

Credit Repair

Work injuries can destroy credit. Learn all about your credit score & how to repair it.

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INTRODUCTION TO CREDIT

What is a credit Score?

Want to buy a house? Get a new car? Send your child to college? Get insurance? Sign up for a cell phone plan? Or, in some instances, land that dream job? Each of these activities may be related. So, what is common about these/ Being able to do each of these will likely depend on one thing: your credit history!

Besides your credit, much of this will actually depend on one particular part of your credit history; that “special” number, also known as your credit score, which ranges from 300 to 850. It is a numerical expression, based on a statistical analysis of a person’s credit report (we will discuss more about your credit report later), to represent the creditworthiness of that person. Your creditworthiness is the perceived likelihood that you will pay debts in a timely manner.

Although there are several methods for calculating credit scores, the score most commonly used by lenders is your “FICO” (originated by the Fair Isaac and Company). Fair Isaac is an independent company that came up with the scoring method and software used by banks and lenders, insurers and other businesses. Each of the three major credit bureaus (Experian, Equifax and TransUnion) worked with Fair Isaac in the early 1980s to establish this scoring method.

Who determines your credit score?

A credit score is primarily based on credit report information, most typically sourced from credit bureaus or credit reference agencies: Experian, TransUnion, and Equifax.

These three national credit bureaus each have their own version of the FICO score with their own names. Equifax’s has the ScorePower, Experian’s PLUS score, and TransUnion’s Credit score using the Empirica system. Additionally, each also sells the VantageScore credit score.

Although the scores may differ, all the information and account detail on any of the reports is typically outlined the same. Please note that the FICO credit score is the score recognized by banks and mortgage lenders, and this is the score that is important to you as you seek to obtain financing. This report can only be accessed by banks, mortgage companies, etc. Some websites such as www.myFico.com can also provide these reports directly to you as a consumer.

To complicate matters more, some lenders also have their own, independent scoring methods. These scoring methods may include information such as your income or how long you have been at the same job.

Who Uses Your Credit Score?

Many organizations will use your credit score. Such organizations include mobile phone companies, insurance companies, employers, auto lenders, mortgage lenders, credit card companies, landlords and the government.

What Affects Your Credit Score?

Your credit score is affected by five categories: your payment history; your amount of outstanding debt; the length of time (or established history) you have had credit; the number of new accounts as well as “inquires,” and the types of credit you have (revolving vs. installment).

Though it may be hard to believe, there is a method to the credit madness when it comes to calculating your score. In fact, calculating a credit score is something like a school teacher calculating pupils' grades; a teacher calculates grades by taking scores from tests, homework, attendance, classroom participation, etc., and weighting each one according to importance (e.g., your credit score is based on a weighted average). Instead of using the scores from pop quizzes, essays, attendance, etc., the calculation of your credit score uses the information in your credit report.

Though the formula for exactly how the score is calculated is proprietary information owned by Fair Isaac, below is an approximate breakdown of how it is determined:

1. **Payment History, 35 percent**: Since the primary purpose of a credit score and is to show those using the score if and how promptly you make payments, this part makes perfect sense. For example, this portion accounts for how many bills have been paid late, how many bills were sent out for collection, any bankruptcies, etc. Additionally, **when** these derogatory issues occurred plays a part of this portion of the score: the more recent the negative occurrences, the worse it will be for your overall score.
2. **Amount of Outstanding Debt, 30 percent**: How much do you owe on a car or home loans? How many credit cards do you have that are at their credit limits? The more cards you have at their limits, the lower your score will be. The rule of thumb is to keep your card balances at 25 percent or less of their limits.
3. **Length of Credit History, 15 percent**: The longer you've established credit, the better it is for your overall credit score. Why? Because more information about your past payment history gives a more accurate prediction of your future actions.
4. **New Credit, 10 percent**: (this includes new accounts as well as inquiries) It is important keep in mind that any new account that shows up on your report can lower your score. This is important for planning your future financing. A credit "inquiry" occurs when someone using your credit makes a request for your credit report from one of the credit reporting bureaus. The more you ask for credit, the more it harms your score. So, if you are rolling out applications for credit cards or other loans, your credit report will show many inquires. This will lower your credit score. Lenders and others using your credit score feel that if you are asking for a lot of credit, you **must** be in financial difficulty where you need to borrow money! As for your inquiry history, the more recent the inquiries the more they harm your credit scores. Remember, your FICO score counts inquiries **from the past year**.
5. **Types of Credit, 10 percent**: (revolving vs. installment, or "fixed" accounts) There is no magic number or combination of types of accounts that you should or should not have. This portion of your score comes into play more so if there is not adequate information on your credit report from the aforementioned section on which to base your credit score.

