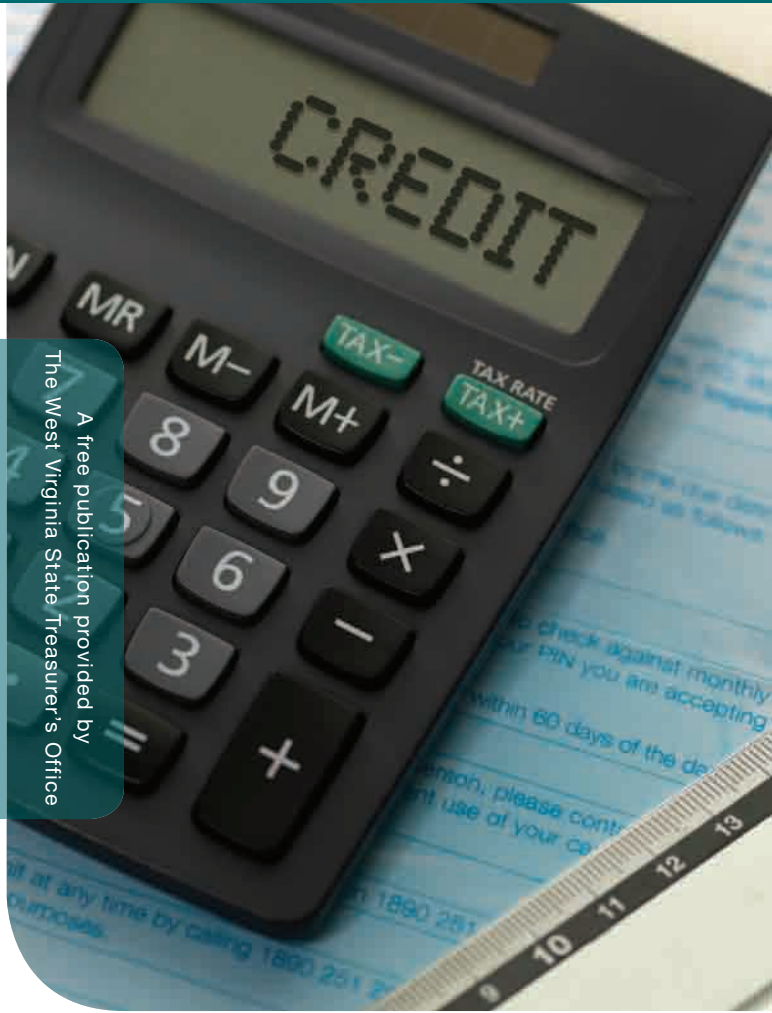


# YOUR CREDIT SCORE



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# YOUR CREDIT SCORE – AND HOW TO REPAIR IT



## WHAT IS A CREDIT SCORE?

A credit score is a formula that is used to predict risk for lenders.

To create a credit score, analysts use information in credit reports, account histories, or applications. Their goal is to accurately identify the consistency of your timely paid accounts, as well as your delinquent accounts.

The results of all this computing and analyzing is a number that is your credit score.

Lenders use credit scores to help decide:

- Whether to issue a new account or loan
- Raise the credit limit on an existing account
- Decide what interest rate to charge on a new or existing loan

Insurance companies use insurance scores (which are based on credit information, but calculated somewhat differently) to help them decide:

- Whether to issue new auto or homeowner's policies
- What rate to charge for those policies
- Whether to renew existing policies

Some employers use consumer scores (which are also based on credit information) to help them make hiring decisions.

There are different types of scores; Fair, Isaac and Company, Inc. develops many of them. These are commonly referred to as "FICO scores."

It's important to understand that your credit score is never a single number. It can vary; depending on which of the three major credit bureaus supplied the credit information used to calculate it, what kind of loan is being considered, and what formula the individual lender uses to calculate it.

For example, mortgage lenders typically request a "tri-merge" credit report which includes credit information and scores from the three major credit bureaus – Equifax®, Experian® and TransUnion®. Typically the credit score from each of those bureaus will vary so the lender will use the score that falls in the middle of the three when evaluating the loan.

**Keep in mind:**

- Your credit score can change frequently as information is updated in your credit reports.
- Lenders may use different credit scoring formulas customized for their loan products when calculating your score.
- Credit scores are calculated using the information in your credit report, even if that information is not correct.

