

## MODULE 7:

# Understanding credit reports and scores

If you have a 10 minute session...	If you have a 30 minute session...	If you have multiple sessions...
<ul style="list-style-type: none"><li>▪ <i>Tool 1: Getting your credit reports and scores</i></li></ul>	<ul style="list-style-type: none"><li>▪ <i>Tool 2: Credit report review checklist</i></li></ul>	<ul style="list-style-type: none"><li>▪ <i>Tool 3: Improving your credit reports and scores</i></li><li>▪ <i>Tool 4: Keeping records to show you've paid your bills</i></li></ul>

People sometimes confuse the words debt and credit because they are both connected to borrowing money. Debt is different from credit. Credit is a complicated topic. For our purposes, credit is the ability to borrow money. Debt results from using credit. You can have credit without having debt. For example, you may have a credit card on which you don't currently owe money because you paid the balance off and haven't made new purchases with it.

When you use your credit and have loans to pay, your track record in making your payments becomes part of your *credit history*. Companies called credit reporting companies pull this history into *credit reports*. A credit report is a type of a consumer report. It looks at some of your bill paying history, public record information, and a record of how often you have applied for credit. Your credit reports contain information about how you have used credit. For example, it shows how much credit you have, how much of your available credit you are using, whether you have made your payments on time, and whether debt collectors have reported that they are attempting to collect debt that you owe.

There are other types of consumer reporting companies that track and report your history of paying bills for a specific product or service and other transactions with certain types of businesses. The information they collect depends on the company and its specialty industry. We've put together a list of many of these companies at [http://files.consumerfinance.gov/f/201604\\_cfpb\\_list-of-consumer-reporting-companies.pdf](http://files.consumerfinance.gov/f/201604_cfpb_list-of-consumer-reporting-companies.pdf).

Credit scores are calculated using the information in your credit report, and many lenders use them to decide how much money they can lend you and how much interest to charge.

## Why do credit reports and scores matter?

Some people say credit reports and scores don't matter to them because they never plan to get a loan. But the information in your credit report is also used to make a lot of other decisions about you. A good credit history can help you:

- Get and keep a job.
- Get and keep a security clearance for a job, including a military position.
- Get an apartment.
- Get insurance coverage.
- Get lower deposits on utilities and better terms on cell phone purchase plans.
- Get a credit card.
- Get a better credit score – all of the information used to calculate your score comes from credit reports.

If any of these things are important to you, improving your credit report can help you get them.

Having a positive credit history and good credit scores can open doors for you. Not having a positive credit history or good credit scores can create obstacles for you and end up costing you more money in terms of the price you will pay for loans, credit cards, and other services.

That's why it's important to pay bills on time and pay attention to what's in your credit report. Scores are calculated based on the information in the report – so at least once a year, take the

time to make sure the information in your report is accurate. You can get one free copy of your report every 12 months at: <https://www.annualcreditreport.com>.

## What is in a credit report?

Credit reports are created by credit reporting companies, which are types of consumer reporting agencies. They collect information about consumers from many sources, including “furnishers” – people or companies that provide information about consumers’ credit, banking, payment, and other behavior.

Credit reporting companies organize information from furnishers into reports and sell these reports to businesses so they can make decisions about whether or not to lend to you. The nationwide credit reporting companies that maintain and sell credit reports are Equifax, Experian, and TransUnion. Each of these companies is likely to have a file on you if you have a credit history. Your files at all three are likely to be similar, but there may be differences. Sometimes information about you is not provided to all three nationwide consumer reporting companies.

A credit report contains five sections. These sections include:

- **Header/identifying information** – This includes your name and current address, as well as other information that can be used to distinguish or trace your identity, either by itself, like your Social Security number, or when combined with other personal information, including date and place of birth. This information may not be complete – all of the jobs you have held, for example, may not be listed. But what is listed should be accurate. A credit report does not include some personal information such as race or ethnicity.
- **Public record information** – This section includes public record data of a financial nature, including consumer bankruptcies, judgments, and state and federal tax liens. Records of arrests and convictions generally do not appear on your credit file, but other types of consumer reporting agencies, such as employment background screening agencies, often include them. Other public records that usually do not appear in credit reports are marriage records, adoptions, and records of civil suits that have not resulted in judgments.

- **Collection agency account information** – This section will show if you have or have had any accounts with a collection agency and the status of those accounts.
- **Credit account information** – This section may include accounts, also referred to as tradelines, you have now (open accounts) or that you had before (closed accounts) with creditors. This may include:
  - Company name
  - Account number
  - Date opened
  - Last activity
  - Type of account (for example., mortgage, auto loan, credit card) and status
  - Whether you are a co-signor, authorized user, or guarantor
  - Date closed, if the account is no longer open
  - Credit limit
  - Items as of date (any amount currently owed and whether you are current or late with payments) and the balance
  - Whether you have a past due amount and the number of payments that were 30, 60, and 90 days late
  - Whether the account was charged off
  - The date information was reported to the credit bureau

Some accounts may not be listed, especially older accounts or those you have closed, or accounts for which information was not provided to that specific credit reporting company. So there may be inconsistencies across credit files and credit reporting companies in the contents of this section. It is important to make sure that the accounts listed do, or did at one time, belong to you.

- **Inquiries made to your account** – Companies look at your credit report when you apply for credit or when they review your account. There are two types of inquiries – hard and soft. **Hard inquiries** result when you apply for credit and a lender reviews your credit report, which is listed as an “inquiry” on your report. **Soft inquiries** result from marketing offers, reviews of your credit history by one of your existing creditors, and your requests for a copy of your report when you obtain your own report. Only hard

inquiries are listed as an “inquiry” when your report is provided to others – they do not see soft inquiries.

Consumer reporting agencies collect this information and sell it to other businesses, which use it to make decisions about you. How do they use this information to make decisions? Businesses that use this information believe that how you have handled credit in the past is a good predictor of how you will handle it in the future. If you have struggled with managing your credit in the past (especially the recent past), they believe you are likely to struggle again. And other people that make decisions about whether or not to do business with you, such as landlords, employers, insurance companies, and utility companies, may see these struggles as an indication of how dependable you will be in the future (as a tenant, employee, or customer).

