

Credit Reports

<https://www.freecreditreport.com>

Step 1: Get A Copy Of Your Credit Report

Errors in credit reports are often difficult and time-consuming to correct, even when they're not your fault. That's why it's wise to review your credit report every year as well as several months before you begin shopping for a house or a mortgage.

Your credit reports are maintained by three different companies, often called credit "repositories" or "bureaus," which collect and store information supplied by the department stores, credit card companies and others with whom you have accounts. Not all creditors report to all three repositories, though, so each of your credit reports could be different.

Under the Fair Credit Reporting Act, you are entitled to a free credit reports if you have been denied credit within the previous 60 days or are a resident of Colorado, Georgia, Massachusetts, Maryland, New Jersey and Vermont. Simply follow the instructions in your rejection notice. Otherwise, you can obtain your credit reports from each of the three companies for a fee of \$8.50 or less.

The three major agencies to contact for your credit reports are:

- Equifax Credit Information Services
PO Box 740256
Atlanta, GA 30374-0256
800-685-1111
www.equifax.com
- Experian National Consumer Assistance Center
PO Box 949
Allen, TX 75013-0949
800-682-7654
www.experian.com
- Trans Union National Disclosure Center
PO Box 390
Springfield, PA 19064
800-888-4213
www.tuc.com

To obtain your credit report, call, write or e-mail each company. Your request must include the following information:

- Your full and complete name, including such appellations as Jr., Sr. and III.
- Your current address.
- Your previous addresses, if any, for the past two years.
- Your Social Security Number.
- Your date-of-birth.
- Your phone number.

Step 2: Review Your Credit Report

Credit reports are often difficult to decipher, so you might want to ask your real estate agent or loan officer to go over yours with you. Local non-profit organizations also provide this service at no cost, as do credit-counseling agencies.

Typically, your record will show the date you opened an account or took out a loan, your credit limits or loan amounts, current balances and monthly payments. It will also show late payments, missed payments, accounts that have been turned over to collection agencies and repossessions, all taken from information provided by the companies with which you do business.

In addition, the report will contain data from public records, including bankruptcies, foreclosures, tax liens, monetary court judgments and, in some places, even overdue child-support payments. The report will also list the names of those companies that have obtained a copy of your credit report and how often you have applied for credit over the last two years.

What To Look For

For starters, make sure the information in your report is up-to-date. Many companies don't report to the three credit bureaus as frequently as they should. So if you've recently straightened out a beef with a creditor, it may not have been reported yet. Also, some companies only report when you're late and don't bother reporting that you pay on time. You want to make sure your record reflects the good as well as the not-so-good.

Next, scour your report for information that is old and out-of-date and no longer reflects how you use credit. By law, for example, bankruptcies are supposed to be expunged from your records after 10 years. More important, though, the more recent the problem, the more significant it is to the lender. Thus, a 30-day payment that was late three years ago isn't as important as one that was late three months ago. Lenders are more concerned with how you are dealing with credit now as opposed to how you handled it in the past.

Now hunt for mistakes. You may be surprised by how many factual errors you find. For instance, your adult child's credit problems may be reported as yours, especially if he is a "Jr." Or the difficulties of someone who's totally unrelated to you but has a similar name may be in your file as well.

Also look for misdated account closings, particularly when you have had to ask repeatedly to terminate your account. Often, when companies are notified that they have failed to close accounts as previously requested, they close the account on the date of the most recent request instead of the original one. And that can lead to problems because recent account closures are often taken as a sign of financial difficulties.

What Is Your Credit Score?

To speed the process and cut costs, lenders are relying heavily on automation to underwrite their loans. And to help them judge your credit, they use statistical modeling to come up with a credit score, which is nothing more than a computer-generated number based on the data in your credit file.

The score takes into account the same things human underwriters do:

- The number and frequency of late payments
- The number of credit cards you have
- Whether you consistently live at your credit limits
- Whether you have savings
- The frequency with which inquiries are made about your credit

But the computer is much faster because it can make recommendations in a matter of minutes. And because it is blind to your race, religion, gender, national origin, marital status and income, it's more objective, too. Furthermore, applicants who don't score high enough with the computer aren't rejected. Rather, they are referred to a human who may be able to take "compensating factors" into account.

It's also important to note that besides your credit score, automated underwriting looks at several other factors that have a bearing on your loan application. These include:

- Whether you are buying or refinancing
- Whether occupancy is full or part-time
- The amount you have for a down payment
- The type of loan and its duration
- The type of property
- Your employment
- How much money you will have in reserve after you close the loan

Step 3: Correcting Your Credit Report

If you find any factual mistakes or out-of-date information in any of your credit reports, you should contact the particular credit bureau immediately, in writing, using certified mail with a return receipt requested to show when you sent the letter and when it was received. Under the Fair Credit Reporting Act, the credit bureau must investigate your dispute within 30 days. Once the agency receives your inquiry, it will check with the creditor whose information you are questioning. You should receive a written notice telling you the results of the examination within five days of its completion, as well as a copy of your corrected credit report if it has been changed because of your complaint. If you win your case, the creditor is required to notify the other credit agencies so they can correct their records.

How To Fix Errors

Your credit report should include information about how to go about rectifying mistakes. Each agency is different, though, so follow their instructions.

