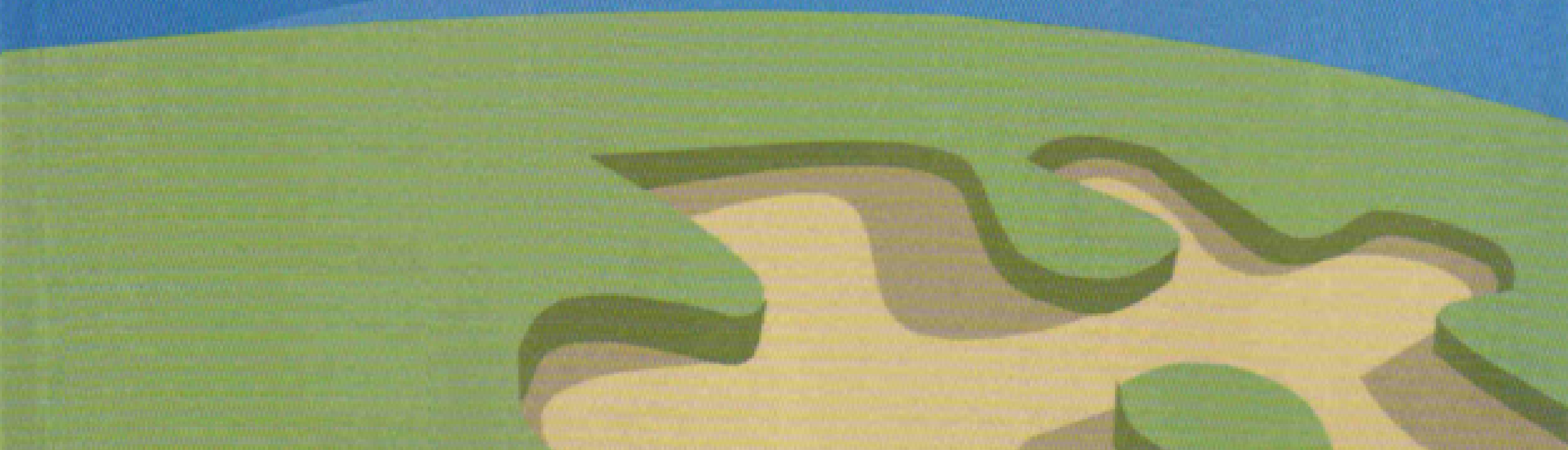
Solving The Credit Puzzle

Everything you need
to understand about your credit…
and then some.



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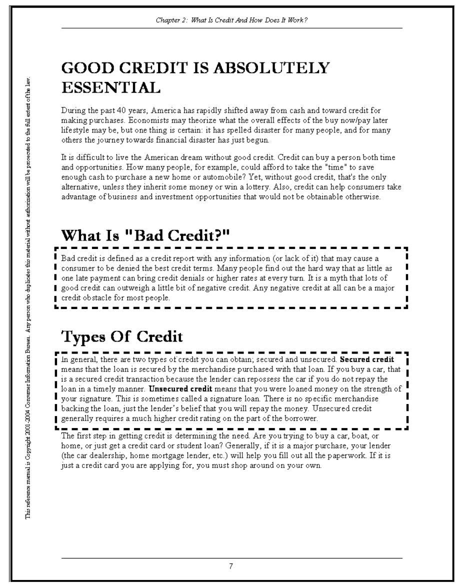
Special Supplement

The 30-Minute Credit Expert

This publication is designed to provide comprehensive information on the credit system, credit reporting, credit improvement, and personal finance. For those readers who may not have the time to read the entire text, or who already possess a more-than-basic credit knowledge, we have designed ***The 30-Minute Credit Expert***, a kind of express lane to credit mastery.

Here's how it works:

Throughout this publication are paragraphs surrounded by a box, as in the illustration. These paragraphs represent the most important or extraordinary pieces of information.


Chapter 2: What Is Credit And How Does It Work?

GOOD CREDIT IS ABSOLUTELY ESSENTIAL

During the past 40 years, America has rapidly shifted away from cash and toward credit for making purchases. Economists may theorize what the overall effects of the buy now/pay later lifestyle may be, but one thing is certain: it has spelled disaster for many people, and for many others the journey towards financial disaster has just begun.

It is difficult to live the American dream without good credit. Credit can buy a person both time and opportunities. How many people, for example, could afford to take the "time" to save enough cash to purchase a new home or automobile? Yet, without good credit, that's the only alternative, unless they inherit some money or win a lottery. Also, credit can help consumers take advantage of business and investment opportunities that would not be obtainable otherwise.

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Bad credit is defined as a credit report with any information (or lack of it) that may cause a consumer to be denied the best credit terms. Many people find out the hard way that as little as one late payment can bring credit denials or higher rates at every turn. It is a myth that lots of good credit can outweigh a little bit of negative credit. Any negative credit at all can be a major credit obstacle for most people.

Types Of Credit

In general, there are two types of credit you can obtain; secured and unsecured. **Secured credit** means that the loan is secured by the merchandise purchased with that loan. If you buy a car, that is a secured credit transaction because the lender can repossess the car if you do not repay the loan in a timely manner. **Unsecured credit** means that you were loaned money on the strength of your signature. This is sometimes called a signature loan. There is no specific merchandise backing the loan, just the lender's belief that you will repay the money. Unsecured credit generally requires a much higher credit rating on the part of the borrower.

The first step in getting credit is determining the need. Are you trying to buy a car, boat, or home, or just get a credit card or student loan? Generally, if it is a major purchase, your lender (the car dealership, home mortgage lender, etc.) will help you fill out all the paperwork. If it is just a credit card you are applying for, you must shop around on your own.

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In order to benefit from this information in a very short time, simply read the boxed-in areas and nothing else. If you want more information about a particular topic, you can, of course, read the entire section. Keep in mind that an entire page may be boxed-in.

Since understanding credit terminology is essential, ***The 30-Minute Credit Expert*** encompasses the Glossary at the end of the publication, so don't forget this valuable section. Learning these terms is an indispensable part of becoming a credit expert.

You can go directly to a section of this publication and read it all, or just read the boxed-in sections—it's up to you. Below are the page numbers for each section and a summary of the information presented there:

CHAPTER 1

Introduction

This publication is intended for those who have been denied credit or anticipate being denied credit for one or more of the following reasons:

1. You have been unfairly portrayed as a poor credit risk.
2. A creditor has inaccurately or misleadingly reported information to a credit bureau about you.
3. A credit bureau has entered information into your credit file that is inaccurate, erroneous, does not belong to you, or is otherwise false.
4. You have negative items in your credit file that are at least partially accurate and you still wish to pursue the goal of improving your credit rating.

It is important that the reader understand that it is not the intention of this publication to denounce the credit system in America. The system is flawed and has caused immeasurable harm to millions of consumers, but it can also be one of the greatest assets in our efforts to obtain the things we want and deserve out of life.

Before the advent of the national credit reporting system, consumers could obtain credit only in communities in which they were known and had lived for years. If they moved to another area where they were not known, credit was difficult to rebuild. Because of this community-restricted credit system, consumer credit was almost nonexistent until relatively recently.

Automated credit reporting has enabled us to obtain credit no matter where we live. For example, if an individual with good credit history moves across the country, he or she can obtain credit instantly in that new city. Of course, the counter is also true; no one can run away from bad credit. No matter where you move, your credit problems will be waiting for you.

When working well, the automated credit reporting system used in America enables lenders to avoid consumers who do not pay their bills on time and to provide others with favorable credit terms. This lowers the cost of credit for those with good credit in the same way that a safe driving record can lead to lower insurance premiums. Credit losses, which are by necessity passed on to consumers who *do* pay their bills, are thereby minimized. The truth is: without consumer credit reporting, few businesses could justify extending credit to their customers.

There are many times, however, when good citizens get mired in the quicksand of transposed numbers, coincidental information, unethical collection agencies, bad luck and a myriad of common, human errors. This publication will empower you with the knowledge and skills to untangle yourself from a flawed and potentially harmful system.

Incredibly, most Americans feel totally helpless when they finally discover or admit they are in financial trouble, or that something is wrong with their credit rating. Most Americans seem to have only the most vague idea about the mechanics and procedures required in obtaining, maintaining and reestablishing a good credit rating.

What This Publication Can Do For You

This publication will serve as a guide to help you improve your credit and as a reference source for making decisions that will strengthen your credit rating. Good credit will allow you to qualify for financing that will save you thousands of dollars and create options for you that just don't exist when you have poor credit.

What this publication cannot do is guarantee that you will achieve *perfect* credit. Some situations simply cannot be cleared up. The strategies in this publication will guide you through the process of rebuilding a strong credit rating.

This publication will show you everything you need to know about credit and the credit-improvement process. It will teach you how to develop a strategy for repairing your credit, whatever the damage may be. It will walk you though the entire credit-rebuilding procedure, and it will teach you how to reestablish a good credit rating, even if there are still negative items on your credit report.

Credit is a tool that expands your purchasing power. It should be used within your budgeting guidelines to enable you to make purchases with the least cost to you. We live in a credit-oriented society. If you have a history of misused credit, or have never established any credit, then one of our system's most important resources isn't available for your use. This publication will give you the tools to remedy this.

To get the most out of this publication, you should read through it once completely, including the Glossary of Credit Terms at the back. After you have read through this publication completely, refer back to the sections that are appropriate to your situation.

This publication contains opinions only. The publishers or distributors of this publication are not engaged in giving professional, legal or accounting services. If professional advice is desired, seek out a professional.

CHAPTER 2

What Is Credit And How Does It Work?

Credit (kred*it), *n*

The favorable reputation derived from the confidence of others; honor, good opinion founded on the belief of a person's veracity, integrity, abilities and virtue.

Credit is based on trust—a lender trusts that a borrower will honor the debt and pay it back according to their agreement. So a creditor is someone who is willing to place his/her faith in you. The word "creditor" is derived from the Latin word "credere," which means to put faith or trust in, to believe.

Although credit is still based on trust, it has been depersonalized by credit cards. A financial agreement between two individuals, concluded by the traditional shaking of hands, is rare indeed. Still, the debtor's responsibilities for repayment and the expectations of the lender are basically the same.

Credit problems in the United States are reaching epidemic proportions. From the financial excesses of the 1980's to the turbulent 1990's, to the fast-and-easy 2000's, many good people have experienced the difficulties of not having enough cash to meet their monthly obligations. Credit card bills, utility bills, car payments, house payments, etc. all need to be paid every month, and in choosing how to make all these payments, it is all too common that some payments fall behind and subsequently damage a good credit rating.

When you add in all the credit problems that are the result of data-entry and reporting errors, computer errors, incomplete information, and outright fraud, the number of people who are affected by bad credit is enormous. In fact, if bad credit were a disease, it would be labeled an epidemic. It is rare to find a person who has never been affected by credit problems. It is estimated that more than 35% of all the people know they have credit problems. There are another 45% who are unaware that they have credit problems. So if 8 out of 10 Americans have some kind of credit difficulties, you're in good company.

Credit is a vital resource to individuals and companies. Without credit, the business of living becomes much more difficult and expensive. It is very easy to believe that bad credit will never have an impact on your life. Even a little bad credit can make it difficult or impossible to get a credit card, a new car, a house, or even certain types of jobs. It can affect your life no matter who you are. Bad credit is not limited to the financially challenged. Many wealthy people, including doctors, lawyers, and corporate executives, have bad credit. They are affected in the same percentages as the rest of the country.

People experience credit problems because of losing a job, getting a divorce, taking on too much credit, becoming ill, and a host of other possibilities. A bill can get lost in the mail or you may have just forgotten to make a payment on a credit card during the holidays. Or perhaps you just procrastinate and occasionally make a late payment. Add to this all the mistakes and instances of fraud that occur and you begin to see that your credit rating is something you need to protect at all costs.

Credit has assumed a greatly expanded role in the lives of most Americans, and buying on credit can be both a blessing and a curse for many individuals. Unfortunately, for many people, living beyond their means is a way of life. These people tend not only to spend next month's earnings before they earn it, but even next year's!

Most people just aren't willing to wait until they have the cash to buy the things they want. When a person buys on credit, the added cost of having what they want (and having it now) is called interest. This is even more apparent when purchasing a home, car, appliances, and other high-ticket items. Initially, the convenience of having what we desire seems to outweigh the inconvenience of the principal debt, plus the interest, at the time of a purchase.

But, when a person finally realizes that they have dangerously extended him/herself, it's often too late to place good judgment over credit convenience. It's easy to know when people have over-extended themselves. Everything looks good and feels great as they merrily purchase gifts, clothing, meals, and miscellaneous high ticket items. But when they also start using credit cards to pay the rent and groceries or, worse yet, pay off other credit cards, then the writing is on the wall.

If you are one of those people, don't feel alone. There are millions of people who are in credit trouble because they have abused their credit. As you shall see, a bad credit rating isn't always the borrower's fault. However, when it is, there is no one else to blame—not the banks, the retail stores, service stations, or the credit card companies. The ultimate responsibility lies with the person who signed the bottom line: you.

Given all the horrible consequences of bad credit, it is worth every effort to maintain a clean credit rating and, if it becomes damaged, be able to fix it.

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Credit And Employment

One surprising place you may find your credit history being scrutinized is as part of an employment application. The law allows potential employers to examine your credit report as part of your employment interview process. In fact, many companies now routinely run a credit check on a person before making an employment offer. They feel this gives them some insight into the character of the applicant.

Employers use the information provided in your credit report as part of their evaluation of you. Credit reports are being used by more and more companies to check out a potential employee's "stability." With all the job-shifting going on in the country, this is another vital reason to keep your credit report as healthy as possible.

Fair Credit Reporting Act

Newspaper stories over the last 25 years have repeatedly highlighted the problem of inaccurate information contained in credit reports. According to the quoted studies, more than 3 in 5 consumers have negative information in their credit report, and nearly half of the studied reports contained errors. Some of the errors were serious enough to prevent the individual from qualifying for credit. Unfortunately, there was very little anyone could do to fix these problems.

To address this issue, and provide a remedy to consumers for poor record keeping on the part of the credit-reporting agencies, the U.S. Congress first passed the Fair Credit Reporting Act (FCRA) in 1971. A summary of the law is included in the *Consumer Rights and Credit Laws* section of this publication.

The FCRA has been revised and refined several times. The laws established by this act require the credit bureaus to remove all obsolete, inaccurate, irrelevant, outdated, misidentifying, incomplete, incorrect, erroneous, or misleading information from their credit reports.

Specifically, if the completeness or accuracy of any item in a consumer's file at a credit bureau is disputed, the agency shall reinvestigate free of charge and record the current status of the disputed information, or delete the item, before the end of the 30-day period beginning on the date on which the agency receives the notice of dispute (the courts have allowed up to 45 days in some cases).

Further, the credit bureau shall promptly provide notification of any dispute to anyone who provided any item of information in dispute (that is, the creditor or collection agency).

If an item is found to be inaccurate or incomplete or cannot be verified, the credit bureau shall promptly delete the item, or modify the item, as appropriate, and notify the consumer no later than five business days after the completion of the reinvestigation.

Negative Credit

What is negative credit? How is it repaired? Negative credit is created when you do not live up to your contractual obligations. It finds its way onto your credit report in many different ways.

The majority of negative items are due to fiscal missteps such as paying a credit card late. A much smaller but still significant number of entries comes from errors, fraud, and other abuses of the system. Lets look at each of these categories in a bit more detail.

Fiscal missteps, the most common cause of negative credit, are caused by actions often originated by the consumer. This could be something as innocent as misplacing a bill (and missing a payment as a consequence) or it could be something as devastating as the loss of a job, which leads to a house being foreclosed upon or the necessity of declaring bankruptcy.

Anything you do which generates a late payment or causes a collection action to be taken against you will probably show up as a negative item in at least one credit bureau's report on you.

Errors can be caused in many ways. For instance: a loan payment is made on time but the bank made an error when they credited it. Or perhaps a credit bureau entered incorrect information on your credit report.

Fraud and other abuses occur when a consumer is the victim of a crime. This can occur through theft of credit information, negligent or deliberate attacks, and identity theft.

Defending Your Credit

The best self defense for bad credit is simple fiscal prudence. If you live your financial life with some planning for unseen events, and live well within your means, you will be much better able to handle problems than if you just spend your money as fast as or even faster than you earn it.

An excellent book regarding financial responsibility is *The Millionaire Next Door*, which is based on a fascinating study of millionaires to determine what they do differently. The surprising conclusion is that most millionaires are average working people who have simply made better financial decisions than most Americans. You will never forget the lessons you will learn by reading *The Millionaire Next Door*, which is available at any bookstore.

You must develop an effective self-defense credit strategy, including periodically checking your credit reports and aggressively working on solving any and all credit problems you discover. This process should be done at least once a year. There are even some excellent services available that will provide you with unlimited copies of your credit reports for a small annual fee. These services will also enable you to access your credit report online and easily track any changes.

CHAPTER 3

Credit Bureaus And Credit Reporting

The Credit Bureaus

The credit reporting system is a business relationship between two parties: independent agencies that collect credit information (the credit bureaus) and merchants who pay for a copy of this credit information on an as-needed basis. Notice that the consumer is *not* a party to the transaction.

Credit bureaus refer to these merchants who pay a fee for their service as "subscribers." As with any business, the main focus of the bureaus is to meet the needs of their customers, who are the merchant subscribers (and definitely *not* you).

Most banks, savings and loans, finance companies, credit card companies, and even some retail stores, employers, and apartment complexes will use a credit bureau's service, so they can be more aware of the financial risk they will be taking by extending the consumer credit. They are the same ones who report back to the credit bureau if that risk failed.

When you apply for any type of credit or financing, the creditor (merchant/subscriber) "pulls" your credit report, which contains information from at least one of the three major credit bureaus (Experian, Equifax and TransUnion). This helps the merchant evaluate the risks in extending credit to you.

The bureau itself doesn't actually approve or deny you credit, but rather supplies the merchant with your payment history as reported by other subscribers with whom you have received credit.

However, the bureau does use a closely guarded "secret formula" to assign a credit score to each individual based on the information in the file. This formula is a mathematical algorithm which is so complex it wouldn't do you much good to know it even if it were available.

The information on your credit report (your credit history and current debt situation) is the most significant factor in the merchant's decision regarding your ability and willingness to meet your future financial obligations. The merchant is counting on the credit bureau's information to serve as a filter to help separate good credit risks from poor risks.

The shortfall of this system is that the product being sold (you) has little influence in this relationship. The merchant's primary motivation is to avoid bad credit risks, and the bureau makes a profit by charging the merchant for helping her do that. Consumers don't make money for the bureaus (except indirectly, as a product), so they are out of the loop (but yet the loop still dangles around their necks).

If that weren't enough, consumers also have to compete against human nature. Each credit entry has the potential for human error at any point in the reporting process. The person applying for credit may accidentally enter the wrong social security number. The person at the lending institution may type the wrong social security number or check off an incorrect field in the report, making a payment late instead of on time.

These simple mistakes can have a devastating effect. One of these errors could cause you to get rejected for a car loan or a home mortgage. Fortunately, all of these types of errors can be repaired. Unfortunately, it can take months from the time you discover them until you can get them removed from your credit history.

When you consider all the information available, and the methods by which it is obtained, you can better understand the likelihood of errors. There is no easy way to protect yourself from these errors or from people committing fraud with your social security number. The only defense you have is to actively work to keep your credit report clean.

Every year, get a copy of all your credit reports and examine them. If they have incorrect information on them, take steps immediately to get these items repaired or removed. A clean, positive credit report is a very valuable resource in your financial life. Protect it and keep it clean and it will serve you well when you most need it.

Without documentation of errors, the bureaus are inclined to report information as reported by their merchant subscribers, always assuming the worst. The only decisions that might draw criticism from the merchant are the losses as a result of the bureau omitting some negative information that would have caused the merchant to have declined extending credit. That's why the bureaus do everything in their power to make sure you can't alter the contents of your credit file. Unfortunately for them, with the proper information at your disposal (like this publication), you can do just that.

This is not intended to make the credit bureaus appear the great "evil empire" that some have made them out to be. They are simply huge bureaucratic companies whose policies have evolved from simple business economics and human nature.

Every credit bureau desires to maintain as accurate information as financially feasible, but at the same time they realize that if they do err, it is better to err on the negative side rather than the positive in order to serve their subscribers' best interest. Although they want to develop as truthful a portrait of your credit history as possible, human nature compels them to give highest priority to recording negative items that might keep their customer base from entering into a risky credit arrangement.

The three major credit bureaus do not all contain the same information, nor is any one credit bureau likely to have the entire credit history of any one particular consumer.

There are also hundreds of smaller credit bureaus around the country, but most of them obtain their credit from the "Big Three"—Experian, Equifax, and Transunion. When you apply for a mortgage, for instance, the lender will almost always pull credit from one of these regional credit-reporting agencies because they have the ability to access all three bureaus in one report. The information on these “three-in-one” or “tri-merge” reports is almost always identical to that in the major bureau files.

A credit bureau collects and maintains information on the majority of Americans, but they are not affiliated with the government in any way. The credit bureaus are for-profit corporations and they sell your personal information for money. How much money? To give you an idea, Experian's annual sales exceed $2 billion.

The credit bureaus make money by gathering your credit information from credit grantors, listing the information in your credit file, then selling it to other credit grantors who want to see your credit history before they decide to lend you money. If you have shown any tendency to pay late or to default on paying your financial commitments, many credit grantors' computers are programmed to immediately reject your application.

Each person’s credit information is stored by his or her social security number. When a creditor requests or reports information, the credit bureau uses your social security number to search the database. This is why many consumer protection groups advise against giving out your social security number unless necessary. With it, someone else can obtain your credit information and use that information to commit fraud (and have the undesirable side effect of damaging your credit report and your creditworthiness).

According to the Federal Trade Commission, credit bureaus are the number one source of consumer complaints. Because of these problems, Congress passed the Fair Credit Reporting Act (much more on this later) to protect the interests of consumers. The credit bureaus fight consumer protection laws with all their muscle and money, but new laws are continuing to be passed because of the great need to protect consumers. Until recently, you didn’t even have the right to know what your own credit score was.

How Credit Bureaus Get Their Information

Whenever you provide information about yourself on a credit application with a creditor, that information usually will end up in a credit bureau's file. Credit data from millions of Americans is continually maintained and updated by credit bureaus.

Credit bureaus get your personal information from the same lenders who grant you credit. They have agreements that require the credit grantor to inform the credit bureau of everything that occurs in your relationship with the credit grantor. For example, if you are late with a payment, this fact is quickly reported to at least one of the major credit bureaus and is added to your credit history. Credit reports not only show how you are currently managing your credit, they are also histories of everything you have done in the past as far as your credit is concerned.

Creditors who use credit bureaus (by providing and receiving credit information) include finance companies, commercial banks, major department stores, savings and loans, credit card companies, and any other business that does not have the time or staff to check out an applicant's creditworthiness themselves.

Not all companies report to credit bureaus, however. Many people who think they have a good credit report from various creditors are surprised to learn that oil credit card companies, hospitals, credit unions, and checking account information are not generally reported. In the case of checking accounts, if every overdraft that occurred was reported, it would be too time consuming, and credit bureaus could easily become overloaded.

Credit bureaus also get their credit information by searching public records. What they are most interested in are liens, judgments, bankruptcy actions, and wage attachments.

Additional Credit Bureau Services

As credit-reporting agencies grew in size and completeness, they have added several additional services to clients based on the information they have about you. They offer the following additional services (with more services being added all the time):

Pre-screening - Many of us receive credit card offers saying that we are pre-approved. This happens via a process called pre-screening. The creditor gives the credit bureau a list of criteria for granting credit. The credit bureau matches this list against all of the people in its database and provides the creditor with a list of the people matching the creditor's pre-screening criteria.

Targeted marketing lists - Since the databases generally contain some information about our income and spending habits, many companies make use of this information to send you sales catalogs and other mail offers.

Consumer ratings - At a creditor’s request, a credit bureau will give a rating of how good a risk they feel a customer will be, based on the customer’s payment history, etc. in the credit report.

Collections - Many credit-reporting agencies are now offering to perform collection duties for creditors.

What Exactly Is A Credit Report?

A credit report is a (supposedly accurate) record of your credit payment history. It's provided to companies and individuals by credit bureaus for purposes permitted by law, usually to grant you credit. The main purpose of a credit report is to help a credit issuer decide whether to grant you credit based upon your credit payment history. A credit report is a document generated from your credit file (a database maintained by a credit bureau containing your credit history).

Your credit report contains a list of your creditors, how much you owe on each account, when you opened the account, what your monthly payments are, your payment history, the current status of your credit, and other personal and important information.

It may also contain your "credit score," which is a numerical grade given to you by each bureau based on hundreds of factors. There will be much more about credit scores later.

More than 200 million people in the United States have a credit card, car loan, mortgage or student loan. Almost every one of them has a credit file. The information in your credit file is obtained directly from the companies with whom you have credit, as well as from government agencies such as the court system.

What Kind Of Information Appears On Credit Reports?

Identifying Information Items such as your name, any aliases, current and previous addresses, social security number, possibly marital status.

Merchant Trade Lines or Credit Lines These include all regular installment or revolving credit accounts such as department store cards, auto loans, mortgages, and credit cards. If you have any history of late payment or if the credit account was included in a bankruptcy, charged off, or put into repossession, the listing will be considered negative or derogatory by all credit grantors.

Not all credit accounts may be listed on your credit report since not every credit grantor reports to the same credit bureaus. In addition, not all credit grantors report every credit account to the credit bureaus. For a thorough review of your credit file, you should look at information from all three major credit bureaus.

Collection Accounts When any credit account is referred to a collection agency or the collections department of a credit grantor because of delinquency, non-payment, or other reason, it shows on the credit report as a collection account. Collection accounts can appear as paid or unpaid accounts. Any account that shows as a collection account (whether paid or not) is considered very negative by credit grantors.

Court Records Court records include bankruptcies, judgments, satisfied judgments, liens, satisfied liens, and divorce. Most court records, including satisfied liens and/or judgments, are considered very negative by credit grantors.

Inquiries Each time you apply for credit and a potential credit grantor looks at your credit file, an "inquiry" appears on at least one of your credit bureau files. Inquiries can also appear when an existing credit grantor reviews your credit periodically (to increase your credit line, etc.)

These requests for your credit report are noted as part of your credit history file and can actually lower your credit score by a few points because it may indicate your desire to increase the amount of your credit.

What's Not Included Your credit report will not include information about your race, salary history, religion, checking or savings accounts, stocks and bonds, medical history, personal assets, criminal record or personal background and lifestyle.

The Truth About Credit Reporting

Whether you realize it or not, there is a war being waged, aimed at re-shaping your opinion. On one side there are the credit bureaus (with a massive public relations campaign) discouraging consumers from attempting to improve their credit report by telling them that it is impossible.

On the other side of the battle, there are consumer rights groups pushing for more consumer protection. And (mostly) in the middle, there is the Federal Trade Commission, charged with consumer protection, but heavily influenced by the credit bureau lobbies. If that weren't enough, there are attorneys and credit repair services whose motives are purely financial and this adds even more misinformation to the mix.

The result is a lot of conflicting and confusing information. It is very easy to get bogged down in all this, but this publication aims to shine a bright beam of truth to dissipate this fog of misinformation, so that you can begin following a clearly-lit path, able to discern the good and the bad from both sides.

As evidence of this ongoing credit war, consider these common myths about the credit-reporting industry. Each of the statements below is false. Nevertheless, most consumers still believe that one or more may be true.

Myth: The information on a credit report cannot be changed.

Fact: Exactly the opposite is true. The Fair Credit Reporting Act requires that items be removed if they are not 100% accurate or cannot be verified within 30 to 45 days. Read it for yourself—the FCRA is summarized in this publication in the *Consumer Rights and Credit Laws* section.

Myth: When I pay off a delinquent account such as a charge-off or collection account, it will stop hurting my credit, because it will then be shown as "Paid."

Fact: As hard as it might be to believe, sometimes paying off a debt can actually harm you. Most collection accounts are allowed to stay on your credit for a maximum of seven years. Paying them off without knowing what you're doing can unwittingly restart this clock.

However, this does not mean that you should never pay these debts. Elsewhere in this publication, you will learn the best way to pay off debts and improve your credit in the process.

Myth: Credit-reporting agencies are empowered with government authority.

Fact: Credit bureaus are like any other for-profit business. They exist for one reason: to make money. No special authority exists. Rather, they must adhere to government laws and abide by the Fair Credit Reporting Act and numerous other laws.

Myth: Bankruptcy is a "fresh start."

Fact: Unfortunately, many attorneys don't clearly explain the devastating effects to one's credit when filing bankruptcy. This goes for all types of bankruptcy including Chapter 13 (the Wage Earner Plan).

Bankruptcy is not a clean slate. Every account included in the bankruptcy will be so noted in your credit file. Additionally, there will be a court record generated that will also be added. Avoid bankruptcy if at all possible.

Although you can often re-establish credit after bankruptcy, the time table and the odds of completing credit restoration are greatly extended due to the number of negative entries that are associated with such filings.

Myth: Some types of credit information (such as bankruptcies, judgments, and foreclosures) are impossible to remove.

Fact: Although it is true that some types of information can be more difficult than others to remove, each of these types of entries have been removed hundreds of thousands of times, using numerous methods.

Myth: Credit repair is too complicated for consumers. It is necessary to hire an attorney.

Fact: An attorney well-versed in the intricacies of the Fair Credit Reporting Act can help with clarifying the finer points of your state's laws and provide information about the possibility of filing a lawsuit. However, you can accomplish most if not all of the legal and negotiation-based methods in this publication yourself by becoming familiar with your federally given rights and how to enforce them.

Myth: It is illegal to have truthful information removed from a credit report.

Fact: Congress has already set the precedent by making special provisions for the removal of correct information from individuals' credit files which fulfill certain criteria. Congress realizes that dangling that carrot in front of college students, for instance, encourages repayment of defaulted student loans. It should come as no surprise that creditors in other financial markets are familiar with this practice.

If you need more proof, read section 609(c)(2)(E) of the NEW Fair Credit Reporting Act that President Clinton signed in September of 1996, which reads, in part:

"...a consumer reporting agency is not required to remove accurate derogatory information from a consumer's file, unless the information is outdated under section 605 or cannot be verified. "

Notice the wording above: "is not required to remove." It is very interesting that the law does not say that accurate information "cannot" be removed, but only that credit bureau is not required to remove it.

