

Good Credit Matters

Your credit report and credit score reflect important information about you and can have a significant influence on many events in your life. Your credit report may contain information on where you live, your bill payment history, how much you earn and owe, and whether you've been sued, arrested, or filed for bankruptcy. Your credit report and credit score can affect everything from signing up for cell phone service to getting a mortgage to being hired for a job. Consumer reporting companies – credit bureaus – sell the information in your report to creditors, insurers, employers, and other businesses that use it to evaluate your applications for things like credit cards, insurance, employment, or rental housing. It's important to monitor your credit so you know where you stand before you apply. Getting copies of your credit report is the first step to building good credit and correcting inaccuracies or disputes. For more information on understanding your credit, visit www.ftc.gov/credit.

How do I obtain copies of my credit report?

The Fair and Accurate Credit Transactions Act (FACTA) entitles you to one free credit report per year from each of the three major credit bureaus. You are also entitled to an additional free copy of your report within 60 days of having a company take adverse action against you based on information in your report, such as denying your application for credit, insurance, or employment. You're also entitled to one free report a year if you're unemployed and plan to look for a job within 60 days; if you're on welfare; or if your report is inaccurate because of fraud, including identity theft. While most national lending institutions report credit information regularly to all three bureaus, some smaller, local creditors may send information to only one credit bureau, so your credit report from each bureau may differ. You can request your free credit reports at www.annualcreditreport.com. (The website www.freecreditreport.com is not affiliated with the federally-mandated free credit report program.) You can also contact the credit bureaus individually to request your free copies:

Equifax Credit Information Services, Inc P.O. Box 740241 Atlanta, GA 30374 1-800-685-1111 www.equifax.com	Experian P.O. Box 2002, Allen, TX 75013 1-888-397-3742 www.experian.com	TransUnion Corporation P.O. Box 1000, Chester, PA 19022 1-800-888-4213 www.transunion.com
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What is a credit score, and what does my score mean?

Your credit score, also called a FICO® score, is calculated using a proprietary statistical model developed by Fair Isaac (www.fairisaac.com). Potential creditors use this score to assess your creditworthiness, i.e. how much of a risk of not repaying your debts you pose based on your credit history. The higher your credit score, the lower risk you pose. According to the credit bureau Equifax, FICO® scores can range from 300 to 850 with the majority falling in the 600s and 700s. There are no set standards for a “good” score or a “bad” score, but generally a score above 660 is looked at favorably, and a score below 600 would signal a greater potential risk. Equifax reports that less than 20% of the general population has a credit score below 600.

Where on the scale your score falls determines not only whether you'll be approved for credit, but might also affect the interest rate you'll be granted, depending on the type of loan or credit you're applying for. Higher scores will earn lower rates, which is especially important for mortgage loans, car loans, or other debts you'll carry for a long period of time. An important exception is interest rates on most federal student loans and consolidation loans, which are not affected by your credit score. There are several online calculators that will give you examples of interest rates based on different credit scores, such as the one at www.MyFICO.com.

How can I find out my score?

FACTA requires the credit bureaus to provide consumers with a copy of their credit score upon request for a “fair and reasonable fee.” Credit bureaus charge between \$5 and \$7 for just the credit score, but you have to look carefully to find this information on their websites. Your best bet may be to call the credit bureaus so you can request your free credit report and credit score directly. Each bureau may have a different credit score on file for you, though they should all be in the same range. If one is significantly different, there may be inaccurate information in your credit file with that bureau.

How can I improve my score?

If you'd like to raise your score, you'll need to clean up your credit profile. Here are five ways to start improving your score:

1. If your score was lower than you expected, first request a free copy of your credit report from each major credit bureau, and make sure that all the information in the reports is correct. Credit bureaus are required by FACTA to correct any inaccurate information. If you have a dispute, it is best to request a change in writing, and always keep a copy for your records.
2. Make it a priority to pay all your bills on time every month. Missing just one credit card payment a few months before you apply for a mortgage could lower your score and lead to higher interest rates on the loan.
3. Reduce your credit card balances. Aim to carry balances totaling no more than 25% of your available credit.
4. Pay attention to your debt-to-available-credit ratio. If you are planning to apply for a mortgage or other consumer loan, pay off your credit card balances first. Then, close any credit card accounts you don't use. Closing unused accounts before you pay off your existing balances will raise your debt-to-available-credit ratio, which will reduce your score.
5. If you have no credit or have severely damaged credit, don't let your credit file go dormant. Rebuild your credit using a secured credit card – a card that is backed with cash you deposit. Make sure you find a reputable issuer.

How do I correct errors or dispute inaccuracies in my credit report?

Under FACTA, both the credit bureau and the information provider (the person, company, or organization that is supplying the credit bureau with credit history or other information about you) are responsible for correcting inaccurate or incomplete information in your report. To report an inaccuracy in your credit report, follow these steps:

Step One: Contact the credit bureau in writing. State your complete name and address, clearly identify each item in your report you wish to dispute, and list the reasons why you believe the information is incorrect. Request that the information be removed or corrected. Include copies (not originals) of documents that support your claim – these could be billing statements, cancelled checks, or other documents. You may also want to enclose a copy of your credit report with the disputed items circled. Send your letter by certified mail, and specify “return receipt requested,” so you can document when the credit bureau receives your dispute. Keep copies of your dispute letter, enclosures, return receipt, and all correspondence regarding your dispute.

Step Two: Notify the creditor or other information provider in writing that you dispute an item they are reporting. Be sure to include copies (again, not originals) of documents that support your claim. Many creditors specify an address for dispute correspondence.

Credit bureaus and other consumer reporting companies are required to investigate your claim, usually within 30 days. The credit bureau also must notify the creditor reporting the information of your dispute. If the creditor reports the item in question to a credit bureau, the creditor must include a notice of your dispute. The creditor must also investigate your claim. If the creditor finds the disputed information is inaccurate, it must notify the three major credit bureaus, correct the information in your file, and stop reporting it.

Regardless of the findings, the credit bureau must give you the results of the investigation in writing, along with another free copy of your credit report if the dispute results in a change. You can request the credit bureau to send the changes to anyone who received your credit report in the past six months for credit purposes and in the past two years for employment purposes.

If the investigation doesn't resolve your dispute, you can include a statement regarding the dispute in your credit report. You can ask the credit bureau to provide your statement of dispute to anyone who received a copy of your report in the recent past, but you will most likely be charged a fee for this service.