

Have you ever wondered how a credit bureau gets the information in your credit report?

Consumer Credit Your Credit Report

n our "buy now, pay later" society, banks, credit unions, department stores, car dealers, finance companies, and others offer to extend credit to consumers.

Lenders want assurance they will be repaid. They work toward that assurance by using **credit records**—histories of consumers' credit accounts and bill-paying habits. **A credit reporting agency (CRA)**—commonly called a credit bureau—compiles, stores, and sells these records to creditors.

The Fair Credit Reporting Act (FCRA) and the 2003 amendment known as the Fair and Accurate Credit Transactions Act (FACT Act or FACTA) give you the rights to:

- learn what your credit record contains
- correct inaccurate or incomplete information
- obtain a free credit report every 12 months from each of the three nationwide consumer credit reporting agencies: Experian, TransUnion, and Equifax

This fact sheet will help you understand how to access and analyze your credit record and how to work to correct any missing or inaccurate information.

What do credit bureaus do?

A credit bureau functions as a consumer clearinghouse responsible for:

- providing credit grantors with information on the status of a consumer's credit account and bill-paying habits
- providing consumers with information from their file that is provided to creditors
- keeping a list of those who requested copies of a consumer's credit report

Although some people mistakenly think so, a credit bureau does not "rate" your credit history or grant credit. Credit grantors such as banks, credit unions, merchants, and others extend credit according to their own standards. They provide information to the credit reporting agency on the status of your account (i.e. how current or overdue your payment patterns are).

In addition to assisting consumers, credit bureaus sell the information they gather to prospective creditors, landlords, insurers, employers, or other businesses with a "permissible purpose" as defined in the Fair Credit Reporting Act.

Note: Employers are no longer permitted to review prospective or current employees' credit files without employees' written permission.

How do credit bureaus get information?

Have you ever wondered how a credit bureau gets the information in your credit report? To begin with, **you** furnish some when you apply for credit: your name, spouse's name, Social Security number, address, former address, employer, and former employer.

Also, **credit bureau members**—the merchants and other creditors with whom you do business—supply information on how much you owe, if payments are up-to-date, or if a collection agency secured the payments from you. Other information in a credit file comes from **public records**—divorces, tax liens, bankruptcies, and court judgments.

Accessing your credit report

Whether you are just curious about your credit report or were denied credit, you can arrange to see your report. The best time is before a problem arises.

Under the FACTA, consumers are able to access their credit report via mail, telephone, or through the government-authorized website, annualcreditreport.com. Credit bureaus are usually listed in the Yellow Pages® under "Credit" or "Credit Reporting Agencies" or in the business pages of your phone book. The three major CRAs are listed below along with their contact information.

It is important to note that your information may vary for each CRA, depending on where you live and have lived and which system(s) your creditors use. You are able to access your credit report from each of these agencies once every 12 months at no charge.

A consumer's file from each of these three companies will likely be different, again because different creditors report to each. Use annualcreditreport.com first; however, you may want to contact each CRA directly at some point. It is recommended that you check your credit report once every four months, alternating CRAs, as there is no cost to you and it will not hurt your score! You can contact these companies toll-free or view their website:

Equifax

800-685-1111 www.equifax.com

Experian

800-397-3742 www.experian.com

Trans Union

877-322-8228

www.transunion.com

Annual Credit Report.com 877-322-8228 www.annualcreditreport.com When you request your credit report, you will need to provide your full name (including birth name), spouse's name, Social Security number, date of birth, and complete addresses for the past five years. You will also be asked security questions.

It is important to note that with these free credit reports, you will not receive an actual score, often referred to as a credit score or a FICO (Fair Isaacs & Company) score. Through annualcreditreport.com, you can access your score for a small fee. Reports are provided at no cost to anyone who has been turned down for credit, insurance, or employment in the past 60 days because of information in the report.

Most of the time you will not need to know your actual credit score unless you are interested in securing a loan in the near future. If you will be looking for a new loan shortly, it certainly makes sense to know your score so you can get an estimate of what type of rate you will receive from your lending agency.

You can also learn the names of businesses and other sources that were provided with information from your file. The credit bureau must release the names of:

- those who requested your credit report within the past year
- prospective employers who received it within the past two years

Analyzing your credit report

When you examine your credit file, you'll notice various information sections. The first section contains demographic information that includes your name, address, Social Security number, and employment information.

The second section gives you specifics on your credit accounts, such as adverse accounts, or accounts with late payments, and satisfactory accounts. The next section contains inquiries, such as lenders whom you authorized to pull your credit report.

Depending upon the individual, there may be additional sections in the report if an account was turned over to a collection agency or if it contains public record information such as divorce, judgments, or bankruptcy. On the basis of this and other information—such as your residence, duration at that address, value of home (if owned), employment stability/years on the job, income, and bank or credit union account balances—creditors assess how you stand as a credit risk.

A great deal of information is provided in a credit report. Each of the three major firms uses a slightly different format. When you get a copy of your file, the credit bureau will give you a guide to reading the credit report form. If there is anything on your report that you don't understand, the credit bureau is required by law to explain it to you.

