

Understanding Credit

Credit: the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

Credit History Affects How You:

- Secure funding for a consumer loan or mortgage
- Rent an apartment
- Buy or lease a car
- Open bank accounts
- Purchase insurance
- Get a job

Building a Credit History Without a Credit Card

- Use a combination of installment loans and revolving accounts
- Obtain a secured loan
- Pay the accrued interest quarterly on federal student loans while you are in school
- Obtain a small loan with a co-signer and make on-time monthly payments
- Open a checking/saving account to develop a banking relationship

Lenders Want to Know

- How much you can afford to pay?
 - Income
 - Employment
 - Current debt level
- Will you repay the loan?
 - Past amount and types of credit
 - Bill payment history
- What financial resources exist?
 - Assets and liquidity
 - Net worth
 - Other collateral

Credit-worthy Applicant

- Stability – employment, housing
- Consistency – paying bills on time over a period of time
- Credit score or other credit information exceeds a lender's cutoff for approval

Lenders Don't Like

- Late payments
- Unpaid loan balances
- High balances on accounts
- A high proportion of used credit to available credit
- Delinquent, defaulted or collection accounts
- A large number of open accounts

Credit Score

- Credit Score is a statistical figure used to determine a person's creditworthiness and probable ability to repay debt
- Lenders use a number of factors to reach their decision, including your credit history, credit score, current debt, current income, payment history and employment history

Credit Score Components

- | | |
|----------------------------|-----|
| • Payment history | 35% |
| • Amount owed | 30% |
| • Length of credit history | 15% |
| • Types of credit used | 10% |
| • New credit | 10% |

Check Your Credit Report

- Your credit score is based on the information in your credit report
- Personal information: name, DOB, SSN, phone numbers, addresses and employer
- Account information: retail, finance, mortgage, rental, and medical
- All balance information and payment history
- Negative items: tax liens, court judgments, bankruptcies, account delinquency information

Credit Reports Do Not Contain

- Gender, race, religion, marital status, or national origin
- Medical history
- Checking / savings account information
- Transactions paid for with cash or check

Types of Credit History Inquiries

- Hard - an inquiry which you initiate for credit – mortgage, home loan, auto or credit card account
- Soft – inquiries from companies which send unsolicited offers via marketing



Credit Cards

College Students and Credit Cards*

Undergrads that had at least one credit card	84%
Average number of credit cards	4.6
Average (mean) balance	\$3,173
Median balance	\$1,645
Students with balances between \$3,000 and \$7,000	20%
Students that regularly pay their balance each month	17%
Students that carry a balance & incur a finance charge each month	82%
Used a credit card to pay direct education expenses	90%



Many college students use credit cards to live beyond their means.

Credit Cards and Minors

- Anyone under 21 requires either a co-signer or proof of ability to pay
- Credit limit increases must be approved by the co-signer in writing
- There is no solicitation on or near campus (within 1,000 ft)

Options for Students (under 21) Seeking a Credit Card

- Consult with a family member
- Apply for a card with a co-signer
- Get added as an authorized user on a parent's credit card
- Consider a prepaid card
- Open a checking account with a debit card

Smart Credit Card Use

- Understand all terms and conditions
- What are the monthly / annual fees?
- What is the interest rate?
- Use your card only for budgeted expenses or emergencies
- Make payments on time
- Pay off your balance every month for budgeted expenses
- Pay off the balance from emergency uses as quickly as possible

Advantages

- Emergency / Immediate access
- High dollar value transactions
- Internet purchases
- Points rewards
- Minimize carrying large sums of cash

Disadvantages

- Fees
- High interest rates
- Short or no grace period
- Potential to harm credit history
- Compulsive / impulse purchase & emotion spending

Actions Which Adversely Affect your Credit Score

- Make late payments
- Exceed your limit
- Open several accounts in a short period of time
- Default on a loan
- Write bad checks
- File bankruptcy

