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Credit Report Discussion

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Understanding Your Credit Report

Your credit report contains information about your past and present credit transactions. It's used primarily by potential lenders to evaluate your creditworthiness. So if you're about to apply for credit, especially for something significant like a mortgage, you'll want to get and review a copy of your credit report.

You can see what they see: getting a copy of your credit report

Every consumer is entitled to a free credit report every 12 months from each of the three credit bureaus. To get your free annual report, you can contact each of the three credit bureaus individually, or you can contact one centralized source that has been created for this purpose. Besides the annual report, you are also entitled to a free report under the following circumstances:

- A company has taken adverse action against you, such as denying you credit, insurance, or employment (you must request a copy within 60 days of the adverse action)
- You're unemployed and plan to look for a job within the next 60 days
- You're on welfare
- Your report is inaccurate because of fraud, including identity theft

You can order your free annual report online at www.annualcreditreport.com, by calling 877-322-8228, or by completing an Annual Report Request Form and mailing it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

Alternatively, you can contact each of the three credit bureaus:

- Experian National Consumer Assistance Center, www.experian.com, P.O. Box 2104, Allen, TX 75013-2104, (888) 397-3742
- Trans Union LLC, Consumer Disclosure Center, www.transunion.com, 1000, Chester, PA 19022, (800) 916-8800
- Equifax, Inc., www.equifax.com, P.O. Box 740241, Atlanta, GA 30374, (800) 685-1111

If you make your request online, you should get access to your report immediately. If you request your report by phone or mail, you should receive it within 15 days.

What's it all about?

Your credit report usually starts off with your personal information: your name, address, Social Security number, telephone number, employer, past address and past employer, and (if applicable) your spouse's name. Check this information for accuracy; if any of it is wrong, correct it with the credit bureau that issued the report.

The bulk of the information in your credit report is account information. For each creditor, you'll find the lender's name, account number, and type of account; the opening date, high balance, present balance, loan terms, and your payment history; and the current status of the account. You'll also see status indicators that provide information about your payment performance over the past 12 to 24 months. They'll show whether the account is or has been past due, and if past due, they'll show how far (e.g., 30 days, 60 days). They'll also indicate charge-offs or repossessions. Because credit bureaus collect information from courthouse and registry records, you may find notations of bankruptcies, tax liens, judgments, or even criminal proceedings in your file.

At the end of your credit report, you'll find notations on who has requested your information in the past 24 months. When you apply for credit, the lender requests your credit report--that will show up as an inquiry. Other inquiries indicate that your name has been included in a creditor's prescreen program. If so, you'll probably get a credit card offer in the mail.

You may be surprised at how many accounts show up on your report. If you find inactive accounts (e.g., a retailer

you no longer do business with), you should contact the credit card company, close the account, and ask for a letter confirming that the account was closed at the customer's request.

Basing the future on the past

What all this information means in terms of your creditworthiness depends on the lender's criteria. Generally speaking, a lender feels safer assuming that you can be trusted to make timely monthly payments against your debts in the future if you have always done so in the past. A history of late payments or bad debts will hurt you. Based on your track record, a new lender is likely to turn you down for credit or extend it to you at a higher interest rate if your credit report indicates that you are a poor risk.

Too many inquiries on your credit report in a short time can also make lenders suspicious. Loan officers may assume that you're being turned down repeatedly for credit or that you're up to something--going on a shopping spree, financing a bad habit, or borrowing to pay off other debts. Either way, the lenders may not want to take a chance on you.

Your credit report may also indicate that you have good credit, but not enough of it. For instance, if you're applying for a car loan, the lender may be reviewing your credit report to determine if you're capable of handling monthly payments over a period of years. The lender sees that you've always paid your charge cards on time, but your total balances due and monthly payments have been small. Because the lender can't predict from this information whether you'll be able to handle a regular car payment, your loan is approved only on the condition that you supply an acceptable cosigner.

