



Managing Money

Credit Reports

Managing Money: Credit Reports

Credit bureaus collect information from the companies who have granted credit to you and from public records in state and county offices and courts. Your credit report lists information such as your current and previous addresses, Social Security number, date of birth, and current and previous employers. Public records such as bankruptcies, tax liens and mortgages also are listed. Your history of bill paying is described and rated. Credit bureaus act as data collection storehouses. Their business is to collect and store information about you for their customers who for the most part, are credit grantors.

If you have established several credit accounts, how do you know what your credit record looks like? Frequently, people don't know what their credit history says until they are turned down for credit. Denial may be for a variety of reasons such as not employed long enough or having recently moved to the area. Or you may not get a loan because of some piece of negative information reported in your credit file. Federal and state laws give you the right to know what your credit report says about you.

What Does Your Credit Report Say About You?

Credit reports are like photographs—they capture a fixed image at a certain point in time. A credit report is a picture of you in words and numbers and gives others an impression of your behavior. If your credit report indicates that you are generally on time with your credit payments, the

impression is positive. If you are usually late, have not completed some of your loan payments and have more credit than you can handle, your credit picture is negative.

How Does Credit Work?

Your ability to borrow money or use credit depends on a number of factors including the availability of money, your previous willingness to borrow money and your history of payment for credit obligations. Availability of money is determined by general conditions in the economy. Rising interest rates generally leads to less money for individuals and businesses to borrow. This means that individuals will not only pay higher interest rates, but it takes a better credit history to qualify for loans.

Sometimes people feel hurt after being turned down for a loan. They often say, "I'm a great credit risk, I pay cash for everything". However, those who do pay cash have no history or proof to indicate the type of risk they would be. If you haven't borrowed money before, lenders have fewer clues in deciding to grant you a loan. They may take longer to decide to approve the loan, charge you higher interest rates or turn down your loan application altogether.

Were you aware that interest rates could vary depending on your credit report? If you establish a credit history early, you will have already done the necessary footwork that will greatly simplify a credit application when you need it.

Your credit report is an impression of what you might do in the future. Future choices are directly linked to past actions.

Checking Your Credit Report

Because it is estimated that 70 percent of credit reports contain at least one mistake, requesting a credit report each year is a safety measure you should exercise. Credit bureaus must notify you if negative information is added to your credit report. If you receive a letter stating that potentially negative credit information has been reported on your credit report, you may wish to review that information. The Credit File Request Work sheet provides a form to use in requesting your credit report(s) and the addresses of the three credit bureaus. Consumers in New Mexico are allowed one free report per year from each of the three major credit agencies, Experian, Equifax Inc. and TransUnion. You also can receive a free report if you are turned down for credit or if you believe you are a victim of identity theft. Lenders are not required to report information to all three credit bureaus. Thus, the three credit bureaus have somewhat different information, and they report it in different ways. It is a good idea to get your credit report from each credit bureau every year.

Get a free credit report electronically by logging on to www.AnnualCreditReport.com. You can access all three credit agencies from this Web site.

- Click: Check to see when your state is eligible for free reports.
- Select: New Mexico
- Click: Request Report
- Complete your personal information

You also can call the credit agencies:

Equifax: 1-800-685-1111

Experian: 1-888-397-3742

TransUnion: 1-800-888-4213

Credit Scores

Credit scores are computed by lenders using a formula to determine if you are a good credit risk. FICO scores are based on the company who developed the scoring system, Fair, Isaac & Co. The models analyze your credit history based on five categories: payment history, amount you owe, length of credit history, new credit and credit mix.

Lenders base the interest rate for loans and mortgages on your credit score which, until recently, you were not able to see. To get your FICO score, go to www.equifax.com and www.fairisaac.com. You can order a current Equifax credit report, a FICO score, and an explanation of the key factors that shape the score. You will be charged a small fee. The scores run from 375 (worst) to above 900 and are generated through complex statistical models. Prime borrowers have scores in the 620 to 660 range (this varies among lenders). Prime borrowers qualify for loans with the best interest rates and terms.

Payment history. Thirty-five percent of your score comes from your credit account payments, with the most recent payments counting more than older payments. If you have consistently paid your bills on time, your score will be higher.

Amount you owe. Thirty percent is based on your current debt load, how much you owe on all of your accounts if you generally carry an unpaid balance on credit card accounts. Getting credit only when you need it and using it below your credit limits, leads to higher scores.

Length of credit history. Fifteen percent of your score is based on how long you have used credit.

