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Credit 101

The subject of credit and what is included on a consumer's credit report can be a source of much debate, confusion and sometimes frustration. Outlined below are some of the more important facts relating to credit to gain better insight into a person's credit report and history.

What is included in a credit report?

The credit report will include specific account information that is associated with the consumer, meaning an account that the individual has opened, co-signed, authorized or filed jointly with another person. This information, commonly known as trade-lines, usually includes the date opened, original account balance, current balance, credit limit, monthly payment, and payment history. Additional things that may be included within a trade-line are account numbers (often times truncated for security) and contact information for the creditors.

In addition to creditor trade-lines, a report can include:

- **Public records** – Tax liens (state or county court records), judgments, federal district bankruptcies
- **Identification information** – Current name, Social Security number, full name, address, and possibly date of birth and employers past and present. In addition, the report will show variations of name, social and address based upon individual bureau's creditor reporting and inquiries
- **Inquiries** – Individuals or companies that have "inquired" into an individual's credit history and obtained a copy of a credit report
- **Statements** -- Text that describes disputed information or possible reported fraud. Statements are listed following a no-resolution dispute between a borrower and creditor, and they may also be added by the consumer through direct communication with the bureau
- **Additional Information** – Many reports will also include fraud statements from fraud detection products and/or OFAC (Office of Foreign Assets Control) which searches a national terrorist data base

How long can items remain on the credit report?

Active and "good standing" credit may last on a consumer's credit report for an indefinite length of time The Fair Credit Reporting Act (FCRA) is a national law which provides maximum lengths of time for which derogatory information can remain on file, but state laws may vary. See below for FCRA guidelines:

- **Late payment accounts/delinquencies** – 7 years from the initial date of missed payment

- **Charge-Offs** – 7 years + 180 days from the initial date of missed payment regardless of whether or not the account has since been paid. "Paid derogatory" will be reflected if paid

- **Collections** – 7 years + 180 days from the date of the initial missed payment, even if the collection has since been paid. "Paid collection" will be reflected if paid

- **Bankruptcies**
    - **Chapter 13 –** Record of bankruptcy remains on file for 7 years if the final status is "Discharged"; 10 years if the status is either "Dismissed" or "Filed". Accounts included in Chapter 13 can remain on file for 7 years from the filing date.

    - **Chapters 7, 11, and 12 –** Record of bankruptcy remains on file for 10 years. Accounts included in Chapter 7, 11, or 12 can remain on file for up to 10 years from the filing date.

- **Tax liens** – Unpaid tax liens can remain on file indefinitely. Paid/Released tax liens will remain on file for 7 years from the date of payment.

- **Judgments** – 7 years from the filing date, regardless of payment status

- **Inquiries** – 24 months from the inquiry date (Even though they remain on file, most types of inquiries only affect your score for 12 months)

An individual is responsible for any account opened in his or her name, accounts that have been cosigned by the individual, any joint accounts, and potentially any account that has been guaranteed by the individual, even if it is a business account. In the case of a divorce, a divorce decree does not impact any account that was contracted during the marriage. BOTH individuals are responsible for a joint account even if one person has been deemed responsible by decree. Only the creditor can change the status of an account. It is recommended that following a divorce, creditors be contacted immediately to change account status or refinance open accounts.

Scoring

There are many myths and theories regarding credit scores on credit reports. Because there are varying scoring models and systems and those exact details are unknown, it is impossible to indicate the point value of any given factor on a report. Following is some basic information to keep in mind about the scoring process.

Scoring models were developed based on variables on a consumer's credit report. This was done in an attempt to standardize individual evaluations and eliminate bias that could exist between lenders. By evaluating the account history of individuals the credit scores attempt to predict consumer credit behavior and credit worthiness, not to mention the likelihood of default. It is important to remember that a consumer's score can vary depending on the scoring model being used. Differing scoring models have been created to evaluate factors important to specific industries (mortgage, auto, credit card, etc.). This means that a report pulled for the purpose of getting a mortgage may have scores that differ from a consumer report pulled directly from the bureau on the same day. A credit reporting agency can tell you what the scoring system and model is, but cannot interpret how the scores are calculated.

