

Credit Reports

Santa Claus might know whether you have been bad or good, at least in the 1934 song “Santa Claus Is Coming to Town,” by J. Fred Coots and Henry Gillespie, but I’ll bet the jolly old elf does not have as much information about you as the three major credit-reporting agencies have in their files. Although your position on the naughty-or-nice scale might affect what you receive from Santa, your credit report and credit score can affect you much more significantly—from getting a job to getting a mortgage to whether an insurance company will do business with you. Often, your first indication that you have been victimized by identity theft is on your credit report.

When an identity thief gets access to your credit report by posing as you after getting access to your Social Security number and other personal information, the thief can then use your credit report to access credit in your name and take out loans that he or she will never pay back. The damage that can be done to you through a corrupted credit report cannot be overstated. Credit reports are used for many purposes, including obtaining credit, obtaining insurance, renting an apartment, getting a mortgage loan, and getting a job. When your credit report is corrupted by an identity thief, the effects can be devastating and difficult to fix.

Big Business

The credit-reporting system of the three main credit agencies has information on 1.5 billion accounts held by about 200 million people. This information is analyzed by businesses using credit-scoring formulas to decide whether to do business with you and under what terms. And this is a good thing. As Fed Chairman Alan Greenspan said in testimony to the House Financial Services Committee in April 2003, “There is just no question that unless we have some major sophisticated system of credit evaluation continuously updated, we will have very great difficulty in maintaining the level of consumer credit currently available because clearly, without the information that comes from various

credit bureaus and other sources, lenders would have to impose an additional risk premium because of the uncertainty before they make such loans or might, indeed, choose not to make those loans at all. So it is clearly in the interest of consumers to have information continuously flowing into these markets. It keeps credit available to everybody, including the most marginal buyers. It keeps interest rates lower than they would otherwise be because the uncertainties that would be required otherwise will not be there.”

How the System Works

Each of the three major credit-reporting agencies receives more than two billion items of information on individual accounts monthly that are reported to them voluntarily by businesses with which consumers have accounts. These businesses report positive information about the account, such as a prompt payment history, as well as negative information, such as late payments or the turning over of an account to a collection agency. All this information is organized and used to create individual credit reports for consumers. The information within a person’s individual credit report is used to calculate the credit score for that individual. Again, it should be noted that because each of the credit-reporting agencies independently assembles its own credit reports on individuals, the credit report and resulting credit score will differ from agency to agency, thereby creating triple the chances of having mistakes on your credit report.

When a consumer applies for credit, the business to which he is applying requests a copy of his credit report from whichever credit-reporting agency it uses in order to evaluate the application. This happens more than two million times a day.

What Is in Your Credit Report?

Your credit report contains the mother lode of personal information about you. In the hands of the wrong people, you could become the victim of identity theft faster than you can wave a credit card or say Jack Robinson. Why you would want to say Jack Robinson is beyond me. Also beyond my understanding is how the saying of the words “faster than you can say Jack Robinson” entered the language as a phrase meaning “very quickly.” What we do know is that the phrase has been with us since the 1700s, but as for who Jack was and how his name got to be synonymous with speed, we probably will never know. Personally, I think the two syllables “Jack Smith” should be the name by which we measure speed, although somehow I doubt that it will catch on.

Your credit report has your name, address, birth date, Social Security number, place of employment, employment history, and spouse’s name. It indicates

whether you own a home and where you lived previously. It lists the accounts you have with various creditors, how much credit has been extended to you, and when you paid back the loan. And if you did not pay it back, your report shows whether your bill went to a collection agency or a lawsuit.

Your credit report also indicates who has been asking for your credit report within the past year, or as long ago as two years if it was an inquiry related to employment.

Bankruptcies, tax liens, foreclosures, and other public records also find their way onto your credit report.

Who Has a Right to See Your Credit Report?

Anyone with a “legitimate business need” may obtain a copy of your credit report. Unfortunately, the combination of this being a pretty vague term and the credit-reporting agencies not being particularly vigilant in protecting your information has caused numerous situations of people who have no business having your credit report gaining access to it.

