

Credit Reports

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South Carolina Department of Consumer Affairs

- Licenses many types of businesses: pawn shops, mortgage brokers, physical fitness facilities, credit counselors, athletic agents
- Handles issues on household, family or personal goods or services
- Services Division: about 6,000 written complaints each year; more than \$1.25 million in refunds and adjustments

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Disclaimer

- This presentation is not meant to serve as a substitute for reading the various laws discussed, seeking legal counsel or otherwise requesting Department guidance and/or interpretations on the laws it administers and enforces. The presentation merely serves as an introduction and overview.

We will discuss:

- Credit Scores
- Credit Reports
- How to Improve a Score
- Protecting Credit Reports

Credit Reports Tidbits

- The three major credit reporting agencies may have different information – so your score may be different at each agency
- Lenders generally look at the last two years – they are looking for trends
- Some estimates show 80% of credit reports have misinformation
- You are entitled to a free report if negative action has been taken due to something on report

More General Info

- No one can remove information that is accurate and timely
- You can request an investigation of information that is inaccurate
- Disputes/investigations are free
- Entitled to free credit report once a year from each of the three major credit reporting agencies
- Entitled to a free credit report if denied credit, job, insurance based on the report

FTC Survey – Feb. 2013

- One in four consumers identified errors on their credit reports that might affect their credit scores;
- One in five consumers had an error that was corrected by a CRA after it was disputed, on at least one of their three credit reports;
- Four out of five consumers who filed disputes experienced some modification to their credit report;

FTC Survey

- Slightly more than one in 10 consumers saw a change in their credit score after the CRAs modified errors on their credit report; and
- Approximately one in 20 consumers had a maximum score change of more than 25 points and only one in 250 consumers had a maximum score change of more than 100 points.

Credit Scores

- Predictors of future payment
- Lenders base approval and interest rate on the score
- Several names are used: FICO, Beacon, Empirca
- Lowest possible FICO is 300 – highest is 850
- Vantage – consists of a number and a letter grade

Credit scores

- Your credit report is raw data
- Your credit score is that raw data plugged into a formula
- Creditors use the score as an indicator of whether and how you will repay a debt
- Three major credit reporting agencies = three different credit scores
- Lower scores = riskier loans = higher interest rates, higher fees

Credit Scores

- Different formulas give different scores
- Companies identify characteristics that relate to risk
- Those characteristics are assigned weight and value

Credit Scores

- Each company may use its own scoring model, different scoring models for different types of credit or insurance, or a generic model developed by a scoring company.
- Under the Equal Credit Opportunity Act, a creditor's scoring system may not use certain characteristics — for example, race, sex, marital status, national origin, or religion — as factors. The law allows creditors to use age in properly designed scoring systems..

Credit Scores

- Score is a snapshot – freezing a moment in time.
- Your score may change from day to day – depending on updates sent by creditors to the credit reporting agencies.
- Better to know what is on your report – rather than the score itself.

Credit Score Predictors

- Several predictors are online. Answer questions and get a score range.
- <http://www.myfico.com/ficocreditscoreestimator/>

Impact of your credit score

- More than just your interest rate
- Ability to get a job
- Cost of home and auto insurance
- Ability to obtain some top-tier life insurance

Average Scores

- Most commonly used formula is FICO – created by Fair Isaac Corp. (also called Beacon and Empirica)
- FICO ranges from 300 to 850 (higher numbers are better)
- Median FICO in the United States is 723

How your score can impact your loan

Average rates for \$300,000, 30-year fixed mortgage

Score	Interest	Payment	Difference
760-850	4.072%	\$1,445	
700-759	4.294%	\$1,484	\$14,040
680-699	4.471%	\$1,515	\$25,200
660-679	4.685%	\$1,553	\$38,880
640-659	5.115%	\$1,632	\$67,320
620-639	5.661%	\$1,734	\$104,040

Miscellaneous facts about credit scores and reports

- Negative items remain on the report for 7.5 years
- Impact of inquiries: soft inquiries vs. hard inquiries
- Lenders may review other factors when determining their credit decision (income, savings, last two years of credit history, etc.)

Many Types of Scores

- Businesses assess different types of risks so there are many types of scoring formulas
- You need to ask the provider what the ranges for the score are
- Ask what the score assesses

How Is The Number Figured?

Generally:

- Payment History (35%)
- Length of credit history (15%)
- New credit (10%)
- Types of credit used (10%)
- Debt (30%)

Scoring

- **Have you paid your bills 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.

Scoring

- **What is your outstanding debt?** Many scoring models evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, that is likely to have a negative effect on your score.

Scoring

- **How long is your 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.

Scoring

- **Have you applied for new credit recently?** Many scoring models consider whether you have applied for credit recently by looking at “hard inquiries” on your credit report when you apply for credit. If you have applied for too many new accounts recently, that may negatively affect your score. However, not all inquiries are counted. Inquiries by creditors who are monitoring your account or looking at credit reports to make “prescreened” credit offers are not counted.

Scoring

- **How many and what types of credit accounts do you have?** 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.

Improve your score

- Review your credit report regularly
- Correct inaccurate or incorrect information
 - Do it yourself
 - Work with a credit counselor
 - Hire an attorney

Your present accounts

- Pay your bills on time
- Use no more than 40% of the maximum credit limit on your credit cards
- Work to pay down your debt
 - Several theories on what to pay first:
 - High interest debts
 - Smaller balances

Bottom line to improve your score

- Correct errors
- Pay your bills on time
- Pay down your debt
- Apply for credit sparingly/plan ahead when applying for auto or home loans

How To Read Your Report

- Usually divided into four sections: identifying information, credit history, public records, and inquiries
- http://www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf

Identifying Information

- Includes current and previous addresses, date of birth, telephone numbers, driver's license number, employer and spouse names
- Review carefully – sometimes incorrect information may indicate attempted or actual identity theft

Credit History

- Credit accounts are listed - may be referred to as trade lines
- Name of creditor and account number
 - When you opened the account
 - Kind of credit
 - Individual or joint
 - Total amount of loan/high credit
 - How much presently owed
 - Fixed monthly payment/minimum monthly payment
 - Status
 - How well you have paid

When Reviewing Accounts

- *Date of Last Activity*: should reflect last payment made by you - is it correct; is it more than seven years
- *Accuracy of information*
- *Is it your debt*
- *Are there other issues/disputes with any of the debts*

Public Records

- Best if this section is blank!
- Financial-related data: bankruptcies, judgments, tax liens
- Does not include criminal activities or arrests

Inquiries

Two sections under this heading

- “Hard” inquiries – consumer initiates this by filling out credit application
- “Soft” inquiries – companies want to send promotional information to pre-qualified groups – or – current creditors who are monitoring your account

Impact of Inquiries On The Score

- Not much
- Counts two or more “hard” inquiries in the same 14 day period as just one inquiry

Improve Your Score

- Pay all bills on time
- Think twice before closing accounts
- Minimize credit card applications
- Keep balances low

Correcting Inaccurate Information

- Send letter to credit reporting agencies as well as company that provided the information
- Clearly identify yourself – use report ID number, if available
- Be specific as to inaccuracy
- Explain why it is in error
- State how it needs to be corrected
- Keep copy of letter
- Sample letter on FTC website

Sample letter

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Enclosures: (List what you are enclosing.)

And Then...

- Credit reporting agency has 30 days to investigate your claim
- CRA sends your request to the provider of information – who then responds to the CRA
- You may request that the CRA send updated reports to anyone who received your report within the last 6 months

If Dispute Is Not Resolved

- You have the right to place information in your report, 100 words or less, explaining why you dispute the item
- You can go to court – must be done within 2 years of item appearing on report

Adding Accounts To Your Report

- Most, but not all, national department stores and banks provide information to CRAs
- Consumers can request that their credit accounts be added to their file
- CRAs are not required to add the accounts

Final Credit Report Tidbits

- Must bring action for removal of incorrect information within two years
- Opt out of pre-approved offers: 1-888-5-OPTOUT
- Statutes of Limitation: for the debt itself, for items on credit reports

Free credit report if...

- If you are denied credit because of information from a credit report, the creditor must give you the name, address and phone number of the consumer reporting company that supplied the information.
- Contact that company 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 consumer reporting company can tell you what's in your report, but only the creditor can tell you why your application was denied.

Talk to the creditor

- 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, be sure to dispute the inaccurate information in your credit report.

To get your credit report

- www.annualcreditreport.com
- Call 1-877-322-8228
- Complete the Annual Credit Report Request Form and mail it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281

Statutes of Limitation

- Negative items remain on credit report for seven years
- How to count the time: Section 623(a)(5) requires a creditor that reports a charge off to a CRA to notify the agency (within 90 days of reporting the account) of "the month and year of the commencement of the delinquency that immediately preceded" the charge off. Section 605(c)(1) provides that the seven year period begins 180 days from that date.

Statutes of Limitation, continued

- “Regular” credit cards: three years for creditor to bring action in court
- Sales contracts (store credit cards, secured transactions): six years for creditor to bring action in court

Importance of SOLs

- Reviving the debt: any acknowledgement of the debt starts the clock running again. This includes payment in any form, writing a letter to the creditor, etc.
- Negotiating with creditors

Security Freezes

- South Carolinians can request security freezes on their credit reports
- Must contact each credit reporting agency
- Free
- Prevents anyone from obtaining information contained in your file
- Does NOT prevent various governmental agencies, present creditors and a few others from obtaining information

Thawing Your Report

- South Carolina law allows you to thaw your credit report
- This is free, too
- No limit on the number of times it can be frozen and thawed
- Allow up to three days for the report to be thawed
- See Section 37-20-160 for complete information

Fraud Alert

- If you suspect identity theft, contact one of the CRAs. They will contact the other two.
- Fraud alert is good for 90 days. Can be extended if show proof of ID theft
- Notation on credit report – creditor must take additional step to determine that you are who you say you are – NOT a lock down of credit report
- You will get free copy of credit report from each CRA

For More Information

- www.moneycentral.msn.com
- www.bankrate.com
- www.consumerworld.org

For More Information

- South Carolina Department of Consumer Affairs
- www.consumer.sc.gov
- Federal Trade Commission
- www.consumer.ftc.gov
- For your free annual credit report
- www.annualcreditreport.com