

Journey to Financial Security

Credit Reports and Credit Scores:

Getting the most mileage from credit

REFERENCE GUIDE



Money Management International is the largest nonprofit, full-service credit counseling organization in the nation. We are dedicated to providing strong community education and in-person counseling within the local markets in which we operate. Our success is measured by the number of people who, due to our help, successfully regain control of their financial lives and achieve their goals.

MoneyManagement.org

Blog.MoneyManagement.org

866.515.2227



Improving lives through financial education.

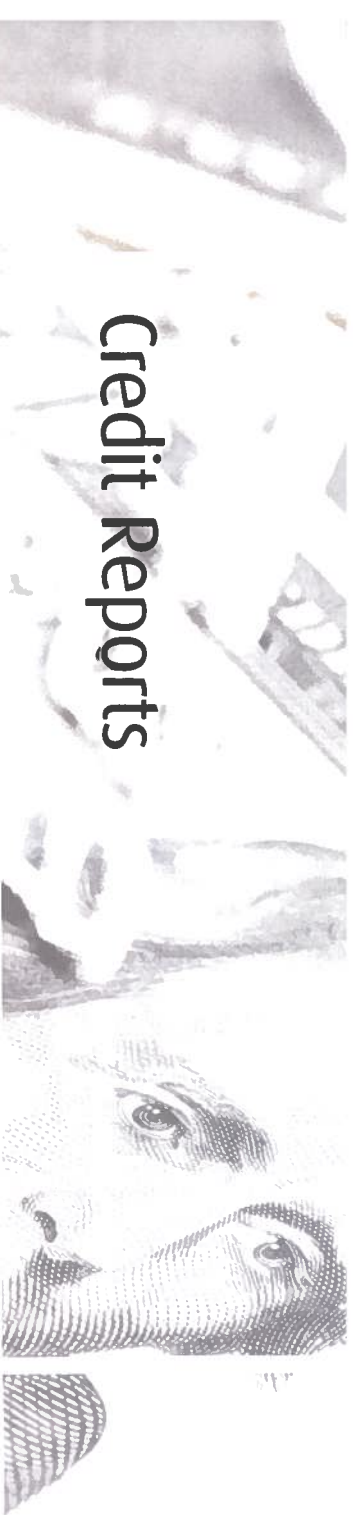
Credit Reports and Credit Scores

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Journey to Financial Security Credit Reports and Credit Scores: Getting the most mileage from credit

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Credit Reports

Prior to the turn of the twentieth century, most people lived in or near small towns across America. Even those who lived in larger towns did not purchase many items from outside their immediate area. In that environment, store owners knew their customers; therefore, when items were purchased on credit, the creditor personally knew the individual to whom the credit was extended. As society changed, mobility increased. After World War II, a population shift began to take place from rural areas to cities. As our society became more mobile, credit became a more acceptable way of purchasing items, and creditors did not know their customers personally. It then became necessary for creditors to gather information about a person before they would extend credit. In addition, those applying for credit found it difficult to establish credit when they moved into a new community. Thus began the evolution of credit reporting agencies.

A system of local credit reporting agencies, also referred to as credit bureaus, was created. Local businesses shared customers' account information and reported when payments were received and when new purchases were made. Credit bureaus collected information and shared account activity with other businesses. The credit bureaus did not make the credit decisions; they only collected, stored, and distributed information about the consumer accounts and payment history.

Credit reporting systems today still have the same purpose, but technology has improved and expanded the available products and services. These changes offer consumers:

- increased access to credit;
- decreased time for credit granting decisions;
- improved mobility of credit; and
- access to consumer products and services.

A credit report is a factual record of how an individual has repaid credit obligations in the past. Credit reporting agencies maintain computerized records to collect and distribute account information to their subscribers. Only companies that meet and adhere to certain guidelines may become subscribers to credit bureau services. These guidelines and regulations help protect consumers from businesses that do not have permissible purposes to obtain access to credit reports.

How Can My Credit Report Be Used?

The Fair Credit Reporting Act protects the information collected by credit reporting agencies that tracks how much debt consumers have and how promptly they pay their bills. Consumers always have the right to review their report at any time but it's especially important prior to any major purchase such as a home or auto. Anyone who reviews your credit report must have a "permissible purpose." This means there is a valid reason to review your report. Reasons for permissible purpose include:

For credit approval: Creditors may use a credit report to help them decide whether or not a person will be granted credit, the terms of the credit agreement, interest rates offered, etc. They will also use other information you have supplied them. When you complete and sign an application, you give your creditors approval to obtain your report.