Legitimate businesses, such as credit card companies, landlords, and insurance companies, routinely view credit reports. Prospective employers may look at your credit report, but generally only with your express permission.

Who Should Not Have Access to Your Credit Report?

Who shouldn't have access? Your fiancée's mother. In the Eighth U.S. Circuit Court of Appeals case *Phillips v. Grendahl*, the court ruled that it was improper for a mother to get the credit report of her prospective son-in-law in order to check him out. According to the court, “investigating a person because he wants to marry one's daughter” was not a legitimate purpose for obtaining a credit report. This case also highlighted the ease with which people are able to obtain credit reports and how vulnerable we all are to identity theft because of all the personal information contained in credit reports.

How Do I Obtain My Credit Report?

Although you can get copies of your credit reports through companies that will do the work for you, the best advice is to go right to the source. You can obtain a copy from each of the three major credit-reporting agencies directly. Under the provisions of the Fair and Accurate Credit Transactions Act, you are entitled to a free copy of your credit report annually from each of the three major credit-reporting agencies.

You can contact Equifax at 1-800-685-1111 or www.equifax.com.

You can contact Experian at 1-888-397-3742 or www.experian.com.

You can contact TransUnion at 1-800-916-8800 or www.transunion.com.

Reviewing Your Credit Report

According to a study by the U.S. Public Interest Research Group, 29 percent of credit reports had serious errors that would affect the credit scores of the individuals with the mistaken reports. Due to the fact that each of the three major credit-reporting agencies, Equifax, Experian, and TransUnion, independently collects and maintains the information contained in their credit reports, your credit score might differ significantly from credit-reporting agency to credit-reporting agency.

If you find an error in your credit report, you should notify the credit-reporting agency that you dispute the particular item or items and indicate your reason for doing so. It might be that the information in your report reflects identity theft, or someone else's debt might have mistakenly been placed on your report. In any event, after you have informed the credit-reporting agency of the problem, they have no more than 45 days during which to investigate the problem, unless they consider your request to be a frivolous one. If the credit-reporting agency finds in its investigation that the information is indeed inaccurate, the information must be deleted from your file and, at your request, a corrected copy of your report will be sent to anyone who was sent a copy of your mistaken report. If the information in your report is incomplete, the credit-reporting agency must make sure that the information is accurate and complete. So, for example, if your report shows that you made late payments but neglects to show that you are now up-to-date in your payments, your report must be corrected to reflect this fact. If, as a result of the investigation, the credit-reporting agency is not able to verify one way or the other whether the contested information contained in your report is accurate, it must be deleted.

If, on the other hand, the credit-reporting agency determines that the material contained within your credit report is both accurate and timely, they must notify you of this determination and inform you of your right to have your version of, as Paul Harvey would say, "the rest of the story" added to your credit report. Your statement of explanation may not exceed 100 words.

Free Advice

Combine the fact that mistaken, inaccurate, and outdated material might appear on your credit record with the fact that it can take a long time to correct mistakes on a credit report, and you have a recipe for disaster. This is particularly true, for example, if you are in the midst of applying for a mortgage loan

and your credit score is lower than it should be. When you add to this situation the possibility that your spouse might well be saying, “I told you to take care of that a long time ago,” you have ample reason to check out your credit report for accuracy at least six months before applying for a mortgage loan.

A Million-Dollar Mistake

In 1996, Judy Thomas first became aware that her credit report contained notations of a large number of accounts that did not belong to her. In addition, she noticed that her credit report identified her as “Judy Thomas, aka Judith Upton.” No fraud or identity theft was involved. The mistake of adding information about Judith Upton’s credit report to the credit report of Judy Thomas was probably made because the women shared a similar first name, the same year of birth, and, perhaps most significantly, Social Security numbers that differed by only a single digit.

