



**National  
Consumer  
Reporting**  
ASSOCIATION

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## **National Consumer Reporting Association**

Education & Compliance Committee

*Presents: Consumer Credit 101*

# What is a Credit Report?

- A consumer Credit Report is a compilation of detailed information regarding a person's individual financial and credit account history. It is used to determine credit worthiness or how likely a person is to make on time payments for loans, leases or other obligations.

## What Does it Include?

- Information found in a Credit Report often include identifying information on the person, previous credit accounts and loans, bankruptcies, late payments, collection accounts, public records and recent inquiries by other parties looking at the person for future credit accounts or leases.

# Who Creates These Reports?

- A Credit Report comes from one of two basic types of consumer reporting agencies:
  - The national consumer reporting agencies; which are three;
    1. **TransUnion**®
    2. **Experian**®
    3. **Equifax**®
  - Specialty and Reseller consumer reporting agencies – which there are many that cater to different specific industries needs such as mortgage lending, property rental, employment or specific industries.

# Why is Your Credit Report Important?

- A variety of businesses check your Credit Report to make decisions about you. Banks check your credit report before approving you for credit cards and loans, including a mortgage or auto loan. Landlords review your credit report to decide whether to rent to you. Some employers check credit reports as part of the application process.
- Your Credit Report affects many parts of your life, so it's important that the information included is accurate and positive.
  - *Good Credit* will create a major difference in how much financial services cost you, including insurance, loan rates on everything from mortgages to auto or credit cards and even security deposits on rental agreements.

# What Does a Credit Report Include?

- Credit Reports may include your name, current and former address, employment, credit and loan payment history, inquiries, collection records and public records such as bankruptcy filings civil judgments and tax liens. Credit card and loan records show your payment history going back 7 years along with other account details such as your credit limit and monthly minimum payment.

## Personal Information Used to Identify You:

- *Your Name*
- *Address*
- *Social Security Number*
- *Date of Birth*
- *Employment Information*



# How Does Information Get On My Report?

- Credit card companies and lenders report our account information to credit bureaus electronically.
- Collection agencies often provide records of the accounts placed with them from collection to the credit bureaus.
- When you apply for credit cards, mortgage, auto loans, utilities and other services, the information that you supply is used to verify and update your report.
- The credit bureaus also gather public records on civil litigation and tax defaults.

# Do Credit Reports Vary for Different Type of Loans?

- **Yes** – the information in the three national credit bureaus is often the basis for all types of credit or consumer reports, (*a consumer report includes other data – see Rental and Employment*) and is the only report used for most basic lending, (*credit cards, auto loans, other personal loans*) however major transactions have other information added for different purposes. Some major report differences are:
- **Mortgage Credit Reports** – Required by Federal guidelines to contain the data from all three national credit bureaus.
  - **Rental Screening Reports** – Are consumer reports that contain a base credit report plus added items like eviction records (*forcible detainer*) and criminal history records not found in the national credit bureau records.
  - **Employment Screening Reports** – Are consumer reports and may contain (*pending the type of job you applied for*) a summary of your credit history and does NOT include a credit score.

# What Type of Information is Listed in My Credit Report?

## ➤ ID Information

- Your identity information as reported to the consumer reporting agency by the data furnisher, *i.e. American Express, Ford Motor Credit, Wells Fargo Home Mortgage.*

## ➤ Tradelines

- Account opening date, credit limit, payment history, type of account, etc.

## ➤ Credit Inquiries

- A list of who accessed your credit history and when they accessed it.

## ➤ Public Records and Collections

- Account in debt collection, liens/judgments, bankruptcy records.

## ➤ How Often is this Information Updated with the Consumer Reporting Agencies?

- Often, more than 2 billion items are updated each month in the national credit databases. **Important to Note:** Not every furnisher provides their data on the same date of every month. **Patience is key.**



# What Type of Information is Listed in My Credit Report

## *Continued...*

- **Accounts Summary:** These are your credit accounts.
- **Negative Items:** Lenders report delinquency information when you have missed a payment.
- **Inquiries:** When you apply for a loan, you authorize your lender to ask for a copy of your credit report.

# Who Has Access to My Credit Report?

## ➤ **The Fair Credit Reporting Act provides guidance to follow**

- Consumer Reporting Agencies have strict guidance from Federal Law (*the Fair Credit Reporting Act – FCRA*) regarding what entities are provided data for what reasons and how those entities may obtain and use that data.

## ➤ **In most instances, you will be asked to provide prior authorization for your credit report to be disclosed**

- Credit grantors, when the consumer applies for credit.
- Collection agencies, when they need it to collect a debt or track a debtor.
- Property managers and landlords, when applying for a lease .
- Insurance companies, to underwrite insurance policies.
- Employers, only with the consumer' s permission and when relevant to the type of employment applied for.

