

Credit And Your Credit Report

What You Need to Know

What is credit?

Credit is money you borrow and repay at a later time. Often, there is a charge for borrowing the money, especially if not paid back according to the terms of the agreement. If you miss a credit payment, the lender will report that to the credit bureaus, and it can affect your ability to borrow money again in the future.

Why is good credit important?

Lenders, employers and landlords often ask for and review your credit report.

A good credit history shows that you have repaid money when and how you agreed at the time you borrowed it. Lenders are more comfortable lending to you when you have a good track record of repaying loans, which means they will often lend money to you at a lower cost (through lower interest rates and fees).

A poor credit record can affect your ability to borrow money to pay for a car or an education, rent an apartment, buy a house or even get a job.

When you get a loan, your credit record will help determine what interest rate you pay. A poor credit record can result in a much higher interest rate.

What is a credit report?

A credit report is a listing of:

- ☒ All of the times you have borrowed money, the date, the credit limit and a history of how you have paid the money back;
- ☒ A list of late payments that were 30, 60, 90 or 120 plus days late;
- ☒ Any bankruptcies and tax liens;
- ☒ Each time that a creditor or potential lender has made an inquiry about you when the lender was deciding whether to give you credit; and
- ☒ Overdue payments that have been referred to a collection agency.
- ☒ Negative information stays on your credit history for seven years. Bankruptcies can stay on for 10 years. Credit inquiries stay on for two years.

What is a credit score?

A credit report includes a credit score — a number ranging between 300 and 850 that tells lenders and creditors how reliable you are as far as paying debts, based on the information listed in your credit report.

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What is a credit bureau?

There are three nationwide credit bureaus or credit reporting agencies: Equifax, Experian, and TransUnion.

- ☒ Credit bureaus collect credit data sent to them by lenders. They generate reports that compile the data for each person along with a credit score that they sell to lenders.
- ☒ Credit bureaus do not extend or deny credit.
- ☒ Creditors and credit bureaus sometimes make mistakes. It is important to review your credit record once a year to check for and clear up any errors (see below).

Steps to establishing and maintaining good credit

- ☒ Try to live and work in the same place for a while. Lenders like stability—having a checking account, staying in the same job with a regular income and living at the same address for many years.
- ☒ Pay your bills on time. With credit cards, you should always *at least* pay the minimum payment and pay on time. Paying late will hurt your credit history even if you make up the amount later.
- ☒ Keep your debt down.
Many lenders do not want to lend you money if the amount of money you owe is more than 20% of what you earn.
- ☒ Having too much credit will lower your score. Don't be tempted to open a bunch of credit cards just to get store discounts, for example.
- ☒ Do not bounce checks.
- ☒ Check your credit report once a year for errors or problems and write to the credit agencies to fix the errors or to insert a statement of explanation.

Resource

If you need help sorting out your credit problems, contact the National Foundation for Consumer Credit at 800-388-2227, Española Llama 800-682-9832 or www.nfcc.org to set up an appointment for credit counseling. It will be free or require only a very small fee. Stay away from “credit repair” companies.

How to check your credit report

You can get a free report once every 12 months from each of the three consumer credit reporting companies. (This means you can order up to 3 a year if you request one from each agency.) You can request your free report from www.AnnualCreditReport.com. Make sure you are on this site before ordering your report. This is the official site, authorized by the Federal government, for you to get your free reports. You usually can get your report immediately by ordering online.

Steps to improving a poor credit history

The good news is you don't have to wait improve your credit score, but it takes time.

- ☒ Add up how much you owe.
- ☒ Prepare a realistic budget. See how much you can pay off each month.
- ☒ Contact the companies you owe money to and work out a payment schedule.
- ☒ Consider using savings or getting another job, at least for a while.
- ☒ Consider getting a secured credit card to rebuild your credit, but be sure you understand what will happen if you cannot make those payments.
- ☒ Be sure to take the steps listed to maintaining good credit.

Sample Complaint Letter To Credit Bureau

Your Name
Your Address
Your City, State, Zip Code

Complaint Department
Name of Credit Reporting Agency
Address
City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. Please begin an immediate investigation of the following item, which I have circled on the attached copy of the report I received.

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. For example:

My credit report states that my Example Company account number 1234567 was sent to a collection agency. I am attaching a copy of the cancelled check, which shows that I paid my bill on time. I have sent a similar letter to Example Company and asked that they also correct their records. Please remove the incorrect information from my report and send me a new copy of the report at the conclusion of your investigation.

(Use the following sentence if applicable and describe any enclosed documentation, such as payment records, court documents) Enclosed are copies of documents supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible. If you need to speak with me, I can be reached at (include your phone number and/or email address).

Sincerely,

Your name

Enclosures: (List what you are enclosing)

Sample Statement of Explanation

Your Name
Your Address
Your City, State, Zip Code

Complaint Department
Name of Credit Reporting Agency
Address
City, State, Zip Code

Dear Sir or Madam:

In accordance with the Fair Credit Reporting Act, please include the following statement in my credit report. It should be placed right next to the account information.

Disputed account:
Include Merchant name, account number, date reported

Statement of explanation (100 words or less)

Example: On February 28, 2014, I required medical attention from a hospital. Because of how the hospital filed with my insurance company, the amount owed by my insurance company was not paid until after the hospital sent my account to collections. Although the insurance company has since paid the hospital, the hospital has not changed the way in which the late payment was reported.

Please send me a copy of my updated credit report after the above statement has been added. If you need to speak with me, I can be reached at (include your phone number and/or email address).

Sincerely,

Your name