



# Good Credit - Build it and keep it

## What is your credit history?

When you ask for a loan or apply for a credit card, lenders look at your "credit history" to see how reliable you have been in repaying loans or credit.

If you've never been granted credit, such as a credit card, store account, car loan or mortgage, you may not have a credit history.

## Good credit can help you:

- Buy a home.
- Get a job.
- Set up telephone, gas and electric, water or heating oil accounts.
- Rent an apartment.
- Buy "big ticket" items (furniture, electronics or appliances) without paying cash.
- Finance a car.
- Qualify for insurance coverage.
- Borrow money.
- Obtain a credit card.

## Good credit versus negative credit

If you have had credit cards or loans and made all required payments on time, you probably have a good credit history. A positive credit record results from using credit wisely.

## People with good credit have:

- Established credit—they have borrowed money or used a credit card.
- A proven record of making at least the minimum payments on time—by the due date—and staying within their credit limits.
- Only obtained loans or credit cards that they are capable of paying back. (Don't overextend yourself—apply for only the credit you can afford.)

Negative credit results from failing to pay bills as agreed.

## Your credit can be negatively affected by:

- Late payments.
- Paying less than the minimum.
- Having too many credit cards with large balances or large amounts of available credit—even if you make on-time payments.
- Overdue accounts referred to a collection agency.

- Declaring bankruptcy.
- Having court-ordered withdrawals from your paycheck to pay debts (garnishment).

## **What is a credit report?**

Your credit report is a record of your loans, credit cards, payments and outstanding debts. The information is supplied by companies that have given you credit or loaned you money (lenders).

Lenders give regular reports about your credit accounts to companies called credit reporting bureaus. These companies are in the business of collecting information about consumers from lenders (such as banks, savings and loans, credit unions, finance companies and stores). Credit reporting bureaus keep this information in computer databases and provide it to lenders when you apply for a new credit card or loan. Credit reporting bureaus do not make lending decisions.

When you apply for a credit card or loan, lenders use your credit report to decide if you are responsible enough to handle additional credit.

### **Your credit report contains:**

- Current and past payment information—whether your payments have been on time or late.
- Outstanding balances—the balances on your credit cards and the amounts of your outstanding loans.
- Information about you from public records, such as a bankruptcy or overdue property taxes.
- Overdue child support payments.
- The names of everyone who recently asked for a copy (inquiries).

### **Your credit report does not contain:**

- Information about your race, religion, political party, medical history, lifestyle, background or criminal record.

## **How do I get my credit report?**

Under federal law, every year you can get a free copy of your credit report from the three biggest companies that provide credit reports. These companies are :

- **Experian:** 888-397-3742 [www.experian.com](http://www.experian.com)
- **Equifax:** 800-685-1111 [www.equifax.com](http://www.equifax.com)
- **TransUnion:** 800-916-8800 [www.transunion.com](http://www.transunion.com)

These three companies have created the "Annual Credit Report" website ([www.annualcreditreport.com](http://www.annualcreditreport.com)) for you to get the free annual credit reports required under federal law. You can order your reports online, by phone at 877-322-8228, or by mail. To order your

reports by mail you must visit the website and download an order form and send it to the address given on the website.

You are entitled to a free credit report annually from each of the three companies. You can order all three reports at the same time, or you can stagger your requests. Ordering individual company reports at different times during the year gives you a chance to monitor your credit report more frequently without having to pay for your additional reports.

You will need to supply the credit bureaus with information so they can identify you. This usually includes your:

- Full name, including your middle initial and any applicable suffix (such as Jr., Sr. or III).
- Current address and previous addresses for two to five years, depending on the bureau.
- Social Security number.
- Date of birth.
- Current employer.
- Phone number.

Your report is free if you've been denied credit in the last 60 days based on your credit report or are a victim of fraud.

## **Why was my credit application denied?**

Many people who apply for credit are denied. If this happens, the lender must tell you why your application was denied. In most cases, the denial will be for one of the reasons given in this section.

**You have no credit history.** If you've never had credit, if you've just begun to use credit or if you haven't used credit recently, lenders may deny you credit because you do not have a credit history. Without this information, lenders are less able to determine if you are a good credit risk.

If you've never had credit, or haven't used credit in a long time, you can begin to build a credit history. (See "[How can I establish good credit?](#)")

**You have too much outstanding credit.** Lenders are reluctant to give you new credit if you already have a large amount of outstanding credit. When lenders evaluate your application, they consider your income, current credit limits and debt payments to decide how much debt you can handle. Lenders often imagine the worst case scenario—if you suddenly used all your credit accounts up to the limits, would your income cover the payments? If the answer is no, your application might be rejected.

**You did not handle credit responsibly in the past.** Have you been granted credit but did not handle it appropriately? If you made payments late, did not pay back a loan or filed for bankruptcy, lenders will not want to give you a new credit card or loan. To improve your credit report, you must settle old debts and make on-time payments for months, or even years, before you will again be considered a good credit risk.

**You are a victim of fraud.** A dishonest person may try to set up credit in your name—this is called identity theft. Some people only find out they are victims when they apply for credit and are denied. You are not responsible for the debt, but it will be hard to prove you are a good credit risk until you clear your name.

