

Goodbye-Debt Gazette

Dear Subscriber,

One of the key ingredients to achieving financial freedom involves developing and maintaining a good credit rating. Unfortunately, some 40% of Americans have an unfavorable credit rating that may prevent them obtaining a loan or credit at a competitive interest rate.

This statistic may not seem so surprising given that we live in a society where credit card companies aggressively allow consumers to easily build huge debt balances. This happens through low interest rates, high available credit limits, and cash-advance options, all while requiring consumers to make a minimum monthly payment in the 2-3% range.

Many consumers sign up for credit counseling and enroll onto a Debt Management Program (DMP) to put them in a position to improve their credit score. We will remind you, and explain further below, that a DMP – in itself – will not positive or negatively impact your credit score, or restore your credit. Any improvements will be driven through such factors as making past-due accounts current, regularly making on-time payments, reducing your debt balance, and not resorting to options that would worsen your credit score, such as declaring bankruptcy.

This version of *the Goodbye-Debt Gazette* covers the topic of the Credit Report. It address such topics as:

- Overview of the credit report
- Determinants of the credit score
- Strategies to improve the credit score
- Impact of the Debt Management Plan on the credit score
- Disputing your credit score

We hope the information below offers you valuable insights on these topics. If you would like to sign-up for a counseling session to learn more about credit reports and credit scores, please call our Client Services Center at <xxx-xxx-xxxx> or visit our web site at www.CrediClear.com to schedule an appointment a credit counselor. We will put you in touch with a counseling representative who can best assist you.

Referrals: Help a Family Member or Friend Today!

If you know someone that faces a mountain of debt and needs the help of Credit Counseling, we welcome your referral. The Debt Management Program may help provide tremendous financial relief through the following benefits:

- account re-aging
- reduction in interest rates
- lower monthly payments
- end of creditor harassment
- convenience of one monthly electronic payment
- the end of late and over-the-limit fees

Please have them call us at <xxx-xxx-xxxx> or visit our web site at www.CrediClear.com. One of our professional credit counselors will gladly assist them in choosing the best option available for gaining their own financial freedom.

Credit Reports and Credit Scoring

I. OVERVIEW OF CREDIT REPORTS

➤ Credit Reporting Companies (or Credit Bureaus)

- **Players.** The three main credit reporting companies are: Equifax, Experian, and TransUnion.
- **Role.** These independent, for-profit, companies engage in two main roles. First, they serve as record keepers of financial and personal data for consumers across the country. They obtain such information from files and records created by creditors, employers, businesses, and government agencies. Second, they sell this information, or “credit report”, to creditors and lenders that wish to study your history before lending you money. They may also sell an “investigative-type” report to current/prospective employers, insurance companies, and 3rd parties whom you grant permission to. The credit reporting companies will notify you if such parties request this type of a report.

➤ Information on Credit Report

- **Types of Information.** Credit reports attempt to represent a composite of your past and current record of managing your credit accounts and loans. Four main types of information appear on the credit report.
 - **Credit Lines:** All credit lines that have been granted to you appear on the report. These include credit cards, department store cards, auto loans, mortgages, student loans, bank loans, and etc. Your payment history, current debt balance, and any special steps taken by you to pay-off the debt (credit counseling, bankruptcy), or steps taken by the creditors to collect the debt (collections, repossession, charged-off) are listed as well.
 - **Collection Accounts:** Accounts referred to collections will appear on the report, regardless of whether you have paid-off the account or not. Lenders and creditors take a highly negative view of collection accounts.
 - **Court Records:** Court records such as bankruptcies, judgments, liens, satisfactions, arrests, and convictions appear on the report.
 - **Inquiries:** Credit inquiries made in the past by potential lenders, businesses, and 3rd parties are noted on the report. Inquiries made within a small time period should not raise concern, as lenders will realize they may all be associated with a particular transaction. However, many inquiries over a longer time period may raise doubts about your ability to obtain a loan/credit.
- **Time Limits.** The Fair Credit Reporting Act sets time limits for how long negative credit items can remain on your credit report (see following table). On a positive note, creditors and/or credit reporting company can delete negative items before these limits.