Congress has repeatedly validated this fact. One shining example is the area of student loans, where the law specifically allows repayment of a defaulted student loan to trigger *the removal of all indicators of past debt from one's credit file*. This program, labeled by congress as "rehabilitation," is an undeniable precedent of accurate information being deleted after the debtor fulfills a predetermined payment plan.

Now, there *is* law that says a creditor cannot knowingly add wrong information to someone's file, but the subject of removing accurate information is mysteriously avoided. The truth is the FTC and the bureaus themselves spend a lot of money trying to convince consumers otherwise.

Why? Powerful lobbies and money, of course. Verifying mistakes on credit reports creates more work for the credit bureaus, thus increasing their labor costs. Bureaus save millions of dollars a year by convincing us that the consumer is virtually powerless. But Congress deliberately worded things to leave the door wide open, and in at least one case drafted law specifically allowing for the removal of accurate but damaging items.

Many creditors have an agreement with the credit bureaus that they will not allow a negative listing to be deleted upon settlement. Larger creditors, such as huge credit cards or banks will require more pressure before they will agree to delete a negative listing, but virtually every creditor will give in with the right amount of convincing.

Every creditor who reports to the credit bureaus can also change any of the information they report. In most credit organizations, there are dozens of people with the authority to make changes on the credit report. The bottom line is that anything a creditor is responsible for reporting and confirming, a creditor can change.

Why Should I Regularly Review My Credit Report?

Identity Theft/Fraud: With identity theft on the rise in the United States, the number one reason to review your credit report at least once a year is to detect and stop fraud—before you need your credit.

You've Never Seen It: You should review your credit at least once in your life. See what the credit grantors know about you. It's incredible the amount of personal information that is contained in this one report.

Buying a Home or Car: Know ahead of time what appears on your report to help you shop for the best rate and take care of inaccuracies or past due balances.

Renting/Relocating: Take your credit report with you. Prospective landlords will be checking your credit, and you might just snag that great relocation by not having to wait for credit approval.

Divorce: You'll need to evaluate your financial position with your attorney. Make sure you check to see if there have been any accounts opened that you might not have known about.

Bankruptcy: Make sure to include all your credit accounts. Letting one slip by can cause financial grief in the future.

Self-Employed: New entrepreneurs better check their credit before applying for merchant accounts and other business services.

You Need a Credit Card: (Or any other credit line, for that matter.) It's always wise to check your credit report before applying in case there are any inaccuracies. Don't get surprised if someone else's information is on your credit report.

Financial Planning: Any long- or short-term financial planning involves looking at your financial position. And what better way to see that than reviewing your current credit report?

For How Long Does Negative Information Appear On My Credit Report?

The Fair Credit Reporting Act (FCRA) requires that most negative credit items be deleted from your credit bureau file after seven years. Exceptions include bankruptcy, which can be reported for up to ten years. Inquiries usually remain in your credit file for 24 months.

The credit grantor or credit bureau has the right to remove negative credit information whenever they please. There is no law stating that accurate information must remain in your credit file for any length of time, only that certain items cannot stay on file for more than seven years.

All of these limits represent what is *supposed* to happen. The reality is that many credit items will not be automatically deleted unless you demand it using the proper procedure. Also, every time you make a payment or other arrangement with a creditor, the clock is reset to zero, so accounts opened 15 years ago can still be legally reported on your file. Use the information in this publication to ensure that this doesn't happen.

Who Can Look At My Credit Report?

Not just used to grant credit anymore, your credit file is used more and more as a measure of your character. Yes, prospective credit grantors will still review at least one of your credit reports before granting you credit. But, it is increasingly common for insurance companies to review your credit before extending auto or health insurance. And many employers now check your credit before they consider you for a position.

If you rent, you have probably already been through a credit check to determine your worthiness as a renter. Anyone who can prove a valid business purpose (and has your permission) can view your credit file. The Fair Credit Reporting Act (See the *Consumer Rights and Laws* section) has specific details.

Most credit grantors are not allowed by the credit bureaus to show you your own credit report. However, credit bureaus and other companies do allow you to purchase your personal credit report for a fee or provide one for free if that particular bureau's report has been used to deny you credit.

What Is Credit Scoring?

There are two types of credit scores. The most-commonly referred to are the generic credit scores (generated by the credit bureaus). Each credit bureau generates its own credit score, such as Experian's FICO credit score and Equifax's Beacon score. The bureau-based credit scores draw on statistics from a large number of consumers across a variety of accounts.

Custom scores are generated by individual lenders who rely on credit reports, but also other information (such as account history) from their own portfolios. Scores are not just used to rate the creditworthiness of consumers. Lenders also use scores to predict consumer response to offers sent in the mail, the likelihood that account holders will file for bankruptcy or that a consumer will move their account to another lender.

Credit scoring is a grading system creditors use to help determine whether to extend you credit. Information about you and your credit experiences, such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts, is collected from your credit application and your credit report.

Using a statistical program and a "secret formula" computer program called an algorithm, creditors compare this information to the credit performance of consumers with similar profiles.

A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points—a credit score—helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments when due.

The credit scoring idea has been around since the 1950s. The company that started the concept (Fair, Isaac Corporation) describes the credit score as "the quickest, most accurate and consistent way of determining the likelihood that credit users will pay their bills."

The score is also commonly referred to as a FICO score (named after Fair, Isaac Corporation), although now each bureau uses their own scoring system:

Experian: FICO

Equifax: Beacon

TransUnion: Empirica

Each score will be different, sometimes dramatically so. But if the same credit history shows up on all three bureau files, their scores should be very close.

A credit score is a number lenders use to help them decide: "If I give this person a loan or credit card, how likely is it I will get paid back on time?" It is generated through statistical models using elements from your credit report. However, your score is not physically stored as part of your credit history on the credit file. Instead, it is usually generated at the time a lender requests your credit report, and is then included as part of the report.

Your credit score is a fluid number, and it changes as the elements in your credit report change. For example, payment updates or a new account could cause your score to fluctuate. There are many different credit scores used in the financial service industry. Your score may be different from lender to lender (or from car loan to mortgage loan), depending on the type of credit scoring model that was used.

Range Of Credit Scores

Your score will be between 340 and 850 points. A higher score indicates a better candidate for credit. There are three general categories of borrower:

Prime If your credit score is above 660, you are considered a "prime borrower" and should have few problems obtaining a good interest rate on your home loan, car loan, or credit card. For purposes of a home loan, many banks consider 660 or even 640 to be acceptable, enabling you to qualify for the best rates and lowest down payments.

Sub-prime If your credit score is between 580 and 660, you may be considered a "sub prime" borrower and will likely pay a higher interest rate on your loan and require a higher down payment on a home.

Forgetaboutit If you're credit score is below 580, you can forget about getting reasonable rates or terms on credit. You can still get a credit card but you will likely be hit with a security deposit or high acquisition fee. In addition to that, your interest rate will likely be 22 to 23%. You can forget about most home loans and the majority of new car loans at this score. Below 580 is no-man's land. You will pay much, much higher interest and unnecessary fees. You may even pay more for insurance rates. A very low score can even prevent you from getting a job with many companies.

Following is a quick summary of credit categories:

720+ Excellent credit; you will get the best rates and terms on all loans.

660-719 Good credit; you will likely get the best rates on most mortgages, but some credit grantors may take a closer look at your file.

580-659 Higher risk; you may not be eligible for the best rates and products. Some credit items may not be available.

Below 580 Credit options will be limited or not available. Lender will need to consider other information in your application.

How Is A Credit Score Calculated?

Although each credit bureau has its own unique system for compiling a credit score, the scoring models have been normalized so that a numerical score at one bureau is the equivalent of the same numerical score at another. Thus, a score of 700 from Equifax will be equal to a score of 700 from TransUnion or Experian, even though the calculations used to determine those scores are different at each bureau.

Your credit score is generated by a computer analysis of relevant information from your credit report, such as how much money is owed and whether payments have been made on time. Then that score is compared to the credit performance of consumers with similar profiles.

The scoring system awards points for each factor that helps predict who is most likely to repay a debt. Your points are totaled to arrive at a credit score, which ultimately helps predict how likely it is that you will repay a loan and make payments on time.

The score is calculated based on a mathematical model using up to 33 different factors about your history. The formulas are proprietary and the companies will not release them. In fact, there's more than one formula. Different credit-reporting agencies and lenders have customized variations. So you don't really have just one score, you have many scores.

What goes into the score? The different factors fall into five groups. The first is your **payment history**: how good you've been about keeping up with your payments. A bankruptcy would be considered here. Any late payments or charge-offs are also considered. Remember that this isn't an all-or-nothing proposition. So one missed payment doesn't doom you to a low score. But a pattern of late charges will certainly hurt.

Next, the model will consider your **outstanding debt**—how many accounts are open and how much debt you have. The model will give you the highest score if you have some credit, but not too much. Having one or two open accounts that are fully paid off each month will actually help your score.

The model also considers your **credit history**. You get more points if you've had an account for a longer period of time. The theory is that if you've been consistent over a number of years, you're more likely to continue responsible behavior. The pursuit of new credit can be a potential minefield to your score. The model considers how many new accounts you've opened. But, more than that, it also looks at how many times you've asked for credit.

Now this is where it can get interesting. The model doesn't always know why new requests for credit are coming in under your name. Suppose you're out shopping for a new car and visit a number of dealers and ask each of them to find the best rate for a car loan. Depending on how they get the information, it's possible that they can generate a number of **new queries** on your credit. All those queries can actually lower your score by making it look like you're out there trying to get a bunch of new credit.

Finally, the formula includes the **types of credit** in use. You'll receive a different rating for home and auto loans than for bank and store credit cards. And installment loans will likely count against you.

Now that we know a little about what goes into the formula, let's look at the primary factors that can cause a low score. In no particular order they are:

1. Delinquency on accounts.

2. Total owed on accounts too high.

3. Too many or too few bank revolving accounts.

Other negative issues are having too many open accounts with balances and having loans from consumer finance accounts (companies that loan to people with credit challenges). These are only a few possibilities. Remember, the calculation includes up to 33 factors.

What Constitutes A Good Score?

A credit score is not like a grade you might receive in school where 100 is the best possible score and anything less means that you answered a question incorrectly. Certain elements on your credit report raise your score and certain elements lower your score.

The negative factors (usually isolated on your credit reports) illustrate what is hurting your score the most. Just because you don’t have any items significantly hurting your score doesn’t mean you receive the maximum points for the elements helping your score. For example, if two individuals had exactly the same credit report except for the length of credit history, the person with the longer credit history would still receive a higher score, even if neither one had any negative information.

Only 3% of the U.S. population has a score of 770 or higher. As stated previously, each of the three credit bureaus creates its own score based on their own formula. The scores can range from 340 to 850 with a higher score indicating lower risk (technically, they can go higher than that, but almost nobody achieves higher than 850).

The magic number among credit scores is 770. With a credit score at or above this, you can qualify for just about any type of credit at the most favorable rates, although 720 or above is sufficient for most credit. For good rates on home loans, a score of 660 or better is usually required. Anything below this is often considered "sub-prime" and will have higher interest rates and require other compensating factors like higher down payments.

Why Is Credit Scoring Used?

Before credit scores, lenders physically looked over each applicant's credit report to determine whether to grant credit. A lender might deny credit based on their decision that a consumer already held too much debt, or had too many recent late payments. Not only was this time consuming, but also human judgment was prone to mistakes and bias. Lenders used personal opinion to make a decision about an applicant that may have had little bearing on the applicant's ability to repay debt.

Credit scoring is based on real data and statistics, so it usually is more reliable than subjective or judgmental methods. It treats all applicants objectively. Judgmental methods typically rely on criteria that are not systematically tested and can vary when applied by different individuals.

Lenders look at many things when making a credit decision, including your income and the kind of credit you are applying for. However, your credit score does not reflect these facts as it only evaluates the information retained by the credit bureau.

Why do lenders use your credit score in their lending decisions? Because they discovered that there is a direct correlation between credit scoring and the odds of your becoming delinquent on your monthly mortgage payments.

Consider the following information:

Credit Score	Odds of Becoming 90 Days Delinquent
780	**576 to 1**
700	**288 to 1**
680	**144 to 1**
660	**72 to 1**
645	**36 to 1**
630	**18 to 1**
615	**9 to 1**
600	**4 to 1**
585	**2 to 1**

As the above table illustrates, those with credit scores below 615 are a very poor risk. In fact, it's hard to get a mortgage loan with a credit score below 600 or 620. If your credit score is between 640 and 680, you can get approved, but with more scrutiny. If your score is 680 or above, you can get a mortgage loan quite easily.

This method of calculating risk is very similar to the one used by insurance companies to develop premiums. Statistically speaking, higher credit scores equates to lower risk. Now you know why these scores are so important to lenders and creditors.

How Is A Credit-Scoring Model Developed?

Remember, there are two types of credit score: bureau generated and lender generated (custom). Some lenders use the bureau score exclusively, but most consider the other factors (employment, length of time at residence, income) along with the credit report, since these items do not appear on the bureau reports.

To develop a **custom credit-scoring model**, a creditor (NOT the credit bureaus) selects a random sample of its customers, or a sample of similar customers if their sample is not large enough, and analyzes it statistically to identify characteristics that relate to creditworthiness. Then, each of these factors is assigned a weight based on how strong a predictor it is of who would be a good credit risk. Each creditor may use its own credit scoring model, different scoring models for different types of credit, or a generic model developed by the credit bureaus.

Lender-based credit scoring models use information from credit reports, but it is not as simple as having a high enough credit score. Your credit score is only one of the factors they consider. For instance, mortgage companies often insist that you have a certain number of credit items (or "trade lines"). Creditors also look for length of credit history and other items that give them an idea of your credit worthiness. Each creditor develops their own scoring model, which is why you may get approved for a Macy's card, but not a Sears card.

Under the Equal Credit Opportunity Act, a credit scoring system may not use certain characteristics like—race, sex, marital status, national origin, or religion—as factors. However, creditors are allowed to use age in properly designed scoring systems. But any scoring system that includes age must give equal treatment to elderly applicants (over age 62).

How Reliable Are Credit Scoring Models?

Credit scoring models (also called credit scoring *systems*) enable creditors to evaluate millions of applicants consistently and impartially on many different characteristics. But to be statistically valid, credit-scoring systems must be based on a big enough sample. Remember that these systems generally vary from creditor to creditor.

Although you may think such a system is arbitrary or impersonal, it can help make decisions faster, more accurately, and more impartially than individuals when it is properly designed. And many creditors design their systems so that in marginal cases, applicants whose scores are not high enough to pass easily or are low enough to fail absolutely are referred to a credit manager who decides whether the company or lender will extend credit. This may allow for discussion and negotiation between the credit manager and the consumer.

How Do I Find Out My Bureau Credit Score?

It used to be very difficult to get your credit score. Only recently has the government forced the credit bureaus to allow consumers to know their own credit score. Thankfully, this information is now available and you can receive your credit score along with your credit report if you order online. There is usually a small extra fee, but it is worth it because you can use your credit score to track the effectiveness of your credit-improvement process.

How Can I Improve My Score?

Credit scoring models are complex and often vary among creditors and for different types of credit. If one factor changes, your score may change, but improvement generally depends on how that factor relates to other factors considered by the model.

Scores reflect credit payment patterns over time with more emphasis on recent information. Only the creditor can explain what might improve your score under the particular model used to evaluate your credit application. Nevertheless, scoring models generally evaluate the following types of information in your credit report:

Do's

1. Pay your bills consistently and on time. Payment history typically is a significant factor. It is likely that your score will be affected negatively if you have paid bills late, had an account referred to collections, or declared bankruptcy, if that history is reflected on your credit report.

2. Maintain a consistent and long credit history. Generally, models consider the length of your credit track record. An insufficient credit history may have an effect on your score, but that can be offset by other factors, such as timely payments and low balances.

3. Check your credit report for errors and have them removed. The best way to do this is with the credit monitoring services available from each credit bureau. Each bureau charges about $60 a year for this service, but that usually includes unlimited credit reports and lots of other services. It never affects your score or counts as an inquiry to request and check your own credit report.

4. Keep your debt to reasonable levels. The scoring models want you to have balances of less than 75% of your available credit limits. The formula considers a balance above 75% as a warning sign of impending trouble. Carrying a zero monthly balance is the wisest use of your money.

5. Keep unused credit limits at a reasonably low level. If you carry a dozen cards, each with $3,000 in available credit, the model assumes that you could go on a buying spree. You know that you won't do that, but the scoring model doesn't. If you find that you can't bear to close some of the accounts, at least call and have the credit limits reduced.

6. Keep balances low on credit cards and other "revolving credit." High outstanding debt can affect a score.

Don'ts

1. Don't pay your bills late. Also, be careful of automatic debit programs that pay your bills directly. If there is a mistake of any kind, you are still responsible for ensuring that the bills are paid.

2. Don't open accounts just to have a better credit mix—it probably won't raise your score. Apply for and open new credit accounts only as needed.

3. Don't just move debt around. Pay it off instead. Also don't close unused cards as a short-term strategy to raise your score. Owing on the same number of cards, but having fewer of them open may actually lower your score.

4. Don't get lazy about your credit. Pay attention. Your credit is one of the most important assets you possess.

5. Don't co-sign on other people's loans. This is a terrible idea, even for family. If you do co-sign, insist that they pay you directly. Then, pay the bill yourself so that you can ensure its prompt payment.

6. Don't apply for too much credit at one time. Sometimes the computer models have a hard time telling the difference between someone shopping for a new car and a borrower who's desperately trying to find money to avoid bankruptcy. If you have applied for too many new accounts recently, that may negatively affect your score. However, not all inquiries are counted. Inquiries by the consumer (like when you order your own credit reports) or by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not counted. Other inquiries can cost several points each, which could be enough to disqualify you from the credit you want.

Other Factors That Affect Credit Scores

Although it is generally good to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many models consider the type of credit accounts you have. For example, under some scoring models, **loans from finance companies may negatively affect your credit score.**

Finance companies are lenders which often cater to a clientele with insufficient or inadequate credit histories. They tend to charge higher interest rates than banks or other lenders. So when other creditors see these accounts, they may count it against you.

Scoring models may be based on more than just information in your credit report. For example, the model may consider information from your credit application as well: your job or occupation, length of employment, or whether you own a home.

To improve your credit score under most models, concentrate on paying your bills on time, paying down outstanding balances, and not taking on new debt. It's likely to take some time to improve your score significantly.

If you do have negative information on your credit report, such as late payments, a public record item (e.g., bankruptcy), or too many inquiries, you may want to just pay your bills and wait. Time is often your best ally in improving credit. The last 12 to 18 months of credit history is much more important than prior years.

How Will A Specific Action Affect My Score?

One common question that many consumers have regarding their credit score involves understanding how very specific actions will affect their credit score. For example, someone might ask if closing two of his/her installment accounts would improve the credit score.

While this question may appear to be easy to answer, there are many factors to consider. A credit score is based entirely on the information found on an individual’s credit report. Any change to the credit report could affect the individual’s score.

Simply closing two accounts not only lowers the number of open installment accounts (which generally will improve your score) but it also lowers the total number of all open accounts (which generally lowers your score).

Furthermore, such an action will affect the average age of all accounts that could either raise or lower your score. As you can see, one seemingly simple change actually affects a large number of items on the credit report. Therefore, it is impossible to provide a completely 100% accurate assessment of how one specific action will affect a person’s credit score.

The credit bureaus have online "services" that purport to give you an indication of what your credit score may be if you make certain changes, but these services are ridiculously inaccurate and vague. When prompted for the effect of adding a new credit line, the system will tell you that it could lower your score (by increasing outstanding debt) or raise your score (by adding a positive credit item). Since these online services aren't based on your particular report, they are useless. Other online bureau services, however, such as credit monitoring, can help by providing useful and timely information.

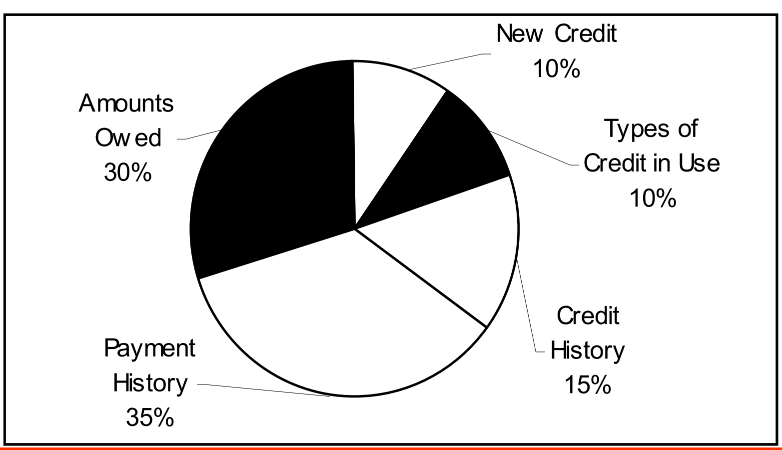
What Factors Affect My Credit Score?

There are basically ten negative things that look the worst on your credit report, listed from the best to the worst:

1. Credit inquiries.
2. Credit rejections.
3. Late payments.
4. Past due and unpaid payments.
5. Court judgments.
6. Collections.
7. Loan defaults/debt consolidation.
8. Repossession.
9. Foreclosure.
10. Bankruptcy.

If you’ve made a few credit mistakes, it's not a tragedy. One strength of credit scoring is that it has a dynamic component—no single negative aspect should totally sink you, just as one positive aspect won’t guarantee that you will have great credit. Although late payments will lower your overall score, having an otherwise good credit history with little outstanding debt can make up for it.

Below is a chart with data derived from Fair, Isaac Corporation, the company that developed the software used for most credit scores, which shows the five most important factors:



As the chart indicates, there are five categories that comprise each credit score, weighted according to their importance to creditors. It's important to remember that although lenders may look at a variety of factors when making their credit decisions (such as your income and the type of credit you're applying for), your credit score only evaluates information from the credit bureaus. The law prohibits factors like ethnic group, religion, gender, marital status and nationality from being used in the credit scoring mix.

Below are details on the five main factors which are used in credit scoring calculations to determine your overall credit score (with their relative weighting in parentheses):

Previous Credit Performance / Payment History (35%)

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, but late payments are not necessarily a "score-killer." An overall good credit picture can outweigh one or two instances of late credit card payments.

On the other hand, having no late payments on your credit report doesn't mean you will get a "perfect score." About 60-65% of credit reports show no late payments at all—your payment history is just one piece of information used in calculating your score.

The more recent the late payments, the lower your credit score. In fact a 30-day late payment on your credit report today may hurt more than a bankruptcy seven years ago. The last 18 months are the most important to consider.

Then there are the derogatory items that really hurt like: collections, charge-offs, judgments, liens, repossession, bankruptcy and foreclosure. Following are items considered in evaluating credit performance:

Payment history on your accounts. These include credit cards, retail accounts (department store credit cards), installment loans, finance company accounts and mortgage loans.

Collection items and public records. This includes judgments, bankruptcies, suits, liens, collection items and wage attachments. Most of these are considered quite serious, although older items count less than recent ones.

Negative information and late payments are determined using four factors:

- **Recency -** How long ago was the last delinquency? A 30-day late payment made just a month ago will affect your score far more than a 90-day late payment from years ago.
- **Prevalence -** How many credit obligations have been delinquent?
- **Severity -** What level of delinquency did the item reach? How late was the payment made? 30 days? 60 days? 90 days? Or worst of all, is it still outstanding?
- **The number of negative items as compared to your total amount of available credit. -**

For instance, five accounts with a total three late payments is much worse than twelve accounts with a total of three late payments. One of the important considerations is how many accounts show no late payments. A good track record on most of your credit accounts will increase your over all credit score substantially.

Credit Utilization / Amount Owed (30%)

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. Having available credit can actually help your debt-to-credit ratio. Your total indebtedness includes the following considerations:

Total amount owed on all open accounts. Paying off your credit cards completely every month doesn't mean that those accounts won't show a balance on your report. Your total balance on your last statement is usually the amount that will show in your credit report.

Number of accounts you have open and how many of them have balances. A high number of open accounts, even with small balances, can indicate higher risk of over-extension. This is considered in your credit score but most lenders leave it to their discretion, as they have access to your income amount. It is generally good not to have too many credit card accounts. About three is right.

Percentage of the total credit available to you that you are using. Are you close to maxing out your limits? For example, if you have a credit card with an available credit line of $1,000 and you have a current balance of $850 or more, then you are nearly "maxed out." Having several credit cards or other debts with balances approaching the credit limit will affect your score negatively, even if you have always made your payments on time. Your credit score will factor your overall ratio of debt to your overall limits.

The table below demonstrates a Total Debt Ratio calculation.

Total Debt Ratio			
Account	**Amount owed**	**Limit/Loan amount**	**Percentage**
Visa	$800	$1000	80%
MasterCard	$150	$1000	15%
Car loan	$20,000	$25,000	80%
Home loan	$80,000	$200,000	40%
Total	**$100,950**	**$227,000**	**44%**

Amount Of Time Credit Has Been In Use / Credit History (15%)

Generally speaking, the longer the credit history you have, the better your score. However, this factor only makes up 15% of your total score, so even young people, students or others with short credit histories can still score high as long as the other areas are strong as well.

Here are the considerations for length of credit history:

- How long your credit accounts have been in the credit bureau's file.
- The age of your oldest account and the average age of all your accounts.
- How long it has been since you used certain credit accounts, as well as the mix of older and newer trade lines.

Applying For New Credit (10%)

Credit is much more popular today than ever before. Just look at the number of credit card offers you get in e-mail and your mailbox. Consumers can shop for credit and find the best terms to meet their needs. Each time someone runs a credit check on you, however, it creates an inquiry.

The credit bureaus have changed some of their calculations to account for these new trends. Specifically, they now treat a group of inquiries—which probably represents a search for the best rate on a single loan—as though it was a single inquiry (note: this only applies to auto or mortgage loan inquiries.) For example, auto loan inquires that are within 14 days of each other should only count as one inquiry.

Your score takes into account the following regarding applying for new credit:

- **How many new credit obligations have recently been assumed?** Opening several credit card accounts at the same time can look bad. What the bureau's scoring models look for is "To what extent is this consumer trying to open new credit accounts?"

- **How long it has been since you opened a new account?** Primary consideration is given to:

1. Number of inquiries in last six months
2. Number of accounts opened in last year
3. Number of months since most recent inquiry

- **There are no good inquiries.** Inquiries are typically seen as a request for credit and thus are factored as if you are searching for credit. Every time you fill out one of those credit card applications to get a free gift, you are also getting a free inquiry. Every time you fill out an online application for a credit card, or other type of loan, you are getting an inquiry. Too many inquiries looks bad. While there are no good inquires, there are neutral inquiries. These inquiries are most often known as:

1. **Consumer initiated.** A request for your own credit report shows as a consumer inquiry (provided you don't have a friend in the mortgage business pull your report).

2. **Pre-Approval.** If a potential lender has viewed your credit reports without your prior consent in order to determine whether they want to offer you a loan, this is not factored into your score. However, once you fill out a credit application, your full report will be reviewed and a "bad" inquiry will appear on your reports.

3. **Periodic Review**. Many lenders will periodically review the credit reports of their current customers to see if there have been any major changes to their credit reports. If the lender discovers that your credit score is now too low for their standards, they may close your account. These inquiries created as a result of the periodic reviews are not supposed to be factored into your credit score.

Types Of Credit (10%)

The final 10% takes into account how many credit items are reported for large installment bank or credit union loans versus finance companies versus travel and entertainment cards or department store cards, etc. A healthy mix of different types of credit (installment loans, retail accounts, credit cards, and mortgage) is not a key factor in determining your score but it *can* help, especially if your credit report doesn't have a lot of other information on which to base a score. It's not a good idea to open different types of accounts just to improve this factor because it will reduce your score overall. You should never open accounts you don't intend to use.

What type of accounts you have, and how many, can make a big difference. The optimal ratio of installment versus revolving accounts depends on your profile and differs from person to person. One factor that seems to have significant influence is the percentage of open installment loans (such as automobile loans). Too many can lower this portion of your score.

Other Factors That Negatively Affect Credit

Fraud occurs whenever someone else uses your social security number on a credit application. By doing this, the lender is accessing your credit report and will make a decision based upon it. If the person doing this is committing fraud, that person will typically use that credit card until it is full and then walk away from it. When the bank doesn't get paid, it reports to the credit-reporting agencies that you are in default and you now have a negative credit entry through no fault of your own.

Abuses are a subset of fiscal missteps. Basically abuses are usually credit card abuses. Some people have trouble controlling their spending and soon find that they have $20,000 or more in credit card debt and not enough money to cover the bills. These abuses generally end in bankruptcy and destroy a person's credit rating for a very long time.

The good news is that no matter which combination of the above problems faces you, there are solutions. You can definitely remove 100% of all errors and frauds with a few letters. And you will find that many of your personal problems can also be removed fairly easily. And, if you are not 100% successful, there are always simple ways to rebuild your credit in a reasonably short period of time.

How Long Does It Take To Rebuild A Score?

The length of time to rebuild your score after a decrease depends on the reason behind the drop in the score. Most decreases in scores are due to the addition of a new element to your credit report such as a delinquency or an inquiry. These new factors will continue to affect your score until they reach a certain age, unless removed from your report by your efforts.

Delinquencies (late payments) remain on your credit report for seven years. Most public record items remain on your credit report for seven years, although some bankruptcies may remain for 10 years and unpaid tax liens remain for 15 years. Inquiries remain on your report for two years.

Of course, **just because something is supposed to come off your credit report after a certain period of time doesn't mean that it will.** The system is desperately flawed and you may have to take action to remove items that should have already been removed automatically.

Few people can afford to wait seven years or more to rebuild their credit, so there *are* legal methods you can use to improve your credit score in a matter of weeks or months instead of years. More on that later.

CHAPTER 4

Credit Improvement

There are three ways to improve your credit:

1. Remove negative credit items from your credit report.
2. Add positive items to your credit report.
3. Improve other aspects of your credit profile.

It is possible to do all of these things, but before discussing these options, it is important to understand the significance of improving credit.

The Cost Of Bad Credit

Those with bad credit typically have more money problems than those with good credit. The irony of this situation is that having bad credit costs the consumer thousands more in interest and other charges. Those with the least ability to pay, then, are the ones paying the most.

Here are a few examples of the how much your bad credit is costing you:

Example 1: Credit Cards

Those with excellent credit ratings can get approved in about a minute online at any major credit card website for a card with an interest rate of about 9% and no annual fee (as of 2004).

Those with bad credit don't get approved at all, or they get approved for cards with 19% to 24%

interest rates, and have to pay annual fees that average anywhere from $200 to $450 dollars.

