

NAME: _____ CLASS PERIOD: _____

Reading a Credit Report

Your ability to qualify for a loan depends on a credit report. A credit report is a record of an individual's personal credit history. It is probably a good indicator of the applicant's character and whether he or she will repay borrowed money as agreed.

When someone applies for a loan, the lender will order a credit report to see how well the applicant has managed credit in the past. A credit report will tell, in detail, how much the person has borrowed, from whom, and whether the bills have been paid on time.

Credit reports are compiled by credit bureaus, which regularly collect information on millions of consumers. Credit bureaus get information from a variety of sources, including stores, credit card companies, banks, mortgage companies, and medical providers. When you fill out an application for credit, the information on that application is also sent to a credit bureau.

What Are Lenders Looking For?

Lenders look for certain qualities in loan applicants. These qualities are called the 3 Cs of Credit: capacity, character, and collateral. A discussion of each follows.

Capacity: Capacity refers to the loan applicant's ability to repay the debt in question. The basic question is "Have you been working regularly in an occupation that is likely to provide enough income to support your use of credit?" More particular questions might address the following:

- ✓ Do you have a steady job?
- ✓ What is your salary?
- ✓ How reliable is your income?
- ✓ Do you have other sources of income?
- ✓ How many other loan payments do you have?
- ✓ What are your current debts?
- ✓ Do you pay alimony or child support?
- ✓ Can you afford your lifestyle?

Character: Questions will be asked to determine whether you are honest and reliable—thus likely to pay debts. Here are some examples:

- ✓ Have you used credit before?
- ✓ Do you pay your bills on time?
- ✓ Do you have a good credit report?
- ✓ Can you provide character references?
- ✓ How long have you lived at your present address?
- ✓ How long have you been at your present job?

Collateral: Collateral refers to assets that could be sold to pay off your loan in the event that you could not do so. Collateral serves as a type of insurance for the creditor. Questions related to collateral may include the following:

- ✓ Do you have a checking account?
- ✓ Do you have a savings account?
- ✓ Do you own any stocks or bonds?
- ✓ Do you have any valuable collections or jewelry?
- ✓ Do you own your own home?
- ✓ Do you own a car?
- ✓ Do you own a boat?

The Importance of a Good Credit Rating

A *good* rating on a credit report means that, in the past, bills have been paid on time. A *poor* rating indicates overdue payments or bills that have gone unpaid.

It is extremely important to build and maintain a good credit history. A good credit report can often make the difference between getting a loan or being turned down. In addition, potential employers and landlords will often check an applicant's credit report before making a final decision about offering a job or a renting out an apartment.

Credit Reports May Contain Errors

Mistakes can and do sometimes occur on credit reports. For example, a credit report may contain information about a different person with the same name as the applicant, or paid accounts may be listed incorrectly as unpaid. The law provides individuals with a means of requesting and reviewing their credit reports and having mistakes corrected. Under the Fair and Accurate Credit Transactions Act you have the right to get a free copy of your credit report from each credit bureau annually. The official site established by the three credit reporting agencies for free reports is

www.annualcreditreport.com. The Fair Credit Reporting Act allows you to receive a free copy of your credit report if you are turned down for credit or are the victim of identity theft. The three largest credit bureaus are:

- ✓ Equifax
- ✓ Experian
- ✓ TransUnion

What's My Score?

Credit reporting agencies summarize much of the information in your credit report into one credit score. The formula for computing credit scores was developed by Fair Isaac Corporation; the scores are commonly referred to as FICO scores. The scores range from 300 to 850, with the median score being 723. People with lower scores are more likely to be denied credit or charged higher interest rates. People with scores of 770 or higher will receive the best rates for loans. Scores of 640 or more will qualify applicants for fairly good rates. People with scores of 600 or less will have difficulty getting a loan. These people probably need credit counseling.

The following chart shows how lenders use FICO scores to evaluate loan applicants. For example, the chart shows that 8 percent of borrowers had FICO scores of 550 to 599, and approximately half of them either didn't pay back money they owed or were more than 90 days late in making their payments. In contrast, 27 percent of borrowers have a score of 750 to 799, and only 2 percent of them were delinquent.