For employment: Employers may view and use a modified version of an individual's credit report to help assess an applicant's character. Some employers use credit reports when considering promotions. A prospective employer must obtain your permission in writing to access your credit report. Current employers may review your report only if you have given permission as part of your employment. The report that employers receive does not contain account numbers, your year of birth, or your spouse's name, in compliance with federal employment laws. If your credit report shows difficulty with repaying debt, it is best to be forthcoming and explain these issues to your prospective employer.

To underwrite insurance: Many insurance companies now request your permission to obtain a credit report when you apply for insurance. They consider past payment patterns as part of their process in determining insurance premiums. If you have questions regarding this use of your report, please contact the Department of Insurance in your state.

To issue a professional license: Organizations that grant licenses for certain professions, such as real estate agents, nurses, police officers, and some other professions that require an employee to be bonded, may review your credit report with your permission.

In response to a court order or federal jury subpoena: In a very few cases, the courts may request your report directly from a credit reporting agency. This is very rare, and few consumers are ever affected by this action.

By the Internal Revenue Service: The Internal Revenue Service may pull your credit report when you have a tax debt and you are offering to make payment arrangements.

For review or collection: Creditors with whom you have an established relationship may periodically review your report. They may be reviewing it to offer other interest rates or credit products. MMI advises you to accept only those credit offers that you can afford and that fit your budget.



Where Do Credit Reporting Agencies Obtain Information?

Credit reporting agencies build their files and obtain information in a variety of ways.

Consumers: When a consumer completes a credit application (mortgage, personal loan, auto loan, credit card, or any other form of credit transaction), various pieces of identifying information such as name, date of birth, Social Security number, phone number, address (both current and past), and current place of employment are reported to the credit reporting agencies. Much of the identifying information comes from the credit applications you submit. Therefore, it is important when filling out a credit application to print clearly and fill out all requested information completely and consistently.

Creditors: Creditors who subscribe to a reporting agency will report all account activity. A creditor may belong to one or more agencies. Reported information includes:

- date account was opened and type of account;
- credit limit or amount borrowed;
- account numbers (or partial numbers for security purposes);
- name(s) of people authorized to use the account;
- name(s) of people obligated to repay the account;
- payments received and dates received; and
- account payment status.

Public records: Credit reporting agencies gather information such as property liens, monetary judgments, filed bankruptcies, wage attachments or garnishments, and, in some states, child support and spousal maintenance. This information is gathered from local, state, and federal courts.

Note: A bankruptcy filing may remain on your credit report for up to 10 years, whereas other public record information remains for up to seven years.

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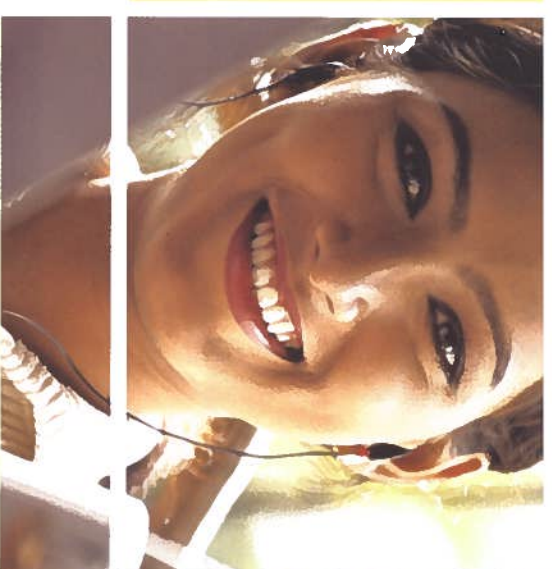
Inquiries: Every time you, a credit grantor, or other person with permissible purpose makes a request to see what is in a file, a record is made of the inquiry. Too many inquiries may be considered a negative on your report. However, multiple inquiries of the same type within a 14-day period count as a single inquiry; for example, when you are trying to obtain financing from different sources for an auto loan. The length of time that inquiries remain on your report varies. There are two types of inquiries, external and internal.

External inquiries occur when you initiate credit applications or other transactions and credit grantors access your files. Applying for a credit card, a loan, insurance, a mortgage, or an apartment rental are all examples of external inquiries. These types of inquiries can be reported for up to two years.