Free Credit Report / History

- A credit report is an accumulation of information regarding payment history, amount borrowed, credit limits, delinquencies and defaults
- Consumers are entitled to one free credit report annually from each of the three major credit bureaus: Experian, Equifax and Trans Union. Many individuals request one report from a different company every four months – providing them the opportunity to review their history three times a year for free
- To order: National website: www.annualcreditreport.com | Toll free: 1-877-322-8228

*Sallie Mae. How undergraduate students use credit cards. Retrieved from: http://static.mgnetwork.com/rtd/pdfs/20090830_iris.pdf

Credit Q&A

What is a credit report?

Credit reports include information such as the type of debts you have, current balances, payment performance, available credit, and a record of credit inquiries in the past two years. Some negative credit information may remain on your credit report for up to 7 years, bankruptcy can remain for 10 years.

How can I get a copy of my credit report?

You can request a copy of your credit report online, by phone, or by mail from one of the three national credit bureaus: Equifax, TransUnion, or Experian

AnnualCreditReport

www.annualcreditreport.com | Call: 1-877-322-8228

This central site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the three major nationwide consumer credit reporting companies:

Equifax: www.equifax.com | Call: 1-800-685-1111

Experian: www.experian.com | Call: 1-888-397-3742

TransUnion: www.transunion.com | Call: 1-800-916-8800

In addition, anyone who takes action against you in response to a report supplied by a Credit Reporting Agency (CRA) – such as denying your application for credit, insurance, or employment – must give you the name, address, and telephone number of the CRA that provided the report.

How often should I check my credit report?

It is a good idea to request a copy of your credit report annually from each CRA to ensure that no errors exist or to resolve errors that do exist. Contact a different CRA every four months on a revolving basis. This will provide you with a copy of your history three times during a twelve month period, but still only one time per CRA in a twelve month period. The information provided by each CRA will be generally the same, but presented in a different format. If you find any information that appears to be incorrect, you should contact the credit reporting agency. Unfortunately, errors can occur in your credit report.

Do I have a right to know what's in my report?

Yes, if you ask for it. The CRA must tell you everything in your report and in most cases, the sources of the information. The CRA also must give you a list of everyone who has requested your report within the past year – two years for employment related requests.

How do credit report errors occur?

Credit report errors occur manually or electronically through a number of ways, such as:

- Clerical error reading / entering name & address information
- SSN recorded incorrectly or misread
- Loan or credit information applied to wrong account
- Applied for credit under different names

What can I do about inaccurate or incomplete information?

Under the law, both the CRA and the information provider have responsibilities for correcting inaccurate or incomplete information in your report. To protect all your rights under this law, contact both the CRA and the information provider.

First, tell the CRA in writing what information you believe is inaccurate. Be sure to include copies of documents which support your position.

- Your letter should include: your name & address, identify the item on your report which you dispute, a summary of the facts which support your dispute, a request for deletion or correction, a copy of your report with the item(s) circled
- Send your letter by certified mail, return receipt requested
- Start a file and be sure to keep exact copies of all documents (never send originals to the credit bureau)

Credit Reporting Agencies (CRA)s must investigate the items in question – usually within 30 days – unless they consider your dispute frivolous. They also must forward all relevant data you provide about the dispute to the information provider. After the information provider receives notice of a dispute from the CRA, it must investigate, review all relevant information provided by the CRA, and report the results to the CRA. If the information provider finds the disputed information to be inaccurate, it must notify all nationwide Credit Report Agencies (CRAs) so that they can correct this information in your file.

When the investigation is complete, the CRA must give you the written results and a free copy of your report if the dispute results in a change. If an item is changed or removed, the CRA cannot put the disputed information back in your file unless the information provider verifies its accuracy and completeness, and the CRA gives you a written notice that includes the name, address, and phone number of the provider.

Second, provide a written letter to the creditor/information provider explaining that you are disputing information which was provided to the bureau.