## Negative information

In general, negative information can be reported to those who request your credit report for only a specified period of time – seven years for most items. A bankruptcy can stay on your credit report for 10 years. For civil suits and judgments, the information can be reported on your credit report for seven years or until the statute of limitations has expired, whichever is longer. There is no limit to the length of time that positive information can stay on your credit report.

Even though credit reporting companies and other companies called specialty consumer reporting companies cannot include information that is beyond the limits provided in the Fair Credit Reporting Act (FCRA) in most consumer credit reports, they may continue to keep the information in your file. Why? Because there is no time limit in terms of reporting information (positive or negative) when you are:

- Applying for credit of \$150,000 or more
- Applying for life insurance with a face value of \$150,000 or more
- Applying for a job with an annual salary of \$75,000 or more

## Example credit report

Each of the three nationwide credit reporting companies – Equifax, Experian, and TransUnion – has its own presentation format. This is an example of a credit report that highlights the key sections you will find in all three companies’ credit reports. It is an example credit report and

not based on the format of any one credit reporting company. Each company's format varies in layout, look, and level of detail reported.

**Example document:**

This includes your name, current address, as well as other information that can be used to distinguish your identity by itself like your Social Security number, or when combined with other personal information, including date and place of birth.

		<b>File number:</b> 12345678 <b>Date issued:</b> 9/30/2013
<b>Personal information</b>		
<b>Name:</b> Miguel Smith	<b>SSN:</b> XXX-XX-1234	
<b>Other names:</b> Miguel S Smith Miguel Simon Smith	<b>Date of birth:</b> 12-1-1980	
	<b>Telephone number:</b> 555-555-1000	
<b>Addresses reported:</b> 457 First Street, Littletown, MI 09876 13476 Avenue A, Big City, WI 43526		
<b>Employment data reported</b>		
<b>Employer name:</b> Riviera Restaurants	<b>Position:</b> Manager	
<b>Date reported:</b> 3/2013	<b>Hired:</b> 11/2010	
<b>Employer:</b> Freer Chiropractic College	<b>Position:</b> Food services	
<b>Date reported:</b> 6/2008	<b>Hired:</b> 3/2008	

### **Public Records**

This section includes public record data of a financial nature, including consumer bankruptcies, judgments, and state and federal tax liens.

#### **Big City Wisconsin Court Docket# 200900001467**

515 C St, NE, Big City, WI 43528

<b>Date filed:</b> 8/3/2015	<b>Type:</b> Chapter 7 Bankruptcy
<b>Amount:</b> \$11,987	<b>Responsibility:</b> Individual

#### **Big City Municipal Court Docket #200700056712**

4326 Fourth Street, SW, Big City, WI 43530

<b>Date filed:</b> 4/14/2015	<b>Type:</b> Civil Judgment
<b>Amount:</b> \$4,763	<b>Responsibility:</b> Individual
<b>Plaintiff:</b> Bank of Big City	<b>Plaintiff attorney:</b> Lisa Perry

### **Collections**

This section will show if you have any accounts with a collection agency and the status of those accounts.

#### **Reliable collections (Y76381): Account #3629**

<b>Original creditor:</b> ABC Megastore	<b>Amount placed:</b> \$2,500
<b>Opened:</b> 7/2/2013	<b>Account type:</b> Open
<b>Balance:</b> \$1,000	<b>Responsibility:</b> Individual

### Account information

This section includes accounts you have now or that you had before with creditors.

#### **Littletown Bank (B62391), Account #2010004637**

<b>Balance:</b> \$14,285	<b>Pay status:</b> 30 days past due
<b>Date updated:</b> 8/30/2013	<b>Account type:</b> Automobile
<b>High balance:</b> \$16,500	<b>Responsibility:</b> Individual
<b>Past due:</b> \$395	<b>Date opened:</b> 2/5/2013
<b>Terms:</b> \$395/month 48 months	<b>Payment received:</b> \$349
<b>Account type:</b> Automobile	<b>Last payment made:</b> 7/5/2013

	<b>8/5/13</b>	<b>7/5/13</b>	<b>6/5/13</b>	<b>5/5/13</b>	<b>4/5/13</b>	<b>3/5/13</b>
Balance	\$14,285	\$14,680	\$14,988	\$15,294	\$15,598	\$15,901
Scheduled Payment	\$395	\$395	\$395	\$395	\$395	\$395
Amount Paid	\$0	\$395	\$395	\$395	\$395	\$395
Past Due	\$395	\$0	\$0	\$0	\$0	\$0
Rating	30	OK	OK	OK	OK	OK

**Bank of Wisconsin (B42394), Account #543298760192XXXX<sup>51</sup>**

<b>Balance:</b> \$3,603	<b>Pay status:</b> Paid or paying as agreed	<b>Date updated:</b> 8/30/2013
<b>Account type:</b> Revolving; Credit Card	<b>High balance:</b> \$9,869 12/09	<b>Responsibility:</b> Individual
<b>Credit limit:</b> \$10,000	<b>Past due:</b> \$0	<b>Date opened:</b> 6/1/2008

	8/2013	7/2013	6/2013	5/2013	4/2013	3/2013	2/2013	1/2013	12/2012
Balance	\$3,683	\$3,764	\$3,848	\$3,933	\$4,020	\$4,109	\$4,200	\$4,293	\$4,388
Scheduled Payment	\$147	\$151	\$154	\$157	\$161	\$164	\$168	\$172	\$176
Amount Paid	\$147	\$151	\$154	\$157	\$161	\$164	\$168	\$172	\$176
Past Due	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rating	OK								

Continued...

<sup>51</sup> This example is fictional. The credit card payment schedule is based on a credit card with a 22 percent APR. In this example, the individual is paying down a high balance of \$9,869, paying the minimum payment each month calculated at 4 percent of the balance. He is not using the card to make additional purchases. While credit card companies use a variety of methods to determine finance charges, a simple interest calculation was used for the purposes of this example. Amounts were rounded to the nearest dollar. According to the credit card payment calculator on Bankrate.com, making the minimum payment of 4 percent, it will take the consumer 15 years and 3 months to pay off this credit card debt. He will also pay \$8,165 in interest assuming no late fees.

