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Author  
**Rama Kant Dawar**

Path to Your Financial Freedom delivers information on some of the following topics:

- Credit Basics
- What is Credit Score?
- Be a Credit Card Expert
- Common Credit Myths
- Identity Theft Tips
- Credit Repair Facts
- Credit Bureaus & Repair
- Building Credit
- The Fair Credit Reporting Act
- Credit Letters (Sample)
- Credit Forms (Sample)
- Letters to Creditors (Sample)

Path to Your Financial Freedom

Rama Kant Dawar

# Path to Your Financial Freedom



## How to Fix our Own Credit

by : Rama Kant Dawar

# PATH TO YOUR FINANCIAL FREEDOM

Rama Kant Dawar

Nawi Dunia Publications

PATH TO YOUR FINANCIAL FREEDOM  
BY  
RAMA KANT DAWAR

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by Rama Kant Dawar

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## About the Author

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Rama Kant Dawar is a Professional Post Graduate, Paralegal, Income Tax Preparer, Real Estate Agent, Business Consultant, and a Certified Debt & Credit Counselor. Dawar has been assisting people with their financial business since the year 2000. He has multiple skills in different fields including writing articles for various printed and online newspapers, and has taught at California State University, Fresno.

Dawar also works with the Universal Health & Network Systems, Inc. as facilitator for Domestic Violence, Drug Education, Alcoholism, & Parenting Education. He is a Yoga advocate, and practices old Indian herbal remedies along with writing books on various topics.

Dawar has helped numerous people fix their credit, and helped them in removing negative inquiries and negative reports from their credit reports. He has also guided and directed individuals on ways to get out of debt and successfully take charge of their financial situation.

Dawar lives in Fresno, CA and has received his Masters Degree in the Hindi language and an Associate Masters in Journalism from India, Business Management Degree from India, and Textile Engineering Diploma from India. He has also earned a Diploma in International Trade and Marketing. Dawar attended Fresno City College after migrating to the United States of America, and furthered his studies at Ashworth College, where he earned his Paralegal Associate's Degree.

Dawar has also worked in the news and print media industry in India and earned a great reputation in the 1990s as a well known journalist prior to becoming an advisor for Science and Technology, Power and Research Department of Haryana Government, India.

Dawar has also worked with different agencies assisting them in multiple languages including interpreting for banks, courts, insurance investigators, attorneys, and many other agencies. While working as an interpreter, he has learned about many of the credit issues. While working in the real estate business, Dawar learned a lot from his real estate prospective clients; he learned the problems of the prospects, and assisted them in fixing their credit. By doing so, he was able to help many families buy their first house and turn it into a home. Based on these experiences, Dawar was able to put this excellent book together

## Dedication

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This book is dedicated to my family: my wife Surjit Kaur Dawar, my father Mr. Krishan Chander Dawar, my mother Mrs. Radha Rani Dawar, my daughters Shivangi, Navjit Kaur, Pawan Jot, Jaswinder Kaur Dawar and my late grandparents. My paternal grandparents Mr. Buta Ram Dawar, who was a freedom fighter for India's freedom movement and my grandmother Mrs. Bhagwanti Dawar whose influence and education taught me to always stand up for the right things. This book is also dedicated to my maternal grandparents Mr. Shadi Lal and Mrs. Ram Piari. I miss them dearly as they influenced my life with positivity.

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## Introduction

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Thank you for purchasing this book about how to repair your own credit. In order to repair your credit, you have to have an understanding of the factors that are used to calculate your credit scores and then take the necessary steps to make the factors work in your favor. Most people have debts, credit, and debit cards, but don't realize how credit and credit scoring affects their everyday life. Very few people know how to deal with credit issues effectively. Some people who have excellent credit get the best rates, programs, and services while others do not qualify for credit or have to pay premium rates for certain services due to their poor credit ratings.

“Path to Your Financial Freedom” with the subtitle “How to Fix Your Own Credit” will introduce you to how credit and credit scoring works. It will explain what credit is, the different type of credit, and how credit affects your credit rating and credit score. It will identify various public records that affect your credit rating and score. This book will assist you in answering your questions in regards to dealing with credit grantors, the credit reporting agencies, and bureaus. This book can be a valuable tool in assisting you to understand your credit, credit report, debt, debt load, and to work on your budget, avoid credit repair scams, and fix your own credit. Additionally, you will acquire knowledge about bankruptcy chapters, difficult situations during and after a divorce, and unemployment situations.

This book is also designed to be a valuable resource for you to use your credit wisely and protect yourself from credit fraud and identity theft. The Fresno Bee in its May 10, 2013 edition reported losses of millions of dollars by the world's biggest ATM fraud. Yet, no permanent resolution to preventing such frauds and large losses has been established. Millions of people are victims of identity theft. Identity theft is currently the most common compromise in the credit industry. Theft of personal information remains high, but actual use of stolen data remains low. It is crucial that you protect yourself and your family from identity theft and quickly halt any damage identity thieves may inflict.

If you find yourself in the middle of a debt crisis with no cash on hand to pay your bills or to buy the basic necessities for your family, you may feel discouraged and overwhelmed by your credit problems. Instead of letting your credit problems escalate, you need to

immediately start working towards managing your debt and resolve your credit issues. Repairing your credit profile is one of the most important financial decisions that you can make. You should not have any false hopes that this book will provide overnight assistance in fixing your credit and financial problems. Instead, “Path to Your Financial Freedom” will take the guesswork out of the credit scoring process and provide a clear, logical, and precise plan for repairing your credit. The material in this book is very comprehensive and I am confident that you will find the information in this book easy to understand and apply the techniques quite effectively to resolve your credit issues. You will learn how to obtain and understand your credit report and scores and explore the myths about credit reporting. You will also learn about credit scoring, score codes, your history codes, risk codes and whether these things were hidden or not disclosed in the past. Additionally, you will learn how lenders or creditors use information appearing on your credit report, where to find assistance if you have complaints against collection companies, and about your credit reporting rights. This book includes several worksheets such as summary of expenses, budget sheets, letters, forms, etc., to be used based upon your individual needs.

We are constantly bombarded with media advertisements from companies offering to assist erase or repair your bad credit. There is no need to pay these companies because everything a credit repair company can do for you legally, you can do for yourself at little or no cost. You can easily work with and negotiate your own debt and resolve credit problem by using the tools provided in this book. There are times, however, when legal assistance is necessary and you should contact an attorney in your state for guidance. It is very important to remember that federal and state rules, regulations, laws, and statutes are constantly changing so you must keep abreast of the changes as they occur. Websites listed in the bibliography are current at the time of printing, but may not be in the future so you must conduct some research at your local library, law library, online or consult an attorney if needed.

The information I provide herein is based on my own experience in assisting others resolve their credit issues throughout the years. The information will educate and enable you to make positive decisions about your problematic and challenging credit issues. My experience in assisting others has been a tremendous asset to me. The ability to successfully advise my clients on how they can improve their credit

scores is no small thing and it's rewarding to see them empowered. Once you apply the tools I have provided, you will be on your way to improving your credit. I, Rama Kant Dawar, wish you the best of luck and want you to remember that a good credit rating is achievable for everyone.



## About Credit

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Credit has become part of our daily financial lives. People are making fewer cash purchases and are relying more and more on credit cards, debit cards, and automatic banking transactions including mobile apps or email apps. A business extends credit to you by giving you their services or merchandise and trusts that you will pay for these items at a later date.

Your personal credit history is linked to almost every purchase you make. From cell phones, vehicle financings, mortgages, insurance and even job applications, people are viewing your credit reports more often than the average consumer realizes. This is one reason it has become more important than ever to maintain a good credit history. Making payments on time, avoiding unnecessary debt, and keeping a close eye on your credit reports are ways to ensure your good credit doesn't become bad credit.

Understanding, using and managing your personal credit is usually a key factor that determines your lifestyle. Because your credit plays such a major role in your life; why not learn now how to manage your credit and save yourself some serious headaches, turndowns, and rejections.

The information and concepts that you read in this book are 100% unbiased expert opinions and partners of credit assistance network. I take enormous pride in knowing that we have researched and experienced each of our affiliate partners and are certain that when you obtain information or knowledge about credit scores from this book you are getting effective, reputable products and services. If at any point you have questions regarding any of the topics or information in this book, we encourage you to email us 24/7 at [financialfreedompath@yahoo.com](mailto:financialfreedompath@yahoo.com).

In short, you will learn the following about credit in this book:

- Credit Basics
- What is a Credit Score
- Be a Credit Card Expert
- Common Credit Myths
- Identity Theft Tips
- Credit Repair Facts
- Credit Bureaus & Repair
- Building Credit
- The Fair Credit Reporting Act
- Credit Letters (Sample)
- Credit Forms (Sample)
- Letters to Creditors (Sample)

## Credit Repair

Repairing damaged credit pays many dividends so start by building a credit report that the three main credit-reporting agencies consider worthy. If you get to the point where you can't make mortgage payments or have other credit problems, a good credit counselor can be worth his or her weight in gold, but be careful of today's fake credit counselors & schemes.

