



UNIT 3 – 3

Checking Your Credit History

As we learned in the last lesson, building a strong credit history is an essential step on the pathway to home ownership. Your credit history is your financial resume and is not to be taken lightly. It is your message to the financial world regarding your trustworthiness and responsibility when it comes to managing your money. In her book, The Money Book for the Young Fabulous and Broke, Suze Orman summarizes the importance of your credit history: “nearly every financial decision you make is being watched, with the goal of determining your financial profile.”

The decisions you make today about how you manage your finances and handle money and credit will impact your ability to borrow money in the future. These decisions can also impact your ability to rent or buy a home, get insurance, and even get a job. The more you know about credit and your own credit history, the better prepared you will be to establish a solid financial foundation.

A strong credit history sends a message to lenders and other financial institutions as well as employers that you are responsible and trustworthy. With a strong credit history, you will pay lower interest rates, be more likely to be approved for rental or mortgage applications, and could positively impact your ability to secure employment. On the other hand, a poor credit history, can be a big problem. It can result in higher interest rates, refusal of services, and may lead to your applications being denied. In this lesson, we will explore the importance of not only building your credit history, but ensuring that it is accurate.

Case Study Application

This case study application, like before, examines Andrew's credit crunch and his pursuit of building a strong credit history that will enable him to follow the pathway to financial well being and eventual home ownership.



CASE STUDY: ANDREW'S CREDIT CRUNCH

Andrew is a full-time college student who works part-time at the local pizzeria for a little more than minimum wage. Recently, he began his first steps toward building his credit history so that he can be financially secure in the future. He knows that the investment in his financial well-being as well as his investment in his education will help him build a foundation for his future.

Andrew has slowly begun to build his credit history by paying his bills on time, saving and investing a little from each paycheck, and establishing a record of accounts in his name such as insurance and a cellular phone account.

Andrew is looking forward to graduation and is beginning to explore his future career options as well as consider where he will live after graduation. He knows that in order to secure a mortgage for his first place if he chooses to buy or even to secure a rental agreement that he needs to show his trustworthiness to potential lenders or a landlord. He begins to wonder how he can be sure that his credit history is as positive as he would like it to be.

Understanding Your Credit Report

Once you have obtained credit, it is crucial to protect it. Martha Skoog of the Federal Reserve Bank of Philadelphia summed up the importance of maintaining your creditworthiness, "credit is not a right to be expected; it is a privilege to be protected."

To avoid any unwelcome surprises on your credit history report, you should obtain a copy of your report at least once per year from each of the three credit reporting agencies, Equifax, Experian, and TransUnion. Errors in the reports do happen. It is your job to review the information and notify the reporting agencies if there are any inaccuracies. Each of the three bureaus receives different information about you from different sources. You will have three different reports, each report containing slightly different information. Reviewing your report also helps you to detect identity theft which we will discuss in a future lesson.

To obtain this free credit report, Equifax, Experian, and TransUnion have established a website and toll-free number for requesting a free credit report once every 12 months from each of the three agencies. The website address is <http://www.annualcreditreport.com> and the toll-free number is 1-877-322-8228. Alternatively, you can write to Annual Credit Report Request Service, P.O. Box



105281, Atlanta, GA 30348-5281. The Federal Trade Commission recommends that you be sure to correctly spell the website address or link to it from the FTC's website (www.ftc.gov) to avoid being directed to other websites that charge for the services. According to the law, you are not required to make a purchase to receive your free annual credit report. The addresses for the three national reporting agencies are:

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

Experian
1-888-397-3742

TransUnion
P.O. Box 2000
Chester, PA 19022
1-800-888-4213
www.tuc.com

You will need your name, address, telephone number, previous addresses (from the past five years), your date of birth, and your social security number. It is a good idea to check the information from all three bureaus as each agency may have slightly different content. It is a good idea to order your report from each of the three agencies once per year. Some consumer advocates recommend spacing them throughout the year so that you are getting a report every fourth month. Others suggest comparing all three simultaneously. Either way, it is a good idea to keep a close eye on your credit report.

