

## The Basics

### Credit worries? Make sure you know the score

So you've had some problems in the credit game; who's keeping score? Lots of people. But with online access to your credit report and, now, to your credit score, you can take control.

By [Terry Savage](#)

Your credit report affects more than your financial life. It could affect your education, career and even your love life. That's because your credit report is used not only by lenders, but insurers, potential employers and even some educational institutions.

It affects the rates you'll pay on everything from life insurance to homeowners insurance. It may tell a college if you're a good risk for some student assistance programs. If you're applying for a job, your credit report may be checked as a character reference. And couples planning to apply jointly for mortgages may face a rude relationship shock if one partner has kept past credit problems a secret.

So, it pays to keep an eye on your credit and pay your bills on time. And it pays to know how the system works.

## How do you score?

While your credit report is the basis for all of these appraisals, many financial institutions judge you by an even more important number that has been developed from the information on your credit report: your credit score. For years, this number was a highly guarded secret. Now, however, the secrecy is being lifted -- in part due to considerable prodding by consumer groups and Congress. Fair, Isaac & Co., the California company that originally developed this tool, is working with Equifax, the big credit bureau, to make the data available.

Fair Isaac -- named for its founders -- created its FICO scores to help lenders gauge the likelihood of a loan being repaid. Over the past 25 years, the scoring process has become so sophisticated that at least 75% of all mortgage lending approvals are based in part on a FICO score. But while your credit report is a fairly straightforward compilation of your payment history on all credit accounts, the FICO score is a complicated algorithm -- or computerized model -- that evaluates many factors from your credit report in different weighting combinations.

Thus, your credit score could be exactly the same as your neighbor's but for completely different reasons. And that credit score is only one factor in granting a loan. For example, two people with the same credit scores might apply for a mortgage with the same lender. One applicant has a 20% down payment, while the other is planning to put only 10% down. Or one is applying for a jumbo mortgage, while the other needs only a \$150,000 loan. Those additional factors will also affect the credit decision.

The availability of FICO scores to consumers, along with online credit reports, means you have new ways to check on your financial status -- and to protect or improve it. But first, you must understand these reports, along with your rights to know and your ability to affect the information on them.

## Your credit report

Three major credit reporting bureaus keep track of the credit reports of millions of Americans. They are: Experian, Equifax, and Trans Union. Typically, all have the same information, except that some companies are stronger in certain geographic areas and thus may receive reports on your credit status from local merchants.

Information about all your existing -- and past -- credit accounts, ranging from credit cards to mortgages, student loan repayments, and even some local merchants accounts -- is reported to these credit bureaus. Judgments, liens or bankruptcies are picked up by the credit bureaus from public records. Your report also gives your current and previous addresses, your employers and any other names you have used recently.

Separately, one or more of these companies may also provide investigative reports, typically used by insurance companies. The reports include public medical records and even interviews with your neighbors about your lifestyle! But your standard credit report covers only the public, financial aspects of your life.

Your credit report is not generated until someone -- either an authorized credit-granting merchant user or you -- requests a look at it. Then the computer pulls together all this information, along with the credit bureau's explanation of its system. Your credit report shows your payment history and your outstanding balances on each account, as well as the maximum line of credit available. If you've been late on one or more payments, it will show up on your credit report, as well as any charge-offs (accounts that have been written off as uncollectible). And your credit report also reveals any inquiries that have been made recently, whether by a merchant, lender or yourself.

If you see incorrect information on your credit report -- such as an account that was closed, or one you never opened -- you should contact the merchant immediately, as well as the credit bureau. Only the initiating merchant can make a correction. But you can initiate a dispute with the merchant by contacting the credit bureau. They'll contact the merchant to expedite the resolution to your problem. If you've been the victim of "identity theft" -- someone has used your name and Social Security number to open accounts -- the credit bureau will "flag" your name and stop new accounts from being opened.

