

Understanding Credit Bureaus

In 1939, Macy's, one of the largest department stores in the United States, stopped selling for cash only and made deferred payment plans available. Then, in the late 1950's, the all-purpose credit card came on the scene. Since that time, using credit to make purchases has become a way of life for Americans. According to the Federal Reserve Board, consumer debt has grown 30 percent in recent years, totaling \$995.1 billion, with credit cards accounting for a substantial portion of the debt.

If a consumer has financed an automobile or applied for a major credit card, chances are that a credit record or history exists with a local credit bureau. Once credit activity has been started, creditors may check a credit report to determine whether to grant credit, how much credit to grant, and at what interest rate.

CREDIT BUREAUS

Today there are three major nationwide credit bureaus plus several smaller, independently owned credit bureaus that service local markets. The three major credit bureaus are Experian, Trans Union, and Equifax. Most of the smaller bureaus have contractual agreements with the three major bureaus, but they retain control of their local operations.

Credit bureaus keep records of consumers' debts and how regularly those debts are repaid. They do not rate accounts. Creditors determine who will be granted credit and how much they will grant.

The credit record is compiled when creditors and merchants send computer tapes or other payment data to credit bureaus, usually on a monthly basis. The data show if payments are up-to-date or overdue, and if any action has been taken to collect overdue bills. This is added to information the credit bureau already has on file.

The contents of a consumer's credit record will vary by credit bureau, depending upon what information was supplied by creditors and merchants; not all credit account information is reported to

credit bureaus. Other information, such as name, address and social security number, is supplied to the credit bureau by the consumer at the time a completed credit application form is filed.

Credit bureau employees also gather information from public records, such as divorce notices, deaths, marriages, bankruptcies, court judgments, and dispositions of lawsuits. The Fair Credit Reporting Act was amended in 1992 to require credit bureaus to include overdue child support in a credit record, if this information was provided to the credit bureau by the party charged with collecting the child support.

A credit record contains *personal identification* (e.g., name, birth date, social security number, current and previous addresses, employment history, date file was started); *public record information* (e.g., court judgments; overdue child support; lawsuits and tax liens; bankruptcies, within certain limits); *credit accounts* (e.g., number of credit accounts, whether joint or individual accounts, longevity of accounts, credit limits, balance due, payment record/timeliness); *inquiries* (e.g., record of any inquiries received, usually within the past year).

Race, religion, medical history, personal lifestyle or background, previous purchases, or political preference are not included in a credit record. Checking or savings account balances are not commonly included in a credit record.

In general, any lender as well as insurance companies, landlords, and employers have access to a credit record.

ESTABLISHING A CREDIT RECORD

It may be difficult to get credit until a credit record has been established. This is built over time. Suggestions for establishing a credit record include opening a checking or savings account with a local bank or credit union to create a sound financial management picture.

Anyone who has a regular income, and has lived in an area for a period of time, may apply for credit

with a local business such as a department store. "Secured credit" cards are offered by some financial institutions. This type of card is issued by a financial institution and requires a savings account deposit. Making payments on a secured card in a timely manner demonstrates creditworthiness. Should a payment be missed, the bank has the right to use the savings account to cover the payment.

Once a consumer has obtained a credit card and established a good payment record, often other credit cards will be offered. It's best to add new credit accounts slowly because applying for several cards in a short time period can be a "red flag" for potential creditors.

To avoid confusion, credit applicants should use their legal name when applying for credit. Anyone who uses a middle initial should always use that initial when giving the full name. Be consistent. Always provide the correct social security number. Be sure to list the correct address and previous addresses for the past five years. Double-check the accuracy of the credit application information.

CREDIT RATING SYSTEMS

Generally, creditors grant credit to consumers they believe will be willing and able to repay. Each creditor develops his own rating system to determine who gets credit.

There are two broad categories of credit rating systems creditors use to make decisions: credit scoring and judgmental. When creditors use credit scoring they develop a statistical profile of potential customers related to the applicant's stability (e.g., employment record, home ownership), age, income, occupation, and credit record. When using the judgmental system, the creditor's subjective judgments are based on the same factors, but scores are not assigned.

