usually receives more favorable terms such as lower interest or no-fee credit cards, mortgage loans, and auto loans. Additionally, individuals with higher scores find it easier to obtain credit when needed.

Recently, the three major credit bureaus have come together to offer their own collaborative scoring model called VantageScore. It is speculated that this model will offer more consistent and objective scoring amongst the three bureaus and should reduce the large scoring differences that each bureau can sometimes report on the same exact consumer.

Credit scores through VantageScore range from 501-990, 990 being the best or indicating the lowest credit risk. In addition to calculating a numeric score, the VantageScore model will also assign a letter grade rating, A through F, to each consumer. However, for now, the FICO model is still being used as the standard in credit scoring models. More information about the VantageScore model may be found at www.vantagescore.com or by contacting any of the three major credit reporting agencies.

So, what's the average credit score for Americans? Well, the answer depends on who you ask. If you are interested in comparing your score to the average American, check out www.myfico.com, www.bankrate.com, and www.nationalscore.com. These websites all offer extensive information regarding credit scores as well as updated averages and statistics regarding national credit score rankings.

How are Credit Scores Calculated?

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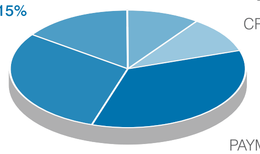
Scores are computed using a mathematical formula that was designed and sold to credit bureaus by Fair, Isaac and Company (FICO). No one, especially Fair, Isaac will give you the exact formula used for computing credit scores; however, a lot is known about how different information types are weighted within that formula.

Credit scores consider both the positive and negative information in your credit report. Positive information will increase your score and negative information can decrease your score. The following graph depicts what is known about the importance of different factors on the outcome of your credit score:



PAYMENT HISTORY – 35%

- Payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

AMOUNTS OWED – 30%

- Amounts owed on accounts
- Amounts owed on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

LENGTH OF CREDIT HISTORY – 15%

- Time since accounts opened
- Time since accounts opened by specific type of account
- Time since account activity

NEW CREDIT – 10%

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

TYPES OF CREDIT USED – 10%

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

It is important to remember that while your credit score only looks at the information in your credit report, creditors may consider additional information when making a credit decision. This may include your income, how long you have worked at your present job and the kind of credit being requested. Additionally, for some people one factor may be more important than it is for someone else with a different credit history – and as the information in your credit report changes, so does the importance of each factor in determining your score.

In late 2007, Fair Issac Co. introduced a revised version of its scoring model called FICO 08. This updated scoring model is expected to be incorporated by the three major credit bureaus and major lending institutions by mid 2008. While the different parts of a credit score (payment history, amounts owed, etc.) will still carry the same weight in the overall score, there are some new factors that FICO 08 considers that are designed to give a more accurate risk assessment of the consumer.

The good news is that the new scoring model is more forgiving of accidental slip-ups. For example if you have a good payment history and accidentally forget a payment one month, your overall score won't be penalized as much as it was under the previous scoring model. This is because the new model takes into account your good payment history as well as the status of your other accounts to assess whether or not the missed payment is a sign of increased risk or just simply an oversight.

On the other hand, individuals prone to making repeated late payments will see their scores take a harder hit than they did before. The new scoring system also penalizes to a greater degree consumers who use a high percentage of their available credit, those who have high debt-to-income ratios. More information on debt-to-income ratios may be found online at www.consumercents.com.

The other major change in the new scoring model is the elimination of authorized users in the calculation of credit scores. Authorized users are individuals who have permission to use an established credit account in another person's name, but are not legally responsible for payment on the account. The new scoring model no longer considers authorized use accounts in calculating credit scores because of deceptive credit building tactics involving these accounts.

