

# Understanding Your Credit Score

## The Five Things That Count



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## Scores are part of the lending decision

A score is a number that tells a lender how likely an individual is to repay a loan, or make credit payments on time. When a lender requests a credit report, the score is calculated by a "scorecard" or scoring model — a mathematical equation that evaluates many types of information from your credit report at that agency.

## Types of information FICO scores consider

No one piece of information or factor will determine your score.

Your score considers both positive and negative information in your credit reported. Late payments will lower your score, but having a good record of making payments on time will raise your score.

Your score does not consider your ethnic group, religion, gender, marital status and nationality. These are, in fact, prohibited from use in scoring by US law.

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## Payment History

### APPROXIMATELY 35% OF YOUR SCORE IS BASED ON THIS CATEGORY

The first thing any lender would want to know is whether you have paid past credit accounts on time. This is also one of the most important factors in a credit score.

### Your score takes into account:

Payment information on many types of accounts, credit cards (such as Visa, MasterCard, American Express and Discover), retail accounts, installment loans such as car loans), finance company accounts and mortgage loans.

Public record and collection items — reports of events such as bankruptcies, judgments, suits, liens, wage attachments and collection items. These are considered quite serious, although older items will count less than more recent ones.

How many accounts show no late payments? A good track record on most of your credit accounts will increase your credit score.

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## Amounts Owed

## How much is too much?

## APPROXIMATELY 30% OF YOUR SCORE IS BASED ON THIS CATEGORY

Having credit accounts and owing money on them does not mean you are a high-risk borrower with a low score. However, owing a great deal of money on many accounts can indicate that a person is overextended, and is more likely to make some payments late or not at all. Part of the science of scoring is determining how much is too much for a given credit profile.

### **Your score takes into account:**

The amount owed on all accounts, and on different types of accounts.

Whether you are showing a balance on certain types of accounts. In some cases, having a very small balance without missing a payment shows that you have managed credit responsibly, and may be slightly better than no balance at all.

How many accounts have balances? A large number can indicate higher risk of over-extension.

How much of the total credit line is being used on credit cards and other "revolving credit" accounts

How much of installment loan accounts are still owed, compared with the original loan amounts. For example, if you borrowed \$10,000 to buy a car and you have paid back \$2,000, you owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you are able and willing to manage and repay debt.

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## **Length of Credit History How established is yours?**

### APPROXIMATELY 15% OF YOUR SCORE IS BASED ON THIS CATEGORY

In general, a longer credit history will increase your score. However, even people with short credit histories may get high scores, depending on how the rest of the credit report looks.

### **Your score takes into account:**

How long your credit accounts have been established, in general. The score considers both the age of your oldest account and an average age of all your accounts.

How long specific credit accounts have been established.

How long it has been since you used certain accounts.

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## **New Credit Are you taking on more debt?**

### APPROXIMATELY 10% OF YOUR SCORE IS BASED ON THIS CATEGORY

People tend to have more credit today and to shop for credit — via the Internet and other channels — more frequently than ever. Fair, Isaac scores reflect this fact. However, research shows that opening several credit accounts in a short period of time does represent greater risk — especially for people who do not have a long-established credit history.

The Fair, Isaac scores distinguish between searching for many new credit accounts and rate shopping, which is generally not associated with higher risk. In part, this is handled by treating a grouping of inquiries — which probably represents a search for the best rate on a single loan — as though it was a single inquiry.

### **Your score takes into account:**

How many new accounts you have. The score looks at how many new accounts there are by type of account (for example, how many newly opened credit cards you have). It also may look at how many of your accounts are new accounts.

How long it has been since you opened a new account.

How many recent requests for credit you have made, as indicated by inquiries to the credit reporting agencies.

Length of time since credit report inquiries were made by lenders.

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## **Types of Credit in Use Is it a "healthy" mix?**

**APPROXIMATELY 10% OF YOUR SCORE IS BASED ON THIS CATEGORY**

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open credit accounts you don't intend to use. The credit mix usually won't be a key factor in determining your score

### **Your score takes into account:**

What kinds of credit accounts you have, and how many of each. The score also looks at the total number of accounts you have. For different credit profiles, how many is too many will vary.