With a FICO score, the higher the number, the better the score. For example, a score of 700 is much better than a score of 600.

## WHAT'S IN A CREDIT SCORE?



**There are five categories of factors that go into your credit:**

Payment history	35%
Amounts you owe	30%
Length of credit history	15%
New credit	10%
Type of credit in use	10%

The two most important factors that go into your credit score are your payment history (have you paid your bills on time?) and the amounts you owe (how much debt do you carry?).

Together, these categories make up about two-thirds of your credit score. That means if you want to improve your credit score focus on paying your bills on time and paying down debt. If you are having difficulties paying down your debts, contact a credit counselor for free advice at 1.800.210.3481.

# HOW CAN I GET MY CREDIT SCORE?



You can usually purchase your credit score when you order your credit report, either through one of the major credit bureaus or through an online service that sells credit reports and scores to consumers. You can receive free credit reports annually by logging on to **[www.annualcreditreport.com](http://www.annualcreditreport.com)**.

It's an excellent idea to check your credit report and find out what your score is at least three months before a major purchase such as a home or car, to give yourself time to correct any mistakes or problems.

## CREDIT REPORTING BUREAUS

Equifax® Credit Information Services, Inc.  
P.O. Box 740241  
Atlanta, GA 30374  
1.888.766.0008  
**[www.equifax.com](http://www.equifax.com)**

National Consumer Assistance Center  
P.O. Box 2002  
Allen, TX 75013  
1.888.397.3742  
**[www.experian.com](http://www.experian.com)**

Consumer Disclosure Center  
P.O. Box 1000  
Chester, PA 19022  
1.800.888.4213  
**[www.tuc.com](http://www.tuc.com)**



# HOW LONG WILL NEGATIVE INFORMATION HURT MY CREDIT SCORE?



- Late payments can generally stay on your credit report for seven and a half years.
- Collection accounts and charge-offs can be reported for seven and a half years from the date you first fell behind leading up to the collection account or charge-off.
- Bankruptcies may be reported for ten years from the date of filing, though the major credit bureaus will remove Chapter 13 bankruptcies (where you pay back some of your debts) seven years from the date of filing.
- Unpaid tax liens may be reported for fifteen years or longer. Paid tax liens may be reported for seven years.

Keep in mind that the older the negative information becomes, the less of an impact it may have on your score; and new positive credit references can help improve your score, if your credit report still contains negative information.

That's why it is important, if you've had credit problems in the past, to establish positive credit references to boost your credit score. That does not mean you should carry debt. If you can't qualify for a regular credit card, for example, you may be able to get a secured MasterCard® of Visa®, which requires a security deposit. Use it from time to time for purchases you would make anyway and then pay the bill in full to avoid interest charges.

# HOW MUCH CAN A POOR CREDIT SCORE COST?



Your credit score will likely be a factor in the interest rate you are charged for loans. Here's an example:

A four-year auto loan for \$20,000

Excellent credit score (700-800): \$2,128 in total interest

Poor credit score (500-600): \$6,919

In this example, the difference between an excellent credit score and a poor one is \$4,791 in interest!

# SHOULD I CLOSE OLD ACCOUNTS?



Many consumers who review their credit reports find old credit card accounts they haven't used for years still listed as open accounts. You may think it's a good idea to close those accounts and have them listed on your credit report as closed. That's not necessarily the case. Fair Isaac Co. says that closing old accounts can't help your FICO credit score, and can only hurt it.

## Why?

Credit scores are based on information about how you've handled different types of credit over time. When you close out a lot of accounts, you may limit some of the information that could be helpful in predicting how you'll pay in the future. You may also shorten the average length of your credit history. When it comes to credit scores, a longer credit history is better. Unless you have a specific reason for closing accounts – you're getting divorced for example, and want to close your joint accounts – you may want to leave your old accounts as they are.

# CREDIT INQUIRIES



Anytime a lender, creditor or employer checks your credit report, an inquiry is created. The number of recent inquiries in the last six months to a year can negatively impact your score. It's best to avoid applying frequently for new credit.

The following types of inquiries do not hurt your credit score:

- Consumer-initiated inquiries, which occur when you order your own credit report or score.
- Promotional inquiries, which are created when your file is reviewed for a pre-approved credit card or line of credit.
- Employment or insurance related inquiries.
- To avoid penalizing consumers who shop for mortgages or car loans, inquiries for these types of loans within a short period of time are grouped together and often count as a single inquiry. There is no such buffer, however, for inquiries generated by applying for credit cards.

