Tracking Your Credit History
By Mark Schug

Financial institutions (banks, savings and loan associations, credit unions, and consumer finance companies) are private, profit seeking businesses. They expect to be paid back most of the time when they offer credit to individuals, and they plan to control the losses when they are not paid back. As a result, financial institutions request information from loan applicants to help them decide if the individuals involved have the willingness and ability to repay the loan.

Credit histories are described in credit reports. A credit report is a record of an individual's personal credit history. It tells in detail how much the person has borrowed, from whom, and whether the bills were paid on time. Thus, the easiest way for a financial institution to learn your credit history is for it to obtain a copy of your credit report and your credit score. We will focus on credit reports first.

Building a positive credit history which is reflected in your credit report has many advantages, which you should see as incentives to building such a credit history. Among them is the ability to obtain credit at low cost—paying lower rates of interest. A good credit history can make the difference between getting a loan or being turned down, or between paying a high rate of interest or a low rate. In addition, other businesses request access to your credit report. Potential employers and landlords will often check an applicant's credit history before making a decision about offering a job or renting an apartment. Insurance companies use credit reports to help decide whether they should offer insurance for a car and how to price the coverage.

Credit Reports

Credit reporting agencies (CRAs) are also known as credit bureaus or consumer reporting agencies, and they compile credit reports. Three agencies issue credit reports. They are:

- Equifax: (800) 685-1111 or equifax.com
- Experian: (888) 397-3742 or experian.com
- Trans Union: (800) 916-8800 or transunion.com

CRAs regularly collect information on millions of consumers. They obtain information from a variety of sources including stores, credit card companies, banks, mortgage companies, utilities, and medical providers.

The Fair Credit Reporting Act (FCRA) requires each of the CRAs to provide you with a free copy of your credit report, at your request, once every 12 months. To order your credit report, visit annualcreditreport.com or call 1-877-322-8228. You do not need to contact the three nationwide CRAs individually. They provide annual credit reports at no cost to you only through annualcreditreport.com. (Other sites provide credit reports and monitoring for a fee, sometimes with an introductory "free" misleading enticement.)

In addition to helping you build a good credit history, checking your credit report is also a way to help guard against identify theft. You may order one, two, or all three credit reports at the same time, or you may stagger your requests. Staggering your requests during the year allows you to periodically check out your financial situation—say, once every four months from one of the three CRAs. This will help you learn sooner if identity thieves, for example, have used your information to open a new credit card account in your name. Otherwise you might not know about the new credit card until the identity thieves fail to pay the bill. If not caught in time, the delinquent account would be reported on your credit report. Inaccurate information like this could jeopardize your ability to obtain credit, buy insurance, or even get a job.

Reading Your Credit Report

Credit reports contain four types of information:

1. **Identifying Information:** This includes your Social Security number, address, date of birth, and so forth.
2. **Trade Lines:** These are your credit accounts. Lenders report on each account you have established with them. They report the type of account (credit card, auto loan, mortgage, and so forth), the date you opened the account, your credit limit or loan amount, the account balance, and your payment history.
3. **Inquiries:** When you apply for a loan, you authorize your lender to ask for a copy of your credit report. This is how inquiries appear on your credit report. The credit report lists everyone who has requested your credit information over the past two years.
4. **Public Record and Collection Information:** This includes public record information from state and county courts, and information on overdue debt from collection agencies. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens and judgments, late payments for child support, and so forth.

While credit reports include a lot of information about you, they do not include everything. Credit reports do not include checking and savings account balances, your income, or purchases made with cash or check. Moreover, personal information such as medical history, race, gender, religion, national origin, and driving record is generally excluded from one's credit report.

Credit reports often use specific terminology. Here are definitions of some common terms:

- **Tax lien:** A claim against property filed by the government for unpaid taxes.
- **Judgment:** A court order placing a lien on a debtor's property as security for a debt owed to a creditor
- **Collection account:** A past-due account that has been referred to a collection agency.
- **Bankruptcy:** A legal agreement that can legally release a person from repaying debt.

What if You Find Errors on Your Credit Report?

Under the FCRA, both the CRA and the information provider (that is, the person, company, or organization that provides information about you to a CRA) are responsible for correcting inaccurate or incomplete information in your report.

To correct an error, contact the credit reporting company and the information provider. Tell the CRA, in writing, what information you think is inaccurate. CRAs are required to investigate the items in question—usually within 30 days—unless they consider your dispute to be frivolous.

The CRA is also required to send all of the relevant information you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the credit reporting company, it is required to investigate the situation and report the results back to the CRA. If the information provider finds the disputed information is indeed inaccurate, it must notify all three nationwide CRAs so they can correct the information in your file.

When the investigation is complete, the credit reporting company must give you the written results and a free copy of your report if the dispute results in a change. If an item is changed or deleted, the CRA cannot put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The credit reporting company also must send you written notice that includes the name, address, and phone number of the information provider.