# How to Order Your Free Report –

***This is Very Important! Do This Annually!!!***

➤ An amendment to the FCRA requires each of the nationwide credit reporting companies – Equifax®, Experian®, and TransUnion®, to provide you with a free copy of your credit report, at your request, once every 12 months.

- To order visit [www.annualcreditreport.com](http://www.annualcreditreport.com) or call **1-877-322-8228** or complete the Annual Credit Report Request Form and mail it to:

**Annual Credit Report Request Service**

**P.O. Box 105281**

**Atlanta, GA 30348-5281**



➤ Do not contact the three nationwide credit reporting companies directly, use the ***annual credit report site*** or call **1-877-322-8228** or the above address.

➤ You may order your reports from each of the three nationwide credit reporting companies at the same time or you can order from any one or two.

➤ You need to provide *your name, address, social security number, date of birth and key information* about the accounts in your report to confirm your identity.



# What is a Credit Score And Why Are Scores so Important?



# What is a Credit Score?

- A credit score is a statistical forecast of consumer credit risk.
- Typically a credit score is designed to predict the odds of the consumer paying:
  - A payment **90 Days Past Due** on any account.
  - Having a **Collection Account**.
  - Filing **Bankruptcy**.
  - Having a **Lien** or **Court Judgment**.

Within the next **two years** from the score calculation.

# Who Creates Credit Scores?

- There are two primary credit scoring companies:
  - **FICO®** - Fair Isaac Company the original credit score starting in the 1950's.
  - **VantageScore®** – Owned and developed jointly by the three national credit bureaus
- There are many other scoring companies, however FICO® and Vantage® dominate the market.



# What is a Credit Score?

- **FICO®** and **VantageScore®** have a similar credit score range of:

**300-850**

*Most other scores have similar ranges to these two dominate scores.*

- The higher the score, the lower the risk to the lender or leaser or creditor.
- No one gets an 850 or 300 – that's just the range of scores.
- Almost 40% of consumers have excellent scores, **760-850**.

# Why are Scores Important?

- Lenders use Credit Scores.
- *Approve* or *Decline* loans.
- Lower Scores = *Higher* Interest Rates and Fees.
- Private Mortgage Insurance Premiums.
- 640 score vs. 760 score:
  - \$1,500+ Interest per year on \$200,000 mortgage.
- Size of Loan, Compared to Income.
- Credit Card Rates and Credit Limits.



# Why are Scores Important? (*Continued...*)

- Creditors use them to determine if you get a loan and a what interest rate.
- Auto insurers use credit scores to underwrite policies.
  - *There is a statistical relationship between low credit scores and high insurance claim rates.*
- Landlords use credit scores to determine security deposits and whether or not to require a personal guarantor.
- Cell phone and utility companies use scores to determine security deposits.
- Despite what the media reports - Employers **DO NOT** have access to credit scores!

# How Does a Credit Score Get Calculated?



# How are Scores Calculated?

- The companies who develop the scores each have their own mathematical algorithms and formulas for determining future risk. The common factors include how you paid your previous debts, the dollar amounts currently owed vs. the percentage of available credit to the consumer.
- Score factors chosen based on statistical relationship with future credit problems and typical valuations in the score calculations are:
  - **Payment History (35% of score)**
  - **Amounts Outstanding (30%)**
  - **Length of Credit History (15%)**
  - **Number of Credit Inquiries in Past Year (10%)**
  - **Number of Accounts and Types of Credit (10%)**

## How are Scores Calculated? (*Continued...*)

- Notice inquires are **NOT** a major factor – common fallacy and only about 3-5% of the possible score.
- From only one credit bureau's report – this is why you have different scores at each credit bureau and mortgage lending uses the middle score of all three bureaus.
- Freshly calculated for each request.
- Uses the most recent credit data for the most important factors in the calculation.
- Can change whenever new info is reported on the consumer file – which can happen multiple time in a single day.

# How are Scores Calculated? (*Continued...*)

- Which group of consumers does the individual fit into? Based on:
  - **Worst Payment Event**
  - **Age of Oldest Account**
  - **Number of Accounts**
  - **Age of Newest Account**
  
- What is the maximum score for the group?

## How are Scores Calculated? (*Continued...*)

- Determine deductions for each factor used in the group:
  - **Factor:** Number of revolving accounts where **85%** or more of the Credit Limit is used.

### Range – Accounts

0 Accounts

1

2 to 3

4 to 5

6 or more

### Deduction – Points

0 points

12

17

21

29

## How are Scores Calculated? (*Continued...*)

➤ For each factor used within the group, determine the range of that factor that the consumer fits into and look up the point deduction corresponding to that range. *Example:*

- **Factor:** Number of revolving accounts where **85%** or more of the Credit Limit is used.

