

GOOD CREDIT

LEADER'S GUIDE

MONEY WISE

A CONSUMER ACTION AND CAPITAL ONE PARTNERSHIP



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About the Good Credit Leader's Guide

This free guide can help you become a “good credit” mentor. Once you understand how important it is to build and keep a good credit history, you'll be ready to spread the word about the fundamentals of good credit.

Created by the national non-profit organization Consumer Action with a grant from Capital One Financial Services, this guide is part of a series that includes a pamphlet for individuals available in Chinese, English, Korean, Spanish and Vietnamese and a teaching plan with suggested topics and activities for conducting a two-hour seminar.

People usually don't think about credit until they realize they don't have access to it or have somehow damaged it. For many people, being turned down for credit is the first time they consider the subject at all.

This guide contains suggestions to help people establish and maintain good credit. It gives reasons why credit is important, explains how the credit reporting industry works and outlines some key consumer protections.

Credit Defined

What is credit?

Good credit is a valuable thing to have. It is the ability to borrow money or obtain goods by paying little or no money at the time of purchase. You promise to pay the total cost later or over time, along with interest. (Interest is the cost you pay to borrow money or obtain goods over time.) Lenders want to be repaid so they usually lend only to people who show they've been reliable in repaying loans and credit.

How does having good credit help me?

Good credit is a positive record of paying off loans and making timely payments. It can help you to buy a home, get a job, rent an apartment, borrow money, charge goods and services, finance a car and take out an insurance policy. If you have good credit, you may be able to avoid cash deposits when you establish accounts with phone, electric, gas, heating oil, water and cable TV companies. Potential employers often use credit to check job candidates' backgrounds and as an indicator of an applicant's financial honesty and personal integrity.

Credit History: The Good and the Bad

What is a credit history?

Your credit history is a record of your payments on charge cards, credit cards, car loans, student loans and home mortgages. It gives lenders, landlords, insurance providers, employers and others an indication of how you handle credit.

Is my credit history good or bad?

Whether your credit history is perceived as positive or negative depends on how reliable you have been in repaying loans or credit. If you have been reliable, you probably have a good credit history. If you have paid your bills late, abandoned debts without paying them off or filed for bankruptcy, you probably have a poor credit history. People who have damaged their credit usually find it harder to get

loans and credit cards. (There are some companies that extend credit to people with poor credit, but the cost is generally much higher.)

Does everyone have a credit history?

Many people do not have a credit history, such as people who have never had a loan or a credit card. People who recently entered the work force or are new to the country may not have credit histories. Married women who acquired credit under their husband's name may not have a credit history.

Credit Reports

What is a credit report?

Companies that have granted you credit or loaned you money—such as banks or credit card companies—supply information about your accounts on a regular basis to credit reporting agencies. This information is compiled into a credit report.

Your credit report may also contain information about you from public records, such as overdue property taxes or bankruptcies. Some states allow information about overdue child support payments to be included.

Can my credit report be used to discriminate against me?

No. To protect you from unfair treatment, your report doesn't contain information about your race, religion, political affiliation, medical history, lifestyle or any criminal record.

What is a credit report used for?

Your credit report is used by banks, stores and finance companies to predict the risks of lending you money, based on your history of making payments. Potential landlords and employers use your credit file to evaluate how responsible you are with your personal finances. The decision on whether to rent you a place to live or give you a job can be based on whether you pay your bills on time.

How can I see my credit report?

The Fair Credit Reporting Act (FCRA) gives you the right to see and

correct mistakes in your credit report. You can request a free copy of your credit report once a year from each of the three national credit reporting bureaus. (See page 19 for information on how to contact the credit bureaus.) If you order additional reports in the same year that you obtained a free report, you must pay \$10 per report unless you have been denied credit. It's a good idea to check your credit report at least once a year to make sure all the information is accurate. FCRA also limits the rights of others to see what's in your credit report.

Who else is allowed to see my credit report?