	<b>11/2012</b>	<b>10/2012</b>	<b>9/2012</b>	<b>8/2012</b>	<b>7/2012</b>	<b>6/2012</b>	<b>5/2012</b>	<b>4/2012</b>	<b>3/2012</b>
Balance	\$4,485	\$4,585	\$4,686	\$4,790	\$4,896	\$5,005	\$5,115	\$5,227	\$5,345
Scheduled Payment	\$179	\$183	\$187	\$192	\$196	\$200	\$205	\$209	\$214
Amount Paid	\$179	\$183	\$187	\$192	\$196	\$200	\$205	\$209	\$214
Past Due	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rating	OK	OK	OK	OK	OK	OK	OK	OK	OK

## Inquiries made to your account

This section includes a record of any time a company requests information from a credit-reporting agency about you.

### Inquiries that display to others

The following companies have received your credit report.

<b>Auto Loan Store</b> 90 President Lane, Big City, WI 43529	<b>Requested on:</b> 6/2013
<b>Super Store</b> 100 First Street, Anytown, IA 78691	<b>Requested on:</b> 12/2012

### Promotional inquiries

The following companies received your name, address and other limited information about you so they could make a firm offer of credit or insurance. They did not receive your full credit report. These are not displayed to others and do not affect your credit scores.

<b>Dress for Success Fashion House</b> 31 Fashion Lane, Big City, WI 43530	<b>Requested on:</b> 7/2012
<b>EZ Loan Store</b> 220 4th Avenue, Littletown, MI 09876	<b>Requested on:</b> 4/2013

### Account review inquiries

The companies listed below obtained information from your consumer report for the purpose of an account review of business transaction. These are not displayed to others and do not affect your credit scores.

<b>Bank of Wisconsin</b> 457 State Street, Big City, WI 43532	<b>Requested on:</b> 3/2013
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Terms used on credit reports can be confusing. Here are definitions credit reporting companies sometimes use of some key terms used on credit reports:

Term	Explanation
Authorized user	A person permitted to use a credit card account, but who is not responsible for the account – The payment status of the account (positive or negative) is shown on the credit report of both the authorized user and the account's owner.

Term	Explanation
Payment status	The history of the account including on-time payments as well as delinquencies and other negative items
Delinquent	An account that has not been paid on time and is late – Generally delinquencies are expressed as being 30, 60, 90, or 120 days or more delinquent.
Default	Default means that the consumer is not meeting the requirements agreed to when he took out the loan. An account that has been delinquent (late) for several 30 day billing cycles is generally considered to be in default.
Charge off	When a business decides an account is uncollectible – However, the consumer is still responsible for the debt, and collections will likely continue on this debt. A debt is charged off when it is so delinquent that the lender can no longer consider it as something that it is likely to be able to collect. <u>This doesn't mean that the debt itself is erased</u> – the consumer still legally owes the debt and it can be collected. In many cases the right to collect the debt is taken over by a collection agency.
Closed date	The date an account is closed – An account can be closed by the business or the consumer. If there is still a balance when the account is closed, the consumer is still responsible for paying this.
Chapter 7 bankruptcy	A legal process in which the consumer's assets are used to pay off creditors – Any eligible debts not paid through the assets are discharged. This will be in the public records section of the credit report.
Chapter 13 bankruptcy	A legal process in which a consumer enters into a payment plan to pay off creditors using future income – These are arranged by the courts. Once the payment plan is complete, remaining eligible debts are discharged. This will be in the public records section of the credit report.
Discharge	When the court releases a consumer of responsibility for a debt as part of the bankruptcy process
Dispute	A right consumers have to challenge and require investigation of information they believe is incorrect on their credit reports – Consumers must initiate the dispute process.
End user	The business or individual that receives a credit report
Information provider or furnisher	A business or individual that reports information to a credit reporting company

# Disputing errors on credit reports

If you find something wrong on your credit report, you should dispute it. You may contact either the **credit reporting company (most often TransUnion, Equifax, or Experian)** or the **company that provided the incorrect information (the information furnisher)**. It can be a good idea to contact both.

You will need to explain what you think is wrong and why. If you have evidence (a receipt for payment, copy of a cancelled check, etc.) you can include a copy of this and a copy of the part of your credit report that contains the disputed items. You may want to circle or highlight the disputed items.

If you submit your dispute in writing rather than online, never send original documents – only send copies. You may want to send this information with your letter using certified mail return receipt requested. This will give you notification of when the credit reporting company and information furnisher receive your dispute letter and provide proof of notification. *Tool 2: Credit report review checklist* includes an example of a dispute letter.

Whether you file your dispute directly with the creditor (the information furnisher) or the credit reporting company, they generally have 30 days to investigate your claim. They get another 15 days if the consumer submits additional information, after the original dispute letter. Five business days after completing the investigation, they must send you written notice of the results. Either way, if the dispute results in a business changing the information it furnished about you, the business must notify various credit reporting companies that it shared the information with. And, if you filed your dispute with a credit reporting company, it must fix your file and notify the furnisher of the error.

You can also submit a complaint to the Consumer Financial Protection Bureau. See *Tool 1: Submitting a complaint to the CFPB* in *Module 9: Protecting your money* for more information.

## What are credit scores?

Credit scores are numbers created by mathematical formulas that use key pieces of your credit history to calculate your score at a moment in time – like a photograph. Companies that make credit scores each use their own complicated mathematical formulas to do this. The information used in this formula comes from your credit reports – such as information on the number and

type of loans and other forms of credit you have used and are currently using, whether you're making your payments on time, and whether you're 30 days or more late (delinquent) on any of these accounts.

Credit scores provide a standardized way for businesses that offer credit to understand the risk that you may have difficulty paying back a loan. The current common credit scoring formulas are designed to predict whether someone is likely to fall behind on loan payments for 90 days or more. For these scores, the higher the number, the less risky you are predicted to be.

**There are multiple companies that calculate and sell credit scores.** Credit scores vary because different score companies use the information stored by the three major credit reporting companies in different ways. These companies may create different credit scores for different types of credit. Scores produced by different companies may also vary because they don't always share the same score range. Sometimes the three nationwide credit reporting companies store slightly different information used to calculate the score, which can also contribute to differences.