Internal inquiries are shown only to you, not to lenders to whom you have applied for credit. These types of inquiries do not affect your credit score. Examples of internal inquiries include: current lenders monitoring your account, potential lenders determining whether to offer pre-approved lines of credit, employers checking your credit file when making hiring or promotion decisions, or your own personal request for a credit report. Most internal inquiries remain on a credit report for one year, except for personal requests, which may stay on your report for 24 months.

Consumer statements: If you are unable to resolve a reporting dispute with a creditor, you may add a 100-word personal statement to your report regarding the negative item. This statement will remain on your report for seven years, but may be revised or removed at any time.

Collection accounts: When an account is placed with a collection agency by a credit grantor, the collection agency's name and ID number will appear on the credit report. The original grantor's name and the current balance owed will also appear. Collection agencies report payments received and current balance information.



Sample Credit Report



Types of Information in a Credit Report

A Personal Identification Information

Names Your First and Last Name
Your First, Middle and Last Name
Your Previous Name

SSN # 123-45-6789

Current Address Street Address
City, State ZIP

DOB 1/30/62

Previous Addresses Street Address, City, State ZIP
Street Address, City, State ZIP

Latest Reported Employment Your Employer's Name

B Alerts and Validations

ID security alert: fraudulent applications may be submitted in my name or my identity may have been used without my consent to fraudulently obtain goods or services. Do not extend credit without first contacting me personally and verifying all applicant information. This security alert will be maintained for 90 days beginning 12-01-07.

C Consumer Statement

I was injured on my job and could not make my car payments in 2007.

D Creditor Account Information/Credit History

Company Name	Account Number	Whose Account	Date Opened	Months Reviewed	Date of Last Activity	High Credit	Terms	Items as of Date Reported		Date Reported	
								Bal	Past Due	Status	
Electronics Store	33XXXX	J	10/03	36	9/06	\$1,200		\$150	0	R 1	1/08
Bank Name	44 XXX	A	5/04	44	12/07	\$8,000		0	0	I 1	1/08
Auto Finance Co.	56XXXX	I	1/06	24	1/08	\$7,500	\$200	\$2,000	\$400	I 5	1/08

E Public Record Information

Lien Filed 3/06; Fulton CTY; Case Number 42988; Amount \$42,789; Class: State;
Released 9/07; Verified 9/07
Bankruptcy Filed 5/05; Northern District Ct; ID Number 673HC12; Liabilities \$35,787;
Personal; Individual; Discharged; Assets - \$780

F Collection Agency Account Information

Pro Coll (800) xxx-xxxx
Collection reported 9/06; Assigned 9/05 to Pro Coll; Client XYZ Hospital, Amount \$789; Unpaid Balance \$789; Date of last activity 9/05

G Inquiries/Companies That Requested Your Credit File

1/2/2008 AAA Bank
2/5/2007 BIG Department Store

credit records is started from 300 to 800

Credit reporting agencies operate independently; thus, the format of their credit reports may differ. References listed below explain the denoted sections on page eight.

A This section includes your current name, previous names, Social Security number, current and previous addresses, employer, and other identifying information that is gathered by creditors from credit applications you have filled out.

B This section contains information about fraud alerts placed on your credit report.

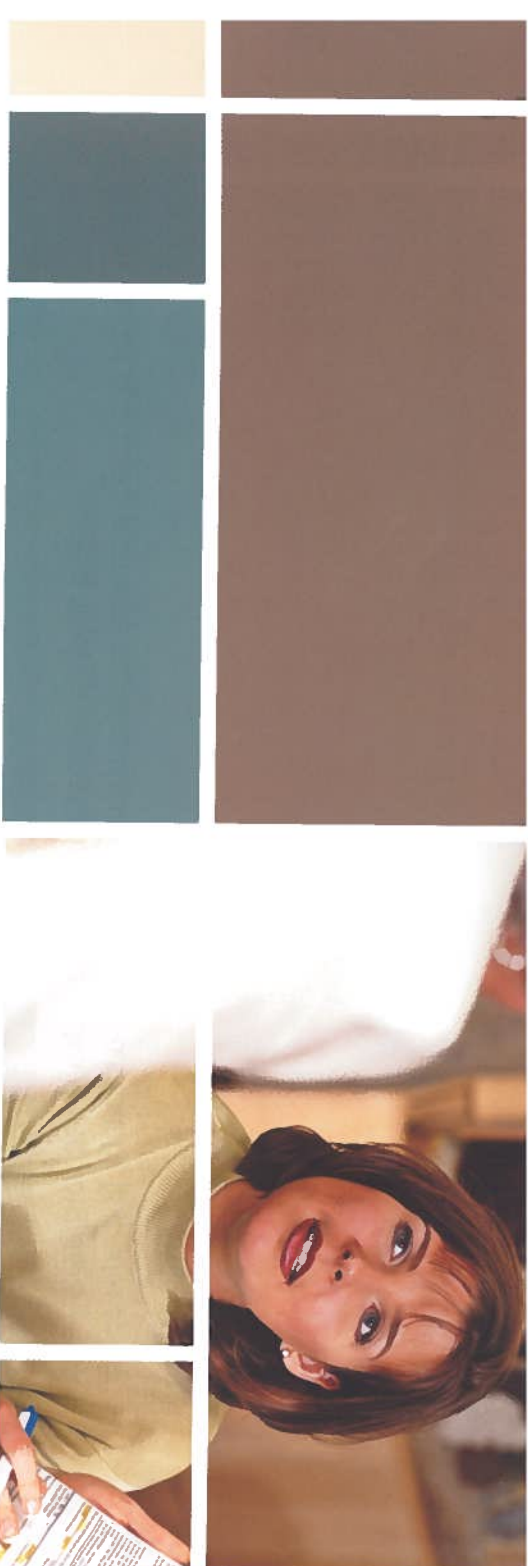
C This section allows you to enter a 100-word statement that will dispute or explain negative information in the credit report. It may be removed at any time. Most creditors base lending decisions on credit scores and may not read this statement in a credit report.