Credit bureaus do not allow everyone to see your credit report. Only those who can prove a legitimate need may have a copy. In almost all cases, your written or oral permission or your signature on a credit application is required for companies to access your credit. Before allowing access to credit reports, credit bureaus require businesses and individuals to sign contracts in which they agree to use the data properly. On your credit report, you will see listed the names of everyone who has requested a copy in the last six months to two years, depending on the type of inquiry.

What can I do if I am denied credit?

If you are denied credit, you can ask the credit bureau that supplied negative credit information for a free copy of your report, but you must request it within 60 days of the denial. Ask the lender that denied your application for the agency's name if it is not included with the credit denial notice.

What will I be asked to provide when I request my credit report?

The companies expect you to provide information about yourself before they give you a copy of your credit report. Typically, you will be asked for:

- your full name, with suffix, such as Jr., Sr. or III.
- your Social Security number.
- your addresses for the past 2-5 years, with ZIP codes.
- a copy of your driver's license or a billing statement to verify your current address.

Credit Reporting Bureaus

What do credit reporting agencies do?

Credit reporting agencies are in the business of compiling credit records. National credit reporting agencies—also called credit bureaus—keep the credit histories of close to 200 million individuals in computer databases. Anyone in the U.S. who has ever used credit to buy anything probably has a credit report.

Why did the credit reporting bureau reject my application?

Credit bureaus do not make decisions whether or not to grant credit. It was the lender, not the credit bureau, that made the decision not to approve your application. Each lender sets its own lending standards. The vast majority of lenders base lending decisions on information provided by the three largest credit bureaus: Equifax, Experian and TransUnion. (See “Sources of Help and Assistance” for information on how to contact these companies.)

What You Can Do About Inaccurate Information

What will happen if I have negative information on my credit report?

If your credit report reveals that in the past seven years you have been late in making payments on your credit cards, failed to repay a loan or filed for bankruptcy, you may find it difficult to get more credit. You may be rejected by a potential employer, or you may have trouble renting an apartment or establishing telephone, gas and electric, water or heating oil accounts.

Negative information on your credit report can affect you for many years. No one can remove accurate negative information from a credit report. However, you can ask the credit bureaus to investigate inaccurate information.

What if I find a mistake on my credit report?

You can dispute inaccurate information. Write to the credit bureau to explain the problem. Under FCRA, the bureau must investigate the disputed information within a “reasonable time”—usually 30 to 45

days—and report back to you. If the information is proven to be a mistake, it will be removed from your credit file. If the creditor who provided the information can no longer verify it, the credit bureau must remove the information from your credit report. You will be sent a corrected copy of your report.

If the bureau insists that it cannot remove the information because it is accurate, you have the right to attach a written explanation about the problem to your file. Limit your statement to 100 words. All those who look at the file in the future will be given a summary of your statement.

If I find a mistake on one credit bureau's report, will the mistake be corrected automatically at other credit bureaus?

To make sure that the error has been corrected by all three major credit bureaus, follow up by getting copies of your report from the other two about six weeks after the first credit bureau corrects the mistake. If you see the same information reported inaccurately, go through the dispute process with each credit bureau. Information on disputes and corrections is supposed to be forwarded to the two other major credit bureaus and to the creditor who reported the information. However, the process is not fully reliable.

Under a 2003 law, you can also directly contact the company that provided the information about you. If you can provide proof that the information being reported is false, the company must remove the inaccurate information from your credit report at all credit bureaus to which it was reported.

My credit report has many "inquiries" listed. What are they?

"Inquiries" are a record of everyone who has asked for the information in your credit report. Some are there because you applied for credit. Others are routine checks on your continuing credit history by your current creditors. Still others are creditors looking for people with good credit so that they can send them credit offers. Even your own request for a copy of your credit report shows up as an inquiry.

Most inquiries remain on your credit report for two years. You are allowed to see all inquiries on your credit report. But not everyone is allowed to see all inquiries. For instance, when you apply for new credit, the potential lender will not see the routine checks by current lenders, the unsolicited credit offers or your own requests.

