

Presented by



Fixing Your Credit

Someday (maybe even today) you will want a car. Like almost everyone else, you will need a loan to pay for it, and you will need insurance to protect the car in case of an accident. Did you know that the interest rate of your loan, and even the amount you pay for insurance, will depend on your credit history? Well, how are you supposed to have a credit history if you can't even get a credit card until you are 18 years old?



Here's how you can build up a credit history.

- **Social security number:** If you do not already have one, apply right away. Contact the Social Security Administration online at www.ssa.gov.
- **Savings account:** Do you have a savings account with your local bank? Open one, and be sure to use your Social Security Number.
- **Paycheck:** Whether it's a newspaper route or a part-time job at a dog grooming business, a regular paycheck can establish that you are a good credit risk.

All of this information is typed into computers, saved, filed, shared, and finally combined into your credit report.

Main Idea

Your personal credit history and credit score determine whether or not you qualify for loans and the interest rate on those loans.

After completing this lesson you will be able to:

- understand the importance of a credit history
- learn how to create a credit history
- understand what a credit report records
- resolve errors on a credit report
- understand the importance of a FICO™ score
- learn how to increase a FICO™ score

Key Terms

- Bankruptcy
- Certified Mail
- Credit History
- Credit Report
- Fair Credit Reporting Act (FCRA)
- FICO Expansion Score
- FICO Score
- Foreclosure
- Installment Loan
- Lien

What is a Credit Report?

A credit report is a summary of all of your money history, from savings accounts to loans to credit card payments. If you're like most teens, your credit report is pretty empty. Maybe you have a savings account, but you probably have no history of anyone ever lending you money or giving you a credit card.

Even so, it is probably a good idea for you to order your credit report once a year. The three credit reporting companies, Experian, Equifax, and TransUnion, with each provide you with a free credit report once a year that you should order to protect yourself from identity theft. But we'll talk more about that later. Meanwhile, what does a credit report look like?

Your credit report tells the history of your saving, borrowing, and repayment performance.

Most banks have savings accounts for people of any age. Many have checking accounts for people under 18 years old that are linked to a parent or guardian's account.

Sample Credit Report		
Angel P. Teen Your report number is: 1234567890 Report date: 7/20/2007		
<hr/>		
POTENTIALLY NEGATIVE ITEMS		
None		
<hr/>		
CREDIT ITEMS		
Bank of the East		
1123 East Street, East, Pennsylvania 20000		
Status: Paid	Date Opened: 4/2006	Type: Installment
Credit Limit: \$425	Reported Since: 5/2006	Terms: 12 Months
High Balance: NA	Date of Status: 6/2007	Monthly Payment: \$0
Recent Balance: \$0 as of 6/2007		
Last Reported: 6/2007 Responsibility: Individual		
Wild West Credit Bank		
159 Rock Place Little Rock, AK 30000		Account Number: XXXXXXXX3325
Date Opened: 4/2000	Type: Credit Card	Credit Limit: \$1000
Account History: 60 days as of 6/2000 30 days as of 5/2000 Accounts in Good Standing		
<hr/>		
REQUESTS FOR YOUR CREDIT HISTORY		
Wild West Credit Bank		Date of Request: 3/2000
159 Rock Place Little Rock, AK 30000		
Bank of the East		Date of Request: 3/2006
1123 East Street East, Pennsylvania 20000		
<hr/>		
Personal Information		
Names: Angel P Teen Address: 123 West Street, East, Pennsylvania Type of Residence: Single family		
Social Security number variations: 111-11-1111 Year of birth: 1990		

In the computer exercise at the end of this chapter, you will begin with two bills that are in collections. Items that have been sent to a collection agency are usually more than 30 days past their due date. Late payments can stay visible on your credit report for years.

Angel P. Teen is a typical young adult, but to spice it up we gave him an installment loan last year that he paid off on time. That's what an installment loan is—a loan that has equal payments to be paid off over a short period of time, like a year. Angel doesn't have a savings account.