D This is the section that lists your creditors with whom you have accounts, their contact information, the type of account (revolving, installment, mortgage), how much you currently owe on each account, your monthly payments, your credit limit with each creditor, and your repayment history. The repayment history includes whether your payments were on time or late, and if late, how late. Both open and closed accounts are included.

This section contains both open and closed accounts:

- The credit grantor reporting the information.
- The account number reported by the grantor.
- The person responsible for the account and the type of participation they have with the account:
 - A Authorized User
 - B On behalf of another person
 - C Co-Maker/Co-Signer
 - I Individual
 - J Joint
 - M Maker
 - S Shared
 - T Terminated
 - U Undesignated
- The month and year the credit grantor opened the account.
- Number of months payment history has been reported.
- The last payment, change, or occurrence.
- Highest amount charged or the credit limit.
- Number of installments or monthly payments.
- The amount owed as of the date reported.
- The amount past due as of the date reported.
- Status of Account
 - 0 Open (entire balance due each month)
 - R Revolving (payment amount variable)
 - I Installment (fixed number of payments)
- Timeliness of Payment
 - 0 Approved not used; too new to rate
 - 1 Pays as agreed
 - 2 30+ days past due
 - 3 60+ days past due
 - 4 90+ days past due
 - 5 Pays or paid 120+ days past the due date; or collection account
 - 7 Making regular payments under wage earners plan or similar arrangement
 - 8 Repossession
 - 9 Charged off to bad debt
- Date of last account update.
- This section includes public record items obtained from local, state, and federal courts, including liens, bankruptcies, and overdue child support. Most public record information stays on your credit report for seven years.
- This section includes accounts that have been turned over to collection agencies.
- This section includes a list of businesses that have received your credit file in the last 12 months.

How To Obtain A Credit Report



What Information Is Not In A Credit Report?

Your credit report does not contain information regarding race, religion, medical history, political affiliation, checking or savings account information, or any other information unrelated to credit.

Free Credit Reports

The Fair and Accurate Credit Transactions (FACT) Act entitles all consumers to a free credit report every 12 months from all three major credit reporting agencies through a centralized source that processes the requests. Your credit score is not included in your free credit report, although you may purchase your credit score (explained on page 13) at the time you order your report. You can order a free copy of your credit report by:

- calling 877.322.8228;
- going online to AnnualCreditReport.com; or
- mailing a standardized form to:
Annual Credit Report Request Service
P.O. Box 05281 | Atlanta, GA 30348-5281.
This form is also available on Crediteducation.org.

You may obtain a free credit report if you have been denied credit within the last 60 days. To receive the free report, call the toll-free number provided in the letter denying credit or send your request along with a copy of the letter denying credit to the credit reporting agency that the creditor used. For further information you may visit the Web site of the Federal Trade Commission at FTC.gov.

Purchasing A Credit Report

Additional copies of your credit report during any 12-month period may be purchased from the three credit reporting agencies. Each agency offers a variety of products and services that you can purchase, including a single report from their bureau or a “tri-merge” report consisting of information from all three major credit reporting agencies. This option allows you to view all three reports in one easy-to-read format. Remember, creditors may or may not belong to all three agencies; therefore, obtaining reports from all three agencies provides the most complete picture of your credit history. Privacy and security are very important elements when requesting your credit report. Depending on the method you choose to request your report, you will be asked for certain information to authenticate your identity and protect your information.



