

Credit Repair

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Do you know what's in your credit report? If you're planning to buy a home, look for a job or apply for a credit card, you need to know what's in your credit report. Lenders, insurance agents, employers and other businesses use your credit report to help evaluate applications for credit cards, insurance policies, employment and buying or renting a home. The three major U.S. credit bureaus – **Equifax**, **Experian** and **TransUnion** – gather information and provide reports to lenders and other businesses. What if your credit report or credit score is unsatisfactory? This fact sheet describes ways to help repair your credit.

Check Your Credit Report

Check your credit report regularly. Be sure to look for errors or signs of fraud. Consumers are entitled to a free credit report on an annual basis from each of the three credit bureaus. Spacing the three reports out during the year allows you to monitor your credit information regularly. For your free annual credit report, go to the website <https://www.annualcreditreport.com>. There are some websites that charge for a copy of your report so make sure you enter the web address exactly.

Correct Errors

If you find an error, contact the reporting company and the creditor. You will need to notify them in writing and include copies of sales receipts or any other documentation you have. Provide a description of the error. Send your letter to the creditor at the address given for "billing inquiries," not the address you use for sending payments.

Credit bureaus must investigate, usually within 30 days. If they confirm the error, all three credit bureaus must correct the information in your credit reports.

Details on how to dispute credit report errors are available from the Federal Trade Commission at <https://consumer.ftc.gov>.

Recover from Fraud

Unauthorized charges or accounts in your name that you did not open may be signs of identity theft. If you suspect identity theft, notify the credit bureau immediately. The credit reporting companies can place "fraud alerts" in your file. The fraud alert notifies potential creditors and others that you may be a victim of identity theft. To post a fraud alert, call one credit reporting company. They will notify



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the other two. This initial alert will stay in your file for 90 days.

Contact the companies with the fraudulent accounts or unauthorized charges. Ask to speak with someone in the security or fraud department. Follow up in writing, and include copies of supporting documents. Close the account and ask the company to send written verification to you that the account was closed due to fraud and that any fraudulent charges have been discharged.

Contact the Federal Trade Commission at www.ftc.gov/idtheft or call the FTC's Identity Theft Hotline at 1-877-ID-THEFT (438-4338) to file an identity theft report. File a report with your local police. You may also want to contact your state attorney general's office.

According to the Fair Credit Reporting Act, both the credit bureau and the business (credit card, bank, etc.) that provided the information are responsible for correcting fraudulent information on your report. Send a copy of an identity theft report and a letter stating which information is fraudulent to both the credit bureau and the business. The law also limits your liability for unauthorized credit card charges to \$50 per card.

Check Your Credit Score

Check your credit score. Many mortgage companies and other lenders use a credit score developed by Fair Isaac Corporation called FICO. FICO scores range from 300 to 850. Most people score in the 600s and 700s. If you have a FICO score above 700, you may qualify for more credit and lower interest rates. A score below 600 could mean high interest rates or even denial. While an annual credit report is free, your credit score is not. You can purchase your credit score at www.annualcreditreport.com or by contacting the credit reporting company:

- **Equifax:** www.equifax.com
- **Experian:** www.experian.com
- **TransUnion:** www.transunion.com

Your FICO score is based on payment history, amounts owed, length of credit history, new credit and types of credit. Improvements in these areas can improve your report and increase your credit score:

- **Payment History** – Pay bills on time. Don't miss payments. This is one of the most important things you can do to maintain a good credit report. About 35 percent of the points in your FICO score are based on your payment history.
- **Amounts Owed** – High levels of outstanding debt can decrease your credit score. Don't max out your credit cards. Pay down balances and try to keep them low. Amounts owed are about 30 percent of your credit score.
- **Length of Credit History** – Lenders look for a long history of good credit management. If you have been using credit for only a short time, this could lower your credit score. Length of credit history accounts for about 15 percent of your score. Keep this in mind when closing accounts. Close newer accounts and keep accounts with a longer history.
- **New Credit** – Frequent applications for credit can decrease your credit score. Choose a few accounts and make regular, timely payments. Too many new accounts or inquiries can lower your score. New credit makes up about 10 percent of your score.
- **Types of Credit** – Having a variety of types of credit – credit cards, installment loans, personal line of credit – can raise your credit score. Variety in credit impacts your score by about 10 percent.