## **Using Score Reason Codes to Understand Your Score**

When a lender receives your Fair, Isaac credit bureau risk score, up to four "score reason codes" are also delivered. These explain the top reasons why your score was not higher. .

These reason codes are more helpful than the score itself in helping you determine whether your credit report might contain errors, and how you might improve your score over time.

## **A Note About Fair, Isaac Scores**

Fair, Isaac credit bureau risk scores are available to lenders through the major credit reporting agencies (Experian, Equifax and Trans Union). The score from each credit reporting agency considers only the data in your credit report at that agency. This is why you may have a different score from each of the credit reporting agencies.

# **Managing Personal Credit**

## **What is in my credit report?**

There are four primary categories of information contained in each type of credit report:

### **Identifying information**

- Your name
- Current and previous addresses
- Social Security number
- Telephone number
- Date of birth
- Current and previous employers

### **Credit history**

Your history of paying bills with credit grantors, such as:

- Retail stores
- Banks
- Finance companies
- Mortgage companies

### **Public records**

Items that may affect your creditworthiness, such as:

- Tax liens
- Court judgments (including child support judgments)
- Bankruptcies

### **Inquiries**

Lists identifying the credit grantors and other authorized parties who have received your credit report. Inquiries also contain lists of the companies that receive your name and address information for the purpose of offering you credit.

**Your credit report does not contain:**

- Checking or savings account information
- Medical histories
- Major purchases paid in full with cash or check
- Business accounts, unless you are personally liable for the debt
- Credit scores
- Your race, gender, religion, or national origin

### **How long do accounts remain on my credit report?**

In most cases, accounts that contain **adverse information may remain on your credit report for up to seven years from the date of first delinquency** on the account.

### **How long do public records remain on my credit report?**

- **Civil judgments remain on your credit report for seven years from the date filed.**
- **Tax liens remain on file for seven years from the date paid.**
- **If the tax lien is not paid, it will remain on the file indefinitely.**
- ***All bankruptcies remain on file for ten years.***

### **If I pay accounts, will they come off my credit report?**

Like other credit history, paid accounts generally remain on file for seven years from the date closed if they contain any adverse information. If an account is paid and does not contain any adverse information, the account would remain on your file for seven to ten years from the date closed.

### **Where do you get personal information that is on my credit report?**

The personal information appearing on your credit report may either be reported to us by a credit grantor, obtained from public records, or updated in response to correspondence we have had with the individual consumer.

### **The Truth**

No one can legally remove accurate and timely negative information from a credit report. The law allows you to ask for an investigation of information in your file that you dispute as inaccurate or incomplete. There is no charge for this. Everything a credit repair clinic can do for you legally, you can do for yourself at little or no cost. According to the Fair Credit Reporting Act (FCRA):

You're entitled to a free report if a company takes adverse action against you, like denying your application for credit, insurance, or employment, and you ask for your report within 60 days of receiving notice of the action. The notice will give you the name, address, and phone number of the consumer reporting company. 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.

## **Improving Your Credit Report**

Dispute any inaccurate or incomplete reported information.

**Dispute in writing, what information you think is inaccurate.** Include copies (NOT originals). Include your complete name and address, Explain why you dispute the information, and request that the information be deleted or corrected. You may want to enclose a copy of your report with the items in question circled. Send your letter by certified mail, return receipt requested, so you can document what the consumer reporting company received. Keep copies of your dispute letter and enclosures.

Consumer reporting companies must investigate the items in question — usually within 30 days — unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the consumer reporting company, it must investigate, review the relevant information, and report the results back to the consumer reporting company. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide consumer reporting companies so they can correct the information in your file.

When the investigation is complete, the consumer reporting company must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report under the FACT Act.) If an item is changed or deleted, the consumer reporting company cannot put the disputed information back in your file unless the information provider verifies that the information is, indeed, accurate and complete. The consumer reporting company also must send you written notice that includes the name, address, and phone number of the information provider.

If an investigation doesn't resolve your dispute with the consumer reporting company, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the consumer reporting company to provide your statement to anyone who received a copy of your report in the recent past. You can expect to pay a fee for this service.