OBTAINING A CREDIT REPORT

Under the Fair Credit Reporting Act of 1970, consumers may obtain a free copy of their credit report if they have been refused credit within the past 60 days. Otherwise, there is usually a small charge of \$5 to \$10 to obtain a copy of the credit report with one exception: Experian (formerly TRW) will issue a free credit report once a year. Be aware that the price of credit reports may vary by state; for example, Maryland and Vermont residents may obtain one free credit report annually.

To request a copy of your credit report, contact local credit bureaus by telephone or in writing. They are listed under "Credit Reporting Agencies" in the telephone Yellow Pages, or contact one or

more of the three major credit bureaus for instructions (telephone numbers are subject to change):

Experian—1-888-397-3742

Trans Union—1-800-888-4213

Equifax—1-800-685-1111

When requesting the credit report, be prepared to provide your full name, including middle initial and any designation, such as Jr. or III, current address with zip code, former addresses with zip codes used in the past five years, social security number, year of birth, and, if married, spouse's first name. A photocopy of your driver's license, a utility bill, or a credit account billing statement may also be required. The credit report should arrive within 30 days.

The credit report should include a guide to explain the numerous abbreviations or codes used in the report. Carefully read the credit report and, if there are questions, contact the credit bureau(s) for further assistance.

CORRECTING CREDIT RECORD ERRORS

The Fair Credit Reporting Act requires creditors to notify consumers of the name and address of credit bureaus whose reports were used as a basis for adverse credit decisions. Credit bureaus must also, upon request, disclose the nature and substance of information in the consumer's credit record. Other provisions of the Act require the following:

- To correct an error in a credit record, a request for a reinvestigation must be filed. When corresponding with a credit bureau, send your information by certified mail, return receipt requested, and be sure to keep file copies. A response to the request must be sent to the consumer within 30 days from receipt of the letter.
- If an item is found to be inaccurate or cannot be verified, it should be deleted from the record. If a reinvestigation doesn't resolve the problem, the consumer may file a brief statement of 100 words or less explaining the nature of the dispute; that statement must be included in any future credit reports.
- If an item is deleted or a statement is added to a record at the consumer's request, the credit bureau must inform those who have received employment reports within the past 2 years and others who have received credit reports within the past 6 months.
- If a credit report dispute has resulted in a change to a credit record, the consumer may ask the credit bureau involved to report the correction to the other major credit bureaus.

However, credit bureaus typically do not exchange credit record information, so the consumer is responsible for requesting credit reports from each major credit bureau and correcting any misinformation contained therein. It may be possible to contact the creditor who originally reported the erroneous information, asking that corrections be forwarded to the major credit bureaus. If successful, the consumer should still follow up to see that these changes were made.

ADVERSE INFORMATION TIME LIMITS

There are time limits on how long adverse information can remain in a credit record. Straight bankruptcies (Chapter 7) will remain for 10 years; other information will remain for 7 years. Suits and judgments can be reported for 7 years or until the statute of limitations expires, whichever is longer. Chapter 13 (also known as the wage-earners plan), paid tax liens, collection accounts, and accounts charged to bad debts may all be reported for 7 years. However, none of these limitations apply if the credit report is used to apply for a loan of \$50,000 or more, life insurance coverage of \$50,000 or more, or employment involving an annual salary of \$20,000 or more.

DIVORCE'S EFFECT ON A CREDIT RECORD

When a married couple obtains credit, both spouses generally sign the contracts agreeing to pay the bills. A divorce decree does not change those contracts. When a divorce occurs, each spouse remains fully liable for the debts.

There are several ways to prevent credit obligations from making divorce more difficult than it is—and to reestablish a distinct credit record after divorce occurs. Experian suggests the following:

- Communicate with your soon-to-be ex-spouse. Make as clean a financial cut as possible.
- Communicate with your creditors. Decide which debt belongs to whom, then ask each company and bank that extended the credit to transfer the debt to the name of the person who will be responsible.
- During divorce negotiations, keep joint bills current, even if it means paying for your spouse. If you don't, your creditors could become more reluctant to release one party from joint liability.