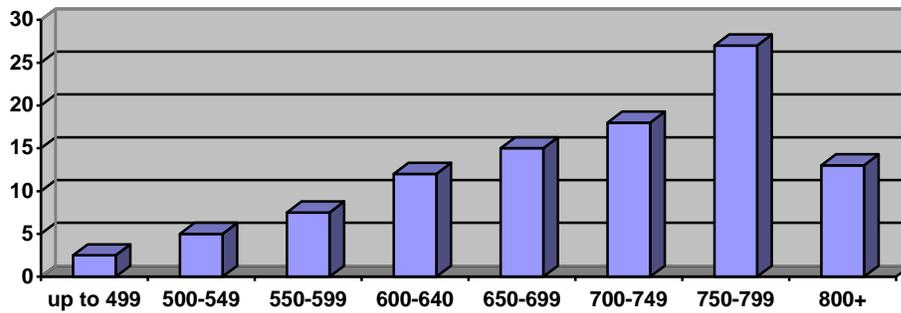
To top it all off, this information is then compared to that of other people with similar histories and profiles.

What is a Good Credit Score?

This question cannot be answered. However, it can be noted that the national average for FICO scores is 678. The following is some information that can be noted so that you can see what you are "competing" against when you go in for a loan:

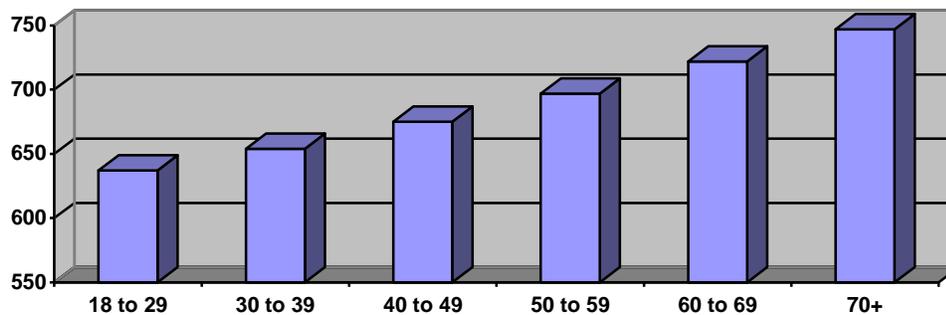
The following graph indicates the breakdown of credit scores across the U.S. this information was provided by Fair Isaac Corporation.

National Credit Scores



To see how you compare to your age group, the following chart shows FICO scores broken down by age. This information comes from Experian:

National Credit Scores By Age



All This is Nice, But Why Should I Care?

You may wonder why you should care about your credit score. This can best be seen in a real life example. Per www.myFICO.com, the average rates for a 30-year fixed-rate mortgage can be seen in the chart below, along with the monthly payment on \$100,000. The amount of interest you would pay over the total life of the 30-year loan is shown last:

Credit Score	APR	Monthly Payment	Total Interest Paid
720-850	6.067%	\$604	\$117,391
700-719	6.192%	\$612	\$120,302
675-699	6.730%	\$647	\$133,017
620-674	7.880%	\$725	\$161,150
560-619	12.018%	\$1,030	\$270,799
500-559	12.985%	\$1,105	\$297,810

You can also see what the difference is if you want to go buy that shiny new \$30,000 car. The web site www.myFICO.com says the picture will look as follows:

Credit Score	APR	Monthly Payments	Total Interest Paid
720-850	5.940%	\$579	\$4,749
700-719	7.223%	\$597	\$5,832
675-699	8.180%	\$611	\$6,653
620-674	10.665%	\$647	\$8,836
560-619	14.010%	\$498	\$11,892
500-559	15.047%	\$714	\$12,866

Do you know how much your credit score matters in your insurance payments? Well. Let us take a look.

