

How Credit Affects You

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Introduction

You may not realize this but your credit can have an affect on you for good or for bad. If you have a good credit score you can get credit cards and loans at low interest rates. But if you have bad credit, you can get credit cards, but the interest rates will kill you.

Face it, when it comes to credit and the financial industry, you will get penalized if you have bad credit. They don't do this on purpose. This is just the way the world works.

It is unfortunate that people who work hard for a living, had one bad thing happen to them and because of one bad thing, be it divorce, or financial distress, they are now considered the scourge of the world. It shouldn't be this way. After all unforeseen occurrences do befall us all on

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occasion. But world doesn't want to look at us if we have even one bad mark. They look to us as an eye sore. All we need is one derogatory remark on our credit report and we are automatically blacklisted as having bad credit.

Despite the way the credit industry works, and the negatives to it, there are some positive that we can glean from it.

The first thing we need to do is learn about credit, what it is, how it can work for us, and how it can work against us.

We also need to know our legal rights when dealing with credit reports. We have the legal right to make sure our reports are accurate. If there is one wrong statement on your report, we can have it removed.

This book will go into detail about credit and how we can use it to our advantage instead of letting the system use credit against us.

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It doesn't take much to ruin our credit, but it doesn't take much to get our credit back either. Hopefully by reading this book, you will understand credit and let it work for you not against you.

1. What is Credit

When we think of credit, we think of when we borrow money from someone with the expectation of paying them back at a later time. This is correct but is also one part of the picture. For credit entails a lot more than just borrowing money from someone and paying it back. It involves other areas as well.

People use credit not just to borrow money from certain people. They may borrow money from financial institutions or businesses. These are known as loans. Often times these loans are used to pay for goods and services.

So credit is referred to as money that is borrowed with the intent on paying it back. It doesn't matter what we borrow, as long as we have to pay it back, it is known as credit. When we have credit card, we are borrowing money from the bank that issued those credit cards. Therefore, we have credit.

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The amount of credit that a person borrows is determined by the confidence lenders have in what the borrower can obtain. This is also known as the borrower's credit worthiness.

What factors determine how much a borrower can obtain on credit and for what terms? There are many factors. Such factors can include the borrower's income, how many expenses they have and their income to debt ratio.

Generally, people use credit to buy cars, homes, education, home improvements, and many other major and minor purchases.

Credit itself is not bad, it is just living above your means and trying to use your credit cards to purchase everything can cause problems. If you live within your means, you will only borrow the amount you need, and not go above that. Because the more you borrow, the more you have to pay back. When this happens, you will have more money to pay out

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and this could lead you into serious financial trouble, perhaps even bankruptcy. So it is important to know what credit is but to watch and be careful what you do with it that counts.

2. How Credit Scoring Works

Any time you borrow money from anyone, you must pay it back. If you do use someone's goods or services, and request they bill you, you are obligated to pay that bill. If you don't it could have a negative impact on your credit and future interest rates.

All credit reporting agencies have a scoring system they use to keep a credit score based on your credit history. Based on your past, a scoring system can determine if you will make late payments again, stop paying their bills completely, or even declare bankruptcy.

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After all accounts are validated, a score is provided. This is a numerical credit score and could signal whether you are a credit risk or have good credit.

If you have good credit, lenders will see that and provide with a low interest loan when you apply. Or, if you wish to obtain a credit card, you can get one easily at a low APR.

If you think about it, your credit score basically gives you a snapshot of your credit risk and how you are perceived by lending institutions, and other lenders.

Just what is involved in calculating a credit score? Well there are several things that credit bureaus look at to determine your credit score. These are payment history, amounts owed, length of credit history, new credit, and types of credit in use.

Payment history represents 35% of your score and keeps track as to how you paid your bills. Were

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you on time or late? The next part they look at is the amounts you owe. Are you doing well with your payments or are you paying them late all the time. This section accounts for 30% of your score. The next section is your credit history. How long have you had a credit history? They take 15% for this. They look at your new credit compared to the credit you already have and determine if too much debt is being taken on. This represents about 10%. The last category they look at is the types of credit that you use. Are you using a healthy mixture of credit options? This represents at least 10%.