- Your letter should include: your name & address, identify the item on your report which you dispute, a summary of facts which support your dispute, a request for deletion or correction, and a copy of your report with the item(s) circled
- Send your letter by certified mail, return receipt requested
- Add these documents to your file
- Be sure to send your letter to the correct address. Many companies specify an address for disputes.
- Request a copy of all correspondence the company sends to the credit bureau.

If the provider then reports the item to any CRA, it must include a notice of your dispute. In addition, if you are correct – that is, if the information is inaccurate – the information provider may not use it again.

Credit Q&A

How long does a correction take?

- A response from the credit bureau to your dispute typically takes 30-45 days.
- The correction process typically takes between 30 and 90 days

What can I do if the Credit Reporting Agency(CRA) or information provider won't correct the information I dispute?

An investigation may not resolve your dispute with the CRA. If that's the case, ask the CRA to include your statement in your file report in future reports. If you request, the CRA also will provide your statement to anyone who received a copy of the old report in the recent past. There usually is a fee for this service. If you tell the information provider that you dispute an item, a notice of your dispute must be included anytime the information provider reports the item to a CRA.

What effect will a correction have on my credit score?

The correction may not have as great an impact as you might wish due to its use within the scoring model. Often the score will improve after errors are resolved, but not always. Credit scores only consider credit related information, not personal/demographic information.

Can my employer get my report?

Only if you say it's okay. A CRA may not supply information about you to your employer, or to a prospective employer, without your consent.

Can creditors, employers, or insurers get a report that contains medical information?

Not without your approval.

What should I know about "investigative consumer report"?

"Investigative consumer reports" are detailed reports that involve interviews with your neighbors or acquaintances about your lifestyle, character, and reputation. They may be used in connection with insurance and employment applications. You'll be notified in writing when a company orders such a report. The notice will explain your right to request certain information about the report from the company you applied to. If your application is rejected, you may get the company information from the CRA. However, the CRA does not have to reveal the sources of the information.

How long can a CRA report negative information?

Seven years. There are certain exceptions:

- Information about criminal convictions may be reported without any time limitation.

- Bankruptcy information may be reported for 10 years.
- Information reported in response to an application for a job with a salary of more than \$75,000 has no time limit.
- Information reported because of an application for more than \$150,000 worth of credit or life insurance has no time limit.
- Information about a lawsuit or an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

Can anyone get a copy of my report?

No. Only people with a legitimate business need, as recognized by the Fair Credit Reporting Act (FCRA). For example, a company is allowed to get your report if you apply for credit, insurance, employment, or to rent an apartment.

How can I stop a CRA from including me on lists for unsolicited credit and insurance offers?

Creditors and insurers use CRA file information as a basis for sending you unsolicited offers. These offers must include a toll-free number for you to call if you want to remove your name and address from lists for two years; completing a form that the CRA provides for this purpose will keep your name off the lists permanently or by calling the "Opt Out" line at **1-888-567-8688** or on-line at **www.optoutprescreen.com**.

Do I have the right to sue for damages?

You may sue a CRA, a user, or – in some cases – a provider of CRA data, in state or federal court for most violations of the FCRA. If you win, the defendant will have to pay damages and reimburse you for attorney fees to the extent ordered by the court.

Are there other consumer credit laws I should know about?

Yes, if your credit application was denied, the Equal Credit Opportunity Act requires creditors to specify why – if you ask. For example, the creditor must tell you whether you were denied because you have "no credit file" with a CRA or because the CRA says you have "delinquent obligations". The ECOA also requires creditors to consider additional information you might supply about your credit history. You may want to find out why the creditor denied your application before you contact the CRA.

Where should I report violations of law?

Although the Federal Trade Commission (FTC) can't act as your lawyer in private disputes, information about your experiences and concerns is vital to the enforcement of the Fair Credit Reporting Act. Send your questions or complaints to: Consumer Response Center – FCRA, Federal Trade Commission, Washington, DC 20580