You can see that Angel's report shows an uncollected debt. This debt is not his debt, but we added it to his report to show how to get incorrect information off your credit report. Here's how Angel got the debt (that was not his) removed from his report:

July 25, 2006

Equifax Information Services, LLC
PO Box 740256
Atlanta, GA 30374

Dear Customer Service Representative,

I am writing to dispute the credit card debt of \$686.42 listed on my Equifax credit report. I do not have a credit card of any kind, and I have never applied for one. I have contacted the Wild West Credit Bank through certified mail. They agree that this account was not set up by me. I have enclosed a copy of their letter. Please remove this credit card debt from my Equifax credit report.

Sincerely yours,

Angel P. Teen

Enclosures: letter from bank

Too many credit accounts can work against you. Open only one or two accounts, and pay them on time. The longer you pay your bills on time, the better your credit score.

Getting a Credit Report for FREE!

The first place to go for your free credit report is the Web site www.annualcreditreport.com. At that site you can apply online for your report from each of the credit reporting companies, Equifax, Experian, and TransUnion. This lets you know what credit companies see when they decide whether to loan money to you.

Your Credit Score (FICO™ score)

When you apply for your auto loan, it is handy to know your credit score before you sit across the desk from the car loan officer. When you know you're going to apply for a car loan soon, order the score (for a fee) from www.myFICO.com.

You may be wondering, what is a FICO score? It's a number from 300 to 850 that tells creditors how good a risk you are. Someone with a FICO score (named after Fair Isaac Corporation, who came up with the scoring system of 725 has a 5% chance of being more than 90 days late on a payment over the next three years. Someone with a FICO score of 550 has a 70% chance of getting 90 days behind on payments. When you think about it, who would you rather loan your money to?

Why is Having a Good Credit Score Important?

Test scores in school are important to you, your parents, and maybe to a college or a potential employer. But why should you care about your FICO score?

Your credit score will show companies whether to lend you money, and even how much to charge you in interest for a loan you need. From our earlier example, the person with the FICO score of 725 applies for an auto loan and gets an interest rate of 5.518%, while the person with the score of 550 gets a rate of 16.939%. That can amount to paying more than \$500 extra over the life of the loan.

How do I build up a better credit score?

- Get a savings account at your local bank. Keep a steady or increasing amount of money.
- Get a debit card at the same bank. Even if a parent has to co-sign (be financially responsible in case you mess up) it still helps you build up credit. Always keep a safe cushion of money, at least \$200, in the account.
- If you are over 18, talk to your local bank about opening a credit card. Your local bank knows you and your family, and they will take that information into consideration even if you do not have enough history to have a credit score yet.

Summary

A credit history is an essential item in today's world. A credit history can be created by having a social security number, bank accounts, and a paycheck. Credit reports tell the history of your financial savings, borrowing, and repayment of debts. FICO scores are used to determine your creditworthiness. People with higher FICO scores are more likely to get loans and better interest rates. FICO scores can be raised by having a history of timely payments on existing accounts, opening new credit accounts within your personal financial means and paying them regularly, and only opening credit accounts that you will use.

Key Terms

Bankruptcy

When a debtor's assets are sold to settle unpaid debts and the debtor is no longer responsible for further debt beyond what was recovered.

Certified Mail

Mail that gives the sender proof of receipt from the U.S. Postal Service.

Credit History

A summary of a person's borrowing and repayment history.

Credit Report

A report on a person's creditworthiness that includes identifying information, credit cards, late payments, bankruptcies, and savings balances.

Fair Credit Reporting Act (FCRA)

Federal law giving consumers the right to view and correct their credit information.

FICO Expansion Score

A creditworthiness score that, like the regular FICO score, has a scale of 300–850, but is based on nontraditional accounts and financial information sources and is designed for young persons, new immigrants, or others without a traditional credit history.

FICO Score

Credit score from 300–850 that rates how likely a person is to fall 90 days behind in a payment.

Foreclosure

When a bank takes back a property and auctions it off to recover the unpaid loan amount.

Installment Loan

Loan with equal number of payments of the same amount over a fixed period of time.

Lien

A promise to reclaim an item bought with loaned money if the loan is not repaid.