YOUR CREDIT SCORE

Many of our clients are concerned about their ability to obtain credit in the future. There are several issues related to those concerns.

Credit reporting agencies (Experian, Equifax, and TransUnion) can report a bankruptcy on your credit report for ten years from the date of filing of the case. (They can report derogatory information for seven years from when you default on a debt.)

You are entitled to receive a free copy of your credit report once a year from each of the credit reporting agencies. The official website to obtain free copies is www.annualcreditreport.com. You can also call 1-877-322-8228 or send an Annual Credit Report Request Form to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281. (You can download the form at the annualcreditreport.com website.) Your free credit report does not contain your score. If you want your score, you have to pay for it. (Unless you know someone who works for a bank, credit union, car dealer - somewhere they can pull your credit report for you.)

Credit scores range from 350 to 850. 850 is perfect. (Nobody has an 850 credit score.) Anything over 700 is generally considered to be "good" credit and should enable you to obtain credit on favorable terms.

Your credit score is composed of five main categories of information. Each of those categories contains several sub-categories. Each category has its own importance so some are weighted more than others. The five categories and the percenatge they are weighted are:

Payment History - 35%

- This is mainly what it sounds like - Do you pay your bills on time? Individual creditors report your payment history to the credit reporting agencies and they put all of this information into your credit report.

- Your score is effected by how often and how late you have been paying your bills. (If you were 30 days late once or twice, your score will not be as adversely impacted as if you were 90 days late a dozen times.)

- Your score is also effected by whether any of your accounts have gone to collection or been "charged off." (Charge off is an accounting term which means the creditor has taken a tax deduction for bad debt. It does not mean that you do not owe the debt anymore.)

- Your score is also effected by the amounts of any delinquency. (A delinquency on one $200 debt is not as bad as delinquencies on five debts totaling $30,000.)

- Your score is also effected by how recent any delinquencies are. (If you were behind on some of your debts two years ago but have been current ever since, its not as bad as if you have only recently become delinquent on the same types of debts.)

- If a creditor has sued on a debt and obtained a judgment or you have filed bankruptcy, it will be reflected in the "public records" section of your report.

- The number of accounts which show that you pay on time improves your score.

Amounts Owed - 30%

- This starts with the total amount of debt you owe.

- Your score is effected by the **number** of accounts you have with balances.

- Your score is effected by the **types** of accounts you have with balances. Mortgages and car loans are considered to be safer debt. Unsecured revolving accounts (credit cards) are riskier. The more credit card accounts you have, the more likely it is to lower your score. Payday loans are the most risky.

- The proportion of debt you have relative to your credit limits effects your score. To maximize your score, you want to owe less than one third of your available credit. (On a card with a $10,000 limit, keep your balance under $3,300.) A person who has one card with a $40,000 limit and a $20,000 balance will have a lower score than a person with a $100,000 limit who owes $30,000, even though the person who has the $20,000 balance owes less debt..

- The proportion of installment debt still owed compared to the original loan balance effects your score. If you have a car loan that you took out four years ago and another car loan you took out three years ago, your score will be higher than if you had the same two car loans, but the loans were both taken out in the last year.

Length of Credit History - 15%

- The length of time your accounts have been opened effects your credit. The longer you have had credit (good credit), the higher your score will be. This is why it is hard for young people to start building a credit history.

- The length of time specific types of accounts have been opened effects your score. A large number of recently opened credit cards will lower your score.

- The time since your most recent credit activity effects your score. No account activity in recent history lowers your score.

New Credit - 10%

- The number of accounts which have been opened recently effects your credit. If you have opened several credit card accounts recently, it will reduce your score. If you have run up balances on these accounts quickly, it will reduce your score.

- A recent significant increase in account balances will reduce your score.
- The number of credit inquiries and the time since recent credit inquiries effects your score.
- If there a large number of recent credit inquiries (ie, from credit card companies), it will lower your score. If you had a flurry of inquiries, but over a significant amount of time, it will not reduce your score as much.
- New credit can also include recent positive payment history after past problems with delinquencies.

Types of Credit Used - 10%

- Your score is effected by the types of credit you have and the amount of the different types of accounts. A large number of credit card accounts lowers your score. Use of payday loans lowers your score. Consumer finance accounts (furniture, appliances, etc) are not as bad because they are usually secured and are therefore “more likely to get paid.”

No one factor determines your credit score. All of these factors are taken into account. If you have higher debt, but low debt to limit ratios and an excellent payment history, you will probably have a higher score than a person with less debt, but higher debt to limit ratios and a spotty credit history. Your credit score takes into consideration both positive and negative information. (You get points for paying on time. Points are taken away for paying late.)

Your credit score is based **only** on what is included in your credit history. Lenders may consider other factors in extending credit (your annual income, how long you have had your job, etc) but those are not included in your credit score.

What is NOT Included in Your Credit Score

- Your income. (Hard to believe, but how much you make has **nothing** to do with your credit score.)
- Your occupation, employer or employment history.
- Your race, religion, national origin, marital status or sex.
- Your age.
- Your address. (Lenders used to “redline” which meant they would not lend to people who lived in “bad” neighborhoods.)
- The interest rates being charged on your existing accounts. (Seems like you would be a better credit risk if all your debt was at 6% than if it was all at 26%.)

