



Consumer Credit Handbook

Everything you
need to know
about your credit



 **TrueCredit™**

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Introduction

Most of us understand a few basic ideas about money: you should build a nest egg, pay your bills on time and always remember that a penny saved is a penny earned. While these financial tips are passed down through the generations, most of us don't learn about our credit until something goes wrong and we're turned down for a loan or credit card.

As the credit reporting industry expands to influence everything from your loan rate to your next job application, learning how to manage your credit can be a valuable investment. Like building a 401k, keeping your **credit healthy** is an important part of ensuring a rosy financial future.

Common misconceptions

“Credit reporting is a bad thing.”

Credit reporting tends to have a bad reputation. As a network of large organizations that get paid to maintain records on consumers, it's not hard to see why. But in reality, the credit reporting industry has done far more good than harm. The credit reporting system has made the consumer lending process **more efficient and less biased**. Smarter lending decisions based on objective credit information have opened up the possibility of home ownership for millions of people who might not have otherwise been eligible.

“**My score will drop if I check my credit.**” Fortunately, this one is definitely **not true**. Checking up on your own report and score is counted as a "soft inquiry" and doesn't harm your credit at all. Only "hard inquiries" from a lender or creditor, made when you apply for credit, can bring your score down a few points.

“Bad credit is going to ruin my life.”

It's not that dramatic. Your credit is just **one factor** in the lending and credit approval process. A period of financial hardship doesn't mean you are a bad person or not creditworthy. Things are never so bad that it's impossible to improve your credit. Speaking of improving your credit, let's

Inform
yourself
Don't
fall for
these
common
credit
myths

move on to learn more about your **healthy credit** future!



test your credit IQ



Try your hand at this credit quiz

1. Your credit profile is used for decision making by lenders, creditors, insurers and employers.
 True False
2. Records stay on your credit report until you ask for them to be removed.
 True False
3. Checking your own credit online counts as a "soft inquiry" and does not damage your credit score.
 True False
4. Up to 50% of homeowners do not receive the mortgage rates they deserve.
 True False
5. The average victim spends 175 to 200 hours and \$1,000 recovering their identity after fraud.
 True False
6. Your credit score takes your annual income into account.
 True False
7. Joint accounts and co-signed loans show up on the credit reports of both consumers involved.
 True False
8. Over 40% of U.S. families spend more than they earn.
 True False



Credit Basics

The history of credit in America spans back to the 1800s when buyers began to purchase things like sewing machines and wagons on "installment."

This ground-breaking business step forever changed the way Americans saved and spent money. As the credit industry grew, so did the need for a better way to evaluate credit behavior.

Consumer credit reporting was born in the file cabinets of small regional and local bureaus that provided banks and lenders with a general overview of financial character. As technology grew, credit bureaus developed more sophisticated ways to keep files on each customer. Most of these "mom 'n pop" bureaus merged into the three national credit reporting companies we have today: **TransUnion, Equifax and Experian.**

How Credit Works: Today's credit reporting companies work together with banks and lenders to keep records on credit users in America. With over 260 million people in the United States, it's a miracle of modern technology that our files are updated with new information at all.

The process of credit reporting is fairly simple. There are **three main players:** credit grantors, credit reporting companies and consumers. In this system, credit grantors report the account information, payment history and balances of consumers to the credit reporting companies who then compile this data into credit reports. Financial institutions, employers, insurers and landlords can retrieve these files from the credit reporting companies to help them make informed decisions. In the end, **everyone wins.** The financial institutions get the information they need to make savvy decisions. You get the loan rate or credit card you deserve, and it's usually a lower rate because of competition among lenders and risk-based pricing on loans. The credit reporting companies provide a valuable intermediary service between businesses and consumers.

The
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Credit Scoring: Credit scoring is a relatively new kid on the block when it comes to the credit reporting system. The credit scoring system is based on mathematical formulas that rate various aspects of your credit report. Credit scores evaluate your payment behavior, debt levels and credit history. Factors

like income, race and gender are not measured in the scoring process. Lenders use credit scores to **quickly and fairly** evaluate your credit risk.



a history of credit



- 1812** New York's Cowperthwaite & Sons begins selling furniture on **'installment.'** Competitors are quick to follow.
- 1831** **Fixed monthly payment mortgages** are introduced as the first building and loan association is formed.
- 1914** The nation's **first charge cards** are issued by Western Union and a few department stores. The balances must be paid in full at the end of the month.
- 1950** The Diner's Club introduces the first charge card that can be used at **more than one business.**
- 1958** American Express and Bank of America introduce their own charge cards.
- 1966** In order to compete with the BankAmericard, rival banks form the Master Charge group.
- 1969** Union Tank Car Company (eventually to become TransUnion) moves into the credit reporting industry and becomes the **first to automate credit reporting.**
- 1970** The Fair Credit Report Act is enacted.
- 1976** BankAmericard becomes Visa.
- 1995** Credit cards **overtake cash payments** for the first time in history.
- 2001** TrueCredit is the first company to offer consumers **access to their credit scores.**



Your Credit

So where do you fit in?