FICO Scores: Measure Credit Risk

How Borrowers Rank		Delinquency Rates by FICO Scores	
Up to 499	2%	Up to 499	87%
500 to 549	5%	500 to 549	71%
550 to 599	8%	550 to 599	51%
600 to 649	12%	600 to 649	31%
650 to 699	15%	650 to 699	15%
700 to 749	18%	700 to 749	5%
750 to 799	27%	750 to 799	2%
800 +	13%	800 +	1%

Source: Fair Isaac

Who Uses Credit Scores?

Lenders aren't the only ones who use credit scores. Insurance companies use them in their evaluations of a new client's risk. A person with a low credit score may not be able to buy insurance, or will be charged a higher premium. Landlords also request credit scores when evaluating new tenants. People who have difficulty paying their bills may not be able to pay their rent on time. Finally, some employers use credit scores when screening new applicants for jobs. Employers seeking to fill jobs which require the handling of cash, or jobs paying salaries over \$100,000, are especially likely to request a credit score for the applicant.

What Information Is Used to Calculate My Score?

- **Payment history (35%)**

The most important part of a credit score is your repayment history. More than a third of your score is based on whether or not you have paid your bills and whether you have paid them on time. Most people are never late in paying their bills. So, if you are ever a late payer, even a few times, it will hurt your score.

How late you are (whether it's 30, 60, or 90 days) makes a difference, too. An account that was late 90 days or never repaid will hurt your score more than one that was late 30 days.

- **Amounts owed (30%)**

The second most important factor is the amount of debt you currently owe. This measure is based on your current level of debt compared to your income. It also includes a measure of how much credit you are currently using out of the amount of credit that is available to you. Many lenders will not make loans to individuals who are already spending 25 percent of their gross income to repay debt. They feel that the borrower will not have enough discretionary income to make additional payments, reliably, on a new loan. For example: A person who owes money on school loans, a car loan, a mortgage, and lots of credit card payments, totaling 50 percent of his or her take-home pay, probably wouldn't be able to handle any more debt.

In addition to the actual amount of debt you currently owe, lenders will look at how you are currently using of the credit available to you. If you have two credit cards with a total credit limit of \$10,000 and a balance of \$5,000 (a ratio of $5,000/10,000$ or 50%) you will be more likely to qualify for a loan than someone who has a \$1,000 credit limit with a balance of \$900 ($900/1,000$ or a ratio of 90%).

- **Length of credit history (15%)**

The length of time that you have had credit affects your credit score. Sometimes people are encouraged to keep old accounts open with no balance just to help their credit score.

- **Types of credit (10%)**

Lenders like to see a mix of installment loans and credit cards. However, it is much more important to pay all of your bills on time than to have variety in your credit profile.

- **New credit and inquiries (10%)**

Each time you apply for credit, the lender will request your credit report. These requests, sometimes called inquiries, temporarily reduce your credit score. Applications for new credit following recent late payments are viewed more negatively because they are seen as a sign that you are trying to borrow to pay current debt rather than to buy a new asset.

However, there may be times—when you are shopping for a car, perhaps—when you will apply for credit at several places during a short period of time (say, 30 days) to see where you can get the best offer for a loan. These inquiries are viewed differently; they don't affect your credit score as negatively as several independent credit applications throughout the year.

What can you do to earn a good credit score or improve your score? Pay your bills on time and limit the amount of debt you take on. These two factors account for 65 percent of your credit score!

Ways to Establish and Keep a Good Credit History and Improve Your Credit Score

There are several steps you can take to establish and maintain a good credit history.

- ✓ Always pay your bills on time.
- ✓ Never borrow more than you can comfortably pay back.
- ✓ Borrow only the amount you need.
- ✓ Know how much you owe at all times.
- ✓ Contact lenders immediately if you expect to have a payment problem.
- ✓ Develop good saving habits so that you can handle financial emergencies without borrowing.
- ✓ Report lost or stolen credit cards immediately.
- ✓ Never give your credit card number or other personal information over the phone or on the Internet unless you initiated the transaction.
- ✓ Open a checking account and a savings account.
- ✓ Do not apply for too many credit cards. Even if you don't use them, the credit limits are taken into consideration when you apply for credit.

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Evaluating a Credit Report

Study the credit report on the following pages and answer the questions below.