- Ask the credit granter to remove your spouse's name as an authorized user or close the joint account to additional charges.
- If your spouse runs up large amounts of debt, you should cancel as many of the accounts as possible. Inform all creditors, in writing, that you are not responsible for these debts. This may not prevent them from trying to collect, but it does show that you attempted to act responsibly.
- Any agreement to assume responsibility for joint debts should be recognized as part of the divorce settlement.
- Upon your divorce settlement, you and your ex-spouse might consider obtaining individual consolidation loans or bank cards to cover your share of the joint bills. Pay off the joint bills with your individual loans or bank cards and close all joint accounts. This helps ensure you'll be responsible only for those bills you agree to pay. It also will help you establish or reestablish credit in your own name.

CREDIT REPAIR CLINICS

Some companies offer to help improve or fix a consumer's credit record for a fee. Consumers, beware! Before contracting these services, consider the following points:

- Under the Fair Credit Reporting Act, consumers have the right to handle their own credit problems, such as checking a credit report or correcting inaccurate information, at little or no cost.
- If the information in the credit report is accurate, *no one* can force the credit bureau to remove the information until the reporting period is completed.
- Some credit repair companies refuse to honor their guarantees or they go out of business when consumer complaints increase.

Investigate the credit repair clinic with the Better Business Bureau and/or the state or county consumer affairs office before finalizing the contract. In some states, credit repair clinics are prohibited.

CLEANING UP A BAD CREDIT RECORD

It is possible to restore a credit standing, even with negative information, such as bankruptcy and late payments, in the credit record. Here are some suggestions:

- Develop a personal spending plan and stick to it. If assistance is needed, contact the local

Maryland Cooperative Extension office or Consumer Credit Counseling Service.

- Request a copy of the credit report from one or more of the three major credit bureaus and review it for accuracy. Although it is time-consuming, you need to correct inaccurate information. If necessary, add a 100-word statement explaining your response to any dispute.
- Negotiate payment terms with creditors before negative information has been reported to credit bureaus. If it's too late, negotiate full or partial payments in exchange for removal of the negative information from your credit record.
- Know the Federal laws protecting consumers. Creditors may not refuse credit on the grounds of race, color, religion, national origin, sex, marital status, age, or because you receive public assistance. If you think you've been the victim of credit discrimination, contact the Federal Trade Commission (FTC), Correspondence Branch, Washington, DC 20580. For more information about credit reports, order these free FTC brochures: "Building a Better Credit Record," "Credit Repair Scams," "Fair Credit Reporting," "Fix Your Own Credit Problems," and "Women and Credit Histories." Write: Public Reference, Room 130, Federal Trade Commission, Washington, DC 20580.
- Get credit in your own name. Under the Equal Credit Opportunity Act, everyone has the right to apply for credit without fear of discrimination on the basis of sex or marital

status. Historically, credit records for both a husband and wife were found under the husband's name in a "joint" or combined file at the local credit bureau. Now credit granters must report the payment history of the account in both names, not just the one appearing on the credit card or billing statement. Though this is generally an advantage, a poor credit record on jointly held accounts will also be included in the credit record. If credit was reported in your name, your credit record cannot be taken away from you as the result of death or divorce. You may have to prove you are creditworthy (i.e., good credit record and necessary income) in your own right.

- Work with local financial institutions or merchants to establish credit or take out a small loan. Make small purchases on a department store or gasoline credit card and pay off the balance on time. Request that positive credit account information be reported to a credit bureau(s).
- Limit the number of credit accounts to one or two. Creditors often become leery when a person's credit report shows too many accounts.

A credit record is one of the most important parts of a consumer's financial picture, yet less than 20 percent of all Americans have ever seen their credit reports. Consumers have the right and responsibility to check the accuracy of their credit records and, if necessary, correct any misinformation. Invest the time—it's worth it!

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