Your credit profile is used to fuel decisions about home loans, credit accounts, car loans, insurance rates, employment, apartments and more! It's important that

you keep your credit profile healthy so that you can get the best deals on the big purchases in life. Good financial behavior, identity fraud awareness and responsible credit management can all help you make the most of your credit profile. **Follow these five steps** to healthy credit to make sure you get the credit you deserve:

1. Get the facts

Order your 3-in-1 Credit Report, credit score and debt analysis online to get a complete picture of your current credit profile. Look closely at the data from each credit reporting company to see that it all matches up. **Keep an eye out for:**

- Current, correct mailing address
- Correct Social Security number
- Inaccurate employer information
- Signs of identity fraud
- Errors in your credit accounts
- Incorrect payment history
- Unauthorized hard inquiries

2. Right the wrongs

Contact your creditors or send **letters of dispute** to the credit reporting companies to have errors on your credit report corrected. By law, the credit reporting companies have 30 days to investigate your claim and reply back with the results of their investigation.

3. Improve your behavior

Identify problem areas on your credit report and **make a plan** for improvement. If you've had a hard time paying your bills on time, sign up for an automated payment service. If your debt levels are above 50 percent of your available limit, create a payment plan to reduce your balances. Set goals for improving your credit and be sure to celebrate when you reach a milestone.

4. Follow up

Check your credit report, credit score and debt analysis 30-60 days after disputing errors and changing your behavior to see how much **you have improved**. If any inaccuracies remain, continue to dispute to have them taken off your credit report. If you want to tell your side of the story, ask to have a consumer statement added to your credit file.

Your credit profile is used to fuel decisions about every aspect of your financial livelihood



5. Monitor your credit

To guard against fraud and keep your credit healthy, sign up for a credit monitoring service that will quickly alert you to any **changes in your report**.

healthy credit checklist



- Check your 3-in-1 Credit Report** and credit score online.
- Highlight any errors** or signs of fraud with one color.
- Highlight places you need to improve with another color.
- Contact your creditors to **dispute** any inaccuracies on your report.
- Make a plan** for improving the problem areas you highlighted on your report.
- Check your credit report and score **again in 30-60 days** to see if your credit has improved. Compare your new credit report with the earlier printed version.
- Follow up with your creditors about any inaccuracies that are still on your report.
- Once your credit report is healthy and free of errors, sign up for a credit **monitoring service** to make sure it stays that way.
- If you open a new credit account, move or receive a loan, check your credit report to make sure that the change is recorded properly.
- Always remember to give your credit a **full check-up** twice a year or at least 6 months before any major purchase.



Buying Big Guidelines for potential borrowers

The American Dream of a three-bedroom house and a shiny new car has never been more accessible to more people. There are now loan options to suit nearly every type of

borrower. This means that potential homeowners and car owners have the power to negotiate the **best terms possible** on their loans.

As consumers get smarter about their options, they are also learning how to improve their financial profile before applying for a loan. The payoff for doing a little of research and credit polishing before you apply is potentially enormous. If you lower your interest rate by just 1 percent, you can **save \$45,000** over the life of a \$200,000 mortgage!

What Lenders Look For

When you apply for a loan, a lender takes into account several factors. Key evaluations are: **your credit profile, debt-to-income ratio and loan-to-value ratio.**

When a lender evaluates your credit, they look at your credit score as well as your credit report to see how financially responsible you have been in the past. For your debt-to-income ratio, the lender divides your monthly income by your monthly payments towards debts. A debt-to-income ratio **between 20-39 percent** is generally considered good. Your loan-to-value ratio is calculated by dividing the mortgage loan amount by the property's appraised value. A loan-to-value ratio **under 80 percent** will lower your interest rates.

Refinancing Rules

Record-low interest rates have made it increasingly tempting for homeowners to refinance their mortgages. Even auto borrowers now have the option to refinance their loans. The process of applying and receiving a refinance loan is practically identical to financing your first time around. The tough part is deciding when the time is right for you to do it.

Borrowers usually choose to refinance their loans when interest rates drop. Switching a high interest rate mortgage to a lower rate loan can **save you thousands** in interest payments over time. An approaching balloon payment or a desire to cash out home equity can also lead people to refinance their

homes. Before you decide to refinance, calculate how many months it will take for your interest savings to pay-off the cost of the process.

