

## YOUR CREDIT AND CREDIT REPORTS (source from Freddiemac.com)

*“Before you begin looking at buying a home, read this valuable advice regarding your credit status. It may save you from frustrations, surprises and prepare you for the best financing in today’s market!” - Jim & Connie*

### Your credit report may contain:

- Names and account information for all your past and current creditors
- Payment history
- Employer’s name, employment history and current income
- Homeownership status and previous addresses
- Public record information (such as foreclosures, bankruptcies and tax liens)
- Referrals of overdue accounts to collection agencies
- Inquiries made within the last 6 months

Request a copy of your own credit report at least once a year from a credit bureau. Credit bureaus collect and store credit data. That data is sold to creditors in the form of a credit report. Credit bureaus do not deny or extend credit.

There are three main credit bureaus: Equifax, Experian and Trans Union. Keep in mind that each bureau reports your credit report differently.

The costs are very minimal to request a copy of your credit report. Have this information ready:

- Full name (including Jr., Sr., III, etc.)
- Date of birth
- Social security number
- Current and previous addresses for 5 years, including ZIP Codes
- Spouse’s full name

You can get a free report if you are denied credit based on your credit report. You can also get a free report once a year if you are unemployed and job hunting, you’re on welfare, or if your report is inaccurate due to fraud.

**You Should Know...** Creditors request a copy of your credit report when you apply for a loan or credit card. This is called a credit inquiry.

### The Three Bureaus

Equifax:  
PO Box 740241  
Atlanta, GA 30374  
Phone: (800) 685-1111  
[www.equifax.com](http://www.equifax.com)

Experian:  
National Consumer Assistance  
Center  
PO Box 2002  
Allen, TX 75013  
Phone: (888) EXPERIAN or (888) 397-3748  
[www.experian.com/consumer/](http://www.experian.com/consumer/)

Trans Union LLC:  
Consumer Disclosure Center  
PO Box 1000  
Chester, PA 19022  
Phone: (800) 888-4213  
[www.transunion.com](http://www.transunion.com)

**Warning! Your credit can be affected by identity theft.  
For more info go to <http://www.consumer.gov/idtheft/>**

A credit report includes a record of debts and how regularly debts are repaid. Your whole credit history shows up on your credit report, including...

- The date each account was opened
- The credit limit
- The highest amount you have ever charged or borrowed
- A history of payments made
- All late payments (by 30, 60, 90 or 120 days or more)
- Accounts sent to collection agencies

Five sample factors for calculating credit scores are listed below, along with a sample of the importance each factor has to the total score. As you read through the list, think about how your credit might score today.

- **Payment History: 35%.** What is your track record? Have your payments been made on time?
- **Outstanding Debt: 30%.** How much do you owe? Do you have a high level of debt? Are you near the limit on your accounts?
- **Credit History: 15%.** What is the length of your credit history? Has it only been a few years?
- **Pursuit of New Credit: 10%.** Have you made numerous applications for new credit? Are you taking on more debt?
- **Types of Credit in Use: 10%.** Do you use a variety of credit types? The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans.

**Your Score is calculated based on** factors that are given a weight or level of importance. This weight is assigned as a percentage (such as 35%, as shown in the example above). The score is graded for each factor, and then each factor is multiplied by the weight. Computers calculate credit scores in an instant.

Scores range between 450 and 850 — the higher the better. Ironically, your income and employment are not considered. Just your credit report is used to arrive at your score.

#### How do you get a score?

The easiest way to get your credit report and FICO score is to go online to [www.myfico.com](http://www.myfico.com). However, if you want copies of all your credit reports from the three major credit bureaus you can obtain them for a modest fee each.

If your score, (based on your combined credit reports from the three national credit bureaus (Trans Union, Experian and Equifax), is below 620, manual review by a person is required. Special circumstances might get your home loan approved, such as a low mortgage loan-to-value ratio. Or your mortgage might be rated A-, B, C or even D, and approved at a higher interest rate. Should you have a low score, don't expect approval for a 100 percent mortgage.

If your credit score is between 620 and 659, you'll probably get approved with additional documentation, such as copies of your utility bills to show on-time payments. Scores of 660 and above are often routinely approved if you have sufficient income to make the monthly payments.

A score of 700 or higher is usually a "slam dunk" for approval, unless you're requesting a home mortgage that will take too high a percentage of your monthly household income. However, self-employed applicants, even with a high score, are often treated harshly by mortgage lenders so don't be surprised if you need extra documentation, such as a profit and loss statement for your business even when you have excellent credit and a high score.

The key to managing credit is acting responsibly. Show how responsible you are by following this advice:

- **Demonstrate stability.** If you have a bank account, a stable job, a regular income and the same address for many years, then creditors see you as stable.
- **Pay your bills on time.** Get in the habit of paying bills before the due date. Call your creditors if you have a financial crisis. Ask for an extension. Even if you just forgot to make a payment, send it in as soon as you remember. Most creditors don't report late payments until after 30 days.
- **Have some credit, but not too much.** Close credit card accounts that you do not use. For those you use, extend your credit limit as high as possible, especially if you approach your max limit each month.
- **Know what's in your credit report.** It's your responsibility to correct any problems or errors. For instance, if you have a rather common last name, you might find that someone else's credit information appears on your credit report by mistake. Make sure your social security number appears on the credit report you ordered.
- **Keep your debt-to-income ratio at 20%.** Creditors look for evidence that your monthly payments on non-mortgage debts take no more than 20% of your net monthly income. This is called your debt-to-income ratio.

To figure out your debt-to-income ratio, divide your net monthly income by 5. For example:

If your monthly take-home pay is \$2,000, you should spend no more than \$400 on debt payments, other than housing.

$$2,000 \div 5 = 400/2000 = 20\%$$

### Correct Errors on Your Credit Report

Check your payment records against your credit report. Look for errors. Perhaps there are errors on your credit report that need to be corrected to immediately improve your credit score before you shop for a mortgage. What do you do if you find errors?

1. Write to the three major credit bureaus, insist they "verify" the incorrect credit information, correct the credit reports, and send you a corrected credit report within 30 days.
2. Follow up with each bureau to make sure that the error is corrected. Don't expect to have the errors corrected by one letter. You may have to follow up several times.
3. If you are not treated fairly by the credit bureau, write to the Federal Trade Commission, Correspondence Dept., Room 692, Washington, D.C. 20580. Their Web site is [www.ftc.gov](http://www.ftc.gov).
4. A last step is to get the attention of an uncooperative credit bureau, is to bring them to your local small claims court for your damages. Filing a small claims court lawsuit usually gets very quick results and maybe even an apology.

## Improve Your Credit Report Rating

If you find that there are derogatory or unpaid debts on your credit report, you should correct the situation but do so as follows:

1. Do not call the collection agency but talk with the creditor's credit manager, one who has authority to negotiate the settlement. Offer a settlement with the stipulation that the account be reported as "Paid" and not anything else such as "Paid Collection" or other term. Get this in writing and then pay the negotiated settlement. Keep in mind that the older the account, the easier it is to negotiate a settlement.

## Credit Myths

**MYTH:** Each inquiry into your credit history will bring down your credit score.

**FACT:** For one, all mortgage and car inquiries have no impact for 30 days. Additionally, all mortgage inquiries within a 14 day period count as one. Inquiries, unless excessive, have very little impact on credit scores.

**MYTH:** You must give permission for your credit report to be issued.

**FACT:** Any credit grantor with a permissible purpose may access credit reports without the consumer's permission.

**MYTH:** The credit bureau can deny a credit application.

**FACT:** Credit bureaus have no power to accept or deny credit. They only collect and report information.

**MYTH:** After you pay off a debt, it disappears from your credit report.

**FACT:** A credit report shows the whole credit history. All debts - even if they're paid off - are included. Negative credit information can stay on your report for 7 years. A bankruptcy can stay for 10 years.

**MYTH:** You're not responsible for debts on joint accounts if you didn't make the purchases.

**FACT:** On a joint account, both parties are held completely responsible for payment. If you pay your share but the other person doesn't, each of you gets the same negative credit rating.

**MYTH:** A divorce decree separates joint accounts.

**FACT:** Divorce does not cause anything to happen automatically in your credit report. To protect your credit rating, pay off and close all joint accounts, then reopen new accounts as a single account owner.

**MYTH:** Risk scores have replaced a credit report review.

**FACT:** Credit reports are still the number one tool used by creditors to determine your creditworthiness.



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