# REBUILDING GOOD CREDIT



If you've had credit problems in the past, you probably feel frustrated and worried that your damaged credit history will stay with you forever or at least for a very long time. In almost every case, however, there are strategies you can use to put your credit back on track. If you actively work on improving your credit, you will see results. It may not happen as quickly as you expected. Some consumers are able to buy a home in as little as a year after bankruptcy, for example. It all depends on your situation and whether you are willing to take the time and effort required. In this booklet, you'll find proven strategies for building better credit.

## START WHERE YOU ARE

Your first step is to get a copy of your credit report, preferably from all three major credit bureaus. With this information, you'll be able to create a game plan for improving your score.

### How long can information be reported?

The first thing most people with bad credit want to know is, "How long can this information haunt me?" Under the Federal Fair Credit Reporting Act, credit reporting agencies are not allowed to report any information that is too old, incomplete, or wrong. While positive or neutral information can be reported indefinitely, negative information can only be reported for the following length of time:

**Bankruptcy filings:** Ten years from date files, not discharged. The three major credit bureaus, and many smaller ones, have agreed voluntarily to remove Chapter 13 bankruptcies- a bankruptcy where debts are paid back over several years – seven years from the date of filing. If that doesn't happen automatically you'll have to ask.

**Civil suits, civil judgments, and records of arrest:** No longer than seven years from the date of entry, or the current governing statute of limitations, whichever is longer.

**Paid tax liens:** Seven years from the date satisfied (paid).

**Paid tax liens:** Indefinite until the lien is paid (see previous page).

**Unpaid tax liens:** Seven years unless a US Government insured or guaranteed student loan, or National Direct Student Loan (NDSL). If those types of student loans are in default and you bring them current for an entire year, your previous payments will be deleted.

**Collection, charge-off accounts or any other adverse information (including late payments):** Seven years. Adverse information is any data that may cause an unfavorable result for the consumer, for example, being turned down for credit, employment or insurance, or being charged a higher rate than applied for in the case of credit or insurance.

## WHEN DOES THE SEVEN-YEAR PERIOD START?

If you have collection or charged off accounts listed on your credit report, you'll want to read this section carefully. It may be confusing at first, but because mistakes are often made, you'll want to make sure you understand it.

For collection or charged-off accounts, the seven-year clock starts ticking six months from the date you first fell behind leading up to the collection or charge-off. It does not start when the account was placed for collection or to the date of last activity.

**Warning:** Beware of collection agencies that tell you they have ways of reporting the collection account "forever" to the credit bureaus if you don't pay. That's simply not true.



# WHAT DO I DO NOW?



Once you have your credit report and understand how long information can be reported, you're ready to create a strategy for building better credit.

## STEP 1: FIX MISTAKES

It's not unusual to find wrong or outdated accounts. You may want to check for the following items:

Keep in mind that if you cosigned for an account, it will likely be reported on your credit report and treated as your own. If you were only an authorized user on an account that fell behind, the creditor may be willing to remove it from your credit report. Incorrect balances. While you can expect it to take 30-60 days for information about your loan balances to be updated, you shouldn't see completely wrong information.

If an account was turned over to multiple collection agencies, only the most recent agency account should appear.

You may find old accounts you don't use anymore still listed. Even if an account is paid off, it may remain for the legal time limit. Fair Isaac Company, creator of the popular FICO credit scores, recommends that you don't close old accounts because doing so may hurt your credit score and won't help improve it.

To dispute wrong information, you can contact the credit reporting agency that is listing the wrong information, the credit grantor that is reporting, or both. Put your dispute in writing, type it if your handwriting isn't clear, and make it brief yet describe the problem clearly. If you have any documentation to prove your side of the story, include it. The credit bureau or credit grantor must generally get back to you within 30 days to tell you the results of their investigation. Keep copies of all the letters you send and receive.

## **STEP 2: LET TIME HEAL THE WOUNDS**

As negative information becomes older, it becomes less important on your credit file. It still will have an impact on your credit worthiness but that impact becomes less over time – but only if you now pay your bills on time!

## **STEP 3: ASK YOUR CREDITORS FOR HELP**

Ask your creditors for help. Sometimes negative information is accurate but due to unusual circumstances. For example, you may have been in a car accident and unable to work or keep up with the large medical bills.