An insurance policy for a \$300,000 home for a person with a preferred credit rating will come with an annual payment of \$560. That is compared to (and greatly below), that of a person getting the same insurance policy with a sub-standard rating, where the annual payment will be \$829. That is an annual savings of \$269, or an increase of 48 percent! The same principle applies for auto insurance; there, for a while a sub-standard rating gets you an annual payment of \$1,233. The annual savings in this scenario would be \$516, or just about 72 percent.

What about My Credit Report?

Defined, a credit report is a record of your past borrowing and repaying, including information about your payment history; your amount of outstanding debt; the length of time you have had credit; the number of inquiries; and the types of credit you have.

This accumulation of information about how you pay your bills and repay loans, how much credit you have available, what your monthly debts are, and other types of information is what a potential lender and others will use to decide whether you are a good credit risk or a bad credit risk.

First, please note that you should NOT confuse your credit score with your credit report. Credit Scores are based on formulas that use the information in your report, but they are not a part of your report! Essentially, your credit score condenses all the information on your credit report into one nice, neat, convenient (at least sometimes convenient) number.

You should remember, the report itself does not say whether you are good or bad credit risk; rather, the report's sole purpose is to provide lenders with the data to make an "intelligent" decision themselves. Lenders may make their decisions based on different criteria, so having all of the information helps ensure that they are making the right decision.

Under the Fair and Accurate Credit Transaction Act (FACTA), an amendment to the FCRA passed in 2003, you are entitled to one free credit report within a 12-month period from each of the three agencies. The free report, normally without credit scores, can be requested by telephone, mail, or through the government-authorized web site, www.annualcreditreport.com. Credit scores are available for a fee as an add-on feature of the report.

Other than your entitled yearly report, some states entitle their residents a free credit report within 30 days of being denied credit, or after receiving "sub-normal" credit terms from a lender due to their credit ratings.

What is on my Credit Report?

Information that makes up your credit report includes:

Personal identifying information: This includes your name, address (current and previous), social security number, telephone number, birth date, and your current and previous employers. Your spouse's name may also be included.

Credit History: This section includes your bill-paying history with banks, retail stores, finance companies, mortgage companies, and others who have extended credit to you. It includes information about each account you have, such as when it was opened, what type of account it is (revolving, fixed payment, etc.), how much credit has been extended to you, the amount of credit used on that account, what your monthly payment is etc. If

you've closed the account of the loan has been paid off, that information shows up as well. The credit history section is where missed payments, delinquencies, collections, defaults, etc., if any, will show up.

Public records: Information that might indicate your credit worthiness, such as tax liens, court judgments, bankruptcies, etc.

Report inquiries: this section includes all credit granters who have received a copy of your credit report. It also includes any others who were authorized to view it. In addition, lists of companies that have received your name and address in order to offer you credit are included. These companies do not actually see your report, but get your name if you meet their criteria for an offer of credit, insurance product, etc. (this is where all the "pre-approved" credit card offers come from.).

Dispute Statements: the report may also include any statements you have made disputing information on the report. Most credit bureaus allow both the consumer and the creditor to make statements to report what happened if there is a dispute about something on the report.

Now that you know what may appear on your credit report, it is important to know what is not on your credit report. Most noteworthy are bank account balances; race; religion; health (although medical bills may show up as debts); criminal records; and income.

What is the Fair Credit Reporting Act?

The Fair Credit Reporting Act (FCRA) (15 U.S.C. § 1681) regulates the collection, dissemination, and use of consumer credit information (e.g. credit reports).