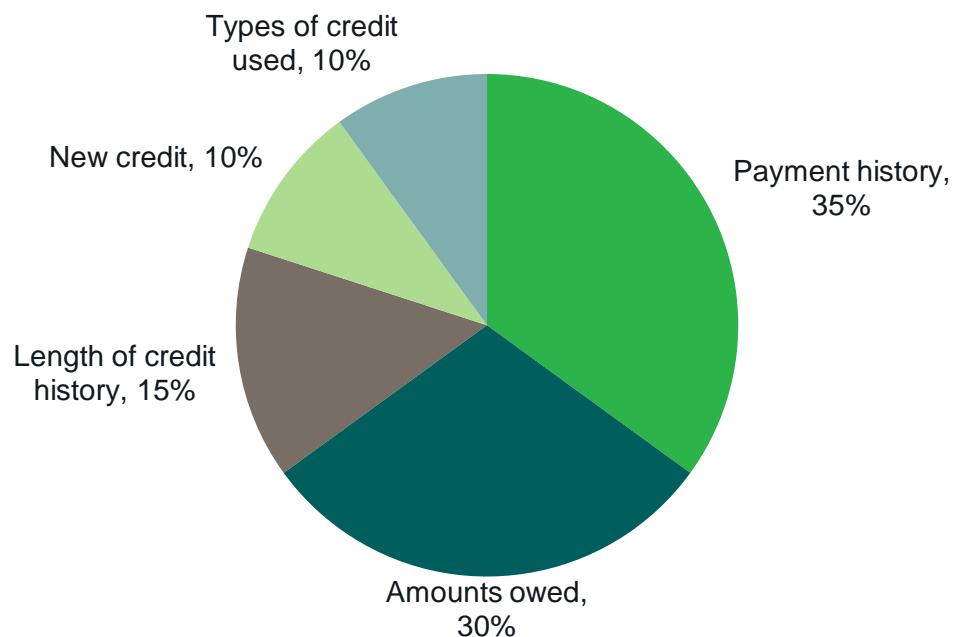
**As a result, you have more than one credit score.** Different banks, credit card companies, and lenders may use different credit scores based upon information from different credit reporting companies. These scores may differ from each other, sometimes significantly. This can make deciding which credit score to purchase, if any, confusing for consumers. Also some credit card companies are providing a score for free.

## How are credit scores calculated?

Credit scores are calculated based on the information in your credit report. Even though different credit scores have different mathematical formulas, they all use the information from your credit report. So, while some pieces of information in your credit reports may be more important or less important, depending on which company is calculating your score, the key is to understand the information in your credit reports. FICO (calculated using formulas made by Fair Isaac Corporation) and VantageScore (calculated using formulas made by VantageScore Solutions) are two of the most commonly used credit scores. Detailed information about the way that FICO and Vantage scores (and other credit scores) are calculated is not public. These scores typically range from 300 to 850. A FICO score above 700 is considered good by most businesses, and the scores considered the best are 750 and higher. While there are certain similarities and

many differences in the credit score formulas, here is information that FICO makes available to the public on what goes into its scores.<sup>52</sup>

FIGURE 1: WHAT GOES INTO FICO SCORES?



**Payment history** tracks whether you are paying your bills on time and as agreed. This is the biggest factor in your FICO scores. Paying bills late, not paying bills at all, and having bills that go to collections will cause your scores to drop. The impact on a score from a single late or missed payment decreases over time. Paying your bills on time can help increase your score. Debts that go to collections and to judgment will cause it to fall.

**Amounts owed** include the amount owed that you are paying down as agreed. It also includes your credit utilization rate. Your credit utilization rate is how much of your available credit you are using. As the amount you owe goes up as a portion of your credit limit, your score will drop.

**Length of credit history** is the next factor that impacts your scores. Your score increases the longer you have a credit history. The more established credit accounts you have, the “thicker” your credit file will be. A thick credit record can provide strong evidence of how you have used

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<sup>52</sup> Pie chart values are from FICO. See <http://www.myfico.com>.

credit and your payment behavior. If you have just one or only a few credit accounts, you will have a “thin file.”

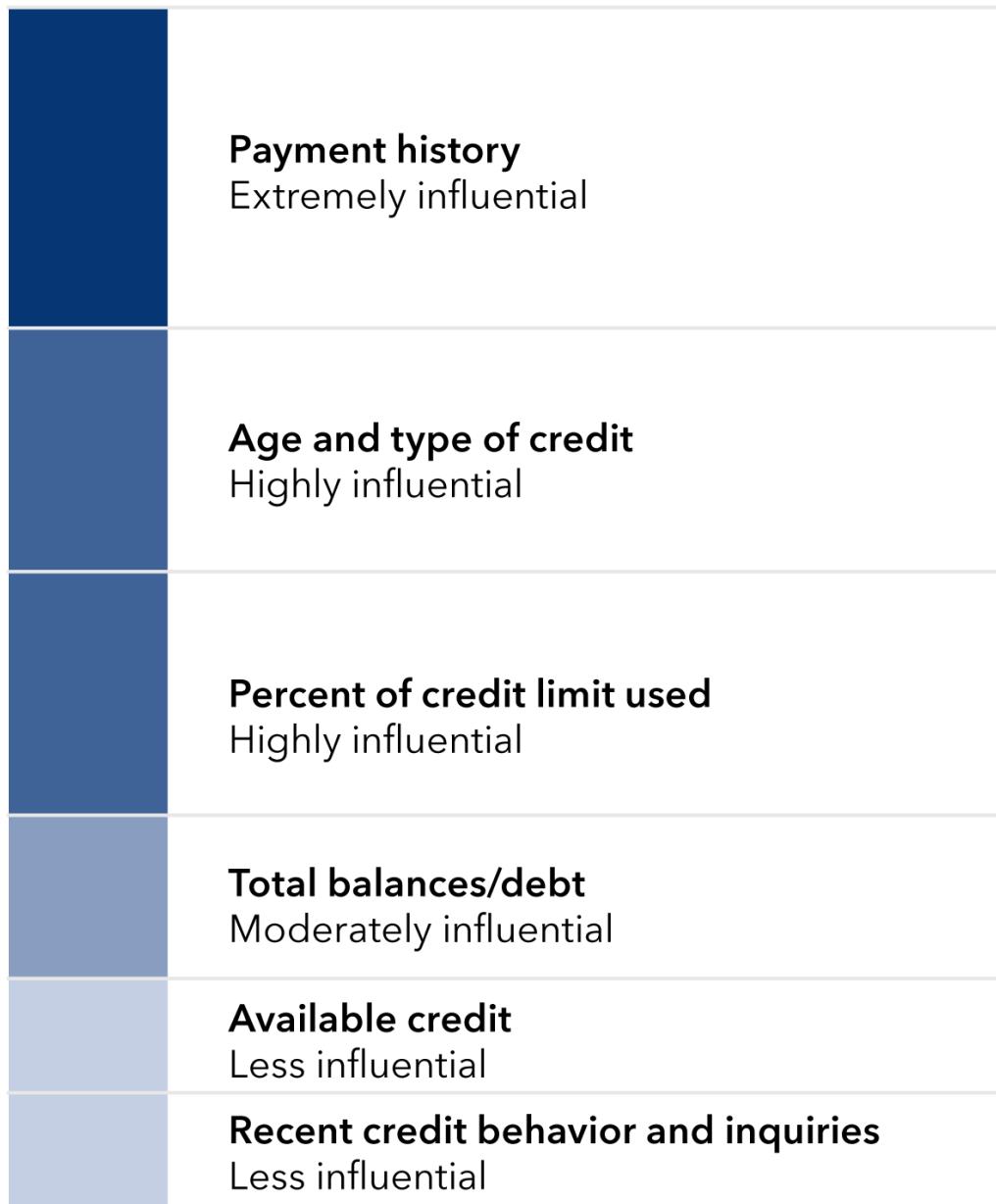
**New credit** is tracked by measuring inquiries about you for credit. If there are too many inquiries about you, the model interprets this to mean you have a high demand for credit. Because this may be an indicator of risk, your scores may drop. When you are shopping for credit, however, you can compare offers for a home, car, or private student loan. FICO and most other models give you a short window of time – generally 14-45 days – when multiple inquiries for the same type of product will be considered as only one inquiry. For most credit scoring models, these types of inquiries do not have a significant impact on your score. And your score is not affected at all when you check your credit report yourself (such as at <https://www.annualcreditreport.com>).

