

Credit Reports and Scores

Lenders use your credit information to determine your financial fitness. Low credit ratings will lead to higher interest rates on loans and could even lead to other unpleasant consequences.

The Credit Report

A credit report is a detailed financial report card that contains detailed personal and financial information dating back 7 years or more. You actually have three credit reports, each assembled by the three major credit reporting bureaus (Experian, Equifax, and TransUnion). Credit reports include your:

- Social security number and date of birth
- Current and previous addresses
- Current and previous employers
- Credit inquiries (for example, a check performed when you applied for a loan)
- Information about bankruptcies, foreclosures, tax problems, and any criminal arrests or convictions
- How much you have borrowed through loans and credit cards, and what percentage of your total available credit is being used
- Your repayment history for each account
- And any accounts that have been turned over to a collection agency

A credit report filled with missed payments and other negative items will make it more difficult to get car loans, non-government education loans, home mortgages, and any other kind of loan, and the loans will be more expensive since the interest rate will be higher. And the penalties don't stop there – banks, insurance companies, credit card companies, utilities, landlords, and even employers all have access to your credit report and use it to make decisions about you. In fact, about half of all employers use credit reports as a factor in making hiring decisions.

Finally, the interest rate on some loans can actually be increased because of a negative item on your report, even on accounts that have paid on time every month. Given the pervasive use of credit reports, it's not difficult to understand the importance of maintaining a positive report.

Besides paying all bills on time and using credit responsibly, you should review your credit reports at least once per year. By reading your report, you can spot errors and even identity theft.

The government requires the credit reporting agencies to offer a free report once per year through the AnnualCreditReport.com website. *Please note that the agencies will try to sell you services when you get your report. These extras are not required.*

There are many websites that offer so called “free” credit reports, and all of those sites try to sign you up for a credit monitoring service as a condition of receiving your report – save your money and skip these services.

If you do find errors on your credit report, contact the credit bureau immediately. Under the Fair Credit Reporting Act, the bureaus have 30 days to investigate and to correct any erroneous information. We also offer supplemental modules dedicated to repairing credit, and to understanding your rights and responsibilities in the event of identity theft.

The Credit Score

If your credit report is like a report card, your credit score is your overall credit grade. A credit score is a three-digit number that summarizes everything about your credit report into one number. Credit scores range between 300 and 850, with around 700 being average. The higher the score, the better.

Scores are determined using proprietary formulas that takes into account factors such as repayment histories, the number and age of open credit accounts, the percentage of available credit used, and even the number of recent credit inquiries. Like credit reports, you have multiple credit scores as well.

The interest rate you receive on most loans is based, to a large degree, on your credit score. The best way to earn and maintain a high credit score is to build a solid credit history – paying all loans on time is a simple strategy.

There is currently no way to get a truly free credit score on your own. You may obtain a score through the FICO website or through the credit bureau websites. Expect to pay around \$15 for a score that does not involve a recurring charge that you will have to cancel. Unless you are planning on financing a major purchase in the near future, there is really no benefit to knowing your credit score.

Read your credit reports each year to spot errors and to check for identity theft.