### The Big Three Credit Bureaus

If you're trying to repair your credit, you need to know the three main credit-tracking and reporting agencies. The "big three" organizations in the following list track your credit, assign you a credit score, and report on both when requested by a legitimate source. Check in with each annually to see where your credit score stands.

- **Equifax**, P.O. Box 740241, Atlanta, GA 30374; phone: 800-685-1111
- **Experian**, P.O. Box 2104, Allen, TX 75013-2104; phone: 888-397-3742
- **TransUnion**, P.O. Box 2000, Chester, PA 19022-2000; phone: 800-888-4213

### How to Build a Good Credit Score

Building good credit takes time. Whether you've made some mistakes and need to repair your credit or just want to keep your credit looking good, the tips in the following list offer good advice:

- **Review your free credit report every year.** You can get it for free!
- **Keep balances below 50 percent of your credit limits.** Your balance is the second biggest factor affecting your score. High balances mean high risk and maybe higher interest rates for you.
- **Dispute any errors or out-of-date information.** Up to 25 percent of credit reports have errors; yours may too. Disputing negative errors can boost your score.
- **Pay your bills on time.** The largest part of your credit score is based on your payment history. Get a system in place that suits your style to make sure you don't forget any due dates.
- **Keep your accounts open longer.** Length of credit history is another important factor. Don't close your older accounts if possible. Add new accounts if you like, but don't automatically close your older ones when you do. Doing so can cause you to lose

## The Importance of Credit Scores

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points for having new inquiries, adding new credit, and having a shorter history.

- **New credit can lower your score.** In the short run, the combination of more available credit and more inquiries on your account can increase your risk profile and lower your score. This is most sensitive for those without a long credit history. The bottom line is that you should only add new credit when it makes sense, not just to have another card or to get an incentive gift.
- **Use more than one type of credit.** Open a variety of accounts to show that you can manage credit cards, retail accounts, installment loans, other types of credit, and pay on time.
- **Accurate negative information stays on your credit report for seven to ten years.** However, it counts for less every time you add positive information to your report. Most credit scores look heavily at the last two years of history, not all seven.
- **Secured cards can help establish or reestablish credit.** These cards are backed by your savings and build a positive payment history with the bureaus. A positive payment history improves your credit score.
- **Cosigning for anyone is dangerous to your credit score.** If they default, you might not know about it for months or maybe years, until you check your credit report. You will not only be responsible for the debt, but your credit score will suffer as well.

### What a Credit Score Means to You?

A credit score is a number that summarizes your credit risk based on a snap shot of your credit report at a particular point in time. A credit score helps lenders evaluate your credit report and estimate your credit risk. When you use credit, you are borrowing money that you promise to pay back within a specified period of time. A credit score is a statistical method to determine the likelihood of an individual paying back the money he or she has borrowed.

In recent years, since the credit bureaus have taken the reporting responsibility, a simple three-digit number has become critical to your financial life. This number is known as credit score or FICO (Fair Isaacs Corporation) score number. FICO is the creator of the software used to calculate credit scores, which is designed to predict the likelihood on whether you will pay your bills or not. Credit scores are handy for lenders, insurance companies, employers, housings industry like lending or renting, and they can have enormous repercussions for your wallet, your future, and your peace of mind.

### Affect of Credit Scores on Your Financial Life

If you have a high enough credit score you will most likely qualify for a lender's best rates and terms, but not always; there are other such factors to be considered such as how long you have built your credit history. You will receive many offers from credit card issuers asking you to accept low rate credit cards if your FICO or three digit numbers are high enough. Mortgage lenders will be fighting for your business giving you a better chance to get the best rates when purchasing any kind of property, including, but not limited to commercial, residential or even investment property. Even if you decide to buy a car or home, just want to remodel your home, start a new venture or need some extra cash, your high credit score shows your responsibility and will drastically increase your chances at getting the loan you have applied for and get it with the best deals.

If you have a low credit score or no credit score, it will become very difficult to obtain a loan or any financial assistance from lenders, banks, credit card companies or hard money lenders. If by chance you can get a personal loan from someone you know who is willing to lend you money, you may end

up paying high rate of interest, high fees, and loan origination fees. If it is a small loan then, maybe there are no loan origination fees, but you may have high rates of interest or advance deduction of interest from the loan amount. A credit score which is bad or mediocre may end up costing you tens of thousands of dollars over the course of your lifetime, which can cause financial distress to you and to your family.

A single missed payment can knock off more than 100 points off of your credit score and make you a high-risk candidate for lenders. Your credit score is not just related to lenders and you needing a loan. Your credit score affects your life in every way. Landlords and insurance companies put heavy emphasis on your credit score when evaluating potential applicants. Having a good score will generally get you lower cost premiums and better housing arrangements. A bad credit score can make it difficult to find a good place to live and possibly make your insurance more expensive.

Many people know far too little about the importance of their credit score and how it works. My office located in Fresno, CA deals with distraught clients on a daily basis who have suffered due to bad or low credit scores. They took the first step in fixing the problem by coming to our office and getting professional help in repairing damaged credit scores by following the suggestions given to them on how they can fix their credit score problems. Below are sample of questions I am asked on a regular basis from clients looking to learn more about this three digit number that has affected their lives.

*“How can I get good rates on student loans for school when I don't have any credit? What can young people do to begin working on their credit and keep it high?” Harnur Kaur, Sacramento, CA.*

*Student at University of California Davis.*

*“When I was in college, I made some bad credit decisions. Now, I need to improve my credit drastically. How can I fix my credit score and fix it fast?”*

*LVN Student, CA.*

*“I am a medical student and need a student loan, but I am taking classes out of the States. I never had any kind of bank account or credit card, but had a car loan and was late on payments, but now I am almost finishing up my internship how can I have my credit fixed and buy a new home at lower interest rate?” Mr. DON'T LIKE TO BE*

*RECOGNIZED medical student from California.*

*“I didn't know that closing all of my credit card accounts would hurt my score, I thought it would improve my credit. How can I recover from this mistake? Would it be wise to reopen my accounts and begin to work on repairing my credit score?” Baljinder Gurak, Greenwood, IN. Gurak's credit has just been repaired and his accounts have been settled through our office.*

*“I purchased my home with my father and sister because I did not have enough income, but my credit scores were good. After buying the home, when I went to buy a new truck, I was surprised that my FICO was only 560. I found out that I was sending my mortgage payments late and it damaged my credit, my father's credit, and my sister's credit. How can I fix it? Is there any way that I can buy a new car because I am getting married next month?” Robert Maxwell from Bakersfield, California*

*“My car has been repossessed and I have many unpaid medical bills. I'm not working right now, have very little money in the bank, and am looking to buy a car so I can begin working again. My credit has been ruined and I am constantly being denied by the car companies. What can I do to fix this?”*

*Sandra Martinez, Reedley, CA.*

What these people have learned and many of you now know is that being ignorant about your credit score can cost you a lot. There are times when people with bad scores get loans hassle free but end up paying a high price; while people with good scores can get loans with bad deals, not realizing they can get a much better deal had they researched their options for good rates.

### **Long Term Effects of Mediocre or Poor Scores on Your Credit History**

Perhaps the best way to explain the long term consequences of mediocre or poor credit score is to give you an example that compares the way two different women have handled their credit over a lifetime and hence how much a credit score can matter. ([www.creditme.com](http://www.creditme.com))

Let's examine how these numbers affect two individual persons named Karla and Kattie.

Both women got their first credit card in college and carried a



\$10,000 balance on average over the years. (Carrying a balance isn't smart financially, but unfortunately, it's an ingrained habit with many credit card users.)

Karla and Kattie also bought new cars after graduation, financing their purchases with \$20,000 in auto loans. Every seven years, they replaced their existing cars with new ones until they bought their last vehicles at age 70.

Each bought her first home with \$350,000 mortgages at age 30 and then moved up to larger homes with \$450,000 mortgages after turning 40.

Neither has ever suffered the embarrassment of being rejected for a loan or turned down for a credit card. Here the similarities end. Here is an example of what the two women's finances look like when compared side by side.

Karla was always careful to pay her bills on time, all the time, and typically paid more than the minimum balance owed. Lenders responded to her responsible use of credit by offering her more credit cards at good rates and terms. They also tended to increase her credit limits regularly, which allowed Karla to spread her credit card balances across several cards. All these factors helped give Karla an excellent credit score. Whenever a lender tried to raise her interest rate, she would politely transfer her balance to another card. As a result, Karla's average interest rate on her cards was 6.9 percent or less. Sometimes she entertained 0% transfer balance rates as well.

Kattie, by contrast, didn't always pay on time, frequently paid only the minimum due, and tended to max out the cards that she had. That made lenders reluctant to increase her credit limits or offer her new cards. Although the two women owed the same amount on average, Kattie tended to carry larger balances on fewer cards. All these factors hurt Kattie's credit; not enough to prevent her from getting loans, but enough for lenders to charge her more. When it came to interest rates, Kattie had much less negotiating power than Karla. Her average interest rate on her credit cards was 21.99 percent.