Will the number of inquiries on my credit report affect my credit?

This depends on what kind of inquiries they are, and even on the type of credit you are applying for. Usually, lenders consider several applications for credit over a few weeks or months to be a bad sign that you are overextending yourself and taking out too much credit. However, potential lenders don't see all types of inquiries, including those by your current creditors for account monitoring purposes, reviews by banks wishing to send you unsolicited credit offers or your own inquiries. (These show up when you ask for a copy of your credit report.)

Lenders relax their standards somewhat when it is obvious that an applicant is shopping around for a good rate on a car loan or a mortgage. Therefore, if you have multiple inquiries from car loan companies or mortgage lenders in a window of a few weeks, this may not negatively affect your credit standing.

My application for credit was turned down. What should I do?

You are allowed to have a free copy of your complete credit report if you have been turned down for credit, a job or a rental dwelling in the past 60 days based on your credit report. You should also get a free copy if you are a victim of fraud. Ask the lender which credit bureau it used and contact that credit bureau directly.

Establishing Good Credit

How can I build a credit history?

It can take from six months to two years of on-time payments and responsible use of credit to build the kind of credit history most lenders consider reliable. Sometimes it is easier to try to get your first credit account close to home. Try a local lender, department store or credit union—a financial institution run by its members instead of by a for-profit company.

When trying to build a credit history, it's very important to find a lender that will report the payment record on your new credit account to one or more credit reporting agencies. If it's not reported, it won't establish a record for future lenders to see. (Since people with no credit or poor credit usually have to pay higher rates of interest, some lenders want to hold on to profitable customers and therefore do not report their accounts to credit reporting bureaus.)

What is a secured credit card?

A secured credit card is a credit card backed by money you deposit into a security account. The deposit serves as security for the credit card. If you don't make your credit card payments, the money in the secured account could be used to cover that debt.

A secured card can help you build a credit history—or begin to repair a poor credit history. But shop carefully and compare interest rates and fees. Although you'll most certainly have to pay an annual fee, try to avoid banks that charge an additional up-front application fee. There are now many reputable banks—local and national—offering secured cards. The web site, www.bankrate.com, has information about secured cards that are available nationwide.

How do I build credit with a secured card?

If you acquire a secured credit card, use it for purchases and maintain a good payment record for at least one year, your chances of getting a regular unsecured credit card may improve. After one or two years, apply for an unsecured card. By then, you may also have begun to receive pre-approved offers for unsecured credit cards in the mail.

Can I ask someone to co-sign my credit application?

You can ask a relative or friend with good credit to co-sign your credit application. A co-signer promises to pay if you don't and puts his or her good credit at risk for you. If you don't repay the loan, the co-signer is responsible for repaying it. While it's possible to build a credit history this way, for many people co-signing a loan or credit card is not worth the risk, so you may have trouble finding someone to help you.

Keeping Good Credit

How can I make sure I always have good credit?

Make good credit a top priority. Use credit responsibly. Pay your bills on time. Only borrow amounts you can comfortably repay. If, because of illness, unemployment or other reasons, you are unable to pay your bills, contact your creditors at once and explain the problem. They may work with you to set up a new payment schedule you can meet until the crisis is over.

Can fraud affect my good credit?

Yes. Although you are not liable for fraudulent use of your credit, it can

take a lot of time to prove the charges are not yours and to remove the fraudulent items and accounts from your credit history. To protect yourself before something bad happens:

- keep a close watch on your credit cards, checks, savings passbooks and ATM cards.
- don't keep all of your credit cards in your wallet—store them in a secure place and just take them along when you need them.
- do not give out credit card account information to people who call you on the telephone.
- in a safe place, keep a list of all account numbers and your creditors' phone numbers so that you can report lost or stolen ATM and credit cards immediately. This will help limit your liability for charges that you did not make and protect your credit.

➡ be particularly careful about how you dispose of unwanted credit offers that come in the mail. Tear up the offers when you throw them away.

Does your credit rating get better if you have more credit cards?