Finally, **types of credit used** are considered. Your FICO scores increase if you have both credit cards (revolving credit) and loans (installment credit such as a mortgage or car loan) in good standing. Generally, it is considered a positive to have a mortgage, an auto loan, and not too many credit cards.

Scores may also be provided by VantageScore, another score provider. Like the FICO scores, the method used to calculate VantageScore credit scores is not public. Similar to FICO, VantageScore explains generally how your credit history, credit usage, and other actions can influence the scores it calculates.

**FIGURE 2:** WHAT GOES INTO VANTAGESCORES<sup>53</sup>

## What influences your VantageScore credit score



<sup>53</sup> “Recent behavior” refers to recent credit behavior and inquiries. “Age of credit” refers to the length of time accounts have been open.

**How much of your available credit are you using? This is your credit utilization rate.**

The amount of credit you're using compared to the amount you've been given is your "credit utilization rate."

If you want to maintain your credit score, many experts advise keeping your use of credit at no more than 30 percent of your total credit limit. That's because credit scoring formulas penalize you for using too much of the credit you have available to you.

This means your credit score may drop because you have used a significant percentage of the revolving credit available to you.

For example, you may have a high percentage of your credit limit charged on a card, and you want to qualify for better rates on new credit. In this case, you may want to reduce your balance amount by paying down your credit card before you apply for new credit.

The easiest way to understand credit utilization is through an example:

If someone only has one credit card with a \$5,000 credit limit, and she has charged \$3,500 on this card, her credit utilization rate is calculated as follows:

\$3,500 (amount charged to credit card) divided by \$5,000 (credit limit) = .7 or 70 percent

If she sets a goal of lowering her revolving utilization of this card to 25 percent or less, her revolving balance should be no more than:

\$5,000 (the credit limit) multiplied by .25 (25 percent) = \$1,250

You don't know when a credit card company will report your balance to credit reporting companies. If at any time during the month your total charges are higher than the credit limit the utilization scoring model is based on, you run the risk of lowering your credit score. This means that the amount you have charged on a credit card can affect your credit score even if you pay that amount down at the end of the month.

# Are you “credit invisible”?

A limited credit history can create real barriers if you are looking to access credit. You might want credit to start a business, or buy a house or car, or you might just want credit that comes with better terms, including at a lower interest rate. That's because a limited credit history can make it very difficult for a lender to use a credit scoring model to calculate a score for you.

The CFPB reported in 2015 on the number of U.S. consumers who have little or no credit record at one of the nationwide credit reporting companies. The report highlighted two groups of people. The first group is consumers without a credit history – “credit invisibles.” The second is the “unscorable,” which means that they have a thin file and *insufficient* credit history (9.9 million people) or they have stale files and lack any *recent* credit history (9.6 million people).<sup>54</sup>

The report found that:

- **About one in 10 U.S. consumers (or 26 million people) can be considered “credit invisible”** because they do not have any credit record.
- **19 million consumers have unscorable credit records.** About 8 percent of the adult population has credit records that are considered unscorable based on a widely-used credit scoring model.
- **Consumers in low-income neighborhoods, as well as Black and Hispanic consumers, are more likely to be “credit invisible” or to have an unscorable record.** Almost 30 percent of consumers who live in low-income neighborhoods can be considered credit invisible, and an additional 15 percent have records that are unscorable.<sup>55</sup> If you are “credit invisible” now and want to change that, you can.

If you don't have a credit history and want to build one, see *Tool 3: Improving your credit reports and scores* for information on steps you can take to build a credit history.

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<sup>54</sup>Analysis was conducted using information from the CFPB's Consumer Credit Panel, which is a random sample of de-identified credit records purchased from one of the nationwide credit reporting companies and is representative of the population with credit records. By comparing information in the credit panel from December 2010 with 2010 Census data, the Bureau was able to estimate the number of consumers who were credit invisible or had unscored credit records. See *Data Point: Credit Invisibles* at [http://files.consumerfinance.gov/f/201505\\_cfpb\\_data-point-credit-invisibles.pdf](http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf).

<sup>55</sup> The exact definition of what constitutes insufficient or stale information differs across credit scoring models, as each model uses its own proprietary definition.