#### *Credit Cards*

	<b>Karla</b>	<b>Kattie</b>
Credit Score	750	650

Average Interest Rate	6.90%	21.99%
Annual Interest Costs	\$792	\$1,592
Lifetime Interest Paid	\$39,60	\$79,600
Kattie's Penalty		\$40,000

Karla's careful credit use paid off with her first car loan. She got the best available rate and she continued to do so every time she bought a new car until her last purchase at age 70. Due to her lower credit score, Kattie's rate was three percent points higher.

#### *Auto Loans*

	<b>Karla</b>	<b>Kattie</b>
Credit Score	750	650
Average Interest Rate	5.00%	8.00%
Monthly Payment	\$377	\$406
Interest Cost per Loan	\$2,646	\$4,332
Lifetime Interest Paid	\$21,166	\$34,653
Kattie's Penalty		\$13,487

The differences continued when the women bought their homes. During the ten year period that the women owned their first homes, Karla paid \$68,000.00 less in interest.

#### *Mortgage 1 (\$350,000)*

	<b>Karla</b>	<b>Kattie</b>
Credit Score	750	650
Interest Rate	5.50%	7.375%
Monthly Payment	\$1,987	\$2,417
Total Interest Paid (10 years)	\$174,760	\$243,020
Kattie's Penalty		\$68,261

Kattie's interest penalty only grew when the two women moved up to larger homes. Over the 30-year life of their mortgages, Kattie paid nearly \$200,000 more in interest.

#### *Mortgage 2 (\$200,000)*

	<b>Karla</b>	<b>Kattie</b>
Credit Score	750	650

Interest Rate	5.50%	7.375%
Monthly Payment	\$2,555	\$3,108
Total Interest Paid (10 Years)	\$469,818	\$688,894
Kattie's Penalty		\$199,894

Kattie's total lifetime penalty for less-than-stellar credit? More than \$320,000!

If anything, these examples underestimate the true financial cost of mediocre credit.

- ❑ Higher interest rates probably substantially increased the penalties that Kattie paid just to live in the same manner as Karla. During times when interest rates rose, her costs were even higher than the \$320,000 (calculated on a low 3% interest rate in the example.)
- ❑ Kattie likely also paid insurance premiums that were 20 to 30% higher than Karla's thanks to her skimpy credit rating since insurers equate low credit scores with high risk clients.
- ❑ Kattie probably had to spend more time working to pay off her lenders, thus finding herself leading a more stressful life and missing career opportunities.
- ❑ As Kattie's paycheck mainly ended up in the hands of lenders, she probably had less money for a vacation, her kids' education and retirement. She probably worked twice as hard to maintain the same standard of living as Karla and experienced more stress in general.
- ❑ With less disposable income and more debt, it would not be that surprising if Kattie experienced more stress than Karla and therefore more illness and maybe even hospital bills that were difficult for her to pay.
- ❑ In fact, if Kattie had been able to invest the extra money she paid in interest instead of sending it to banks and credit card companies, her savings might have grown by a whopping \$2 million by the time she was 70.

Hopefully, the above example truly explains why some individuals do well while others really suffer and struggle even though they make the same amount of money and it convinces you to start taking better care of your credit score as of today!

### **How Credit Scoring Came Into Being**

In 1956, engineer Bill Fair and mathematician Earl Isaac founded the firm Fair Isaac. Over the course of many years, the two were able to convince lenders that mathematical formulas could do a better job of predicting who the best candidates would be to offer loans too. After a few years, most major lenders and companies were using some type of credit scoring formula. Lenders and companies would use their formula to decide whether they would accept or reject applicants looking for financial assistance. The three digit number has become a major part of our lives. It is the credit score number which determines if we can buy our dream home, purchase the luxury car we wish to have or start a new business.

A mathematical formula wasn't as big a subject to human whims and biases. It wouldn't turn down a potentially good credit risk because the applicant was the "wrong" race, religion or gender, and it wouldn't accept a bad risk because the applicant was a friend.

Credit scoring, aided by increasingly powerful computers, was also fast. Lending decisions could be made in minutes rather than days or weeks and underwriters made their decisions based upon computer inputs, outputs, information provided, & credit history as fast as they can.

#### **Previously Used Formula Factors**

- Company has its own credit scoring formula
- Risk a bank was willing to take
- History with various types of borrowers
- Types of customers attracted
- Applicant's occupation and income
- Length of time with an employer
- Length of time at an address
- Length of time of previous loans
- Conviction history
- Personal criminal history
- Past payment history
- Account closed by account holder
- Account closed by lenders
- Accounts abandoned

- Accounts having late payment history
- Accounts paid off before maturity date

**The limitation of these formulas was the fact that they were based upon small data bases.** This is where Fair Isaac really made a sweeping change in how a credit score was determined. Because of the grand acceptance of their formulas, their data base became increasingly large, and with the development of computer technology, it was possible to access unheard amounts of information never before known. These calculations took place behind the scenes, invisible to the customer and understood by a relatively small number of experts and loan executives.

The cost to develop and implement these custom formulas was, and still is, considerable. It was not unusual to spend \$100,000.00 or more and take 12 months just to develop one formula or program. In addition, not every creditor had a big enough database to work with, especially if the company wanted to branch out into a new line of lending. A credit card lender that wanted to start offering car loans, for example, might find that its database couldn't adequately predict risk in vehicle lending, so maybe he used a third party's database to make decisions and lend money or credit to his customers.

The downside of this was when banks wanted to take on different types of customers. The risk formulas for buying a house, vehicle or short term loan were not the same. This meant there was a need for a formula for different types of loans. The formula development process became too time consuming and expensive for small institutions to handle, so as it is incorporated in the above mentioned paragraph, outsourcing is used in the decision making process and it required credit bureaus.

Outsourcing led to credit scores which are based on the biggest lending databases of all those held at the three major credit bureaus -- **Equifax Inc, Experian PLC, and TransUnion, who buy the formula from Fair Isaac.** The bureaus use your personal data and crunch the numbers differently. Therefore, your score will vary slightly at each agency. When a lender considers your application for credit, they turn to one (or all) of the credit agencies for your score, which indicates your reliability as a borrower. Fair Isaac developed the first credit bureau-based scoring system in the mid-1980s, and the idea quickly caught on and recognized by the lending industry first and now it is used in multi-decision making plans, including hiring, bankruptcy, account opening,

and borrowing money, etc.

Instead of basing their calculations on any single lender's experience, this type of scoring factored in the behavior of millions of borrowers. The model looked for patterns of behavior that indicated a borrower might default, as well as patterns that indicated a borrower was likely to pay as agreed. The score evaluated the consumer's history of paying bills, the number and type of credit accounts, how much available credit the customer was using, and other factors.

This credit-scoring model was useful for more than just accepting or rejecting applicants. Some lenders decided to accept higher-risk clients, but charged them higher rates to compensate for the greater chance that they might default. Lenders also used scores to screen vast numbers of borrowers to find potential future customers. Instead of waiting for people to apply, credit card companies and other lenders could send out reams of preapproved offers to likely prospects to entice them to buy more credit and offer them a variety of deals including interest free purchases or balance transfers for limited time.

### **The Change of Credit Use Over the Years**

Credit scoring is one of the reasons consumer credit absolutely exploded in the 1990s. Lenders felt more confident about making loans to wider groups of people because they had a more precise tool for measuring risk. Credit scoring also allowed them to make decisions faster, enabling them to make more loans. The result was an unprecedented rise in the amount of available consumer credit. Here we discuss about credit card statistics; including statistics on credit card debt, credit card delinquencies, credit scores, credit card interest rates, bankruptcies, average credit card debt and more.

Here are just a few examples of how available credit expanded during that time:

#### **Credit Cards Circulation**

**Total cards in circulation in U.S. (Through year-end 2012, unless otherwise noted)**

- ❑ American Express credit: 50.6 million -- up from 48.9 million at year-end 2010 (Source: AmericanExpress.com)
- ❑ MasterCard credit: 176 million -- up from 143 million at year-end 2010 (Source: MasterCard)



- ❑ MasterCard debit: 129 million -- up from 119 million at year-end 2010 (Source: MasterCard)
- ❑ Visa credit: 261 million as of Sept. 30, 2011 -- down from 269 million, as of Sept. 30, 2010 (Source: Visa)
- ❑ Visa debit: 392 million as of Sept. 30, 2011 -- down from 399 million, as of Sept. 30, 2010 (Source: Visa)
- ❑ Discover cards: Unavailable.
- ❑ The total volume of consumer loans, including credit cards, auto loans, and other non-mortgage debt more than doubled between 1990 and 2000 to \$1.7 trillion.
- ❑ The amount of outstanding credit card debt rose nearly three-fold between 1990 and 2002, from \$173 billion to \$661 billion.
- ❑ Home equity lending soared from \$261 billion in 1993 to more than \$1 trillion 10 years later.

**Fannie Mae and Freddie Mac gave credit scoring a huge boost in 1995.** These two agencies were the largest mortgage finance companies in the country. They had clout because they purchase more than two thirds of mortgages made in the United States.