If, after investigation, you still dispute an item on your credit report, you also have the right to post a short explanatory statement that will be sent to anyone requesting the report. You can do this online or by mail. It's better to resolve disputes directly with the merchant instead of letting bills go unpaid. That could ruin your entire credit report.

Most negative information stays on your credit report for seven years; a bankruptcy and related information stays on

your report for 10 years. But lenders often take an interest in your most recent payment patterns. So even after a bankruptcy, if you can get a secured credit card (backed up by, say, a savings deposit at the issuing institution) and make regular and on-time payments, you can rebuild your credit without waiting seven or 10 years.

## Your credit score

While your credit report is a direct reflection of your financial activities, your credit score is, as we've said, a complicated analysis of the patterns of your financial life. All of the information used to create your FICO score is drawn from your credit report.

Credit scores range from 300 to 850. Only about 11% of the surveyed population ranks above 800; 29% ranks between 750 and 799.

There are dozens of variables that go into creating your standard FICO credit score. Then, individual lending or credit-granting institutions may tweak the formula to create customized scores that emphasize one or another variable. Some of the most heavily weighted variables in the credit score are:

- **Past payment history.** Fair Isaac believes that past performance is the single biggest predictor of how likely you are to pay bills in the future. Being 30 days late a few times and then catching up is less significant than if you've been three or four months late. You'll get a higher score if your payments have been current recently and any late payments were several years ago.
- **Balances outstanding.** The FICO score heavily weights the total amount of balances outstanding, and the percentage of your credit limit you are using on each card. So consolidating all your outstanding debts on one or two cards, and canceling the others, while a good money management strategy, might actually lower your FICO score.
- **Financial stability.** Your credit stability score is based on three factors: The length of time you've had the same open accounts, the mix of credit you already have, and the number of recent credit applications. It helps to have had not only a credit card repayment history, but also an auto loan or installment loan. Not having at least one credit card will significantly lower your score. On mortgage loans, the automated programs of Fannie Mae and Freddie Mac also factor in criteria like the length of time you've held your current job, and how long you've been in your current residence.

There's obviously no one thing that you can change quickly to improve your credit score, but paying bills on time sure helps.

## Getting your credit report online

You can contact each of the credit bureaus online to get your credit report. By law, you must be granted access to your

report without charge if you have been turned down for credit within the past 90 days.

The Internet now lets you obtain your credit report almost instantly. Any site offering a credit report online must comply with security measures standardized by the three major credit bureaus. So you'll be asked for more than your name, address and Social Security number -- information that could easily come from a stolen wallet. You may also have to provide your mortgage lender's name and disclose what you pay each month. Or you may have to give the amount of your most recent credit-card payment.

The providers of online credit reports include the big three agencies, which offer a copy of their report for \$8.50.

There are offers of free reports, or for inexpensive, combined reports from all three credit-reporting agencies. But there is a catch: These companies want you to sign up for a credit-monitoring service. Those services, which cost up to \$70 a year, give you additional free credit reports, and several promise to notify you whenever there is activity in your report, such as an inquiry, new account opened or an unusually expensive purchase. That's where these companies really make their money. Accessing your credit report in partnership with a credit bureau has a minimal cost to the provider. One large company told me that it already has 500,000 "members," and 50% of those who sign up for the "free trial" continue the service.

## Getting your credit score online

All of the Web sites listed above promise you some sort of "credit score." They've tried to match Fair Isaac's algorithms to calculate FICO scores. But Fair Isaac has limited its partnerships only to Equifax.

Those online scores are available on MSN Money [here](#), as well as at Equifax.com and myFICO.com, along with your latest Equifax credit report. The FICO score will also list the most significant factors affecting your score, and an explanation of each, plus what you can do to improve them. You'll also find out how your score compares with national averages.

Just as your SAT scores had an effect on your college admissions, and possibly on the direction of your future employment, so will your FICO score affect your financial future. If you're already aware of the importance of these issues, find some young person just starting out and pass this information along.