In most cases, no. Many people believe that your credit history improves as you acquire more credit cards. In fact, too much outstanding credit can work against you when you apply for other loans.

Credit Scoring

I was denied a loan and the lender said it was because of my “credit score.” What is a credit score?

Credit scores (sometimes called risk scores) are formulas that lenders use to predict how you will use credit in the future. Different lenders use different formulas and most do not reveal what goes into them or how they are used in decision-making.

These formulas are not based on just negative payment information. They take into consideration how long you have lived in the same place or worked at the same job, how much total credit you have, the outstanding balances on your loans and credit cards and/or how much new credit you have acquired in the past few months.

What is a FICO score?

There are many types of credit scores—one of the most common is developed by the Fair Isaac Corporation, which calls them FICO scores. Depending on the credit reporting bureau, Fair Isaac-designed credit scores are known as BEACON (Equifax), EMPIRICA (TransUnion) and the Experian/Fair, Isaac Risk Model (Experian). FICO scores are based on information in consumer credit reports maintained at these credit reporting agencies.

Your FICO score is not the only information lenders look at. They also look at the amount of debt you can handle in relation to your income, your employment history and your credit history.

Why did the credit reporting bureau give me a bad credit score?

Credit scores are not ratings provided by credit bureaus. Credit bureaus do not provide evaluations of or draw conclusions from the information in your credit report. The bureaus do not play a role in the decision of whether or not to loan you money, extend you credit, give you a job or rent you an apartment.

How can I find out what my credit score is?

The three largest credit bureaus allow you to purchase your score online at their web sites. (See “Sources of Help and Assistance” section for contact information.) Along with your score, the companies offer explanations of how your score was arrived at and advice on how to improve it.

Women, Marriage, Divorce and Credit

My husband and I have joint credit accounts. Should I have an account in my own name?

To make sure they will have credit in their own name, married women should ask creditors to report joint credit accounts under their full names and Social Security numbers.

I plan to be married and to keep my maiden name. Should I notify the credit bureaus?

You only need to update your credit file if your name changes due to marriage or divorce. If you have a credit history under your maiden name and do not plan to change your name after marriage, there is no need to notify the credit agencies of your marriage. Any joint credit accounts that you establish with your husband will be reported to the credit bureaus under both your names.

I am divorcing. What should I do about our joint credit accounts?

If you legally separate or divorce, cancel joint accounts and apply for new ones under your own name. Notify your creditors in writing at that time that you are no longer responsible for any debts incurred by your ex-spouse. However, you will still be responsible for debts previously incurred.

Co-signing for Credit

Should I co-sign a loan for a friend or relative?

Only you can decide the answer to this question. However, you should clearly understand the obligations of a co-signer—you are as responsible for making the payments as the person who actually takes out the loan. This is true even if you are not receiving the billing statements. If payments are not made on time, it will have a negative effect on your credit history.

In some states, creditors are prohibited from reporting delinquent payments on the co-signer's credit report unless the co-signer is notified that the payment is overdue.

Is there any way I can know if a debt I co-signed is being paid on time?

As a co-signer, you will not receive billing statements for the loan or credit card. When you sign, get the lender's name and other information about the credit account. Although the lender may not contact you unless the primary borrower defaults, you have the right to check with the lender that the account is current.

If you'd like to help someone build credit, consider becoming the primary borrower on a small loan and let the person who wishes to build credit be the co-signer. Ask him or her to pay you so that you can make the payments on the loan yourself. You'll be able to make timely payments and if the co-signer stops paying you, you'll know about it early and can pay the bills yourself so that your credit will not be negatively impacted.

Credit Fraud

What is credit fraud?

Credit fraud is a crime that comes in many forms—but the bottom line is that someone is using your credit accounts or your name without your authorization. (Victims of credit fraud are not liable for unauthorized charges, but the hassle of reversing them can be frustrating and time-consuming.) Crooks can steal credit cards from mail boxes before you receive them. Sales employees and waiters can swipe your card through “readers” and create duplicates to be sold on the black market. In the crime known as identity theft, an impostor uses your Social Security number and other personal information to set up credit accounts and buy goods and services on credit. You lose your wallet and, before you know it, someone else is using your credit cards for a shopping spree. These are all examples of credit fraud.