Upon becoming aware of the mistaken information contained in her credit report, Judy Thomas notified TransUnion, the credit-reporting agency whose credit report on her reflected this improper information, and requested that the false information be deleted from her credit report. TransUnion did delete some of the mistaken information but left most of it intact after it reportedly verified the information with the creditors that provided the initial information to TransUnion. The reason for this became apparent later when it was learned that credit-reporting agencies, at that time, usually verified accounts by merely inquiring of the creditor as to whether the particular information was the same information that previously had been reported by the creditor to the credit-reporting agency. Obviously, this is not a good way to verify the accuracy of mistakenly provided information. A more effective way to verify the accuracy of the information would have been to supply the creditors with all the information that Judy Thomas had independently gathered and provided to TransUnion to indicate that the challenged accounts were indeed not her accounts.

In 1999, Judy Thomas applied for a mortgage and was denied because of the tainted accounts of Judith Upton that remained on Judy Thomas’s credit report. To make things even worse, the few accounts of Judith Upton’s that had been removed earlier from Judy Thomas’s credit report reappeared on Judy Thomas’s credit report. Taking matters into her own hands, Judy Thomas contacted the creditors directly and even was aided by the real Judith Upton, who agreed with Judy Thomas that the questionable accounts were indeed her accounts and not Judy Thomas’s. Despite Judy Thomas’s best efforts, TransUnion still identified Judy Thomas as “aka Judith Upton” until December 2001. Eventually she sued TransUnion, alleging that it had been negligent in permitting the mistakes on her credit report to occur and in failing to correct them. After a trial that lasted a week, the jury came back with a verdict in her favor, ordering TransUnion to pay her \$300,000 in compensatory damages and then

adding \$5 million of punitive damages to the verdict, declaring that the actions of TransUnion were “willful.” The punitive damage amount was later reduced on appeal to a still pretty substantial \$1 million.

Credit Scoring

If Grantland Rice was right and it isn’t important whether you win or lose, why do they keep score? Let’s face it: Whether it is a student’s SAT score, the Red Sox–Yankee score, or your credit score that can determine whether you are extended credit and at what rate, scoring is important. Your credit score, as contained on your credit report, is of particular importance.

If You Can’t Beat Them, Join Them

I’ve Got a Secret was the name of a popular television quiz show from years ago. It also, until recently, could have described the manner of doing business of Fair Isaac & Co., a business whose creditworthiness scores are used by companies throughout the business world in determining whether to grant credit to applicants. Beginning in the 1950s, a number of companies, the most prominent of which is Fair Isaac, have used complex formulas to analyze the information contained in individual credit-reporting-agency files to arrive at a number or score that evaluates a person’s creditworthiness. For years, Fair Isaac protected its secret formula for credit scoring, believing that if people knew how credit scoring was done, they would try to manipulate the system. In 2001, Fair Isaac decided that it would disclose a full list of the factors that go into the score and the statistical weight that it gives each element. They beat the California legislature to the punch—it was about to pass a law requiring Fair Isaac to make their scoring system public. These scores that are called FICO scores have been used not just for mortgage applications, but also for other consumer loans and credit card application evaluations. Armed with this information, consumers can now see how their actions affect their credit.

Do You Want to Know a Secret?

Just as KFC carefully guards Colonel Sanders’s secret recipe of 11 herbs and spices, so does Fair Isaac still carefully guard the precise calculations of how its credit scoring system works, although they have released broad guidelines. However, leaks occur. As my grandmother used to say, “I can keep a secret—it is the people I tell it to that can’t keep a secret.” And just as leaks have occurred regarding the Colonel’s secret formula for fried chicken (it is alleged to involve rosemary, oregano, sage, ginger, marjoram, thyme, brown sugar, pepper, paprika, garlic, and onion, according to www.recipegoldmine.com), so have leaks occurred about how FICO computes credit scores. In addition, Fair Isaac itself has joined the parade and supplies some telling information on its own.

The No-Longer-Secret Formula

Under the now-disclosed broad outline of the FICO formula, your record of timely payments of loans accounts for 35 percent of your FICO score; the amount and type of outstanding debt that you have, 30 percent of your score; the length of your credit history, 15 percent of your score; the mix of your various credit accounts, 10 percent of your score; and, finally, the number and types of accounts that you have opened recently, the remaining 10 percent of your score.

What's Your Score?