TYPE OF INFORMATION	TIME LIMIT (YEARS)
Inquiries	Up to 2 years
Foreclosure	7 to 10 years
Judgments	Up to 7 years from entry date or expiration of the statute of limitations (whichever is longer)
Tax lien	Up to 7 years from the date you paid-off the lien
Chapter 7 Bankruptcy (write-off)	Up to 10 years from the order relief date or adjudication date
Chapter 13 Bankruptcy (work-out)	Up to 10 years, but credit reporting companies prefer 7 years
Collections	Up to 7 years.

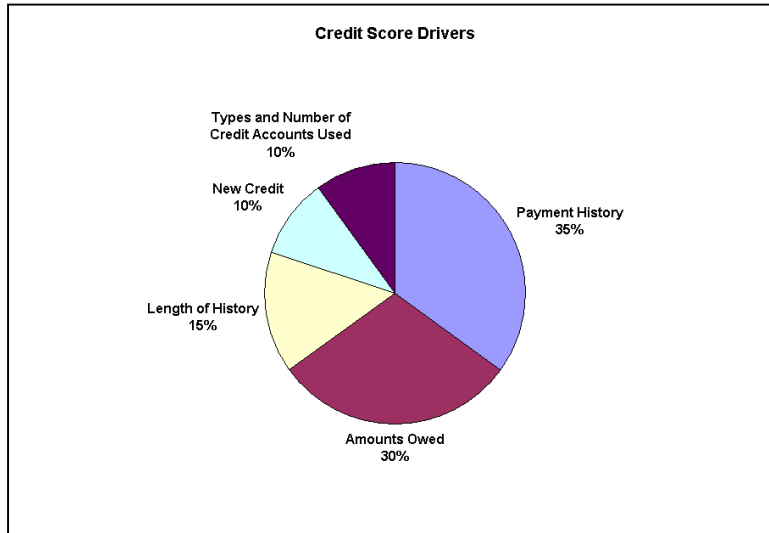
TYPE OF INFORMATION	TIME LIMIT (YEARS)
Felony Conviction	Convictions MAY appear only on the investigative report (an arrest absent a conviction does not appear)
Credit Counseling	Generally the duration of the Debt Management Program

II. DETERMINANTS OF THE CREDIT SCORE

- **Overview.** The most frequently used credit score is the FICO score, created by Fair Isaac & Company. The score represents an indication of the risk of lending to a consumer. Lenders/creditors will either deny the loan or increase the interest rate for consumers with more risk. Please note that they will also consider other information, such as your salary or employment history, when making decisions about granting loans and credit.
- **Score Range.** The FICO scores generally range from 300 and 900 among the three credit reporting agencies.

SCORE RANGE	TYPICAL INTERPRETATION
Above 730	Excellent Credit
700-729	Good Credit
670-699	Creditors will want to take a closer look at your file. Overall you are an average risk.
585-669	You are at a higher credit risk. You may have difficulty obtaining credit at competitive rates.
Below 584	Poor credit risk. You will most likely be turned down for most credit/loans absent being able to offer something to creditors, such as good collateral.

- **Credit Scoring Model.** Credit reporting companies have their own particular credit scoring models. That said, they all generally follow the FICO scoring model, which is based on various data points in your credit report. This data can be grouped into five categories: payment history, debt balance, length of history, types of accounts, and new credit. The chart below depicts the weights of these factors in determining your score.



1. **Payment History.** This includes both historic and current information on late payments, non-payments, delinquent accounts (amount, length, and number of past due accounts), and adverse public records (bankruptcy, judgments, suits, liens, wage attachments, and etc.).
2. **Amounts Owed.** This includes debt balance on existing accounts, number of accounts with balances, proportion of credit lines used, and proportion of installment loans amounts unpaid.
3. **Length of Credit History.** This includes the time since accounts were opened and degree of account activity.
4. **New Credit.** This includes the number of recently opened accounts, proportion of accounts that are recently opened, number of recent credit inquiries, time since recent account opening(s) and credit inquiry(s), and the re-establishment of positive credit history following past payment problems.
5. **Types and Number of Credit Accounts.** Includes types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.) and number of accounts.