How can I be sure my credit is not being used by someone else?

The best way to stay alert for fraudulent activity involving your identity or credit history is to review your credit report at least once a year. You should regularly obtain credit reports from all of the three largest credit reporting agencies (*see “Sources of Help and Assistance”*).

Check the accounts, inquiries and addresses that appear on your report. If you do not recognize a new account or the name of a company that gained access to your file (inquiry), it’s a good idea to check further by contacting the credit bureau or lender. Check all addresses—if you discover an address you don’t recognize, it could mean that someone else set up credit accounts in your name at another address.

Sometimes your credit card issuer will contact you when there is unusual activity on your card. For example, if you usually do not make large purchases with your card but one day you buy a TV and a stereo, the fraud department may call you to verify that you authorized the charges. If you don’t travel often, call your credit card company before a trip so it doesn’t arouse the suspicions of your card issuer if you use the card while you’re away.

What can I do if I am a victim of credit fraud?

If you notice unauthorized charges on your credit accounts, contact the lenders as soon as you can. Notify them that your accounts are being used by someone else. To check if your credit has been damaged, contact each of the three largest credit bureaus and get copies of your credit reports. They should be free if you are a fraud victim. If you find unauthorized accounts, call the fraud department of each credit reporting bureau and ask how to place a “security alert” on your file.

The credit bureaus usually require a written request including your full name, current mailing address, Social Security number, date of birth and any previous addresses for the past 2-5 years. In most cases, the credit reporting bureaus will ask that you get a police report detailing the criminal activity. Call the non-emergency number for your local police department and explain your situation. According to many victims of identity theft, some police departments are not always helpful with this type of request. However, as the crimes of credit card fraud and identity theft become more well known, police departments are becoming more responsive in helping you prove you are a victim.

How can I make sure that the crook will not open more accounts in my name?

If you have established yourself as a victim of credit fraud, you can ask the credit reporting bureau to add a “victim statement” to your credit report. This asks lenders to call you to verify all new credit applications. You must give a daytime phone number in your victim statement and keep it updated if you move or change your number. The credit bureau might ask you to document that the phone number is really yours by sending a copy of a phone bill or your business card.

Although the victim statement should not result in denials of new credit to you, you will not be able to open “instant credit” accounts at stores because it will take time to verify your identity.

Employment and Credit Histories

Why are employers allowed to check my credit history? What does credit have to do with getting a job?

Some employers use credit reports to judge job applicants' integrity and responsibility for personal financial matters. If your report shows that you handle your personal finances well, an employer might conclude that you will handle the companies' affairs responsibly, too. Employers also use credit reports to verify information supplied on job applications.

Does an employer need my permission to look at my credit report?

Yes. Since revisions to the Fair Credit Reporting Act were passed in 1996, any employer or potential employer who wants to review your credit report must get your written permission to do so. If the information in a credit report plays a part in a decision to deny you a job, or any "adverse action" (such as firing or demoting you or reducing your salary), the employer must provide a copy of the report and information about your right to dispute any inaccurate information.

Can a potential employer see everything in my credit report?

No. There are certain kinds of information in your credit report that employers are not allowed to see. They are allowed to see information about payments on your loans and credit cards—but they are not allowed to see your account numbers. They are not allowed to have information about your marital status or your year of birth.

Federal Credit Laws

What are the key laws about credit and borrowers that protect consumers?

Several federal laws protect consumers when they apply for credit, have debts or take out loans:

Fair Credit Reporting Act (FCRA)—A federal law that regulates credit reporting bureaus and prohibits inaccurate or obsolete information from being reported in a consumer’s credit file. Amendments passed in 2003 to address the growing crime of identity theft include a provision that allows individuals to request free copies of their credit reports from all three major credit reporting bureaus each year.