These two agencies recommended that mortgage lenders use the FICO credit score in determining credit worthiness. The FICO score had become widely accepted among lenders as the litmus test for loan approval. This was clearly demonstrated by the fact that credit card and auto loans were growing at an exponential rate through the 1990s.

If you've ever applied for a mortgage, you know it's a much more involved process than getting a credit card. When you apply for a Visa or MasterCard, you typically fill out a relatively brief form, submit it, and get your answer back in a few days or weeks by mail. In other words, there isn't much personal contact.

Compare that to a mortgage. Not only do you have to provide a lot more information about your finances, but getting a home loan requires that you have ongoing personal contact with a loan officer or mortgage broker. You might be asked to clarify a few things in your application, be told to supply more information, and asked to submit a letter of explanation from you and a verification letter from your professional tax preparer or be given updates on how your request for funds is being received.

## Truth about Credit Scores that Consumers Fight For

**What consumers didn't know was that a magical three digit number controlled their financial and creature comfort future.** Little by little people began to hear about the credit score at the turn of the century in 2000, but Fair Isaac wanted to keep the FICO score under wraps.

It was in the course of those conversations that an increasing number of consumers starting hearing about FICO scores. For the first time, people learned that the reason that they did or didn't get the loan they wanted was because of a three-digit number. It became obvious that lenders were putting a lot of stock in these mysterious scores. But when consumers tried asking for more details, they often hit a brick wall. Fair Isaac, the leader in the credit-scoring world, wanted to keep the information secret from consumers.

Fair Isaac's primary objection to releasing information of the FICO credit score was that consumers would begin to game the system. They believed if loan seekers understood the psychology behind the numbers, they would then attempt to change behavior and facts in order to increase the likelihood of loan approval.

Some sympathetic mortgage officials didn't buy into Fair Isaac's company line. They thought consumers deserved to know their score and these officials also often tried to explain how the numbers were created and explained to their clients and prospects how to have their 3-digit magic box rise.

Unfortunately, because Fair Isaac wouldn't disclose the formula details, a lot of these explanations were dead wrong. Even more unfortunate is the fact that some loan officers perpetuate these myths about credit scoring despite the fact that we have much more information available about what goes into them. (You'll read more about these myths in Chapter 4, "The Myths About Credit Scores and Credit Scoring".)

Resentment about the secret nature of credit scores came to a head in early 2000. That's when one of then-new breed of internet lenders, E-Loan, defied Fair Isaac by letting consumers view their FICO credit scores. For about a month, people could actually take a peek at their scores online and learn some rudimentary information about what the numbers meant. Some 25,000 consumers took advantage of the free service before E-Loan's source for credit-scoring information was cut off. If people or consumers view their own credit report, it doesn't bring their FICO down,

but if lenders pull their credit report it effects their credit scores.

But the proverbial cat was out of the bag. A few months later, with consumer advocates demanding disclosure and lawmakers drafting legislation requiring it, Fair Isaac caved. It posted the 22 factors affecting a credit score on its website, grouped into five categories that you'll read about in the next chapter. Shortly after that, the company partnered with the credit bureau Equifax to provide consumers with their credit scores and reports for a fee of \$12.95. Now, you can get a free credit report and credit score for a low fee of \$5.95.

In late 2003, Congress finally got around to passing a law that gave people a right to see their scores. By the time this update to the Fair Credit Reporting Act was signed into law, access to credit scores was almost old hat.

### **Controversies Associated with Credit**

Although credit scoring is considered to be a good system of rating personal reliability with money, it is still a system with many glitches and delays that just won't go away. Furthermore, many of these are ghosts in the machines that work more to the lenders' and credit bureaus' advantage than they ever will to the borrower's advantage.

In the United States, 90% of credit reports provided by credit bureaus contain inaccuracies. According to the U.S. General Accounting Office (GAO), common causes of errors broadly fall into one of two categories:

1. Inclusion of incorrect information and
2. Exclusion of correct information.

Reasons for the inaccuracies include consumers providing inaccurate information to the credit bureaus, incorrect or incomplete data input by furnishers or failing to provide data to the credit bureau and incorrect or incomplete data (or data applied to the wrong consumer) by the credit bureau. According to Avery, Calem, and Canner in *Credit Report Accuracy and Access to Credit*, "the parties that bear the costs of correcting errors or providing more timely and complete information [data furnishers and credit bureaus] may not receive much benefit from the improvement in accuracy."

The formula to calculate consumer credit scores by a credit reporting agency is proprietary and considered a trade secret of the

agency in the United States.

Some credit bureaus in the United States provide two credit scores - an "educational" score to the consumer and a customary FICO-like score to the lender or business. Liz Weston writes that some consumer advocates refer to these other "educational" credit scores as "FAKO scores" (a play on acronym of FICO).

According to David Szwak, a partner in Bodenheimer, Jones & Szwak which specializes in insurance law and litigation against credit bureaus, some credit bureaus in the United States maintain a VIP database of special consumers such as members of Congress, judges, actors and celebrities. The VIP database is specially administered by the bureau, which ensures the credit report of the consumer is accurate and not negatively handled. The database exists because individuals in the VIP database could cause significant problems for the bureaus, including negative publicity and legislative action which could adversely affect the industry.

Controversies over credit scoring continue to range. Here are just a few of them that surround credit scoring.

### **Vulnerability of Credit Scorings**

No matter how good the mathematics of credit scoring, the math that is used to calculate your credit score can be devastating to your credit rating if the information it is based upon is wrong. Unfortunately, most credit reports are riddled with errors. Usually the errors are small or irrelevant, such as when your credit file lists a past employer as a current employer. Other times the problems are significant, such as when your file contains accounts that don't belong to you. Many people only discover this misinformation after they've been turned down for credit.

Unfortunately, most people do not discover that they have an error in their report until they are denied credit. The credit bureaus handle billions of tiny pieces of data every day. Therefore, errors and outdated or missing information are inevitable. However, it can be a very difficult and bureaucratic process to get an error removed from your credit report as the system is designed to discourage you from even trying to have your own personal information and credibility corrected.

The reason the system is so hostile to you, the borrower, is because you are not the preferred client of the credit bureau. The credit bureau desires that its employees do not do anything else but work in the service of

their paying clients that are your creditors. These are their bread and butter clients who pay them to check into your credit history as well as to filch your personal information for telemarketing, direct mailing and credit card offers, mortgage refinancing, car loans, and insurance quotes. Furthermore, new credit reports are used for employment purposes and in our Federal Court system for sentencing purposes.

The only reason a credit bureau is required to deal with you is because of The Fair Credit Act of 2003. You are not a paying customer. You are allowed one free credit report a year, which is why any inquiry into a credit bureau is often met with a less than enthusiastic response.

Furthermore, as things currently stand, you could go your whole life without a human being ever seeing your application or noticing that something is wrong in your credit report. This has caused an explosion of identity theft that has resulted in more negative, fraudulent, misinformation being included in innocent people's credit files than ever before.

It is estimated that approximately 10 million people every year are now victims of identity theft.

### **The Calculation Complexity of Credit Scoring**

Since you're being judged by a formula, shouldn't the outcome be easy to understand and be predictable? Financial experts say that the main problem with FICO scores is that the formula that creates them is too complex. This creates an unpredictable model that makes it hard to forecast what the credit score might end up being. In fact, it is not uncommon at all for two different lenders to calculate the FICO score for an applicant using identical information and arrive at two completely different numbers!

Sometimes the difference in this final figure can be as much as 30 digits, which is large enough of a difference to impact whether or not you may be able to get a loan or not. Unfortunately, when it comes to credit, the lender usually has to play it safe and go with your lower score as being the true representation of your credit situation. This means that you could be turned down for that loan that you are in need of so badly.

One of the problems that plague the entire lending industry is that there is more than one formula for calculating a FICO score. Of course, more styles of scoring are also being invented by Fair Isaacs every day. The invention of new systems by FICO became necessary as the result of the exposure to FICO methods by E-Loan and the passing of

the Fair Credit Act in 2003. One of their latest projects is a credit scoring formula already in action called the NextGen score.

Yet, another issue is that certain lenders may have an in-house FICO score calculation that may arrive at a much different credit score than the one that is depicted in your Equifax, Experian or Transamerica application or some other credit reporting agencies.

Unfortunately, the above complexities cause lots of confusion for lenders and borrowers by transmitting mixed messages about your financial security and reliability.

Based on years of experience in this field, we have discovered how different scores can be when trying to help a client who had been turned down for a loan by a bank. The bank reported the client's FICO score as 602, whereas the FICO score re-pulled for the client on the same day, from the same credit bureau, was 31 points lower.

*"I called my credit provider and was informed that there are different types of reports and different scores," Cleland said. "I thought your score was your score, period."*

In January 2008, *"Bank of America began notifying some customers without payment problems that their interest rates were more than doubled, up to 28%. The bank was criticized for raising rates on customers in good standing and for declining to explain why it had done so."*

In September 2009, *"a Bank of America credit card customer, Ann Minch, posted a video on YouTube criticizing the bank for raising her interest rate. After the video went viral, she was contacted by a Bank of America representative who lowered her rate."*

The story attracted national attention from television and internet commentators. More recently, the bank has been criticized for allegedly seizing three properties that were not under their ownership, due apparently to incorrect addresses on their legal documents. In the city of Fresno, CA in the 93722 zip code, Bank of America also foreclosed a property and later brought another property for their client and lowered the interest rate.