If you carry a balance of $5,000 on your credit card, the 9% card would have a payment of about $103.79. A 19% card would cost $129.70. Over a five-year payback period, the 19% card would cost you *$1,555 more than the 9% card*, plus another $1,000 or so in fees.

Example 2: Mortgage Loans

Because mortgage loans almost always involve a large amount of money, even a one-half percent variation in the interest rate is significant.

Let's say that Person A with excellent credit obtains a mortgage at 8% and Person B with poor credit obtains a mortgage at 10% and each borrows $200,000.

Person B with bad credit will pay *$103,680 more on a 30-year mortgage*, calculated as follows:

30-year mortgage (monthly payment):

Person A	**Person B**	**Difference**
$1,467	$1,755	$288 x 360 = $103,680

Also, if you have a credit score below 640, you will almost certainly be asked to have a larger down payment for your home purchase, or greater equity in a refinance. The difference between 5% ($10,000) and 20% ($40,000) down on the above home is $30,000, money which could be invested in a mutual fund or investment real estate.

Example 3: Auto Loans

Suppose two people purchase identical cars from the same car dealership. Both apply for auto loans in the amount of $25,000 and each plans to repay her loan over a five-year (60-month) period. The only difference between the two people is that Person A has an excellent credit rating and Person B has a bad one. Person B will have to pay a higher interest rate.

What will be the difference in total price paid for their cars?

To illustrate this, we will use 6% for those with excellent credit and 20% for those with bad credit. Using the same terms as set forth in the paragraph above, the person with excellent credit will have a car payment of $483.32 per month. The total price paid for her car will be $29,000.

The person with really bad credit will have a monthly car payment of $662.35, which is *$179.03 more each month* than the person with excellent credit. The total price paid for her car will be $39,741.

What has a poor credit rating cost Person B? In this case, the person with bad credit will pay

$10,741 more for the very same car that the person with excellent credit purchased. She may also pay a higher insurance premium because of her poor credit rating.

Perhaps you're thinking that your credit isn't that bad, certainly not bad enough to warrant financing at a 20% rate. Well, even if you could qualify for loan at 13%, you will still pay $5,130 more for the same car than will Person A with excellent credit. Do you have $5,130 you can afford to throw away?

In the real world, the difference is even greater, since people who obtain financing at a lower rate can afford to pay off their cars one or two years earlier than the person with credit problems. The person with poor credit must stretch out his loan over a longer period in order to afford the monthly payments—perhaps five years instead of three, thus driving the finance charges through the roof.

To summarize the cost of bad credit over five years from the three examples above:

Credit Cards:	$ 2,555
Mortgage:	$17,280
Auto Loan:	$ 5,130
TOTAL	**$24,965**

The cost of poor credit in this example is about $5,000 per year, not counting the quality of life factors such as peace of mind. That's a high price to pay for something that can be fixed with a little effort.

The above information is not offered for the purpose of chastising those with bad credit. It is to presented to illustrate why you should work towards getting and maintaining a good credit rating. Your poor credit rating is costing you a fortune.

Removing Negative And Erroneous Items From Your Credit Report

The simple truth is that you do not have to endure bad credit for seven to ten years. It is possible to restore creditworthiness within a much shorter time. However you decide to address your credit challenges, realize that regardless of what you may hear in the media, thousands before you have sought help and restored their credit. Despite the newspaper articles, TV reports, and other credit bureau propaganda to the contrary, the simple truth remains: your credit **can** be restored.

This is the secret: credit bureaus know something the average person doesn't. That is that each item on a credit report must *be proven* to remain on the report. What does this mean? Simply that if a credit bureau is challenged but can't prove an item, it must be removed from your report. This right is guaranteed consumers in the Fair Credit Reporting Act or FCRA (see the *Consumer*

Rights and Credit Laws section).

Your particular problems may be serious or they may just be annoying, but the bottom line is: if you've got negative and erroneous items on your credit report, then you are suffering. **Each derogatory credit item can deduct 20 to 50 points from your credit score**, with the most recent items representing the most harmful.

The good news is: there is a way to remove these items from your credit report. Federal law requires that upon receiving a dispute, the credit bureau must investigate the item. **If a disputed item cannot be verified as correct within a reasonable period, it is automatically removed from the report.**

Once the credit bureau receives your letter, they must verify the information you have presented. That means that they will attempt to contact the original creditor to determine if the information is true. With some of the larger creditors, this is an automated process done by computer, with only a small amount of human involvement. With smaller creditors, the process is done by mail or telephone.

If the creditor fails to verify the information, or if they don't respond in a certain time frame, the negative items will be removed from your record, or updated to show paid in full/never late (depending on how you disputed it).

Many creditors will not respond to a credit bureau inquiry simply because it is a bother. Also, if any past problems have been corrected, a creditor will show less interest in keeping a negative item on your credit record, and may not respond to a written inquiry.

Generally, creditors will only maintain credit account information for two years. **If you challenge an account that is more than two years old, chances are the records won't be available for verification.**

When you receive your new updated credit report, you may notice that some, if not all, of the negative items have been removed. If there are some items remaining, you can then repeat the process by once again challenging the credit bureau's information with denials. This process can be repeated until all negative items are removed.

When a creditor receives a second or third inquiry from the credit bureau in a short time span, they may think it is just a follow-up of one received earlier. That, however, is not the case, and if the creditor doesn't respond to each one, your report has one more item removed. This procedure can place you years ahead in reestablishing your credit.

You have to remember that businesses are in business to make money. Fighting with you is not a profitable undertaking. At some point, they may redefine "victory" as just getting rid of you.

The Truth About Credit Repair Companies

Not everyone wants to invest the time required to conduct a thorough credit restoration campaign. Some would rather pay someone else to do it. Many "credit repair" companies claim to remove negative credit with the flick of a wrist. Their advertisements make bold assertions and guarantees: "Bankruptcy, tax liens, judgments... no problem!! One hundred percent guaranteed!! Credit report 100% cleared in 30 days!!" Can they really make such sweeping promises?

The answer is "yes and no." They can guarantee your money back if they don't perform, but they can't 100% guarantee that your credit will be repaired perfectly. That's not always possible. **No credit repair company can guarantee a specific outcome.** It would be like a defense lawyer guaranteeing that the jury will find his client innocent. Guarantees are great when the credit repair company promises a refund if certain results don't occur.

Credit repair companies do the same thing you can do for yourself, but they typically take longer to do it because they have to wait for *you* to send all correspondence to them. The worst thing about credit repair companies, though, is their expense. Although they often claim low monthly rates, they will take a year to two years to complete the process and the fees will add up to $500 to $1,000 or more.

Legislation signed in September of 1996 as part of the sweeping changes directed at credit repair organizations (CROs) went into effect on April 1, 1997. The new statute is the first federal law targeting credit repair scams and is known as the Credit Repair Organization Act (CROA). Below is a summary of the most important new consumers' rights under the statute. For the full text of the act, search the web for **"CROA"** or **"Credit Repair Organizations Act"** (the first site to display should be ftc.gov, which is the Federal Trade Commission's consumer web site, which has lots of good information for consumers).

CROs are not allowed to accept payment until services are fully rendered. The law requires CROs to give consumers:

1. A written disclosure explaining their legal rights about their credit history, before any contract is signed.

2. A written contract with all the terms and conditions of payment, a detailed description of the services to be provided, including any guarantees of performance and an estimate of how long it will take to perform the contract.

Consumers are allowed a three-day cooling off period, during which they have the right to cancel any agreement they sign with a credit repair organization. With payment being made only after results are accomplished, the less efficient companies will fade away quickly, leaving the cream to rise to the top. Of course, with less competition and no guarantee to the company, prices for services are bound to climb substantially.

If at some point you are tempted to contact a credit repair company for help, use good sense and check them out thoroughly. Even though you may not be paying up front, you don't want anyone getting your file red-flagged (more on that later).

Here are some steps to insure the CRO company is capable of helping you:

1. Contact your state attorney general, local Better Business Bureau, and your state or local consumer affairs agency to check out the credit repair company. See if any complaints have been

lodged against the organization.

2. Be suspicious if the answer to every concern of yours is, "No problem."

3. Verify that there is an attorney on staff.

4. Be especially wary if you are asked for a large sum of money in advance, before the company completes the job it promises to do.

5. And, of course, get everything in writing.

File Segregation - A New Credit Identity?

If you have filed for bankruptcy, you may be the target of a credit scheme, often called **"file segregation."** In this scheme, you are promised a chance to hide unfavorable credit information by establishing a new credit identity. That may sound perfect, especially if you fear that you will not be given any credit as long as a bankruptcy appears on your credit record. The problem is, "file segregation" is illegal. If you use it, you could face fines or even prison.

Upon filing for bankruptcy, you may receive a letter from a company that warns you about your inability to get credit cards, personal loans, or any other types of credit for ten years. For a fee, the company promises to help you hide your bankruptcy and establish a new credit identity you can use when applying for credit.

If you pay the fee and sign up for the service, you may be directed to apply for an Employer Identification Number (EIN) from the Internal Revenue Service (IRS). Typically, EINs (which resemble social security numbers) are used by businesses to report financial information to the IRS and the Social Security Administration.

After you receive your EIN, you are advised to use it in place of your social security number when you apply for credit. You also are advised to use a new mailing address and to include some credit references.

Below are three reasons a company may give you for establishing a new credit identity. These false claims, along with the pitch for getting a new credit identity, should alert you to the possibility of fraud.

Claim 1: You will not be able to get credit for 10 years (the period of time bankruptcy information may stay on your credit record).

Each creditor has its own criteria for granting credit. While one may reject your application because of a bankruptcy, another may grant you credit shortly after you filed for bankruptcy. And, given a new reliable payment record, your chances of obtaining credit will probably increase as time passes. You can probably qualify for a home mortgage in one or two years after bankruptcy if you have reestablished credit.

Claim 2: The company or file segregation program is affiliated with the federal

government.

The federal government does not support or work with companies offering such programs. EINs are intended strictly for business purposes and cannot legally be used by consumers.

Claim 3: File segregation is legal.

It is a federal crime to make any false statements on a loan or credit application, which the file segregation company may advise you to do. It is a federal crime to misrepresent your social security number. It also is a federal crime to obtain an EIN from the IRS under false pretenses.

Further, you could be charged with mail or wire fraud if you use the mail or the telephone to apply for credit and provide false information. Also, file segregation would likely constitute civil fraud under many state laws, which could prompt a monetary settlement against you.

Self-Directed Credit Improvement - The Best Approach

The ideal credit-improvement strategy is a self-directed one. The difference between self-directed and do-it-yourself is the amount of work you have to do yourself. Doing it yourself means that you have to write all the letters to the credit bureaus and that you rely on dubious instruction from unreliable sources.

Self-directed credit improvement means that you have received a program that enables you to greatly simplify the process. This kind of program usually does not require that you write any letters and provides simple, professional instruction that takes into account all appropriate laws.

Not surprisingly, the credit bureaus have declared war against the credit repair companies and those selling instruction on credit improvement. The bureaus lambaste credit repair companies in the media and send anti-credit repair literature to anyone whom they suspect of using credit repair services. The bureaus boldly deny that information can be removed from a credit report, when in fact it happens all the time.

How To Get A Copy Of Your Credit Report

Your credit report is available to you in a number of ways. You can contact the credit bureaus on the phone, which can often be a frustrating process as they usually have unmanned, voice-mail-attended phone numbers. Also, it can take weeks to get your credit report, with no way other than writing letters or leaving messages to follow up on orders or ask questions.

Fortunately, the bureaus have made it easier to obtain your credit reports via the World Wide Web. The Fair and Accurate Credit Transactions Act (or "Fact Act") entitles you to a free copy of your credit report from all three credit bureaus once a year. You can obtain your free credit reports by visiting:

www.annualcreditreport.com or by calling **(877) 322-8228**

In addition, you are entitled to a free credit report if a credit grantor used that report (from that particular credit bureau) to determine you unworthy of credit, employment or insurance. You have 60 days after being declined to obtain your free report. You can also get a free copy if you are unemployed or think you are a victim of credit fraud. Otherwise, you will have to purchase one for around $10 each.

How To Purchase Your Credit Reports

If you have already utilized your free annual reports but you want an updated versions, you will have to order them directly.

Step 1: You will be able to obtain your reports by calling the three credit bureaus directly or by going to their web site:

Experian 1-888-397-3742 www.experian.com

TransUnion 1-800-888-4213 www.transunion.com

Equifax 1-800-685-1111 www.equifax.com

Follow the automated prompts and answer every question. Often, the system will ask you to verify your identity by answering questions about existing credit accounts. For that reason, make sure you have your bills nearby in case you need some information from them. There is a fee to order reports via the automated telephone or online systems.

Step 2: If you are unable to obtain your credit report by phone or web, address an envelope to each of the bureaus and put your return address on them. The address for each bureau is available by calling the bureau’s toll-free number above or by going to their web site and clicking on Contact Us at the top of the page. The credit bureaus frequently change their mailing addresses in order to make it difficult for consumers to order their reports, so please call and verify the addresses before mailing out the forms.

Step 3: Make four copies of your driver’s license (if your license doesn’t have your current address on it, also copy something else that shows your address, like a utility bill in your name, etc.) and your social security card (or anything with your social security number on it, like a pay stub). You can copy these items on the same sheet of paper. Keep one of the copies for yourself.

Step 4: On the front of the copies from step 3, write "Please send my credit report to this address:_____. I have enclosed the appropriate dollar amount."

Step 5: Place the appropriate money order and copy of driver’s license and social security card in the envelope matching the bureau. Make sure that the money orders are made out to the credit bureau and that they match the envelope.

Step 6: Stamp the envelopes with a regular first class stamp and mail. You should have your credit reports back within two weeks.

How To Read A Credit Report

A credit report will having the following information:

1. Name of reporting institution.
2. Loan account number.
3. Date of account opening.
4. Original amount of account
5. How promptly payment was made (late payments of less than 30 days are usually not reported).
6. How often payment was 30, 60, or 90 days late.
7. When and if account was paid.
8. If account was paid as agreed.
9. How account was secured (collateral, co-signers, etc.)
10. Repossessions.
11. Charge-offs (lender has given up collecting and written off account as uncollectible).
12. S.C.N.L (skipped cannot locate) (left with no forwarding address available).
13. Closed or open account (at whose choice, lender or consumer).
14. Judgments: date and name of company that filed.
15. Bankruptcies: date filed.
16. Liens: including past liens.
17. Most of your report will be in coded or abbreviated form. Usually, you can decode it yourself. If not, your reporting agency is required to answer any and all questions to help explain your report. Remember, you have the right to know. Also, please remember the information on your report is based on how it was given to the bureau by the subscriber/ lender.

All of the above items will fall under one of the five sections contained in a credit report:

1. Personal information.
2. Public record information.
3. Collection agency account information.
4. Credit account information.
5. Inquiries.

All of the sections are easy to read and understand with the exception of two: the credit account information section and the inquiry section (both detailed below). This is because the credit bureaus use alphanumeric coding to classify and report type of account and payment history. Once you understand the key, it is easy to read these sections of your credit file.

Credit Account Information

Beside each credit account in your file will be a letter designating your relationship to that account. Below is the key indicating what these letters mean:

J = Joint

I = Individual

U = Undesignated

A = Authorized User

T = Terminated

M = Maker

C = Co-maker or Co-signer

B = On behalf of another person

S = Shared

P = Shared account which is neither C nor A

U = Undesignated

X = Deceased

In addition to the above coding, you will also find alphanumeric coding used to record the type of account and your payment history. Below is the key indicating what these letters and numbers mean:

O = Open (entire balance due each month)

R = Revolving (amount due can change each month)

I = Installment (fixed amount due each month)

0 = Approved, but account is too new to rate or not yet used

1 = Paid as agreed

2 = 30 or more days past due

3 = 60 or more days past due

4 = 90 or more days past due

5 = 120 or more days past due or is a collection account

7 = Making payments under debt consolidation or Chapter 13.

8 = Repossession

9 = Charged off account

M = Mortgage

C = Check credit (line of credit)

Therefore, based on the above, you could quickly go down the relevant column in your credit file and **the following alphanumeric combinations would be indications you have an excellent payment history: O1, R1 or I1. Of course, you don't want to find anything that ends in 2, 3, 4, 5, 7, 8 or 9.**

Inquiry Section

Credit bureaus sometimes use coding in the inquiry section (section where those who have pulled your credit file are listed). For example, Equifax uses the following abbreviations:

PRM = Your name and address were given to a credit grantor, but nothing else. For example, a credit card company might offer you a "pre-approved" credit card based on this information. Any item marked with PRM will not count against you as an inquiry.

AM or AR = One of your existing creditors has pulled your file to see if your financial situation has changed. For example, a credit card company might pull your file every six months to offer you a credit line increase.

Public Records

If there are any civil actions with dollar amounts awarded, they will appear in a field named Public Records. Public Record information consists of bankruptcies, liens and civil actions against a consumer. This information will include:

- Reporting court's name.
- Original filing date with court.
- Status date if status is satisfied, released, vacated, discharged or dismissed.
- Reporting court's number.
- Amount of public record.
- Type of public record.
- Certificate or docket number.
- Code describing the consumer's association to the public record item per the Equal Credit Opportunity Act.

- Book and page number
- Plaintiff name.
- Liability and asset amounts for bankruptcies only.
- Voluntary indicator only. May display as VOLUN or INVOL.

An asterisk preceding public record information or a trade line indicated that information may need further review.

Differences in Bureau Reports

Although much of the information on your reports will be the same from each bureau, each has its own unique way of reporting. In order to solve the credit puzzle, you must have a Rosetta Stone to help you translate the bureaus' jargon. The most important differences are listed for each bureau below, along with a definition of the terms:

Equifax

CONSUMER REFERRAL MESSAGE:

This is the address and phone number of the reporting agency. It is provided to assist you and the consumer in the event of adverse action.

SINCE: Date file was established.

FAD: Date of last activity on file.

FN: FILE NUMBER for Equifax Internal use only.

IDENTIFICATION:

Birth date, SSN subject, SSN verified-Yes (Y) or No (N).

(According to Equifax rules, SSN has been verified through major Equifax customers. Social Security Administration will not verify SSN).

EMPLOYMENT:

ES-(Employment subject) position, firm, location, date employed, date verified.

EF-(Employment former) position, firm, location, date left.

E2-(Employment second former).

<u>SUMMARY OF FILE ITEMS</u>:

04/73-Oldest opening date of trade.

07/98-Newest reporting date of trade.

PR/OI-YES-file has public records (yes or no).

FB-NO- "No" means file contains NO information from credit reporting companies who aren't affiliated with Equifax.

ACCTS-10-File contains ten trade lines.

HC-High credit range $450-87,595.

6-ONES-Six trades in the file coded 1 (see above for coding guide).

1-TWO-One trade in file coded 2.

1-THREE-One trade in file coded 3.

1-FIVE-One trade in file coded 5.

1-OTHER-One trade in file with no code.

<u>PUBLIC RECORDS OR OTHER INFORMATION</u>:

BKRPT (Bankruptcy) date filed, court number, case number, liabilities, assets, exempt amount, filer, type, intent, chapter number.

COLL (Collection) Date reported, date assigned to collection agency, agency's client, amount, balance, date of last activity with agency's client.

ECOA designator, account serial number.

ST JD- (Satisfied Judgment) date filed, court number, amount, defendant, case number, plaintiff, date verified, status, date satisfied.

<u>INQUIRIES</u>:

INQS -Alert appears if three or more inquiries occurred within the past ninety days. Customer name, number and date inquired. Two-year inquiry history shown.

TRADE:

FIRM/ID CODE-Name and customer number of reporting company.

*-Trade information from automated tape supplier.

RPTD-Date item was reported.

OPND-Date account was opened with reporting company.

H/C High credit (On "R" (Revolving) accounts, may indicate credit limit).

TRM-Monthly repayment amount or number of months or years.

BAL-Balance owed as of reporting date.

P/D-Past due amount as of reporting date.

ACCOUNT NUMBER:

Subject's account number with reporting company.

30 (01) 60 (01) 90+ (01)-Number of times account was 30, 60 or 90+ days late.

05/98-R4, 04/98-R3, 03/98-R2- Most severe delinquency rating in last seven years, plus exact dates of last two delinquencies plus.

DLA 02/98-Date of last activity on account.

SAFESCANNED:

Optional fraud system. This file was accessed by a customer using the Equifax SAFESCAN service, an Equifax fraud protection service. Year and state of residence when Social Security number was issued.

DATE FILE WAS ACCESSED

Experian

The Heading

The Heading is at the very top of the report. It contains the inputting information, date, and reference number. The inputting information includes the name, social security number, and address of the applicant followed by the name of the requesting party.

The Consumer's name and address, number of subscribers reporting the address via the update tape (U=Update Tape, I=Inquiry, M=Manual Data).

The Account number for the last subscriber reporting the consumer at their current address.

The Consumer's previous address with source. (An asterisk preceding any address indicates the address was not entered on inquiry.)

Consumer's Social Security number and other Social Security numbers reported on the consumer's file. An asterisk denotes any SSN not matching the inquiry.

The Consumer's year of birth.

The Consumer's Employer's name and address including time frame reported and source (U=Update Tape, I=Inquiry).

The Consumer's Previous employer's name and address with time frame reported and source.

Alternate names such as aliases, maiden or previous surnames, or nicknames associated with the consumer's file.

Trades

Under the trade portion of the credit report, creditors report the amounts of loans and credit cards with payment histories. The name of the creditor is in the left column, the credit amount information in the center column, and the payment history is in the right column. Note in the center column, L stands for the Loan amount or Limit and H stands for the Highest Balance Owed on the Account.

The most common of the codes used to describe an accounts condition are as follows:

CURR ACCT Account is current in payments and in good standing.

CUR WAS 30-2 Account is current, but was 30 days late twice.

PAID Account has been paid off to a zero balance and is inactive.

CHARGOFF Unpaid balance has been reported as a loss by the credit grantor and they are no longer seeking reimbursement.

COLLECT Account is seriously past due and assigned to collections.

FORECLOS Property was foreclosed upon.

BKLIQREQ Debt has been forgiven through Chapter 7, 11, or 13.

DELINQ 60 Account is 60 days past due.

INACTIVE Account is inactive.

CLOSED Account is closed.

Transunion

Date Indicators

A Automated payment

C Closed

D Declined

F Repossessed/Written Off/Collection

I Indirect

M Manually Frozen

N No Record

P Paid Out

R Reported

S Slow Answering

T Temporarily Frozen

V Verified

X No Reply

Special Messages

Highlights specific credit file conditions that may include:

- Mismatched information as indicated by TRANS ALERT® or HAWK®
- Presence of consumer statement.
- No subject found.

A TRANS-ALERT message appears when the input address, SSN or surname does not match what is on file; or when a minimum of four inquiries have been made against the file within the last 60 days. HAWK messages (optional) appear if address, SSN or phone number have been used in suspected fraudulent activity; or if the information is inappropriate on an application, such as a commercial or institutional address; or if the SSN has not been issued by the Social Security Administration or is that of a deceased person as reported by the Social Security Administration.

Report Serviced By

Identifies the TransUnion bureau owning or servicing the credit report. This information should be used to direct consumers to the appropriate location in the event of an adverse action.

Review Your Credit Report

Now that you have the credit reports in hand, review them very carefully. Understanding your credit report is very important. Every bureau uses different codes and abbreviations, so don't feel intimidated. **After you have received your report and have decoded the information, review it carefully. Are there any:**

- **Errors and/or inaccuracies**
- **Misleading information**
- **Incomplete information**
- **Outdated derogatory reports**

Remember: all derogatory information should be removed after a given amount of time (seven years for late payments, liens, judgments, charge offs, repossessions, etc. Bankruptcy should be removed after ten years.)

After reading the laws included in this publication, you may see other reasons to dispute your credit report, but, for now, concentrate on finding obsolete, incorrect, or misleading information.

Some reports are easier to read than others. Experian puts an asterisk next to all negative items. TransUnion lists all negative entries under one section and all positive entries under another section. Equifax does not indicate an entry as negative or positive—you must determine an account's status by viewing each entry.

Once you have noted each questionable item, you should rank them. Rank the most damaging information first, followed by the next most damaging, etc., and finally those items which are neutral. Do this for each credit report, as they may not all have the same questionable information on them.

The following ordered list should give you an idea of the significance of derogatory information. From most damaging (1) to least damaging (10):

1. Bankruptcy
2. Foreclosure
3. Loan default (charge backs)
4. Repossession
5. Court judgments
6. Collections
7. Past due payments

8. Late payments

9. Credit rejections

10. Credit inquiries

Also, look carefully for the following items:

1. If you have paid off an account but it is still listed, make sure the report lists a zero balance. In particular look for:

2. Incorrect or incomplete name, address or phone number

3. Incorrect social security number or birth date.

4. Incorrect, missing, or outdated employment information

5. Incorrect marital status—a former spouse listed as your current spouse.

6. Bankruptcies older than 10 years or not identified by the specific chapter of the bankruptcy code.

7. Lawsuits or judgments older than seven years.

8. Paid tax liens older than seven years, delinquent account older than seven years or that omit the date of the delinquency.

9. Credit application inquiries older than two years.

10. Unauthorized credit (not promotional) inquiries—credit-reporting agencies usually do not remove these at a consumer's request, but it never hurts to ask.

11. Commingled accounts—credit histories for someone with the same name or similar social security number.

12. Duplicate accounts—this may occur when the creditor reports the account as both installment and revolving, or when you move and your account is transferred to a different location. Collection accounts may also appear from the original creditor and the collection agency. It is better to dispute them both for inaccuracy than for duplication.

13. Premarital debts of your current spouse attributed to you.

14. Lawsuits you were not involved in.

15. Incorrect account histories—such as a late payment notation when you paid on time or a debt shown as past due when it was discharged in bankruptcy.

16. Paid tax, judgment, mechanic's or other liens listed as unpaid.

17. A missing notation when you disputed a charge on a credit bill.

18. Closed accounts incorrectly listed as open.

19. Accounts you closed that that don't indicate, "closed by consumer."

20. Incorrect aliases.

21. Incorrect balances. If a balance is listed too high, you should correct it. The balance reported is the balance on the date the creditor reported the information. If the balance is correct as of

the date shown, it is not necessary to dispute the item.

22. Accounts that have been paid off can still be listed on your report, although they should indicate that you've paid them off.
23. If you've been through bankruptcy, both the public record information about the fact that you've been through bankruptcy can be listed and the individual accounts that were discharged may also have a notation that they were discharged may also have a notation that they were included in your bankruptcy.
24. Information about accounts you share, or used to share, with a spouse will be listed in both your reports.
25. Many people incorrectly assume that if they have paid off a past-due debt, the old negative information will be removed. It will remain on the credit report for up to seven years.

Disputing Your Credit Report

As you proceed through the following steps, keep copies and records of all correspondence you send and receive. If possible, when corresponding with these agencies, send everything by certified mail, return-receipt requested. Make sure you obtain a cash receipt and retain a copy of the certified mail receipt. These will serve as your proof of mailing. If information that was removed from your credit report should reappear later, you will have the documentation to force the credit agency to permanently delete this entry.

Here are the steps required to restore your good credit:

1. Obtain Your Credit Reports
2. Review Your Credit Reports
3. Request Correction
4. Await Response
5. Repeat
6. . . . Until Satisfied

That's all there is to it. Seems easy enough, but you must have patience, because the credit bureaus are not always very cooperative. They make their money by providing credit reports to lenders, not by fixing bad information in their databases.

If you have some incorrect or incomplete information on your credit report, you have the legal right to have it investigated by the credit bureaus, and corrected if errors are found. You should check all three major credit bureau’s reports for inaccuracies and challenge any inaccurate information by writing a letter.

In it explain what you want removed in a simple, direct way without going into great detail. Enclose any documentation you have that will support your claim. It is best to make copies of such documentation and keep the original yourself. Use words like "detrimental" or "damaging," and stress how the information could jeopardize your future creditworthiness. This is very effective if used correctly.

Below is a list of statements you should make and shouldn't make when disputing your credit items:

Good Reasons to Dispute:

- This account is not mine. Please remove it.
- This account was never paid late. Please update it to show "Paid in Full, Never Late."
- This item is listed late due to a bank error. Please remove or update this entry.
- This information is inaccurate. Please remove this item from my report.
- I did not authorize this inquiry. Please remove it.

Bad Reasons to Dispute:

- The collection agency said this wouldn't be listed on my report.
- I got laid off and the bank said I didn't have to make a payment for a couple of months.
- I was only late twice on this account. Your record shows three times.
- I was in the hospital and couldn't make my payments.
- I shouldn't have to pay for this item because it was defective.

The bureaus have up to 30 days to investigate and correct the information. If they are unable to verify the information in 30 days, they must by law, delete the erroneous information in question from your report.

If the credit bureau doesn’t respond to your investigation request within 30 days then you should write them back and politely remind them that they have 30 days to complete your request and that they have exceeded this time period. Usually this will get them to either send you the updated corrected report or a letter explaining why your report was not changed.

Send your dispute letter by certified mail if possible. *Keep a copy of your letter, along with copies of documentation, and your mail receipt.* Keep detailed notes on all phone conversations. Always get the name of the person you've talked with.

It will not help your case if you become angry or argumentative. Stay calm, and present yourself in a pleasant way. Refrain from using foul language, as this will only hurt your case.

The bureaus may attempt to bully you into believing that your request is frivolous, or even unlawful. But the credit-reporting agencies are required to assume that all disputes are bona fide, unless there is clear and convincing evidence that it is not. A blanket dispute (i.e. all information is challenged) may be considered evidence that the dispute is frivolous, if you fail to provide any allegations concerning specific items in your file.

You should challenge each item individually, and not give in to them if they send ominous letters warning of dire consequences if your claims are frivolous. If the information they are reporting is inaccurate, incorrect, erroneous, misleading or outdated, they will have to remove it upon investigation. The specific law on disputes is found in United States Code, Title 15, Chapter 41, Subchapter III, Section 1681i, entitled "Procedure in case of disputed accuracy."

You will now write a letter to each credit bureau, requesting an investigation to verify the status of the most damaging item reported by any of the agencies, and asking that they correct the information.

Also, keep in mind that absent a clear statement that the accuracy or completeness of specific information is "disputed" or "challenged," your letter might not be construed as an exercise of rights under the Fair Credit Reporting Act. Merely explaining the reason a debt was not paid might not constitute a dispute and does not require the credit bureau to reinvestigate or accept your written dispute statements. Explanations are not useful, but disputes get results.

