

Understanding Your Credit Report



It is important that you understand the information on your credit report, regardless of your financial situation.

This information directly impacts your ability to obtain a credit card, buy a car or home, rent an apartment, or even get a new job.

Two of the best reasons for reviewing your credit report today are to make sure your credit report is accurate and protect yourself from fraud or identity theft.

If you have ever applied for a credit card, a personal loan, or insurance, there is a file about you. This file contains information on where you work and live, how you pay your bills, and whether you have been sued, arrested, or have filed for bankruptcy.

Companies that gather and sell this information are called consumer reporting agencies, more commonly known as credit bureaus. The information credit bureaus sell about you to creditors, employers, insurers, and other businesses is called a consumer report or credit report.

The three major consumer reporting agencies in the United States are Equifax, Experian and Trans Union.

What is a Credit Report?

A credit report is a record of data or information regarding the credit history of an individual. Credit reporting agencies keep and organize this information as a service to their clients.

Generally, subscribers to credit reporting agencies consist of creditors, banks, department stores, leasing and finance companies, insurance companies, landlords, and employers.

Contrary to common belief, credit reporting agencies have no vested interest in any information contained in an individual's credit report. Their objective is to provide the most accurate information possible to their clients, who generally use the data to approve or decline requests for loans, insurance, and positions of employment or tenancy.

Creditors are unlikely to grant credit to someone who has erratic employment, changed residence frequently, or who represents significant risk. A consumer with a poor payment history or with an unfavorable debt-to-income ratio represents a risky investment.



Landlords are also interested in this information because they can see your payment history and how often you move. If a prospective tenant moves around frequently and has difficulty paying bills, perhaps

the tenant will move quickly and not pay his or her rent. Landlords can also see if the prospective tenant has been evicted from other locations.

Employers may reject applicants for certain positions based on credit reports because employees with unstable financial situations may constitute a risk. Those who hire people for positions that handle money like bank tellers, or positions of authority like police, may reject someone with a poor credit history because that person may be tempted to abuse his or her position. Some employers see a poor credit report as a reflection of poor character.

What is my Credit Report Score?

A credit report score is an empirically derived, statistical method of assessing risk. Or in other words, it's a way for credit reporting agencies to assign a numerical number to your credit worthiness. This number is used to predict the relative likelihood that an individual will repay a credit obligation, such as a mortgage loan or automobile.

Your credit score is based on information in your credit report, such as:

- Past payment behavior (*current and historical delinquencies*)
- Level of indebtedness (*outstanding debt balances, both in terms of dollars owed and percent of available credit*)
- Length of credit history
- Pursuit of new credit (*generally these are called inquires and are less important than some of the other categories*)

Your credit score is **not** based on factors prohibited under the Equal Credit Opportunity Act, such as:

- Race, age, gender, religion, national origin or marital status
- Also excluded: income, employment, and where you live

The two most common models for credit scoring are:

MDS bankruptcy score

scores range from about the 0 to 1300
higher scores = higher risk of default

FICO score

scores range from about the 300s to the 900s
higher scores = lower risk of default

Each of the three major credit repositories can produce a FICO score based on credit information in its files and each repository markets FICO scores under its own trade name:

- Equifax: Beacon score
- Trans Union: Empirica score
- Experian (formerly TRW): Experian/FICO score

For all loans and all borrowers, an individual with a credit score below 620 is 2.7 times more likely to default on his/her mortgage loan than someone with a credit score between 660 and 699. It is for this reason that many creditors will limit their lending to individuals with scores above 620.

There is no legal requirement for the lender to reveal a credit score to an applicant. But if the application is denied, the lender must reveal the reason(s) for that denial.

While you can improve your future score, it is unlikely that any single action you take will have a large impact on your score immediately. That's because your score reflects your credit patterns over time.

With this in mind, there are things you can do now that will improve your score in the future:

Most importantly, pay your bills on time. *Delinquent payments and collections can have a major negative impact on your score. As they get older and you pay all other obligations on time, the delinquent information will have less impact.*

Pay down your balances. *High outstanding debt can affect your score.*

Apply for new credit sparingly. *"Shopping" for credit can have an adverse affect on your score. Support good credit habits like paying bills on time, using revolving debt responsibly and avoiding a large and quick build-up of new credit.*

How can I obtain my personal credit report?