For many people, "What's your score?" has become a more popular phrase than "What's your sign?" although it will never be much of a pickup line in a bar. It will, however, affect your life much more than your horoscope will. Your ability to get a car loan or a mortgage loan is affected by your credit score. How low an interest rate you will get on your loan is affected by your credit score. Many people are unaware that their credit scores might have resulted in their paying a higher interest rate on their mortgage loans than if they had a higher credit score. Telephone companies also use credit scores to determine whether to provide service and, if so, what deposit they might require. Your credit score can also affect how much you are authorized to take out on a daily basis from your bank's ATM. Even when you apply for a job, your credit score is important. Some prospective employers equate bad credit with unreliability, regardless of your astrological sign.

FICO credit scores range between 300 and 850. As so often is the case (with the notable exception of your cholesterol reading), the higher your score, the better. If your credit score is over 660, Freddie Mac, a company that plays an important role in the mortgage market, considers your credit score to be high enough that you will be approved for most mortgage loans with only a basic review of your application. If your score is between 620 and 660, your score is more problematic, and a more detailed review of your application will be required. A score of less than 620 results in your having a difficult time getting mortgage financing. Scores above 720 can often work to your benefit as to the terms of your loan, such as a lower interest rate.

In most states, whether you will be granted an insurance policy and at what cost is affected by your credit score, although there is a welcome trend among the states to limit the use of credit reports by companies selling homeowner's insurance and car insurance. For years, insurance companies have argued that, according to their secret formulas, a person's credit score has a direct relationship to the number of claims they make on their insurance. Consumer advocates have responded by saying that this practice is spurious (a great word that is derived from the Latin word *spurius*, meaning illegitimate or false) and

discriminatory, particularly against poor people and minorities. The use of credit reports in making employment decisions has also come under fire as being discriminatory. Brenda Matthews, an African-American, had her job offer from Johnson & Johnson rescinded after the company reviewed her credit report. Brenda Matthews's lawyers say that African-Americans have historically been discriminated against in the credit market and that this is reflected in their credit reports. The Equal Employment Opportunity Commission has previously ruled that in some circumstances failing to hire someone because of poor credit could be considered illegal discrimination, but that each case must be judged on its individual facts. According to the Federal Trade Commission, to justify a company policy of evaluating a job candidate through his or her credit report, the company must show that creditworthiness relates somehow to the job, as well as being consistent with business necessity. Proponents of using credit history for hiring purposes argue that an applicant with a great deal of debt is more likely to steal.

What Does Not Affect Your FICO Score?

Your FICO score does not consider your age, race, sex, marital status, job, or where you live. Your FICO score also does not consider the fact that you might be using the services of a credit counselor either for you or against you in determining your score. For years, there had been a concern that the constructive step of working with a credit counselor to improve your spending and credit habits would actually be used against you when you applied for credit.

How Often Is Your FICO Score Updated?

Your FICO score is regularly updated and recalculated using the latest information that comes into the credit-reporting agencies. Because that information is just a bit different every time your file is looked at, your score will fluctuate as well.

Timeliness

Not surprisingly, in calculating your credit score, being 90 days late is worse than being 30 days late. However, a 30-day late payment that occurred within the past month will hurt your score more than a single 90-day late payment from six years ago. And believe it or not, according to Fair Isaac, between 60 percent and 65 percent of all credit reports contain no late payments.

TIP

When settling an overdue bill, make a condition of any settlement you make with your creditor that it request that the credit-reporting agency remove any negative remarks about your account and instead report the debt as having been paid satisfactorily or paid as agreed. This will help your credit score.

Your Credit Limit

Generally, the better your credit, the higher the credit limit a credit card company will offer you. After all, if you are a good credit risk, the more you use your credit card the more money the credit card company makes off of you as a customer.

Sometimes you can get an increased credit limit merely by asking your credit card company for it. And sometimes you don't even have to ask for an increase because just like Santa Claus is always watching to see who are the good girls and boys, so are the credit card companies constantly monitoring your credit card activity. If you have shown that you are handling your credit well, you might receive a notice from your credit card company raising your credit limit without your even asking. It is important to remember that just because your credit card company asked you to the prom doesn't mean that you have to go with them. If you have concerns about your ability to handle credit, just say no, or, if you are feeling particularly polite, "No, thank you." You are under no obligation to accept an increase in your credit line. For many of us, however, turning down an increased credit limit is difficult. We find ourselves much like Oscar Wilde, who said, "I can resist anything except temptation." But try.