The FCRA allows credit bureaus to gather information about your credit worthiness, credit payment history, bankruptcy, lawsuits, tax liens and collection accounts and to provide this information to those who have a legitimate business need, such as screening for credit, insurance or employment purposes. Negative information is deleted after seven years, or in the case of bankruptcy, 7-10 years from the date of discharge. Under FCRA, credit bureaus are required to notify you in writing if they plan to conduct an “investigative consumer report,” in which they may interview your neighbors, friends, associates and acquaintances about your character, reputation and lifestyle.

Fair Debt Collection Practices Act (FDCPA)—A federal law that spells out illegal debt collection conduct by collection agencies and attorneys. The FDCPA requires that a collection agency:

- stop contacting you if you ask it to stop in writing.
- send you a written notice that identifies the debt and the creditor and outlines your right to dispute the debt and to request the name and address of the original creditor.
- suspend collection efforts on the disputed portion of the debt until the collector responds to your complaint.
- bring any legal action against you only in the county you live

in or where you signed the contract leading to the debt.

Under the FDCPA, the following conduct by a debt collector is illegal:

- communicating with your relatives, employer, friends, neighbors or other third parties about your debt unless you or a court have given permission. Third party contacts are allowed as a means of finding a debtor, as long as the collector doesn't mention the debt.

- contacting you at unusual or inconvenient times or places, if you are represented by a lawyer or if you have asked the collector to stop contacting you, or mailing you envelopes or postcards that might reveal to third parties that they are from a debt collector.

- harassing or trying to intimidate you through frequent or repeated telephone calls, using obscene, derogatory, insulting or threatening language or making false statements.

Equal Credit Opportunity Act (ECOA)—A federal law that prohibits discrimination against people applying for credit. A creditor may not refuse you credit on the basis of your sex, marital status, race or color, religion, national origin or age if you are otherwise creditworthy. If a creditor denies you credit, changes the terms of a credit arrangement or revokes credit, you must be informed of your right to have a written explanation.

Fair Credit Billing Act (FCBA)—A federal law that governs credit card and charge card billing errors. You have the right to dispute any errors billed on your credit card or charge card within 60 days after the bill was mailed. The company must acknowledge your letter within 30 days unless the billing error is corrected, and within two billing cycles it must correct the error or explain why it believes the amount is correct. During the investigation (two billing cycles or 90 days maximum) the company cannot report the amount to a credit bureau as delinquent.

Truth in Lending Act (TILA)—A federal law that requires lenders to tell you how much it will cost to borrow money so that you can compare the price and terms of credit offered by different lenders. Under the law, you must be given specific disclosures, including the

total cost of the loan and a list of all terms and charges. TILA also protects you when you take out loans in which you pledge your home as security, including home improvement loans, home equity loans and second mortgages. You have until midnight of the third business day after signing a home-secured loan contract to cancel it. You must be told of your right to cancel and be given a cancellation form when you sign the contract.

Sources of Help and Information

Consumer Action

Consumer Action is a non-profit advocacy and education organization founded in 1971. CA publishes surveys and distributes multilingual educational materials, both in printed form and on its web site, and provides non-legal advice and referrals on consumer problems.

Web site: www.consumer-action.org

E-mail: hotline@consumer-action.org

221 Main St., Suite 480
San Francisco, CA 94105
(415) 777-9635

523 West Sixth St., Suite 1105
Los Angeles, CA 90014
(213) 624-8327

Consumer Credit Counseling Service (CCCS)

The CCCS helps consumers who are having trouble paying their bills to work out debt repayment plans. The organization's parent, the National Foundation for Consumer Credit, can help you find the office nearest you.

National Foundation for Consumer Credit
801 Roeder Road, Suite 900
Silver Spring, MD 20910
Web site: www.nfcc.org
(800) 388-2227

Free Annual Credit Reports

To receive a free, annual credit report online, visit the Annual Credit Report web site: www.annualcreditreport.com.