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improving your credit



How to improve the 3 key loan factors

Credit score target: above 650

How to meet the target –

- Pay your bills on time for 6 months
- Avoid unnecessary applications for credit
- Reduce your debts to below 50 percent of their credit limits
- Clear inaccuracies from your report

Debt-to-income ratio target: 20-30 percent

How to meet the target –

- Pay off small loans
- Reduce your credit card balances
- Increase your income by co-signing with your spouse

Loan-to-value ratio target: under 80 percent

How to meet the target –

- Increase your down payment to at least 20 percent of your new home or car's value
- Negotiate to reduce the price with the seller
- Select a less expensive home or car to purchase



Focus on Fraud

Identity fraud is considered by some to be the fastest growing crime in America. The number of identity fraud complaints reported to the Federal Trade

Commission nearly doubled in 2002 to more than 161,000 cases. These complaints alone racked up \$122 million in damages. From stolen credit cards to total identity kidnapping, these ugly and prevalent crimes are hard to prevent and often difficult to correct. Although it is hard to truly avoid becoming a victim of identity theft, there are a few ways you can **guard against this damaging crime.**

Types of identity fraud: Identity fraud crimes range from purse snatchings to kingpin-style fraud rings. The definition of identity theft is a crime in which an imposter obtains key pieces of personal information, such as a Social Security number, in order to impersonate someone else. Identity fraud can occur when someone takes your mail, steals your wallet or swipes your records from an institution. Most cases can be resolved fairly easily **if they are caught early.** Creditors and banks usually hold you responsible for only the first \$50 of fraudulent charges. The most serious cases of fraud can take several years and many resources to resolve.

Preventative measures: In this world of smiling strangers, it can be tough to keep your identity safe. The best security policy is to be aware of fraud and cautious about **where you share** personal information. Check your account statements carefully each month and keep an eye out for suspicious activity on your credit report. A paper shredder can also be a powerful tool for making sure personal information and pre-approved credit offers don't end up in the wrong hands.

If you suspect that your identity has been stolen: The first step is to post a security alert on your credit report and contact your creditors. Be sure to get all the facts about the damage—**become your own detective**—search your credit report and bank accounts for clues. Ask your creditors to immediately cancel any fraudulent charges. If the theft is serious, file a police report. If fraudulent records start to show up on your credit report, send letters of dispute to the credit reporting companies with copies of documentation supporting your claim. Signing up with a **credit monitoring**

Identity fraud is considered one of the fastest growing crimes in America

service will inform you of changes to your credit. It may take a while to fully recover the security of your accounts, but it's crucial that you don't let the fraud escalate.



handling inaccuracies



Have you spotted an error on your credit report? If you have found any inaccurate or fraudulent information on your credit report, you need to contact your creditors and the credit reporting companies to have the records removed.

First, you should try to **contact the creditors** who may have reported the inaccuracy to see if they can correct the error (their contact information is on your credit report or monthly statements). If you can't get the problem solved with the creditor, then contact the credit reporting companies directly, either online or by mail, to dispute the record. Mailing addresses and Web addresses for the credit reporting companies are listed on the back page of this brochure.

When disputing an inaccuracy by mail, you can also attach copies of your credit report or other documents that support your claim. Keep copies of your letters, documents and postal receipts for future reference.

Be sure to include in your letter:

- Your full name
- Your complete mailing address
- Your date of birth
- Your Social Security number
- The name and account number of the creditor and item in question
- The reason for your disagreement with the disputed item—**be specific**
- Your signature

Sending this letter doesn't guarantee that changes will be made, but it does ensure that your claim **will be investigated**. By law, the credit reporting companies have 30 days to investigate and reply to your letter.



KnowYourLoanRate.com

Your complete mortgage preparation kit—

- Visit www.knowyourloanrate.com
- Place your online order
- See your credit report, score, home value, and more! Plus, find out the mortgage rate you deserve!

Credit Resources The Fair Credit Reporting Act
www.ftc.gov/os/statutes/fcra.htm

Credit Central
www.truecredit.com/central

Identity Theft Information
www.consumer.gov/idtheft/index.html

Credit Reports & Scores TrueCredit
www.truecredit.com

KnowYourLoanRate
www.knowyourloanrate.com

Credit Bureaus TransUnion
(800) 888-4213
P.O. Box 1000
Chester, PA 19022
www.transunion.com

Equifax
(800) 525-6285
P.O. Box 740241
Atlanta, GA 30374-0241
www.equifax.com

Experian
(888) 397-3742
P.O. Box 9595
Allen, TX 75013
www.experian.com