### **How Your Credit Scores are Used for Non-Credit Decisions**

I mentioned earlier that your landlord or employer might check your credit and your credit score in evaluating your application.

However, the most controversial non credit use of scoring is in the insurance industry. As a credit report is so often full of errors, many people question whether or not it should be used to support decisions that have nothing to do with credit. Nevertheless, these reports are still used in the decision making process in the industry.

Perhaps the most controversial issue is how insurance companies use your credit reports to find out information about you. They see a strong link between your likelihood to default on a loan and the likelihood you will ever file a claim. Apparently, a large study was done that discovered a real correlation between bad credit and a predilection towards garnering insured losses.

As a result, more than 90% of homeowner insurance agencies and auto insurers use your credit score to decide how much to charge you in monthly premiums and whether or not they should cover you at all.

That outrages many consumers and consumer advocates who don't see a logical connection between credit and insurance. Raman, a County worker in Madera (Original name and place is changed for privacy reason), California, saw her insurance premiums soar after a divorce and subsequent bankruptcy trashed her credit.

*"I have had the same insurer for 30 years, never been late, never missed a payment, never had an accident, and never filed a claim; yet, now I pay the higher rates. I absolutely do not understand how this is fair."*

This leads to the final controversy spelled out in the next section.

### **How Credit Scoring Can be Unfair**

Developers of credit scoring point out that their formulas are designed not to discriminate. Credit scores are supposed to have nothing to do with your race, income, religion, ethnic background, disability or anything else that is not usually detailed on your credit report.

Among their theories: People who have low incomes or live in some minority neighborhoods might have less access to mainstream lenders and thus have lower credit scores. The lenders these disadvantaged populations do use are finance companies, subprime lenders, and community groups that might not report to credit bureaus making it harder to build a credit history. If these lenders do report to the bureaus, their accounts might count for less in the credit scoring formula than those of mainstream lenders. Seasonal work is also more prevalent

in some neighborhoods, which can lead to a higher rate of late payments in the off-seasons.

Even if credit scoring doesn't discriminate against groups, it might discriminate against you. No credit-scoring system is perfect. Lenders know that their formulas will reject a certain number of people who actually would have paid their bills. Another group will be accepted as good risks but then default.

If these groups get too large, the lender has trouble. When too many bad applicants are accepted, the lender's profits plunge. When too many good applicants are rejected, the lender's competitors can scoop them up and make more money.

Still, lenders accept a certain number of misclassified applicants as a cost of doing business. That's little comfort to you if you're one of the responsible ones who loses out on the mortgage that you need to buy a home or if you end up paying more for it, including, but not limited to upfront fees, more down payment, higher interest rate, extra paper work, more loan origination fees, and more verification fees, etc.

### **Conclusion**

Given all the problems with credit scoring, it's understandable that some people think the system is fatally flawed. Some of my readers tell me they're so angry about scoring and the behavior of lenders in general that they've cut up their credit cards and are determined to live a credit-free life. A lender located on Shaw Avenue in Fresno, CA tells me that when the applicants are turned down by main stream banks, they are very upset at that time. Still, lenders need to work with both parties, applicants as well as banks, since the credit score is highly considered in today's lending market, job market, insurance market, and in our legal system.

The rest of us though live in a world where credit is all but a necessity. Few of us can pay cash for a home and many need loans to buy new cars. Credit can help launch a new business or pay for an education. Most Americans like the convenience of using credit cards. Although it's true that improper use of credit can be disastrous, credit properly used can enhance your life and ease the flow of your financial burdens.

If we want to have credit, we need to know how credit scoring works. Knowledge is power and the tools I'll give you in this book will help you take control of your credit and financial life.



## The Process of Credit Scoring

We depend on credit for so many important things in life -- whether it's for buying a car, house, computer or getting a student loan. A three-digit number, your credit score, can determine whether you can do these things and even how much it will cost you to buy luxury items or necessities for your daily needs.

How can a simple number determine whether you can buy a house or car? If you've read **How Credit Reports Work**, you know that your credit report contains a history of how you've paid your bills, how much open credit you have, including your work history, and anything else that would affect your creditworthiness. Your credit score combines all of that information which boils down to a three-digit number. Using the credit score, lenders can predict with some accuracy how likely the borrower is to repay a loan and make payments on time. It's how electronics and department stores can offer instant credit to you when you buy appliances for your home or new television, etc.

This incredibly important number, which affects how much you pay for credit, insurance, and other life necessities used to be hidden from consumers. Until recently, only lenders and other businesses that used the score could access it. Fair Isaac, which developed the score, felt that the score would only confuse consumers since there was nothing to tell them what it meant or what lenders were looking for when approving your credit request and when they ask you to give more in depth explanation without any given reasons or causes.

In order to help us understand that number and ultimately know how to improve it, we'll need to find out how it's calculated.

### Basics About Credit Score

In addition to using credit (FICO) scores, most countries (including the U.S. and Canada) use a scale of 0-9 to score your personal credit. On this scale, each number is preceded by one of two letters: "I" signifies installment credit (like home or auto financing), and "R" stands for revolving credit (such as a credit card).

Each creditor will issue its own scoring for individuals. For example, you may have an R1 scoring with Visa (the highest level of credit scoring), but you might simultaneously have an R5 from

MasterCard if you've neglected to pay your MasterCard bill for many months. Although the "R" and "I" systems are still in use, the prevailing trend is to move away from this multiple scoring scale toward the single digit FICO score. Nevertheless, here is how the scale breaks down:

Scoring	Characterization
R0 or I0	You are new to the credit world and you have an insufficient credit history for making an accurate judgment of your future risk.
R1 or I1	You pay your credit back in 1 month.
R2 or I2	You pay your credit back in 2 months.
R3 or I3	You pay your credit back in 3 months.
R4 or I4	You pay your credit back in 4 months.
R5 or I5	You have not repaid in four months, but you are not a "9" yet.
R7 or I7	Your debt payments are made under consolidation.
R8 or I8	Debt was cleared by selling the item (repossession).
R9 or I9	You officially have bad debt (default), which usually means it is uncollectible.

The first thing you need to know about your credit score is that you don't have a credit score; you have many and they change all the time based upon the reports submitted to the credit bureau by lending institutions, collection companies, and law suits that you are involved in.

Ever wonder why you can go online and be approved for credit within 60 seconds? Or get pre-qualified for a car without anyone even asking you how much money you make? Or why you get one interest rate on loans, while your neighbor gets another?

The answer is the credit scoring number that is in the data base of credit bureaus in your file.

Your credit score is a number generated by a mathematical algorithm, a formula, based on information in your credit report compared to information on tens of millions of other people. The resulting number is a highly accurate prediction of how likely you are to pay your bills based upon your past history of paying bills and loans on time, considered as your credibility to pay back promise.

If it sounds arcane and unimportant, you couldn't be more wrong. Credit scores are used extensively, and if you've gotten a mortgage, a car loan, a credit card or auto insurance, the rate you received was directly related to your credit score. The higher the number

is, the better you look to lenders. People with the highest scores get the lowest interest rates.

Credit scores are designed to be a snapshot of your credit picture, typically, the picture that's contained in your credit report. New information is constantly being added to your report, and old information is being deleted. Those changes affect your score.

That can be good news or bad news. The good news is that if you have a bad score now, you're not stuck with it forever. You can do a lot to improve your situation and make yourself more credit-worthy in lenders' eyes.

The bad news is that you can't rest on your laurels. When you have a good score, you need to constantly monitor your credit to make sure it stays that way.

You also should know that there's more than one credit-scoring system out there. In fact, there are currently 100 credit-scoring models being marketed to lenders. The best-known credit-scoring model, the FICO, is designed to predict whether a borrower will default. But credit-scoring systems have been created to do all of the following:

- ❑ Detect fraud in credit or insurance applications.
- ❑ Calculate the amount of profit a credit card issuer is likely to make on a particular account.
- ❑ Predict the risk of a specific kind of default, such as a bankruptcy.
- ❑ Forecast the probability that a policyholder will cost the insurer money.
- ❑ Anticipate the risk that a consumer will default on a certain type of account, such as an auto loan, a mortgage, a cellular phone account or a utility bill.
- ❑ Estimate how much a borrower is likely to pay, if anything, on a delinquent account.
- ❑ Anticipate which customers might close a credit card account or pay the balance down to zero.
- ❑ Predict the likelihood that someone will respond to a direct-mail credit card solution.

The vast majority of these scoring systems are developed by the same company that created the FICO: Fair Isaac. In addition, the credit bureaus and some outside companies have created their own formulas.

That being said, you're far more likely to be affected by a FICO score or its cousin, the NextGen score, than any other type of credit score. FICO is the industry leader. It's used in literally billions of lending decisions each year, including 75 percent of mortgage-lending

assessments and car loans.