Once the credit bureau has received your dispute letter, they are obligated to investigate. This obligation is not contingent upon you having been denied credit.

After You Get Your Updated Report

According to the Fair Credit Report Act, a credit-reporting bureau does not have to investigate a disputed report if they feel your request is ***"frivolous or irrelevant."*** They are advised against using this as an excuse, unless they have reasons that would stand up in court, but they occasionally do.

This "frivolous and irrelevant" response can be triggered by:

1. Sending too many disputes to the same bureau in a short time span.
2. Being vague about which facts you are disputing about the item.
3. Sending several disputes without documentation (a combination of #2 and #3).

Your best response in this situation is to send another letter escalated in tone, just as any person naturally would in a conversation, and provide any additional documentation that you can come up with.

After receiving and reviewing your updated report, you may see a big difference. Keep in mind, however, that the percentage removed depends on the number disputed. If you've only disputed one item on your credit report and that one item has been removed, you have scored 100 percent. If, on the other hand, you disputed nine items and had three removed, you've only scored 33 percent. These numbers can be deceiving. If you have only removed one item, chances are it was the one item that affected your report the most, so consider it a success.

If, after getting your updated report, you find a disputed item remains and you are convinced of its error and willing to dispute it again, write another letter to the credit bureau and request a reinvestigation.

What If Deleted Items Reappear?

On occasion, a negative listing that was recently deleted will be eventually verified by the creditor. The new Fair Credit Reporting Act requires that the credit bureau inform you before the re-report a previously deleted listing. The FCRA also makes it more difficult for credit bureaus to re-report listings. Because of these factors, it is fairly rare for listings to come back on once they've been deleted.

If an item is re-reported, it is a simple matter to challenge the listing again at a future time to press for permanent deletion.

How Time Can Erase A Bad Credit Report

What millions of Americans do not realize is that if they took no action at all to remove negative reports from their credit files, in time they would be automatically erased anyway.

The Fair Credit Reporting Act has set limits on the number of years that reports can remain on your record. In effect, the passing of time can wipe your slate clean.

All adverse information must be erased from your file after a period of seven years (10 years for bankruptcies and court records). This includes any and all information collected that might have had a negative effect in obtaining credit. There are, however, a few exceptions to this ruling:

A credit bureau may keep a separate file on an individual indefinitely and release that information if that person applies for unsecured credit or life insurance exceeding $50,000 or if a prospective employer is requesting a report that may result in an employment position that pays $75,000 or more a year.

The 100-Word Consumer Statement

Many creditors and credit bureaus will try to convince you that you can solve your credit problems by adding a 100-word statement to your credit report. This is almost never a good idea because this “statement” has zero effect on your credit score and rarely, if ever, affects a lender’s decision. It can also limit your options if you decide to dispute the item later. It is very difficult to remove this statement if you discover that it is actually harming your credit. However, for informational purposes, here are instructions on the process.

If you find incorrect or incomplete information in your credit report, you have the legal right to include a statement on your credit files that explain your side of the story if for some reason you are unable to remove the negative information. The credit bureau may limit your statement to 100 words or less. They must help you summarize if it is necessary.

When writing your statement try to be brief, factual, and clear. If you have documentation supporting your side of the dispute, be sure to mention that it is available in the statement also. A good example of including a statement on your credit file is when you refused to pay for a damaged item that was sent to you by mail that you charged on your card.

You could summarize in your statement that your payments are past due because you are in the process of disputing an item with that particular company.

Write your 100-word statement only as a last resort if you are unable to get the information removed through normal channels.

"Your side of the story" may in some extreme cases help convince a creditor that a negative entry on your report was just an unfortun-ate incident that couldn't be prevented at the time it occurred. *"Unfortunate incidents"* does not mean that you are not generally trustworthy. For example, the company you worked for went bankrupt or relocated to another state. By telling the full story, plus the fact that you now have a steady job and can meet an obligation to repay, you will counter any negative reports with a positive entry. Stick with the facts, and be sincere.

If, on the other hand, you had a dispute with a creditor because of defective, undelivered merchandise, etc., explain your reasons for not paying all, or part, of a bill in your consumer statement. (But, only if it appears in your credit bureau report.) Write your explanation as if you were speaking directly to the creditor. Don't get too wordy, or start expressing anger. You will be given the benefit of the doubt if you explain your side intelligently and precisely.

Removing File Variations

File variations can appear on credit reports when a credit bureau receives conflicting information. This type of error should be corrected as soon as possible, because when a bureau receives incorrect information from a creditor, they also then have the wrong information in your file.

When you discover discrepancies of this type, correct the errors immediately by contacting your creditor and the credit bureau. Why is it important? Because, for example, social security numbers are important in identifying who you are. An incorrect social security number, employer's name, or address can make the difference between approval and denial of a credit application.

Make certain that everyone who submits a report to a credit bureau has the correct information. When you discover an error, write to the credit bureau explaining that the information they have on file is incorrect, and provide them with the right information. They will then investigate the item in question and remove any variations.

Variations in information can work against you because they send a signal to creditors that you may be attempting to deceive or mislead them. Variations in information are a negative force, so don't discount them as unimportant.

Removing Inquiries

Every time you apply for credit, and the credit grantor checks your credit report, a credit inquiry is placed on your file for two years. Even if you receive a credit offer in the mail and you respond, your credit will almost certainly be checked and a credit inquiry will be added to your credit report unless it is a pre-approved offer.

Credit inquiries are can create problems because too many of them can indicate to a creditor that you're "credit hungry" and may be in financial trouble. Worse yet, the creditor has reason to believe that you received many of the credit lines that are showing as inquiries, and that many of those credit lines have not yet appeared on your credit report.

Too many recent (within the last six months) inquiries indicate to a potential credit grantor that your debt-to-income ratio may be much higher than you say. Most creditors disregard inquiries once they have been on your credit report for one year or more. This may not help your situation if you need credit right away or if applying to a creditor who looks at all of your inquiries.

Keep in mind, however, that when you request your own report from a bureau, these inquiries do not count against your credit score. Also, there is usually a 30-day buffer period where auto and mortgage inquiries aren't counted. Finally, two or more "hard" inquiries in the same 14-day period count as just one inquiry. You could have 30 inquiries in two weeks and it only counts as one.

A credit grantor finding "excessive inquiries" may reject your credit application. There are no guidelines or laws that govern the number of inquiries that constitute "excessive." It is each credit grantor's decision. Credit grantors usually reject applications for this reason when they see several inquiries but no new credit. They would rather be safe than sorry. **If you have more than a couple of inquiries without a subsequent account being opened, this sends a negative message.** Also, inquiries may deduct a couple of points from your credit score.

Some companies make unauthorized inquiries to check your credit. Protect yourself from unauthorized inquiries by not giving out your personal information to a merchant (including address and driver's license) until you are ready to actually apply for credit. You can also place a restriction on your account to prevent inquiries without your explicit authorization.

Many retailers will ask for a credit report before allowing you to take home a high-ticket item. This will appear on your credit record as an inquiry. They also can give your loan application to several other lenders, and the other lenders will run their own credit check. For one purchase, you could conceivably have several inquiries turn up on your credit record.

A subscriber must have your permission in order to run an inquiry into your credit report. After you see your report, and notice there are inquiries that you were not aware of, you should send a dispute letter to those bureaus.

If that doesn't work, contact the creditors themselves as outlined below. Explain to them that you did not authorize them to check your credit. Remind them that they are in direct violation of the Fair Credit Reporting Act. Suggest that they immediately contact the credit bureau involved and remove the unauthorized inquiry.

Inquiries may stay on a credit report for up to two years, and should then be removed. If you don't plan on applying for credit before the inquiries are removed, there is probably nothing to worry about, provided they are, in fact, removed. If you're not willing to wait two years, you may take these steps:

Step One

First, you must find out which credit inquiries are getting in your way. Order all three of your credit reports following the instructions in this publication. When your reports arrive, look toward the end of your credit report to find the inquiries. Some of the inquiries are only promotional and will not be shown to prospective credit grantors. You need not worry about those.

Identify only the inquiries that are shown to credit grantors. You should recognize some of these as places where you applied for credit, but others may be a complete mystery to you. On most credit reports, there is a guide that tells you which inquiries count against you.

Step Two

Dispute the inquiries with each credit bureau. If they come back verified twice, you must then find the addresses for each credit inquirer. Your credit report should list addresses for each of the inquirers. If one bureau's report doesn't show addresses for credit inquirers, you should be able to match the same addresses on the inquirers that are listed on the one that does show them. Once you have collected all of the addresses for each inquiring creditor on each credit report, you are ready for step three.

Step Three

Now you must prepare letters to each inquiring creditor asking them to remove their inquiry. The Fair Credit Reporting Act allows only authorized inquiries to appear on the consumer credit report. You must challenge whether the inquiring creditor had proper authorization before pulling your credit file.

Step Four

Some of your creditors may provide documentation that a credit inquiry was authorized by you. Read the authorization that you signed very carefully. If there is any ambiguity, you can write back and argue that the inquirer's authorization form was too complicated and not easily understood by the layman. You can threaten to contact the state banking commission and complain about a deceptive and unclear authorization form if they don't remove your inquiry. Some creditors will try to ignore your challenge. Be sure to send each letter Certified mail

Return Receipt Requested and keep close track of the time that you sent the letter.

If the inquiring creditor doesn't respond within about thirty days, you will have ample grounds to call the inquiring creditor and demand some action. At that point, it's almost irrelevant whether or not you authorized the inquiry. Then it becomes about the creditor's lack of response to a consumer dispute. Be sure to hold your ground and demand that the inquiry be immediately removed or you will complain to the state banking commission or similar authorities.

Many of your inquiring creditors may simply agree to delete the inquiry as a courtesy or because they cannot or will not verify your authorization. That is the goal. Remember, it is not likely that you will need all of your credit inquiries removed, just enough to keep you from being denied credit.

Add New Positive Credit References

Other than removing negative credit entries, the best way to increase your credit score is to add new and positive references to your credit report. This includes secured cards, finance company accounts, and one-time references. It is important to point out that not all loans will help you rebuild your credit rating. Avoid any accounts that will not report prompt payments to the credit bureaus.

Some creditors such as gasoline companies, furniture stores, and finance companies will not report to credit bureaus unless you become a couple of months delinquent. If you would like them to report on a monthly basis then you can request this of them.

Landlords and other people who you pay on a monthly basis can also report to the credit bureaus. Some people have been know to request that their landlord report their prompt payments to the major credit bureaus on a monthly basis. The fee (around $10 a month) for doing this is usually picked up by the tenant.

Before proceeding, it is important for you to remember that simply adding a positive credit item may not necessarily increase your score. For instance, if your existing accounts average five years old, adding a new item could decrease the average age of your accounts, which may actually bring *down* your score.

But if you have little or no *good* credit, then any positive item you can add will certainly be an improvement.

How To Put Your Positive Credit Items On Your Credit Report

Millions of Americans have A-1 credit accounts that never show up on a credit report because not all creditors will share credit histories with a credit bureau. Although most national department store and bank credit card accounts will be included in your file, not all creditors supply information to credit bureaus. Some travel, entertainment, gasoline card companies, local retailers, your landlord, and credit unions are among those creditors who don't usually report.

The Federal Trade Commission (FTC) has advised credit bureaus that when a report has created a negative action against a debtor, that person may add a creditor's name and positive credit information that will show a favorable credit history.

For example, suppose you were never late and never missed paying a monthly car payment for four years. However, upon examining your credit report, you realize that the Acme Finance Company never reported your payment history to even one of the three credit bureaus. Having your perfect payment history reported to your credit file would really boost your credit rating. If Acme subscribes to Equifax and TransUnion, you can contact them and request that your payment history be reported to both of these credit bureaus.

If you lack sufficient credit history or want to improve your credit rating by adding information to it, you can request that unreported accounts be added to your credit file. Before beginning this, you should be aware that there is not a federal law requiring your creditor or a credit bureau to report your payment history to your credit report. If you ask them to report and they refuse, there is nothing you can do to force them to comply. Also, note that a creditor must be a subscriber to a credit bureau before he can report your account information. If a creditor doesn't subscribe, the credit bureau will not be able to process his request.

You can write to the credit bureaus or a creditor and ask that certain accounts be added to your credit file. The credit bureaus do charge a small fee to add information to your credit file, but it should not cost you more than $10.00.

How do you find out if a current or former creditor subscribes to a certain credit bureau? Call them and ask which credit bureaus they subscribe to. Don't be afraid to ask the phone company, the water department, your landlord, etc. to report your payment history to your credit file.

To add a positive item, simply write a simple request and send it to the credit bureau. Current mailing addresses for credit bureaus can be found on their web sites (Experian.com, Equifax.com, TransUnion.com). Look at the top of the home page for the words "Contact Us."

Start by listing creditors that have not reported your personal credit history to a credit bureau. List only those with which you have a good relationship and flawless payment record. Let these creditors know that the credit bureau will be contacting them, and ask them to release your account information to the caller.

Once a creditor has been contacted, write the credit bureaus and ask them to contact the list of creditors you will provide. Also request that they add this information to your report as soon as the information has been verified.

Write a letter to the credit bureau. Give them:

- Name of lender
- Account number

- All other information concerning the account

The credit bureau may charge you a small fee for adding this information. The counter-balance effect is well worth it.

Another Way To Improve Your Credit File

Creditors like to see evidence of stability in your file. The items below won't affect your credit score, but they will make a difference to many creditors. If any of the items listed below are missing, send a letter to the credit-reporting agencies asking that the information be added. Enclose any documentation that verifies information you're providing.

1. Current employment—employer's name and address and your job title
2. Previous employment if you've had your current job less than two years.
3. Current residence, and if you own it.
4. Previous residence if you've been at your current place under two years.
5. Date of birth

Credit reporting agencies aren't required to add this information, but they often do.

Steps To Establish Or Re-establish Your Credit:

When following the steps listed below, be sure to make sure that the creditor reports to one or more of the credit bureaus. If they don't, having an account with them will do nothing to improve your credit.

1. Open a checking account. Assuming you keep your account correctly, you can use this account as a credit reference. After a few months, ask for a bankcard line of credit.

2. Check about getting a loan with your savings account used for security. If you don't have a savings account, borrow the money (a small amount, say $200) from a friend or relative. Then pay them back as soon as you get the loan. Pay off this small note on a short (three-month) term. Then repeat the process.

3. Apply for a credit line at a local retailer. This will be easier to get than a bank loan or travel card. Start by asking for a small credit limit. After you have proven your creditworthiness, increase your credit limit.

4. Apply for a department store or oil company credit card. These are the easiest to qualify for.

5. **Get a secured credit card.** This is a very important way to increase your credit score dramatically, especially if you don't have any credit cards now. After keeping your account current for a year, ask them to refund your deposit.

6. **You might have good credit that you've forgotten about**. Think back, and dig out past creditors that reflect good paying habits.

7. **Go to an appliance or department store** and make a large purchase. Pay 50 percent up front, and ask them to carry the balance for a specific amount of time.

8. **If you are refused credit, find out why.** It could be an easily corrected mistake. Fix it, and apply again.

Unconventional Credit Improvement Strategies

Below are unconventional methods you can use to improve your credit. These are powerful strategies when used correctly.

Maintain three to five lines of credit. If you have a mortgage, a car loan, and three credit cards, you have five lines of credit. Three to five is seen as ideal. More than that may be seen as excessive.

Pay before the grace period on your credit cards This trick is worth money in the bank. If your credit card balance is over 50-75 of your credit card limits, your credit score will hurt to the tune of 50-80 points. Having high credit card balances is very detrimental. It makes sense to pay down your balances, especially before you apply for credit.

On your credit card payment due date, your credit card company automatically sends the balance information to your credit bureaus via computer. That means if you pay down your balance after the due date, even if within the grace period, the balance doesn't show as lower for a whole month longer. Pay before your due date and you will have a better credit score. Period.

Do a credit audit. Under the Fair Credit Reporting Act you have the right to ask tough creditors (not just the credit bureaus) for proof that you were late, didn't pay, etc. Write them a letter giving them 10 days to give you proof you were late, including all cancelled checks and backs of checks, etc. Tell them they must remove the derogatory item if they cannot provide proof. If they do not provide proof, write them another letter telling them they must delete the item (send all letters with mailing receipt). Then send a copy of your letters to the credit bureaus saying they were not able or willing to prove you were late. For some people this works like a charm.

Close Unneeded Accounts. The less available credit you have, the less risk you will pose to a potential creditor or lender. Keep around two or three credit cards for the best score. Close all unused or unnecessary accounts. However, don't close the unused ones near loan time (on a mortgage, for instance), since it'll only raise your balance-to-limit ratio. Just cutting up your card and tossing it in the trash does not close your credit card account.

The safest way to close a credit card account is by sending a certified letter to the customer service department of the card issuer. Ask the card issuer to close your account and to report your account to credit bureaus as "closed by consumer." In approximately 10 days, the card issuer should send you a letter confirming that your account is "closed by the consumer." If you don't receive the confirmation letter, follow up by calling the card issuer to make sure it closed your card and is reporting it properly to the credit bureaus. You may even want to get another copy of your credit report to make sure it is reported correctly.

Focus on the past 18 months of your credit history. In today's lax credit lending environment, lenders are not looking at the past seven years like before, but concentrate on the last 18 months. This could be good or bad news: if most of your mistakes are prior to the 18 month cut off, then it is easier to qualify for credit. But if you have been a saint for the last seven years and in the last 18 months you've made a few mistakes, it's going to cost you dearly. Even people with bankruptcies more than 18 months ago can apply for credit and often get it.

Improve Current Credit References

If you once held a visa or MasterCard that was closed and paid off, contact the creditor and ask that it be re-opened with a small credit limit. You may be surprised at how many lenders will be more than happy to accommodate your request if you have turned your finances around.

If you had a fairly good payment history that turned sour, and you had a legitimate explanation of your credit difficulties, you may be able to re-open the account. Remember, a Visa or MasterCard is one of the best credit references to have when it comes to getting approved for a loan.

If you went into default with a creditor and currently owe them a sum of money, you can negotiate with them. If you agree to pay back what you owe to them, some lenders may be willing to remove any negative information from your report about the account. Call or write the loan or credit card company and direct your proposal to the credit manager. Make sure this is done in writing and both parties agree to the stipulations

How To Establish A Credit History Even If You've Never Had Credit

If you have never financed a car loan, a computer, or other major purchase, you may still be able to get credit. Following are some items to consider:

Consider applying for a retail credit card issued by a retailer, such as Sears. Retail and gas cards are much easier to get than a Visa or MasterCard. Many people started their credit history at the age of 18 by applying for a Sears card and a gas card. Note that, although gas cards are easy to get, don't try to establish your credit history with a gas card unless they report to credit bureaus. However, you can use them as a reference on a credit application.

You must be at least 18 years old to be approved for a credit card. Why? Because under contract law, a minor can rescind a contract at will in most circumstances. If a credit card issuer were to give a credit card to a minor, the minor could charge up to the credit limit and then rescind the contract and refuse repayment. Minors wanting to have a credit card in their own name must have a parent, guardian or other adult over the age of 18 contract for the credit card.

You must have an income. This does not really need an explanation. Would you lend money to someone who had no means of repaying it? The good news is that you don't have to have a particularly high income to qualify for many standard credit cards. Whether your income is sufficient to be approved for a credit card depends on the issuer since each has their own minimum income requirement. Your credit line will be very small if you have a small income, but you must start somewhere. If you make your payments on time, your credit line will be increased after periodic reviews.

Have a telephone number in your name. If you don't have a telephone number at all, you will not get unsecured credit. Likewise, if you can be contacted only from a telephone number that belongs to your Uncle Joe's second cousin, this will make lenders very nervous and they will be much more likely to decline to give you credit.

Have checking and savings accounts. There is a reason that you are often asked if you have a checking or savings account when applying for credit. This is used to score your credit worthiness. Answering "yes" boosts your odds of getting credit; answering "no" does the opposite. Just don't answer falsely; it is an act of fraud to give false information when applying for credit. You can open a free checking account with as little as $100 in many places and increase your credit score a little bit.

Stay in one place. If you move from apartment to apartment or city to city, this will send up red flags all over the place. Lenders are concerned about you disappearing and not being able to locate you. Living at the same address for a long time adds points to your credit score. The longer you stay at one address, the better.

Stay at the same job. Moving from job-to-job is frowned on by lenders, too, because it shows instability and makes them less likely to approve your application, particularly when you have no credit history. If you can't keep a job and you have no credit history, you're at a much higher risk of being unemployed and, consequently, unable to pay your debts. Working for the same employer for a long time adds points to your score.

Pay your bills on time. Once you have been issued credit, it is very important that you are not late making payments or even worse, failing to make monthly payments entirely. Missing a single payment will damage your credit rating for years, and being late several times will come back to haunt you. If you are late making your payments now, you can be sure that when you apply for a car loan, you'll be asked about the late payments you made previously and you will be paying a higher interest rate on the car loan because of it. Be sure you don't damage your credit rating needlessly.

Always send your payment in at least 10 days before the due date to give plenty of time for your payment to be received. The credit card companies report delinquent and missed payments automatically to the credit bureaus by computer every month. If your payment hasn't been received by the due date shown on your statement, you automatically get a negative entry placed on your credit report. And it isn't fun trying to get negative entries removed from your credit report. So don't adopt the attitude that, "I'll pay that bill when I'm good and ready!" because you are only hurting yourself.

Don't spend more than you can pay off each month. Keep in mind that when you are issued your first retail credit card from Sears or whomever, your purpose is to establish an excellent credit rating so you qualify for the Visa or MasterCard that you really want. Use your Sears card to buy necessities, such as shoes and clothing, and pay your balance off each month. Don't run your Sears account up to its limit. Department store cards come with a significantly higher interest rate than Visa or MasterCard.

Another good reason to pay off your balance each month or frequently is that it shows you're a better credit risk. When you're ready to apply for that Visa or MasterCard, your credit report will reflect that you paid off your Sears (or other card) regularly. Once you have established a good payment history with a single trade account (e.g., Sears card, gas card), and you have sufficient income, you will probably qualify for a standard credit card.

Using Secured Cards

One of the best ways to get back on your feet to solving your credit problems is by using a secured card. The payments you make on your card are reported to the major credit bureaus. Your secured card credit entry looks just like any other on your credit report so creditors will take it seriously just like a major unsecured visa and MasterCard. Search online for "secured credit cards" and you will find dozens of options. Be careful of hidden charges on these cards—there are all kinds of tricks used.

These companies ask you to put up a deposit in their bank in the amount at least equal to your credit limit, usually at least $200 minimum. It is usually held at the bank as a C.D. (certificate of deposit) or a savings account. Your deposit is untouchable until the card is paid off and closed. Some even give you 120% of your deposit as a credit limit.

These cards are usually very easy to get. Most people regardless of credit history are approved. They look like any other Visa or MasterCard. No one but you and the bank will know that it is secured. Remember: a Visa or MasterCard is the best credit reference to have on a credit report. Secured cards are the best way to get one if your credit is poor, or if you need to establish new credit.

Chances are if you have a negative credit history, or no credit history, this will be the only kind of plastic money available to you. Remember, credit cards can tempt you to overspend. You should use a credit card wisely, and for convenience only. Exercise good judgment, and prove your creditworthiness.

CHAPTER 5

Applying For Loans And Credit Cards

Be Complete On Your Applications

When applying for a loan or credit of any kind, fill out your credit application as completely as possible. If your application is incomplete, the lender will send a letter asking you for the missing information, or may outright reject you because they think you might be hiding something or because you were possibly dishonest. If you fail to list all of your accounts, you may be rejected also. This is called "undisclosed debts."

If you call the creditor you want to apply to and ask them what credit bureau they subscribe to, you can then order a copy of that credit report, see what accounts are listed on it and then you can make sure you have the same accounts listed on your application.

Some applications are called "mini-apps." These are short applications requiring nothing more than your name, address, and social security number and perhaps one or two credit references. Most of the information they rely on is in your credit report. Unless you are filling out one of these applications, please be as thorough as possible.

Observe The 30-45 Rule For Approval

Many creditors (and all mortgage lenders) will examine how much debt you have in comparison to your income. Here is how it works: Add up your monthly payments on all your bills except your rent/mortgage and utilities. Divide your gross (before tax) monthly income by your monthly debts. You will get a percentage.

To obtain your monthly income, don't just multiply your weekly income by four or your bi-weekly income by two. This is because there are an average of 4.35 weeks in a month, not just four. Instead, multiply weekly income by 4.35 or bi-weekly income by 2.175.

For example: If your total monthly payments are **$1,400** and your weekly pre-tax income is **$800**:

$800 X 4.35 = $3,480 monthly income

$1,400 divided by **$3,480** = .40 (which is **40%**--your debt ratio)

Here are the ranges you need to know:

- If your debt ratio is **30% or less**, you should have no trouble getting credit cards or other additional loans.
- If your debt ratio is **31% to 44%**, your bills are on the high side and you might have some trouble getting additional credit.
- If your debt ratio is **45%** or more, you will probably not get approved for any more credit.

There are some ways to lower monthly debt to get the necessary approvals. You can combine monthly credit card payments into one payment at a lower interest rate. You can also negotiate lower monthly payments with your existing creditors.

Learn Your "Credit" Character

The term character refers to how responsible you are about paying your bills. To determine your "character" a lender will request a credit report to see how well you have handled credit in the past. Many people fail to realize how important it is to get your bills paid on time, yet this is the most important factor that lenders look at in the credit evaluation.

You need to only pay the minimum amount due each month to be considered a person who pays on time. While this strategy is acceptable, it is the surest way to remain in debt forever.

What Creditors Look For

Your credit report is the best source of information for loan approval. Check to see if yours is accurate before applying for credit. Below are some references lenders will use in evaluating whether to grant you credit:

CREDIT REFERENCES: Any account that appears on your credit report can be used as a credit reference, good or bad.

BANK CARDS: A Visa or MasterCard is the single best credit reference on a report as long as it has been paid on time over a period of time. Lenders like to see six months of steady payments.

TRAVEL AND ENTERTAINMENT CARDS: American Express, Diners Club, and Carte Blanche require payment in full each month. These are not as strong as a reference compared to a Visa or MasterCard.

DEPARTMENT STORE CARDS: These are somewhat easy to get and therefore are not looked upon with much weight in the evaluation.

MORTGAGES: These still count very little towards a credit reference because they are secured. However, if you have a previous mortgage on your credit, any new mortgage lenders will consider the payment schedule on that with greater weight.

AUTO LOANS: This is also a secured loan and carries little weight. Some auto loans are not even reported to the major credit bureaus.

CHECKING AND SAVINGS ACCOUNTS: Both are considered in the evaluation process. A savings account is looked upon much more favorably since the ability to save money in these times is considered a bonus.

EMPLOYMENT: Your position, the type of work you do, and how long you have been working in your field all count towards credit approval. The more stable you have been the better. Usually two or more years at your current job (or at least your current field) is considered positive.

Creditors like to see the following information items listed on your credit application in order of importance to them when evaluating your credit request:

1. A positive, up-to-date credit report with a high score.
2. A Master Card or Visa card with a perfect payment history.
3. A home with a mortgage and up to date payments.
4. An American Express and/or Diners Club card.
5. A job you have had for more than one year.
6. An address you have resided at for at least one year (if it's in your name, even better).
7. A current or paid off bank loan.
8. A department store credit card.
9. A telephone/utility bill in your name.

From these items and whatever additional information your lender uses, a decision will be made on whether or not to extend you credit. If you are just starting out or if you have bad credit, it becomes much tougher because you don't score very many points on the lender's scorecard.

How Do Creditors Decide Whether To Extend Credit?

When you apply for a loan, the lender will use the information on your application for two things:

1. To get a copy of your credit report from one or more credit-reporting agencies. In general, for larger loans, like a car or house, all three credit-reporting agencies will be contacted; for smaller loans, like credit cards, only one credit bureau will be contacted.

2. Your application, along with your credit report, will be used to "score" you. Creditors use a scorecard to evaluate your creditworthiness.

Most lending institutions will run only one credit check from one credit bureau. They will request a report from another bureau *only* if they are not satisfied with the first one. Some things that raise suspicion are:

- No credit found after you have claimed credit.
- Over age 27 and no credit record found.
- Discrepancies between credit application and credit report.

In these cases, a second report (from a different credit bureau) should be expected.

But creditors can't just rely on gut instinct or opinions for their decisions. They deal with far too many people to leave anything to chance. So they use a **credit scoring model**, which is a kind of blueprint of a minimally-acceptable borrower. It is essentially a list of criteria creditors use to decide who is credit worthy. (See the chapter titled *Credit Bureaus and Credit Reporting.)* They then compare your credit history against this model to see how you stack up. If you meet their minimum criteria, you are accepted. If not, you are denied.

A credit scoring model is different from the credit scoring system used by the credit bureaus because it contains more information. It is not unlike if someone wanted to borrow money from you. You might ask certain questions to help you decide whether or not to do it. For instance, you might ask:

- When are you going to pay me back?
- From where are you going to get the money?
- From whom have you borrowed money before?
- Did you pay them back as agreed?
- Have you ever failed to pay someone back? Why?

Banks, credit card companies, mortgage lenders, and finance companies ask these same questions and many more. The business of extending credit is risky. That's why most people don't regularly loan money, even to friends. Imagine the risk of loaning money to a stranger. You would probably want to know every last detail of their credit history, right?

That's exactly what all creditors want from you. And just like you have probably figured out what kind of person will pay you back and what kind probably won't, creditors have determined, through experience, the kind of credit histories that lead to a person paying them back as agreed and what kind of credit history leads to problems.

The first thing your loan officer will scrutinize is your ability to repay a loan. To do this, he or she looks at your employment, the length of time of that employment, and the stability of that employment. Is your occupation stable, or are there often lay-offs? Is it seasonal work?

They will want to know if your income hasn't already been allocated. Do you have previous obligations, such as alimony or child support? If your present living expense is in excess of 40 percent of your gross monthly income, then, in all probability, your loan will be denied.

Understanding your credit report is an important step to obtaining an approval from a lender. They will be looking at the same things most common to loan approval. **It is important to order a copy of your credit report before you apply for a loan, credit card, or mortgage.** You will want to check it over very carefully looking for errors, erroneous information, outdated information, and to add any new information that may be helpful to you.

When you apply for credit by filling out an application, you normally give permission to the lender to get your credit report from a credit bureau. Lenders use this credit report to work a short-term debt-to-income ratio, where they calculate your present short-term debt payments (excluding your mortgage) and divide the total by your total annual income.

