What Is A Credit Report?

Imagine someone you didn't know and trust wanted to borrow money from you. How would you know if that person was able to repay the loan? Wouldn't you want some background information on the potential borrower? Wouldn't you want to know how well they have paid back others? Wouldn't you want to know how much money they currently owe others?

The same can be said of financial institutions wanting to loan you money. It would be impossible for financial institutions such as banks, credit card companies and mortgage companies to personally know the credit worthiness of their thousands or millions of customers.

This is the reason that credit reporting agencies and credit bureaus exist. Although there are hundreds of smaller credit bureaus around the country, almost every bureau is affiliated with the three major credit bureaus. The "Big Three" credit bureaus are Equifax (also known as CBI), Experian (formally TRW) and Trans Union. These bureaus collect and maintain personal credit files on individuals. This personal credit file is called your credit report. Upon request and for a fee, the credit bureaus provide this information to financial institutions. The lending institution then uses the information on your credit report to decide whether or not to loan you money. Using past and current credit history, the lending institution determines your ability and likelihood to repay the loan.

This credit information is gathered and reported to the credit bureaus by the same institutions that grant you credit. The credit bureaus have agreements with these lending institutions. If you were to make a late payment, the negative credit listing is reported by the lending institution to at least one of the three major credit bureaus and is added to your credit history. This information is later resold to other institutions who wish to see your credit history before they decide to lend you money. If your credit report shows a history of paying late, your credit application may be rejected. The credit bureaus themselves do not determine whether you qualify for a loan or not. They simply gather and maintain your credit data.

Your credit report contains various types of personal information such as:

Identification and Employment Information

Your name and aliases, birth date, Social Security number, employer, employment history, current and previous addresses, spouse's name, etc.

Payment History

All of your past and current creditor names are listed, account numbers, showing how much credit was extended, current balances, if any, and whether you have paid your payments on time.

Public Record Information

Bankruptcies, foreclosures, judgments, garnishments, financial counseling, lawsuits and all types of liens may show up on your credit report. Satisfied judgments and satisfied liens may also appear.

Inquiries

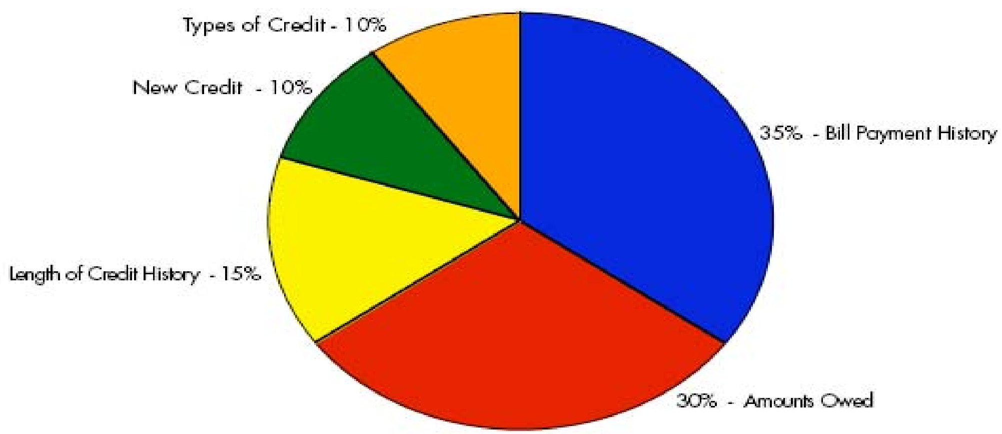
All creditors that have asked for your credit history within the past year and anyone who requested credit history for employment purposes in the past two years may show on your credit report.

What Is A Credit Score?

The credit bureaus then put this information into a more useable format called a Credit Score. A credit score is a number that is calculated using several types of credit history information. By comparing this information to the patterns of hundreds of thousands of others, the score tells lenders what kind of borrower you will likely be. A credit score can range from a low of 300 to the highest of 850.

There are several scoring methods, although the most commonly used method is known as FICO (created by Fair Issac and Company). Each of the three credit bureaus has their own version of the FICO score, Equifax has the Beacon Score, Experian has the Experian/Fair Issac Risk Model and TransUnion has the Empirica Score.

The FICO score is calculated using credit history from five categories of credit data. The categories and percentages are below.



Payment History - 35%

The largest percentage of your score is determined by your payment history. Any late payments, unpaid bills, collections, etc., weigh heavily against you and lower your score. The more recent the occurrence, the more negative the impact to your score.

Amounts Owed – 30%

How much do you owe? Credit card balances that are near your credit limit can significantly lower your score. Try to keep the balances below 35% of the credit limit for better scores.

Length of Credit History – 15%

How long have you had credit accounts? The longer you've had credit, the better.

New Credit – 10%

The number of recently opened accounts and the types of accounts reflect on your credit score. Every time you apply for credit, the creditor requesting credit history will appear on your credit report. The more inquiries you have, especially in the previous 6 months, the more negative the impact on your credit score.

Types of Credit – 10%

What types of loans do you have and how many? Loans from finance companies (ex. Beneficial, American General, etc.) may detract from your credit score.

Your credit score is derived from various sources of information and the chances for incorrect derogatory information is greatly increased. Your credit score affects your ability to get a loan, how much money you can borrow and how much it is going to cost you. As your credit score increases, your credit risk decreases. This means your interest rate also decreases.

The loan rate chart below shows how different FICO scores impact the amount of interest you pay on a loan. Notice how improving (raising) your FICO score lowers the interest rate.