There are three versions of the VantageScore – Versions 1, 2 and 3. Version 1 VantageScores range between 501 and 990. VantageScores are ranked A through F. A-level scores (901-990) are the best. VantageScores of 600 fall in the "F" category. Newer versions of VantageScore use the 300-850 range so it's less confusing for consumers. To interpret your VantageScore credit score, it helps to put it in the context of the range of possible scores. That range will vary depending on which version of your credit scoring model was used to generate your score. If it was generated using an earlier VantageScore model, it will range from 501-990. If it was generated using the VantageScore 3.0 model, it will range from 300-850 – a numerical scale that is more commonly used by

other credit scoring models. Regardless of the model's score range, higher scores indicate to lenders that you're a less risky borrower, while lower scores indicate that you're an increased risk.

Parts of a VantageScore:

- **32%** – Payment history. This represents your repayment behavior.
- **23%** – Utilization. This is the amount of debt compared to available credit.
- **15%** – Balances. These are current and delinquent amounts.
- **13%** – Depth of credit. This is the length of your credit history and types of credit.
- **10%** – Recent credit. This represents new accounts and inquiries.
- **7%** – Available credit. This is the amount of credit you have available.

Understand Negative Information

How long will the negative information stay on your credit report? The credit bureaus may keep negative information in your report for 7 years. Bankruptcy information may remain for 10 years. Remember that no one can legally remove accurate negative information from a credit report.

Practice Careful Money Management

Basic money management skills can help you to build and keep good credit. Write down all of your income and expenses. Develop a spending plan and stick to it. Move toward keeping credit card debt to less than 20 percent of take-home income. Your local county Extension office can provide information about budgeting and financial planning.

You may be able to reduce debt sooner by making larger payments on accounts that have the highest interest. You can design a personalized repayment plan using Extension's PowerPay program. PowerPay features online financial calculators to help you design your best money management plan. Go to <https://powerpay.org>.

Contact creditors if you are having trouble making payments. They may work with you to set up a more manageable debt repayment plan.

Beware of Credit Repair Scams

Some companies may seem to offer a quick fix for your credit problems. Beware of companies that ask for money up front. A reputable program will spend time reviewing your financial situation, help you set up a budget and teach you about money management. Check the company's references before you provide any personal information or credit card account numbers. Reputable credit counseling organizations have counselors who are certified and trained in the areas of consumer credit, money and debt management, and budgeting.

Debt Consolidation

Some consumers may lower their total credit payments by consolidating debt. Second mortgages or home equity lines of credit can be used for debt consolidation. The home serves as collateral for the loan and can be lost if payments are late or missed.

Bankruptcy

Bankruptcy should only be considered as a last resort. Personal bankruptcy is usually either Chapter 7 or Chapter 13:

- **Chapter 7** – A trustee is appointed to take over your property. Any property of value will be sold or turned into money to pay your creditors. You may be able to keep some personal items and possibly real estate depending on the applicable laws.
- **Chapter 13** – You can usually keep your property, but you must earn wages or have some other source of regular income and you must agree to pay part of your income to your creditors. The court must approve your repayment plan and your budget. A trustee is appointed and will collect the payments from you, pay your creditors and make sure you live up to the terms of your repayment plan.

Consumers who file bankruptcy must still pay child support, alimony, fines, taxes and some student loans. You will be required to have credit counseling and financial management education. Bankruptcy will stay on your credit report for 10 years and can make it difficult to obtain credit.

References

All About Credit Reports

Annualcreditreport.com

<https://www.annualcreditreport.com/whatIsCreditReport.action>

Bankruptcy Information Sheet

U.S. Department of Justice

http://www.usdoj.gov/ust/eo/ust_org/bky-info/index.htm

Building a Better Credit Report

Federal Trade Commission

<https://www.consumer.ftc.gov/articles/pdf-0032-building-a-better-credit-report.pdf>

Credit Repair: How to Help Yourself

Federal Trade Commission

<https://www.consumer.ftc.gov/articles/0058-credit-repair-how-help-yourself>

Using a Credit Card

Federal Trade Commission

<https://www.consumer.ftc.gov/articles/0205-using-credit-card>

Credit Cards

Consumer Financial Protection Bureau

<https://www.consumerfinance.gov/ask-cfpb/category-credit-cards>

Your Credit Scores

myFICO Credit Education Center

<https://www.myfico.com/credit-education/credit-scores>

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