Why Would You Refuse a Credit Line Increase?

Although at first blush it would appear that there is no harm in accepting a large increase in your credit line if you have the discipline to use it (or refrain from using it) wisely, there are other reasons to consider refusing an increase in your credit line. Your ability to obtain a car loan or a mortgage could actually be adversely affected by having credit cards with exceptionally high credit lines. This is because when a lender looks at your open credit lines, it focuses on your ability to quickly and easily run up your debts, which can affect its decision to lend you money. As the great financial philosopher Dirty Harry Callahan said in the movie *Magnum Force*, "A man's got to know his limitations."

Timing Is Everything

It would seem to make sense to cancel any of your credit cards with large credit limits that you do not use. However, taking that step could actually harm your credit score. To understand this seemingly contradictory proposition, we need to do a little math. One of the factors in determining your credit score is the total amount of debt that you carry on your credit cards divided by the total amount of your available credit lines on those cards. If the result of that computation is 1, you are in trouble because it means you have borrowed to your utmost limit—not a good sign. Using this formula, the lower the resulting fraction, the better your credit score. So, for example, if you were carrying \$5,000 of debt on five credit cards with total available credit lines of \$20,000, you are using one-fourth of your available credit. If, however, you canceled a credit card that you did not use anyway that carried a credit limit of \$5,000, you would now be using one-third of your available credit and your credit score would be adversely affected.

Credit History

In determining your credit history for credit-score purposes, the age of your oldest account and the age of all your accounts are both considered. They also look at the age of specific accounts and how long it might have been since those accounts were active.

Fair Isaac recommends that people only recently establishing credit should be cognizant of the fact that opening a large number of new accounts in a short period will lower the average age of your accounts, which can lower your credit score.

Don't Know Much About History

Sam Cook first sang about not knowing much about history, and Simon and Garfunkel were apparently aware of history because they sang the same song, “Wonderful World,” years later and also had a hit record with it. But if your credit score is hurting because it does not show enough of your financial history, there are things you can do about it. First of all, get your report and see whether it is missing things that could add to your credit history and improve your score. Under the Fair and Accurate Credit Transaction Act of 2003, everyone has the right to a free credit report from each of the three major credit-reporting agencies. Not all your financial dealings are automatically reported to the credit-reporting bureaus and added to your credit report, from which is derived your credit score. If you have creditors whom you have been paying on a regular basis, ask them to report this fact to the credit-reporting agencies.

Establishing a Credit History Quickly

An apparent paradox in getting credit is that unless you already have a history of good credit, it can be hard to get credit. So how do you make history? Ask a friend or relative (or best of all, a friendly relative) with good credit to apply as a co-signer with you for a credit card. This makes it easier to obtain a credit card if you lack a sufficient credit history to get a credit card on your own. After you have established your own credit history through the responsible use of the credit card, you can then apply for a credit card on your own and cancel the card you got with the friendly co-signer.

Credit Inquiries

If you decide that you need another credit card (Americans today have an average of 3.2 cards per person), you should think twice before filling out a bunch of applications for new credit cards. When you apply for a credit card, the credit card company looks at your credit report. This is called a “hard inquiry,” and it can adversely affect your credit score if you have a lot of hard inquiries. It affects your credit score because it indicates you are considering taking on a large amount of additional credit that could affect your ability to meet your financial obligations if you were to run up your credit limits.

Just as Johnny Lee warned us in the song “Lookin’ for Love in All the Wrong Places” in the movie *Urban Cowboy*, so can you hurt your credit score by looking for credit in too many places. Applying for a lot of credit and incurring “hard inquiries” can reduce your credit score.

Soft inquiries occur when either you or one of your existing creditors checks out your credit report. Soft inquiries will not affect your credit score in any way.

When shopping for a mortgage or a car loan, it is a good thing to do a bit of comparison shopping. However, if in so doing, the lenders you contact each check out your credit report, the rash of inquiries can actually hurt your credit score and work against your getting favorable mortgage terms. The solution is to compare rates informally before narrowing your choice of potential lenders.