So if your score is in the low range and you need to lift it up so you can get credit, there are ways for you to improve it. You will need to pay your bills on time. This is first and foremost the most important one of all. The next one is to keep your balances on your credit cards low. High balances affect your credit score.

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You should also open new credit only when you need to. Too much credit can also affect your credit score. And concentrate on paying your credit cards off. Do not move money around just to pay of one card or to raise the available credit.

The last thing you can do is to make sure all credit report information is accurate. Any inaccuracies can lower your credit score. So make sure to take care of any inaccurate account information.

3. How to Read a Credit Report

If you've ever been turned down for credit you know it feels. You may want to bury your head in the sand. Not a good feeling. But suppose the reason you were denied credit was because of a mistake on your credit report. Not good. In order to fix the problem you need to look at it to determine

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what are your accounts are which ones are not. To do this you need to know how to read one. Because, credit reports have been known to be very confusing to the average reader.

In order to understand how to read your credit report, the report will be broken down into sections with an explanation as to how to read each section.

- **I.D. Section:** In this section you will find your name, current address, social security number, date of birth, and spouse's name (if you have one). You may think this is the easiest section and can skip over it. But don't. Even this section can have gross errors like an incorrect social security number or name.
- **Credit History Section:** Here is the most important part of the report. This is where all your open and paid accounts are listed.

This is also where any late payments or derogatory statements are listed. This section must be looked at carefully, because you may find accounts that don't even belong to you. So look very carefully at this section. The layout will be like this:

- Company Name – this identifies the company that the account belongs to.
- Account Number – This lists the account number the company assigned to you.
- Whose Account – This tells you who is responsible for the account. You will see such symbols as:
 - I – Individual
 - U – Undesignated
 - J – Joint
 - A – Authorized User
 - M – Maker

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- T – Terminated
- C – Co-maker/Co-signer
- S – Shared
- Date Opened – This is the date the account was first opened by you.
- Months Reviewed – This shows how many months the account has been reported so far.
- Last Activity – This tells you the last date the account was updated. This could be the last payment received or the last time you charged the account.
- High Credit – This indicates what the highest amount you have accumulated so far or the credit limit.
- Terms – If you have an installment loan, this will show the number of installments along with what the monthly payment will be. If this is a

revolving account this will be left blank.

- Balance – This indicates the amount you owe since last reported.
- Past Due – This shows how much you are past due on your accounts (if you are). If you are not, this will be blank.
- Status – This will have a combination of letters and numbers and is used to indicate the type of account you have. You may see such codes as:
 - O – Open
 - R – Revolving
 - I – Installment
- Date Reported – This is like the Last Activity section. It is the last time creditors updated your account.
- Collection Accounts Section: In this section you will find any accounts that may have

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been referred to collection agencies for further collection. Take a good look at this section because there may be accounts you don't recognize. What would happen if you were the victim of identity theft? You need to verify these accounts to make sure they are yours or not. If they are not yours, you will need to send a letter to dispute them. You also should contact the collector so they can verify the account as well.

- Courthouse Records Section: Sometimes this may be listed as Public Records. This is where you will see listed any bankruptcies you may have had within the last 10 years. You also may see any tax liens, judgments, collection accounts, or even overdue child support.

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- Additional Information – This section will list any prior addresses you had and past employers.
- Inquiry Section – This section will list all inquiries by potential creditors. Whoever requested your credit report will be shown here.

4. Example of a Credit Report

In order to take the information above and understand it, the best way is to see a sample credit report so you will have an idea what they look like.

SAMPLE REPORT
Consumer Credit Report
January 5, 2004

Consumer Information

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	Experian	TransUnion	Equifax
Name:	John Doe	John Doe	John Doe
Current Address	Main St, USA	Main St, USA	Main St, USA
Previous Address	Old Main, USA	Old Main, USA	Old Main, USA
Current Employer	Employer Name	Employer Name	Employer Name

Consumer Statement

I did not make the payment to ABC Electronics because the radio I bought was delivered in defective condition. ABC Electronics would not repair or replace the radio and they would not let me return or exchange the radio. Since the radio was defective and un-useable I refused to pay for it.