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Keeping a Good Credit Score

As you can see in the chart on page 8, payment history makes up the biggest chunk of your credit score. So, it makes sense that the number one thing you should do is pay your bills on time, every time. Some other tips for keeping your credit score at its best:

- Keep your Debt-to-Income level low
- Keep applications for new credit to a minimum
- Dispute incorrect negative information with all three credit bureaus
- Correct all inaccurate information with all three credit bureaus
- Make sure all old accounts are closed at YOUR request
- Request that all missing positive information be included in your report
- Notify your creditors in writing with any change of address
- Fill out credit applications all the same
- Review your credit report at least once per year

The Effects of Overdue Payments

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Time	Action
Early stage Up-to 59 days past due	Customer is notified that another payment is due; account needs to be brought current. • Customer telephoned for immediate arrangement • Typically one day is allowed after leaving message for customer before follow-up phone call. • Initial derogatory report made to credit bureaus anywhere from 31st to 61st day of delinquency, depending on creditor policy.
Mid stage 60-119 days past due	Advanced delinquency procedures begin: • Account closed or credit line suspended; ongoing derogatory reporting. • Customer notified. • Notice of default and chance to fix the situation sent to customer.
Late stage Over 120 days past due	Actions of last resort undertaken: • Ongoing derogatory reporting; balance is accelerated and payable in full. • Third-party collectors often take over the account from the creditor. • Legal proceedings are initiated for judgments; possession; execution; garnishment, etc.

Reviewing Your Credit Report

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Various consumer studies have found that between 70% and 80% of all credit reports contain at least one inaccuracy. Even though it is creditors who supply the information contained in your credit file, you are responsible for ensuring the information's accuracy.

Incorrect information can be detri-mental to your credit score so it is important to review your reports regularly. This practice is also an effective way to help protect you from Identity Theft, America's fastest growing crime.

You should review your report from each of the three credit bureaus at least once per year. Some of the most obvious things to look for are:

- Information included is current. Many agencies do not report to the three bureaus as often as they should.
- Your personal information is correct, including previous address and employer listings.
- The accounts in your report are accounts you have opened and each reflect the correct balance, credit limit and payment history.
- The inquiries listed in the report are inquiries you authorized.

Credit reports can be hard to decipher. If you find yourself having troubles interpreting your report, check with a non-profit credit counseling agency. Many of these agencies will go through your report with you, to help you understand all the information included in your file.

Incorrect and Inaccurate Information

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So, what happens when you get your credit report and find that the report contains either inaccurate or incorrect information? You need to make a report to the credit bureaus, notifying them of the mistake(s) you found. This is often called disputing information.

First, notify all three bureaus of the mistake, in writing, keeping a copy for your records. In your letter detail what the inaccurate or incorrect information is and why it is wrong. You also need to provide proof or evidence of your claim. A sample letter for disputing information is included on page 18.

Credit bureaus then have 30 days to investigate your claim and respond with their findings. Information that cannot be substantiated as correct must be removed from the report. If the dispute is not resolved to your satisfaction, you are allowed to make a personal statement, up to 100 words, to be included with any report the credit bureau issues in the future.

Finally, follow up to make sure the credit bureaus actually remove the inaccuracies or add your personal statement. You may request that each bureau sends you an updated copy of your report once they make any necessary changes.

Co-Signed Debts

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Be careful when someone asks you to co-sign with them on a credit contract. By doing so you are making a promise to that creditor or lending institution that you will repay the debt should the other signor default on the account. As you can imagine, co-signing for a debt carries serious obligations and can be disastrous if you sign for the wrong person.

Creditors usually require a co-signor when they don't have enough confidence in the primary borrower. Now, this could be because the person doesn't have a long enough credit history, they have had credit problems in the past, or their income level is not high enough. If you are ever asked to co-sign for a debt, you should be equally concerned about that person's ability to pay.

Any debts you co-sign for will show up as a credit account on your credit report regardless of whether or not you are paying on the account. This is because you can be held legally responsible for the debt and therefore, the amount of that debt is factored into your total debt level when others view your report or your credit score is calculated.

If the person you co-sign for does not pay the debt:

- The creditor has the legal right to come after you for payment.

If a co-signed debt goes to collection:

- A collection agency may try to collect the debt from you.
- Institutions can sue you and get a judgment against you for the debt, plus interest and legal fees.

If the person files bankruptcy:

- The co-signed debt cannot be part of the person's bankruptcy application and you become totally responsible for the full repayment of the debt.

Everyone wants to help a friend or relative in need, but you should never do so at the expense of your own credit worthiness. The best advice when it comes to co-signing for a debt: don't do it.