Correcting errors on your credit report

Under federal and some state laws, you have a right to dispute incorrect or misleading information on your credit report. Typically, you'll receive with your report either a form to complete or a telephone number to call about the information that you wish to dispute. Once the credit bureau receives your request, it generally has 30 days to complete a reinvestigation by checking any item you dispute with the party that submitted it. One of four things should then happen:

- The credit bureau reinvestigates, the party submitting the information agrees it's incorrect, and the information is corrected
- The credit bureau reinvestigates, the party submitting the information maintains it's correct, and your credit report goes unchanged
- The credit bureau doesn't reinvestigate, and so the disputed information must be removed from your report
- The credit bureau reinvestigates, but the party submitting the information doesn't respond, and so the disputed information must be removed from your report

You should be provided with a report on the reinvestigation within five days of its conclusion. If the reinvestigation resulted in a change to your credit report, you should also get an updated copy.

You have the right to add to your credit report a statement of 100 words or less that explains your side of the story with respect to any disputed but unchanged information. A summary of your statement will go out with every copy of your credit report in the future, and you can have the statement sent to anyone who has gotten your credit report in the past six months. Unfortunately, though, this may not help you much--creditors often ignore or dismiss these statements.

The Effects of Credit Cards on Your Credit Report

What is your credit report?

Your credit report is your credit history, as recorded in a file maintained and sold by consumer reporting agencies commonly known as credit bureaus. If you've ever applied for a credit card, personal loan, car loan, or mortgage, you have a credit report. Your credit report contains information about your income, debts, and credit payment history. It also includes information about whether you have been sued, arrested, or filed for bankruptcy. While your credit report is most often used to help a lender determine whether to approve or deny your application for credit, it may also be used to determine whether or not to approve you for insurance coverage, rent you an apartment, or offer you a job.

Because credit cards are relatively easy to obtain, applying for and using them may help you establish a credit history. But whether your history will become a good one or a bad one will depend on how you use the cards.

Credit cards can have a positive impact on your credit report

Retail charge cards can be a good way to establish credit

Charge cards associated with a particular merchant (e.g., a department store or an oil company) are often the first credit cards that new users obtain. Because the card limits are generally low, you may pose little risk to the creditor, and so you may be approved with little or no credit history. Using these cards responsibly may help establish your creditworthiness for more significant credit (such as a vehicle loan or a mortgage) in the future.

Secured cards can be the first step toward repairing your credit history

If your credit report shows that you've been delinquent on your credit payments or declared bankruptcy, you will probably have trouble reestablishing your credit. However, you may be able to qualify for a secured credit card. To reduce the risk your prior credit history indicates you pose, you're required to deposit money with the issuer of the secured card that partially or completely covers the amount you may charge on your card. If you default on your card payments, the issuer may withdraw the money you have on deposit to repay the debt. In some cases, however, the card may be converted to an unsecured card if you make satisfactory payments for a specified length of time.

> **Tip:** Your secured card will strengthen your credit report only if you keep up with the payments. Even though you have money on deposit with the card issuer to secure the debt, you must pay at least the monthly minimum to keep your credit history from looking even worse.

Credit cards can have a negative impact on your credit report

Applications for credit are reported to credit bureaus

When you apply for a credit card, the lender requests a copy of your credit history. These requests are recorded on your credit report as inquiries; they remain on your report for 24 months. Lenders may become suspicious if they see numerous credit applications within a short period of time. Fearing that you may become overextended on the amount of debt you can handle, they may deny you credit simply because you've applied for too much.

> **Tip:** Under the Fair and Accurate Credit Transactions Act of 2003 (FACTA), credit bureaus are required to notify you if your credit report is adversely affected by too many inquiries.

Late and missed payments appear on your credit report

For each credit account you have, your credit report will contain a detailed history of your payment record over the last 12 to 24 months. Derogatory notations on your credit report may remain there for seven years or longer, depending on the type of notation. Each time you're late making your credit card payment or miss a payment, you're undermining your credit history and weakening your chance to obtain loans in the future.

> **Tip:** Under FACTA, creditors are required to notify you if they supply the credit bureaus with negative

information about your credit transactions.

Open accounts with no balances also appear on your credit report, even if you don't use them. Because they increase your potential debt-to-income ratio, open but currently unused accounts can prevent you from obtaining new credit. To prevent this situation, get a copy of your credit report. If your report shows that you have cards you no longer use, call the issuing companies to cancel them.

How Student Loans Impact Your Credit

If you've finished college within the last few years, chances are you're paying off your student loans. What happens with your student loans now that they've entered repayment status will have a significant impact--positive or negative--on your credit history and credit score.

It's payback time

When you left school, you enjoyed a grace period of six to nine months before you had to begin repaying your student loans. But they were there all along, sleeping like an 800-pound gorilla in the corner of the room. Once the grace period was over, the gorilla woke up. How is he now affecting your ability to get other credit?

One way to find out is to pull a copy of your credit report. There are three major credit reporting agencies, or credit bureaus--Experian, Equifax, and Trans Union--and you should get a copy of your credit report from each one. Keep in mind, though, that while institutions making student loans are required to report the date of disbursement, balance due, and current status of your loans to a credit bureau, they're not currently required to report the information to all three, although many do.

If you're repaying your student loans on time, then the gorilla is behaving nicely, and is actually helping you establish a good credit history. But if you're seriously delinquent or in default on your loans, the gorilla will turn into King Kong, terrorizing the neighborhood and seriously undermining your efforts to get other credit.

What's your credit score?

Your credit report contains information about any credit you have, including credit cards, car loans, and student loans. The credit bureau (or any prospective creditor) may use this information to generate a credit score, which statistically compares information about you to the credit performance of a base sample of consumers with similar profiles. The higher your credit score, the more likely you are to be a good credit risk, and the better your chances of obtaining credit at a favorable interest rate.

Many different factors are used to determine your credit score. Some of these factors carry more weight than others. Significant weight is given to factors describing:

- Your payment history, including whether you've paid your obligations on time, and how long any delinquencies have lasted
- Your outstanding debt, including the amounts you owe on your accounts, the different types of accounts you have (e.g., credit cards, installment loans), and how close your balances are to the account limits
- Your credit history, including how long you've had credit, how long specific accounts have been open, and how long it has been since you've used each account
- New credit, including how many inquires or applications for credit you've made, and how recently you've made them

Student loans and your credit score

Always make your student loan payments on time. Otherwise, your credit score will be negatively affected. To improve your credit score, it's also important to make sure that any positive repayment history is correctly reported by all three credit bureaus, especially if your credit history is sparse. If you find that your student loans aren't being reported correctly to all three major credit bureaus, ask your lender to do so.

But even when it's there for all to see, a large student loan debt may impact a factor prospective creditors scrutinize closely: your debt-to-income ratio. A large student loan debt may especially hurt your chances of getting new credit if you're in a low-paying job, and a prospective creditor feels your budget is stretched too thin to make room for the payments any new credit will require.

Moreover, if your principal balances haven't changed much (and they don't in the early years of loans with long

repayment terms) or if they're getting larger (because you've taken a forbearance on your student loans and the accruing interest is adding to your outstanding balance), it may look to a prospective lender like you're not making much progress on paying down the debt you already have.

Getting the monkey off your back

Like many people, you may have put off buying a house or a car because you're overburdened with student loan debt. So what can you do to improve your situation? Here are some suggestions to consider:

- Pay off your student loan debt as fast as possible. Doing so will reduce your debt-to-income ratio, even if your income doesn't increase.
- If you're struggling to repay your student loans and are considering asking for a forbearance, ask your lender instead to allow you to make interest-only payments. Your principal balance may not go down, but it won't go up, either.
- Ask your lender about a graduated repayment option. In this arrangement, the term of your student loan remains the same, but your payments are smaller in the beginning years and larger in the later years. Lowering your payments in the early years may improve your debt-to-income ratio, and larger payments later may not adversely affect you if your income increases as well.
- If you're really strapped, explore extended or income-sensitive repayment options. Extended repayment options extend the term you have to repay your loans. Over the longer term, you'll pay a greater amount of interest, but your monthly payments will be smaller, thus improving your debt-to-income ratio. Income-sensitive plans tie your monthly payment to your level of income; the lower your income, the lower your payment. This also may improve your debt-to-income ratio.
- If you have several student loans, consider consolidating them through a student loan consolidation program. This won't reduce your total debt, but a larger loan may offer a longer repayment term or a better interest rate. While you'll pay more total interest over the course of a longer term, you'll also lower your monthly payment, which in turn will lower your debt-to-income ratio.
- If you're in default on your student loans, don't ignore them--they aren't going to go away. Student loans generally cannot be discharged even in bankruptcy. Ask your lender about loan rehabilitation programs; successful completion of such programs can remove default status notations on your credit reports.

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