Questions:

- a. Whose credit report is this?
- b. How many potentially negative items are listed?
- c. How many accounts are in good standing?
- d. On page 2, there are two very negative items. What are they?

- e. Have any of John Q. Consumer's credit cards been lost or stolen?
- f. Does John Q. Consumer have a good credit record with First Credit Union and National Credit Card? What are the reasons for your opinion?
- g. Who requested John Q. Consumer's credit report in 2009?

- h. Is John Q. Consumer a homeowner?
- i. What is the most negative item on this report, and for how many years does that item remain in the credit report?
- j. What is John Q. Consumer's credit score?
- k. If you were a lender, would you grant John Q. Consumer credit? Why or why not?

Credit Report of John Q. Consumer

Credit R Us		Prepared for John Q. Consumer	Report date June 01, 2009
		Report number 1687771839-0000051088	Page 1 of 7
Personal Credit Report			Credit R Us P.O. Box 9595 Allen TX 75013-9595
About this report Credit R Us collects and organizes information about you and your credit history from public records, your creditors, and other reliable sources. We make your credit history available to your current and prospective creditors and employers as allowed by law. We do not grant credit or evaluate your credit history. Personal data about you may be made available to companies whose products and services interest you.		Report number Below is a summary of the information contained in this report.	If you have questions For all questions about this report, please call us at: 1-888-000-0000 M - F 7:30am – 7:00 pm CT
		Potentially negative items listed	To learn more about Credit R Us or for other helpful information, including tips on how to improve your creditworthiness, visit our web site: http://www.creditrus.com
		Public records 2 Accounts with creditors and others 2	
		Accounts in good standing 3	
<i>Important decisions about your creditworthiness are based on the information in this report. You should review it carefully for accuracy.</i>		Credit Score 550	

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<p>Information affecting your creditworthiness Items listed with dashes before and after the number, for example -1-, may potentially have a negative effect on your future credit extension and are listed first on the report.</p> <p>Credit grantors may carefully review the items listed below when they check your credit history. Please note that the account information connected with some public records, such as bankruptcy, also may appear with your credit accounts listed later in this report.</p> <p><i>Important decisions about your creditworthiness are based on the information in this report. You should review it carefully for accuracy.</i></p>		<p>Your statement At your request, we've included the following statement every time your credit report is requested.</p> <p><i>"My identification has been used without my consent on applications for credit. Please call me at 999.999.9999 before approving credit in my name."</i></p>			
Public record information about you					
<i>Source/ Identification number</i>	<i>Location number</i>	<i>Date filed/ Date resolved</i>	<i>Responsibility</i>	<i>Claim amount Liability amount</i>	<i>Comments</i>
-1- HOLLY COW DIST CT 305 MAIN STREET HOLLY NJ 08060	B312P7659	3-2005/NA	Joint	\$3,765/NA	Status: civil claim judgement filed. Plaintiff: Dime Savings. This item is scheduled to continue on record until 3-2012. This item was verified on 8-2005 and remained unchanged.
-2- BROWN TOWN HALL 10 COURT STREET BROWN NJ 02809	Bk443PG14	11-2005/NA	Joint	\$57,786/NA	Status: chapter 7 bankruptcy discharged. This item is scheduled to continue on record until 11-2015. This item was verified on 8-2005 and remained unchanged.

Credit R Us		Prepared for John Q. Consumer	Report date June 01, 2009				
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Credit information about you							
<i>Source/Account number (except last few digits)</i>	<i>Date opened/ Reported since</i>	<i>Date of status/ Last reported</i>	<i>Type/Terms/ Monthly payments</i>	<i>Responsibility</i>	<i>Credit limit or original amount/ High balance</i>	<i>Recent balance/ Recent payment</i>	<i>Comments</i>
-3- FIDELITY BK NA 300 FIDELITY PLAZA NORTHSHORE NJ 08902 46575000024	6-2002/ 6-2002	12-2004/ 12-2004	Installment/ 10 months/\$0	Individual	\$4,549/NA	\$4,549 as of 12-2004	Status: Charge off. \$4,549 written off in 12-2004. This account is scheduled to continue until 12-2011.
-4- B.B. Credit 35 WASHINGTON ST. DEDHAM MA 547631236	10-1998/ 4-2003	4-2006/ 4-2006	Installment/ 80 months/\$34	Individual	\$8,500/\$8,500	\$0 as of 4-2006/ \$34	Status: Debt reincluded in chapter 7 bankruptcy. \$389 written off in 3-2006. Account history: Collection as of 9-2003 thru 6-2004 90 days as of 7-2003 60 days as of 11-2002, 6-2003, 30 days as of 9-2002, 1-2003 and 2 other times. This account is scheduled to continue on record until 2-2009. This item was verified and updated on 6-2004.

