

Consumer Guides to Credit Reporting and Credit Scores (Appropriate for General Distribution)

This appendix contains two consumer guides on credit reports and credit scores. The first guide summarizes for consumers their basic rights under the Fair Credit Reporting Act. The second guide provides information to consumer regarding credit scores.

There are many self-help steps that a consumer may take to assure that his or her credit reports and credit scores are accurate, and to protect against identity theft. The guides in this appendix are intended to inform consumers about what they may do on their own to protect their credit histories and credit scores. Permission is hereby granted to duplicate these guides for the purpose of making them available to consumers who may be concerned about their credit reports.

Consumers will also find helpful the FCRA's *General Summary of Consumer Rights* and *Summary of Consumer Identity Theft Rights*, which are reprinted at Appendix C.2 and C.3, *supra*.

What You Should Know About Your Credit Report

If you have ever applied for a credit card, a personal loan, insurance, or a job, there is probably a company keeping a credit file or credit report about you. This file contains information about where you live and work, how you pay your bills, or whether you have been sued, arrested, or have filed for bankruptcy.

Companies that gather and sell this information are called “Consumer Reporting Agencies” or “Credit Bureaus.” The information sold by Consumer Reporting Agencies to creditors, employers, insurers, and other businesses is called a “credit report.”

Here are answers to some common questions about credit reports, consumer reporting agencies, and credit scores.

Can I obtain free copies of my credit reports?

Yes. Due to a recent change in the law, you can get a free copy of your credit report once every 12 months from each of the three big nationwide Consumer Reporting Agencies. By September 1, 2005, everyone in the country will have this right.

How do I order my free annual report?

The three nationwide Consumer Reporting Agencies have set up one central website, toll-free telephone number, and mailing address through which you can order your free annual report. To order:

- Log on www.annualcreditreport.com;
- Call 877-322-8228; or
- Complete the Annual Credit Report Request Form and mail it to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281.

You can print the form at www.ftc.gov/credit.

Do not contact the three nationwide Consumer Reporting Agencies individually for your free annual report. They are only providing free annual credit reports through the three centralized sources listed above.

You may order your free annual reports from each of the three nationwide Consumer Reporting Agencies at the same time, or you can order from only one or two.

The three major national credit bureaus are:

Equifax
800-685-1111
www.equifax.com

Experian
888-EXPERIAN
(888-397-3742)
www.experian.com

Trans Union
800-916-8800
www.transunion.com

What information do I have to provide to get my free report?

You need to provide your name, address, Social Security number, and date of birth. If you have moved in the last two years, you may have to provide your previous address. To maintain the security of your file, each nationwide Consumer Reporting Agency may ask you for some information that only you would know, like the amount of your monthly mortgage payment. Each agency may ask you for different information.

The website, www.annualcreditreport.com, is the only authorized source for your free annual credit report from the three nationwide Consumer Reporting Agencies. The website, www.annualcreditreport.com, and the nationwide Consumer Reporting Agencies will not call you or send you an e-mail asking for your personal information. If you get a telephone call or an e-mail or see a pop-up ad claiming it's from www.annualcreditreport.com or any of the three nationwide Consumer Reporting Agencies, do not reply or click on any link in the message—it's probably a scam. Forward any e-mail that claims to be from www.annualcreditreport.com or any of the three Consumer Reporting Agencies to the FTC's database of deceptive spam at spam@uce.gov.

Can I obtain other free credit reports?

Yes, in certain circumstances. If your application was denied because of information furnished by the Consumer Reporting Agency, and if you request a copy of your credit report within 60 days of receiving the denial notice, you are entitled to the information without charge. You are also entitled to one free report once in any 12 month period, if you certify in writing that you:

- Are unemployed and intend to apply for a job in the next 60 days;
- Are receiving public welfare assistance; or
- Believe that your report is wrong due to fraud.