New credit. Ten percent is based on recent credit applications. You'll be scored lower if you have loaded up on credit by applying for more credit cards. In other words, don't get a credit card just for the 10 percent discount on that day's shopping. Having access to a lot of credit, even

if you don't use it, lowers your credit scores. Potential lenders may view numerous inquiries about your credit negatively because this may indicate you will overextend your capacity to pay your credit bills. If you do not want to receive unsolicited credit offers, call 1-888-5OPT-OUT (1-888-567-8688) and your name will be removed from all three credit bureaus for possible solicitation.

Credit mix. The last 10 percent is based on the type of lenders you deal with.

Disputing Information in Your Credit Report

Once you have reviewed your credit report(s), you have the right to dispute any reported information. You can call or write to the credit bureau—their information is listed on your credit report. If you write, make copies of the correspondence to substantiate your claim in case the error persists. If you call, make sure you get the name of the person you are talking with and date your notes. Be sure to state 1) What is wrong, 2) Why it is wrong and 3) What should be fixed?

Within 30 days, the credit bureau must notify you regarding the outcome of your request. If the disputed information cannot be verified in 30 days, the disputed item will be deleted from your credit report or updated as you request. If the disputed information is verified at a later date, it will be reinserted in your credit file and you will be notified. If the credit reporting agency's investigation does not resolve the issue, you have the right to add a 100-word statement to your report, which will be included in all future requests for your credit file. It is wise to report disputed information to all three credit-reporting agencies.

Some errors you might find on your credit report include:

- Mention of a dispute with a mortgage company who agreed that you were correct, but did not remove the negative information from your credit report.
- Your name or Social Security number is the same as someone else.
- A lender reports that you have been paying your bills after the due date (even though they have been deducted automatically from your checking account).

Who Can Request a Copy of Your Credit File?

Persons/businesses can request copies of your credit file when they plan to use your credit information to 1) extend credit to you, 2) consider offering employment, 3) underwrite insurance, 4) rent you a place to live, 5) determine eligibility for certain types of licenses, 6) evaluate other legitimate business needs, 7) determine child support payments and 8) provide information about current residence of individuals.

Your Credit History Follows You

The three major automated credit bureaus in the United States hold files on 95 percent of those who use credit. Within seconds a credit report can be transferred from Miami to Denver.

Credit reporting companies only report the information given to them by previous lenders. Files are coded on a scale of zero to nine. "Zero" means a new account with no rating. "One" means pays on time, "two" means pays somewhat slow and so on up to "nine", which means goods have been repossessed.

Building a Respectable Credit History

Your credit file is your record to lenders and others seeking the information. If you make your payments within the agreed time and contact creditors if you have temporary problems, your credit history will encourage other lenders to

Managing Money: Credit Reports

grant you credit. If you have a credit account that you haven't used for two years, close it. Cutting up or destroying credit cards does not close an account. You need to contact the company who issued the credit. Your credit report looks better if it contains information only related to your active accounts. A good credit history is positive when you want it and essential when you need it.

References:

Kratzer, C., (2004). Managing your money: How much credit can I afford?, Circular 595, New Mexico Cooperative Extension. Las Cruces, NM.

McKenna, J. & Makela, C., (2003). Credit: What are your choices? Fact sheet No.9.140, Colorado State University Cooperative Extension. Ft. Collins, CO.

McKenna, J. & Makela, C., (2003). Credit cards. Fact sheet No.9.144, Colorado State University Cooperative Extension. Ft. Collins, CO.

McKenna, J. & Makela, C., (2003). Credit reports. Fact sheet No.9.141, Colorado State University Cooperative Extension. Ft. Collins, CO.

Credit File Request

To: _____

(Name of credit reporting agency you are requesting a file from)

(Print or Type Only - Check Appropriate Boxes)

_____ Please forward a copy of my personal credit file.

_____ Please forward a copy of our joint personal credit file.

_____ A check OR _____ a money order is enclosed to cover expense.

_____ I/we were **denied credit** within the past 30-60 days by: (name of firm)

_____ because of information in my/
our credit files at your agency (copy of letter enclosed). I/we understand a copy of my/our credit report will
be sent without charge.