## Tool 1:

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# Getting your credit reports and scores

### Start with your free annual report

You can get one free copy of your report from each of three nationwide credit reporting companies every 12 months.

Some states and territories allow for an additional free report each year: Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, Vermont and Puerto Rico.

#### **You can get an additional free report if you:**

- Are unemployed and plan to look for employment in the next 60 days
- Are receiving public assistance
- Have reason to believe that your credit file is inaccurate due to fraud
- Have had a consumer reporting agency place a fraud alert on your credit file (based on your good faith suspicion that you have been the victim of fraud, including identity theft)
- Have had a consumer reporting agency place a fraud alert on your credit file after submitting an identity theft report
- Have had adverse action taken (you have been denied credit, employment, insurance, etc.) because of information in your credit report – In this case, you have 60 days to request your report.

### How to order your free credit report

To order through the website, visit <https://www.annualcreditreport.com>. You will complete a form with basic information (your name, Social Security number, address, etc.). You will select the report(s) you want – Equifax, Experian, and/or TransUnion.

Then for each report, you will be asked a series of security questions such as: former addresses, amount of a loan you have, phone numbers that have belonged to you, counties you may have lived in, etc. Note that each credit reporting company has a slightly different process to “authenticate” you, or make sure you are who you say you are. If you are unable to answer these questions, request your report using one of the alternative methods listed below. Once the site has confirmed your identity, you can download and save a PDF version of your report, print the report, or both.

Be sure you do this in a safe and secure location. Avoid doing this on public computers, such as those at a library.

### **Alternative methods to get your free annual credit report**

You may find that you will have to use another method.

Order by phone: 877-322-8228. You will go through a verification process over the phone.

Order by mail: Download the request form from <https://www.annualcreditreport.com>. Print and complete the form. Mail the completed form to:

Annual Credit Report Request Service  
P.O. Box 105281  
Atlanta, GA 30348-5281

 Track when you have printed or received your credit reports

Source of credit report	<b>Equifax</b> PO Box 740241 Atlanta, GA 30374 <a href="http://www.equifax.com">http://www.equifax.com</a>	<b>Experian</b> <a href="http://www.experian.com">http://www.experian.com</a>	<b>TransUnion LLC</b> PO Box 1000 Chester, PA 19016 <a href="http://www.transunion.com">http://www.transunion.com</a>
Date printed or received			

**Beware of imposter websites offering free credit reports.** Some companies offer free credit reports, but you may have to buy another product or service to get it. DO NOT use a search engine (Google or Yahoo, for example) to find the annual credit report site. Go directly to <https://www.annualcreditreport.com>.

**If you are under 18, you should not have a credit report unless:**

- You are an authorized user or joint owner on an account
- You are an emancipated minor
- Your state law allows you to enter contracts below the age of 18, and you have done so
- You have student loans
- You have been the victim of identity theft or credit or financial fraud

Currently, only Experian allows minors (once they reach the age of 14) to obtain their own credit reports. Call 888-397-3742 to get your file.

With TransUnion, you can send an email to [childidtheft@transunion.com](mailto:childidtheft@transunion.com) to see if a credit file exists. Or you can visit the TransUnion website and complete the Child Identity Theft Inquiry Form. If the minor has a legitimate credit history (he or she is the joint owner of or an authorized user on an account), then a parent or guardian must order the report.

For the Equifax report, call 877-784-2528. Currently, an adult – the parent or legal guardian – must order the credit report on behalf of the minor.<sup>56</sup>

## Getting your credit scores

Unlike your credit report, which you can get at no cost to you, you usually have to pay if you want to buy a credit score. There are certain instances in which you are entitled to a credit score for free, for example if you are denied a loan on the basis of your credit score. In addition, one of your lenders, such as your credit card company, may provide you a credit score for free on your statement.<sup>57</sup>

There are many credit scores you can purchase in the marketplace. The type of credit score most used by lenders is a FICO score. Another score also used by lenders is the VantageScore, which you can purchase through Experian or TransUnion.

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<sup>56</sup> See [http://files.consumerfinance.gov/f/201405\\_cfpb\\_tipsheet\\_youth-good-credit.pdf](http://files.consumerfinance.gov/f/201405_cfpb_tipsheet_youth-good-credit.pdf).

<sup>57</sup> See <http://www.consumerfinance.gov/blog/millions-of-consumers-will-now-have-access-to-credit-scores-and-reports-through-nonprofit-counselors>.

Any score you purchase will most likely differ from the credit score used by a bank, lender, or other third-party to assess your creditworthiness. You cannot know ahead of time whether the scores you purchase will vary a little or a lot from a score used by a bank, lender, or other third-party. You should not rely on credit scores you purchase exclusively as a guide to how creditors will view your credit quality. **Knowing what is in your credit report and fixing errors is more important to building your credit than buying a credit score. Just buying a credit score may not tell you what you need to know before you apply for a loan.**

### Tracking when you ordered scores

To order your FICO score visit <http://www.myfico.com>.

There may be a cost for each score you order. These companies also offer other credit reporting and monitoring services for a fee.

Equifax score:	Date:
Experian score:	Date:
TransUnion score:	Date:

You have the right to get a free credit score if:

- You apply for a mortgage loan, and the lender uses your credit score. The lender must send you a notice telling you this and include your score.
- Your application for credit is turned down, and the lender used your credit score. You will get a notice (disclosure) from the provider explaining this with your credit score.
- You get less favorable terms from a lender than the terms available to most people who get credit from that lender, and the lender used your credit score as part of determining your loan terms. You will get a notice (disclosure) from the provider explaining this with your credit score.

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## Tool 2:

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# Credit report review checklist

Once you get your credit report, you will want to review it carefully. Ordering it is not enough – you have to read it. Credit reports may have mistakes. And if there are mistakes, you are the one who is most likely to find them. If you find a mistake, you should dispute it.

Use the following worksheet to review each section of your credit report. Do this for each credit report you get throughout the year. Then, keep the completed checklist with your credit report.

Your credit report contains a lot of personal and financial information. Be sure to keep any copies of your credit reports in a safe and secure place. If you do not want to hang on to your credit reports, be sure to shred them before getting rid of them.