That's why the information in this chapter and elsewhere is based on how the FICO formula calculates your score. Other formula designs might differ somewhat in their details, but the behaviors that help and hurt your score are pretty consistent across the various systems.

### **Facts That You Must Know About Credit Scoring**

- ❑ **You need to have and use credit to have a credit score**—The classic FICO and NextGen FICO formulas need at least one account on your credit report that has been open for at least six months and one account that's been updated in the past six months (it can be the same account). If your credit history is too thin or you've stopped using credit for a period of time, there might not be enough current data in your file to create a regular credit score. (That doesn't mean you can't be “scored”. In mid-2004, Fair Isaac introduced the FICO Expansion Score for lenders who want to evaluate people with thin or nonexistent credit histories. This new score uses nontraditional information sources like payday lenders and companies that monitor bounced checks.)
- ❑ **A credit score usually isn't the only thing lenders consider**—In mortgage lending decisions in particular, lenders weigh a lot of other information, including your employment history and stability, the value of the property you're buying or refinancing, your income and your total monthly debt payments as a percentage of that income, among other factors. So, although credit scores can be a powerful force in lending decisions, they might not be the sole determinant of whether you get credit.
- ❑ **Credit-scoring systems were designed for lenders, not consumers**—In other words, scores weren't created to be easy to understand. The actual formulas and many of the details of how they work are closely guarded trade secrets.

The credit-scoring companies don't want the process to be transparent or predictable, as discussed in the previous chapter. They feel that letting out too many details would allow competitors to copy their formulas and complete them or maybe there will be a more fortune telling formula in credit scoring industry for lenders. They also worry that their formulas would lose their ability to predict risk if consumers knew exactly how to beat them.

We now know more about the formulas than ever before, certainly enough for you to improve your score. But given the number of variables involved and the mystery still surrounding credit scoring, you won't be able to forecast exactly how every action will affect a

score or how quickly that will affect your life.

### What is a Good Credit Score?

#### The Different Categories of Scoring

One of the first questions many people have about credit scoring is what score lenders consider “good.” There is, however, no single answer to that question.

Generally, of course, the higher the score, the better the lenders consider. Each lender makes its own decision about where to draw the line based on how much risk it wants to take and how much profit it thinks it can make with a given blend of customers. Many lenders don't have a single cut-off, but may have many with each segment qualifying for different rates and terms. Finally, as noted earlier, a credit score is usually only one factor in the lending decision. Although scores typically have a big influence, a lender might decide that other factors are more important.

The FICO score is one such popular scoring method.

Its scale runs from 250 to 877. The vast majority of people will have scores between 600 and 800. A score of 720 or higher will get you the most favorable interest rates on a mortgage, according to data from Fair Isaac Corp., a California-based company that developed the first credit score as well as the FICO score.

You can see from this national distribution chart of FICO credit scores that most of the U.S. population has a FICO score of 700 or higher. Many lenders use 700 or 720 as the cut-off for giving borrowers their best rates and terms. Many also use 620 as the cut-off point. Companies that deal with borrowers below that level are often called “subprime” lenders because their riskier borrowers are considered less than “prime.”

Lenders can use one of many different credit-scoring models to determine if you are creditworthy. Different models can produce different scores. However, lenders use some scoring models more than others.

Fair Isaac reports that the American public's credit scores break out along these lines:

<b>FICO Credit Score</b>	<b>Percent With Score</b>
499 and below	2 percent of total population
500-549	5 percent of total population
550-599	8 percent of total population
600-649	12 percent of total population
650-699	15 percent of total population

700-749            18 percent of total population

750-799            27 percent of total population

800 and above    13 percent of total population

There are many versions of FICO scores and there are several basic types:

The three major types are:

1. FICO (used with credit cards).
2. Bankruptcy (used for mortgages & auto loans).
3. Profitability (used to see if they can make money off of you). Weed out for the riders.

Currently, each of the three major credit bureaus uses their own version of a credit scoring method:

Credit Reporting Agency	Consumer Score Name	Lender Score Name
Equifax	Beacon/ FICO Score	Beacon
Experian	Experian Credit Score	Experian/ Fair Isaac Risk Model Score
TransUnion	TransUnion Personal Credit Score	Empirica Score

Currently, each of the three major credit bureaus uses their own version of the FICO scoring method. Equifax has the Beacon score, Experian has the Experian/Fair Isaac Risk Model and TransUnion has the Empirica score. The three versions can come up with varying scores because they use different algorithms (variance can also occur because of differences in data contained in different credit reports).

The scoring method could change depending on whether a new credit-scoring model called Vantage Score catches on. Equifax, Experian, and TransUnion collaborated on its development and will all use the same algorithm to compute the score. Consumers can order their Vantage Scores online at Experian's Website for \$6. Its scoring range runs from 501 to 990 with a corresponding letter grade from A to F. So, a score of 501 to 600 would receive an F, while a score of 901 to 990 would receive an A. Just like in school, “A” is the best grade you can get.

#### The Importance of Having a Good Score

No matter which scoring model lenders use, it pays to have a great credit score. Your credit score affects whether you get credit or not, and how high your interest rate will be. A better score can lower your interest rate.

The difference in the interest rates offered to a person with a score of

520 and a person with a 720 score is 4.36 percentage points, according to Fair Isaac's website. On a \$100,000, 30-year mortgage, that difference would cost more than \$110,325 extra in interest charges, according to Bankrate.com's mortgage calculator. The difference in the monthly payment alone would be about \$307.

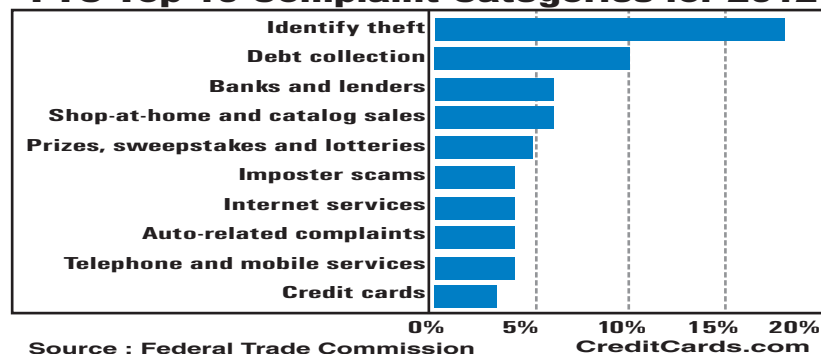
The company that created the FICO is now marketing an updated version called the NextGen. NextGen has a wider possible score range: instead of 250 to 877 as per the credit report pulled by North Honda of Clovis for Experian dated 03/05/2013, the lowest possible score is 150 and highest is 950. Your actual score, though, predicts about the same amount of risk in both systems. So, a 750 is considered a low-risk score under both the FICO and NextGen formulas.

### Credit Scores and Reports

According to the website <http://www.creditcards.com>

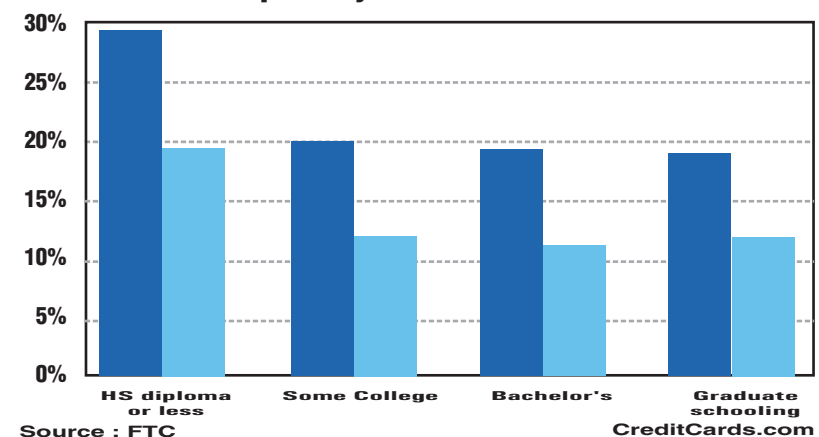
- ❖ **ID theft tops FTC complaints list:** The Federal Trade Commission released its yearly consumer complaints figures FEB. 26, 2013 and, for the 13<sup>th</sup> year in a row, consumers complained most often about identity fraud. In fact, complaints about ID fraud were more than twice as prevalent as complaints about debt collectors and more than three times as common as auto-related complaints. Within the category of identity theft, however, is where things get interesting. In 2006, just 16 percent of identity theft complaints were related to tax refund theft. In 2012, that percentage jumped to 43 percent of complaints -- more than 12,000 complaints total. Compare that with credit card fraud, which made up just 14 percent of identity theft complains in 2012. The increasing prevalence of electronic tax filing may be partly to blame for this surge, as e-filing does not require printed W-2 forms.