Summary Information

Type of account	Experian	TransUnion	Equifax
Count	1	1	1
Balance	10640	10640	10640
Payments	1200	1200	1200
Current	1	1	1
Delinquent	1	1	0

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Derogatory	0	0	0
Unknown	0	0	0
Revolving Accounts	Experian	TransUnion	Equifax
Count	3	2	2
Balance	1200	1354	1387

Account History Information
Creditor Name

	Experian	TransUnion	Equifax
Account Number:	2545	0-2456	12-544
Type:	Real Estate	Real Estate	Real Estate
Condition:	Open	Open	Open
Responsibility:	Individual	Individual	Individual
Pay Status:	60 days late	Charge off	30 days late
Date Opened	5/01/2000	5/1/2000	5/01/2000
Date Reported:	3/01/2002	3/1/2002	3/01/2002
Balance and Limit:	245,000	245,000	245,000
Payment and Terms:	\$1200 for 480 months	\$1200 for 480 months	\$1200

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High Balance:	250,000	250,000	250,000
Past Due:	\$0	\$0	\$0

Remark:

Two Year Payment History:

Experian	CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR 30 60 CUR CUR CUR CUR CUR
	Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul
TransUnion	CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR 30 60 90 120 150 CO CO CO
	Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul
Equifax	CUR CUR CUR CUR CUR CUR

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	CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR CUR 30 CUR CUR CUR CUR CUR CUR
	Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul

Seven Year Payment History:

	Experian	TransUnion	Equifax
30 Days Late:	1	1	1
60 Days Late:	1	1	0
90 Days Late:	0	1	0

**Public Record Information
BANKRUPTCY**

	Experian	TransUnion	Equifax
Type:	Chapter 7	Chapter 7	Chapter 7
Status:	Filed	Filed	Filed

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Date File/Reported:	08/1997	8/1997	08/1997
How Filed:	Individual	Individual	Individual
Reference #:	10-12-13	10-12-13	10-12-13
Closing Date:	12/18/1997	12/1997	12/18/1997
Court:	County Court	County Court	County Court
Liability:	\$60,000	\$60,000	\$60,000
Exempt Amount:	\$1500	\$2000	\$1500
Asset Amount:	\$20,000	\$20,000	\$20,000
Remarks:			

Inquiry Information

Creditor Name	Date of Inquiry	Credit Bureau
Bank	01/05/2003	TransUnion
Credit Card	1/15/2004	Equifax
Credit Card	2/16/2005	Experian
Mortgage Lender	12/14/2002	Experian

Creditor Information

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Creditor Name	Address	Phone Number
Bank Credit Card	Main St, USA	000-555-1212
Bank Credit Card	Main St, USA	000-555-1212
Auto Lender	Main St, USA	000-555-1111

5. How to Order Your Free Credit Report

If you have been turned down for credit, you are guaranteed a free credit report if you respond to the denial within 60 days. You just have to write to the credit reporting agency where the credit report was pulled from. This way you get the report for free. The exception to this is if you never got a credit report before, you are entitled to one free credit report per year.

You can get your credit report by contacting the agencies directly by the following:

Equifax Credit Information Service

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P.O. Box 105873
Atlanta, GA 30348
1-800-685-1111
www.equifax.com

Experian
ATTN: NCAC
P.O. Box 2104
Allen, TX 75013-2104
1-888-397-3742
www.experian.com

Trans Union
P.O. Box 390
Springfield, PA 19064-0390
1-800-916-8800
www.transunion.com

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Or, you can just go directly to the credit bureau's website and order your free credit report.

There are services online that will get you a free credit report. You may have to pay a membership fee to get one, but they do exist.

6. Credit Reporting Laws

All credit bureaus have to abide by certain laws established by the Federal Trade Commission. These laws are found under the Fair Credit Reporting Act. There are many sources you can go to in order to read the entire act, which amounts to about 83 pages.