Sometimes a simple phone call will suffice. But more often than not, you'll have to prove your claim by providing documentation. If additional information is necessary, you'll be told what to send. You might need to provide canceled checks, for example, or other payment information. But never send original documents. Send copies, and make copies of all your correspondence with the credit bureau in question. When communicating by phone, make sure you write down the name of the person with whom you speak, the day and time of your conversation, and - if possible - their direct phone number. Good records are invaluable.

If no error is found but you still believe the information in your file is erroneous, you have the right to contact the creditor directly to try to straighten out the problem. If you are successful, make sure the creditor sends a correction to the other agencies. Even if you can't persuade the creditor to see the light, you are allowed to have your side of the story inserted into the credit report. If you never received the merchandise, for example, or if you didn't get a bill, you can explain that in up to a 100-word statement. The disputed item will still show up in your credit record, but at least your version will be there, too.

Finally, if you can prove there is an error in your record, some lenders will agree to turn off the computer and underwrite your application manually.

How To Make Good Credit Great Credit

Believe it or not, you may have good credit and still be considered a poor risk, especially when your application is being evaluated electronically. For example, the number of credit cards in your name is held to be highly predictive. The ideal number is four to six. You will be penalized for more or less; more because you have the potential for too much credit and less because it is an indication you are unable to obtain credit. The number of sizable outstanding balances also predicts danger, as does the size of the balance to your total credit limit.

To improve your score, close out the accounts you don't use, pay down to \$100 or so those you use only occasionally, and pay down the ones you use regularly. Your goal is to bring your outstanding credit-card bills to no more than 50 percent of your potential credit balances. If you can get them down to 35 percent, your score will improve dramatically. By the way, cutting up your credit card doesn't close your account. You should send a written request and ask for a written confirmation.

Another negative is the type of account. A credit card from a finance company is scored lower than a bank, travel or oil company card, or even an auto loan, because it is seen as an indicator of your inability to obtain credit from less-expensive sources. Also, if you are about to apply for a mortgage, avoid opening new accounts; the computer reads short-lived accounts as more risky, too.

What About Bankruptcy And Credit Counseling?

Declaring bankruptcy is certainly one way to wipe your credit slate clean and start over again. But it will stand as a black mark against you and the consequences could be dire. You will have trouble re-establishing credit for some time, and buying a house will be out of the question under most loan programs for at least a year or two, if not longer.

Before considering this step, you first should consult a credit counselor, who might be able to save your credit by working out payment plans with your creditors, perhaps allowing you to pay as little as 50 cents on the dollar. This will be on your credit report, too. But at least future creditors will see that you made an honest attempt at living up to your obligations and didn't walk away from them entirely.

In choosing a credit counselor, consider your local community-based housing agency or other non-profit organization. They obtain their funding from donations, the government or sometimes even creditors themselves, so they are able to provide

this service at little or no cost. Local colleges and universities, military bases, credit unions and banks also sometimes provide this service.

Stay away from private "credit repair" companies that promise to erase your bad credit record or give you a brand new social security number. Bad credit can't be expunged, at least not all at once. It takes time and effort. And obtaining another social security number to hide your poor credit history is illegal.

Step 4: How To Establish Credit

You may not realize it, but if you have recurring bills such as rent and utilities, you already have a credit history. If they are paid in a timely manner, rent, car insurance, medical, cable television and telephone bills are all indications that you are a good risk. Keep copies of the bills and your canceled checks, and ask your landlord, insurer and power company to write letters on your behalf stating how long you've been a customer -- two years or more is best -- and that you pay on time.

If you don't have checking and savings accounts, your next step is to open them and make sure you follow the rules by keeping adequate minimum balances. Then apply for a few credit cards. All you need is a bank card, one from a local department store or a national chain and a third from an oil company for gasoline charges.

Search for the cards with the lowest fees and rates, and use them wisely to establish a record on timely payments. Don't charge more than you can afford, and make more than the minimum payment every month to maintain low balances. If possible, pay each bill in full every month.

Practically every business is willing to grant credit to its customers, often with few requirements. In fact, the overabundance of credit gets people into trouble almost as much as its misuse. Consequently, it is up to you find the best rates and terms so you can live within your means.

Most newspapers and consumer finance magazines as well as many financial web sites list the lowest interest rates currently available on unpaid balances. Don't be tempted by introductory low-rate offers; they invariably mean you'll be paying much higher rates in just a few months. And skip those cards that offer a free gift or a discount on today's purchases. They usually aren't very good deals, either.

If you need a loan, start with your credit union. They usually have the best rates and terms and offer the best service. Next, try your bank or savings institution. They know you and want to keep your business. You can always get a loan from your car dealer or furniture store, but at what price?

How To Protect Your Credit

Obviously, the best way to protect your credit is to pay your bills on time. Put yourself on a strict budget and stick to it. If you have more money going out than coming in, look for ways to trim your expenses, like joining your utilities' budget plans which spread out your payments over an extended period. Remind yourself to pay by marking your calendar when bills are due. Take advantage of a creditor's automatic bill paying programs in which your payments are deducted on a prearranged date every month (but make sure to keep track of the payments in your checkbook). And ask your bank about overdraft protection just in case you don't.

If you find yourself a little short one month, or if you are having trouble paying your bills, don't hide from your creditors--call them. Perhaps they'll be willing to wave a late fee or two and agree not to report your tardiness to the credit bureaus. Or maybe they'll agree to restructure your debt to make it easier for you to handle your payments.

Finally, protect yourself by reviewing your credit history on an annual basis with all three credit-reporting companies. You never know when the ideal home buying opportunity will present itself, but you'll want to be prepared when it does.