### FTC Top 10 Complaint Categories for 2012



- ❖ **Credit report errors hit less-educated harder:** Are those with less education more likely to be victimized by credit report errors? That's what a first-of-its-kind report issued Feb. 11, 2013 by the Federal Trade Commission suggests. Of people with at least some college education, 20 percent or fewer had confirmed credit report errors. For those with a high school education, it was worse: nearly 30 percent had errors. Worse still, nearly 20 percent of those with a high school education or less had errors big enough to cause credit score changes. Just about 12 percent of those with at least some college education had those kinds of errors. Why the significant difference? The Federal researchers didn't look at that question directly, but they speculated that less education is correlated with lower incomes and fewer liquid assets, meaning those with less education may rely on credit more than their higher-income counterparts. That means more entries on a credit report -- and more room for error. Also, those who need credit have more to lose if their credit application gets turned down. So, they're more likely to find and identify errors in their reports, unlike their wealthier counterparts who have the luxury of not noticing errors for a while. That could be why those with less education (who may rely more on credit) have more confirmed errors. (Report published by nasdac.com & creditcards.com dated 02/19/2013)

### Credit report errors abound, especially for the less-educated





- ❖ Only 38 percent of survey respondents have obtained a copy of their credit report, and even fewer (36 percent) have checked their credit score in the past 12 months. (Source: "Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)
- ❖ More than half, 52 percent, of those who have checked their credit score in the past 12 months reported having credit scores above 720. By contrast, only 17 percent of those who have checked their credit score had credit scores below 620. (Source: "Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)
- ❖ From Q3 2008 to Q1 2009, the average TransUnion credit score fell 6 points to 651, the credit bureau says. Scores fell even further in some economically challenged states: California fell 10 points and Arizona 11. (Source: USA Today.com, April 2009)
- ❖ The U.S. average Vantage Score® is 769. The average score rises to 837 when looking solely at the over-60 population. (Source: Experian marketing insight snapshot, March 2009)
- ❖ Nearly two-thirds of American adults (64 percent), or 144 million people have not ordered a copy of their credit report in the past year; this grows to nearly three-quarters (72 percent) among Hispanic Americans. (Source: National Foundation for Credit Counseling, 2009 Financial Literacy Survey, April 2009)
- ❖ More than one-third of American adults (37 percent) admit that they do not know their credit score. (Source: National Foundation for Credit Counseling, 2009 Financial Literacy Survey, April 2009)
- ❖ Only 2 percent of undergraduates had no credit history. (Source: Sallie Mae, "How Undergraduate Students Use Credit Cards," April 2009)
- ❖ On average, today's consumer has a total of 13 credit obligations on record at a credit bureau. These include credit cards (such as department store charge cards, gas cards, and bank cards) and installment loans (auto loans, mortgage loans, student loans, etc.). Not included are savings and checking accounts (typically not reported to a credit bureau). Of these 13 credit obligations, nine are likely to be credit cards and four are likely to be installment loans. (Source: myfico.com)

- ❖ The average consumer's oldest obligation is 14 years old, indicating that he or she has been managing credit for some time. In fact, one out of four consumers had credit histories of 20 years or longer. Only one in 20 consumers had credit histories shorter than two years. (Source: myfico.com)
- ❖ The average consumer has had only one credit inquiry on his or her accounts within the past year. Fewer than 6 percent had four or more inquiries resulting from a search for new credit. (Source: myfico.com)
- ❖ Corpus Christi, Texas, residents have America's worst credit scores. (Source: Men's Health magazine's personal debt survey, July 2008)
- ❖ Sioux Falls, S.D., boasts America's best credit scores. (Source: Men's Health magazine's personal debt survey, July 2008)

#### **Your Credit Report: The Components of Your Credit Score**

Bad credit can result in unfavorable interest rates that cost you thousands when you take out a mortgage, a car loan or a student loan. It could block you from leasing that apartment you've been paying for. And, it can be a black mark on your record that even prevents you from getting your dream job.

So, it pays to know the essentials of your credit report and related score, the behaviors that can make your score rise or plummet, and the services that help you monitor your credit.

Your credit report is a summary of your borrowing and repayment history, including your job history and residential history, any new accounts, closed accounts, unpaid bills, late bills, and other activity. If you have a loan, mortgage or credit card, it will show up here. Your credit report provides the basis for your credit score.

If you rented an apartment, got braces, bought cell phone service, applied for a job that involved handling a lot of money or needed to get utilities connected, there's a good chance your score was pulled.

If you have an existing credit card, the issuer is likely to look at your credit score to decide whether to increase your credit line or charge you a higher interest rate, according to a credit scoring study by the Consumer Federation of America and the National Credit Reporting Association.

The good credit score accepted at present may change in just a few months. Therefore, every creditor should monitor the trend in the market

to know what a good credit score is. This will help them evaluate themselves before applying for a loan or a mortgage.

In general, higher credit scores equate to lower interest rates, meaning less cash you'll have to fork over during the life of a loan. Recently, credit experts think any score above 720 will get you the optimum interest rate. A perfect example is how the good credit rating for mortgages has changed since the recent recession. Two years ago, many mortgage lenders considered borrowers with a credit score of 650 to be prime borrowers. This means that these borrowers were allowed to get prime mortgage loans which had low interest. Amazingly, in a time span of just two years, what they considered to be a credit score for prime loans jumped to 750. The same can be said about the generally accepted good credit score.

Remember that your credit score is important, but it's not the sole factor in whether you get approved for a loan, credit card, or other forms of credit. Most lenders also look at your annual income, employment history, and other factors.

With many consumers worried about shaky credit, especially with the threat of identity theft and credit card fraud, many financial institutions, companies, and the credit bureaus themselves are pitching products that guard your credit. Their credit monitoring services watch for new accounts, a surge in balances, or other changes to your accounts. Some will produce detailed reports about your credit score and suggest ways to make it more attractive to lenders.

Don't confuse credit monitoring with identity theft protection. Credit card fraud is just a piece of the larger problem of identity theft. Paying someone to monitor your credit will not halt identity theft or unauthorized uses of your Social Security number or other personal data; although it can help you detect problems before they escalate.

Because your score is constructed from the information in your credit report, it's worth looking at what you'll find there.

In addition to identifying information about you, your name, address and Social Security number, your report lists the following:

- ❑ **Your credit account**—Sometimes called “trade lines,” these include loans, credit cards, and other credit accounts you've opened. Your report lists the type of account, how long ago you opened it, your balances, and details of your payment history.

- ❑ **Requests for your credit**—These are known as “inquiries,” and there are basically two kinds. When you apply for credit, you authorize the lender to view your credit history. This is known as a “hard inquiry” and can affect your credit score. You might also see inquiries that you didn't initiate. These “soft inquiries” are typically made when a lender orders your credit report to make you a preapproved credit offer. Such marketing efforts don't affect your score.

- ❑ **Public records and collections**—These can include collection accounts, bankruptcies, tax liens, foreclosures, wage garnishments, lawsuits, and judgments.

Public records are pulled from state and county courthouses. Lenders or collection agencies report most of the other information in your report as well, such as your length of employment, residency, etc.

This data is collected, stored, and updated by credit bureaus, which are private, for-profit companies. The three major credit bureaus are Equifax, Experian (formerly known as TRW), and Trans Union; their business is selling information about you to lenders, employers, legal systems, management companies, etc.

Because they're competitors, the bureaus typically don't share information, and not all lenders report information to all three bureaus. In fact, if you get copies of your credit reports from the bureaus on the same day, you're likely to notice at least a few differences among them. For example, an account that's listed on one credit bureau's report might not show up on the others or the balances showing on your various accounts might differ from bureau to bureau.

Because your score is based on the information that's in your report at a given credit bureau, the number differs depending on which bureau's credit report is used.

Also, each time your score is “pulled” (in other words, a score is ordered to be calculated), either by yourself or by a lender, it's likely to be at least somewhat different because the information on which it's based probably has changed. Fair Isaac says most people's scores don't change all that much in a short period, but about 25 percent of consumers can expect to see their scores at a single bureau vary by more than 20 points over a three-month stretch, and 50 points over a six month stretch, if you are making all payments on time and there is no negative entry.

There also are time limits on what can appear on your credit report. Although positive information can appear indefinitely, negative marks, late payments, collection actions, and foreclosures, by federal law generally must be removed after seven years. Bankruptcies can be reported for up to 10 years. Inquiries should be deleted in two years. But if your collection files are sold and a new buyer has obtained ownership of your files, certain reports and accounts can stay for a longer period of time than set forth by Federal Law.

### **How a Credit Score is Calculated**

When most of us think of scores, we think of the relatively straightforward systems used in sports or in school tests. You get points (and possibly demerits) for certain actions, behaviors or answers, and those are totaled to determine your score.

Credit scoring isn't nearly so easy. Credit-scoring models use “multivariate” formulas. That basically means that the value of any given bit of information in your report might depend on other bits of information.

To understand how this works, let's use a noncredit example. Say your sister calls you to report that her husband is more than an hour late in coming home from work, and she asks if you think he's having an affair. To answer the question, you would need to review what you know about this man, including his attitude about his family, his general moral standards, and whether he's had dalliances in the past. Using all these variables, you could try to predict whether your brother-in-law is likely to be stepping out or might just have stopped off to buy his wife an anniversary present.

Let's suppose that your brother-in-law is a stand-up guy. But you've personally observed your neighbor in a clinch with a woman who was not his wife. If your neighbor was an hour late in coming home and *his* wife asked you your opinion of his likely faithfulness, you might reach quite a different conclusion. So the same behavior, coming home late, could evoke two very different predictions based on the information at your disposal.