Lenders will refuse you credit if your short-term debt is more than 20% of your annual income. The second method lenders use is to add up your monthly bills (not including rent or mortgage and utilities) and divide the total by your gross income (before taxes). With this method, lenders are looking for a ratio of under 35%.

Most lenders look at the number of years you have worked at your present job, the kind of work you do (the worst to best being: manual work, clerical, self-employed, managerial, professional), the number and nature of negative entries in your credit report, the amount of credit you currently have, savings and or checking accounts with the lender, length of time at your present address, telephone in your own name, home ownership.

Appling For A Bank Loan Or Credit Card

Whether you are applying for a car loan or a home mortgage, you should try to talk to the loan officer at the lending institution you plan on using. Find out:

- What credit bureau they use.
- Who is the decision maker (who grants or denies the loan)?
- Debt-to-income ratio on approvable loans (as mentioned before, most lenders will deny

loans to persons whose outgoing indebtedness is 40 percent or more of their income).

- What the lender is looking for in length of employment, and length of time at present residence.

- The type of loan frequently granted from this lending institution.

Lenders are required, by the Truth in Lending Act (also called Regulation Z) to disclose to you the following:

- Interest rate on loan.

- Total cost of loan.

- Amount of monthly payments.

- Date payments are due.

Most loan contracts have parts, or all, of the Truth in Lending Act printed on the back. The full text of the Act can be found by searching the web for:

“Truth in Lending Act”

Get your credit report from the bureau to which the lender subscribes. Make sure it is in agreement with your credit application. If there is anything on the report that needs explaining, write the explanation and submit it with your loan application.

Get at least two copies of your loan application. Do your figuring on your first copy. If you need to, you can always get another. The copy you submit needs to be written neatly and clearly, in block letters. Do not scratch out or change numbers—this raises questions.

When you are filling out the loan application, it is always seen as preferable if you are a homeowner. Homeowners are seen as more predictable since they move less often, and it is easy to find them because lenders know where they live. "Yes" is always the better answer to the question "do you own your own home?"

Of course, mortgage lenders will insist on seeing verification of home ownership if the mortgage doesn't show up on your credit report. Credit card companies and other creditors probably won't verify your home-ownership status.

Be Truthful, Not Modest

It is best not to lie on a loan or credit card application. Lying can leave you open to legal action if you fail to make your payments on time. If you later go through bankruptcy and the lender finds out that you lied on your application, you may be unable to discharge that debt. Lying refers to overstating your income or assets. It can also mean not disclosing your total liabilities owed to other creditors.

There *is* opportunity to present yourself in the best possible light. If you have tangible assets such as cars, jewelry, stocks, and real estate, list what you might believe the current market value to be of the asset especially if it has risen in value.

When you list credit accounts, make sure they're good ones and always include their current outstanding balances, not the original amount of the loan. Income from a part-time job, regular overtime, alimony, your spouse, child support, or income from investments can also be included if you want them to help you get approved.

If you are self-employed, it might be better to list your company as your employer and yourself as an employee. Lenders often frown on self-employment because of its instability.

Age And The Credit Decision

Age can, and often does, play a factor in lending. Although a federal law, the Equal Credit Opportunity Act, prevents lenders from discriminating against borrowers age 62 or older, anyone between 18-61 is fair game. Some lenders welcome younger borrowers because they know that if they catch them early, they have the potential for developing a long-lasting financial relationship. Other lenders prefer middle-aged borrowers with assets and stable credit histories.

If you’re between the ages of 18-21, you may have trouble trying to establish new credit. Most lenders will hesitate to give you credit since you have no credit history. If you are a college student, you have a very good chance of receiving a credit card offer in your senior year. If so, be careful not to over-extend yourself.

If you’re young, now is the time to establish a credit history. If you’re planning on purchasing a car or house in the near future, you will want a good and stable credit history of at least two years before you plan on a major purchase.

Stability

Stability is important to lenders. Studies have shown that people who move more frequently are more likely to declare bankruptcy than those who do not. In a lender’s eyes, home ownership is a sign of stability. Most lenders prefer a borrower who has been at a job for two years or more.

Lenders also prefer people who have lived at a particular residence for more than three years. They are aware of the fact that people in urban areas tend to move more frequently than those in rural areas. People who rent versus own are considered less stable.

Collateral

Collateral is money or property you put up to secure a loan. It is like a guarantee that you will repay the loan. Loans backed by collateral are called collateralized or secured loans. Since most credit cards are unsecured, collateral will not play a factor in the credit decision. There are other types of loans where collateral plays a large part in the approval process.

Mortgages, auto loans, and furniture loans are all collateralized by the items being loaned on. If you can't repay the loan, the lender will be able to repossess the collateral. Collateralized loans are the easiest to get approved for since the item that is used for collateral can be taken back and sold.

If you have insufficient collateral to get the loan you are seeking, then the idea of renting collateral may be of help to you. The idea of renting collateral has been growing in popularity recently. The easiest collateral to rent is stock certificates or bonds. If you know someone who has one or both and you trust each other, then this idea will work. "Rent" the certificates or bonds for the period of time you need them from the person you know.

Write up a contract saying when you will give them back and how much interest will be paid. You might want to consult an attorney for the process. Most banks will loan on 50% of the face value of the collateral. You can negotiate the interest rate. You will use these certificates or bonds for collateral on your loan. Any banker will be happy to have this type of collateral since it is so easy to redeem if you happen to go into default.

Keep Good Records And Be Consistent

Try to save copies of all your credit applications. Not only will this make filling out subsequent applications easier, it will also help you to be consistent on items such as income, assets, and other creditors on each application you fill out. Of course, if these items have changed then you should state so in your application.

Lenders do not like to see inconsistencies or gaps in credit applications or credit files. With the amount of credit fraud today, mistakes on an application can cause a lender to wonder if you are who you say you are. They will compare what you have stated on your credit application with what is currently on your credit report. When you order your credit report, you will see how this is very important.

Every time you fill out another application, the information on your application is updated to your credit file so if your information is not consistent, the credit report will reflect it. Lenders will be looking for consistent applications when deciding whether to approve an applicant.

What Happens If You Are Denied Credit Or Don't Get The Terms You Want?

Rejection letters are sometimes called "adverse action letters." Two important pieces of information must be included in the rejection letter:

1. The reason why you were turned down for credit, which must be specific.
2. The credit bureau's name and address that was used for the credit decision.

If you are denied credit, the Equal Credit Opportunity Act requires that the creditor give you a notice that tells you the specific reasons your application was rejected and that you have the right to learn the reasons if you ask within 60 days. Indefinite and vague reasons for denial are illegal, so ask the creditor to be specific.

Acceptable reasons include: "Your income was too low" or "You haven't been employed long enough." Unacceptable reasons include: "You didn't meet our minimum standards" or "You didn't receive enough points on our credit scoring system."

If a creditor says you were denied credit because you are too near your credit limits on your charge cards or you have too many credit card accounts, you may want to reapply after paying down your balances or closing some accounts. Credit scoring systems take into account updated information and change over time.

Sometimes you can be denied credit because of information from a credit report. If so, the Fair Credit Reporting Act requires the creditor to give you the name, address and phone number of the credit bureau that supplied the information.

You should contact that agency to find out what your report said. This information is free if you request it within 60 days of being turned down for credit. The credit bureau can tell you what's in your report, but only the creditor can tell you the specific reasons why your application was denied.

If you've been denied credit, or didn't get the rate or credit terms you want, ask the creditor if a credit scoring system was used. If so, ask what characteristics or factors were used in that system, and the best ways to improve your application.

If you get credit, ask the creditor whether you are getting the best rate and terms available and, if not, why. If you are not offered the best rate available because of inaccuracies in your credit report, you can dispute the inaccurate information in your credit report.

Denials Of Credit: Cracking The Code

When a lender receives your credit bureau risk score, up to four "score reason codes" are also delivered. These explain the top reasons why your score was not higher. They may say something like "Number of accounts with delinquency." If the lender rejects your request for credit, these reason codes can help the lender tell you why your score wasn't higher. If you are denied credit, you should receive these four "reason codes," indicating why you were denied.

The particular readout below presents information from all three credit bureaus and the reasons are listed in descending order from 1 (most important) to 4 (least important).

*** * * * * BORROWER: DOE, JANE * * * * ***

Experian Score: [00605]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[032]

TU Score: [00612]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[004]

Equifax Score: [00597]
Reason1=[022] Reason2=[016]
Reason3=[028] Reason4=[032]

The first number to the right of each bureau name is your credit score. Each credit bureau has similar, but not the exact same, information. Therefore, your three scores will differ slightly. As a general rule though, if you fail to qualify with information from one bureau, you are likely to be denied if one of the other bureaus is checked. Most mortgage companies will run all three credit reports and take either the lowest or the middle score.

The chart on the following page gives you the reason code numbers for each bureau and what they mean. Note that these codes change often, and may not represent the current codes as of this writing.

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. However, if you already have a high score (for example, in the mid-700s) some of the reason codes may not be very helpful, as they may be marginal factors related to the last three categories above.

Reason	Experian	TU	Equifax
Amount owed on accounts is too high	1	1	1
Delinquency on Accounts	2	2	2
Too few bank revolving accounts	3	N/A	3
Too many bank or nat'l revolving accounts	4	N/A	4
Too many accounts with balances	5	5	5
Consumer finance accounts	6	6	6
Account payment history too new to rate	7	7	7
Too many recent inquiries last 12 months	8	8	8
Too many accounts opened in last 12 months	9	9	9
Proportion of balances to credit limit too high	10	10	10
Amount owed on revolving accounts is too high	11	11	11
Length of revolving credit history is too short	12	12	12
Time since delinquent is too recent or unknown	13	13	13
Length of credit history is too short	14	14	14
Lack of recent bank revolving information	15	15	15
Lack of recent revolving account information	16	16	16
No recent non-mortgage balance information	17	17	17
Number of accounts with delinquency	18	18	18
Too few accounts currently paid as agreed	19	27	19
Time since derogatory public record or collection	20	20	20
Amount past due on accounts	21	21	21
Serious delinq., derog. public record or collection	22	22	22
Too many bank or nat'l revolving accts w/ balances	N/A	N/A	23
No recent revolving balances	24	24	24
Proportion of loan balance to loan amt. too high	33	3	33
Lack of recent installment loan information	32	4	32
Date of last inquiry too recent	N/A	19	N/A
Time since last account opening too short	30	30	30
Number of revolving accounts	26	N/A	26
Number of bank revolving or revolving accounts	N/A	26	N/A
Number of established accounts	28	28	28
No recent bankcard balances	N/A	29	N/A
Too few accounts with recent payment information	31	N/A	31

Cosigning

If you are having trouble getting a loan or credit cards you can have someone you know with good credit cosign with you. This means that in case you fail to repay the loan your cosigner will then have to step in and legally repay the debt.

The lender will qualify the cosigner as well as you when determining to approve the application. If any information about the cosigned loan (negative or positive) is reported to a credit bureau, another lender reviewing your report will view the cosigned account as if it were your own.

You can use a friend or family member to cosign with you. It is best that they have very good credit or you may both be turned down. Cosigning is a big risk for the person who is doing the cosigning, so make sure you make them feel as comfortable as possible about cosigning with you. Show them your ability to repay the loan. Remember: if you fail to repay the debt and the cosigner has to step in and repay it and they can't, then you both will have ruined your credit history.

Credit Cards

The history of credit cards began in the early part of the twentieth century. The original credit card was to preferred customers of some exclusive hotels. Now credit cards are offered and used by almost everyone.

If you have used "plastic money" before, and found yourself sinking into debt, please be wary before using it again. You should use a credit card carefully. Interest rates on plastic money are much higher than on conventional loans.

Since the 1986 Tax Reform Act, interest charges are no longer deductible. This should make you, the consumer, more aware of how much interest you are paying. Keep your balance paid as quickly as possible and try to avoid excess finance charges. Be aware of how much the convenience of your plastic money is costing you.

It's almost impossible to get along today without using credit cards. They're convenient and compared to carrying cash, they're relatively safe. If you pay your bill in full each month and don't have an annual fee, they can cost you nothing but the postage to pay your bills.

But it's not a one-way street. There's a reason why the banks are so aggressive in trying to get you to use their card. They make a great deal of money on credit cards. First of all, they charge the businesses that accept the credit cards (usually 2% or 3%), and then they often have annual fees to the consumer. They also make money on late penalties and cash-advance fees.

We all know that they make money by charging you interest on the unpaid balance. But, did you know that they also make a lot of money in hidden tricks that are buried in the fine print of your credit card agreement? Let's talk about some of the ways that banks play "Gotcha" with credit cards.

How Credit Card Companies Play "Gotcha"

One of the most common ways that credit card companies can legally take your money is by playing with the grace period on your charges. Most banks typically allow for a **grace period** on your account. If you charge something in the middle of your billing cycle, no interest is charged if you pay the bill by the due date. The logic is simple. It's really hard to pay a bill before you've received it.

Now for the newest wrinkles: some credit card offers, mostly for "gold" cards, allow for no grace period. In other words, if you charge an item on the 15th of the month and bill is due on the 30th, you automatically will be charged 15 days of interest at the stated interest rate. Pretty slick, huh?

OK, so you threw that gold card offer away. You're still not exempt from billing date issues. Suppose you fail to pay your bill in full one month. Maybe you were on vacation or had a temporary emergency. You'll make it up next month. But, if you charge something in the middle of your billing cycle now, you won't be given any grace period. It's fairly common practice to eliminate grace periods for accounts with an open balance. That's another fine reason to keep your credit card account fully paid each month.

Even if you pay your account in full there are still ways that the banks can manipulate the grace period to their advantage. Some have shortened the **grace period** from 25 to 20 days. If your company does this, give their customer service number a call and ask for the standard 25-day grace period. Many companies will change back just by being asked.

Another recent change has been that some banks actually "back date" charges to the date that the purchase was made. That means that the bank is charging you interest before they even paid the store on your behalf. This is usually done only on accounts that carry an outstanding monthly balance. Generally, your only solution is to close and move your account.

We've all received **special promotions** offering lifetime warrantees and special discounts if we use a specific credit card. Usually they come in big bold letters that leap off the page. But some card issuers are tricky. After an initial period, usually between three and twelve months, they drop the special benefits.

Along with your usual monthly bill will be a small notice. In print that requires a magnifying glass to read you'll be informed that your card no longer offers special benefits. Most people don't even read the notices. They go merrily on using the card thinking that they're earning a discount or whatever. Your only option here is to get a new card offering the special benefits.

What about **annual fees**? An annual fee of $50 is common, but not irreversible. Many issuers will waive the fee if you call and ask. If they won't you can always cancel the card and apply for a new one that is "free" for new accounts.

Surprisingly, interest rates are often negotiable. You'll need to have a good payment record to back up your request. It also helps to have an offer from a competing company with a lower rate that you can use as leverage. But it's worth a try. A phone call is all you're risking.

Cash advances are especially prone to "special charges." Some banks charge up to 2.5% of the amount of the money you get as a "transaction fee." Beside the fee, you'll be charged interest from the day of the cash advance. So if you're paying 18% annually and you take an advance for just two weeks you could be paying 3.25% in interest and fees, which is an annualized rate of 84%, almost like loan sharking.

Another credit card company practice involves offering a very low rate, prompting many to transfer high balances. The problem is, if you are ever late on a payment, even once, the rate will jump to the highest rate allowed by law. Then you are stuck with a high balance AND a high rate. And with that recent late payment on your credit record, you aren't likely to qualify for another low interest rate card.

One other area is not misleading, but very expensive. Many banks push their cards by promoting the low monthly minimum payments. What that means is that you owe them more money and are accruing interest charges on a greater amount. The more you borrow, the more they make. It might seem like they're doing you a favor, but those interest payments can be a cruel master.

What's the bottom line? You must take control of your situation and beware of those who would try to fool you. Much as we don't like it, reading the fine print is necessary to protect yourself. Looking at the credit card agreements and inserts that come with your statement is essential. Sometimes it's hard to look out for yourself. But if you don't do it, who else will?

Beating The Credit Card Companies At Their Game

When you go to apply for a credit card, the type of card you apply for can make the difference between an approval and a rejection. If your credit isn't spotless, then your chances of getting a low interest rate credit card are very slim. A general rule of thumb, the higher the interest rate on the card, the greater the chance of approval, even with less-than-perfect credit.

The last thing you want to do is to apply for a low interest rate card when your credit is shaky, get turned down, and have another inquiry on your credit report. Remember, an inquiry on your report without an associated account doesn't look good to other lenders. Their philosophy is Why give you credit if the other company won't?

You may not know this but if you write to the bank or credit card company before you apply and request the qualification guidelines, such as credit limits, income requirements, and credit standards, your chances of approval are greater than applying blindly. Sometimes the application will give you some information. If the company refuses to give you the information, then take your business elsewhere. They are probably very strict on approvals.

Credit card companies use numerous legal, but underhanded tricks to get more of your cash. Even if you have recently switched your credit card balance to a card with a low interest rate, beware.

Credit card companies are required by law to post your payment to your account on the day it is received. But they often use some sly tricks to avoid doing that, legally. Here are some ways you can outwit the credit tricks, and make sure you don't fall prey to losing your low interest rate and/or having to pay a late fee.

1. **Be sure you write as neatly as possible.** Credit card companies are legally allowed to hold for five days and re-route all "illegible" payments to another department, and thus your payment will be "late" before it is posted.

2. **Never include an additional note about anything in with your payment.** If you are adding additional money in your payment for the principle, (i.e. making more than the minimum payment due), do NOT add an extra note with your check, and do NOT write on your payment stub. All payments received with extra notes are also legally allowed to be held and routed to a different department, and thus your payment will be "late" before it is posted.

3. **Make your payment twice every month, instead of just once.** If you break your payment in half, and send it in twice each month, making sure that both payments are received well before the final due date, you eliminate some of the interest which accrues. This may not be a huge amount per month, or may not seem like very much when you do this for just one credit card. But if you have multiple credit card debt, and you can afford to only make the minimum payments required, using this method will save you a significant amount of money when added up over time, and you won't have to spend any more money to pay your bill than you already are now.

And after all, keeping more of our hard earned cash in our own pockets is what it is all about.

Specialty Charge Cards

Generally, when the average person thinks of credit cards, Visa and MasterCard come to mind. They are relatively easy to get, by either applying directly or through your local banking institution. But there is a different category of charge cards called convenience cards.

The most widely-known **convenience charge cards** are American Express, Diners Club, and Carte Blanche. These are not strictly credit cards because they don't allow you to carry a balance. They also are thought of as the travel-and-entertainment credit cards, and are used extensively by business executives.

Businesses that accept convenience cards are airlines, hotels, restaurants, retailers, and many other businesses that cater to travelers. These credit companies also offer services including traveler's checks, travel insurance, hotel and airline reservations, emergency cash, check cashing, and subscriptions to entertainment magazines.

Many businesses offer credit cards exclusive to their business. The purpose is to attract buyers to their establishments in an effort to attract consumers away from their competition. Airlines, car rental agencies, motels, oil companies, telephone companies, department stores, and other retail outlets offer this type of credit card.

Generally, there is no interest charge on these specialty cards unless payment is not promptly received within ten days or so after receipt of the billing. In that event, an interest charge is applied. If they don't report to a credit bureau, there will be no effect on your credit (unless you go into default and they send it to a collection agency).

If Your Credit Card Application Is Denied

Lenders are required by law to send you a letter telling you why your application for credit was denied, but sometimes these letters can be vague. Possible reasons could be that you haven't lived at your current address long enough or that you haven't been employed with your current employer long enough. Perhaps it is that your income isn't sufficient to meet the card issuer's minimum income requirement. If the reason for being denied is vague, ask someone within the organization for clarification. Find out why before you apply for credit with another organization. If you are turned down a second time, you might want to wait another six months before applying again.

If you are determined to get a credit card now, your only option is to get a **secured credit card**. It requires that you send in a deposit that will be used to guarantee repayment. This deposit earns 2% or 3% interest while it is being held by the credit card issuer. Your credit line will be a percentage of your deposit, typically from 50 to 100 percent. Application and processing fees are not uncommon for secured credit cards; however, there are a few on the market that have low or no application or processing fees.

Another possible means of obtaining a credit card is to consider asking someone with an established credit history perhaps a relative, to co-sign the account if you don't qualify for credit on your own. **The co-signer promises to pay your debts if you don't.** You'll want to repay any debt promptly so you can build a credit history and apply for credit in the future on your own. Be sure that the payment history is being reported to your credit profile and not just that of the co-signer.

Types Of Loans

There are basically two types of loans—secured and unsecured. A secured loan normally requires that some type of real property be pledged as collateral. In the event of default, the real property can be sold to recover a loss. **Real property** may include securities, an automobile, real estate, a boat, jewelry, or anything else of value.

An **unsecured loan** is one that requires no real property, or other security, for support. The granting of this type of loan is approved on the basis of a person's reputation, past payment re-cord, and known ability to repay. Credit cards and signature loans are examples of unsecured loans.

When there is no credit history, or if a borrower doesn't have a strong credit history or property that can be used as collateral, a co-signer with good credit can secure a loan for the person who needs money. The problem with this arrangement is that if the borrower defaults, the lender will expect the co-signer to pay the debt. The upside is that a promptly paid co-signed account should build the credit of both parties.

Payment Method And Interest

Installment loans have payments that are made over a period of time (usually monthly) to reduce a loan. The borrower normally doesn't have full use of the money during the life of the loan, and interest charges can involve complicated formulas. When a lender loans money, he must provide interest-charged information before a transaction.

Single-payment loans involve borrowing money for a specified period. At the end of that period, which may be from 30 days to one year or more, the loan, plus the interest, must be paid back in a single payment. Single-payment loans are very uncommon.

Specific Loans That Help Create Good Credit

Automobile loans can help establish credit. In order to generate the sale of automobiles, major car manufacturers have established their own loan-payment programs. Millions of Americans now bypass lending institutions altogether, and go directly to car dealerships, which are often much more liberal with loan applications. After all, they are in the business of selling cars, trucks, vans, etc., not denying loan applications.

Also, a vehicle, plus a modest down payment, serves as collateral in the event that a borrower defaults. The vehicle would simply be repossessed, and sold again to cover any loss. Purchasing a new or used vehicle directly from a car dealer is an easy way to establish, or reestablish, good credit.

Find out which credit bureau your car dealer uses. One trick is to know which credit score is the highest. If one of your scores is higher than the others, call different car dealers or auto finance companies until you find the one that uses that bureau, then use that dealer and get a better rate.

Home equity loans (also called debt-consolidation loans) are another way of getting back on track. This type of loan will allow you to pay off all of your creditors by making one single, monthly payment to a lending institution. The payments are almost always far less than the various payments you were paying when added together. These loans typically involve a second mortgage on a home and should not be confused with debt consolidation available through credit counselors, which is not a loan at all but rather a convenient method of lowering payments and creating a single payment source.

Overdraft loans have become increasingly popular, and can protect your credit rating by avoiding the embarrassment of having checks bounce. An overdraft loan is a type of loan that has been approved before a need for the money has occurred. When you need the cash, you simply write a check. When your account is overdrawn, the bank then lends the money automatically up to your approved loan limit. Usually, you will be expected to pay it back in monthly installments, much the same as a credit card account. If your bank reports to a credit bureau, an overdraft loan can help create new credit.

Check loans are another way of establishing good credit. This loan plan involves the issuance of a special set of check blanks. When you want to borrow money, you write an amount on the check and receive an instant loan. The following month, you will automatically receive your installment payment coupons.

If you have a savings account, but haven't established credit, you can establish credit with a banking institution by borrowing from yourself. Thrift accounts, or passbook loans, allow you to make a loan up to the amount that you have in your savings. Because the banking institution is taking no risk, a loan can be approved quickly.

Credit Unions

As a member of a credit union, your chances of getting a loan there are possibly better than at other lending institutions. Your monthly payments can often be made by payroll deduction, reducing the risk of nonpayment. Because of this, your work history and income to debt ratio is looked at more carefully than your credit history.

Credit unions also typically offer lower interest rates than banks or finance companies. If your company has a credit union, join. It's a fringe benefit most people do not take advantage of.

Credit Sources Used To Establish Credit

COMMERCIAL BANKS (regular, local banks) offer a wide variety of loans, including personal loans, auto, busi-ness, overdraft, credit card, thrift, single and installment loans, and secured or unsecured loans.

CREDIT UNIONS AND FINANCE COMPANIES offer auto loans, second mortgages on real estate, personal and debt consolidation loans, installment and single payment loans, se-cured and unsecured.

LIFE INSURANCE COMPANIES will loan you money against the value of a life insurance policy for any purpose. These amounts, plus interest, will be deducted from the face value of an eventual claim if the loan is not paid back.

SALES FINANCE COMPANIES lend money for the purpose of marketing a product that is often a high-ticket item, such as a recreational vehicle, business machinery, or trailer homes. After the item is sold, the dealer may then sell the contract to a bank or finance company.

SAVINGS AND LOANS offer all types of mortgages, home improvement, overdraft, credit card, student, installment, secured, single payment, and car loans.

SECOND MORTGAGE COMPANIES specialize in second mortgage loans on your home.

You have probably seen ads for these companies on television. The total finance costs, including interest charges, can be very high when you tap into a second mortgage of the net equity in your real estate.

FEDERAL GOVERNMENT LOAN PROGRAMS offer many loan programs to those who qualify. With a government loan guarantee, you can get a loan approved at your local bank that might have otherwise been denied, because the government guarantees or insures that the loan will be repaid by them if you default. The bank has nothing to lose. Examples of government guar-anteed loans are student loans, farm loans, business loans, VA, FHA, and SBA loans.

Mortgages And Credit Scores

Today, credit scoring plays a big role in determining whether or not your mortgage loan is approved and at what interest rate. Keep in mind that **obtaining a mortgage loan just one point less results in a savings of about $48,000 on $200,000 30-year mortgage.** So, it pays to have a credit score as high as possible to enjoy the lowest rate available.

Why do lenders use your credit score in their lending decisions? Because they discovered that there is a direct correlation between credit scoring and the odds of your becoming delinquent on your monthly mortgage payments.

The most important reason to increase your credit score as high as you possibly can is that it can influence the interest rate you must pay. If your credit score is higher than 725, some lenders will reward you by lowering your interest rate by about 1/4th of a percent. This translates into $12,000 savings on a $200,000 mortgage and a lower monthly payment. If it is between 700 and 724, it could be lowered by 1/8th of a percent.

Other lenders might not reward those with good credit scores, but add on interest points for those with bad ones. In any event, it pays to have a high credit score because you will have a lower monthly payment and save thousands in added finance charges.

Most Americans receive an A or A- rating. If you have a poor rating, there are steps you can take to overcome a lower credit score:

- Offer a larger down payment.
- Lower your debt-to-income ratio by paying off as much debt as you possibly can before applying for a mortgage loan.
- Build up a big savings account.
- Don't buy a car just before applying for a mortgage loan.

Keep in mind that a credit score of, say 500, is going to result in paying an interest rate that is 2 or more points higher than that offered to those with excellent credit. This doesn't sound like a big deal until you realize that it will result in a $400 or more higher monthly payment on the typical $200,000, 30-year mortgage loan. That's at least $144,000 more you're going to pay for your house!

When you apply for a mortgage loan, ask the lender for a copy of your "Residential Mortgage Credit Report," also called a "tri-merge." This report is a compilation of the information contained in your Experian, Equifax and TransUnion credit reports and offers more detail than the traditional report you receive from a credit bureau. If you find errors and incorrect information, inform the lender and also file a dispute form with the credit bureau.

Mortgages And Bankruptcies

If you have a bankruptcy on your credit file, your ability to obtain a mortgage loan will be hindered; however, it is not impossible. If your bankruptcy was filed more than a year ago, but less than 10 years ago, your credit will be given a "C" rating. This will require you to pay as much as 20 to 35 percent as a down payment and up to 3 points more in interest than someone with a high credit score.

What Are “Credit Grades” Used By Mortgage Lenders?

Here is where the scoring systems really get personal. Credit scores drive the credit grades, which determine the rate of interest you will pay. The higher your scores/grade, the lower your rate. The lower your scores/grade, the higher your rate.

Every lender develops their own matrix with corresponding rates and terms. The trick is how to find which of the hundreds of mortgage companies and thousands of loans will best meet your needs, which is the primary reason mortgage brokers are so valuable.

Many lenders don't bother to look at your actual credit file these days. Instead, **they approve or deny your application based on your credit score.** And, if your credit application is approved, the interest rate you will be charged is based on your credit score. Therefore, you can save a few hundred dollars in credit card interest charges, thousands of dollars on your next car loan, and tens of thousands of dollars on a mortgage loan simply by improving your credit score as much as possible.

The information below offers general guidelines as to how your credit score might be rated. Each lender sets its own guidelines for approving loans and issuing credit. For this reason, the information below offers only general guidelines.

Some creditors might consider you to have good credit if your score is 700, while others might require only 660. The lowest score acceptable depends on that particular lender's policies. Your debt-to-income ratio also plays a role in determining whether or not you will be issued credit. Some lenders require a debt-to-income ratio that may be higher or lower than those stated below.

General Rules To Determine Your Mortgage Credit Grade And Creditworthiness:

A credit score of 660 or higher usually means you have "good" credit.

A debt-to-income ratio greater than 36% usually lowers your credit grade.

Note: An example of an installment loan is a car payment. An example of revolving credit is a credit card.

A rating *[Credit score 660 or higher]*

Debt to income ratio: Range of 28% to 36%.

Mortgage: You have not been late with a payment in the last 24 months.

Installment loan: You have been 30 days late making payments 0 or 1 time within the last 12 to 24 months.

Revolving credit: You have been 30 or 60 days late with a payment 0 or 1 time in the last 12 to 24 months.

Additional requirements: Good/excellent credit during the last 2 to 5 years; no bankruptcy within the last 2 to 10 years.

Loan-to-Value Considered: 90 to 100%.

B rating [Minimum credit score 620]

Debt to income ratio: Around 50%.

Mortgage: You have been 30 days late with a payment 2 or 3 times in the last 12 months.

Installment Loan: You have been 30 days late with a payment 2 to 4 times during the last 12 months.

Revolving credit: You have been 30 days late with a payment 0 to 2 times in the last 12 months.

Additional requirements: You have no 60-day late mortgage payments; if filed bankruptcy, it must be discharged 2 to 4 years ago.

Loan-to-Value Considered: 85 to 95%.

C rating [Minimum credit score 580]

Debt to income ratio: Around 55%.

Mortgage: You have been 30 days late with a payment 3 or 4 times in the last 12 months.