Average Loan Rates (APR) by FICO Scores

Auto Loan Options	500-589	590-624	625-659	660-689	690-719	720-850
36 Month New Auto	14.572%	14.572%	11.085%	9.363%	7.788%	7.074%
48 Month New Auto	14.578%	14.578%	11.091%	9.370%	7.800%	7.086%
60 Month New Auto	14.601%	14.601%	11.109%	9.365%	7.803%	7.088%
48 Month Used Auto	16.084%	16.084%	12.285%	9.898%	8.118%	7.424%
Example - $20,000 New Auto 60 month financing Monthly Payment	$472	$472	$436	$419	$404	$397
Total Interest Paid	$8,320	$8,320	$6,160	$5,140	$4,240	$3,820

Home Mortgage Options	550-559	560-619	620-674	675-699	700-719	720-850
30 Year Fixed	9.289%	8.531%	8.591%	7.441%	6.904%	6.779%
Example - $150,000 Loan Monthly Payment	$1,238	$1,157	$1,163	$1,043	$988	$976
Total Interest Paid	$295,680	$266,520	$268,680	$225,480	$205,680	$201,360
15 Year Fixed	N/A[1]	N/A[1]	8.347%	7.197%	6.659%	6.534%
30 Year Fixed JUMBO	N/A[1]	N/A[1]	8.989%	7.714%	7.052%	6.927%
1/1 ARM	N/A[1]	N/A[1]	9.486%	8.336%	7.799%	7.674%
3/1 ARM	N/A[1]	N/A[1]	9.343%	8.193%	7.655%	7.530%
5/1 ARM	N/A[1]	N/A[1]	9.407%	8.257%	7.720%	7.595%

[1] People with these scores are not usually accepted for this type of loan.

What Is A Poor Credit Score Really Costing You?

Many of us have experienced the stress of negative credit, the embarrassment of being turned down for a loan or the inability to qualify for a simple credit card. Although these feelings do cost us emotionally, the real cost is what it does to our wallets.

Look at this example:

You are going to purchase an automobile for $20,000 and the loan is for 60 months. Let's compare the cost difference in interest paid between a FICO score of 500-589 and a FICO score of 720-850.

FICO Score	Interest Rate	Monthly Payment
500-589	14.60%	$472.00
720-850	7.08%	$397.00
Difference of	7.52%	$ 75.00 a month!!

That's a monthly payment difference of $75.00!! Over the life of the loan (60 months), that's $4,500.00 more in interest paid! But that's not all!

Let's calculate the real cost of having a low credit score. If you had not paid the $75.00 a month in interest and had invested it instead at 8% for 5 years (60 months) and then left it alone for 25 more years for a total of 30 years, it would have grown to a whopping $33,031.00!!

So what did a low credit score really cost you in this scenario?

$33,031.00!!

Let's look at another example: You are going to purchase a home for $150,000 on a 30 year fixed rate loan. Let's see how a low credit score costs you.

FICO Score	Interest Rate	Monthly Payment
550-559	9.289%	$1,238.00
720-850	6.779%	$ 976.00
Difference of	2.51%	$ 262.00

That's a difference of $262.00 a month for the life of the loan (30 years/360 payments). You paid a total of $94,320 more over the thirty years.

But that's not all, what if you had a better credit score and you would have paid $976.00 a month instead of $1,238.00 a month. You could have taken the difference of $262.00 and invested it at 8% for the 30 years and it would have amassed to over $390,474.00.

So what did a low credit score really cost you in this scenario?

$390,474.00!

As you can see from the illustrations above, the true cost of a poor credit score is not only the difference in the monthly payments, but what it costs you over time. Keep in mind, the amounts you paid in the scenarios above are not just interest paid. These numbers represent the extra amounts of interest paid over and above what a person with a good credit score would have paid. A good credit score is vital to your financial health. Once you have implemented the described techniques to repair your credit report, it is very important that you start rebuilding a more positive credit history.

What Is Credit Repair & What Are Your Consumer Rights?

In 1971, the US Congress passed the Fair Credit Reporting Act (FCRA). The Act has been revised several times since it was introduced. The Act allows consumers to challenge or dispute any information on their credit report on the basis of "completeness and accuracy".

If an item is disputed, the credit bureaus shall reinvestigate "free of charge". The credit bureaus are required to complete the investigation within a "reasonable period of time". This period has been agreed upon and set by the credit bureaus at 30 days. If after reinvestigation, the disputed information "is found to be inaccurate or can no longer be verified, the credit reporting agency shall promptly delete such information".

FCRA - Section 611- Procedure in case of disputed accuracy

> *a) If the completeness or accuracy of any item of information contained in his file is disputed by a consumer, and such dispute is directly conveyed to the consumer reporting agency by the consumer, the consumer reporting agency shall within a reasonable period of time reinvestigate and record the current status of that information unless it has reasonable grounds to believe the dispute by the consumer is frivolous or irrelevant. If after such reinvestigation, such information is found to be inaccurate or can no longer be verified, the consumer reporting agency shall promptly delete such information. The presence of contradictory information in the consumer's file does not in and of itself constitute reasonable grounds for believing the dispute is frivolous or irrelevant.*

In short it means that <u>every item</u> on your credit report <u>must be proven</u> or be removed or deleted.

The Steps To Repairing Your Credit Report

Repairing your credit involves the following steps:

1. Order your credit reports.
2. Review your credit reports.
3. Create your disputation strategy. Determine specifically what you are going to dispute.
4. Write your dispute letters.
5. Mail your dispute letters.
6. Await response from the credit bureaus.
7. Repeat steps 4, 5 and 6 until you get the desired results.

The process of repairing your credit is relatively simple, but you must be patient and persistent in order to succeed. The credit bureaus are not always initially cooperative because they make money providing credit reports not correcting information in their databases. Don't get discouraged! Under the FCRA, it is your consumer right to have an accurate and verifiable credit report.

Now let's get started!