



# FINANCE

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## Credit Reports

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### Quick Facts...

You have a right to receive one free copy of your credit report from each credit bureau each year.

Interest rates can vary depending on your credit score.

Credit bureaus collect information from companies who have granted credit to you and from public records and courts in state and county offices.

The three major credit bureaus in the United States collectively hold files on 95 percent of those who use credit.

### Credit Report Rights

The Colorado Uniform Consumer Credit Code and the federal Fair Credit Reporting Act gives consumers a number of protections. The purpose of these laws is to make sure that credit bureaus conduct their business with fairness, accuracy and respect for your right to privacy. They protect you from the burden of a credit history that could be based on incorrect or incomplete information. Here are some highlights:

- Consumers should be given specific reasons if they are denied credit. No longer can you be turned down because you “didn’t meet our credit standards.”
- If you are refused credit, or if you are suddenly dropped as a credit customer, your creditor must tell you if the decision was based on information received from a credit reporting agency and must tell you the name and address of that agency. You have the right to review, free of charge, the information in your credit file about you. You may request a summary of the report by mail.
- An error must be corrected if the information is incorrect. If the information is disputed, you may file a statement telling your side of the story. Your statement must accompany any future request for credit information about you.
- You may pay a small fee if you have already received a free report for the year.
- All credit accounts opened in joint names after June 1, 1977, will be reported in both names. This means the information is in both files.
- You can get information about your credit score and what it means.
- Credit reporting agencies must truncate your Social Security number in your credit report if you request.



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### What Does Your Credit Report Say About You?

Credit reports are like photographs, they capture a fixed image at a certain point in time. Sometimes a picture shows a person who is relaxed and happy, and other pictures depict anger or grief. 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, on the other hand, 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 fulfilling 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 offered to you could vary depending on your credit report? If you establish a credit history early, you will have already done the necessary qualifying footwork that will greatly simplify a credit application when you need it. Of course, paying your credit bills on time tells lenders that you are a responsible user of credit.

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

## Your Credit Report

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 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 new 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.

## Checking Your Credit Report

You are entitled to one free credit report each year from each credit bureau. Because it is estimated that 70 percent of credit reports contain at least one mistake, requesting a credit report each year is a safety precaution 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. If you have already received your free yearly report, additional copies can be obtained for a small fee.

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 copy of your report before you apply for a home or auto loan. If there is negative information in

### *Credit Reporting Agencies*

*There are three major credit reporting agencies (also called credit bureaus) in the United States.*

**Equifax:** *www.equifax.com P.O. Box 740241, Atlanta, GA 30374, 1-800-685-1111.*

**Experian:** *www.experian.com, P.O. Box 9600, Allen, TX 75013-3742, 1-888-397-3742.*

**Trans Union:** *www.transunion.com, P.O. Box 1000, Chester, PA 19064, 1-800-888-4213.*

**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).*

your credit report, you can be candid and explain why you have negative information.

## 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 when you order your credit report, request a copy of your credit score. The scores run from 375 (worst) to above 900 and are generated through complex statistical models. Prime borrowers have scores of 720 or better (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 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 ask to have your name removed permanently from all three credit bureaus for possible solicitation.

**Credit mix.** Ten 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.

## Identity Theft

In 2002, more than 7 million people suffered losses from credit card fraud. One way of protecting yourself is to call the credit card offer “Opt Out” line to stop unsolicited credit card offers. The phone number again is 1-888-567-8688. All three credit reporting agencies will be notified to remove your name from their marketing lists.

If your credit cards have been stolen or are being used without your authorization, notify the fraud units of all three credit granting agencies:

Equifax	1-888-766-0008
Experian	1-888-397-3742
Trans Union	1-800-680-7289

### **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.*

Recent changes to the Fair Credit Reporting Act were made to address identity fraud. You will only need to call one number to alert all three credit bureaus if you suspect you have been the victim of identity fraud. If lenders and credit bureaus suspect you are a victim of identity fraud, they must take action (even if you don't know a crime has occurred) to stop the identity theft. Consumers who have been victimized by identity fraud are entitled to two free copies of their credit report during the year.

## 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 biography to lenders and others seeking the information. If you pay your obligations within the agreed time and contact creditors if you have temporary problems, your credit history will encourage other lenders to 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.
- Errors do occur and the only person who can correct them is you. Check your credit report periodically to make sure you agree with the information. If you are turned down for credit, find out why. If the information is false, get it changed. If the problem is a dispute between you and the lender, include a letter in the file that explains your position.

A good credit history is positive when you want it and essential when you need it.

*For more information on credit and other financial topics, go to the following Web sites: It's Your Money columns: <http://www.ext.colostate.edu/pubs/columnnym/yymenu.html> and Web-based Financial Sites: <http://www.ext.colostate.edu/pubs/finance/>*

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