Your credit history—how you've used credit and paid your bills in the past—plays an important role in how lenders assess your applications.

Lenders and others can access your credit history in your "credit report" to determine whether to do business with you and how much to charge.

A "credit score" is an evaluation tool that reduces the information in your credit report to a three-digit number that helps lenders make quicker decisions. Credit scores help businesses predict which applicants are likely to repay loans. The better your credit report, and the credit score derived from it, the more likely it is that your credit application will be approved.

Because your credit report can have a significant impact on your ability to achieve important goals such as buying a car or home, or even renting an apartment or getting a job, it's crucial to know what information is collected about you, how to interpret and improve it, and what your rights are.

What goes into your credit report and score?

Credit reports are compiled by credit reporting agencies (CRAs). Although there are many niche CRAs that compile various types of consumer reports, there are only three major credit bureaus that compile credit reports: Experian, TransUnion and Equifax. The information gathered by these companies comes from lenders and other creditors through sources such as credit applications, current and past credit accounts, and financially related public records.

Credit reports usually include:

- Identifying information (name, current and previous addresses, birthdate, employers you listed on credit applications, and your Social Security number, for example);
- Your payment history, outstanding balances, credit limits on revolving accounts, the date each account was opened, and the current status of your own accounts as well as accounts you have cosigned or on which you are an authorized user;
- Information from public records, such as bankruptcy filings and liens (for past-due taxes or a court judgment against you, for example);
- Overdue child support payments; and
- The names of anyone who has requested your report in the past two years (called "inquiries").

Your credit report does not contain information about your gender, race, religion, political affiliation, medical background, criminal record or bank accounts. Generally speaking, it also should not contain information about bankruptcies more than 10 years old or unpaid debts more than seven years old (from the date of the first missed payment that led to the delinquent status). And, it doesn't include any credit scores.

Anyone with a "permissible purpose" under the law can obtain a copy of your credit report. This includes, but is not limited to, anyone considering you for employment (except when limited by state law), a loan or other credit, insurance or a property rental. Your permission is generally required, and is usually obtained when you sign an application for these services. Potential employers must obtain *written* permission. Debt collectors can obtain your credit report without permission, and can place "collection accounts" on your credit report without notifying you.

Credit scoring models apply a formula to the information in your credit report, assigning a certain weight, or number of points, for each of hundreds of elements within your history. The most significant risk factors are:

Payment history: Have you paid your bills on time and as agreed? Does your report have negative items such as collection accounts, bankruptcies, judgments, liens or past-due accounts?

Available credit and utilization: How much total credit is available to you and how much is currently outstanding?

Amounts owed: How much total debt do you have?

Length of credit history: How long have you been using credit?

New credit: How many new credit accounts have you recently opened or tried to open?

Types of credit used: Do you use a mix of credit types (mortgages, installment loans and credit cards, for example)?

How much weight is given to each of these factors depends on the scoring model being used and your unique profile. Generally speaking, however, your payment history will have the greatest bearing on your credit score. Accounts you have failed to pay or defaulted on will drag your score down, while a history of on-time payments will result in a higher score. Don't obsess about your score—focus your energy on improving your credit history by paying your bills on time.

Interpreting your credit score

To know how you rank, you have to consider the scoring model being used.

There are many different credit scoring models used by lenders to help them assess credit risk. The model most recognized by consumers is one produced by FICO, which has a scale from 300 to 850. Another scoring model, VantageScore (jointly developed by the three major credit bureaus), also uses a 300-to-850 scale. However, other scores—even those developed by the same company for specific industries—may use different scales. That's why it's important to understand what credit scoring model is being used and what the scale is for that model—so you can see how you rank on that particular scale.

Finding out your score

You can buy a FICO score at www.myFICO.com, a website owned by the Fair Isaac Corporation, developer of the family of FICO scoring models, all of which are referred to as "FICO scores." You can also pay extra to purchase it when you request your free annual credit reports (see ordering info below).

But before you pay for a credit score, find out if you might be able to access one for free. Many banks and credit card companies now provide free credit scores to their customers. Credit card issuer Discover offers a free FICO score to *all* consumers, not just its customers. Other sources of free scores include Credit Karma, NerdWallet, Credit Sesame and other financial services websites. While these free scores may not be exactly the same ones used by a lender to evaluate your application, they typically are sufficient to give you an idea of what kind of credit you have (bad, poor, fair, good, excellent).

Checking your scores won't hurt your credit, but it's wise to limit how many sources you give your personal data to (ordering a score requires your name, Social Security number and other identifying information). And be aware that the "cost" of a free score is likely to be promotional email messages. Read the privacy policy and terms of use before ordering so that you understand how the information collected about you might be used or shared. (You should never have to enter a credit card number to obtain your "free" score.)

There are a few circumstances under which you would automatically receive one or more of your credit scores for free.

If you are applying for a home loan, federal law requires the lender to inform you of the credit scores used in evaluating your mortgage application. The law also requires consumer (non-mortgage) lenders to disclose the credit score they used in their decision if they deny your credit request, or if your credit request is approved but you are not offered the lowest interest rate or best terms available because of your score. You also are entitled to a free score from your credit card issuer if the interest rate on your existing account is increased based on a credit score. In these scenarios, you don't have to ask the financial institution for your score; it should provide it automatically, along with information about the score range.

Be sure to read the information that comes with any score you get to know how to interpret it. Even if you receive the same type of score from more than one source, you could see different numbers. This is because not all creditors report to all three credit bureaus, an error may have been corrected with one credit bureau but not the others, or there are slight variations in the scoring formula.

