

Check Your Credit Report

Marilyn Sullivan, UNH Cooperative Extension,
Extension Educator, Family & Consumer Resources

It's well into the year 2006 and I would like to ask you, how are you doing with those resolutions you made way back on December 31, 2005? Every year one of the ten top resolutions people make has something to do with "managing my money better." If you haven't made much progress in that category yet, here is an idea that can be the first step in fulfilling your goal: Take advantage of the opportunity that allows all Americans to obtain a copy of their credit report for free. The report provides a lot of information that you can use to put your financial security on a better footing.

You may know that as of September, 2005 because of the Fair and Accurate Credit Transactions Act (FACT Act), everyone in the United States can now access a copy of their credit report from each of the three credit bureaus at no cost once in a 12 month period. You can access a report from all three of the major bureaus, Equifax, Experian, and TransUnion, at the same time or you can stagger your requests over a period of time, as long as you don't exceed the one request in a 12 month period from each company rule. Although, legislators crafted the law with victims of identity theft in mind to help them monitor the progress of the rehabilitation of their creditworthiness, even folks who just want to manage their money better can benefit immensely from requesting their credit reports. You can obtain your free annual credit report by phoning 1-877-322-8228 or by visiting the website at www.annualcreditreport.com on the Internet.

Getting a copy of your credit report is important because it is a collection of information about your money managing habits that lenders and potential lenders have about you. The information in the report directly impacts your credit score, which is a numerical snapshot of your written profile. Your credit report and credit score are two tools that lenders use when evaluating whether to extend you credit.

The relationship between your credit report and credit score impacts other aspects of your financial life besides whether credit is extended to you. If you have a high credit score and are viewed as very creditworthy, you will be offered the best credit terms and rates, or Annual Percentage Rate (APR), for borrowed money on large purchases such as a house or car. Over time you pay significantly less in interest with the lowest APR. Consumers with low credit scores are deemed less creditworthy and more of a risk, and therefore are charged a higher APR. But, the impact doesn't end there. The insurance industry is known to treat consumers differently who have low credit scores. The premium you are charged for your auto and home owners insurance may be higher if your credit score is low. Some utilities also have requested a larger deposit for those with low scores. Therefore, when you are looking for ways to save money, start with knowing what's in your credit report because the information may impact the costs of other household expenses.

You may wonder what lenders learn from your credit report. The credit report indicates how you manage your money. Do you pay your bills on time? Are you carrying large balances and how close to your credit limit are you? Have you managed your credit accounts over a long period of time or have they been recently opened? And, what kinds of credit do you manage? The information compiled about your credit habits “paints” a picture of your creditworthiness, and lets potential lenders know if you are a responsible consumer of credit. To arrive at a credit score, the information in the report is mathematically manipulated using software. The most widely used numerical scoring system is the FICO score from the Fair Isaac Corporation.

What can you do to be in more control of your creditworthiness? When you obtain your free copy from each of the credit bureaus, first make sure that the personal information is correct and accurate. You don’t want to have your personal information co-mingled with someone else’s less stellar information.

Pay your bills on time. Not only will you avoid late fee payments, but your credit report will reflect your timeliness in your credit score. It’s the best money management habit you can develop to improve your credit score.

Reduce your balances. Outstanding balance to total credit available makes up 30% of the credit score calculation. Make sure you are always at least paying the minimum on your accounts. But, then, pick one credit card to chip away at faster. Take the one with the highest balance or even better, the one with the highest balance and highest APR, and apply more money to that account. A rule of thumb is to keep revolving balances less than 30% of the total revolving credit available.

Many consumers make the mistake of applying for too many different kinds of credit in a short period of time. Shop around for the best rates before you apply for credit. Also, try to keep a mix of different kinds of credit you manage. Having a mix of credit that includes a car payment, mortgage, or student loans, all of which require more scrutiny, is more desirable than only having credit cards.

How you manage and pay your bills affects your credit report, and what’s in your credit report affects your credit score. Your score in turn impacts what you pay for certain consumer financial products like mortgages, car loans, credit card rates, and property insurance. Getting your free credit report is easy and it’s fast. Find out what lenders already know about you. Get a copy of your credit report now to begin managing your money better.

For more information about Cooperative Extension financial education programs in Merrimack County, call Marilyn Sullivan at 225-5505.