The FCRA provides you with several rights (actually, the FCRA gives those creating your credit report(s), Experian; TransUnion; and Equifax, certain responsibilities). These rights include:

1. Provide you with information about the credit reporting companies and to take steps to verify the accuracy of information disputed by a consumer.
2. If negative information is removed as a result of a consumer's dispute, it may not be reinserted without notifying the consumer in writing within five days.
3. Negative information may not be retained for an excessive period. The FCRA spells out how long negative information, such as late payments, bankruptcies, tax liens or judgments may stay on a consumer's credit report. Typically negative information can stay on your credit report for seven years from date of the delinquency. The exceptions: bankruptcies (10 years) and tax liens (seven years from the time they are paid).
4. Further, if you are denied credit, employment, or any other service or product you were seeking as a result of the information contained in your credit report, then the person, business, etc. who denied you has to tell you why your credit request was denied and how to contact the credit bureau that provided the information.

What Do I DO if there is Something Wrong on My Credit Report?

You may not think this is possible, but incorrect information can appear on your credit report. You may think, "There is no way a company the size of Equifax, or Experian, or TransUnion could get it wrong." But they can- and they do! A study released by the U.S. Public Interest Research Group in June 2004 indicated that 79 percent of the consumer credit reports surveyed contained some kind of error or mistake!

First, note one very important thing: DOCUMENT EVERYTHING YOU DO (dates and times of phone calls, names of people you spoke with, what they said, what your action was, etc.) when correcting an error on your credit report. Second, keep copies of everything you send them; do not send original documents-send copies.

Third, remember to be aggressive and persistent, as the process may take a while (sometimes three to six months, or more).

Here are the steps you need to follow:

1. **Letter Writing:** First, you must send a letter to the credit reporting bureau (if it is Equifax, TransUnion, or Experian, you can begin the dispute process online) to give your side of the story. This letter is an attempt to set straight the inaccuracies that have been reported. The letter should include your name and address and explain what is inaccurate, along with an explanation as to why it is inaccurate. Give a brief description of the facts, and formally request a correction to your report.

It may be helpful to include a copy of your report with the incorrect information circled, along with copies of any documentation that supports your claim. Send your letter and any supporting information by certified mail with a return receipt so you know it was received.

Second, send a letter to the merchant or creditor who supplied the incorrect information to make it known that you are disputing it. Send copies of the documentation that supports your claim, just as you sent to the credit reporting bureau.

I have attached a sample letter of dispute (Appendix A).

2. **Give the CRA 30 Days:** The credit reporting agency legally has 30 days to investigate your claim (unless your claim is deemed frivolous or irrelevant). After 30 days has expired and there has been no response, call the customer service department of the credit reporting bureau. The contact information for Equifax, TransUnion and Experian is below.
3. **Re-reviewing your credit report:** When you get a written response from the credit agency, you will also get a new copy of your credit report (if there were any changes). If any information is changed on the report, the credit reporting bureau can not change it back unless the creditor provides proof that it was accurate. In this case, you will get notification from the credit reporting bureau that the item has been put back on your report. You will also receive the contact information from the creditor.

Here are the official addresses and contact info for each of the Bureaus:

Equifax Credit Information Services, Inc.
P.O. Box 740241
Atlanta, GA 30374
www.equifax.com

For disputes by telephone, a telephone number is provided to initiate disputes on your credit report. You must have a copy of your current credit report.

TransUnion Consumer Solution
P.O. Box 2000
Chester, PA 19022-2000
www.transunion.com
1-800-916-8800

Experian
P.O. Box 2104
Allen, TX 75013

For disputes by telephone, a telephone number is provided to initiate disputes on your credit report. You must have a copy of your current credit report.

How Do I improve My Credit Score?

Here are the six best ways to help your score. Credit scores aren't static numbers. Because they are calculated based on your current credit report, they change every time your credit report changes. While this change may be very slight, it can also be much more dramatic. Here are some things some financial advisers say to do to try to improve your score:

1. Review your credit report, and dispute and correct any errors you find. Getting rid of inaccurate information will likely improve your score dramatically.
2. Do not close your old accounts! (Established positive accounts are very important) Though this may seem very contrary, one of the biggest ratios credit scores are based on is the amount of your used credit to the amount of credit available to you (for example, if you have a credit card with a \$5,000 balance, but it has a credit limit of \$15,000, that ratio would be 1 to 3). Additionally, do not transfer your balance and then close your old account; closing the old account can have a bad affect on your credit score (you will lose the "history") because you will have the same amount of debt (remember, you just transferred the balance), but will have less available credit (remember, you closed the old account). So do not close old credit card accounts just because you are not using them. Creditors also now look at the average age of your accounts so, keep your old accounts.
3. Reduce your balances on credit cards or revolving accounts to 40 percent or less of your available credit (25 percent is preferable).
4. Pay your bills on time.
5. Keep inquiries to a bare minimum! Do not let anyone make an inquiry on your credit report unless you absolutely have to. The more inquiries, the lower your score.
6. Do not open new credit card accounts just to increase your available credit in an attempt to raise your score.

