



## Financial Education Resources

### **Understanding Credit**

A credit history is a collection of all of the pieces of financial information that relate to your life. It contains information on how long you've had your individual credit accounts, the account limits, balances and your payment history. Current and future creditors only want to know one thing: If they loan you money, what are the odds that you'll repay it? The reason creditors are so concerned about how risky you are as a borrower is because when you buy something on your credit card, you're essentially taking out an unsecured loan. The loan is unsecured because you haven't put up any collateral in case you don't make payments, which means increased liability for credit card issuers. Contrast that with a mortgage, where you've pledged your house as collateral to the lender in case you default on the loan.

Because how you've handled bills in the past has been proven to be a good indication of how you'll handle credit in the future, lenders obtain a copy of your credit history to take a look at this snapshot of your financial life. This gives them the information they need to decide whether to lend you money or extend credit to you.

### **Information in Your Credit History**

In addition to listing each of your credit and loan accounts, your credit history also includes information that will identify you personally including your name, address, birth date and Social Security number.

But not everything goes into a credit report. Some creditors, like landlords, many apartment complexes, some utilities and even certain lenders, don't report your payment history to the major credit bureaus (Equifax, Experian<sup>SM</sup> and TransUnion®). So even if you have a good record of on-time payments, it won't necessarily show up on your report.

If you want to build a solid credit history, you'll want to make sure your on-time payments are reported. If the company only reports late payments and other negative information, but doesn't report on-time payments, that account may not help improve your credit history or credit score.

Negative information, including any late payments, judgments, foreclosures and bankruptcies, is also typically reported to the credit bureaus. Information that seems neutral, such as what percentage of your maximum credit limit you're using, is also reported.



## **Your Credit Score**

Each of the major credit bureaus has developed its own credit scoring system, and the three together have created VantageScore— a score which runs from 501 to 990, with 990 being the top score. However, the FICO score, developed by Fair Isaac, is used by almost 90 percent of all lenders.

The FICO score runs from 300 (poor) to 850 (perfect) and the higher the score, the better your credit. According to Fair Isaac, the median FICO score is 723, meaning half of consumers fall above that and half below.

Having any negative information on your credit history will lower your credit score, but there is a statute of limitations on how long credit bureaus may keep negative information on your credit history. After either seven or ten years (the rule varies depending on the item), negative information like late payments, charged-off accounts or a bankruptcy is supposed to “fall off” your credit report. If that doesn’t happen automatically, you have the right to make the bureaus remove it.

Even so, as information ages on your credit history, newer information is weighed more heavily in your credit score. That’s why you can raise your credit score over time if you begin to practice good credit habits.

## **Check Your Credit History and Credit Score Often**

Along with paying off balances and making payments on time, one of the best things you can do to protect your credit is to read your report. You’re entitled to at least one free copy from each of the three bureaus every year (available at [annualcreditreport.com](http://annualcreditreport.com).) Some states allow additional free reports. Obtain one copy of your credit history every four months and you should be able to keep up with your history for free.

While the report is free, there is a charge to see your credit score. If you’ve applied for credit and were turned down, federal law says you’re entitled to see that score for free. Or you can buy it at any time from any of the three national credit bureaus—Equifax ([equifax.com](http://equifax.com)), Experian ([experian.com](http://experian.com)) and TransUnion ([transunion.com](http://transunion.com)).

When you receive your credit report, go through each line to make sure the information is right. Are these your accounts? Are the balances the same as those you’re seeing on your monthly bills? Does the report reflect your account history accurately (paying off balances, paying on time)? Check the personal information, too. Is that your current address? Do they have your name and Social Security number exactly right?



If you find an item that isn't yours or isn't being reported correctly, contact the bureau by phone and in writing, or go online and dispute it. The Fair Credit Reporting Act gives you the right to have incorrect information removed from your report. Be prepared to follow up until you see that the information has been removed. Credit bureaus have 30 days in which to confirm disputed information, or it must be removed from your credit history. You also may notify the creditor of any information you believe may be inaccurate or incomplete by writing to them at the address provided by the creditor. This address may be found on the back of your statement or in other documents.

Be sure to follow up and check your credit history again to ensure the fix is permanent. Credit bureaus will often remove disputed information temporarily while they investigate your complaint. By checking back, you'll ensure that the negative information or errors on your report are permanently removed.