Installment Loan: You have been 30 days late with a payment 4 to 6 times during the last 12 months.

Revolving credit: You have been 60 days late with a payment 2 to 4 times in the last 12 months.

Additional requirements: If you filed bankruptcy, it was discharged 1 or 2 years ago.

Loan-to-Value Considered: 75 to 85%.

D rating *[Minimum credit score 550]*

Debt to income ratio: Around 60%.

Mortgage: You have been 30 days late with a payment 2 to 6 times in the last 12 months; and 60 days late 1 to 2 times during the last 12 months.

Installment Loan: You have a few 90 and 120 day late payments during the last 12 months.

Revolving credit: You have a few 90 and 120 day late payments during the last 12 months.

Additional requirements: If you filed bankruptcy, was discharged within last 12 months.

Loan-to-Value Considered: 65 to 75%.

E rating [Credit score under 550]

Debt to income ratio: Around 65%.

Mortgage: You have a pattern of 20, 60, 90 and/or 120 day late payments.

Installment Loan: You have a pattern of 20, 60, 90 and/or 120 day late payments.

Revolving credit: You have a pattern of 20, 60, 90 and/or 120 day late payments.

Additional requirements: You may have a current bankruptcy or foreclosure.

Loan-to-Value Considered: 50 to 70%.

Qualifying For A Home Mortgage With Bad Credit

Would you believe that it is often more difficult to qualify for a gas card than it is to qualify for a home loan? It's true. You may have already disqualified yourself from buying a home due to bad credit, but **you may actually be considered a qualified buyer by many brokers and lenders**. Even if your bad or insufficient credit disqualifies you as an "A" buyer (one who can qualify for the best rates and terms), a home loan at standard interest rates and a lower down payment may still be within your reach.

Homes are very secure collateral. Because of this, the lenders feel more comfortable lending you money against the property. As opposed to unsecured credit lines, such as a credit card, the lender will be primarily interested in your job security, debt to income ratio, and ability to pay a reasonable down payment. Your credit report will only represent a minor role in your mortgage approval. The last two years of your report are most important.

On the other hand, much depends on the mortgage broker whom you choose. For example, you may walk into a bank, apply for a mortgage loan, and be turned down flat. On the same day, you could step into the office of an **independent mortgage broker**, and he will pre-approve you for an "A" mortgage.

Each mortgage broker uses one or more lenders to fund the home loans that come to her. The mortgage broker's job is to match you with the appropriate lender. For this service, you or the home seller may pay the mortgage broker **"points."** These points are equal to percentage points of the loan amount. If you are paying your broker "2½ points" on a $120,000 home loan, that will come to a $3,000 payment to the broker. Many brokers charge no points for very qualified buyers.

There is nothing wrong with making the mortgage broker (and your real estate agent) earn their fees. Almost invariably, there will be problems that arise with your mortgage. Your mortgage broker and real estate agent are responsible for coming up with creative solutions to those problems.

Some mortgage brokers will look at your less-than-perfect credit and suggest that you accept a "B", "C", or "D" paper mortgage. This means that the loan will require a larger down payment, a higher interest rate, better debt to income ration, and, of course, more points for the mortgage broker.

These high-risk loans are not very good deals. Many times, with the right mortgage broker, you could have qualified for an "A" paper mortgage. Remember, a very small difference in your interest rate will cost you tens or hundreds of thousands of dollars. Do everything in your power to qualify as an "A-paper" borrower. Even if your broker encourages you to go with the high-risk mortgage, don't cave in. You have other options.

Certain negative credit items can kill a home mortgage. A **bankruptcy** that has taken place in the last year usually represents a deal-killer. With some mortgage brokers bound by less permissive guidelines, even a two-year-old bankruptcy will kill the deal. The good news is that the right lender won't care if you declared bankruptcy as long as it is at least one year old, discharged, and you have reestablished credit since then.

Any unsatisfied court record, such as a **tax lien or judgment**, will become an obstacle to your home loan. Sometimes, if you can just show your broker that you have satisfied the lien or judgment, they will forgive one court record. Otherwise, you will need to restore your credit a little before you apply.

Any kind of outstanding, **delinquent debt** will pose a major obstacle. Even if you have paid the debt within the last twelve months, it will probably still be a problem. Unpaid collections, charge offs, deficiencies on a repossession, remaining balance on a foreclosure will all destroy your chances of "A" paper. If you go to pay the debt immediately before you go to get a home, the creditor who you are paying will not likely agree to remove the "paid collection" listing on your file.

In order to pay outstanding, delinquent debt such as this without jeopardizing a home loan, you may require the assistance of an attorney. The best solution is to simply settle the debt six months before you intend to apply for a mortgage. If you do this, the "paid collection" notice will be six months old when you go to apply and the right mortgage broker will be able to get you into "A" paper.

A **foreclosure** in your past is the ultimate black mark when you're applying for a home loan. If you have a foreclosure, you will need to delete all references to that listing from your credit report before you can qualify for "A" paper.

Any **late payments** that have happened within the last year will also present a problem. You can usually explain one or maybe two thirty-day late pays, but if you have more, you will need help getting them removed. You can try to contact the creditors reporting the late pays and ask them to remove the listing.

If you have a decent reason why the late pay is a mistake, then the creditor might delete the item for you. Do not bother to tell them why you were late. They will not care what happened to you. Your only salvation will be to convince the creditor that there was a mistake and that somehow it was their fault that you were late. If you aren't making progress with your creditors, you will need to try to remove the item yourself.

When a mortgage broker prepares your file for the underwriter (the lender), he or she will use a **Standard Factual Report (also called a "tri-merge")** to check your credit. The Standard Factual company is a business that compiles all three bureaus into one report. This company can aid in the deletion of negative credit listings.

If you get a creditor to agree to remove a derogatory listing, all you need is a letter or a phone call from the creditor to the Standard Factual company and the derogatory credit item will disappear from the Standard Factual report (not the credit report itself, though—that requires another step).

Upon request, The Standard Factual company may also initiate the dispute themselves, which can eliminate a negative credit item from their files in a matter of hours. There may be a small fee from the Standard Factual company for this service, but it is well worth it if you get your home loan.

Most lenders will allow several negative items if you can adequately explain them. But, they only want to hear explanations that are medically related. If you can show the lender that an accident or illness caused a late pay or collection, they may let the derogatory listing slide.

The good news is that any satisfied, derogatory credit listings that are over one year old (besides a foreclosure) can often be overlooked by a lender. Any problematic derogatory listings can usually be overcome through credit improvement strategies.

Don't accept high-risk loan terms until you have exhausted all of your options. Remember, you can save yourself tens of thousands of dollars by investing a little now to perfect your credit before you go buy the home of your dreams.

What Can Lenders Do If A Borrower Defaults?

Since we eliminated debtor's prison years ago, failure to pay your bills is not a crime (except for the IRS, of course). In the case of a secured loan, the lender can foreclose on the property that secures the loan. Unsecured lenders can get a court judgment and attach your property and become secured creditors.

But if you have no property of any real value, there is very little a lender can do. A lender can try to have your wages garnished, if you work. But if you don't have a job and no real assets, there is virtually nothing that a lender can do. And if your debt is small, it may be more expensive for the lender to attempt to collect. In most cases, a lender will stop short of legal action, and write off your debt.

A Warning To Co-signers

Most people don't understand what it means to be a co-signer. However, many state laws require a co-signer to be told in writing the risks of co-signing for another. California requires all co-signers to be given the following written notice:

"You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility. You may have to pay up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount. The creditor can collect this debt from you without first trying to collect from the borrower. The holder of the loan can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, the fact may become part of your credit record."

When a lender requires a co-signer to guarantee the debt, he believes the borrower is at very high risk of defaulting on the loan. This is the very reason you should not co-sign, particularly since it is estimated that **75% of those who co-sign wind up paying some or all of the debt** owed by another.

The only exception to this rule would be co-signing for your children just starting out in life. It is difficult for an 18 year old with no credit rating to get a car loan, therefore, a parent is usually required to co-sign for that first vehicle. However, if your child has a history of irresponsible behavior, you might want to refuse to co-sign at all.

It's a very bad idea to co-sign for your adult children who have been on their own for awhile. This is because in the USA, where the economy operates on credit, it is considered odd if you haven't established a credit rating by the time you're 22 or 23 years old. Once you get a job, the credit card offers start arriving in the mail. Actually, you don't even need a job to get credit if you go to college. Credit cards are handed out on college campuses like penny candy. New immigrants literally get their first credit card just months after arriving in this country.

So, when your 30 year old child or other relative or friend asks you to co-sign, warning bells should go off in your head. Why does he need a co-signer at his age? He should have established a credit rating a long time ago. The truth is he or she needs you to co-sign because his / her credit rating is so bad that no one in their right mind is going to give him a loan without a co-signer. Remember—about 75% of those who co-sign wind up paying some or all of the debt owed. In addition, if the other person files bankruptcy, the co-signer is required to pay the debt and the bankrupt person is not.

Co-signing also damages your credit rating. Since you are legally responsible for paying the debt you co-signed for, the account is placed on your credit report. This can negatively impact your credit rating because you have acquired additional debt. For example, if you co-signed the car loans for your three adult children, your credit report shows that you have three active car loans. If you need to buy a new car yourself, you might very well be turned down because you have too much debt. Ironically, your bank might ask you to get a co-signer.

In addition, if the borrower defaults on the loan, the late and missed payment notations will appear on your credit file. If the borrower does default, you need to step in and make the payments so that your credit rating is not negatively impacted. Unfortunately, the co-signer usually isn't notified that the borrower has defaulted until he has already missed a few payments and the credit report has already been damaged. Getting those late payment notations removed from your credit file is very difficult, so it's better to avoid them in the first place by refusing to be a co-signer.

Can you change your co-signer status? You can not stop being the co-signer just because you're afraid the borrower will default someday. You signed the contract, so as long as the borrower pays as agreed, you can't bail out unless all parties agree to alter the terms of the original agreement. If the borrower defaults, you have the right to repossess the collateral (providing he hasn't run off to another state with it). You can keep it and use it yourself, or sell it to pay off the loan. You can then, in turn, file a suit against the borrower in small claims court to recover whatever money you lost as a result of the borrower defaulting.

If you are a person with bad credit and need a co-signer, consider all of the above before

asking a person to co-sign for you. Even if you pay as agreed, you are damaging the co-signer's credit rating to some degree, since additional debt will appear on their credit report. A higher debt-to-income ratio can result in their having to pay a higher interest rate for their own financing. It might be a better idea for you to put off a purchase until such time that your credit is good enough to obtain financing on your own. This might mean driving an old, clunky car for another year, but it's better than risking the credit rating of someone you love.

The next time a lender asks you to get a co-signer, find out exactly what your credit score is and make a concerted effort to raise it high enough so you don't need a co-signer. Remember, paying all of your bills on time every month for a period of six months could raise your credit score at least 50 points, and paying as agreed for a one year period could raise it a good 100 points.

CHAPTER 6

Credit Problems

Credit And Divorce

A true story: Susan and David recently divorced. Their divorce decree stated that David would pay the balances on their three joint credit card accounts. Months later, after David neglected to pay off these accounts, all three creditors contacted Susan for payment. She referred them to the **divorce decree**, insisting that she was not responsible for the accounts. The creditors correctly stated that they were not parties to the decree and that Susan was still legally responsible for paying off the couple's joint accounts. Susan later found out that the late payments appeared on her credit report.

If you've recently been through a divorce—or are contemplating one—you may want to look closely at issues involving credit. Understanding the different kinds of credit accounts opened during a marriage may help illuminate the potential benefits and pitfalls of each.

There are two types of credit accounts: individual and joint. You can permit authorized persons to use the account with either. When you apply for credit—whether a charge card or a mortgage loan—you'll be asked to select one type.

Individual Or Joint Account?

Individual Account: Your personal income, assets, and credit history only are considered by the creditor. Whether you are married or single, you alone are responsible for paying off the debt. The account will appear on your credit report, and may appear on the credit report of any "authorized user." However, if you live in a community property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin), you and your spouse may be responsible for debts incurred during the marriage, and the individual debts of one spouse may appear on the credit report of the other.

Advantages/Disadvantages: If you're not employed outside the home, work part-time, or have a low-paying job, it may be difficult to demonstrate a strong financial picture without your spouse's income. But if you open an account in your name and are responsible, no one can negatively affect your credit record, unless you live in a community property state.

Joint Account: Your income, financial assets, and credit history (and your spouse's) are considerations for a joint account. No matter who handles the household bills, you and your spouse are responsible for seeing that debts are paid. A creditor who reports the credit history of a joint account to credit bureaus must report it in both names (if the account was opened after June 1, 1977).

Advantages/Disadvantages: An application combining the financial resources of two people may present a stronger case to a creditor who is granting a loan or credit card. **Because the couple applied together for the credit, each is responsible for 100% of the debt—not just 50%.** This is true even if a divorce decree assigns separate debt obligations to each spouse. Former spouses who run up bills and don't pay them can hurt their ex-partner's credit histories on jointly held accounts.

Unfortunately, there is no easy way to clear up an account that was supposed to be paid by a former spouse, but is now showing up on your credit report as delinquent. You can pay off the debt and collect from your ex, or you can dispute the item with the credit bureaus. However, you will not be able to merely say "my ex was supposed to pay this." They don't care. **It is 100% your responsibility and 100% theirs. If you don't like this outcome, it's best to avoid joint accounts.**

This isn't as unfair as it sounds. Remember when you obtained your joint accounts? You and your spouse applied for credit together. You both had the opportunity to use the accounts. You promised—both as a couple and as individuals—to pay your debt.

That promise doesn't change just because you divorced. Your creditors still have a legal right to collect what's owed to them from both of you, or either one of you, and they are not going to let either one of you off the hook.

Authorized Users: If you open an individual account, you may authorize another person to use it. If you name your spouse as the authorized user, a creditor who reports the credit history to a credit bureau must report it in your spouse's name as well as in yours (if the account was opened after June 1, 1977). A creditor also may report the credit history in the name of any other authorized user.

Advantages/Disadvantages: User accounts often are opened for convenience. They benefit people who might not qualify for credit on their own, such as students or homemakers. While these people may use the account, you (not they) are contractually liable for paying the debt.

If You Divorce

If you're considering divorce or separation, pay special attention to the status of your credit accounts. If you maintain joint accounts during this time, it's important to make regular payments so your credit record won't suffer. As long as there's an outstanding balance on a joint account, you and your spouse are responsible for it.

If you divorce, you may want to close joint accounts or accounts in which your former spouse was an authorized user, or ask the creditor to convert these accounts to individual accounts.

By law, **a creditor cannot close a joint account because of a change in marital status**, but can do so at the request of either spouse. A creditor, however, does not have to change joint accounts to individual accounts. The creditor can require you to reapply for credit on an individual basis and then, based on your new application, extend or deny you credit. In the case of a mortgage or home equity loan, a lender is likely to require refinancing to remove a spouse from the obligation.

If you own a home together or cannot close a joint account, you may ask the creditor if they can send you duplicate statements so you can keep tabs on the debt your ex is now paying. Better yet, if you can access the account online, you can get up-to-the-minute payment and balance details.

If you are contemplating divorce or separation, remind yourself that you must separate your emotions from the decision-making process. If you have joint accounts, it is important to make regular payments during this time so that your credit record won't suffer.

As long as there is an outstanding balance on any joint account, both you and your spouse are liable for it. Resist the urge to throw up your hands and say, "All I want is out!"

Credit Repair After Bankruptcy

Any debts that were discharged during bankruptcy will show up as either “Charge-offs” or “BK Liq Reo”. The bankruptcy will itself appear under the public record section as a Chapter 7 (total liquidation of non-exempt assets) or Chapter 13 (also known as the Wage-Earner Plan or Reorganization).

The only way to remove the bankruptcy itself from your credit report is to dispute it directly with the credit bureaus. You can usually find some mistake in the reporting of the bankruptcy, since the information is entered by a human.

One of the biggest challenges to a bankruptcy is the amount of each account in question. A lot of times creditors will round up the account balance number to the nearest dollar for accounting purposes. This can be challenged since the number is technically not correct. In a lot of cases, the bankruptcy is ordered removed.

Sometimes bankruptcies are easier to remove than other items on your credit report. Why?

1. Bankruptcy files contain an incredible amount of information, so the probability of mistakes is extremely high.
2. Bankruptcy is reported to credit bureaus by the court, often by overworked, unpaid clerks with little or no interest in your particular file.

Working with a government office is quite different from working with private subscribers. Getting the government to cooperate will make it hard for the credit bureau to respond to your dispute letter within the allotted time. The government's incompetence can work in your favor.

Remember to **send your letter of dispute to the credit bureau, <u>not</u> the court that holds the bankruptcy file.** The bureau must also correct any inaccuracy within a reasonable amount of time or remove it (the bankruptcy) from your credit record. It is very easy to find some kind of inaccurate information in a bankruptcy file. Use this to your advantage.

When you dispute individual items that have been included in the bankruptcy, keep in mind that the original creditor has no good reason to validate the debt. They will get no money because the bankruptcy has discharged it. Therefore, you have a better chance of getting them to fail to verify the item as accurate.

If you have a bankruptcy on your credit file, your ability to obtain a mortgage loan will be hindered, but not impossible. If your bankruptcy was filed more than a year ago, but less than 10 years ago, your credit will be given a "C" grade. This will require you to pay as much as 20 to 35 percent as a down payment and up to 3 percent more in interest than someone with a high credit score.

Judgments

Sometimes you will find judgments in your file that you are not even aware of. A judgment can be filed against you by anyone who feels you owe them money. If, once filed, the court decides you are in default, then you must pay the full amount. The court will set up monthly installments if you cannot pay the full amount at one time. The court also can order your wages garnished, or put liens on your bank accounts, real estate, or vehicles.

Try to avoid a judgment on your record by solving the matter with whomever is suing you. If you don't have the money to clear up the debt owed, try to work out weekly or monthly payments.

In order to postpone judgments while you work out an arrangement, it's vitally important to answer any legal papers sent to you. If you don't, you open yourself up for a default judgment, meaning that the creditor automatically wins and can force you to pay through the courts by garnishing your wages and other means.

If you are unable to come to an agreement with your creditor and they have begun a lawsuit, it may be time to get an attorney. Keep in mind that there are no rules about how much an attorney can charge. Anything can be negotiated. If you are honest about how desperate you are and tell an attorney you need their help, you may get their services on a payment plan or even **"pro**

bono," (Latin, meaning "for good") which means they will help you for no cost. You may have to approach several attorneys before you get one so accommodating, but this happens all the time. If they do represent you under these special terms, don't be too demanding. They are doing you a favor.

A judgment against you that has been paid will show on your credit report as a *"judgment satisfied."* Yet on numerous occasions, a judgment will show *"judgment unsatisfied"* long after it has been paid. Also, the amount of the judgment is often in error. Thus, you may have good reasons to dispute the judgments on your credit record. Use the same steps in disputing a judgment as you would for disputing any other derogatory item on your credit record.

If a judgment appears on your credit report, there are several approaches you can take, besides simply disputing it with the credit bureaus:

1. **If you have never been served with the lawsuit, have your attorney file a motion to vacate judgment with the court.** After the court grants you the motion (assuming the time to file such a motion has not run out), send a court-certified copy of the court decision to all the credit bureaus that have recorded the judgment immediately.

2. If you have already received a judgment and you have been served, but perhaps improperly, you can still negotiate your way out of the judgment. The negotiation will involve two aspects:

   A. **Call the creditor and inform them that you have been served improperly** with the lawsuit (you can only make this claim if you did not appear for the trial and a default judgment was entered against you), but you are willing to settle and pay a portion of the claim. After you come to an agreement on a dollar amount for settlement, you will have to stipulate that the creditor has served you improperly. Next, have your attorney file a motion to vacate judgment based on defective service, with the agreement by the creditor not to go to court to contest the motion. Before the motion is filed, however, the creditor must be paid the agreed-upon settlement amount.

   B. **Have your attorney file the motion to vacate judgment for you.** Make sure, however, that you are within the time allowed in the statute of limitation to file such a motion before you begin. After the court grants the motion, have the court clerk certify several copies of the motion so you can mail a copy to each of the credit bureaus, along with a cover letter stating that you want the judgment removed from your file. They have to remove the judgment from your record immediately.

Another alternative is to pay the judgment and make sure the bureau records the judgment as "Satisfied" on your report. You can then dispute the judgment for a legitimate reason.

Statute Of Limitations On Collecting Judgments

State law places statutes of limitation on the time in which a judgment can be enforced. These time provisions are designed to give debtors some relief—if the creditor cannot satisfy the judgment within a specific period of time, he loses the right to collect on the judgment. However, some states allow the judgment holder to renew the judgment one or two times. This could result in a judgment appearing on your credit file for decades. If the creditor does not or cannot "renew" the judgment, the statute of limitation rule applies—**a judgment can remain on your credit file seven years or as long as the statute of limitations allows—whichever is longer.**

This could seriously damage your credit rating for a long time, which is why you need to resolve the judgment one way or another. The number of years for which a judgment is effective varies from state-to-state. Below are the statutes of limitations for the states and D.C. The number of years in which the judgment holder has the right to pursue a judgment in that state is in parentheses. This information is, of course, not guaranteed accurate:

Alabama (20); Arkansas (10); Alaska (05); Arizona (10); California (10); Colorado (20); Connecticut (20); Delaware (00); Florida (20); Georgia (07); Hawaii (10); Iowa (06); Idaho (20); Illinois (20); Indiana (20); Kansas (05); Kentucky (15); Louisiana (10); Maine (20); Maryland (12); Massachusetts (20); Michigan (10); Minnesota (10); Mississippi (07); Missouri (10); Montana (10); North Carolina (05); North Dakota (06); Nebraska (20); New Hampshire (20); New Jersey (14); New Mexico (20); Nevada (10); New York (10); Ohio (21); Oklahoma (05); Oregon (10); Pennsylvania (04); Rhode Island (20); South Carolina (10); South Dakota (20); Tennessee (10); Texas (10); Utah (08); Virginia (08); Vermont (20); Washington (10); Washington, D.C. (03); Wisconsin (10); West Virginia (20); Wyoming (05)

A judgment or lien will appear on your credit file for 10 years or for as long as your state's statute of limitations allows enforcement, whichever period is longer. Therefore, **if the judgment is about to be dropped from your credit file due to advanced age, it is pointless to pay it unless you feel compelled to**—the holder gave up collecting on it a long time ago. Just let the passage of time remove it from your credit file.

By the way, it is almost impossible to get a mortgage loan if you have an unresolved judgment / lien on your credit file. If you can't get a judgment or lien removed from your credit file using the methods above, work out some sort of agreement with the holder so that you can at least get a notation added to your credit file indicating the matter has been resolved. To do this, you will need a **release of lien** or satisfaction of judgment recorded in the court where the judgment or lien was filed. You or the other party should send this document to the credit bureau and ask them to insert a notation on your credit file stating the judgment or lien has been satisfied.

What To Do If You Are A Homeowner In Danger Of Losing Your Home In Foreclosure

You should avoid a foreclosure at all costs. It will be virtually impossible to obtain another mortgage with a foreclosure on your credit.

"Pre-Foreclosure Workout" is an umbrella term for a variety of negotiated solutions a homeowner and lender can undertake to avoid the foreclosure process. Each workout will be structured differently depending on the particulars of the situation at hand. The following four steps are a general overview on how to proceed.

1. Analyze your circumstances

Before undertaking a workout, the homeowner should try to make a clear assessment of their circumstances: How much do they owe on their mortgage? How much is their home worth? What are their total assets? How much do they owe in other debts? Also, the homeowner should begin collecting supporting documentation early (pay stubs, bank statements, tax forms, a detailed list of assets and debts) because these materials will be required as part of the workout proposal to your lender.

Finally, based on a realistic assessment of the above, the homeowner should consider whether their priority will be to try a workout that allows them to keep their home or one that seeks to sell / surrender it to cure the debt outright. Emotional and personal reasons must be balanced against financial reality and what is better in the long term. No one can say for sure whether it is better for a homeowner to keep their home or not, but all factors should be weighed thoroughly to arrive at a final decision.

2. Learn about your options

Broadly speaking, the appropriate workout should be selected based on the type of financial hardship a homeowner has experienced and whether they can afford to keep their home. The most common workouts that lenders are generally open to are described briefly below:

Workouts to Keep the Home

Loan Modification
Repayment Plan
Forbearance
Short Sale
"Deed In Lieu of Foreclosure"

Reasons to Sell

Negative Equity
Long Term Financial Hardship
Significant Drop in Income
High Cost of Living in Area

Severe Indebtedness
Home Has Equity
Temporary Hardship
Personal Reasons
Financial Recovery in Sight

A **loan modification workout program** seeks to avoid foreclosure by negotiating with the lender to modify the terms of the loan. This workout makes sense in a situation where a homeowner has experienced a decline in income and can no longer afford the original loan but could afford the payments with a little adjustment. Example loan modifications include lowering the interest rate, extending the loan period, or adding the delinquent portion and fees back onto the principal of the loan to be repaid over time.

A **repayment plan** is suited to a homeowner who has had a short-term financial hardship but is now getting back on their feet. Although a homeowner is recovering, they may be several months (and thus several thousand dollars) behind on their mortgage payments and they need time to bring this amount current. Once foreclosure has been initiated, however, a lender often will not accept any further payments less than the entire delinquent amount (this is so that they do not jeopardize their rights under the current foreclosure proceedings). A repayment plan requests that the lender stop the foreclosure process and structure a repayment schedule in a more lenient fashion to allow the recovering homeowner time to catch up their loan and save their home.

A **forbearance** is a request that the lender forbear (stop) from proceeding any further with the foreclosure for a short period of time. This is usually done along with another workout. For example, a lender would issue a forbearance while the homeowner tried to sell their home to cure the debt (see "short sale" below).

A **"short sale"** is the best solution when the homeowner is "upside down" in their home due to a decline in the local real-estate market (meaning they owe more on their home than it is worth). By doing a short sale, the homeowner is asking the lender to discount their mortgage principal to a level that can be discharged by selling the home at market value. In other words, if the homeowner owes $110,000 on their mortgage, but the home is only worth $100,000 due to current real estate conditions, the homeowner would request that the lender accept the $100,000 (less closing costs) to payoff the loan.

To complete a short sale, the homeowner must find a Realtor or service that will be able to market their home as a short sale (often with reduced commissions) and is skilled at competently following up with the lender to handle all the details. Short sales can be done with multiple mortgages and lien holders, but the negotiations involved become more complicated.

Under a **"deed in lieu of foreclosure"** workout a homeowner surrenders their property to the lender in exchange for forgiveness of their mortgage. These workouts are more rare than the others mentioned here because it still leaves the lender holding a repossessed property that needs to be resold. Therefore, lenders are much more open to a short sale scenario as a more complete solution. Also, deed in lieu still appears as a foreclosure on your credit record, regardless of what the creditor might say.

3. Contact your lender or get help from a foreclosure assistance service

Once you are more informed about your general options, you should contact your lender to find out what kind of workout programs they have available. The first thing to realize when you deal with your lender is that their frontline contact point for delinquent borrowers is probably a collections group whose goal it is to persuade homeowners to bring their mortgage current. Another department, typically referred to as the **"loss mitigation group,"** works with homeowners who cannot get their loans current without some form of a workout program.

As an alternative to attempting to coordinate a workout on their own, homeowners could instead seek the assistance of a **foreclosure assistance service.** These companies work on the homeowner's behalf as a negotiator, advisor, and coordinator. Often, a workout can be complex (especially in cases where second or third mortgages are involved) and the average homeowner might not be able to handle all the details themselves.

To find a foreclosure assistance service, try entering "foreclosure assistance" into an Internet search engine. You will find hundreds of companies eager to work with you, but check them out carefully.

4. Select a workout strategy, cooperate and be honest

After you have contacted your lender yourself or are working with a foreclosure assistance service to do so, you can begin the workout strategy that is best for your situation and that your lender is open to considering.

If you have done your homework up to this point, the rest is just a matter of providing all the requested documentation and cooperating with the process. It is of the utmost importance to be honest and thorough in the materials and information that you provide your lender or foreclosure assistance company. Hiding assets or misrepresenting details could ruin your chances to negotiate any kind of solution with your lender, and lenders do in fact verify the information you provide.

What To Do If You're A Victim Of Identity Theft Or Credit Fraud

The number of complaints about identity theft to the Federal Trade Commission indicates that 800,000 Americans are victims of identity theft each year and the number is growing at an alarming rate. In fact, identity theft is the fastest growing crime in the United States. Why? Because it is so easy to get away with and, although Congress made it a felony a few years ago, the thieves are rarely caught or prosecuted.

How do you know if you are a victim of credit fraud? The signs can vary, but typical indicators of fraud include:

1. Unusual purchases appearing on credit card bills.

2. Calls or letters advising that you've been approved (or denied) for credit for which you've never applied.
3. Calls or letters from collection agency about accounts you don't have.
4. Or you suddenly stop receiving your credit card bills, or all of your mail.

Even though you didn't cause the problem, your credit is adversely affected. As with any other crime, as soon as you know or suspect that you are the victim of credit fraud, you should contact that creditor's fraud department. You must advise your creditors of the fraud.

Remember, the criminal may have used your identification to open the account, so the creditor may have no knowledge of the fraud until you report it. In order to establish the crime and to identify and possibly prosecute the criminal, creditors may ask you to complete certain paperwork.

Additionally, the bureaus have fraud departments to review cases and assist you, however assistance has not always been forthcoming.

There Are Two Basic Types Of Identity Theft

Identity theft by friends and relatives: If you have access to someone's social security number and other personal information, it isn't that difficult to obtain a credit card or car loan in their name, provided they have good credit. Therefore, a friend or relative who has bad credit might steal your information when visiting your home and use it to obtain credit cards, mobile phones, car loans and other financing in your name.

As long as they pay the bill on time, the odds are slim that you will find out about it. In fact, the average victim of this kind of identity theft doesn't find out about it until a year after it has occurred. The only way to find out for sure is to pull your credit files and check for accounts you didn't open.

Identity theft by strangers: Thieves have a variety of methods to steal your identity. Two methods are hacking into computer databases to steal information and paying employees who have easy access to a tremendous amount of information about you to pass on the information to them. Many clerks who work for the federal government, car dealerships, insurance agents, etc. have been caught selling personal information to identity thieves.

Obviously, of the two types of identity theft, the second is much harder to control and the problem is only going to get worse and worse as more and more low income workers are going to give in to the temptation to earn a little extra money on the side by selling your information to thieves.