### Credit report review checklist

**Today's date:** \_\_\_\_\_ **Name of credit reporting company:** \_\_\_\_\_

<input checked="" type="checkbox"/> Yes	Check to make sure these items are correct
	Is your name correct?
	Is your Social Security number correct?
	Is your current address correct? Is your current phone number correct?
	Are the previous addresses they have listed for you correct?
	Is your marital status listed correctly?
	Is the employment history they have listed for you accurate?
	Is everything listed in the personal information section correct?
	Is there anything listed in the public record information? Is it correct? Highlight the information you think may <b>not</b> be correct.

 Yes	Check to make sure these items are correct
	Review each item under the credit account (trade account) section. Are the accounts on the list still open?
	Are all of the current balances correct?
	Are accounts where you are an authorized user or joint owner listed?
	Are zero balances recorded for debts discharged in bankruptcy? For debts paid in full?
	Are you listed as a co-signer on a loan? Is this correct?
	Are accounts that you closed listed as “closed by the consumer”?
	Is negative information reported on each credit account correct? Look for late payments and missed payments. Highlight those items you think are <b>not</b> correct.
	Are any accounts listed more than once? Check to make sure the same account is not listed multiple times in the collections section.
	Is old negative information still being reported? If yes, highlight the information that has exceeded the negative information reporting limit, which is usually seven years.
	Do you suspect that you have been the victim of identity theft after reviewing your credit reports?

If you find something wrong with your credit report, you should dispute it.

**To correct mistakes, it can help to contact both the credit reporting company and the source of the mistake.** You may file a dispute not only with the credit reporting company, but also directly with the source of the information. Explain what you think is wrong and why, and include the same supporting documentation. Except in very limited circumstances, the furnishers and credit reporting companies must investigate.

You may file your dispute online at each credit reporting company’s website.

If you file a dispute by mail, your dispute letter should include: Your complete name, address, and telephone number; your report confirmation number (if you have one); and the account number for any account you may be disputing.

In your letter, clearly identify each mistake separately, state the facts, explain why you are disputing the information, and request that it be removed or corrected. You may want to enclose a copy of the portion of your report that contains the disputed items and circle or highlight the disputed items. Include copies (not originals) of any documents you have that support your position.

You may choose to send your letter of dispute to credit reporting companies by certified mail, return receipt requested, so that you will have a record that your letter was received.

You can contact the three nationwide credit reporting companies online, by mail, or by phone.

	<b>Experian</b>	<b>Equifax</b>	<b>TransUnion</b>
Contact online	<a href="https://www.ai.equifax.com/CreditInvestigation">https://www.ai.equifax.com/CreditInvestigation</a>	<a href="http://www.experian.com/disputes">http://www.experian.com/disputes</a>	<a href="http://www.transunion.com/credit-freeze/place-credit-freeze">http://www.transunion.com/credit-freeze/place-credit-freeze</a>
Contact by mail	Download and complete the dispute form: <a href="http://www.equifax.com/cp/MailInDisclosureRequest.pdf">http://www.equifax.com/cp/MailInDisclosureRequest.pdf</a> Mail the dispute form with your letter to: Equifax Information Services LLC P.O. Box 740256 Atlanta, GA 30374	Address provided on your credit report or mail your letter to: Experian P.O. Box 4000 Allen, TX 75013	Download and complete the dispute form: <a href="http://www.transunion.com/docs/rev/personal/InvestigationRequest.pdf">http://www.transunion.com/docs/rev/personal/InvestigationRequest.pdf</a> Mail the dispute form with your letter to: TransUnion Consumer Solutions P.O. Box 2000 Chester, PA 19016
Contact by phone	Phone number provided on credit report or 800-864-2978	Phone number provided on credit report or 888-397-3742	800-916-8800

Keep copies of your dispute letter and enclosures.

If you suspect that the error on your report is a result of identity theft, visit <https://www.identitytheft.gov> for information about identity theft and steps to take if you have been victimized. This will include filing a fraud alert and possibly filing a security freeze.

Whether you file your dispute directly with the creditor (information furnisher) or the credit reporting company, each generally has 30 days to investigate your claim. They get another 15 days if you submit additional information after the initial dispute letter. Five business days after completing the investigation, they must send you written notice of the results. If the dispute results in a business changing the information it furnished about you, the business must notify various credit reporting companies that it shared the information with. And, if you filed your dispute with a credit reporting company, it must fix your file and notify the furnisher of the error.

You can also submit a complaint to the Consumer Financial Protection Bureau at <http://www.consumerfinance.gov/complaint> or by calling 855-411-2372.

### Steps to filing a dispute checklist

✓ Yes	Steps to filing a dispute
	Write a letter to the credit reporting company that sent you the report. You can find a guide to writing the letter, along with a template, at <a href="http://www.consumerfinance.gov/askcfpb/2029">http://www.consumerfinance.gov/askcfpb/2029</a> .
	Provide the account number for the item you think is not accurate.
	For each item, explain concisely why you believe it is not accurate.
	If you can, include copies of bills or cleared checks (money order stubs) that show you have paid them on time.
	Provide your address and telephone number at the end of the letter, so the credit bureau can contact you for more information if necessary.
	Make a copy of your letter before you send it to the credit reporting company.
	Send the letter. You may choose to use certified mail with return receipt to have proof of when the letter was received. The credit reporting company or the creditor generally has 30-45 days to investigate your claim.

**Be sure to keep copies of everything you send to the credit reporting companies, including the dates you sent the items.**

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## Tool 3:

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# Improving your credit reports and scores

Your credit report shows information about how you have used credit, such as how much credit you have, how much of your available credit you are using, whether you have made your payments on time, and whether anyone has sent a loan you owe to a debt collector.

A credit score is a number that is used to predict how likely you are to pay back a loan. Your credit score starts with the information about you from your credit report. A mathematical prediction formula is applied to this information. That prediction formula, which is called a scoring model, creates a number, and this number is your credit score. You will have more than one credit score because there are many different credit scoring models.

To get and keep a good credit score:

- Pay all your loans and bills on time.
- Make sure information in your credit report is correct.
- If you currently have access to credit, don't use too much of the credit that is available to you.

If you want to qualify for credit, focus on improving your reports and scores now. Use this worksheet to ensure you are focusing on the areas that matter most.

You may want to talk with a credit or housing counselor to build your plan to improve your credit report and scores. See the Resources list at the end of this module for links to get you started in finding an accredited counselor.