By phone, call (877) 322-8228.

By mail, download a request form at www.annualcreditreport.com and send to:

P.O. Box 105281

Atlanta, GA 30348-5281

Credit Reporting Bureaus

These are the three largest companies that keep consumer credit information on file.

Equifax

Web site: www.equifax.com

(800) 685-1111

Experian

Web site: www.experian.com

(888) 397-3742

TransUnion

Web site: www.transunion.com

(800) 888-4213

Federal Trade Commission (FTC)

Credit bureaus are regulated by the FTC, a federal government agency, under the federal Fair Credit Reporting Act. The FTC has many free brochures dealing with credit-related issues, as well as a web site with information about identity theft (www.consumer.gov/idtheft).

FTC-Consumer Response Center

CRC-240

Washington, D.C. 20580

Web site: www.ftc.gov

(877) 382-4357

Glossary

Adverse action: A term used to denote a situation in which information in your credit report is used as a reason to turn down your application for credit or insurance, not hire you or cause you to lose your job.

Authorized user. A person you permit to charge goods and services on your credit card account. You must give your permission for an authorized user to have a card. You are responsible for all payments—not the user. Being an authorized user usually does not help you to establish credit in your own name.

Bankruptcy. Federal law permits people who claim they cannot repay their debts to seek relief in court. There are several types of bankruptcy, including Chapter 7 bankruptcy, which provides for a court to oversee the sale of most of a person's assets and forgives most debts not covered by the sale proceeds, and Chapter 13 bankruptcy, in which debts must be repaid out of the bankrupt person's future income.

Co-signer. A person who agrees in writing to repay a primary borrower's debt if the borrower fails to do so. A co-signer is fully responsible for the debt, and any missed payments or default will be noted on the co-signer's and the primary borrower's credit reports.

Credit report. A record of an individual's loans, credit cards, payments and maximum credit limits. The information is supplied to credit reporting agencies by lenders. Reporting agencies may only release the information to companies or individuals who have a legal right (see "permissible purpose") to review the report.

Credit scoring. A method of predicting how likely a given borrower is to repay a loan. Most lenders use information from a credit report or application to arrive at an individual's score. Your score may change significantly as you pay off debts or take out new loans.

Credit, types of. Any loan, including mortgages and car loans, in which the total debt is divided into amounts that must be repaid regularly with interest over a specific length of time is installment credit. Another kind of loan is open-ended credit (also called revolving credit), which includes credit cards and some home equity loans. Open-ended credit allows

borrowers to draw on a certain line of credit when needed as long as they make regular payments on the outstanding balance.

Dispute. Your legal right to inform a credit reporting bureau that you believe something in your credit report is inaccurate, and to demand that the bureau investigate the information with the lender that provided it.

Finance charge. The amount of interest charged when you borrow money; the cost of using credit.

Inquiry. Each time an individual or company looks at your credit report, their names must be listed under the “inquiries” section of your report.

Investigation. When a consumer disagrees with something in his or her credit report, consumer credit reporting agencies must verify the disputed information with the lender that furnished it. If the investigation finds inaccurate information, these items must be removed from the credit report.

100-word statement. If the credit bureau states that it can find no reason to remove an entry that you have disputed from your credit report, you have the right to add a short explanation to your file. The statement should explain why you think the entry is incorrect.

Opt out. By law, you have the right to notify credit reporting agencies and marketers that you wish to remove your name from all sales lists. You may choose not to receive prescreened credit and insurance offers by calling (888) 567-8688.

Permissible purpose. Anyone who accesses your credit report must have your written permission or have a legal right to do so. If you apply for credit or insurance or are currently doing business with a lender, that lender has the right to check your credit. All permissible purposes are outlined in the Fair Credit Reporting Act.

Secured credit. A loan guaranteed by something of value (collateral) such as a house, automobile or securities. If you fail to pay the loan, the lender has the right to take the collateral.

Security (or fraud) alert. A message on your credit report that informs lenders that you are a victim of credit-related fraud.

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