## **Things you can Dispute:**

- **Bankruptcies**
- **Collection Accounts**
- **Credit Accounts**
- **Judgments**
- **Liens**
- **Garnishments**
- **Names**
- **Current Address**
- **Social Security Number**

## **Disputes online example**

Equifax Email Request - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address <https://www.ai.equifax.com/CreditInvestigation/jsp/email.jsp>

Links Zip Code Lookup IN-IN-FORUM Microsoft Outlook Web Access CBCWeb Login Page CBCInnovis Yellow Pages (Qwestdex) EXPENSE REPORTS

\*required fields are indicated in red.

### Online Research Request Form

#### Personal Information

Confirmation Number

\*Social Security Number

\*First Name (on Credit Report)

\*Last Name (on Credit Report)

\*Street Address

\*City

\*State

\*Zip Code

In case we need to contact you for clarification, please provide us with a phone number where you can be reached.

Daytime Phone Number

Evening Phone Number

#### Investigate Item #1

Collection Agency, Courthouse, or Credit Company Name

Case # or Account #

<input type="checkbox"/> Not Mine	<input type="checkbox"/> Released
<input type="checkbox"/> Satisfied	<input type="checkbox"/> Current/Previous Payment Status Incorrect
<input type="checkbox"/> Paid in Full	<input type="checkbox"/> Dismissed/Discharged
<input type="checkbox"/> Account Closed	<input type="checkbox"/> Included in Bankruptcy
<input type="checkbox"/> Fraudulent Account	<input type="checkbox"/> Fraudulent Charges

Security Number) you can not use this form.

You must use the Research Request Form provided with your printed Credit Report.

**Dispute Options**

**-Not Mine-**

You must use the Research Request Form provided with your printed Credit Report.

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**-Paid in Full-**

I have paid the outstanding balance of this account.

I no longer owe on this account.

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**-Current/Previous Payment Status Incorrect-**

The current status and/or any of the previous mentory is being reported incorrectly.

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**-Account Closed-**

This account has been closed, and i am no longer able to use this account.

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**-Released-**

I have paid the entire balance owed on this lien.

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**-Satisfied-**

I have paid the entire balance owed on this judgment.

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**-Included in Bankruptcy-**

Start | Inbox - Mic... | Fraud Alert | Many Face... | Equifax E... | Contact list... | Reminder - ...

(Sample)

## Dispute Response Letter

Our investigation of the dispute you submitted is now complete. The results are listed below and a new copy of your credit report is enclosed.

If our investigation has not resolved your dispute, you may add a 100-word statement to your report. If you provide a consumer statement that contains medical information related to service providers or medical procedures, then you expressly consent to TransUnion including this information in every credit report we issue about you.

If there has been a change to your credit history resulting from our investigation, or if you add a consumer statement, you may request that TransUnion send an updated report to those who received your report within the last two years for employment purposes, or within that last one year for any other purpose.

If interested, you may also request a description of how the investigation was conducted along with the name, address and telephone number of anyone we contacted for information.

Thank you for helping ensure the accuracy of your credit information.

# Sample Dispute Letter

Date  
Your Name  
Your Address  
Your City, State, Zip Code

Complaint Department  
Name of Company  
Address  
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are encircled on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents) supporting my position. Please investigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,  
Your name

Enclosures: (List what you are enclosing)

## How often should I check my credit report?

It is good to check your credit report once every 90 days. This allows enough time for new information to enter your report and old information to leave your report.

## How do I build a good credit history?

If you do not have a good credit history, it may be difficult for you to obtain credit. One way to begin a good credit history is to start small using the following tips:

- Apply for credit with a local retailer such as a department store.
- Make a large down payment on a purchase and negotiate credit payments for the balance.
- Apply for a small loan at a bank or credit union where you have checking and savings accounts.

If you are rejected for credit, find out why. You may be denied credit for various reasons, including not meeting the creditor's minimum income requirement or not being at your address or job for the required amount of time. You can overcome these obstacles with time.

If you are still unable to get credit, you may wish to ask a friend or relative with an established credit history to act as a co-signer for you. A co-signer promises to repay the debt if you do not. An account established with a co-signer will usually be reported on

both of your credit reports.