## Strategies for improving credit reports and scores list

I'm doing this	Strategy for improving credit reports and scores	Next steps
	<p>Obtain your free credit reports annually.</p> <p>Online: <a href="https://www.annualcreditreport.com">https://www.annualcreditreport.com</a></p> <p>By phone: Call 877-322-8228</p> <p>By mail: Go to <a href="https://www.annualcreditreport.com">https://www.annualcreditreport.com</a> to print the form.</p>	Use <i>Tool 1: Getting your credit reports and scores</i> .
	Review your credit reports for accuracy.	Use <i>Tool 2: Credit report review checklist</i> .
	Dispute errors found on your reports.	Use <i>Tool 2: Credit report review checklist</i> .
	Understand your credit scores.	Review the content of Module 7 on <i>What are credit scores?</i> .
	Pay bills on time. It is the most effective way to improve your credit reports and credit scores.	Review the tools in <i>Module 4: Paying bills and other expenses</i> .
	Keep the amount of credit available that you use low. (While there is not an “official” published limit, many financial experts recommend keeping the amount of credit used between 25 and 30 percent <sup>58</sup> of the credit available.)	

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<sup>58</sup> For two examples, see <http://www.chicagotribune.com/classified/realestate/sns-201204201830--tms--realestmcnig-a20120428apr28,0,222450.column> and <http://www.experian.com/blogs/news/2012/09/24/rebuild-your-credit>.

 I'm doing this	Strategy for improving credit reports and scores	Next steps
	<p>Keep unused credit card accounts open. This brings down your overall credit utilization rate. However, if your goal is paying down debt and you may be tempted to use the card, keeping the account open may not help you reach your goal.</p> <p>If you close some credit card accounts and put most or all of your credit card balances onto one card, it may hurt your credit score if this means that you are using a high percentage of your total credit limit.</p>	
	Develop a plan to take care of outstanding judgments or liens. You may be able to negotiate with a creditor or collector.	Review <i>Module 6: Dealing with debt</i> .
	Diversify credit sources.	
	Get on a payment plan for medical debt, and make sure your healthcare provider is not reporting the balance as outstanding.	If you have medical debt, you may be eligible for assistance with your bills. Call your provider to find out.
	Pay down old debt or debt in collections. This may improve your credit history – your report – if the debt is currently being reported on any of your credit reports. However, paying off old debts may not impact your credit score.	Before you make a payment on debt that you have not paid for three or more years, you may wish consult with a credit specialist or attorney regarding the statute of limitations on the debt. If the statute of limitations period has passed, making a payment may re-start the clock on creditors' ability to file a lawsuit to collect the debt, depending on the debt and state law.

 I'm doing this	Strategy for improving credit reports and scores	Next steps
	<p>Use credit building products:</p> <p>Secured credit cards – This can be a way to build a positive credit history. But because credit limits tend to be low with these cards, be sure to watch your credit utilization rate and not get too close to using the full limit.</p> <p>Credit builder loans – Visit a bank or credit union to find out about these products. With some credit builder loans, you make monthly payments first, and receive the loan amount when it is paid off. This helps you avoid taking on debt while you build a positive payment record. These loans can be very effective in creating new history and can have a positive impact on your reports and scores.</p> <p>Some non-profit organizations provide access to secured cards or credit builder loans. Be sure to ask about the terms, just like you would ask a bank or credit union for details about its products.</p>	

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## Tool 4:

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# Keeping records to show you've paid your bills

When building or rebuilding credit – or managing finances more generally – it is important to create a paper trail. What does this mean? It means you must keep records. You keep records so you can prove you have:

- Paid a bill on time that a creditor has reported late
- Paid a debt that a creditor has reported unpaid
- Sent a letter to a debt collector who has claimed it was not received
- Insurance coverage
- A warranty for a cell phone
- Paid your rent in cash (receipt)

Record keeping can be difficult. Here are a few steps to getting your record keeping system in place.

- **Get a calendar or use Tool 2: Bill calendar in Module 4: Paying bills and other expenses.** Write onto the calendar when regular payments are due.
- **Hang this calendar in a place you will see it daily or in your money management spot.**
- **Find a money management spot in your home.** It can be a desk, a file cabinet, a drawer, or a crate.
- **Get folders or envelopes.** You can even re-use large envelopes you receive in the mail. Give each category a color. For example, you could identify them like this:
  - Income in green folder

- Saving and Asset Investments in yellow folder
- Expenses in blue folder
- Debt in purple folder
- Credit reports in beige folder

Put insurance policies, deed to home, title to car, birth certificates, warranties for big items like washer and dryer, and other permanent documents in another folder. Consider storing this folder in a portable fireproof box – portable so you can take it if you need to evacuate your home and fireproof so it is protected in case of a fire. Alternatively, you can store these in a safe deposit box at a bank or credit union.

- **Put information in the right folder during the month.**
  - Receipts from grocery store → blue folder
  - Slip from deposit into savings → yellow folder
  - Checking account statement → yellow folder
  - Paycheck stub → green folder
  - Credit card bill → purple folder
  - Dispute letter to credit reporting company and return receipt → manila folder
- **Once a week, sit down to pay bills.** Always check them for accuracy first. Check your account balances. Total up spending so far in each category if you have a budget.
- **Then take all of the records for the month and store them together.** Either:
  - Keep them in the folders, put a big rubber band around them and put a label with the month on it, OR
  - Take the information out of each folder and put it in a big envelope and write the month on it.

By doing this, you keep all of the information for each month together.

**For bills paid online or via mobile device or taxes filed using electronic filing (e-filing), print out confirmation pages and put those into your folders.**

 Keeping records checklist

✓ Yes	Important record
	Tax returns and supporting documentation, including e-filing confirmations
	Paycheck stubs
	Bank records
	Debts – loan agreements, statements of payment
	Insurance documents
	Monthly credit card statements – paper or electronic
	Receipts – for anything that you need to include on your taxes, for any big purchases, for anything you may want to return.
	Technology and appliance instructions and warranties
	Medical bills and anything related to prescriptions
	Wills, power of attorney, or any other important legal document
	Birth certificates, marriage license, death certificates
	Retirement documents
	Documentation of money owed to you

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