

Volunteer Leader Training Guide

Wise Credit Management – Understanding Your Credit Report

Laura Connerly, Instructor - Family Resource Management

Introduction

Your credit report is a history of your credit management behavior. Your credit report affects your buying power. It affects your ability to get a loan or a job. It's important to know what's in your credit report. You need to examine your credit report for errors, mistakes or unauthorized charges. If you find an error, you'll need to contact the reporting company and the lender. Unauthorized charges or accounts you didn't open may be signs of identity theft. Check your credit report regularly.

Target Audience

- Extension homemakers
- Adult consumers

Objectives

This lesson will help participants increase knowledge or understanding of recommended credit management practices such as:

- checking credit reports.
- correcting errors.
- detecting and reporting fraud.
- checking and improving credit scores.

Teaching Points and Activities

- I. Welcome participants to training.
- II. Use the Introduction on page 2 of this training guide.
- III. Distribute handout "Sample Credit Report" and the fact sheet, *Credit Reports and Credit Scores*. Continue the lesson being sure the following points are covered. You may also use the optional PowerPoint slides.

Your Credit Report

The three major U.S. credit bureaus are Equifax, Experian and TransUnion. The credit bureaus gather information on your credit use and provide it to lenders and other businesses. The Fair Credit Reporting Act entitles consumers to a free annual copy of their credit report from each of the major credit bureaus.

What's in a Credit Report?

Information in your credit report usually includes:

- **Identification** – name, birth date, Social Security number, spouse's name, address, previous addresses
- **Employment** – current employer, employment history
- **Credit** – accounts, credit limits, balances, payments, late payments, overdue notices, collection agency involvement
- **Inquiries** – creditors, individuals and businesses who have requested your credit report
- **Public record** – bankruptcy, foreclosure, tax liens or other matters of public record will stay on your record for 7-10 years.

Order a Free Report

Consumers are entitled to a free credit report on an annual basis from each of the three credit bureaus. Additionally, you are entitled to a free report if a company takes adverse action against you, such as denying your application for credit, insurance or employment based on information in your report.

You should check your credit report regularly. Spacing the three free reports out during the year allows you to monitor your credit information regularly and watch for consumer fraud.

For your free annual credit report, go to the website at <https://www.annualcreditreport.com>. There are some websites that charge for a copy of your report, so make sure you enter the web address exactly. Beware of imposter websites.

You can request your credit report by phone. The phone number for Annual Credit Report is 1-877-322-8228. The operator will ask for information to verify your identity.

You can order your credit report by mail. You will need a copy of the request form available on the website or by mail. The address is:

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

Correct Errors

If you find an error, contact the reporting company and the creditor. You will need to notify them in writing and include copies of sales receipts or any other documentation you have. Provide a description of the error. Send your letter to the creditor at the address given for “billing inquiries,” not the address you use for sending payments.

Credit bureaus must investigate, usually within 30 days. If they confirm the error, all three credit bureaus must correct the information in your credit reports.

Details on how to dispute credit report errors are available from the Federal Trade Commission Bureau of Consumer Protection at <http://www.ftc.gov/bcp/consumer.shtm>.

Recover From Fraud

Unauthorized charges or accounts in your name that you didn’t open may be signs of identity theft. If you suspect identity theft, notify the credit bureau immediately. The credit reporting companies can place “fraud alerts” in your file. The fraud alert notifies potential creditors and others that you may be a victim of identity theft. To post a fraud alert, call one credit reporting company. They will notify the other two. This initial alert will stay in your file for 90 days.

Contact the companies with the fraudulent accounts or unauthorized charges. Ask to speak with someone in the security or fraud department. Follow up in writing, and include copies of supporting documents. Close the account and ask the company to send written verification to you that the account was closed due to fraud and that any fraudulent charges have been discharged.

Contact the Federal Trade Commission at www.ftc.gov/idtheft or call the FTC’s Identity Theft Hotline [1-877-ID-THEFT (438-4338)] to file an identity theft report. You may also want to contact your state attorney general’s office or your local police if it is a local company.

According to the Fair Credit Reporting Act, both the credit bureau and the business (credit card, bank, etc.) that provided the information are responsible for correcting fraudulent information on your report. Send a copy of an identity theft report and a letter stating which information is fraudulent to both the credit bureau and the business. The law also limits your liability for unauthorized credit card charges to \$50 per card.

Accurate Negative Information

No one can legally remove accurate negative information from a credit report. How long will the negative information stay on your credit report? The credit bureaus may keep negative information in your report for seven years. Bankruptcy information may remain for 10 years.

Your Credit Score

Information about credit practices such as paying bills on time, credit limits, number of accounts, amount of debt, types of credit accounts, etc., are used to determine your credit score. Based on information in your credit report, points are awarded for items that show you are likely to repay debt. Your total number of points equals your credit score.

Lenders use your credit score to decide whether or not to give you a loan or what interest rate to charge you. Generally, the higher the score, the more likely the consumer will make payments on time. Credit scores are calculated using a variety of methods. Each of the major credit bureaus has its own credit score. There are two scores that combine information from the three agencies – FICO and VantageScore.

Many mortgage and other lenders use a credit score developed by Fair Isaac Corporation called FICO. FICO scores range from 300 to 850. Most people score in the 600s and 700s. If you have a FICO score above 700, you may qualify for more credit and lower interest rates. A score below 600 could mean high interest rates, low credit limits or even denial of credit. For details, visit the FICO website at www.myfico.com. FICO score components and general percentages of importance are:

- **Payment History (35%)** – regular payments made on time
- **Amounts Owed (30%)** – total amounts owed and ratio or balances to available credit
- **Length of Credit History (15%)** – length of time credit has been used, length of time accounts have been open
- **New Credit (10%)** – number and type of new accounts, account inquiries
- **Types of Credit in Use (10%)** – variety of types of credit including credit cards, installment loans, mortgage, etc.