With each agency collecting data from different sources, it is possible that errors can occur on your report or the information can be recorded inaccurately. If you find a mistake on the report, you should notify the agency in writing immediately. Include copies of documents to support your letter. Identify each item that you are disputing in your report. Include all of the facts, an explanation of the reason for your dispute, and your request that it be removed or corrected. If the company cannot confirm the information in the report, the inaccuracy will be removed from your file and the agency will send a corrected report to anyone who has requested a copy of your report in the past two years. It is very important that errors are corrected quickly.

In the case of inaccurate information, notify the consumer reporting agency in writing. The agency is then required to investigate and modify or remove inaccurate data. This process can take up to 30 days. You may also request that the agency reissue corrected reports to lenders who received your report within the past six months or employers within the past two years. If you are not satisfied with the bureau's correction, you have the legal right to add a statement to your credit report about the disputed information. The purpose of this is to allow you the opportunity to clarify inaccuracies, not to explain reasons for delinquency.

- What advice can you offer Andrew in this lesson's case study regarding his credit report?



Credit Scores

Credit scores, or FICO scores, are used by creditors to determine your creditworthiness. Are you a good risk for a credit card, mortgage, auto loan, or other line of credit? Creditors use a statistical program to compare your financial information with others of a similar profile. They examine information from five broad categories:

- Bill-paying history (Do you pay your bills on time?)—35% of your score
- Mix of credit cards and loans—10% of your score
- Length of credit history—15% of your score
- New accounts and recent applications for credit—10% of your score
- Total balance on your cards and other loans compared to your total credit limit—30% of your score

The scoring system awards points for each factor that will help predict your likelihood of repaying your debts. The total of the points is your credit score. The score is a three digit-number ranging from 300-850. The higher your score is the better your rating. The better your rating, the lower the interest rate you will be charged by the lender. Similar to your credit reports, you will have three different FICO scores from each of the reporting agencies because the information they have collected will vary slightly from one another.

It is best to have a score in the 720-850 range. Most lenders consider a score higher than 660 to be good. There isn't a great deal of difference between "good" credit and "great" credit in terms of the interest rates you will be charged. However, there is a large difference between the interest rates charged for those who have good credit and those with credit scores in the 500-599 range! For example, on a four-year auto loan, a person with a credit score in the 720-850 range might be charged an interest rate of 5.1% whereas a person with a credit score of 625-659 would pay a 10.5% interest rate. That is a considerable difference over the life of the loan.

Negative Information on Your Report

Creditworthiness is determined on the basis of criteria that relate to your ability and willingness to repay debt. You cannot be denied credit on the basis of your sex, marital status, age, race, color, religion, national origin, or reliance on income from a public assistance program. Some of the most common reasons people are denied credit include:

- Delinquent past or present credit obligations
- Foreclosure or repossession
- Limited credit experience
- Too little time in current job or residence
- Too much outstanding debt
- Unreasonable purpose for requesting credit



If you are denied credit, the creditor must provide you with the reason for denial, their action, and your rights. Your credit information remains on your report for seven years—the good and the bad. This period is counted from the time of the last action (the closing of the account, the last payment, placement with a collection agency, bankruptcy, or tax lien). Those who file for personal bankruptcy, have the bankruptcy on their credit report for 10 years.

Late and missed payments show up on your credit report and hurt your chances of being approved for credit, insurance, and even employment. The best way to improve a poor credit report is to gain control of your debt and spending. The first step is to face up to the problem. Recognize that you are overextended and contact your creditors to set up a new payment schedule that you can successfully maintain. Request a lower interest rate or an alternative payment plan. Whatever you do, do ***not*** ignore your bills!

The next step is to immediately stop purchasing with credit. Remove your credit cards from your wallet. Store them in an inconvenient location such as in a bowl of water in the freezer. You'll be forced to think longer about that purchase while you wait for the card to thaw. This can help to curb impulse buying. Another option is to shred or cut up the cards and not use them entirely.

A final step for consideration is to consider consolidating your debts. Some people find it easier to make a single payment rather than several different ones. Remember this does not dissolve your debt; it just compiles it into one payment with one interest rate. With debt consolidation, you might be able to obtain a lower interest rate. You will need to continue to be careful to control your spending to avoid future debt.

- What are other steps that you could take if you find yourself with financial troubles?
- What advice can you offer to our case study example, Andrew to help set him on a path to financial well-being?