III. STRATEGIES TO IMPROVE YOUR CREDIT SCORE

➤ **Key Tips**

- **Improve Determinants of the Credit Score.** In a nutshell, the keys to improving your score involve paying bills on time and keeping your credit card balances low (or even better, zero). The scoring model discussed above provides a number of insights on how to improve your score. You should ensure each scoring factor stands positive on your report.

KEY FACTORS IN CREDIT SCORE MODEL	TIPS
Payment History	<ul style="list-style-type: none"> • Pay ALL bills on-time. A history of late payments can lower your score significantly; on the other hand, a record of regular on-time payments has, and will always, represent a key to a good credit score. • Promptly address delinquent accounts or accounts in collections. Bring any delinquent account or collections account into current status. These two factors weigh

KEY FACTORS IN CREDIT SCORE MODEL	TIPS
	<p>heavily against your credit score because creditors believe that past history is reflective of future financial behavior. Credit counseling represents a key step to re-aging delinquent accounts for many consumers.</p> <ul style="list-style-type: none"> • Check report for errors. Periodically examine your report (at least once a year and definitely before you apply for a loan) and ask reporting agency to remove any errors (see Section IV below).
Amounts Owed	<ul style="list-style-type: none"> • Keep low balances on "revolving credit" lines (i.e., credit cards). Lenders prefer low balances on unsecured credit accounts. A key factor is how much money you owe on your credit cards relative to your total credit limit. Generally, keep your balances at or below 25 percent of your credit card limit. • Do not close accounts to simply transfer debt. Given the importance of the ratio of credit card balance to your credit limit, the act of closing out an account and transferring the balance simply means you increase that ratio, which is likely to worsen (lower) your score. In other words, say you owe a total of \$2,000 on four credit cards, each of which has a \$2,000 limit. Your total credit limit is \$8,000, of which your total balance of \$2,000 accounts for 25 percent. If you transfer all your balances to two cards and cancel the other two, your total credit limit is reduced to \$4,000, and your \$2,000 balance now accounts for 50 percent of that limit.
Length of Credit History	<ul style="list-style-type: none"> • Build history of responsible credit management. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly. That said, establishing a consistent timely payment history on one or two major credit cards and limited merchant cards (department store cards and gas cards) will help to build a sufficient credit history. • Do not open a number of new credit cards. This adversely impacts those with limited credit histories, as it lowers your average account age and thus your score. Also, rapid account buildup can look risky if you are a new credit user.
New Credit History	<ul style="list-style-type: none"> • Re-establish your credit history if you have had problems. Opening new accounts responsibly and paying them off on time will raise your score in the long term. • Limit number of credit inquiries. Credit inquiries made by mortgage and auto loan companies can lower your score. However, because you deserve to “check around” for the best rate, the score compensates for this by counting multiple auto or mortgage inquiries in any 14-day period as just one inquiry. In addition, the score ignores all mortgage and auto inquiries made in the 30 days prior to scoring.
Number and Types of Credit Used	<ul style="list-style-type: none"> • Apply for and open new credit accounts only as needed. Do not open accounts just to have a better credit mix - it probably won't raise your score.

IV. DEBT MANAGEMENT PROGRAM (DMP) AND CREDIT SCORES

➤ Impact of DMP on the Credit Score

- **No Reporting Standards.** No standard exists as to how creditors report your enrollment on the Debt Management Plan. Creditors may report “credit counseling account” for such accounts being paid through a DMP. According to one credit counselor who spends most of her time helping DMP enrollees interpret their credit reports, only some 10-15% of creditors make this notation.
- **DMP Helps You Take Actions to Improve Your Score.** The DMP – in itself – does not negatively or positively impact your credit score. Credit counseling and the DMP will help you take actions that will

help you improve your score, such as bringing delinquent accounts current, making on-time payments, clearing your debt balances, and avoiding bankruptcy.