- Rental obligations. (Whether or not you pay your rent would seem to be relevant.)

- Alimony or child support obligations. (For many people, one of, if not their largest monthly obligation.)

- Whether or not you are participating in a debt consolidation.

- Credit inquiries initiated by you. (If a number of lenders are pulling your credit, it can lower your score. If you are pulling your own credit report, it does not effect your score.

Improving Your Credit Score

There are several ways you can improve your credit score, but these take time so you have to be patient and persistent.

- Pay your bills on time. This is the number one way to improve your score. If you have to make an "appointment" with yourself twice a month to pay bills, put it on your calendar.

- If you have delinquencies, get current and stay current.

    - If you are behind due to a temporary situation (i.e., interruption in employment), you may be able to negotiate a repayment plan with some or all of your creditors to get current. In many cases, if you enter into one of these plans and stay current under the plan, they will not report you as delinquent even though you are really behind.

- Keep your balances below one third of your available limits on credit cards.

- Don't balance transfer debt to get better interest rates. (If this really makes a difference, you probably already have too much debt.) Paying down existing debt will give you a higher score.

- Don't close credit accounts to raise your score. Reducing your amount of available credit can lower your score, but do it over time, not all at once.

- Don't open a bunch of credit card accounts just to lower your debt to limit ratio. Opening several accounts in a short period of time can lower your score. This is especially true for people with a short credit history.

- If you are going to apply for a car loan or home loan, you want to apply with several lenders over a short period of time rather than over an extended period of time. Credit inquiries to obtain credit can lower your score, but if you apply for credit with several car lenders within a short period of time and then take out an auto loan, they will treat all of the inquiries as one.

- “Fixing” derogatory accounts will not remove them from your credit report. If you had an account in collection, it will probably still be reported as having been in collection even after you bring it current or pay it off. If you were 90 days delinquent, it will still show that you were 90 days delinquent after you bring the account current. BUT, your credit score takes into account the fact that you WERE delinquent, but that you are now current. It will take some time to raise your score, but you have to start somewhere.

Improving Your Credit Score After Bankruptcy

Historically, most of our clients have been able to obtain credit on near market terms a year after their bankruptcy is discharged. That may change with the current economic crisis, but it is too early to tell at this point.

The single largest issue in rebuilding credit after bankruptcy is the amount (or lack) of recent positive credit history after the bankruptcy case is discharged. I frequently tell clients that the person who is hurt most by a bankruptcy filing is the person who has a paid for car and rents an apartment. The reason is that they have nothing on their credit report after the bankruptcy that says “pays as agreed” or “pays on time.” I routinely have clients, however, who have a mortgage (or two), and a car loan (or two), and a student loan (or two, or three.) All of these debts will continue to be repaid after the bankruptcy and will be reported as paid on time after the bankruptcy. That is how you rebuild your credit.

If you don’t have any accounts which you will pay after bankruptcy, you should consider obtaining a couple of secured credit cards. With these types of cards, you deposit $500 with a lender and they issue a credit card with a $500 limit. Lenders are typically happy to issue these cards even to people with “bad” credit because their risk of non-payment is low. If you don’t have anything else, these types of accounts will help you rebuild your credit score faster.

As an aside, there are many creditors who do not report your credit UNLESS you default. These creditors include landlords, utilities (electric, water, gas, cable, telephones) and medical (hospitals, doctors, labs, anesthesiology, radiology). I have always thought that is fundamentally unfair (and at least slightly dishonest) to allow creditors to ONLY report negative information. If creditors want to report your credit history, they should have to report ALL of your credit history, including the good stuff. (Oh well. Write your congress person.)

“Credit Repair” Companies

These are almost always a scam. They cannot provide a service which you cannot do yourself. Many of them outright lie about the results they can obtain. What most of these companies do is dispute all of the negative information on your credit report, whether it is accurate or not. If you dispute negative information on your credit report, the credit reporting agencies have a duty to “investigate” your complaint. They have thirty days to complete their investigation. During that thirty day period, they are supposed to remove the negative information from your credit report. Some credit repair companies will dispute your negative information over and over and over, hoping that the creditor or credit reporting agencies will just give up and take the information off permanently. The result is typically that the negative information is removed for a very short period of time, but it it does not "repair" your credit.

You should be aware that credit repair companies are regulated by federal law. Two of the most important restrictions for consumers are that credit repair companies must provide you with a written contract describing the services to be provided and they may not charge you until **after** they have performed the service. If they try to charge you up front, they are breaking the law and are probably not going to help you. For more information about credit repair, visit the Federal Trade Commission website at www. ftc.gov/edu/pubs/consumer/credit/cre13.shtm. This website also provides templates for disputing incorrect information on your credit report.

Disputing Information on Your Credit Report

You may dispute incorrect information with each of the major credit reporting companies online. The web addresses for disputing credit reports are:

Equifax: http://www.equifax.com/answers/correct-credit-report-errors/en_cp

Experian: http://www.experian.com/disputes2/

TransUnion: http://www.transunion.com/corporate/personal/creditDisputes.page

We hope this information is helpful.