If you had a good payment history but then fell behind due to extenuating circumstances, and if you are now back on your feet and paying your bills on time, you may want to ask your creditors to “re-age” your accounts – or essentially delete those previous late payments. There are banking guidelines that lenders must follow when re-aging accounts, but it can be done under certain circumstances, so it may be worth asking your lender for help.

## **STEP 4: BUILD POSITIVE NEW CREDIT REFERENCES**

The best thing you can do to rebuild your credit is use credit carefully and always pay your bills on time. Consumers who are proactive about rebuilding their credit after problems have occurred can see significant improvement in as little as a year or two. Here are some tips:

- Lenders will want to see at least a couple of recent credit accounts paid on time. If you still have open accounts, use them periodically for things you would buy anyway, then make sure to pay the bill well before the due date.
- Carrying balances and paying interest is not necessary for rebuilding good credit.



# DISPUTE MISTAKES



Use the information from your Credit Problems Worksheet that you plan to dispute. There are two ways to dispute wrong information:

1. Contact the lender, court or collection agency (furnisher) reporting it and ask it to be investigated.
2. Contact the credit bureaus that have the information that is wrong and ask it to verify the information. There are advantages and disadvantages to both approaches.

Dispute with Furnisher First	Dispute with Credit Bureau First
<b>Advantages</b>	<b>Advantages</b>
<p>Must investigate and respond within 30 days</p> <p style="text-align: center;">May have original records that show the mistake</p> <p>If mistake is found, must share it with all credit bureaus that have the mistake</p> <p style="text-align: center;">If dispute is not resolved in the consumer's favor, can still be disputed with the credit bureau</p>	<p>Must investigate and respond within 30 days</p> <p style="text-align: center;">Will provide any proof you provide to a creditor</p> <p>Must provide a free copy of the credit report showing any correction</p>
<b>Disadvantages</b>	<b>Disadvantages</b>
<p>May be less efficient at handling disputes than Credit Bureaus</p>	<p>Will ask creditor for confirmation, but usually does not take consumer's side over creditor's</p> <p style="text-align: center;">Won't share correction with other major bureaus</p>

Unless the information that is wrong is personal information (such as name, address, or Social Security number) you should probably start by disputing it with the furnisher. If a phone number is provided, you can call the furnisher. (Keep notes of your conversation.) If not, you can write to the address provided.

# TIPS FOR WRITING EFFECTIVE DISPUTE LETTERS



Whether you are writing to the furnisher or the credit bureau to dispute information on your credit report, here are some guidelines that can help make your dispute more effective:

1. Include your name, address, Social Security number, account number (if relevant) at the top of your letter so your file can quickly be found.
2. Write your letter by hand if your writing is easy to read. Otherwise type it.
3. Keep your letter very brief and to the point.
4. Describe exactly what is wrong and how it should be corrected.
5. Send your letter certified mail, return receipt requested.
6. Include documentation if you have it – copies, not original!
7. Keep a copy of any letters you send.
8. Keep a copy of any correspondence you receive.

Credit bureaus receive thousands of disputes every day. It's especially important if you're writing to the bureau to make your letter as clear as possible. Ask a trusted friend or relative to review it for you to make sure they understand it. Remember, the person at the other end of your dispute must be able to understand it in order to respond appropriately.

When the credit bureau or furnisher receives your dispute, it usually has thirty days to investigate and get back to you with the results. If you disputed the information through the credit bureau, it must provide you with a free credit report showing the updated information, if corrections were made.

If information is removed because you challenged it with the credit bureau, the bureau cannot add it back to your credit report without first certifying with the furnisher that it is correct. It also must notify you in writing first that it will be adding it back to your report.

## WHAT IF YOU CAN'T RESOLVE IT?

If you believe the information is wrong and your dispute isn't resolved, you have the right to add a 100-word statement to your credit file explaining your side of the story. This may not be very helpful, however, since most creditors won't see or read that dispute. It's much better to try to get the information corrected.

## HOW?

First, if you think the credit bureau or furnisher didn't properly investigate, you may want to contact them again (this time by phone if possible) and try to clarify the problem. If they still won't correct it, you can file a complaint with the Federal Trade Commission at [www.ftc.gov](http://www.ftc.gov) and you may want to talk with a consumer law attorney for help.







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