Date: _____ Daytime/message phone () _____

Full name _____

(as it appears on credit applications or accounts)

Current address _____

Mail address _____

City, state, zip _____

(PO Box etc., if different from street address)

Previous addresses (past five years) _____

Marital status: _____ Spouse's/partner's full name: _____

Date of birth _____ Spouse/partner _____

Your Social Security # _____ - _____ - _____

Spouse's/Partner's Social Security # _____ - _____ - _____

_____ **ENCLOSED is a photo copy of my/our driver's license(s),
or our utility bill or my/our military ID.**

Signature(s): _____

Signature(s): _____

Managing Money: Credit Reports

Credit File Request Work Sheet (Cont.)

Use these addresses to send in your credit file requests:

- **Experian** (Formerly known as TRW)
P.O. Box 2104
Allen, TX 75013-2104
(New Mexico fee: \$8.93)
<http://www.experian.com>
- **Trans Union LCC**
Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022
(New Mexico fee: \$8.50)
<http://www.tuc.com>
- **Equifax Credit Information Services**
P.O. Box 105873
Atlanta, GA 30348
(New Mexico fee: \$8.50)
<http://www.equifax.com>

Use the telephone numbers below to request your credit file if you have been denied credit within 60 days or if you are going to pay for the report using a credit card.

Experian (TRW)	1-800-311-4769
Trans Union	1-800-888-4213
Equifax	1-800-685-1111

How To Read Your Credit Report

BOX A

Whose Account

Indicates who is responsible for the account and the type of participation you have with the account

- J=Joint
- I=Individual
- U=Undesignated
- A=Authorized user
- T=Terminated
- M=Maker
- C=Co-Maker/Co-Signer
- B=On behalf of another person
- S=Shared

BOX B

STATUS

Type of Account

- O=Open (entire balance due each month)
- R=Revolving (Payment amount variable)
- I=Installment (fixed number of payments)

Timeliness of Payment

- 0= Approved not used; too new to rate
- 1= Paid as agreed
- 2=30+ days past due
- 3=60+ days past due
- 4=90+ days past due
- 5=120+ days past due
- 7= Making regular payments under wage earner plan or similar arrangement
- 8= Repossession
- 9=Charged off to bad debt

ID Section

Your name, current address, and other identifying information reported by your creditors

Contact Section

The name and address of the office you should contact if you have any questions or disagreements with your credit

CREDIT HISTORY

(List of both open and closed accounts)

Company Name (ID of business reporting the information)	Account Number (Your account number with the company)	Whose Account (See Box A for details)	Date Opened (Month and year you opened the account)	Months Re-viewed (Number of months account has been reported)	Date of Last Activity (Date of last account activity; may be date of last payment or last change)	High Credit (Highest amount charged or credit limit)	Terms (Number of installments; M=monthly or monthly payments)	Balance (Amount owed on account at the time it was reported.)	Past Due (Amount past due at the time information was reported)	Status (See Box B for details)	Date Reported (Date of last account update)
Sears	1125151	J	05/86	66	12/03	3500	0	0		R1	02/04
Citibank	2953900	I	11/86	48	11/03	9388	48M	0		I1	12/03
AMEX	3554112 51511	A	06/87	24	10/02	500		0	Closed Account	O1	12/03
Chase	5422977	I	05/85	48	01/04	5000	340	3000	680	R3	

>>> **Prior Paying History** – Number of times account was either 30/60/90 days past due; date two most recent delinquencies occurred plus date of most severe delinquency

>>> **Collection Accounts** – Accounts which your creditors turned over to a collection agency

>>> **Courthouse Records** – Public Record items obtained from local, state and federal returns

>>> **Additional Information** – Primarily consists of former addresses and employments reported by your creditors

>>> **Inquiry Section** – List of businesses that have received your credit report in the last 24 months

The Following Inquiries are NOT Reported to Businesses:

PRM= This type of inquiry means that only your name and address were given to a creditor so they could offer you an application for credit (PRM inquiries remain for six months.)

AM or **AR** = These inquiries indicate a periodic review of your credit history by one of your creditors. (AM and AR inquiries remain for six months.)

EQUIFAX, ACIS, or **UPDATE** = These inquiries indicate credit bureau's activity in response to your contact for either a copy of your credit report or a request for research

PRM, AM, AR, EQUIFAX, ACIS and **UPDATE** inquiries do not show on credit reports that businesses receive, only on copies provided to you.

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

Sponsored by New Mexico State University and the City of Las Cruces. Supported by U.S. Department of Housing and Urban Development. New Mexico State University is an equal opportunity/affirmative action employer and educator. NMSU and the U.S. Department of Agriculture cooperating. © 2005 NMSU Board of Regents. All rights reserved.



Managing Money: Credit Reports