### **Consumer Credit Counseling Services**

If you have a negative credit history and need help dealing with your debts, you may want to contact a Consumer Credit Counseling Service (CCCS). This designation is used by members of the [National Foundation for Consumer Credit](#) (NFCC), a not-for-profit organization with 1,450 offices in all fifty U.S. states, Puerto Rico, and Canada. An NFCC member is identified by the "member NFCC" seal. At little or no cost to you, CCCS counselors will work with your creditors to establish a repayment plan that will satisfy both you and your creditors. CCCS can also help you set up a realistic budget and plan for the future. To find the nearest CCCS office by mail or phone, contact:

National Foundation for Consumer Credit, Inc.  
8611 Second Avenue  
Suite 100  
Silver Spring, MD 20910  
800-388-2227

### **"Repair" clinics**

Many states have laws regulating companies that claim they can "repair" your negative credit information. No one can have accurate information removed. You may want to check with your state attorney general or local consumer protection agency before contracting or paying for credit-repair services.

Once you have obtained credit, pay your bills consistently and on time. By doing so, you establish a positive credit history that helps you obtain future credit for larger purchases, such as a house or car.

### **How do I request a "fraud alert" be placed on my file?**

You have the right to ask that nationwide consumer credit reporting companies place "fraud alerts" in your file to let potential creditors and others know that you may be a victim of identity theft. A fraud alert can make it more difficult for someone to get credit in your name because it tells creditors to follow certain procedures to protect you. It also may delay your ability to obtain credit. You may place a fraud alert in your file by calling just one of the three nationwide consumer credit reporting companies. As soon as that agency processes your fraud alert, it will notify the other two, which then also must place fraud alerts in your file.

Equifax: 1-877-576-5734; [www.equifax.com](http://www.equifax.com)

Experian: 1-888-397-3742; [www.experian.com/fraud](http://www.experian.com/fraud)

TransUnion: 1-800-680-7289; [www.transunion.com](http://www.transunion.com)

An **initial fraud alert** stays in your file for at least 90 days. An **extended alert** stays in your file for seven years. To place either of these alerts, a consumer credit reporting company will require you to provide appropriate proof of your identity, which may include your Social Security number. If you ask for an extended alert, you will have to provide an *identity theft report*. An *identity theft report* includes a copy of a report you have filed with a federal, state, or local law enforcement agency. For more detailed information about the *identity theft report*, visit [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft).

## Resources

### FREE ANNUAL CREDIT REPORTS (one per year from each Credit Bureau)

- ❑ By phone 1-877-322-8228
- ❑ [www.annualcreditreport.com](http://www.annualcreditreport.com)

#### Credit Bureaus

Equifax – [www.equifax.com](http://www.equifax.com)

To order your report, call 800-685-1111  
P.O. Box 740241  
Atlanta, GA 30374-0241

Experian – [www.experian.com](http://www.experian.com)

To order your report, call 888-397-3742  
P.O. Box 9532  
Allen, TX 75013

Trans Union – [www.transunion.com](http://www.transunion.com)

To order you report, call 800-916-8800  
P.O. Box 1000  
Chester, PA 19022

Place a Fraud Alert on your credit report and review your credit report (temporary 90 days, extended 7 years)

You only have to report a fraud alert to one bureau and that bureau will notify the other 2 bureaus.

Equifax 1-877-576-5734  
P.O. Box 740241  
Atlanta, GA 30374-0241

Experian 1-888-397-3742  
P.O. Box 9532  
Allen, TX 75013

Trans Union 1-800-680-7289  
Fraud Victim Assistance Division  
P.O. Box 6790  
Fullerton, CA 92834-6790

To report stolen mail:

- Local Postal Inspector
- Or check the Postal Service web site

[www.usps.gov/websites/depart/inspec](http://www.usps.gov/websites/depart/inspec)

To Opt out of receiving pre-approved credit card offers call:

1-888-567-8688

Includes all 4 repositories

- Trans Union
- Equifax
- Experian
- Innovis

Resources:

Federal Trade Commission (FTC) – [www.ftc.gov](http://www.ftc.gov)

ID Theft – [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)