The Problem With Identity Theft

Believe it or not, when someone falsely obtains credit in your name, the lender is considered the victim. Therefore, lenders can continue issuing easy credit to anyone without adequately verifying the identity of that person, eat the loss of fraudulent charges, and pass the cost of identity theft clean-up on to you.

The problem with this is that cleaning up the mess left by identity theft is very time consuming, stressful, and expensive. You will incur thousands of dollars in lost wages, postage, telephone calls, notarized statements and such.

Some people actually give up and just pay off the charges made by the theft because it's the only way they can improve their credit rating. Below are the steps you need to take if you are a victim.

Step 1: Contact the Three Major Credit Bureaus.

You should contact the fraud departments of each of the three major credit bureaus (Equifax, TransUnion and Experian). Tell them that you are a victim of identity theft and that you would like your credit file flagged with a notation stating that in the future you should be contacted personally before any credit is issued in your name.

Having one's file flagged has not proved effective for some victims of identity theft who have reported that lenders just kept on issuing new accounts in their name to the thief, even after their credit files were flagged with a fraud alert. Even though having your credit file officially flagged is no guarantee that that accounts will stop being issued in your name, you must go through the motion of doing so to protect your legal rights. The telephone numbers of the fraud departments are:

Equifax (800) 525-6285

Experian (888) 397-3742

TransUnion (800) 680-7289

If any of these numbers are not working, call toll-free directory assistance at 1-800-555-1212 and ask for the name of the credit bureau’s fraud department.

It would be a good idea after telephoning the credit bureaus to send certified letters to each agency advising them of same.

It is doubtful that the three credit bureaus will remove the false accounts from your credit file at this point in time since an investigation has not been completed. However, if they will not remove the false accounts, you need to insist that they at least indicate the account is in dispute or under investigation for fraud if it is to remain on your credit report.

Step 2: Order Your Credit Report.

While you're phoning the credit bureaus to place a fraud alert on your credit file, you also need to order a copy of your credit report to check for accounts that you are unaware of or have been fraudulently opened in your name. Since you believe you are the victim of fraud, you are entitled to a free copy of your report from each credit bureau. Consider signing up for credit monitoring services.

Step 3: File a Police Report

The companies who have issued credit in your name will never take you seriously if you don't file a police report. You must do this in order to protect your legal rights. Often, this creates a problem in that the person who has committed the fraud is either a close friend or a relative and the victim might not want to press charges.

If you discover that a relative or friend is the one who has stolen your identity, the company that issued the credit in your name might tell you that you must **press charges** in order to get out of paying the debt. Several legal experts have argued that you do not have to press charges and should not allow yourself to be bullied into pressing charges. You might find more information about this subject at the website www.consumer.gov.

Step 4: Contact Your Local Post Office

If your identity was assumed because someone stole your mail to obtain your account numbers, credit card numbers, etc., you need to officially report this fact to your local postmaster.

Step 5: Contact the Social Security Administration and Department of Motor Vehicles

If the thief is using your social security number or drivers license number to commit fraud, you might need to get new numbers from these agencies to stop the thief. It is very difficult to get these agencies to issue you a new number, particularly the social security administration. If you want a new number, you must make an appointment at a local office near your home and bring in lots of proof to justify your request for a new number.

Step 6: Contact All The Companies Who Granted Credit to Someone Else Using Your Identity

Many of the companies who gave credit to someone else in your name will not believe you are the victim of identity theft, but rather someone trying to get out of paying your debts. Therefore, don't expect them to apologize for getting you into this mess in the first place. And don't expect them to reimburse you for your time and expenses. There is no law requiring them to reimburse you for their negligence.

You should never communicate with these companies exclusively by telephone. Phoning does not protect your rights as there is no proof that the communication ever took place. Not sending **certified letters** could result in the company turning the account over to a collection agency. You then advise the collection agency that you told the original creditor you were a victim of identity theft, but the collector argues that there is no record of this, and, since you failed to notify them in a timely fashion, you are responsible for paying the debt.

If you don't send all communication by certified mail, the company can claim at any time that you did not notify them soon enough, or that you failed to notify them completely, and therefore, you forfeited your rights. To protect yourself, you must send EVERYTHING by certified mail, return receipt requested and insist that they respond to you in writing. Many of them will respond by telephone because they don't want to put anything in writing so that they can deny it later on if necessary. Demand that they communicate with you in writing.

As long as you can prove that you didn't open the fraudulent account(s), there is little chance that you will have to pay the bill. However, the major damage that occurs from identity theft is the damage to one's credit file. Victims sometimes have a hard time keeping these accounts off of their credit reports—they're deleted, then reappear, then are deleted again, only to reappear. Some people have actually become so frustrated that they decided to pay the accounts in hopes of improving their credit rating, but you should never do this.

Step 7: Contact the Federal Trade Commission

The Federal Trade Commission is the federal agency in charge of consumer complaints about identity theft. The information you provide can help the FTC and other law enforcement agencies track, investigate and prosecute identity thieves. You can report yourself as a victim of identity theft with the FTC using their online form at **www.ftc.gov**. The FTC is not going to investigate or take any action on your behalf, but they will look into the charges and perhaps take action on behalf of the government. You can also visit **www.consumer.gov** for lots of information about identity theft.

Can You Sue The Creditor For Negligence?

Not likely. Even if you did, you wouldn't get much out of them. Congress allows creditors to issue credit negligently. This is because the banking industry contributes heavily to Congressional campaigns and Congress rewards them by letting the banking industry operate with little regulation regarding the proper verification of credit applications.

The company, bank, etc., is considered to be the victim, not you. (This is because they are going to have to eat the loss.) This is why identity theft is rarely prosecuted and, even when it is, the penalties are often minor, particularly for first time offenders. Most creditors find it cheaper to write off such debt rather than prosecute the offenders, even when they are caught red-handed by the police and identified.

How To Avoid Being A Victim Of Identity Theft.

There are steps you can take to lower the odds of your becoming a victim of identity theft. You can start by **getting a post office box** if your mail is delivered to an un-secure location. Post office boxes are inexpensive and offer a secure delivery location for those who would not otherwise have one.

You should also **clean out your purse or wallet** and get rid of information that would help a thief assume your identity. In particular, don't carry your SSN card around with you everywhere in your purse or wallet. If you have many credit cards in your purse or wallet, you probably wouldn't notice one or two missing until it's too late, so take them out and put them in a safe location at home.

Don't be so trusting. Don't assume that your friends, relatives, housekeeper, secretary or others who visit your home and office are all honest. Keep your financial records and statements out of sight and preferably under lock and key. Statistically, you are much more likely to be victimized by someone you know than a stranger.

Many women feel secure leaving their purses unattended in unlocked places at work. This is a prime opportunity for a co-worker to steal a credit card or two (or a check out of your checkbook). For example, one man always left his wallet in a locked locker at the YMCA while he swam. He believes an employee must have used a master key to steal a credit card from his wallet while he was in the swimming pool. Because his wallet had so many credit cards in it, he didn't realize one was missing until a month later when he received his next statement with thousands of dollars of fraudulent charges on it.

Shred your charge receipts, copies of credit applications, insurance forms, bank checks and statements, expired charge cards, and credit offers you get in the mail. **Dumpster diving** is a popular technique thieves use to discover your personal information and access those pre-approved credit card applications that come in the mail. You can purchase an inexpensive shredder at office supply stores for about $25.

Be careful to whom you give your social security number. Thieves will trick people in to giving out this information by making telephone calls to victims claiming to be from the Social Security Administration or other government agency and asking for social security numbers "for verification purposes." **Never give out your social security number** to anyone unless you are 100% sure that the person is who they say they are and that this person or organization has a legitimate need for your SSN.

There are very few organizations that actually need your SSN—your employer, lenders, credit bureaus, bank and government agencies, but no one else. Stop giving your SSN and driver's license number to people who have no legitimate need for these numbers.

Opt-out of receiving credit offers by mail. You should do this if your mail is vulnerable to theft or if you are planning to move. Don't assume that the post office will forward your mail, because many times they do not forward junk mail. If the post office fails to forward all of your mail, those pre-approved credit card offers will continue to go to your old address. The person now living there can purchase your SSN online, sign on the dotted line and he has a credit card in your name.

Notify the credit bureaus by writing a letter, which should read:

To Whom It May Concern:

I request to have my name removed from your marketing lists. Here is the information you have asked me to include in my request:

(Then include your name, addresses for the last two years, social security number, and date of birth, along with your current address.)

You can send these letters to the following addresses:

Options
Equifax, Inc.
P.O. Box 740123
Atlanta, GA 30374-0123

Experian
Consumer Opt-Out
701 Experian Parkway
Allen, TX 75013

Trans Union Corporation's
Name Removal Option
P.O. Box 97328
Jackson, MS 39288-7328

Of course, doing all of the above won't protect you from employees who work in hospitals, at car dealerships, in government offices and the like, who have access to an unbelievable amount of information about you. Occasionally, people who have easy access to your confidential records have been caught using this information themselves or selling it to others to commit identity theft. For this reason, it is recommended that you do at least two more things to protect yourself:

Sign-up for credit monitoring services. Right now, about the only way to fight identity theft is to participate in the credit monitoring services now being offered by the credit reporting agencies (CRAs) and other commercial services. So far, these services are receiving good marks from consumer groups. A credit monitoring service works by notifying you immediately every time your credit file is pulled or something in your credit file changes. This way you are alerted to unauthorized activity and can address the problem when it first begins. You can catch the thief when he tries to open that first account in your name.

The fee for credit monitoring is about $60 to 80 per year, but it is fast becoming a necessity since there are 700,000 victims of identity theft each year in the United States and the number is climbing at an alarming rate. Think of it as insurance. Would you rather pay $80 per year for prevention or $1,000 or more, plus many stressful hours of your time to clean up the mess?

Check your credit file at least once a year. If you aren't interested in credit monitoring services, you should check your credit file with all three major credit bureaus at least once a year. Why? Because someone might obtain credit or a loan in your name at any time.

How could someone use your identity without you knowing about it? Most creditors are very lax in verifying credit applications. If someone has your SSN, and a few other bits of personal information about you, they can get credit in your name with little effort. And most creditors will comply with a request to send bills / statements to an alternate address (post office box) without asking any questions. As long as the thief pays the bill on time each month, you will never know about false accounts since the bills / statements are sent to another address.

The thief who commits this type of identity theft doesn't want to harm you. They just can't get credit in their own names and are desperate. Most often, it is a relative, co-worker or friend who knows that you have an excellent credit rating and they can easily obtain a car loan, lease, utilities, or credit card in your name. You will probably never know about this type of identity theft unless the thief defaults and the account is turned over to a collection agency who eventually tracks you down at your real address.

Complain to Congress: Write to your elected representatives and ask them to pass laws that restrict access to your personal information and punish violators with stiff penalties. Although recent legislation makes it a felony to commit identity theft, few thieves are caught and even fewer are prosecuted. Demand that they pass legislation requiring issuers of credit to verify each and every credit application thoroughly. Why should you have to spend thousands restoring your credit rating when it's the creditor's fault for issuing credit to someone else in your name without adequately verifying the application? Tell your elected representatives that you want the right to sue a creditor for damages. You can find your senators' and representatives' e-mail addresses by looking them up at these two websites: **www.senate.gov** and **www.house.gov**.

Student Loans

Government student loans (GSLs) are private loans backed by the U.S. government. If the student defaults, the government steps in to make good on the debt. Not all student loans are GSLs, but GSLs are treated differently from other loans. They are extremely complicated in their structure and therefore an important consideration in your credit profile.

Many individuals who have defaulted on GSLs have found themselves in years of tangled litigation and "collection fees" that might bring accusations of racketeering if done by others. When you realize that the charges, interest, and other fees can increase a loan to more than double its original size (if it goes into default), and that the original principle is not at risk due to being backed by a government guarantee, it's not hard to see how a portion of participating lenders can let the prospect of incredible profits dictate their moral judgments.

First, let's look at a couple of major differences between GSLs and other types of debt. Once in default, most debtor obligations are subject to statutes of limitation. This is a window of time specified by law during which the creditor must initiate collection efforts through the courts. If the creditor does not begin litigation within that time period, they forfeit the opportunity to do so.

By virtue of section 484A(a) of the Higher Education Act, **there are now no statutes of limitation** limiting the U.S. Education Department's or the guaranty agency's ability to file suit, enforce judgments, initiate offsets, or other actions, to collect a defaulted student loan. Regardless of the age of the debt, statutes of limitation are no longer a valid defense against repayment of a student loan.

Another defense that has been applied in other situations (yet is not effective in the case of GSLs) is infancy. The defense of infancy is an argument that the signing of a contract by a minor would not create a binding obligation. This defense is no longer a valid defense against collection of a GSL by virtue of Section 484A(b)(2) of the Higher Education Act of 1965 [20 U.S. C.1091 a(b) (2)].

And finally, **GSLs are not dischargeable under bankruptcy** unless the debt is seven years old or the debtor experiences an undue hardship in repaying the loan (11 U.S.C. section 523(a)(8)(A)).

Also consider that the failure of an individual campus to collect on federally backed outstanding student loan decreases that campus' future borrowing potential. This is known as the cohort default rate and ultimately means GSLs are one debt that will never go away—until it's paid or "settled."

Preventing Student Loan Default

Among the varied repayment options, the **Stafford Student Loan** provides a basic 10-Year term to repay your loan. Additionally, some repayment options will allow you up to 30 years to repay. Preventive medicine is always best. By exercising early initiative, you can choose from a variety of options that may avoid any negative notations ever being placed on your credit report. Currently, the following options are available:

Deferment: A deferment puts your payments on hold and may be granted for graduate school, half-time study, unemployment, economic hardship or a variety of other reasons. In order to qualify for a deferment you must apply for, and be approved, by the holder of your loan.

Forbearance: Forbearance is another option that is available for those who do not qualify for a deferment and allows you to either reduce your monthly payment or put your loan on hold. However, unlike a deferment a forbearance allows interest to accumulate during this time. In order to qualify for a deferment you must apply for, and be approved, by the holder of your loan.

Graduated Repayment: As the name implies, this enables a borrower to make smaller payments early in the repayment process when disposable income is typically not as available, and larger payments at a later date when earnings are probably greater. Please note that this option will result in a greater overall loan balance.

Income-Based Repayment: Both FFELP and direct lending (FDLP) offer repayment plans that allow borrowers to pay back their loans as a small percentage of their income. These plans operate very differently.

Through the **Income Sensitive Repayment (ISR) plan** under FFELP, borrowers may arrange to pay back their loans based on a small percentage (typically 4%) of self-reported income with payments minimally covering the accruing monthly interest. Repayment can be extended for five years beyond the standard 10-year schedule under this option and borrowers requiring relief from making the minimum of interest-only payments can seek a forbearance. Additionally, any consolidation loan borrowers who would like to tie their payments to a percentage of self-reported income can have up to 30 years to repay.

The **Income Contingent Repayment (ICR) plan** under FDLP is based on the borrower's Adjusted Gross Income (AGI), verified by the IRS, and monthly payments can be less than the amount of interest owed. Unpaid interest is added to the outstanding balance, which will extend the payback period. Under the ICR repayment schedule, student borrowers with modest incomes will generally not repay their loan debt in full within the allotted 25-year period. While any remaining balance after 25 years is 'forgiven' under ICR, current law dictates that the canceled unpaid balance be taxed by the IRS as ordinary income in the 25th year.

Consolidation Loan: This loan is designed to help borrowers consolidate several types of federal student loans with different repayment schedules into one loan with one monthly payment. In most cases, borrowers will be able to extend their payback period. Different rules apply for a FFEL and a Direct Consolidation Loan. For more information, contact your school, lender or the U.S. Department of Education.

Discharged: A loan may be canceled due to death, permanent and total disability, bankruptcy (in some cases), or inability to complete a program of study due to school closure or false certification by the school.

NOTE: Under FDLP, if none of the existing repayment options meet your needs, **you can seek out a special arrangement by contacting the Secretary of Education, Borrower Services at (800) 848-0979 or www.ed.gov.** You will be required to demonstrate that none of the other repayment plans meet your needs. The Secretary will offer you an "alternative payment" schedule which you then may accept or decline.

Fixing Your Student Loan: Reinstatement & Rehabilitation

Since your student loan is a consumer debt, nonpayment will adversely impact your credit rating. However, the good news is that even after you go into default you still have the opportunity to reinstate and rehabilitate the loan so that your credit rating is repaired.

Reinstatement: A borrower may have eligibility for Title IV aid (which includes student loans) reinstated by making satisfactory payment arrangements and fulfilling those arrangements with the holder of the defaulted loan. Specifically, the borrower must contact the holder of the loan and make arrangements to make 6 consecutive, voluntary, on-time monthly payments (cannot be paid in one lump sum).

Rehabilitation: Rehabilitation makes provisions for you to have all negative information removed from your credit file. A borrower may rehabilitate a defaulted loan by making satisfactory repayment arrangements with the guarantor or a collection agency acting on its behalf. In order to rehabilitate the student loan the borrower must make 12 consecutive, voluntary, on-time payments (cannot be paid in one lump sum) to the guarantor or its contracted vendor.

Consolidation: A borrower may consolidate a defaulted loan in order to clear the default. The borrower may consolidate several types of federal student loans with various repayment schedules into one loan or even consolidate a single loan. To be eligible for a **consolidation loan,** the borrower must make three voluntary, on-time, full monthly payments. A defaulted student loan that is consolidated may still affect your credit rating as it will not be deleted from your credit report, but will be listed as a zero balance for seven years. Additionally, please note that Stafford and Direct Consolidation Loans have different repayment options and that defaulted loans may only be consolidated once.

Student Loan Default Alternatives: If none of the above provisions apply to your situation, or you have already exhausted them, your ability and steps to removing a defaulted student loan will depend on who reported the account to the credit bureau. There are four possible entities:

1. The Student Loan Commission.
2. The bank/lender that financed the loan.
3. A collection agency.
4. Someone to whom your original loan was sold.

If the government Student Loan Committee (SLC) reported your account, there is little chance of getting it removed other than those covered earlier. The only remaining strategy is to pay it off in full and use the standard dispute method with the credit bureau by finding something (however small) that is incorrect. This method relies a great deal on luck-hoping due to the massive number of student loans which are processed, and the inefficiency of governmental agencies in general, that the commission will not verify the loan as a defaulted loan. Without the commission confirming the new status of the account, the bureau will have to delete it from your record rather than just show it to be paid.

For more information on fixing your defaulted student loan, contact the:

Coalition For Student Loan Reform 1875 Connecticut Avenue N.W. Suite 1010 Washington DC 20009 (202) 328-6109 Fax (202) 328-1163 or on the web at: www.csir.org.

Warning To Authorized Users

What most people don't realize is that being listed as an authorized user on someone else's credit card account results in that person's payment history being reported to the authorized user's credit file as well. This is a good thing if you have no credit, because you can actually benefit from someone else paying their bills on time and use them to establish a credit rating.

But what happens if the principle accountholder habitually pays late? What happens if the account is charged-off or he files bankruptcy? That information is reported to the authorized user's credit file as well. It will damage the authorized user's credit rating just as severely as it will damage the main accountholder's credit rating.

Of course, you are thinking to yourself, "How can this be? An authorized user is not legally obligated to pay the debt, even if he was the sole user of the credit card! And how is it that I can be discriminated against because someone else filed bankruptcy?" These are very good questions.

Any attorney will tell you that an authorized user never signed a contract with the credit card company and cannot be legally held responsible to pay it. But nevertheless, credit bureaus continue reporting the payment history of the principle accountholder to the credit file of the authorized user. There isn't a federal or state law that prohibits them from doing this, but a few lawsuits have been filed by people who have been damaged by this practice.

Bank Accounts / ChexSystems®

ChexSystems® is a national database containing the names of those who have mishandled their bank or credit union checking / savings accounts in one way or another. Typically, financial institutions report those who habitually bounce checks, overdraw their accounts, or leave the bank / credit union holding the bag in one way or another. Information reported to ChexSystems® remains in the database for a period of not more than five years.

When you go to a bank and sign-up for a new checking account, your name is run through ChexSystems®; however, if your name is in the system, this does not necessarily mean that your new account will be declined. It depends on the individual policies of a particular bank as to whether or not you will be turned down for a checking / savings account.

Over 80 percent of all banks and credit unions are members of Chexsystems®, so it is almost impossible to find a bank that doesn't subscribe to the network. More and more financial institutions are subscribing to the network every day, so the best way to get your credit back on track is to face the problem head on and try to get your name removed from the ChexSystems® database and your credit report. There are two ways you can do this.

Method 1: Pay whatever it is you owe your former banker, but with the stipulation that your name will be removed from the system and any negative notations removed from your credit file. You need to get a signed and dated written agreement from the bank / credit union that this will be done shortly after you pay what you owe them. Don't pay them until you get the signed agreement. Note that paying this debt will not improve your credit rating unless you get the banker to agree to remove the negative notations on your credit file.

Method 2: Dispute the accuracy of the information being reported. Information Chexsystems® reports to your credit file is governed by the Fair Credit Reporting Act. This means you have the right to dispute the information being reported about you. If it is inaccurate, it must be corrected or deleted. If the information cannot be verified, it must be deleted.

It isn't difficult to dispute the information since Chexsystems® offers an online dispute form at their website **www.chexsystems.com**. You can also order a copy of a report from them and a copy of your credit file at their website. You might be able to obtain a free copy if you live in a certain state or meet one of their conditions to qualify for a free report. All of the information about ordering a report from them and disputing the information can be found at their website. They also offer another website **www.chexhelp.com** that provides more information about getting your name removed from their system.

CHAPTER 7

Consumer Rights And Credit Laws

Consumer Protection Laws

There are numerous laws designed to protect consumers from abuses, fraud, and misrepresentation. Knowing your rights will empower you to take advantage of these laws to maximize your credit and achieve peace of mind.

You can protect your credit by being aware of legal facts regarding your consumer credit protection rights. All too often, consumers have their credit damaged unjustly as a result of misinformation being placed in their credit file.

You have the right:

1. To know the name and address of the credit bureau that prepared the credit profile, which was used by the subscriber to deny you credit.
2. To receive information from a credit bureau pertaining to the nature, substance, and the sources (not including investigative sources) regarding the information collected.
3. To have an attorney, credit consultant, or anyone of your choice, accompany you when visiting the office of the credit bureau.
4. To know who has received a report on you in the past six months (or within the preceding two years, if the report was pulled for employment purposes).
5. To find out all information held on you, without any charge, in the event you have been denied credit or employment in the past 30 days.

6. To have information pertaining to you, that you disagree with, and, therefore, dispute, reinvestigated, and corrected or removed if inaccurate or unverified.
7. To place a statement in the credit bureau's files if you continue to dispute the accuracy of any items after a reinvestigation.
8. To have an updated report sent to those credit grantors who have received a report pertaining to you within the last six months.
9. To request that the credit bureau send your side of the dispute to your potential credit grantors.
10. To sue a credit bureau if it willfully or negligently violates the law in reference to possible damages resulting from such an act.
11. To have a credit report kept from anyone who, under the law, does not have a legitimate business need to receive that information.
12. Not to have adverse information pertaining to you over seven years, or bankrupt-cies for ten years, on file or reported.
13. To be notified by a business that ordered an investigative report for information about the nature and extent of the investigation.
14. To be notified by a business asking for information about you that would constitute the equivalent of an investigative consumer report.
15. To discover the nature and substance (but not the source) of the information that was collected for an investigative consumer report.

Can A Credit Bureau Be Sued For Non-Compliance?

Yes, it can. As a consumer protected under the Federal Fair Credit Reporting Act, you have the right to challenge or sue any credit bureau in the same manner that you could bring suit against any other business.

If a credit bureau violates the rules regarding:

- Who may have access to your credit records, or
- Fails to correct errors in your credit file even after they have been made aware of them, you are entitled to actual damages and punitive damages, as the court may allow, if the violation is proved to have been intentional.

If you are successful, you may be awarded court costs and attorney's fees. Further, note that an unauthorized person who secures a credit report, or employee of a credit bureau who supplies a credit report, to any unauthorized person, or persons, may be fined $5,000 or imprisoned, or both.

Fair Credit Reporting Act

The federal *Fair Credit Reporting Act* (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of each credit bureau (also called **"consumer reporting agency" or "CRA"**). Most CRAs are credit bureaus that gather and sell information about you—such as if you pay your bills on time or have filed bankruptcy—to creditors, employers, landlords, and other businesses. You can find the complete text of the FCRA by searching the Internet for **"Fair Credit Reporting Act."**

The FCRA gives you specific rights, as outlined below. You may have additional rights under state law. You may contact a state or local consumer protection agency or a state attorney general to learn those rights.

1. **You must be told if information in your file has been used against you.** Anyone who uses information from a CRA to take action against you—such as denying an application for credit, insurance, or employment—must tell you, and give you the name, address, and phone number of the CRA that provided the consumer report.

2. **You can find out what is in your file.** At your request, a CRA must give you the information in your file, and a list of everyone who has requested it recently. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, if you request the report within 60 days of receiving notice of the action. You also are entitled to one free report every twelve months upon request if you certify that (1) you are unemployed and plan to seek employment within 60 days, (2) you are on welfare, or (3) your report is inaccurate due to fraud. Otherwise, a CRA may charge you.

3. **You can dispute inaccurate information with the CRA.** If you tell a CRA that your file contains inaccurate information, the CRA must investigate the items (usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is frivolous. The source must review your evidence and report its findings to the CRA. (The source also must advise national CRAs—to which it has provided the data—of any error.) The CRA must give you a written report of the investigation, and a copy of your report if the investigation results in any change. If the CRA's investigation does not resolve the dispute, you may add a brief statement to your file. The CRA must normally include a summary of your statement in future reports. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.

4. **Inaccurate information must be corrected or deleted.** A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after you dispute it. However, the CRA is not required to remove accurate data from your file unless it is outdated (as described below) or cannot be verified. If your dispute results in any change to your report, the CRA cannot reinsert into your file a disputed item unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice

telling you it has reinserted the item. The notice must include the name, address and phone number of the information source.

5. **You can dispute inaccurate items with the source of the information.** If you tell anyone—such as a creditor who reports to a CRA—that you dispute an item, they may not then report the information to a CRA without including a notice of your dispute. In addition, once you've notified the source of the error in writing, it may not continue to report the information if it is, in fact, an error.

6. **Outdated information may not be reported.** In most cases, a CRA may not report negative information that is more than seven years old; ten years for bankruptcies.

7. **Access to your file is limited.** A CRA may provide information about you only to people with a need recognized by the FCRA—usually to consider an application with a creditor, insurer, employer, landlord, or other business.

8. **Your consent is required for reports that are provided to employers, or reports that contain medical information.** A CRA may not give out information about you to your employer, or prospective employer, without your written consent. A CRA may not report medical information about you to creditors, insurers, or employers without your permission.

9. **You may choose to exclude your name from CRA lists for unsolicited credit and insurance offers.** Creditors and insurers may use file information as the basis for sending you unsolicited offers of credit or insurance. Such offers must include a toll-free phone number for you to call if you want your name and address removed from future lists. If you call, you must be kept off the lists for two years. If you request, complete, and return the CRA form provided for this purpose, you must be taken off the lists indefinitely.

10. **You may seek damages from violators.** If a CRA, a user or (in some cases) a provider of CRA data, violates the FCRA, you may sue them in state or federal court.

The FCRA gives several different federal agencies authority to enforce the FCRA:

FOR QUESTIONS OR CONCERNS REGARDING	PLEASE CONTACT
Credit bureaus, creditors and others not listed below	Federal Trade Commission Consumer Response Center- FCRA Washington, DC 20580 * 202-326-3761
National banks, federal branches/agencies of foreign banks (word "National" or initials "N.A." appear in or after bank's name)	Office of the Comptroller of the Currency Compliance Management, Mail Stop 6-6 Washington, DC 20219 * 800-613-6743
Federal Reserve System member banks (except national banks, and federal branches/agencies of foreign banks)	Federal Reserve Board Division of Consumer & Community Affairs Washington, DC 20551 * 202-452-3693
Savings associations and federally chartered savings banks (word "Federal" or initials "F.S.B." appear in federal institution's name)	Office of Thrift Supervision Consumer Programs Washington D.C. 20552* 800- 842-6929
Federal credit unions (words "Federal Credit Union" appear in institution's name)	National Credit Union Administration 1775 Duke Street Alexandria, VA 22314 * 703-518-6360
State-chartered banks that are not members of the Federal Reserve System	Federal Deposit Insurance Corporation Division of Compliance & Consumer Affairs Washington, DC 20429 * 800-934-FDIC

Equal Credit Opportunity Act

Do you feel you have been denied credit, or are not able to reestablish credit because you have been discriminated against? Congress enacted the *Equal Credit Opportunity Act* to protect the rights of the consumer. It was amended in 1976 by Federal Reserve Regulation B to prohibit discrimination on the basis of race, color, religion, country of origin, and receipt of public assistance.

Regulation B also contains partial exemptions from the procedures listed (except for discrimination on the basis of sex or marital status) for certain businesses, securities, and public utilities. The exempt businesses include physicians, dentists, and small shop owners who may issue credit.

This act provides for and gives you the right:

1. To be judged on an equal basis with all other credit applicants, and prevents creditors from making statements to discourage applicants on the discriminatory basis listed above.

2. To have joint accounts reported for both spouses separately.

3. To have your income considered without regard to sex or marital status, except in states with community property laws, or as required to comply with state laws governing permissible finance charges or loan ceilings.

4. To have child support and alimony payments regularly received counted as income, if

necessary.

5. Not to be questioned about childbearing plans or birth control practices.

6. Not to have your sex or marital status applied in a credit application scoring system.

7. To obtain credit in your own name if you are a woman.

8. Not to have creditors use or require unfavorable information about a spouse, or former spouse, in case an applicant applies for credit independently of that spouse, and can demonstrate that the unfavorable information should be not be applied.

9. To have creditors count part-time income, although the creditor may consider the probable continuity of an applicant's employment.

10. To know the reasons you have been denied credit.

11. Not to have a creditor terminate your credit on an existing account because of a change in the applicant's marital status without evidence that the applicant is unwilling or unable to pay.

The same law also provides that a creditor :

1. May inquire about, and consider whether, obligations to make alimony payments, child support, or maintenance payments, would affect the outcome of a credit application.

2. May ask to what extent an applicant is relying on **alimony or child support** or maintenance payments to repay the debt. However, the applicant must first be informed that such disclosure is unnecessary if the applicant does not rely on such income to obtain credit.