You have the right to obtain a copy of your credit report at any time. Money Management International (MMI) suggests that you review your credit reports at least once a year to ensure completeness and accuracy.

Be prepared to provide the following information when obtaining a credit report:

- full name (including Jr., Sr., and III);
- date of birth;
- Social Security number;
- current and previous address(es) for the last five years;
- daytime phone number;
- photocopy of letter from the creditor denying you credit (if applicable);
- a signature (if applying via the mail); and
- photocopy of your driver’s license or other picture ID, current billing statement, or other document showing your name and address (if you apply via the mail).

Three major credit bureaus and their contact information:

Experian	Equifax	TransUnion
P.O. Box 2002 Allen, TX 75013 888.397.3742 Experian.com	P.O. Box 740241 Atlanta, GA 30374 800.685.1111 Equifax.com	P.O. Box 1000 Chester, PA 19022 800.888.4213 TransUnion.com

Glossary

Collection account: debt owed by an individual or business that is now being handled by a debt collection agency.

Credit grantor: business to whom an individual owes money.

Credit report: a record of how an individual has repaid credit obligations.

Garnishment: court order to deduct money from an employee’s paycheck.

Inquiry: request by a creditor, consumer, or other person with permissible purpose to review a credit file.

Permissible purpose: a valid reason to review a credit report.



Dispute Process If Errors Found In Credit Report

Besides the right to know what information is contained in your credit report, you also have the right to dispute information that is wrong or outdated and have it removed from your report. When you receive a copy of your credit report, you will also receive a dispute form. You can file a dispute via mail or online, following the instructions provided by the credit reporting agency from which you obtained your report.

With the passing of the FACT Act, you now have the option to dispute credit report information directly with the source of the incorrect information or to dispute it with the credit reporting agency. For example, if there is an error with a particular account, you can submit a dispute form to the creditor instead of to the credit reporting agency from which the credit report was obtained.

- If you choose to dispute information directly with the creditor, you must mail the dispute form to the creditor's specified address.
- You must identify specific information that is in error, including the basis for the dispute.
- All supporting documentation should be included; however, send copies of supporting documentation — **not** originals.
- Keep a copy of all forms sent.
- The creditor has 30 days to complete the investigation. If they find that the information is incorrect, they will notify each credit reporting agency to which they reported the information.
- If, instead, you choose to dispute information with the credit reporting agency, the credit reporting agency must investigate the dispute by contacting the creditor, who has 30 days to respond to the agency.
- In their response, the creditor must certify that the information they reported is correct.
- If the creditor cannot verify the account, or fails to get back to the credit reporting agency within 30 days, the information must be removed from the credit report.
- However, if the creditor finds that the information is correct, the data may be returned to the file.

Once a correction has been made on your credit report, you can request that the credit reporting agency send corrected copies of your credit report to all creditors who have received a report during the last six months or any employer who has received a report during the last two years. Before applying for new credit, clear up any pending dispute in your credit record.

Credit Scores

A credit score is a number that creditors use to assess the likelihood that consumers will repay their debts and make payments on time. The number is generated using a statistical computer model that takes information from your credit report. The credit score is not a part of your credit history; it is a number that is generated at a particular point in time. Making payments, obtaining new credit, or other changes can cause your score to fluctuate.

There are many sources for credit scores, and creditors are even developing their own programs and systems for generating credit scores. One widely used provider of credit scores is Fair Isaac and Company. This score uses proprietary formulas developed to compute personal credit scores. Freddie Mac and Fannie Mae endorse the formula that this score utilizes. Some other companies that produce a score you may be familiar with include: TransUnion's Empirica score, Experian's VantageScore, Equifax's Beacon score, and CreditExpert's CreditExpert score. Each creditor and lender has a different corporate policy on risk levels. Keeping this in mind, it is important to note that there is not a minimum or cutoff score that is universally used by all financial institutions. Lenders and credit experts agree that paying all bills on time, paying as agreed, and never taking on more debt than you can afford can positively impact your score.

Each company that produces a score uses different criteria; for example, FICO scores weight the information in their credit score as follows:

- 35% payment history;
- 30% amount owed to all creditors;
- 15% length of credit history;
- 10% amount of new credit;
- 10% types of credit in use.