<b>Range – Accounts</b>	<b>Deduction</b>	<b>–</b>	<b>Points</b>
0 Accounts			0 points
1		12	
2 to 3		17	
4 to 5		21	
6 or more		29	

- Every factor has a range for which there is *no* deduction.

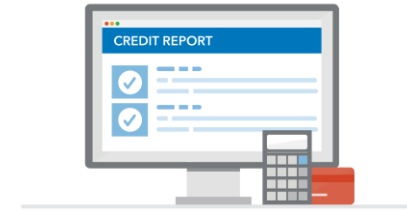
# How are Scores Calculated? (*Continued...*)

- Each group has many factors.
- Each factor has its own deduction.
- Subtract all the deductions from the group's maximum score.
- On different credit bureaus, same data = different score.



# How Often Should I Check *MY* Credit Score?

- Don't get caught up with checking *your* Credit Score. It is really useless for the consumer to know since consumers have no influence to what score model is being for their credit application.
- With three different credit bureaus and dozens of score models which produce different scores from the same data, some industry experts claim knowing your credit score is useless.
- Check your report regularly and make sure the data used to calculate the score is accurate and you will be ok!



# What if I Have Bad Credit? What Can I do to Improve *MY* Credit?



# How Can I Improve *MY* Credit?

- It takes time and life adjustments.
- Bad credit usually comes from:
  - **Decline in Income**
  - **Rise in Outlays**
  - **Debt Becomes Unaffordable**
- If this is you:
  - **Cut Expenses**
  - **Find Other Income**
  - **Credit Counseling - Does NOT Hurt FICO® Scores**

# How Can I Improve *MY* Credit?

- Get current on any accounts with missed payments.
- Pay *all* bills on time to avoid collection agencies.
- Paying off collection accounts does not remove them from credit reports or scores.
- Apply to the IRS to have paid federal tax liens withdrawn.

# How Can I Improve *MY* Credit?



- Time heals *all* credit wounds.
- If you are an authorized user, is the account helping you?
- High balances compared to credit limits hurt your credit scores – ***pay them down.***

# How Can I Improve *MY* Credit?

- Don't **close** unused credit cards – it doesn't help and can hurt.
- Requesting your own Credit Report has no effect on scores – you can safely check for errors.
- Don't go to a credit repair – most are scams that create more problems than they resolve. The best help with your Credit Report is reviewing your Credit Report at least annually and disputing anything that is not correct.

# Filing a Consumer Dispute:

- Order a copy of your credit reports
  - [www.annualcreditreport.com](http://www.annualcreditreport.com)
  - Experian® : 1-888-397-3742 - [www.experian.com](http://www.experian.com)
  - Equifax® : 1-800-685-1111 - [www.equifax.com](http://www.equifax.com)
  - TransUnion® : 1-800-916-8800 - [www.transunion.com](http://www.transunion.com)

# Correcting Errors

- Under FCRA, both the credit reporting company and the information provider are responsible for correcting inaccurate or incomplete information in your report.

## Step One:

- Tell the credit reporting company, in writing, what information you think is inaccurate.
- Credit reporting companies *must* investigate the items in question.
- When the investigation is complete, the credit reporting company *must* give you the results in writing and a **FREE** copy of your report if the dispute results in a change.
- If you ask, the credit reporting company must send notices of any corrections to anyone who received your report in the past six months.
- If an investigation doesn't resolve your dispute with the credit reporting company, you can ask that a statement of the dispute be included in your file and in future reports.





# Correcting Errors (Continued...)

## Step Two:

- Tell the information provider in writing, that you dispute an item in your credit report.
- If the provider continues to report the item you disputed to a credit reporting company, it must let the credit reporting company know about your dispute.

## *About Your File:*

- Your credit file may **not** reflect all your credit accounts.
- When negative information in your report is accurate, only the passage of time can assure it's removal.

# Regarding Credit Repair – **BEWARE of SCAMS!**

- See what the State and Federal legal agencies have to say about credit repair and check the BBB file on **any** credit repair company!
- A Federal Trade Commission investigator has stated:  
*“I have never seen a legitimate credit repair firm.”*  
*Steve Baker - FTC Attorney when reviewing credit repair*
- Almost every state attorney general (AG) office has issued warnings about these businesses using terms like **“Scam”** and **“Fraud”**. Check the website of your state’s AG website and these federal sites:

<http://www.consumer.ftc.gov/articles/0225-credit-repair-scams>

[http://www.consumerfinance.gov/askcfpb/search/?selected\\_facets=t\\_ag\\_exact%3A scam+warning+signs](http://www.consumerfinance.gov/askcfpb/search/?selected_facets=t_ag_exact%3A scam+warning+signs)



# What is Identity Theft?

➤ Identity theft occurs when someone uses your personally identifying information:

- *Your Name*
- *Address*
- *Social Security Number*
- *Date of Birth*
- *Employment Information*



# How do Thieves Steal an Identity?

- Identity theft starts with the misuse of your personally identifying information such as your name and Social Security Number, credit card numbers, medical and insurance records, or other financial account information.
  - Skilled identity thieves may use a variety of methods to get hold of your information, including:
    - Dumpster Diving
    - Skimming
    - Hacking and Data Breaches
    - Old-Fashioned Stealing
    - Mail theft
    - Phishing
    - Changing Your Address
    - Pretexting

# What do Thieves Do with a Stolen Identity?

- Once they have your personal information, identity thieves use it in a variety of ways.
  - Credit Card Fraud
  - Phone or Utilities Fraud
  - Bank/Finance Fraud
  - Tax Return Fraud / Government Fraud
  - Medical Fraud
  - Other Fraud



# What is a Fraud Alert?

➤ There are two types of fraud alert:

## 1. “Initial Alert”

***An Initial Fraud Alert stays on your credit report for at least 90 days.*** You may ask that an initial fraud alert be placed on your credit report if you suspect you have been, or are about to be, a victim of identity theft.

## 2. “Extended Alert”

***An Extended Fraud Alert stay on your credit report for seven years.*** You can have an extended alert place on your credit report if you’ve been a victim of identity theft and you provide the consumer reporting company with an Identity Theft Report.

# What is a Fraud Alert? (*Continued...*)

- To place either of these alerts on your credit report, or to have them removed, you will be required to provide appropriate proof of your identity:
  - *Your Name*
  - *Address*
  - *Social Security Number*
  - *Date of Birth*
  - Other Personal Information Requested by the Consumer Reporting Company

# What Does a Fraud Alert Not Do?

- While a fraud alert can help keep an identity thief from opening new accounts in your name, it's not a solution to all types of identity theft.
  - It will **not** protect you from an identity thief using your existing credit cards or other accounts.
  - It also will **not** protect you from an identity thief opening new accounts in your name that do not require a credit check – such as a telephone, wireless, or bank account.



# How is My Credit Information Protected?

# Are There Laws to Protect My Information?

## FCRA

## Fair Credit Reporting Act



# FCRA

## Enacted in 1970 – Amended Several Times Since

- **FCRA:** was intended to ensure accuracy/completeness of consumer information.
- **FCRA:** was intended to limit access to consumer information to those with a legitimate permissible purpose.
- **FCRA:** was intended to put forth reporting limitations on how long information can be reported.
- **FCRA:** was intended to allow consumers to opportunity to obtain copies of this information on themselves and dispute items considered inaccurate.

## FCRA Includes a Series of Consumer Rights

- Consumer must be told if information in their disclosure or file has been used against them.
- Consumers have the right to know what is in their file.
- All consumers are entitled to one free credit report file disclosure every *12 months* upon request to each national credit bureau and from nationwide specialty consumer reporting agencies.
- Consumers have a right to ask for a credit score.

## Consumer Rights (Continued...)

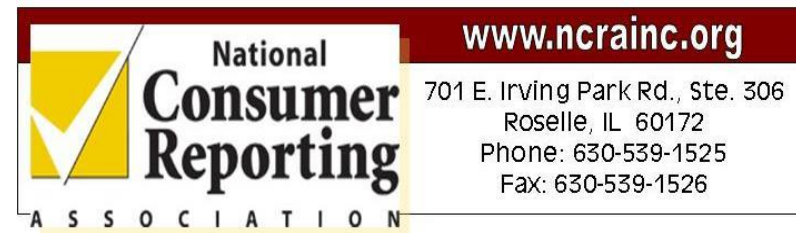
- Consumers have the right to dispute incomplete or inaccurate information.
- Consumer Reporting agencies must correct or delete inaccurate, incomplete or unverifiable information.

## Consumer Rights (Continued...)

- Consumer Reporting Agencies may not report outdated negative information.
- Outdated credit data is negative data that is older than 7 years or 10 years for bankruptcies.
- Access to a Consumer's File is limited to those with a legitimate need to know as defined as *“Permissible Purpose”* in the FCRA.

# Consumer Rights (Continued...)

- Consumers *must* give consent for reports to be provided to employers and employment reports most often (about 90% for general employment application – specific industries vary) do NOT include credit data even though a FCRA authorization is signed.
  - If credit is part of the employment report, they do **NOT** contain credit scores.
- Consumers may limit “*Prescreened*” offers of credit and insurance , to opt out consumers can contact **1-888-567-8688**.



## Consumer Rights (Continued...)

- Consumers may seek damages.
- Consumer Financial Protection Bureau (*for the most part*) has enforcement authority over the FCRA.
- [www.consumerfinance.gov/learnmore](http://www.consumerfinance.gov/learnmore)