The Equal Credit Opportunity Act also addresses the retention of certain records that must be kept by a creditor pertaining to any action taken on an application for credit. The creditor must retain any application form, or other information, notifications of action taken, reasons for any adverse action, and any allegations or violations.

Women And Credit

Projections from the U.S. Census Bureau state that of 100 typical American women now 21 years old, six will never marry. Ninety-four of them will marry, and 33 of them will see that marriage end in divorce. Out of the remaining 61 who stay married, 46 will outlive their husbands. Thus, 85 out of 100 women will be on their own at some time within their lives.

Of the 61 who stay married, what percentage of them married men with a bad credit history? Of the 33 who divorce, how many of them come out of the marriage with their own personal, positive credit history? How many women know how much their net worth is? What their husband's life insurance policy is worth? Every woman—married, single or divorced—should be able to answer these questions, but how many can? Financial planning is an abstract concept that has no meaning until it is used in our everyday life.

Women deserve credit. A good credit history is as important to a woman as it is to a man. A woman should use the steps in this publication to find out what her credit history is. If she has none, she should work at establishing some. If it is a negative history, she should take the necessary steps to fix it, and work at reestablishing good credit. This should be done in her own name, not as Mrs. "John Doe."

Remember the Equal Credit Opportunity Act. Again, exercise your right to equal opportunities. A lender cannot deny you credit because of sex or marital status.

The Fair Credit Billing Act

Have you ever received a bill and didn't know what it was for? Billing errors can damage your credit standing, even if they didn't belong to you. The *Fair Credit Billing Act* was enacted in 1975 to protect consumers from billing errors, so that they can be resolved expeditiously and in a fair manner.

This law protects you from the following errors:

1. Charges for goods or services that were not accepted or delivered as agreed.
2. Charges that are incorrectly identified in terms of amounts or dates.
3. Charges not made by the person, or persons, authorized to use the account.
4. Failure to reflect payments, returns, or other credits.
5. Bills that were delivered to the incorrect address (even though you made a change of address notification in a timely manner).
6. Charges for which a written proof of purchase has been requested.

The law also provides that a creditor may not report an account delinquent to a credit bureau while there is a dispute that has been filed by the borrower or party involved.

The full text of the act can be found by searching the Web for “Fair Credit Billing Act”.

Fair Debt Collection Practices Act

Credit collectors must comply with the ***Fair Debt Collection Practices Act***, 15 USC § 1692, which strictly regulates the debt collector's actions in acquisition of location information, communication in connection with debt collection, harassment or abuse, false or misleading representations, unfair practices, validation of debts, multiple debts, legal actions by debt collectors, even one of their favorite tricks: furnishing certain deceptive forms.

When contacted by a collection agency attempting to collect on a debt that you do not owe, all you have to do is write a letter disputing the debt. Once you have sent them this notice, they cannot continue to collect until they have verified that the debt is actually valid. You must send this letter by certified mail and retain copies and all receipts as proof of mailing.

Only third-party collection agencies are regulated by the Fair Debt Collection Practices Act. This act outlines what a debt collector cannot do in collecting a debt for others.

Third-party debt collectors are not allowed to:

1. Contact you at inconvenient or unusual times or places, such as before 8:00 AM or after 9:00 PM, unless you agree.
2. Contact you at your place of employment if your employer doesn't approve.
3. Contact you after you send written notice to an agency to stop, except to state that there will be no further contact, or to notify you that specific action will be taken if that specific action is usually taken by the collector. In that event, your account will probably be referred to an attorney immediately.
4. Contact anyone but your attorney if you have one. Otherwise, a collector may contact other people only to determine where you work or live.
5. Tell people that you owe money, except you or your attorney.
6. Advertise your debt or publish a list of non-payers, except to credit bureaus.
7. Harass, oppress, or abuse any person, such as use of threats of violence or harm to property or reputation, use of obscene or profane language, repeated use of the telephone to annoy someone, or telephone without identifying themselves.
8. Make false statements when collecting a debt, such as falsely imply that they are an attorney or government representative, falsely imply that you have committed a crime, falsely imply that they work for a credit bureau, misrepresent the amount of debt, or indicate papers are legal when they are not.
9. Fail to give you written notice within five days after contacting you, tell you the amount owed, the name of the creditor, and what to do if you feel you do not owe the money.
10. Contact you about the debt if you deny owing the debt within 30 days after being contacted, unless you are sent proof of the debt.
11. Imply or say that you will be arrested for nonpayment.
12. Say that they will take legal action unless the creditor intends to do so, and that it is legal.
13. Give false credit information about you to anyone.
14. Send you official-looking documents that appear like documents a court or agency of any United States government body might send.
15. Use any false name.
16. Deposit a postdated check before the date of the check.
17. Make you pay for communications, such as collect calls or telegrams.
18. Contact you by postcard that could advertise your debt.
19. Put anything on an envelope that shows the communication is about the collection of a debt. For example, Midwest Collections is not an acceptable return address.
20. Fail to apply amounts to the specific debts you choose.

The full text of the act can be found by searching the Web for "Fair Debt Collection Practices Act".

CHAPTER 8

Glossary Of Credit Related Terms

A-Credit Loan The credit industry term used to describe a loan that reflects the best possible interest rate, terms and conditions. Consumers must demonstrate good credit in order to secure an "A" loan.

Adjustable-Rate Mortgages Adjustable-rate mortgages (ARMs) usually start with a lower interest rate than a fixed-rate mortgage, so your monthly payments are lower. This allows you to qualify for a larger mortgage than would be possible with a fixed-rate mortgage. The interest rate on an ARM is adjusted periodically based on an index that reflects changing market interest rates. When the interest rate is adjusted your monthly payment goes up or down. It's important to understand all the aspects of ARMs before you make your decision.

Annual Fee A yearly fee charged by some credit card issuers to cardholders who agree to use the card in accordance with the card's rules. The card issuer must notify cardholders if the card carries an annual fee. This fee is in addition to the interest charged on purchases and cash advances.

Annual Percentage Rate (APR) Also known as the interest rate. The yearly rate or percentage that one pays on credit balances in the form of interest. The APR includes the interest rate, points, broker fees and certain other credit charges that the borrower is required to pay.

Applicant A person applying for credit privileges, employment or some other benefit.

Appreciation An increase in the market value of a home due to changing market conditions and/or home improvements.

ARM (See "Adjustable Rate Mortgage.")

Asset Any thing you own that has value or use

ATM (See "Automated Teller Machine.")

Authorized Account User The person authorized by the contractually responsible party to use the account.

Automated Teller Machine (ATM) Allows customers to perform banking transactions anywhere and at anytime. By using a debit or ATM card at an ATM, individuals can withdraw cash from checking or savings accounts, make a deposit, or transfer money from one account to another. You can also get cash advances using a credit card at an ATM. Individuals should also be aware that card issuers and ATM owners charge transaction fees – ranging from $0.50 cents to $3 per transaction – for using another bank's ATM.

B- or C-Credit Loans The credit industry term used to describe loans that reflect less than the best possible interest rate, terms and conditions. Consumers with negative or derogatory credit may be offered "B" or "C" loans. These loans always impose a higher interest rate and fees.

Balance The amount of money you have in your account.

Balloon/Reset Mortgages Balloon/reset mortgages may be a good choice for homebuyers who don't expect to own their home past the maturity date of the balloon note: 5 or 7 years, for example. At the end of that time, you must sell your house or get a new loan, called a refinance. Expect to pay fees associated with a refinance.

Bank A federally-regulated financial institution that makes loans, cashes and pays checks, accepts deposits and provides other financial services.

Bankruptcy A proceeding in U.S. Federal Court that may legally release a person from repaying debts owed. Bankruptcy can severely impact the ability to borrow money. Credit counseling is available to help prevent bankruptcy. The law contains several chapters which relate to different methods of relief:

(See below "Chapter 7" Straight Bankruptcy)
(See below "Chapter 11" Business Reorganizations)
(See below "Chapter 12" Farm Debt Bankruptcy)
(See below "Chapter 13" Wage Earner Repayment Plan)

Bankruptcy Discharged A court order terminating bankruptcy proceedings on old debts.

Bankruptcy Dismissed A court order that denied a bankruptcy petition making the debtor still liable for all debts.

Beacon A complex credit-scoring system used by the credit bureau Equifax.

Borrower A person or entity using someone else's money or funds to purchase something. May be used interchangeably with the term debtor.

Budget A financial plan for saving and spending money. Budgets are tools commonly used to measure or gauge expenses against income.

Capacity The ability to make mortgage payments on time, depending on income and income stability, assets, reserves and the amount of income each month that is available after paying housing costs, debts and other obligations.

Capital/Cash Reserves The cash reserves (savings), investments or assets possessed by an individual.

Cash Advance A borrower may obtain cash "on the spot" by using their credit card at a bank or an ATM. The amount of the cash advance is deducted from your available credit line. A fee is often charged when obtaining cash advances. In addition, the interest rate is usually higher than on purchases and there is typically no grace period.

Chapter 11 Business Reorganizations

Chapter 7 Straight bankruptcy, which involves the total liquidation of non-exempt assets, distribution of the proceeds to creditors, and a discharge of the remaining debt.

Chapter 12 Farm Debt Bankruptcy

Chapter 13 Wage Earner Repayment Plan, where the filer works out a government-organized plan to repay debt. Though run through the same office, this is not the same as bankruptcy, which discharges debt.

Charge Card A card which requires payment in full upon receipt of the billing statement. (See "Credit Card.")

Charge Off Accounting term to indicate that the creditor does not expect to collect a balance owing on loans or debts that have gone unpaid by the creditor. The creditor "gives up" on collecting payment and reports the charge-off to the credit bureau for inclusion on an individual's credit report. Most lenders, however, regard charge-offs as debts that are still owed. On a credit report, this is worse than a collection.

Closing Costs Closing costs on a home loan include points, taxes, title insurance, financing costs and items that must be prepaid or escrowed and other settlement costs. These costs generally range from 2 and 7 percent of the mortgage amount.

Collateral Property (such as a car) acceptable as security for a loan or other obligation or the value of personal property owned or possessed by the borrower. Relative to home mortgages, collateral is the value of the home the borrower wishes to purchase. If the debtor fails to pay the loan, the creditor may force the debtor to sell the collateral to satisfy the debt or may foreclose and repossess the property to satisfy the debt.

Collection Account An account owed to a creditor when it has been transferred from a routine debt to a collection department of the creditor's firm or to a separate professional debt collecting firm whose primary business is to collect outstanding debt obligations. These types of accounts normally appear on the debtor's credit report.

Compensating Factors The term used by lenders for examining a borrower's credit strengths and weaknesses. If a borrower is exceptionally strong in one area, such as cash reserves, the borrower may be weaker in another area, such as late payments in the credit history. In this case, the cash reserves may compensate or make up for the derogatory credit.

Consolidation Loan A loan usually obtained for the purpose of reducing the amount of payments of bills owed by consolidating the bills into one loan payment. The consumer pays off several bills with the proceeds from one loan and is left with one consolidated monthly payment. (Not the same as Debt Consolidation.)

Consolidators Organizations that help consumers find a way to repay debts through careful budgeting and management of funds. These are usually nonprofit organizations, funded by creditors. By requesting that creditors accept a longer pay-off period and lower interest, the counseling services can often design a successful repayment plan.

Consumer Person who uses and/or buys goods and services for family or personal use.

Consumer Credit Counseling Service Debt consolidation organizations that help consumers find a way to repay debts through careful budgeting and management of funds. These are usually non-profit organizations, funded by creditors and the consumers they work for. By requesting that creditors accept a longer pay-off period, the counseling services can often work out a successful repayment plan.

Co-signed Account A loan or credit account cosigned by an individual who pledges to pay if the primary borrower does not pay.

Cosigner An individual who equally pledges his or her collateral or credit by signing on a loan or credit application with another person. A cosigner agrees to the responsibilities of a credit application with you, which basically means that they take on liability for your debts. A family member or friend who has an established credit history may be eligible to be cosigners.

Credit A trust or a promise to pay later for goods or services purchased today. An arrangement between a lender and a borrower whereby a lender lends money to a borrower, and the borrower agrees to pay it back. Also, The ability of a person to borrow money, or obtain goods with payments over time, as a consequence of the favorable opinion held by a lender as to the person's financial situation and reliability.

Credit Bureau Also known as a credit reporting agency. A company that gathers information on consumers who use credit and sells that information in the form of a credit report to credit lenders and/or employers, to facilitate their decisions to extend credit or to hire.

Credit Card A type of payment card that involves a revolving line of credit that is issued to the cardholder. They provide flexibility, allowing you to pay your whole bill at once or over time in increments. If you do not choose to pay your balance in full each month, you will be required to make at least the minimum payment and to pay finance charges on the remaining balance. Credit cards are issued by banks, credit unions, and some retailers like department stores and gasoline companies, among others.

Credit Counseling Credit counseling can help you improve and build back your credit. A credit counselor can provide, credit education, confidential budget and debt counseling, debt repayment programs, and financial management education.

Credit Grantor Person or business furnishing consumer goods and/or services on credit.

Credit History A record of credit use, composed of a list of individual consumer debts and an indication as to whether or not these debts were paid back in a timely fashion or "as agreed." Developed by credit institutions, a complex recording system of documenting credit history is called a "credit report" (See), which is used as a guide to determine whether the consumer is likely to pay accounts on time in the future

Credit Limit The maximum amount of money that can be charged on a particular credit account

Credit Line Also referred to as your credit limit. This is the maximum amount you can borrow using your credit card.

Credit Repair Companies Private, for-profit businesses that charge a fee to conduct a credit investigation and dispute process on behalf of consumers. Also know as Credit Clinics.

Credit Report A file maintained by a credit bureau that contains information about a person, such as where the person works and lives, information from creditors regarding money borrowed and payments made, and public record information such as whether the person has filed for bankruptcy, used as an indicator of credit worthiness.

Credit Reporting Agency (See "Credit Bureau.")

Credit Risk Credit-industry term meaning the level of risk or likelihood of future default by an individual borrower.

Credit Score A computer-generated number, based on a statistical model, that summarizes an individual's credit record and predicts the likelihood that a borrower will repay future obligations. Each bureau generates their own credit score, which usually ranges from 450 to 800, with 640 considered average and good enough to qualify for many home loans. A score of 770 or higher is considered excellent and enables the borrower to qualify for the best rates and terms on all types of credit.

Credit Union A federally regulated, not-for-profit cooperative financial institution that is owned and controlled by the people who use its services. Credit unions serve groups that share something in common, like where they work or go to church. You have to become a member of a credit union to bank there.

Creditor The person or entity providing credit or a loan to a borrower at specific terms and conditions. May be used interchangeably with the term lender.

Creditworthiness The ability to qualify for credit and repay debts.

Debit Card Debit and ATM cards are types of payment cards that provide a convenient and secure alternative to cash and checks. Sometimes called a "check card," it allows you to make purchases and access your bank accounts anywhere through the use of an ATM machine. It usually has the name of your financial institution printed on it along with a Master Card or Visa logo. The card allows you to pay for goods and services at stores that accept these credit cards, but it is NOT a credit card and therefore will NOT appear on your credit report. Often you can use a debit card to rent a car or to purchase items over the Internet, but since money is deducted directly from your checking account, your balance determines your spending limit.

Debt A sum of money owed from one person or institution to another person or institution.

Debtor The person or entity that borrows money. The term debtor may be used interchangeably with the term borrower.

Debt Consolidation A process initiated by a company that will lower your payments, interest rates and penalties on credit card debt, but at the expense of good credit. (Also, see “Consolidators” and "Home Equity Loan.")

Debt-to-Income Ratio The percentage of gross monthly income that goes toward paying for the monthly housing expense, installment debts, alimony, child support, car payments and payments on revolving or open-ended accounts such as credit cards.

Default A failure to meet a payment or fulfill a credit obligation.

Deposit The money you add to your account using a deposit slip.

Direct Deposit With direct deposit, your paycheck or benefit check is electronically transferred and directly deposited into your bank account. The amount of money is available immediately.

Down Payments A down payment is a percentage of the value of a home purchase and is determined by the type of mortgage you choose. Down payments typically range from 0 to 20 percent of the property value.

Due Date (See "Payment Due Date.")

Duplicate Account The same account listed twice on the same credit report. This may occur when the creditor reports the account as both installment and revolving, or when you move and your account is transferred to a different location.

Empirica A complex credit-scoring system used by the credit bureau TransUnion.

Equal Credit Opportunity Act (ECOA) A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs

Equifax One of the three major credit reporting agencies, headquartered in Atlanta, Georgia.

Experian One of the three major credit-reporting agencies, formerly known as TRW

Fair Credit Reporting Act A federal law, established in 1971, and revised in 1997, which enables consumers to learn what information Credit-reporting Agencies have on file about them, and to dispute inaccurate data in the file. It also establishes specific permissible purposes for which credit reports may be requested, and places time limits on how long adverse information may be reported.

Fair Isaac Corporation (See "FICO")

FCRA (See "Fair Credit Reporting Act")

Fees The money you pay the financial institution for a service, like a maintenance fee to maintain your account or a "bounced check" fee for writing a check for more money than you have in your account.

FHA Federal Housing Administration Government agency which insures loans made to qualifying borrowers. FHA does not make loans, but does enable buyers to obtain a loan with preferable terms that may be difficult to find elsewhere.

FICO A complex credit-scoring system used by the credit bureau Experian. Named after Fair, Isaac Company, FICO is the original and most influential scoring system.

File Segregation An illegal process used to obtain a new identity by utilizing a corporate tax ID number to replace your social security number.

Finance Charge The amount charged for the use of credit services. (See "Interest. ")

First Mortgage Also known as the "primary" mortgage, has priority over the claims of subsequent lenders for the same property.

Fixed Expenses Costs or payments that generally do not vary from month to month (for example, a mortgage payment).

Fixed-Rate Mortgages Fixed-rate mortgages are stable and offer long-term savings. Because the interest rate never changes, the monthly principal and interest payment never changes either. Your payment could go up a little, however, if property taxes and insurance costs go up. A fixed-rate loan is the most common loan for first-time homebuyers, but not always the best choice. (See "Adjustable Rate Mortgages. ")

Foreclosure A legal action that terminates all ownership rights in a home when the homebuyer fails to make the mortgage payments or is otherwise in default under the terms of the mortgage.

Garnishment Legal process whereby a creditor has obtained judgment on a debt may obtain full or partial payment by seizure of a portion of a debtor's assets (wages, bank account, etc.)

Good credit The term commonly used to mean that one's credit has been handled responsibly and that payments have been made on time.

Grace Period A period of time when you're not charged interest for purchases you've made. For example, if the billing date on your credit card bill is May 1, you may have until May 25 to pay your balance in full. If you do, you will not be charged interest. If your payment arrives after May 25 – or if you don't pay the entire balance – you may be charged interest from the date of purchase as posted. Some accounts have no grace period, which means interest is charged on purchases from the date they are posted.

Graduated Payment Mortgages Graduated payment mortgages start out with lower monthly payments; then over a period of years, your payments go up slowly. When the payments reach a certain amount, they stay fixed at that amount for the rest of the loan. Graduated payments loans are good if you think your annual income will go up.

Gross Income The income earned before taxes and other deductions. Under certain circumstances, it also may include rental income, self-employed income, income from alimony, child support, public assistance payments and retirement benefits.

Home Equity Loan A loan based on the difference of the amount of equity paid on a home, and the home's current market value

Home Equity Loan A loan based on the difference of the amount you own on your home, and the home's current market value. Also called a debt consolidation loan.

Homeownership Education Classes Homeownership education classes provide information about the mortgage approval process, qualifying for a loan, the importance of establishing a strong credit reputation, selecting a home that's affordable over the long term, the financing and closing processes, and avoiding mortgage delinquencies, defaults and foreclosures

Inquiry A request for a copy of a credit report. An inquiry occurs every time a credit application is completed and when more credit is requested. In some cases, too many inquiries on a credit report can lower a credit score.

Installment Account A type of credit where a consumer signs a contract to repay a fixed amount in equal payments over a specific period of time. Examples include car loans, furniture loans and personal loans.

Installment Loan A credit account in which the amount of the payment and the number of payments are predetermined or fixed.

Interest Usually a percentage of the amount borrowed or loaned, it is the amount the lender charges to lend money. Also, the fee paid to you by a financial institution for keeping your money there.

Issuer Institutions that provide a credit line to a consumer through a credit card are called issuers. Issuers can include banks, credit unions or savings and loan associations, and retailers such as department stores or gasoline companies.

Joint Accounts Credit accounts held or owned by two or more persons. In the case of a joint account, all parties are held equally responsible and liable for payment under the terms and conditions of the loan contract.

Judgment The official court decision of an action or suit if a debt or loan obligation is unpaid. This public record may be listed on a credit report in matters of money and debts owed.

Late Payments Loan or credit payments that do not reach the lender or creditor on or before the payment due date. The indication of late payments on a credit report are very damaging to an individual's credit report.

Lease A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a stated period and for a stated consideration

Lender The person or entity providing credit or a loan to a borrower at specific terms and conditions. May be used interchangeably with the term creditor.

Lien A legal hold or claim of one person on the property of another as security for a debt or charge. The right given by law to satisfy debt. (A lien must be paid and released)

Lien Waiver A document that releases a consumer (usually a homeowner) from any further obligation for payment of a debt once it has been paid in full. Lien waivers typically are used by homeowners who hire a contractor to provide work and materials to prevent any subcontractors or suppliers of materials from filing a lien against the homeowner for nonpayment.

Line of Credit A preauthorized amount of credit offered to an individual, business or institution that is commonly secured against an asset such as a home (real estate).

Loans A loan is money you borrow from the financial institution with a written promise or "note" to pay it back later. With a loan, financial institutions charge you fees and interest to borrow the money.

LTV Loan to Value. A ratio that tells a borrower how much money a bank will lend towards the purchase of a home. It is calculated by dividing the loan amount by the purchase price (or appraised value). Lenders will loan anywhere from 80% to 100% LTV to a qualified borrower.

MIP (See "Mortgage Insurance Premium. ")

Money Order Similar to a check, a money order is used to pay bills or make purchases when cash is not accepted. You pay a fee to get a money order and they are all equivalent, so shop around for the best price and you can find them for under a dollar.

Mortgage A lien or claim against real property given by the buyer to the lender as security for money borrowed. In some states the term mortgage also describes the document signed to show that the lender is granted a lien on the home; other states use a deed of trust document instead of a mortgage. It also may be used to indicate the amount of money borrowed, with interest, to purchase a home. The amount of the mortgage is usually the purchase price of the home minus the down payment.

Mortgage Insurance (MI) Insurance needed for mortgages with low down payments (usually less than 20% of the price of the home).

Mortgage Insurance Premium (MIP) The cost of insuring a lender against loss on a mortgage. This insurance is provided by the Federal Housing Administration (FHA) and other companies, and the premium is paid by the individual home buyer. MIP is made up of two parts: an up-front cost of about 1.5% of the mortgage amount, plus an annual premium of about 0.5% of the loan amount, to be paid on a monthly basis. Mortgage insurance helps to protect lenders from losses in the event of a mortgage default and foreclosure. The annual MIP may be canceled when the mortgage amount is reduced to 78% or less of the property value (also known as 22% or more of home equity value).

Mortgage Qualifying Ratio Used to calculate the maximum amount of funds that an individual traditionally may be able to afford. Determined by dividing expenses by gross income. A typical mortgage qualifying ratio is 28% front-end (revolving debt) and 36% back-end (all debt including housing expenses).

Needs The things in life that are required for basic survival, such as shelter, food and clothing.

Net Income Your take-home pay after taxes and other deductions. It is the amount of money that you actually received in your paycheck.

Online Banking Online banking lets you make payments, check account balances, transfer money between accounts, obtain your account history and more at any time from any computer with Internet access.

Open 30-day Account A type of credit where a consumer promises to repay the full balance owed each month. Examples include local businesses, and travel and entertainment charge cards like American Express.

Outstanding Balance The total amount of money that is owed to the financial lender after a payment is made. For example if you have a $500 credit card balance, and you pay $100 when you receive your statement, your outstanding balance is $400.

Over the Limit When a borrower has accessed an amount of money larger than what is available in their credit line. Depending on the credit issuer, this may be permitted, but the borrower will usually be charged an "Over the Limit" fee.

Overdrawing an Account Withdrawing more money from a checking or savings account than is available. This can result in a fee being charged or the withdrawal or check being declined.

Payment Cards The most familiar types of payment cards are credit, charge and debit cards. These financial tools allow consumers to make purchases online, over the phone or in person at merchants across the world.

Payment Due Date Contract language specifying when payments are due on money borrowed. The due date is always indicated and means that the payment must be received on or before the specified date. Grace periods do not eliminate the responsibility of making sure that payments are received by the lender by the due date. In most cases, lenders or creditors who receive payments past the due date will add a late charge and/or additional interest and fees.

Permissible Purposes As defined in section 604 of the Fair Credit Reporting Act, only the named reasons for requesting a credit report are deemed "permissible." Requests not meeting these criteria must be denied.

Personal Loan A loan based on a consumer's income, debt and credit history.

PIN Personal Identification Number used for security purposes on bank cards (also known as debit cards or check cards) and credit cards. The rightful owner is required to select and memorize a four- or five-digit numeric code, which is required to use the card at ATMs or other points of sale.

PITI Principal, interest, taxes and insurance combined to make up a mortgage payment.

Points A one-time charge by a lender to lower the interest rate of a loan. One point is equal to 1% of the loan amount. It is often advisable to pay more point in order to get a lower rate. The determination depends on how long you intend to hold the mortgage.

Predatory Lending Abusive lending practices that include making a mortgage loan to an individual who does not have the income to repay it, or repeatedly refinancing a loan—charging high points and fees each time and "packing" credit insurance onto a loan.

Predictive Variables The items that are part of the formula or factors comprising elements of a credit scoring model. These variables are used to predict a borrower's future credit performance.

Prepayment Penalty Charges imposed by some lenders as a penalty for paying off a loan earlier than its original payoff date. Prepayment penalties are common among some of the sub-prime and/or predatory lending loan products.

Prepayment Penalty Mortgage (PPM) A type of mortgage that requires that the borrower pay a prepayment penalty or a fee for repaying the entire loan (or a substantial portion of it) within a certain time period. A "substantial portion" is generally defined as any amount that exceeds 20% of the original principal balance.

Principal The outstanding balance of a loan, exclusive of interest and other charges. In housing, the amount of money borrowed to buy a house or the amount of the loan that has not yet been paid back to the lender. This does not include the interest paid to borrow that money. The principal balance (sometimes called the outstanding or unpaid principal balance) is the amount owed on the loan at any given time. It is the original loan amount minus the total repayments of principal made to date.

Private Mortgage Insurance (PMI) (See "Mortgage Insurance. ")

Property Tax Payment 1/12th (monthly) of the estimated annual local real estate taxes on the home that is purchased, usually collected by the lender, who makes the payment to the county on behalf of the borrower. Taxes are the only lien that have priority over a first mortgage, so banks collect the payment in order to ensure that the taxes get paid.

Public Record Information on events that are a matter of public record (courthouse records) related to creditworthiness, such as bankruptcies, foreclosures, judgments and tax liens. The presence of public record information on a credit report is viewed negatively by the credit industry. Public records are open to any person who requests them.

Real Estate Professionals Real estate professionals are people who earn their living matching homebuyers with sellers. They are licensed by the state where they live and have taken classes in subjects such as real estate law and finance.

Repossession Forced, or voluntary surrender of merchandise as a result of the customer's failure to pay as promised. There are several types and descriptions of repossession actions, all of which are derogatory on a credit report. Voluntary Repossession is a term used by creditors to minimize the detrimental effect of a repossession on a person's credit, but it has the same exact effect as any other repossession.

Revolving Account A type of credit account where a consumer has the option to pay the debt in full each month or to make a minimum monthly payment based upon the outstanding balance. Examples include department stores, gas and oil companies and bank-issued credit cards. As the balance declines, the amount of the service charge, or interest, also declines.

Risk-Based Pricing Fee structure used by creditors based on the risks of extending credit to a borrower with a poor credit history.

Safe Deposit Box A safe deposit box, available for a small, yearly rental fee, is a fireproof, locked box housed within the bank's vault that you can use to store your valuables, such as passports, important papers, jewelry and the like. The keys remain solely under your control; boxes come in many shapes and sizes to meet your needs.

Savings Money set aside into an interest-bearing or investment account. Also defined as the difference between net income and expenses.

Second Mortgage Also know as the "secondary" mortgage, is a loan secured by mortgage or trust deed, which lien is "junior" to another (first) mortgage or trust.

Secured Credit Cards Secured cards are a great "first step" for those with little or no credit history. This type of payment card requires that a security deposit be made in order to establish a credit line. Your credit line will typically be equal to the amount of your deposit, or sometimes slightly higher. These accounts present no real risk factor for creditors and are therefore much easier to obtain.

Secured Loan A loan backed by collateral and secured against something tangible such as a home (real estate).

Smart Card An electronic prepaid cash card, usually sold at banks, which can be used as a credit or debit card.

Sub-Prime Industry term used to describe credit and loan products that have less stringent lending and underwriting (loan approval) terms and conditions. As a compensating factor for the higher risk, however, sub-prime products charge consumers higher interest rates and fees and higher down payments on home loans.

Subscriber A term used by credit bureaus to describe their creditor clients (companies that purchase and provide credit data on consumers.

Telephone Banking Telephone banking allows you to use the telephone to check your account balances, transfer money between accounts, check on your recent deposits or withdrawals and stop payment on a check.

Terms The period of time and the interest rate agreed between the creditor and the debtor to repay a loan.

Three C's Capacity, Collateral and Credit. The term for the three primary areas used by lenders to measure creditworthiness.

Thrift A federally regulated savings bank or savings and loan association that is similar to a bank. While banks offer a wide array of services, a thrift's main business is to make home loans.

Title Insurance Insurance that protects lenders and homeowners against loss of their interest in the property because of legal problems with the title. Required by most lenders.

TransUnion One of the three major Credit Bureaus that keep records of your credit report.

Variable Expenses Costs or payments that may vary from month to month (for example, grocery bills).

Voluntary Repossession (See "Repossession. ")

Wants The things in life that are not essential for survival but are desired for comfort, convenience or status.

Wire Transfer Wire transfer is a method of electronically transferring money from one financial institution to another. It's a particularly important way of sending money to relatives who live in another country. The fees charged by financial institutions to wire money to countries outside the U.S. are usually less expensive than check cashing companies.

Withdrawal The money you take from your account by writing a check, handing a teller a withdrawal slip or using an ATM.