Credit R Us		Prepared for John Q. Consumer	Report date June 01, 2009				
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Credit information about you <i>continued</i>							
Source/Account number (except last few digits)	Date opened/ Reported since	Date of status/ Last reported	Type/Terms/ Monthly payments	Responsibility	Credit limit or original amount/ High balance	Recent balance/ Recent payment	Comments
5 FIRST CREDIT UNION 748 WASHINGTON LNE LANEVILLE TX 76362 129474 Mortgage: 74848347834	3-2004/ 3-2004	11-2006/ 11-2006	Installment/ 48 Months/\$420		\$17,856/NA	\$0 as of 11-2006/ \$420	Status: open/never late.
6 AMERICAN FINANCE CORP PO BOX 8633 COLLEY IL 60126 6376001172...	6-2001/ 7-2001	11-2006/ 11-2006	Revolving/NA \$400		\$18,251	\$0 as of 11-2006	Status: card reported lost or stolen. This account is scheduled to continue on record until 11-2009.
7 NATIONAL CREDIT CARD 100 THE PLAZA LAKEVILLE NJ 08905 420000638...	6-2001/ 6-2001	11-2006/ 11-2006	Revolving/NA/ \$0	Joint with JANE CONSUMER	\$8,000 \$8,569	\$0 as of 11-2006	Status: open/never late.

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Your use of credit							
The information listed below provides additional detail about your accounts, showing up to 24 months of balance history, your credit limit, high balance or original loan amount. Not all balance history is reported to Credit R Us, so some of your accounts may not appear. Also, some credit grantors may update the information more than once in the same month.							
Source/Account number	Date/Balance						
6 AMERICAN FINANCE CORP. 6376001172	11-2006/\$0	10-2006/\$4,329	8-2006/\$0	5-2006/\$0	2-2006/\$250	1-2006/\$0	12-2005/\$2,951
	9-2005/\$3,451	7-2005/\$4,251	5-2005/\$4,651	2-2005/\$5,451	1-2005/\$5,851;		12-2004/\$6,251
	11-2004/\$6,651	9-2004/\$7,051	7-2004/\$7,451	5-2004/\$7,852	3-2004/\$8,251		1-2004/\$12,651
	12-2003/\$9,051	11-2003/\$9,451	9-2003/\$10,251	7-2003/\$10,651	5-2003/\$11,051		
<i>Between 1-2002 and 11-2006 your credit limit was unknown.</i>							
7 NATIONAL CREDIT CARD 420000638	11-2006/\$0	9-2006/\$542	7-2006/\$300	6-2006/\$686	4-2006/\$1,400	3-2006/\$2,500	1-2006/\$2,774
	12-2005/\$599	9-2005/\$873	7-2005/\$1,413	5-2005/\$1,765	4-2005/\$2,387	3-2005/\$3,400	
	2-2005/\$3,212	1-2005/\$4,412	12-2004/\$2,453	9-2004/\$2,453	10-2004/\$1,769	8-2004/\$1,200	
	4-2004/\$3,200	2-2004/\$4,568	1-2004/\$5,582	12-2003/\$3,000	10-2003/\$3,200	8-2003/\$4,500	
<i>Between 6-2001 and 11-2006 your credit limit was \$8,000.</i>							

<h1 style="margin: 0;">Credit R Us</h1>			Prepared for John Q. Consumer	Report date June 01, 2009
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Others who have requested your credit history
Listed below are all those who have received information from us in the recent past about your credit history.

Requests initiated by you
You took actions, such as completing a credit application that allowed the following sources to review your information. Please note that the following information is part of your credit history and is included in our reports to others.

Source	Date	Comments
ABC MORTGAGE 64 MAPLE ROSEVILLE, MD 02849	10-18-2006	Real estate loan of \$214,000 on behalf of State Bank with 30 year repayment terms. This inquiry is scheduled to continue on record until 10-2009.