If you don't meet one of these requirements, the Consumer Reporting Agency may charge a fee, currently up to \$9.50 for a copy of your report. In some states, Consumer Reporting Agencies are required to provide consumers a free report or a report at a reduced fee.

Why should I order my credit report?

It is a good idea to check your report regularly, even when you are not experiencing problems. The information in your report affects your credit score and whether you can get a loan—and how much you will have to pay to borrow money. It is also helpful to make sure the information is accurate, complete, and up-to-date before you apply for a loan for a major purchase like a house or car, buy insurance, or apply for a job. Ordering your report can also help you guard against identity theft. That's when someone uses your personal information—like your name, your Social Security number, or your credit card number—to commit fraud.

What do I do if the information is inaccurate or incomplete?

In 1970, Congress created the Fair Credit Reporting Act (FCRA) to protect consumers when dealing with Consumer Reporting Agencies. Under the FCRA, both the Consumer Reporting Agency and the information provider have responsibilities for correcting inaccurate or incomplete information in your report. To protect your rights, contact both the Consumer Reporting Agency and the provider of information, including lenders, collection agencies or other businesses.

First, tell the Consumer Reporting Agency *in writing* what information you believe is inaccurate. Be as specific as possible. The Consumer Reporting Agency must investigate the items in question—usually within 30 days—unless they consider your dispute frivolous. They must also forward all relevant data you provide about the dispute to the information provider. After the information provider receives notice of a dispute from the Consumer Reporting Agency, it must investigate, review all relevant information provided by the Consumer Reporting Agency, and report the results to the Consumer Reporting Agency. If the information provider finds the disputed information to be inaccurate, it must notify all nationwide Consumer Reporting Agencies so that they can correct this information in your file. (Job applicants can have corrected reports sent to anyone who received a copy during the past two years.)

When the investigation is complete, the Consumer Reporting Agency must give you the written results and a free copy of your report if the dispute results in a change. (This free report does not count as your annual free report.) If an item is changed or deleted, the Consumer Reporting Agency cannot put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The Consumer Reporting Agency also must send you written notice that includes the name, address, and phone number of the information provider.

What can I do if the Consumer Reporting Agency or information provider refuses to correct the information I dispute?

If an investigation doesn't resolve your dispute with the Consumer Reporting Agency, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the Consumer Reporting Agency to provide your statement to anyone who received a copy of your report in the recent past. You will probably have to pay a fee for this service.

If you tell the information provider that you dispute an item, a notice of your dispute must be included any time the information provider reports the item to a Consumer Reporting Agency.

How long can a Consumer Reporting Agency report bad information?

A Consumer Reporting Agency can report most accurate negative information for seven (7) years and bankruptcy information for ten (10) years. However, there is no time limit on reporting information about criminal convictions.

Who else can get a copy of my credit report?

Only people with a legitimate business need, as recognized by the Fair Credit Reporting Act, can look at your report without your permission. For example, a company is allowed to get your report if you apply for credit, insurance, employment, or to rent an apartment.

A Consumer Reporting Agency may not give information about you to your employer, or to a prospective employer, without your consent, unless you are being investigated for suspected misconduct, compliance with federal, state or local laws, or preexisting written policies of your employer.

What if I think a Consumer Reporting Agency has violated my rights under the law?

You may wish to seek the advice of an attorney about bringing a private lawsuit. You should also consider contacting the Federal Trade Commission (FTC). Although the FTC cannot act as your lawyer in private disputes, information about your experiences and concerns is important to the enforcement of the Fair Credit Reporting Act. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, on-line database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

States may also enforce the FCRA, and many states have their own consumer reporting laws. In some cases, you may have more rights under state law. For more information, contact your state or local consumer protection agency or your state Attorney General.

Publications and Websites**Publications:**

- National Consumer Law Center, Fair Credit Reporting (6th ed. 2006).
- National Consumer Law Center Guide to Surviving Debt (2005 ed.).
- Call 617-542-9595 or visit www.consumerlaw.org for more information about NCLC publications.

