

UNDERSTANDING YOUR CREDIT

Credit plays a critical part in nearly everyone's life. By understanding what credit is and how it works, families are empowered as consumers. A great way to understand how credit plays a role in your life is through two basic credit fundamentals: **Credit Scores** and **Credit Reports**.

Credit Scores

Your credit score is a number based on the information in your credit file that shows how likely you are to pay a loan back on time – the higher your score, the less risk you represent. The credit score that lenders use is called a FICO® score. Your FICO score helps a lender determine whether you qualify for a loan and what interest rates you'll pay.

What is a credit score?

A credit score is a number lenders use to help them decide: "If I give this person a loan or credit card, how likely is it I will get paid back on time?" Credit scores are also called risk scores because they help lenders predict the risk that you will not be able to repay the debt as agreed. Scores are generated by statistical models using elements from your credit report, and sometimes from other sources, such as your credit application. However, scores are not stored as part of your credit history. Rather, scores are generated at the time a lender requests your credit report and then included with the report.

How scores are calculated

Designers of credit scoring models review a set of consumers – often over a million. The credit profiles of the consumers are examined to identify common variables they exhibited. The designers then build statistical models that assign weights to each variable, and these variables are combined to create a credit score.

What's in a credit score?

The information that impacts a credit score varies depending on the score being used. Credit scores are only affected by elements in your credit report, such as:

- Number and severity of late payments
- Type, number and age of accounts
- Total debt
- Recent inquiries

Credit scores do not consider:

- Your race, color, religion, national origin, sex or marital status. U.S. law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.

Credit Reports

Your credit report shows the information you have on file at one or all of the three major credit-reporting agencies - Equifax, Experian and TransUnion. Each of these reporting agencies (also known as credit bureaus) maintain their information separately, so the data you have on file may differ between them.

Credit report information

Details about your financial behavior and identification information are contained in your personal credit report. This consumer-friendly report is sometimes called a credit file or a credit history. A copy of your credit report makes it easy for you to understand the information a lender would be seeing if they review your credit history. The typical consumer credit report includes four types of information.

Public record information in some states may also include overdue child support. Bankruptcy information can remain on your credit report up to 10 years; unpaid tax liens can remain for up to 15 years; other public record information can remain up to seven years.

Credit information includes specific account information, such as the date opened, credit limit or loan amount, balance and monthly payment and payment pattern. The report also states whether anyone besides you (a joint account holder or cosigner, for example) is responsible for paying the account. Active positive credit information may remain on your report indefinitely, while most negative information remains up to seven years

Requests by others to view your credit history will show you who have received information from your credit report and who was given your name during the recent past, as allowed by law. According to the Fair Credit Reporting Act, credit grantors with a permissible purpose may inquire about your credit information without your prior consent. This section includes the date of the inquiry and how long the inquiry will remain on your report.

Personal information can include your name, current and previous addresses, telephone number, reported variations of your Social Security number, date of birth and current and previous employers.

You or your creditors also may add “Statements of dispute”. Creditors report temporary dispute statements when you challenge an account's status with them. The statement is no longer reported when the dispute is resolved, usually within 30 days.