But for now the majority of what you need to know in order to protect yourself can be found by understand your legal rights regarding credit. Here are the basic laws you need to know:

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Under the Fair Credit Reporting Act and the Fair and Accurate Credit Transactions (FACT) Act of 2003, you have the right to require a credit reporting agency to do several things to ensure that your credit rating is as accurate as possible. A credit reporting agency must:

- Provide you with a complete credit report. You are entitled to a free credit report from an agency from where you credit report was obtained from, if you were denied credit or are a victim of identity theft.
- Investigate, at your request, erroneous or missing information in your report. After the investigation, the credit bureau must provide you with a written report of their results and a revised copy of your credit report if the investigation resulted in changes.

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- Restrict your credit file from being viewed by just anyone, without your knowledge or permission.
- Remove detrimental credit information like bankruptcy after 7 years.

You have to keep watch on your credit report because there is so much identify theft going around, you never know.

7. How You Can Recover from Bad Credit

If you are a victim of credit fraud, identity theft, or perhaps missed a payment or two have found derogatory statements on your credit report, you can legally get them removed. You simply send the credit bureau a dispute letter claiming the account

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does not belong to you or that you are disputing the account for accuracy.

Here is a sample dispute form:

Sample Dispute Letter
Today's Date

Name of Credit Bureau
Mailing Address of Credit Bureau
City, State, Zip

Attention: Consumer Relations

I recently obtained a copy of my credit report from your service and have found the following items to be in error.

EXAMPLES

Item #1: I dispute Your Company National Bank, account #56458. I have never been late on this account. Please update your records.

Item #2: I dispute First Bank Loan Company, account #2689. This account was not involved in a charge-off. Please delete it.

According to Section 611 of the Fair Credit Reporting Act, I am requesting that you re-investigate those items indicated, and promptly delete any unverifiable, inaccurate, or outdated information from my credit report.

In addition, I am requesting a description of how the investigation was conducted along with the name, address, and telephone number of anyone contacted for information. Furthermore, if there is a change in my credit history resulting from your investigation, I

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am requesting that an updated report be sent to those who received my report, within the last two years for employment purposes, or within the last one year for any other purpose.

My full name is: _____

My Social Security # is:

My date of birth is:

My home phone number is: _____

My address is: _____ (Ave., St., etc.) APT:

City: _____ State: _____ Zip Code:

Please send me an updated copy of my report, and notification that items have been deleted. I will consider 30 days a reasonable time for your re-verification of these items.

Thank you for your prompt attention in this matter.

Sincerely,

Signature: _____

It is your obligation to make sure your credit report is accurate and free of errors. After all, it is your credit you are messing with and this could

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mean the difference between getting the necessary loan or not.

You can recover from bad credit. It won't be easy but you can do it. And it won't happen overnight. But with persistence and determination, you can get your credit repaired without resorting to pay a lot of money to those credit restore places.

8. Surviving Bad Credit

If you are a victim of bad credit fear not, you can recover and survive it. What you need to do is fix your credit report. After that is done and updated, you must make sure all your credit cards are paid up to date. Also, make sure any loans you have outstanding are current.

Once you have established this routine, you must make sure to keep everything current and updated on a weekly and monthly basis. This way you

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prevent the situation of having bad credit repeat itself.

Don't expect to get immediate results from creditors or future lenders. If you are just recovering from a bad debt situation like bankruptcy, you have to give yourself at least six months to prove you are responsible with your finances. Don't take on more than you can handle. Otherwise you will need up in the same boat again.

The premise here is to take care of your credit and it will take care of you. Having bad credit is not the end of the world. You can survive. You may have to pay certain bills and goods with cash for a while, unless you have a debit card that works like a credit card. Then you can use that to make purchases. But you can live in this world without credit. It will be hard. But you can. You will just have to take extra steps to take care of business, more so than usual, but it can be done, at least till you get

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your credit up to where it is good in the eyes of lenders.