Improving your credit rating

There are many good reasons to try to improve your credit, including lower interest rates on money you borrow. Since even a small difference in the rate on a home or auto loan can translate to hundreds or thousands of dollars saved over the life of the loan, it pays to take steps to improve your credit. These tips can help:

- Pay your bills on time.
- Make up any past-due payments so that your account is current.
- Pay off credit card and other unsecured debt. Only transfer it to new accounts if you can significantly lower your interest rate and pay it off more quickly without increasing your debt load by continuing to charge on the original card.
- Keep balances at 30 percent or less of available credit on revolving credit accounts (such as credit cards).
- Beware of closing unused revolving credit accounts. If you have a high balance-to-limit ratio on one card, having other cards with a zero balance can help offset the risk of that high utilization factor.
- If you have had credit problems in the past, you need to demonstrate that you can manage debt responsibly. Re-establish credit by charging an amount you can pay in full each month. This will help you build positive credit history to offset the negative.
- Apply for and open new credit accounts only as needed, particularly if you are about to apply for a loan. (New accounts can temporarily cause your score to drop until you have used them long enough to demonstrate that you can manage them well.)
- Have a mix of credit types (credit cards, installment loans and mortgages, for example) to demonstrate you can manage all sorts of credit.
- Shop around for a particular type of loan (auto or mortgage, for example) within a 30-day period—it won't look like you're trying to open many new credit lines.
- Dispute inaccurate items and those that are old and should have already fallen off your report.

Closing an account won't make it disappear from your credit report or immediately improve your score. Nor will paying off a valid account that is in collections—it will stay on your report for seven years. (However, disputing an inaccurate collection account and getting it removed from your credit report can improve your score.)

Paying an account late is better than never paying it at all. A payment that is 60 days late is worse than a payment that is 30 days late, but not as bad as a payment that is 90 days late. But any late payment is considered a negative and can have an impact (diminishing over time) on your credit scores for up to seven years.

A foreclosure remains on your report for seven years from its filing date, but its impact on your credit scores will diminish over time. In an effort to avoid the damage a foreclosure can do, some struggling homeowners choose to do a short sale (you get permission from the lender to sell the home for less than what you owe yet still satisfy the debt) or a deed in lieu of foreclosure (you give the home back to the lender in exchange for cancellation of the debt). As far as your credit score is concerned, however, these two alternatives still will do serious damage because the debt is not paid as agreed.

A bankruptcy is likely to have a greater negative impact on your score than a foreclosure, short sale or deed in lieu because it affects more accounts. Many people find that a bankruptcy does not keep them from qualifying for new credit a year or two after the bankruptcy is final (discharged). However, they are almost certain to pay substantially higher interest rates or fees for that credit.

If you're having money troubles, contact an accredited non-profit credit counselor. (Visit www.nfcc.org or https://fcaa.org for more information.) This won't improve your credit score immediately, but it may help you get your bills under control and end some of the stress of being in debt.

Your rights

You have certain rights under the federal Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transactions Act (FACTA).

You have the right to a free report once every 12 months from each of the three national credit reporting agencies, upon your request. Order your free credit reports online at www.annualcreditreport.com or by calling 877-322-8228. Your request will not impact your credit or lower your score.

You're also entitled to a free copy of your credit report if you're unemployed and looking for work, are receiving public assistance, have filed a fraud alert, or when someone uses the information in your file to take adverse action against you. This includes denying you credit, a rental home, a checking or savings account, insurance or a job. The company or individual must provide you with a "notice of adverse action," which includes the reason(s) you were denied, along with the source of the report (name, address and phone number of the CRA). The reason(s) provided for denying your request must be specific—for example, "number of delinquencies in your credit history" or "balances on your revolving accounts are too high." Request your free report from the source within 60 days of receiving the notice.

If you've received your three free reports for the year and are not entitled to another free report, there may be a small fee of around $10—or around $15 to $20 if you choose to purchase a credit score as well—when purchasing directly from the credit bureaus. To order your TransUnion report, visit https://disclosure.transunion.com/dc/disclosure/disclosure.jsp?. To order your Equifax report, call 888-298-0045. To order your Experian report, call 800-509-8495. (If you visit any of the agencies' homepages, you will have a difficult time finding the information needed to order *just* a report; all the sites promote the purchase of reports *with* scores and/or credit monitoring.)

You have the right to dispute information that is inaccurate or outdated. The CRA must investigate your dispute promptly and send you a notice of the investigation results along with a revised report if your dispute warranted a change. No one can remove negative information from a credit report if it's accurate and timely. Do not pay a service to do what you can do yourself for free.

If the source of the information determines that the information is accurate as reported and advises the credit reporting agency that it should remain unchanged, you may include a short statement, which will be shared with anyone who requests your report. If your report is revised or your statement is added, you can request that anyone who recently received your report be notified of the change.

State law may grant you additional rights. Find contact information for local and state consumer protection agencies by doing an online search, visiting http://www.consumerservicesguide.org/resources/national/browse/location/, or checking the government pages of your phone directory. Find your state attorney general's office online at the National Association of Attorneys General website (www.naag.org).

The Federal Trade Commission (FTC) enforces consumers' rights under the FCRA and FACTA, but does not mediate individual complaints. To file a complaint, or to learn more about credit reporting rules, visit www.FTC.gov (click on Consumer Protection) or call 877-FTC-HELP (877-382-4357).

About Consumer Action

www.consumer-action.org

Through multilingual consumer education materials, community outreach and issue-focused advocacy, Consumer Action empowers underrepresented consumers nationwide to assert their rights and financially prosper.

Consumer advice and assistance: Submit consumer complaints to https://complaints.consumer-action.org/forms/english-form or 415-777-9635 (Chinese, English and Spanish spoken).

This publication was created by Consumer Action's Managing Money Project (www.managing-money.org).

Rev. 4/18

Credit Reports and Credit Scores

A Consumer Action Publication