Authorized Users

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An authorized user is someone who has permission to use a credit account, but no obligation to pay the debt. With credit cards an authorized user generally receives a card with their name on it. The account will also appear on the authorized user's credit report even though only the person who opened the account is actually liable for paying off the debt.

The most common reason for placing an authorized user on an account has been when spouses add each other to their own accounts as a way for both spouses to have access to the account, or when parents add a child to an account in order to help the child get started in building their own credit history.

However, in the last few years a deceptive practice known as piggybacking has surfaced where individuals with poor credit pay to be added as an authorized user on the accounts of a stranger with good credit. They do this in order to qualify for loans or credit offers where they would normally be denied because of their own poor credit history.

As a result Fair Isaac included provisions in its latest credit scoring model, FICO 08, which ignores authorized use accounts completely when calculating credit scores. While this eliminates the advantages gained by individuals participating in piggybacking schemes, it also removes the ability of spouse to bolster their credit scores as authorized users on each other's accounts as well as the option for parents to assist their children in building credit as authorized users.

While the elimination of authorized users from the credit scoring model poses an inconvenience for those participating as authorized users for its intended purpose, there are other ways to achieve the same goals. If you want to help a child build their own credit history, consider opening an account with your child as a joint user (where both parties are liable for payment). Make sure the account is one that is either pre-paid or has a low, locked in limit so there is no risk of your child charging more than they (or you) can afford.

Facts & Fallacies

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1.

Fallacy: My score determines whether or not I get credit.

Fact: Creditors use a number of facts to make credit decisions, including your FICO score. They look at information such as the amount of debt you can reasonably handle given your income, your employment history, and your credit history. Based on their perception of this information, as well as their specific underwriting policies, creditors may extend credit to you although your score is low or even decline your request for credit although your score is high.

2.

Fallacy: A poor score will haunt me forever.

Fact: Just the opposite is true. A score is a "snapshot" of your risk at a particular point in time. It changes as new information is added to your bank and credit bureau files. Scores change gradually as you change the way you handle credit. For example, past credit problems impact your score less as time passes. Lenders request a current score when you submit a credit application, so they have the most recent information available. Therefore by taking the time to improve your score, you can qualify for more favorable lending terms.

3.

Fallacy: Credit scoring is unfair to minorities.

Fact: Scoring considers only credit-related information. Factors like gender, race, nationality and marital status are not included. In fact, the Equal Credit Opportunity Act (ECOA) prohibits lenders from considering this type of information when issuing credit. Independent research has been done to make sure that credit scoring is not unfair to minorities or people with little credit history. Scoring has proven to be an accurate and consistent measure of repayment for all people who have some credit history. In other words, at any given score, non-minority and minority applicants are equally likely to pay as agreed.

4.

Fallacy: Credit scoring infringes on my privacy.
Fact: Credit scoring evaluates the same information lenders already look at - the credit bureau report, credit application and/or your bank file. A score is simply a numeric summary of that information. Creditors who use scoring sometimes ask for less information - fewer questions on the application form, for example.

5.

Fallacy: My score will drop if I apply for new credit.
Fact: If it does, it probably won't drop much. If you apply for several credit cards within a short period of time, multiple requests for your credit report information (called "inquiries") will appear on your report. Looking for new credit can equate with higher risk, but most credit scores are not affected by multiple inquiries from auto or mortgage lenders within a short period of time. Typically, these are treated as a single inquiry and will have little impact on the credit score.

Attachment 1

SAMPLE LETTER FOR REQUESTING CREDIT REPORT

MY NAME
MY ADDRESS
MY PHONE NUMBER

SEND 1 COPY TO ALL 3 CREDIT BUREAUS:

DATE

Dear Sir/Madam,

REQUEST FOR CREDIT REPORT
Please provide one FREE copy of my credit report.
Name/s:
Addresses:
Telephone Number:
Date of Birth
SS#

Yours truly,

SIGNATURE
NAME

Attachment 2

SAMPLE DISPUTE LETTER

Date
Your Name
Your Address
Your City, State, Zip Code

Complaint Department
Name of Credit Reporting Agency
Address
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute are also encircled on the attached copy of the report I received. (Identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.)

This item is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing)