

Consumer Issues

There's more to buying houses than
roofing and siding

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

We will discuss:

- Credit Reports
- Credit Scores
- Dealing with Creditors
- Freezing and Thawing 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 are free
- Entitled to free credit report once a year from each of the three major credit reporting agencies

Credit Scores

- Predictors of future payment
- Lenders base approval and interest rate on the score
- Several names are used, most frequently it is called FICO
- Lowest possible FICO is 300 – highest is 850
- New name: 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

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 \$165,000, 30-year fixed mortgage

Score	Interest	Payment	Difference
760-850	6.274%	\$1,019	
700-759	6.496%	\$1,042	\$8,627
660-699	6.780%	\$1,073	\$19,788
620-659	7.590%	\$1,164	\$52,336
580-619	8.905%	\$1,316	\$107,234
500-579	9.899%	\$1,436	\$150,192

Miscellaneous facts about credit scores and reports

- Negative items remain on the report for seven years
- Universal default
- 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 “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

How To Read Your Report

- Usually divided into four sections: identifying information, credit history, public records, and inquiries

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
- Usually ignores inquiries within the last 30 days of getting a mortgage or a vehicle loan
- 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

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

Other Reports Covered By FACTA

- Medical information – Medical Information Bureau
- Tenant history – Registry Safe-Rent and U.D. Registry
- Auto and homeowner insurance information – Comprehensive Loss Underwriters Exchange
- Check-writing history
- Employment screening – various companies, Usually no permanent file

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

If you are denied credit

- ECOA requires that the creditor give you a notice that tells you the specific reasons your application was rejected or the fact that you have the right to learn the reasons if you ask within 60 days.
- Indefinite and vague reasons for denial are illegal, so ask the creditor to be specific. Acceptable reasons include: “Your income was low” or “You haven’t been employed long enough.” Unacceptable reasons include: “You didn’t meet our minimum standards” or “You didn’t receive enough points on our credit scoring system.”

Credit balances too high

- If a creditor says you were denied credit because you are too near your credit limits on your charge cards or you have too many credit card accounts, you may want to reapply after paying down your balances or closing some accounts. Credit scoring systems consider updated information and change over time.

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

Credit score estimator

- Some websites have credit score estimators
- Answer questions honestly
- You will get a number range – score estimate
- When you get your free credit report, you can pay extra to receive your score

Dealing With Creditors

- Avoid credit repair scams
- Read contracts before signing AND before giving any money
- Credit counselors are licensed by SCDCA – call us to be sure they have their license
- If it sounds too good to be true...

Warning Signs

- The company demands payment prior to any services
- They do not tell you about your legal rights and what you can do for yourself (for free)
- They encourage you to cease all contact with your creditors
- The company suggests that you create a new credit report or identity by applying for an employer ID number
- They suggest that you dispute all items on your report and/or take action that might be illegal

Self Help May Be The Best Help

- Take control of your finances

 - Review your debt

 - Keep a log of your spending

 - Cut spending

 - Pay more than the monthly
minimums

Repayment and Elimination of Debts

Prioritize repayment: many theories

Pay off smaller debts first

Pay off high interest credit cards first

When a card is paid off, close the account (or at least destroy the card so you do not use it)

Other Ideas

- Contact your creditors on your own to set up alternative payment arrangements.

Some companies have divisions that assist debtors

Try to work out a payment plan, but get it in writing **and** follow through

More Self Help

- Create a monthly spending plan

Estimate monthly bills

Include a small savings cushion

Include some money for unexpected expenses

Apply remaining money to debt

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
- Sales contracts (store credit cards, secured transactions): six years

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

Where to Look Online for More Information

- www.moneycentral.msn.com
- www.bankrate.com
- www.oprah.com/money/money_landing.jhtml
- www.consumerworld.org

For More Information

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