LOOPHOLE

All three of the major credit-reporting agencies look at automobile loan and mortgage loan inquiries within a 14-day period as counting as only a single inquiry for purposes of your credit score, so you can do a little comparison shopping without being too fearful of lowering your credit score. In addition, your credit score is not affected by inquiries done in the 30 days before your score is calculated, which means that if you complete your loan shopping within 30 days, your loan shopping will not lower your score.

A Healthy Diet

Just as a good mix of fruits, whole grains, and vegetables contributes to a healthy diet, so does a healthy mix of types of credit contribute to a healthy credit score. A proper combination of credit card accounts, retail store accounts, automobile and other installment loans, and mortgage loans can help show that you can handle different types of credit. This does not mean, however, that you should open new credit accounts just to improve the mix of your credit.

Retail Credit Cards

It is not uncommon when you are shopping at a particular retail store, such as Sears, to be told that if you sign up for their own credit card, you can get an immediate discount of usually around 10 percent on your purchase. What could be the harm in doing so? Anytime you open a new account, a credit inquiry is added to your credit report. Because credit inquiries can lower your credit score, that simple transaction could contribute to a lower credit score that in turn could contribute to a higher mortgage rate. In addition, adding another credit card to your stable of credit cards lowers the average age of your credit history, which lowers your overall credit score. So if you are going to use that card on a regular basis, it might make sense to open a retail credit card account, but if the retailer accepts the credit cards that you already have, the advantage of having a store credit card might be minimal at best.

No Good Deed Goes Unpunished

Negative information on your credit report such as an unpaid account is automatically removed from your credit report after seven years. But what if you have an account that is six years old that shows up as having gone to collection on your credit report? Logically, it would seem that if you made a payment on that account, it would be helpful to your credit. Unfortunately, logic does not always play a role in the world of credit reports and credit scoring. By making a payment on that overdue account in collection, you will have transformed the account from an old account that is about to disappear from your credit report in another year to a current collection account that will stay on your credit report for many more years. Perhaps the best action to take is to get your creditor to agree, in return for your payment, to report the account to the credit-reporting agencies as being satisfactorily paid in return for your payment rather than being designated as a current collection account.

Closed Accounts

Even if you close an account, that account will appear on your credit report and contribute toward the calculation of your credit score. Negative account information must be removed from your account after seven years. Bankruptcies, however, are an exception to that rule; they remain on your credit report for ten years.

Canceling a Credit Card

Perhaps you are looking to take the advice of Henry David Thoreau to “simplify, simplify, simplify” by closing some credit cards in an effort to reduce your risk of identity theft as well as remove a bit of temptation. If so, which cards should you close?

Close accounts with small credit limits. The effect on your credit score will be minimal. Close retail store cards. You don’t need them. Close more recently obtained credit cards. The longer your credit history, the better your score.

There is a right way and a wrong way to cancel a credit card. First and foremost, do not cancel a card while you still have an outstanding balance owed on the card. Some credit card issuers have provisions buried within the fine print of their contracts that allow them to raise your interest rate to astronomical levels in that event. Wait until you have fully paid off the card before you start the cancellation procedure. And make it easier on yourself by not using the card when you intend to cancel it in the not-too-distant future.

After you have fully paid off the balance on the credit card, contact the card issuer by telephone and tell them that you are canceling the card. You can reach them at the customer service telephone number imprinted on the back of your credit card. Be prepared to spend a lot of time on the phone as they bounce you from person to person who will try to talk you out of canceling the card. They might try to entice you to stay by offering better terms than you presently have. They might offer a lower interest rate, a reduction in fees, or other inducements to stay. It is most important that you remind them to report the cancellation of your card to the credit-reporting bureaus as “closed at customer’s request.” This is crucial because if the account is reported to the credit-reporting bureaus as “closed by creditor,” your credit score will suffer.

Follow up your telephone conversation with the customer service representative with a letter that you send to the card issuer by certified mail confirming your cancellation of the card and your request that they notify the credit-reporting bureau that the account was closed at your request.