Scores typically range from the 300's to the 800's. Lenders equate higher scores with lower credit risk. A credit score is a "snapshot" of your risk at the time you request credit and is generated based on the information in your credit report at that moment. Your score may be different from one credit reporting agency to the next because your credit history may be different at each of those agencies. Even if all lenders used the same score, each lending institution has its own criteria for approving loans. One creditor may extend you credit with a score of 675 while another lender may deny you credit based on the same score. The score may affect the type or amount of credit or the interest rate that a lender offers you.





How Can I Improve My Credit Score?

A good credit score is important in order to obtain credit and qualify for the best possible terms. Even if you have had difficulties in the past with credit, there are some steps you can take to improve your credit score.

- Be sure your credit report is accurate. Your score will only be as good as the information in your report. Look for and correct information such as accounts that do not belong to you, debts you paid that are listed as delinquent or past due, late payments that were actually paid on time, or debts that are more than seven years old and should not be reported any longer.
- Pay your bills consistently and on time. Keep in mind that while past repayment patterns can remain on your credit report for up to seven years, your credit score is more heavily weighted on your recent repayment history. Positive information, such as a history of paying your debts on time, will always be viewed favorably.
- Reduce balances on credit card accounts, and keep them low over time. Be sure the balance on any account does not exceed 50 percent of the credit limit. Transfer balances above 50 percent to another card. Even better, pay credit card accounts in full every month.
- Finally, avoid companies who claim they can improve your credit score for a fee. There is nothing these companies can do for you that you cannot do on your own — for free!

Consumer Action	Consumer-Action.org
Credit card information	CardWeb.com
Credit counseling services	MoneyManagement.org
Credit score information	MyFico.com
Federal Consumer Information Center	Pueblo.GSA.gov
Federal Deposit Insurance Corporation	FDIC.gov
Federal Trade Commission	FTC.gov
Identity fraud information	Consumer.gov/IDtheft
Loan and credit card information	Bankrate.com
National Consumers League	NCLnet.org
Opt out of pre-screened credit card applications	OptOutPrescreen.com
To be taken off telemarketing lists	DoNotCall.gov DMAconsumers.org
U.S. Financial Literacy and Education Commission	MyMoney.gov

Journey to Financial Security



The road to financial security presents numerous turning points, and you will learn that there may be a few detours along the way. Working toward financial security will provide peace of mind and help you handle the inevitable financial bumps in the road. In addition, you will gain confidence in managing your finances. Staying on track takes planning and persistence.

Journey to Financial Security is a series of programs to help you improve your financial management skills. MMI recognizes the importance of sound financial management skills and has developed this series of programs to serve as your road map to financial security.

Setting Goals and Priorities: Choose your financial destination

Goals provide direction as you travel toward your financial destination. Without goals to point you in the right direction, any route is suitable for going nowhere.

Managing Income and Expenses: Getting from here to there

Wise financial management requires a series of daily choices. With a spending plan, your choices are prioritized to help you stay on track and follow the plan. Writing down a spending plan that forecasts income and expenses is the single most important activity that can help you reach your destination.

Building Savings: Ready for the road ahead

Every financial journey has some unexpected bumps along the way. To prepare for these bumps, you need to be ready with savings in an emergency cash reserve account. In addition, savings is needed for specific goals. With a saving state of mind, most people can find ways to reach their goals.

Creating Wealth: Stocking up for the long haul

Few people have the resources to accomplish major goals, such as a down payment for a home, college education, and retirement, without long-term investments. By investing, you will be able to put the power of compounding to work for you and achieve higher rates of return than you can with savings. Risk, diversification, and asset allocation are important concepts to understand for successful investing.

Important Papers Reference Guide: Your travel log

A key part of managing your financial journey is knowing where you have been. This guide provides you with a comprehensive record detailing the value of your assets and where to find important documents when you need them.

Using Credit Wisely: Curves ahead

One of the essential tools that can help you reach your financial goals is your credit management. When credit is used wisely, it can be a part of your plan to reach major long-term goals. Used unwisely, overwhelming debt can affect long-term plans.

Credit Reports and Credit Scores: Getting the most mileage from credit

Your credit report and credit score, when used together, provide an inspection report of your past use of credit. Accurate information in your credit report is the key to obtaining the best credit terms and rates.

Keeping Debt Under Control: Avoid detours

When your debt is out of control, the road to your financial security may take a detour. Know the warning signs of a credit crisis to avoid overwhelming debt. If you have already been derailed by debt, there are several options available to repay creditors and bypass the debt detour.