



How to impress lenders

Make the most of your credit reports, what hurts your credit score -- and how to improve it.

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By Jonah Freedman, *MONEY Magazine*

NEW YORK (MONEY Magazine) - Evan Hendricks wants to arm you with knowledge. His exhaustive Credit Scores and Credit Reports is a new, plain-English guide to what consumers need to know about this arcane topic, a strange universe filled with pitfalls and fine print that makes the tax code read like Dr. Seuss.

As the book makes clear, it's a subject we ignore at our peril: Credit scoring is more than ever having a serious effect on all our lives.

So we asked Hendricks for tips on improving and protecting our credit status, plus how best to take advantage of the new Fair and Accurate Credit Transactions Act (FACTA), which is being touted as the best tool in a long time for those who are using credit but are anxious about identity theft.

Q. Is FACTA all that important? Will it make a big difference to most people?

A. It's a big deal. The first thing this law does is give everyone the right to free credit reports. There's also a requirement that when you apply for a mortgage, the lender must give you your credit score and show you the report it's based on. And it beefs up the system of fraud alerts to help protect against identity theft.

Q. What should you do with your free credit reports?

A. Checking that your credit report doesn't include any credit cards or loans that you didn't apply for is the best tool you've got against ID theft. Also, checking your report helps to make sure that your credit score is being calculated on the basis of accurate information.

And that matters: The lower your score, the more you pay for a loan.

Q. Can you clarify those terms? What's the difference between a credit report and a credit score?

A. Your credit report is a detailed dossier of your whole financial life. It lists all your open credit lines and shows who has looked at your credit report and for what reasons.

The credit score is an assessment of your creditworthiness boiled down to a single number that lets potential creditors make a quick judgment on you.

Q. Do you have to check both?

A. Focus on your credit report, which you should check three or four times a year because the information can change constantly. Once a year isn't enough anymore -- but doing it once a year is better than doing it only every two years.

FACTA created a centralized source (annualcreditreport.com) to get one free report per year from each of the major credit bureaus. So far, only residents of the western states are eligible.

Midwestern states will be eligible on March 1, southern states on June 1, and eastern states on Sept. 1. You can elect to get one, two or all three reports at once. The best way to monitor your credit is to stagger your requests and get one report every four months.

The site started operating in December, so there are still a few glitches. It's going to take some patience. But with these free reports, there's no excuse not to become more involved with your credit reports.

Q. What do you do if you see a mistake?

A. Dispute it. There's a form attached to your report -- use that, and then you can also attach a very concise letter to explain your case, plus any supporting documentation. Send it to the credit bureau by registered mail and request proof of receipt.

Once they receive it, they have 30 days either to verify that what's on there belongs there or to remove the item from your report. If you don't hear from them in about 40 days, you win by default.

Write another letter saying, "Thank you for agreeing to delete that item, pursuant to the law."

One shortcut is to get the creditor to provide a letter saying you're right and this no longer belongs on your credit report. The bureaus will believe the creditor before they believe the consumer.

Sometimes it works the way it's supposed to. But I've seen cases where the only way people could get mistakes off their credit report was by filing a federal lawsuit.

Know the score

Q. And what about checking your credit score?

A. It's good to know where you stand, but you really only need to check it if you're planning on making a major financial transaction in the next 60 days: a home loan, a refi or an auto loan.

Make sure it's a so-called FICO score -- that's the one used by 75 percent of lenders. [It's a creation of the Fair Isaac Corp., and it's available at annualcreditreport.com for \$7.]

Two of the major credit bureaus sell their own versions, but those are knockoffs. They're fine if you want a general idea of where you stand. But if you're getting ready to make that transaction, get your FICO score.

Q. What are some common missteps that bring down your score?

A. Balance transfers on your credit cards, for one thing. It may seem smart to load all your debt onto one low-rate card. But if you max out on a high-limit card, your credit score takes a big hit. Even if you aren't applying for more credit, your current credit-card companies may raise your interest rates because your credit score dropped.

The whole instant-credit thing also hurts your credit, like when you're at the Gap and they say you get 10 percent off if you apply for a credit card and buy this thing using your new credit card.

You have the combined effect of an "inquiry for new credit" and a small credit limit on the store card, which you already filled up. Both are bad.

The other thing you have to watch out for are collections, the leading type of which is medical collection. Many of those are mistakes -- often an insurance company is responsible for a co-payment, but the doctor bills it to the patient and it ends up becoming a collection.

It's not your fault, but it will show up on your report and become bad news. Then you have to dispute it with the bureau, preferably with documentation from the doctor.

Q. Can you really improve your score?

A. Absolutely. But you can't do it instantly. It's like dieting: It takes patience and discipline. The first thing you can do is look at your balance/credit-limit ratio. The more you can do to get your balances down to less than 50 percent of your credit limit, the higher your score.

Then make sure the information on your report is accurate. Let's say you missed a 30-day payment deadline but your report has it down as 60 days late. Fix it.

Q. I hear everyone looks at credit scores these days.

A. Yeah, anybody with a so-called permissible purpose, which has historically meant primarily creditors, insurers and employers. But we're seeing credit scores used for more and more purchases.

Utilities and wireless-phone providers, for instance, are starting to get into it. Half the time, they don't even tell you they're running a check. And credit-card companies are getting prescreened lists from the bureaus.

Q. Is there any way to keep your name off some of these lists?

A. Yes. You can call 888-5-OPT-OUT. It's a joint entity operated by the three major credit bureaus.

Q. So given what you do for a living, you must have a perfect credit score, right?

A. It looks pretty good, but I have one 30-day and one 60-day late payment from 1999, both on a Sears account. I tried disputing them, but I didn't get anywhere, so I gave up -- it's old enough that it's not seriously impacting my credit.

http://money.cnn.com/2005/01/13/pf/debt/debt_creditscore_0502/index.htm