Wait about a month and then check your credit report to make sure that the account is shown as closed at your request. If a mistake has occurred and the account is shown as being closed by the creditor, contact the customer service

department again and report the mistake. Follow up your conversation with them with another letter sent by certified mail, and make sure that you include a copy of your first letter with the second letter.

The Battle Against Aging

The lines that some people think of when they think about the battle against aging are often the lines on their faces; however, it might be more productive to think about the aging of credit lines.

The concept of re-aging of overdue accounts is largely unknown to many people who could be helped greatly by this process that is specifically authorized by the Federal Financial Institutions Examination Council (FFIEC), a part of the Federal Reserve.

Re-aging is the name for the process by which your creditor, such as a credit card company with which you might be behind in your payments, agrees to forgive your being late and reclassify your account as up-to-date. This does not mean that your debt is in any way reduced, but it does stop further late fees and it does greatly enhance your credit report and, correspondingly, your credit score.

How Many Psychiatrists Does It Take to Change a Light Bulb?

How many psychiatrists does it take to change a light bulb? Only one, but the light bulb has to demonstrate a sincere desire to change.

To qualify for re-aging of your credit card account, the standards established by the FFIEC state that the credit card issuer must establish and follow a policy that requires the consumer to demonstrate a renewed willingness and ability to repay the debt. A further condition to qualify for re-aging is that the account must be at least nine months old and the borrower must make at least three consecutive minimum monthly payments or a payment equal to that amount.

Sounds pretty good, eh? But before you rush to your credit card issuer to request re-aging of a delinquent account, you should be aware that there are other conditions imposed by the FFIEC. According to the FFIEC, accounts should not be re-aged more than once within a 12-month period and no more than twice during a five-year period. In addition, it is important to note that these rules established by the FFIEC are only minimum standards. Credit card issuers and other financial institutions are free to enact their own more stringent standards, such as permitting re-aging to be done by a consumer only once. However, particularly if the cause of your financial troubles was temporary in nature, such as a medical problem or a job loss, re-aging just might be the way to go, but first you must convince the credit card issuer to agree to your re-aging plan. As always, make sure you get it in writing if they agree to re-age your account.

How Do I Get My Credit Score?

To paraphrase the theme song from the old sitcom about a talking horse, *Mister Ed*, you can go right to the source and ask the horse. In this case, the source is Fair Isaac itself. Go online to www.myfico.com and you can purchase your score for each of the three major credit-reporting bureaus. Remember, because the three major credit-reporting bureaus maintain independent records, your report will most likely differ from agency to agency, so it is important to look at your scores from all three credit-reporting agencies.

What Does It All Mean?

When your credit score is generated, a list of as many as four reasons describing why the score was not higher is also produced and will be made available to you. This can be particularly helpful if you were denied credit or received a less advantageous interest rate as a result of a less-than-stellar credit score. This can also be a good opportunity to find out if you are a victim of identity theft, and it can provide concrete information as to what significantly reduced your score and what you need to do to improve your score. Now that the credit score genie is out of the bottle, FICO and many of the credit card companies have tripped over themselves trying to court consumers as well as make a buck out of consumers' thirst for their credit scores.

Garbage In, Garbage Out

A credit score is only as good as the information used to compute the score. The information used to compute your score is contained in your credit report. Unfortunately, that information can be quite often incorrect due to mistakes, negligence, or identity theft. And when harmful incorrect information appears on your credit report, you pay the price. You should regularly monitor your credit report and make the credit-reporting agencies correct any mistakes or identity theft that might appear on your report. Removing inaccurate information from your credit report can be a time-consuming matter, so it is important not to wait until you are applying for a loan to check out your credit report.

Credit Reports and Identity Theft

Access to your credit report is a significant step in identity theft because after an identity thief has access to your credit report, he or she can use that report to run up large purchases in your name that never get paid back. This in turn damages your credit score and taints your credit report, which requires you then to have the fraudulent charges removed from your credit report in order to restore your credit report to its proper status and correct your damaged

credit score. This process can be long and frustrating. But there are things you can do to help defend your credit report from identity thieves.