Avoiding Credit Repair Scams

Unfortunately for you, there are many, many credit repair scams. There are those that claim wonderful things like, "Credit problems? No problems!"; "We can erase your bad credit—100 percent guaranteed"; "Create a new credit identity using a new Social Security number legally"; "We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!"

The list of claims can go on and on. However, there are many good credit repair services.

To avoid these scams, the first thing you must recognize are the warning signs of an actual scam! If you decide to respond to a credit repair offer, look for these tell-tale signs of a scam:

- The company wants you to pay upfront for the entire credit repair services before they provide any services. (This is a direct violation of the FCRA)

- The company does not tell you your legal rights and what you can do for yourself for free.
- The company recommends that you not contact a credit reporting company directly.
- The company suggests that you try to invent a “new” credit identity—and then, a new credit report—by applying for an Employer Identification Number to use instead of your Social Security number.

Remember These Tips When Evaluating a Credit Repair Company:

- You could be charged and prosecuted for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. It is a federal crime to lie on a loan or credit application to misrepresent your Social Security number, and to obtain an Employer Identification Number or CPN number from the Internal Revenue Service under false pretenses.
- Under the Credit Repair Organization Act, credit repair companies cannot require you to pay until they have completed the services they have promised.
- No one can legally remove accurate and timely negative information from a credit report. The law allows you to ask for an investigation and information in your file that you can dispute as inaccurate or incomplete.
- By law, credit repair organizations must give you a copy of the “Consumer Credit File Rights under State and Federal Law” before you sign a contract. They also must give you a written contract that spells out your rights and obligations. You should definitely read these documents before you sign anything.

In fact, the law contains specific protections for you. For example, a credit repair company cannot:

- Make false claims about their services;
- Charge you until they have completed the promised services; or
- Perform any services until they have your signature on a written contract and have completed a five-day waiting period. During this time, you can cancel the contract without paying any fees.

Furthermore, your contract with the credit repair company **MUST** specify:

- The payment terms for services, including their total cost;
- A detailed description of the services to be performed;
- How long it will take to achieve the results;
- Any guarantees they offer; and
- The company’s name and business address.

Internet Resources for You to Use

In your ongoing efforts to improve your credit, you will need to have access to all the best available information. Following are links to the actual text of the Fair Credit Reporting Act and other important consumer related information:

www.ftc.gov/os/statutes/fcadoc.pdf

This is the actual text of the Fair Credit Reporting Act. It provides the legal framework within which you will be working to repair your credit.

www.ftc.gov

The Federal Trade Commission web site has an abundance of information regarding consumer laws, rights, and available courses of action worth considering if you feel you’ve been treated in an unfair manner. **KNOW YOUR RIGHTS!**

www.ftc.gov/os/statutes/ferajump.htm

This area of the FTC web site has links to updated information and amendments to the Fair Credit Reporting Act. Credit related material and notices are also available here.

www.consumer.gov

This is also an absolute “must visit” site. Here you can learn about the national “Do Not Call registry.”

www.fraud.org

Visit this site often and learn about the latest telemarketing scams, internet fraud scams, and how to protect yourself from them. Consumer knowledge and awareness is your best defense!

Appendix A- Sample Letter to Credit Bureau

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 ABC National Bank account #12345. I have never been late on this account. Also, please see the attached canceled checks from my bank, Bank of Who Knows Where, as proof that this account showing this account has always been paid on time.

Item #2: I dispute ABC Financial Services account #4545. This account was not a charge-off, please delete.

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 out dated 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 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 manner.

Sincerely,
Signature: _____