Scoring Factors

When evaluating a credit score, the most important thing to consider is the scoring factors that are returned with the score. You will generally receive four risk factors that indicate, in order, the top reasons for how the score was produced and why it is not a perfect score. By evaluating these factors one can assess where the most change is required in a borrower's credit habits. Risk factors tend to be an accurate way for a consumer to evaluate his or her credit history because they tend to be similar no matter which scoring system is being used. It is how these risk factors are being interpreted that creates a larger disparity of numeric scoring ranges between models. One thing to remember is that what one bureau is reporting does not factor into the score for another bureau's reporting. Specifically, if one bureau reports a late payment and, therefore, a low score, another bureau will not lower their score if they do not have the late payment on file. Each score is created solely on only one bureau's information for the consumer.

You will notice in the scoring factors that the major things that affect a score are: late payments or delinquent accounts, bankruptcies, collections, tax liens, judgments, excessive balance to credit limit ratio (revolving accounts), too many accounts, too many inquiries, length of time accounts have been established, and insufficient length of credit history. Here are a few things to know about some of these factors:

- **Inquiries** – These are factored because it is a possible indicator of new credit that is not yet being reported. Multiple inquiries can also indicate the need for

excessive amounts of credit. This does not mean that shopping around will always hurt your score. Both mortgage and auto scoring models factor this in when there are multiple inquires within the same industry. Mortgage scoring models allow for multiple pulls within either 14 or 45 days (see grid below), and the first inquiry does not take effect for 30 days. Inquiries are something to keep an eye on, but they are really a very minor factor.

Bureau	Grace Period	Time Before First Inquiry Impacts Score
Experian	14 days	30 days
Equifax	45 days	30 days
TransUnion	45 days	30 days

- **Age of derogatory information –** As a piece of derogatory information (collection, late payment, etc…) or even an inquiry gets older it becomes less important as far as score is concerned. The first 2 years following a posted derogatory will be weighed the heaviest.

- **Paying collections or charge offs –** paying a balance on a collection or charge off only shows an account as being paid with a zero balance. The derogatory status will NOT be removed, and the account does not immediately fall off the file. Payment will also make the account current, thus making it factor more heavily as far as score is concerned. Many times a score will drop when these accounts are paid. Example: An account that had not reported in 4 years, after being paid, will now be made current and treat the account as a new derogatory.

- **Revolving accounts –** It is a good idea to keep the balance under 50% of the credit limit, even better keep it under 25%. For mortgage scoring models, balances of zero on good-standing revolving accounts are actually not as positive as small balance-to-limit ratios.

Avoiding Discrepancies and What to Do When Information Is Wrong

It is important to remember that the United States has the most elaborate credit database in the world and handles the information of approximately 200 million consumers while processing between 4 and 5 billion updates to credit report information on a monthly basis. Given these numbers it is not surprising that occasionally there will be errors in the information being reported. Here are some tips to help avoid this problem and what to do when there are discrepancies.

- **Be clear –** whether you are applying for a loan or filling out the application on behalf of a borrower take caution to be neat. Print clearly and double check for typos. If there is any guess work involved the wrong information may be pulled.

- **Be consistent –** Consumers should be advised to make sure they apply using the same identification information EVERY time. It is recommended that a middle initial be used for additional accuracy. This helps to minimize the chance that files will get confused with another consumer and can help avoid the problem of duplicate files and scores for one borrower. Examples: Do not use middle name sometimes and first name other times; do not use nicknames or shortened versions of their name.

- **Be accurate –** Individuals actually ordering the credit should take care to double check all identification information for accuracy before submitting the request. Once credit has been ordered the identification information CANNOT be changed, as that would constitute fraud. The credit information returned is based on the identification information submitted.

- **Review credit in advance –** Remind consumers whenever possible to review their own consumer report provided by the credit bureaus 2-3 months prior to applying for a major purchase. This provides the consumer the opportunity to review the credit and dispute anything that could be incorrect in a timely fashion

- **Dispute erroneous reporting –** For any incorrect information showing up on a report a consumer can dispute and have this investigated by the bureaus, whose legal maximum turn time is within 30 days according to the Fair Credit Reporting Act. Credit bureaus recommend disputing by telephone or online, which generally requires a copy of a report pulled directly from those bureaus. You may also dispute by mail without a copy of a report. Consumers can also have the credit provider of the specific report with discrepancies file a dispute on their behalf. Credit providers should be contacted for necessary procedures.

Restoring and improving credit is best achieved with time. If there is negative information on a credit report there is no way to magically remove it. Paying bills on time, making accounts current and keeping balances down will, with time, replace the negative credit history