The first thing many people do is put a fraud alert on their credit report. This is easy to do, but it is not the most effective defense of your credit report. First, it might be placed on your credit report as a warning to potential creditors that your identity must be verified by reasonable policies and procedures before they grant credit in your name. However, fraud alerts are effective for only 90 days, after which they must be renewed. If you have been a victim of identity theft, you can ask for an extended alert that will remain on your report for seven years, and potential creditors must contact you directly by phone or otherwise to confirm any credit being sought in your name. You can put a fraud alert on all three credit reports by merely contacting one of them. You can contact Equifax at 800-525-6285, Experian at 888-397-3742, and TransUnion at 800-680-7289. Many of the identity theft insurance companies as a part of their services will assist in the placing of a fraud alert on your credit report.

The problem, however, as good as a fraud alert is in theory, is that in practice it has not proven to be a particularly effective way of protecting someone's credit report from being accessed by identity thieves. In many instances creditors have ignored the alerts and issued credit without confirming the identity of the person obtaining credit using a particular credit report. Other times the creditors have confirmed the identity of the person applying for credit in your name through their "reasonable policy and procedure," which involves the use of identity-confirming questions to which a savvy identity thief will know the answer. A far better defense of your credit report is achieved through a credit freeze.

Credit Freezes

A credit freeze is, as the name implies, a freezing of your credit report at your request whereby no one can have access to your credit report even if they have your Social Security number and other personal information about you. You control access to the credit report through a special PIN that you choose. Thus, even if someone were able to steal your Social Security number, they could not parlay that into access to your credit report to be able to purchase things or set up accounts using your name. If you need to thaw out your credit report at such times as you want to apply for credit, it is an easy procedure to do so using your PIN, and after your new credit has been established, you can freeze your credit report again.

Having your credit frozen will not affect your ability to get your annual free credit reports from each of the three major credit-reporting agencies.

Correcting Errors in Your Credit Report

If an identity thief has gotten access to your credit report, it is likely that there are charges and unpaid debts that were run up by the identity thief, but left to poison your credit report. If you have been regularly obtaining copies of your credit reports by utilizing your right to free copies, it is unlikely that too much time will have gone by before you become aware of the problem.

The next step to restoring your good name and good credit is to send letters to each of the three major credit-reporting agencies explaining that you are a victim of identity theft and pointing out the fraudulent charge on your credit report. Ask their fraud departments to investigate and remove the fraudulent charges.

But your work does not stop there. You should also contact the fraud department for every company with which you do business where fraudulent charges were made in your name by an identity thief and ask them to investigate and remove the charges. Send the same type of letter to any new company with which you have never done business but with whom an identity thief has run up fraudulent charges in your name, and ask them to investigate and remove the charges. Copies of form letters you can use can be found in the bonus material on www.ftpress.com/identitytheft.

Blocking Erroneous Information on Your Credit Report

Request that each of the three major credit-reporting agencies block erroneous information that appears on your credit report as a result of the actions of an identity thief, including unauthorized transactions, accounts, and inquiries. To get this information blocked from your credit report, you should write to each of the credit-reporting agencies and send them the following:

- A copy of your identity theft report
- Proof of your identity, including your name, address, and Social Security number
- An explanation as to the specific items that appear on your credit report as a result of identity theft and a statement that you did not in any way authorize the items

Assuming that your request is accepted, the credit-reporting agencies have 4 business days in which to block the fraudulent information from appearing on your credit report, as well as notify any business that sent such erroneous information of the blocking of the information from your credit report due to identity theft. If, however, the credit-reporting agency rejects your request, it is permitted to take an additional 5 days to request more proof from you. It then has an additional 15 days to work with you in regard to the information you

provide and 5 days after that to review the file again. The agency is permitted to reject any information that you send after the 15-day period, so it is important to be aware of these deadlines.

To prove that you have been a victim of identity theft, you might have to do a little detective work. Contact any business where an identity thief opened an account using your name and ask for copies of all documentation regarding the account, and send them a copy of your identity theft report. Any business to which you provide this information and request must provide you with free copies of the records within 30 days of receiving your request.