VantageScore is a joint credit score from all three of the major credit bureaus. The VantageScore ranges from 501 to 990, with the higher scores representing lower risk. The VantageScore is based on payment history, use of credit compared to credit limits, balances, types of credit, length of credit history, number of recently opened accounts and amount of available credit. You can find out more about VantageScore at www.vantagescore.com.

Here are some tips on ways to improve your credit score:

- \$ **Payment History** – Pay bills on time. Don't miss payments. This is one of the most important things you can do to maintain a good credit report.
- \$ **Amounts Owed** – High levels of outstanding debt can decrease your credit score. Don't max out your credit cards. Pay down balances and try to keep them low.
- \$ **Length of Credit History** – Lenders look for a long history of good credit management. If you've been using credit for only a short time, this could lower your credit score.
- \$ **New Credit** – Frequent applications for credit can decrease your credit score. Chose a few accounts and make regular, timely payments. Too many new accounts or inquires can lower your score.
- \$ **Types of Credit** – Having a variety of types of credit – credit cards, installment loans, personal line of credit – can raise your credit score.

Purchase Your Credit Score

While an annual credit report is free, your credit score is not. You can purchase your credit score at www.annualcreditreport.com or by contacting the credit reporting company:

Equifax: 1-877-576-5734; www.equifax.com

Experian: 1-888-397-3742; www.experian.com/fraud

TransUnion: 1-800-680-7289; www.transunion.com

Practice Careful Money Management

Basic money management skills can help you build and keep good credit. Write down all of your income and expenses. Develop a spending plan and stick to it. Keep credit card debt to less than 20 percent of take-home income. Your local county Extension office can provide information about budgeting and financial planning.

You may be able to reduce debt sooner by making larger payments on accounts that have the highest interest. You can design a personalized repayment plan using Extension's PowerPay program. PowerPay features online financial calculators to help you design your best money management plan. Go to <https://powerpay.org> and click on the "Arkansas" tab.

Contact your creditors as soon as possible if you're having trouble making payments. They may work with you to set up a more manageable payment plan.

Beware of Credit Repair Scams

Some companies may seem to offer a quick fix for consumers with credit problems. Beware of companies that ask for money up front. A reputable program will spend time reviewing your financial situation, help you set up a budget and teach you about money management. Check the company's references before you provide any personal information or credit card account numbers. Reputable credit counseling organizations have counselors who are certified and trained in the areas of consumer credit, debt management and budgeting.

Credit Counseling Services

Credit counseling services provide education and financial counseling to individuals and families on a variety of topics including budget, credit and consumer skills. They also work with consumers who are having problems with debt and can help set up a debt management plan with creditors. Some Arkansas credit counseling agencies are:

- **Consumer Credit Counseling Service** has offices in Little Rock, North Little Rock, Fort Smith, Conway, Hot Springs, Pine Bluff, Russellville and Jacksonville. They are also in Memphis, Tennessee and Southaven, Mississippi. You can contact the main office at 1-800-255-2227 or 501-753-0202 or online at <http://www.helpingfamilies.org>.
- **Credit Counseling of Arkansas, Inc.**, offers credit counseling in-office, by telephone and online. They have offices in Fayetteville, Bentonville, Fort Smith, Springdale, Siloam Springs and Harrison. Contact Credit Counseling of Arkansas at 1-800-889-4916 or online at <http://www.ccoacares.com>.
- **Best Credit Service, Inc.**, has an office in North Little Rock and offers counseling by phone. The toll free number is 1-800-435-7227, and their website is <http://www.bestcs.org>.

Extension Fact Sheets on Credit

FSFCS91	Credit Help for Arkansans: Names and Numbers to Know
FSFCS52	Credit and Debit Card Register
FSFCS44	Trim Your Credit Line
FSFCS41	Managing Credit
FSFCS55	Credit Reports and Credit Scores
FSFCS54	Credit Repair

IV. Conclusion

It's important to know what's in your credit report. Check your credit report regularly. Look for errors or signs of fraud. You might also want to check your credit score. Regular use of good financial management practices is the best way to keep a good credit score or improve a poor one. Manage your credit wisely.

V. Evaluate – Guide participants in completing evaluation form.

References

1. About Us
AnnualCreditReport.com
<https://www.annualcreditreport.com/cra/helpabout>
2. About VantageScore
http://www.vantagescore.com/about/vantagescore_model
3. myFICO Credit Education Center
<http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx>
4. *Your Access to Free Credit Reports*
FTC Facts for Consumers, September 2005
Federal Trade Commission
5. *5 Tips for Improving Your Credit Score*
Federal Reserve Board
<http://www.federalreserve.gov/Pubs/creditscore/default.htm>
6. *Bankruptcy Information Sheet*
U.S. Department of Justice
http://www.usdoj.gov/ust/eo/ust_org/bky-info/index.htm
7. *Your Credit Scores*
myFICO Credit Education Center
<http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx>

8. *Credit Repair: Self-Help May Be Best*
FTC Facts for Consumers, December 2005
Federal Trade Commission

9. *Need Credit or Insurance? Your Credit Score Helps Determine What You'll Pay*
FTC Facts for Consumers, July 2007
Federal Trade Commission

10. *Building a Better Credit Report*
February 2008
Federal Trade Commission Bureau of Consumer Protection

11. *Take Charge: Fighting Back Against Identity Theft*
February 2006
Federal Trade Commission