- **DMP Does Not Erase Negative Items.** The act of joining the DMP does not erase negative records in your credit history. For example, an account that went to collections will be reported as such, regardless of whether you join the DMP, and will remain on the credit report for up to seven years.
- **View of Lenders.** While future lenders will realize that you had difficulty paying of your unsecured debt, they may look at credit counseling as a responsible step in the right direction for paying off unsecured debts.

V. DISPUTING YOUR CREDIT REPORT

➤ Importance of Verifying Information

- **Accuracy of Information.** The information on your credit report may not be fully accurate for a number of reasons that follow:
 - Some creditors do not report changes every month.
 - Mergers and acquisitions among finance companies may lead to system errors, information mismanagement, and stale records that never get updated.
- **Consumer vs. Credit Reporting Bureau Responsibilities.** It is your job to ensure that any errors are reported to the Credit Reporting Bureau. It is the responsibility of the Bureau to correct such errors when reported.

➤ Key Steps to Addressing Any Errors

1. **Obtain copy of credit report and credit score.** You can obtain your score and report, which usually runs for \$9 per copy from the three reporting companies. You may want to consider purchasing all three reports since the information on each may vary. Lenders may choose to purchase one report, all three reports, or a merged report that provides a compilation of information and scores from the different reporting companies. Contact information follows:

Equifax Credit Information Services	Trans Union Corporation	Experian (Formerly TRW)
PO Box 740241 Atlanta, GA 30374-0241 1-800-685-1111 www.equifax.com	P.O. Box 2000 Chester, PA 19022-2000 1-800-916-8800 www.transunion.com	P.O. Box 2104 Allen, TX 75013-2104 1-888-397-3742 www.experian.com

You're entitled to one free report a year if you can prove that:

- You were denied credit, employment, or insurance within the last 60 days
 - You're on welfare
 - Your report is inaccurate because of fraud
 - You've been denied credit, insurance or employment within the last 60 days.
2. **Review the report.** Verify the accuracy of information on the report, such as payment histories, debt balances, account statuses, and number and types of accounts. A credit counselor can help you review the report.

Many creditors will report the following number to the agency. A lower number is obviously better. As you read your credit report, verify whether you believe each number reasonably represents your situation with the particular creditor account.

NUMBER	MEANING
0	Too new to rate; approved but not used
1	Pays (or paid) within 30 days of billing; pays account as agreed.
2	Pays (or paid) in more than 30 days, but not more than 60 days, or one payment past due.
3	Pays (or paid) in more than 60 days, but not more than 90 days, or two payments past due.
4	Pays (or paid) in more than 90 days, but not more than 120 days, or three payments past due.
5	Account is at least 120 days overdue, but is not yet rated 9.
6	(Code 6 does not exist)
7	Wage garnishment or bankruptcy
8	Repossession or foreclosure
9	Bad debt; placed in collections or charged off.

- Submit letter.** Submit a written letter to the Credit Bureau if you notice any errors from its report. If two or all three of the Bureaus make the same mistake, you would have to submit a SEPARATE letter to each Bureau. Reference the incorrect item, state facts to support your claim, and request the Bureau to delete the error. Your letter should include: full name, current address and prior address if you lived there within last five years, date of birth, photocopy of social security card and driver’s license. Also include a copy of the letter denying credit, employment, or insurance if such an occurrence happened. Do not send them original documents. (Note: If your application for credit, insurance, or employment is denied because of information supplied by a credit bureau, the company you applied to must provide you with that credit bureau’s name, address, and telephone number.) **You can also initiate your dispute online. Please visit the websites for the different Credit Bureaus to proceed this way. We also recommend you visit the websites to learn more about the Bureaus and their dispute resolution process.**
- Monitor Situation and Have Patience.** Note that the FTC receives more complaints about credit reporting than any other item, as it is difficult to get reporting agencies to resolve disputes. That said, the Fair Credit Reporting Act requires that both the creditor and reporting agency correct inaccurate or incomplete information. The Credit Reporting Bureau has 30 business days from your dispute date to confirm the accuracy of the negative information. The negative information must be deleted if it is not true or cannot be confirmed with a creditor in this time period. If you do not hear from the Bureau by 90 days, send another letter. If your case still does not move forward, then contact the FTC.