1. You may receive a free copy of your credit report if one of the following applies to you:

- You have been denied credit, housing, employment or insurance within the past 60 days.
- You are unemployed and certify that you plan to seek employment within 60 days.
- Adverse action was taken against you by a lender, based on information they acquired from your credit report.
- Inaccuracies in your credit report due to fraud.
- You are receiving public assistance.

2. For a fee you can request a copy of your credit report directly from the credit reporting agency. You will receive the report within 30 days by mail or immediately online.

3. You can immediately obtain a copy of your credit report directly from **Accel** for a nominal fee by calling (877) 33ACCEL or logging onto our website: www.accelservices.org.

Regardless of how you get your report, **Accel** financial counselors can review the report with you and provide answers to your questions.

How does my credit history affect me?

It is important to establish a solid credit history. Your credit worthiness will not only affect your ability to borrow money or purchase goods and services on credit, but may also affect your employment. Poor credit could mean that you are not offered the job. For example, you cannot be bonded or obtain a security clearance.

Your living accommodations can be affected by your credit history. Landlords regularly request credit bureau information for applicants seeking apartments. Landlords don't want tenants who do not pay their bills.

Interest rates are also tied to credit worthiness. Individuals with better credit records pay lower interest on loans than those who are greater credit risks.

Convenience is also a factor. Renting a car, making hotel reservations, and hundreds of other transactions are much easier if you have a credit card.

The Five C's of Good Credit

Credit is offered to people based on what the industry calls the "Five C's of Good Credit."

Character: *Are you the kind of person who pays his or her bills on time?*

Capital: *Do you have enough income and/or net worth to incur debt?*

Capacity: *Are you stable? Is your income and job secure enough to warrant debt?*

Collateral: *Do you have assets to secure the debt?*

Conditions: *Have current market and government conditions established interest rates that will make the debt difficult for you to pay as agreed?*

The Five C's are basic principles and are readily evident in the kind of information kept in a credit report. Each creditor, however, will determine its own set of criteria for offering credit.

If an individual has no credit history whatsoever, he or she must begin by displaying the qualities that would encourage a creditor to offer credit.

credit report

Equifax

Credit Information Services
P.O. Box 740241, Atlanta, GA 30374
1-800-685-1111
www.equifax.com

Trans Union

Consumer Disclosure Center
P.O. Box 1000, Chester, PA 19022
1-800-916-8800
www.transunion.com

Experian

Consumer Assistance
P.O. Box 2002, Allen, TX 75013
1-888-EXPERIAN (397-3742)
www.experian.com

Protecting Yourself

Here are some points to keep in mind before you respond to ads that promise easy credit, regardless of your credit history:

- Most legitimate lenders will not “guarantee” that you will get a loan or a credit card before you apply, especially if you have bad credit or a bankruptcy.
- It is an accepted and common practice for reputable lenders to require payment for a credit report or appraisal. You also may have to pay a processing or application fee.
- Never give your credit card account number, bank account information, or Social Security number out over the telephone unless you are familiar with the company and know why the information is necessary.

The Law and Credit Reports

The Fair Credit Reporting Act (FCRA)

The federal Fair Credit Reporting Act (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every “consumer reporting agency” (CRA). Most CRAs are credit bureaus that gather and sell information about you (such as if you pay your bills on time or have filed bankruptcy) to creditors, employers, landlords, and other businesses.

You can find the complete text of the FCRA, 15 U.S.C. 1681-1681u, at the Federal Trade Commission’s web site. The FCRA gives you specific rights, as outlined below. You may have additional rights under state law. You can contact a state or local consumer protection agency or a state attorney general to learn those rights.

Some of the rights that protect your credit:

- You must be told if information in your file has been used against you.
- You can find out what is in your file.
- You can dispute inaccurate information with the CRA.
- Inaccurate information must be corrected or deleted.
- You can dispute inaccurate items with the source of the information.
- Outdated information may not be reported.
- Access to your file is limited.
- Your consent is required for reports that are provided to employers, or reports that contain medical information.
- You may choose to exclude your name from CRA lists for unsolicited credit and insurance offers.
- You may seek damages from violators.

For more information on your consumer rights, you can contact the Federal Trade Commission. If needed, you can file a complaint with them:

Federal Trade Commission
Consumer Response Center - FCRA
Washington, DC 20580
(202) 613-3761
www.ftc.gov



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