One way to guard against identity fraud and credit fraud is to check your credit report at least once a year. If you find any accounts you do not recognize, call the credit bureau's fraud department immediately. To help prevent fraud, keep a close eye on your credit cards and billing statements.

### **What if my credit application is denied?**

The lender's explanation of why your application was denied will also tell you which credit reporting bureau supplied your credit report.

If you've been turned down, you are entitled to a free copy for up to 60 days. Follow the instructions in the “adverse action” letter you receive from the lender to order your free credit report.

If you've never had credit and the reason for the denial is insufficient credit history, contacting the reporting bureau won't help you.

After reviewing your report, if you feel a mistake has been made, contact the credit reporting bureau. You have a right to point out any inaccurate information in your credit report and to dispute it. The dispute process is straightforward—follow the instructions that come with your credit report.

The credit reporting agency will contact the creditor who supplied negative or inaccurate information about you. Meanwhile the disputed information will be removed from your credit report, but it might be put back on if the lender tells the bureau it is accurate.

If that happens, you have the right to add a 100-word explanation to your credit report giving your side of the story. When you apply for credit, lenders may consider your statement.

### **How can I establish good credit?**

Below are three ideas for establishing credit. If you are successful in establishing an account, and use it responsibly for a year or two, you will begin to build a good credit history.

**Ask local companies for credit.** Try your bank, credit union or a local department store. But make sure that the company sends the information on your credit account to one or more credit reporting bureaus so that it will help you establish a credit history.

**Find a co-signer.** Ask a relative or friend with good credit to co-sign your credit application. A co-signer promises to pay if you don't. If you don't make payments on time, the co-signer will be responsible for the loan. By failing to pay, you could damage your relative's or friend's credit.

**Get a secured credit card.** A secured credit card is a bank credit card backed by money you deposit in a bank account. If you don't pay off your credit card bill, the money in your account may be used to cover that debt.

Shop around to find a good deal on a secured card. You can compare current information about secured cards at [www.bankrate.com](http://www.bankrate.com). Before you apply, make sure the card issuer will send the information on your credit account to a credit reporting bureau. Look for a secured card with:

- A low annual fee.
- No up-front application, processing or membership fees.
- An interest-bearing account for your deposit.

## **"Unsecured" credit cards**

Many companies offer unsecured credit cards for people with no credit history or damaged credit. These can be expensive credit options, because many of them have:

- Low credit lines.
- High interest rates.
- Up-front application and processing fees, usually charged to your first statement.
- Annual or monthly membership fees.
- A fee for line-of-credit increases.

If you are considering one of these cards, shop around among lenders. Compare fees and interest rates.

## **Optional credit card services**

Your credit card company may offer you services and products for a fee:

- Credit insurance—a service that helps pay your monthly minimum payments for a short time if you become ill or disabled
- Credit monitoring services that charge to watch your credit report and let you know about any negative changes
- Magazines and coupon books

These services are optional—you do not have to accept them. If you say no to optional offers, it should not affect your application for a credit card.

## **Your rights**

The Fair Credit Reporting Act is a federal law that regulates credit reporting bureaus and prohibits inaccurate or obsolete information from being reported in credit files.

You are entitled to a free credit report annually from each of the three national credit reporting companies. (See "[How do I get my credit report?](#)") When you receive it, carefully check all the

information, including all account numbers and payment records. Make sure that old accounts you closed are listed properly, with the words "Closed at the consumer's request."

You have the right to correct errors in your credit report. Enclosed with your credit report will be a form or letter explaining what to do if you find inaccurate information or items you do not agree with. Always dispute inaccurate information.

After you begin the dispute process, the credit bureau must check with the source of the information and send you an update. It must respond to your dispute in a timely way. In most cases, you should receive a response in 30 to 45 days.

If, after hearing from the bureau, you disagree with its response, submit a 100-word statement that will be added to your credit report to give your side of the story.

The law also governs how long information stays on your credit report. Accounts that you have paid off remain on your credit report even after you have finished paying them. If you handled the account well, it remains on your credit report for 10 years after it is paid off or closed. Negative information, such as late payments and abandoned accounts, remains on your report for up to 7 years, and a bankruptcy may stay on your report for up to 10 years.

## **Where to complain**

If you have already disputed information in your credit report directly with the credit bureau and are either dissatisfied with the response you received or you did not receive any response, you may file a complaint with the Consumer Financial Protection Bureau (CFPB). The CFPB will help resolve your dispute. 855-411-CFPB (2372); TTY: 855-729-CFPB  
[www.consumerfinance.gov/Complaint](http://www.consumerfinance.gov/Complaint)

You should also file a complaint with the Federal Trade Commission (FTC). The FTC does not resolve individual complaints, but tracks them for use by law enforcement authorities and to detect patterns of wrong-doing. 877-FTC-HELP (382-4357); TTY: 866-653-4261  
[www.ftccomplaintassistant.gov](http://www.ftccomplaintassistant.gov)

To complain about a creditor (a company that has extended you credit and provided information about your account to the credit bureaus), call the company and ask for the name and contact information of its regulatory agency. Send your complaint letter there, and forward a copy to your state attorney general.