Websites:**Consumer Federation of America**

202-387-6121

www.consumerfed.org**Consumers Union**www.consumersunion.org**U.S. PIRG**

(202) 546-9707

www.uspirg.org

Understanding Credit Scores

For years, creditors have been using credit scoring systems to determine whether a consumer is a good risk for credit cards and auto loans. More recently, credit scoring has been used to help creditors evaluate a consumer's ability to repay home mortgage loans and whether to charge deposits for utility services. Many auto and home insurance companies use special credit scores to decide whether to issue a policy and for how much.

Here's how credit scoring works in helping decide who gets credit—and why.

What is credit scoring?

Information about consumers and their credit experiences, such as bill-paying histories, numbers and types of accounts, collection actions, outstanding debt, and the age of accounts, is collected from a consumer's credit application and credit report. Using a statistical program, creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points—a credit score—helps predict how creditworthy a consumer is, that is, how likely it is that a consumer will repay a loan and make the payments when due. The most popular type of credit score is usually between 300 and 850. A higher number is considered a better score.

How is a credit scoring model developed?

A creditor selects a random sample of its customers, or a sample of similar customers if their sample is not large enough, and analyzes it statistically to identify characteristics that relate to creditworthiness. Each of these factors is assigned a weight based on how strong a predictor it is of credit risk. Each creditor may use its own credit scoring model, different scoring models for different types of credit, or a generic model developed by a credit scoring company.

Under the Equal Credit Opportunity Act, a credit scoring system may not use certain characteristics like—race, sex, marital status, national origin, or religion—as factors. However, creditors are allowed to use age in properly designed scoring systems. Any scoring system that includes age must give equal or better treatment to elderly applicants.

What can consumers do to improve credit scores?

Credit scoring models are complex and often vary among creditors and for different types of credit. Only the creditor can explain what might improve a score under the particular model used to evaluate a credit application.

Scoring models generally evaluate the following types of information:

- *Payment history.* It is likely that a score will be affected negatively for late payments, accounts referred to collections, or bankruptcies.
- *Amount of outstanding debt.* Many scoring models evaluate the amount of debt compared to credit limits. Debt amounts that are close to the credit limit will likely have a negative effect on a score.
- *Length of credit history.* Generally, scoring models give more points the longer a consumer's credit track record is. An insufficient credit history may have an effect on a score, but that can be offset by other factors, such as timely payments and low balances.

- *Recent applications for credit.* Many scoring models consider whether a consumer has applied for credit recently by looking at “inquiries” on the credit report. A lot of inquiries can negatively affect a score. However, not all inquiries are counted. Inquiries by creditors who are monitoring an account or looking at credit reports to make “prescreened” credit offers are not counted. Credit inquiries made by consumers of their own credit records aren't included either. Some creditors and credit bureaus claim that they do not even consider inquiries. Others claim that a lot of inquiries will have only a small impact on a credit score.
- *Number and types of credit accounts.* Although it is generally good to have established credit accounts, too many credit card accounts may have a negative effect on a score. In addition, many models consider the type of credit accounts and give more points to what they consider a healthy “mix.” Under some scoring models, loans from finance companies may negatively affect a credit score.

Scoring models may be based on more than just information in a credit report. For example, the model may consider information from a credit application as well as information about jobs or occupations, length of employment, and homeownership.

To improve a credit score under most models, it is best to concentrate on paying bills on time, paying down outstanding balances, and not taking on new debt. It's likely to take some time to improve a score significantly. Errors involving negative information should be disputed. (See NCLC Consumer Guide, “What You Should Know About Your Credit Report.”¹)

How reliable is the credit scoring system?

Although a credit scoring system may seem arbitrary or impersonal, it can help make decisions faster, more accurately, and more impartially than individual judgment when it is properly designed. And many creditors design their systems so that in marginal cases, applicants whose scores are not high enough to pass easily or are low enough to fail absolutely are referred to a credit manager who decides whether the company or lender will extend credit. This may allow for discussion and negotiation between the credit manager and the consumer.

On the other hand, credit scoring does have some flaws. Credit scoring is only as good as the information in the credit report—garbage in, garbage out—and credit reports are notorious for containing errors. Credit scoring programs often cannot generate a score if the consumer has no recent activity on an account, usually within the last six months. This can be a problem for seniors who have paid off all their loans and do not use credit cards. Lack of a score can mean denial of credit or auto or homeowner's insurance. Finally, there are serious concerns that credit scoring disproportionately hurts certain minority groups.

What happens if a consumer is denied credit or does not get the terms she wants?

If a consumer is denied credit, the Equal Credit Opportunity Act² requires that the creditor give a notice that tells the consumer

¹ Available at www.consumerlaw.org/action_agenda/seniors_initiative/information.shtml. See generally National Consumer Law Center, *Fair Credit Reporting* (6th ed. 2006); National Consumer Law Center, *Guide to Surviving Debt* (2005 ed).

² 15 U.S.C. §§ 1691–1691f.

the specific reasons that the application was rejected or the fact that the consumer has the right to learn these reasons. Indefinite and vague reasons for denial are illegal. Acceptable reasons include: “Your income was low” or “You haven’t been employed long enough.” Unacceptable reasons include: “You didn’t meet our minimum standards” or “You didn’t receive enough points on our credit scoring system.”

Sometimes consumers are denied credit because of information from a credit report. If so, the Fair Credit Reporting Act requires the creditor to give out the name, address and phone number of the credit reporting agency that supplied the information. Consumers should contact that agency to find out what the report said. This information is free if requested within 60 days of the credit denial. (See NCLC Consumer Guide, “What You Should Know About Your Credit Report” and NCLC Consumer Guide, “The Truth About Credit Reports.”³) The credit reporting agency can tell consumers what is in their reports, but only the creditor can tell them why applications were denied.

If a consumer has been denied credit, or did not get the rate or credit terms he wanted, he should ask the creditor if a credit scoring system was used. If so, a consumer should ask what characteristics or factors were used in that system, and the best ways to improve the application. If the consumer is offered credit, she should ask whether she got the best rate and terms available and, if not, why. Asking about the best rate is very important. If the consumer is not offered the best rate available because of inaccuracies in the credit report, it is important to dispute the inaccurate information.

How to Obtain Credit Scores?

Until 2004, federal law did not require the disclosure of credit scores to consumers. This was changed by the Fair and Accurate Credit Transactions Act (FACTA) of 2003,⁴ which amended the Fair Credit Reporting Act (FCRA)⁵ to require disclosures of credit scores. This became effective on December 1, 2004. Now, upon request, and for a fee that is to be determined by the FTC, credit reporting agencies must disclose the following:

- A consumer’s current credit score or most recent score that was calculated by the credit reporting agency relating to the extension of credit.
- A statement indicating that the information and credit scoring model may be different than the credit score used by the lender.
- The range of credit scores of the model used to generate the credit score.
- The key factors that adversely affected the consumer’s credit

³ Available at www.consumerlaw.org/action_agenda/seniors_initiative/information.shtml.

⁴ Pub. L. No. 108-159 (2003).

⁵ 15 U.S.C. §§ 1681–1681x.

score, listed in order of impact. The agency cannot list more than four (4) key factors, unless one of the factors is the number of inquiries, in which case that factor must be included.

- The date on which the credit score was created.
- The name of the provider of the credit score or the credit file used to generate the credit score.⁶

The new law also requires mortgage lenders who use credit scores in connection with an application for residential real estate secured credit to provide, free of charge, the consumer’s credit score and associated key factors.⁷

More Information from the Federal Trade Commission (FTC)

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints into Consumer Sentinel, a secure, on-line database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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U.S. PIRG

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⁶ 15 U.S.C. § 1681g(f).

⁷ 15 U.S.C. § 1681g(g)(1).