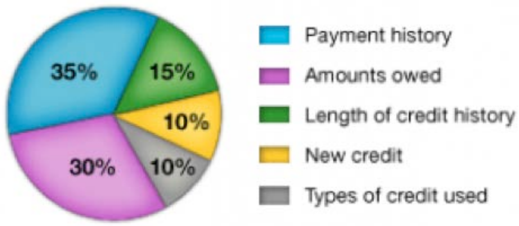
Credit Scores

A credit score is a number lenders use to help them decide whether to make a loan to an individual. Your credit score summarizes your credit history in one number. Fair, Isaac and Company (FICO) develops the most widely used scores. They are commonly known as FICO scores. The Consumer Financial Protection Bureau reports that FICO accounted for 90 percent of the scores sold to firms in 2010 for use in credit-related decisions. FICO scores range from 300 to 850. Higher scores reflect better credit.

Figure 1 shows the typical "weights" FICO assigns to the different parts of your credit history when calculating your credit score. As you can see, payment history and amounts owed are the most important factors:

- Types of credit in use counts for about 10 percent.
- New credit counts for about 10 percent.
- Length of credit history counts for about 15 percent.
- Amounts owed counts for about 30 percent.
- Payment history counts for about 35 percent.

Figure 1: How Credit Scores Are Calculated



FICO does not offer just one credit score. Different industries may be interested in somewhat different aspects of your credit history. Thus, FICO offers industry-specific models for credit cards, mortgages, auto loans, and telecommunications services.

The nationwide CRAs—Equifax, TransUnion, and Experian—have their own scoring models to predict credit performance. These are now sold primarily as educational scores to consumers. These scores typically resemble FICO scores in range. The ranges of scores sold by the CRAs are:

- Equifax: “Equifax Credit Score” produces scores in the range 280-850.4
- Experian: “Experian Plus Score” produces scores in the range 330-830.5
- TransUnion: “TransRisk New Account Score” produces scores in the range 300-850.6

Unlike your credit report, which you can get at no cost to you, you usually have to pay for your credit score. You can obtain your score by contacting a CRA. Fees charged to obtain your credit report and your credit score vary from $10.00 to $15.00. There are certain instances in which you are entitled to your credit score for free, for example if you are denied a loan on the basis of your credit score.

Are You Facing Financial Problems?

Do you think you or members of your family are facing a financial meltdown? Ask yourself the following questions. If you answer yes to any of them, you may be playing with financial fire.

- Do you pay the bill from one company one month and then pay the bill from another company the next month?
- Do you frequently receive overdue notices from creditors?
- Have you reached the limit on your credit cards?

- Do you pay only the minimum on your credit card balances?
- Do you sometimes write bad checks and risk paying hefty overdraft fees?
- Do you use your credit card to pay for everyday purchases like food or rent because you have run out of cash?
- Are you a regular consumer of the services of alternative financial institutions such as payday loan stores?

Taking Action Now to Improve Your Financial Life

If you have any of these problems, the worst thing you can do is ignore them. Refusing to pay your bills does not make them go away. Matters will only get worse. The sooner you deal with the problem with your creditors, the sooner you can get yourself on the path to recovery. As *Common Sense Economics* points out, paying down debt that has a high interest rate has a large payoff for you. Here are some steps to get you started:

1. Reduce your spending. The first rule when you find yourself in a financial hole is to stop digging. Reduce your spending now. Consider ways to bring your spending into line with your income. Set up a monthly budget. Stop eating out as often—even at cheap fast-food places. Think about extreme measures such as moving in with family or selling your car. Find ways to have some money at the end of your pay period. It is sometimes difficult to keep in mind that some of the opportunity costs of your spending decisions now may occur in the future. Think about what your future self would want you to do now.
2. Do not take out any new lines of credit. Adding to your debt, unless you are doing it strategically to develop a more positive credit history, cannot help to reduce it.

3. Contact the lender. Most lenders would rather help you reschedule your payments than take back the property or call in a collection agency. Credit card companies are often large and bureaucratic. You may spend a lot of time waiting to talk to an actual person. But these companies are profit-seeking organizations. They want your business. Many of them are willing to negotiate with you in order to keep it. See what can be worked out.
4. Pay down your credit card balances. There are two common approaches. First, it might be most economical to pay off the loan with the highest interest rate first. This move saves you money in interest payments. An alternative method is to pay off the smallest credit card balance first in order to achieve a quick win in debt reduction. Choose whichever method you think will work for you. After all, the best debt-payoff strategy is one where you will stick to your plan.
5. Keep your oldest credit lines. The length of your account history is an important factor in calculating your credit score (15 percent). Older lines of credit reflect more favorably than new lines. Consider keeping your oldest credit card account. You do not have to use it. You could even cut up the card. The point is to leave the account open.

All of these actions to improve your financial life will take time. You will need to be patient. Financial problems are a lot like unwanted weight gain: they seem to happen fast and with little effort. The consequences however are long-term, and dealing with them will involve sacrifice. Even so, if you are like most people you will find that getting ahead of your financial problems is well worth the sacrifice.

Mark Schug is Professor Emeritus at the University of Wisconsin-Milwaukee, where he was Director of the UW-Milwaukee Center for Economic Education for over a decade. He has written and edited over 200 publications, including more than 110 articles in academic journals. He has authored over a dozen curriculum publications for the Council on Economic Education and co-edited six special issues of Social Education, the flagship journal of the National Council for the Social Studies. Dr. Schug currently works full-time as a national consultant on economic and financial education and urban education policy.