Other requests
You may not have initiated the following requests for your credit history, so you may not recognize each source. We offer credit information about you to those with a permissible purpose, for example, to:

- other creditors who want to offer you pre-approved credit;
- an employer who wishes to extend an offer of employment;
- a potential investor in assessing the risk of a current obligation;
- Credit R Us Customers Assistance to process a report for you;
- your current creditors to monitor your accounts (date listed may affect only the most recent request).

We report these requests **only** to you as a record of activities, and we do not include **any** of these requests on credit reports to others.

Source	Date
CREDIT R US PO BOX 949 ALLEN TX 75013	3-09
WORLD BANK PO BOX 949 ALLEN TX 75013	3-09, 12-08, 9-08, 6-08, 3-08, 12-07, 9-07, 6-07, 3-07
FIDELITY BK NA 300 FIDELITY PLAZA NORTHSHORE NJ 08902	1-09, 7-08, 1-08, 7-07, 1-07
NATIONAL CREDIT REPORT 100 THE PLAZA LANEVILLE NJ 08905	7-07, 2-07

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Personal information about you
The following information associated with your records has been reported to us by you, your creditors, and other sources. As part of our fraud-prevention program, a notice with additional information may appear in your report.

Names
John Q. Consumer

Residences
Our records show you currently are a homeowner. The geographical code shown with each address identifies the state, country, census tract, block group, and Metropolitan Statistical Area associated with each address.

Address	Type of address	Geographical code
7972 PADDOCK CT LANEVILLE, TX 00000	Single Family	0-192053-3-0
1777 BEVERLY AVE SOMEWHERE, NJ 00000	Single Family	0-224681-25-0
250 GARDEN DRIVE ANYWHERE, NJ 00000	Single Family	0-9004-93-0

Social Security number
111-11-1111

Year of birth
1964

Driver's license number
CA X123456

Spouse's name
JANE

Driver's license number
CA X123456

Notices
The first Social Security number listed shows that credit was established before the number was issued.

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Evaluating Three Loan Applications

Listed below are three loan applicants who are interested in buying a new car. Based solely on the information provided and their credit score, determine whether you would approve or decline their loan requests. There is no specific credit score for which lenders would deny a loan automatically, based only on a score. However, the credit score does provide useful information about the creditworthiness of the individual. If you decide to make a loan to the applicant, assign an interest rate appropriate for the applicant's score. Check your response and then write the reason for your decisions. Interest rates typically assigned to various credit scores are provided on the following page.

Status codes given at the end of the reports.

JANICE BROWN			Credit Score 450			
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Sears	2	2,016	24	838		R3
Dept. of Educ.	7	1,507		1,507	158	I5
Dept. of Educ.	2	512		512	512	I5
ABC Credit Card	8	3,000	29	1,363		R1
Record of Month	6			28	38	O3

_____ Approve _____ Decline _____ Not Sure _____ Interest Rate
Why?

TITO SANDERS			Credit Score 770			
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Hometown Bank	24	11,000	60	5,350		I1
ABC Credit Card	6	2,500	36	0		O0
Dept. of Educ.	5	2,000	24	1,380		I1
XYZ Credit Card	12	3,000	24	495		R1

_____ Approve _____ Decline _____ Not Sure _____ Interest Rate
Why?

EXERCISE
13.3

MARIA MARTINEZ			Credit Score 620			
Company name	Months reviewed	High credit	Terms	Balance	Past due	Status
Hometown Bank	13	7,200	48	5,800		I1
ABC Credit Card	7	2,000	24	488		R1

_____ Approve _____ Decline _____ Not Sure _____ Interest Rate
Why?

Status Codes

Type of account

- O = Open
- R = Revolving
- I = Installment

Timeliness of payment

- 0 = Approved, not used
- 1 = Paid as agreed
- 2 = 30 days past due
- 3 = 60 days past due
- 4 = 90 days past due
- 5 = 120 days past due
- 7 = Making regular payments under wage earner plan
- 8 = Repossession
- 9 = Seriously delinquent/bad debt (paid or unpaid; charged off account)

FICO SCORE	APR
720-850	6.098%
690-719	7.644%
660-689	9.059%
620-659	11.761%
590-619	15.478%
500-589	16.202%