Components that impact a credit score

Payment history (35%) and length of credit history (15%) combine for 50% of your score. It takes time to establish a good score. Failure to make at least a minimum payment on a credit card or maxing out credit cards will negatively impact your score. New credit, which accounts for 10% of a score, will not be negatively impacted if shopping for a mortgage loan where you get two or three rate quotes. However, filling out numerous applications will hurt your score.

Payment history 35%

- late payments, bankruptcy

Amounts owed 30%

- proportion of credit line used
- number of accounts with balances, total amount owed on accounts

Length of credit history 15%

 how long you have been established with credit

New credit 10%

 how many applications/requests for credit you have submitted

Types of credit used 10%

use of revolving and installment loans

What if my report is inaccurate?

If the report contains incomplete or inaccurate information:

- You have the right to request that the credit bureau promptly re-investigate and correct, add, or delete the information. When doing so, have any documentation that supports your claim available as well as the credit report with the error.
- At your request and at no charge to you, the credit bureau must correct errors, then notify and update creditors who received the inaccurate report. After the error has been corrected, it would be wise to check with the other CRAs to confirm that the error does not show up on their reports.

If you are a victim of identity theft or fraud, contact the creditor directly and report the problem.

You may follow up to verify the corrections and ensure that important creditors understand the errors.

If a dispute between you and a merchant is not settled to your satisfaction:

You can file your side of the story—up to 100 words—as a permanent part of your record. Whenever the credit bureau releases the disputed information, your statement goes with it.

What if I'm turned down for credit?

If you apply for credit and are turned down, you have a right to know why. You have 60 days to request an explanation from the creditor. The creditor must name the sources that provided information. Even though your credit record shows prompt payment, you might be turned down for other reasons such as not enough time at your present address or job. Each creditor sets its own standards to determine whether to extend credit to you.

If you are denied credit because of information provided by a credit bureau, the creditor must give you the bureau's name and address. If you contact them within 60 days, the credit bureau must let you see the contents of your file without charge.

If you do have an unfavorable item in your credit file, it won't follow you forever.

Missed payments, paid tax liens, and most public records will be on your account no more than seven years.

Chapters 7, 11, and 12 Bankruptcies are removed after 10 years while unpaid tax liens remain for 15 years.

However, no time limits apply if the credit report will be used to secure the following:

- credit or life insurance over \$150,000
- a job paying at least \$75,000 per year when the employer requests a credit report with the application

Who can get information from my file?

Only credit grantors who are credit bureau members can receive your credit report. The credit bureau may furnish your report only to consider you for credit, insurance, or employment, or to review or consider collection of an account—unless disclosure is requested by a government agency.

Government agencies may obtain a report to extend credit, collect or review an account, employ or insure a consumer, conduct a security clearance, provide a benefit, or issue a license.

Avoid a bad credit report

Once you establish credit, you can avoid getting too deeply in debt by observing these practical suggestions:

- Avoid overloading yourself with debt such as installment payments and credit card bills.
- Maintain a "rainy day" fund so you can meet your credit obligations and take care of emergencies.
- Repay all debts as agreed. If you can't pay on time, immediately contact the creditor, explain the circumstances, and work out a repayment schedule (see next page).

 Guard against extreme measures such as repossession, litigation, or collection.

What if I can't pay on time?

Along with the privilege of credit goes your promise to pay. But what if you become ill or lose your job? If you find you cannot make payments, contact your creditors at once.

Try to work out a modified payment plan with them to reduce your payments to a more manageable level.

In some communities, non-profit consumer credit counseling services offer inexpensive, confidential assistance for people who are having trouble managing or paying their bills.

For the location of the nearest office, call the National Foundation for Consumer Credit: 800-388-2227.

Knowing your rights can save you money

If you're having difficulty getting credit, services that promise to "fix" or clean up your credit report may seem like a wise investment. But beware!

Credit repair companies have grown in number. Such companies appeal to consumers with promises to "clean up your credit record" or "establish or re-establish your credit."

Actually, these companies can do nothing for you that you cannot do for yourself. Their primary technique is to advise consumers of their right to dispute the accuracy of the credit bureau's file.

Credit repair companies may charge \$50 to \$1,000 for this service. Before paying a credit repair company to "fix" your record, make some phone calls. Given your rights under the Fair Credit Reporting Act and Fair and Accurate Credit Transactions Act, anyone can have her or his credit report investigated and ask for the information to be corrected **without** the assistance of a credit repair company. Just follow the suggestions in this fact sheet.

Who helps consumers?

The Federal Trade Commission (FTC) enforces the Fair Credit Reporting Act and the Fair and Accurate Credit Transactions Act as well as the Truth in Lending, Fair Debt Collection Practices, Fair Credit Billing, Equal Credit Opportunity Acts, and many more.

More information is available on the FTC website: www.ftc.gov. You can also call them directly at 202-326-2222.

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