The number of factors that the FICO formulas evaluate is infinitely greater, so you can see how difficult it can be to sometimes predict the outcome of certain behaviors.

There's one thing that's always true, though: The FICO model is set

up to place more value on current behavior than on past behavior. That means that the effect of your old credit troubles lessens over time if you start handling credit more responsibly.

However, the scores are also designed to react strongly to any signs that a once-good risk might be turning bad. That's why someone with a good score might suffer more heavily from a late payment because it not only brings your score down, but a negative entry turns you down, when you apply for a loan.

It's generally a lot easier to lose points on your score than it is to gain them back, which is why it's so important to know how to improve and protect your score.

In order for your score to be calculated, you must have at least one account that has been open for a minimum of six months and at least one account that has been updated in the last six months. If you do not meet this requirement, you may not have a credit score yet. Note that individual lenders sometimes calculate a credit score for you themselves, using their own model. That score is used only by that lender and it is not available to other lenders or to the three major credit reporting agencies.

### **The Five Factors That Influence Your FICO Scores:**

In the land of credit scores, FICO is king. The bulk of banks in the United States use FICO scores to decide whether to offer credit to potential borrowers and at what interest rate. FICO has a major global presence, as well: According to a company's testimony before a House Financial Services subcommittee, FICO scores are used in about 10 billion decisions worldwide each year.

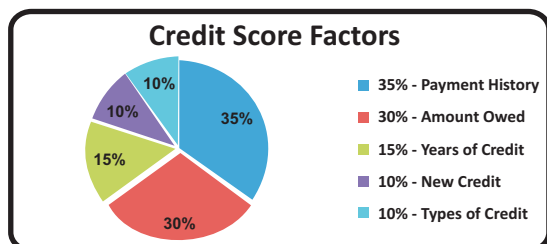
Now that you understand in general how credit scores are calculated, we can move on to some specifics. The following are the five main factors that affect your score according to their relative level of importance, along with a percentage figure that reflects how heavily that factor is weighed in calculating FICO scores for the general population. Each factor might weigh more or less heavily in your individual score, depending on your credit situation.

Here are five most important factors of a credit score: -

- **Payment History i.e.** Previous credit performance, (35%)
- **Amounts Owed i.e.** Current level of indebtedness, (30%)

- **Years of Credit i.e.** Time credit has been in use, (15%)
- **New Credit i.e.** Pursuit of new credit, (10%) and
- **Types of Credit i.e.** Types of credit available (10%)

Although all these factors are included in credit score calculations, they are not given equal weighting. Here is how the weighting breaks down:



As you can see by the pie graph, your credit rating is most affected by your historical propensity for paying off your debt. The factor that can boost your credit rating the most is having a past that shows you pay off your debts fairly quickly. Additionally, maintaining low levels of indebtedness (or not keeping huge balances on your credit cards or other lines of credit), having a long credit history, and refraining from constantly applying for additional credit will all help your credit score boost up or stay in good numbers, but having long credit history and applying for constant credit lines, credit cards or loans can bring your FICO numbers down.

#### Factor 1: Payment History

When you are looking at your credit report, your **payment history** is one of the most important parts of your credit history; whether you pay your bills on time, including credit cards, student loans, utility bills, or any other lender or service provider that reports to the big three agencies. Getting this right is easy: don't blow the due date.

Your payment history is perhaps the most important part of your credit report. If you want to get approved for a loan with a reasonable interest rate, you are going to need to have a good payment history on your credit report. It is important that you get a copy of your credit report every so often just to make sure that all of your accounts are showing a good payment history. If your payment history is suffering, you will want to take the necessary steps to get it under control.

This makes up about 35 percent of the typical score. It makes sense. Your

record of paying bills says a lot about how responsible you are with credit. Lenders want to know whether you pay on time and how long it's been since you've been late, if ever. If you've never been late, your clean history will help your score, but that doesn't mean you'll get a "perfect" score.

Here are a few things to consider about the payment history section of your credit report.

#### Payment History Section

A good portion of your credit report is going to be dedicated to your payment history. In this section there will be a listing of all of the different accounts that you have. These accounts are going to specify whether you have been up-to-date on your payments. Creditors will look at this section when they are determining whether they should give you a loan or not. You want all of the accounts that you have to say that you are up-to-date on your payment history.

#### Numeric Statuses

If you are late on some of your payments, you are going to notice some numeric statuses out to the side of your accounts. These numeric statuses are like notes that are left by the creditor on your credit report. For example, you might see something that says "30 days past," "60 days past," or "90 days past." This means that you are either 30 days, 60 days, or 90 days late on your payment. Even having one 30 days late payment can be very bad for your credit. If you have any that are 90 days or beyond, this is going to reflect very negatively on you.

#### Narrative Codes

In this section, you are also going to see narrative codes throughout. Narrative codes are another type of note that is left on your credit report. These are like small descriptions that explain what type of account you have. Next to each one of your accounts, you should have a narrative code. This narrative code is going to say something like "real estate mortgage" or "credit card." In many cases, these codes are not going to have any impact on your credit score because they are simply stating what type of account you have. However, there are some situations in which a narrative code could be negative. For example, a narrative code could say "charge off," "repossession," or "account included in bankruptcy." If you see any negative statements like this on your payment history section, it is not going to look good to potential creditors. When you look at your credit report, you should be on the



lookout for any of these narrative codes that are not correct, and if you find them, fight as soon as possible to have them corrected.

When it comes to negative marks like late payments, the score focuses on three factors:

- ❑ **Recency**—This is how recently the borrower got into trouble. The more time that's passed since the credit problem, the less it impacts a score.
- ❑ **Frequency**—As you might expect, someone who has had just one or two late payments typically looks better to lenders than someone who has had a dozen.
- ❑ **Severity**—There's a definite “hierarchy of badness” when it comes to your credit score. A payment that's 30-days late isn't considered as serious as one that's 60- or 120-days late. Collections, tax liens, and bankruptcy are among the biggest black marks, including your educational loans, that are not paid.

**Important thing to be noted:**

If you have an educational loan and you are behind, maybe that loan grantor/ lender will garnish your wages, take your federal income tax refund and because most student loans are federally granted, if they are not paid, can have a huge negative impact on your credit report.

**Factor 2: Amount Owed**

This equates to 30 percent of your score. The score looks at the total amount owed on all accounts as well as how much you owe on different types of accounts (credit card, auto loan, mortgages, and so on).

To put this in perspective: The average American uses 32 percent of his or her available credit limits, according to Fair Isaac.

Credit bureaus routinely lower credit scores when a debtor owes too much on credit accounts in general. There is an additional penalty if the amount owed on your **revolving** accounts is too high. A **revolving account** is an account created by a lender to represent debts where the outstanding balance does not have to be paid in full every month by the borrower to the lender. The borrower may be required to make a minimum payment, based on the balance amount. However, the borrower normally has the discretion to pay the lender any amount between the minimum payment and the full balance. If the balance is not paid in full by the end of a monthly billing period, the remaining balance will roll over or "revolve" into the next month. Interest will be charged

on that amount and added to the balance.

There is a pretty big distinction in that credit bureaus penalize you more for using most of the available credit on your credit cards than for being maxed out on an installment loan. After all, installment loans begin maxed out and the balance drops according to a repayment schedule known as an amortization schedule. An **amortization schedule** is a table detailing each periodic payment on an amortizing loan (typically a mortgage), as generated by an amortization calculator. Amortization refers to the process of paying off a debt (often from a loan or mortgage) over time through regular payments. A portion of each payment is for interest while the remaining amount is applied towards the principal balance. The percentage of interest versus principal in each payment is determined in an amortization schedule.

Revolving credit does not start out maxed. When you open a credit card account, it begins with a zero balance (excluding any annual fees or other junk fees charged by subprime lenders). It builds balances with purchases and finance charges. You, of course, reduce that balance through your payments.

When a potential lender rejects your credit application because of your revolving debt balances, you should be wary of applying for new credit. You likely cannot handle additional debt if you are already living paycheck to paycheck or your earnings are hand to mouth.

The costs involved with using revolving credit are much higher than most other traditional loans. As such, a smart consumer limits how much revolving debt they accumulate. Instead, they prefer to put off new purchases until after they have paid down their existing balances.

For every dollar that is added in revolving debt, your risk of default slightly rises. The effect is magnified as you use a greater percentage of your available credit.

This default risk is estimated as a function of your credit utilization ratio. This calculation determines what percentage of your revolving credit that you are actually using.

Using less than 10% of your revolving credit limits has negligible, if not zero, negative effects on your credit scores. Once your balances creep upwards from this, your scores begin to drop. As you exceed 70-100% of your credit limits, your scores really suffer.

Many credit experts advise against exceeding a 30% credit utilization ratio to prevent negative effects on your credit scores. However, according to FICO spokesperson Craig Watts, downward pressure is applied to your credit scores any time debt balances exceed just 10% of your credit limits. This is true for any one account as well as for an aggregate utilization rate. But, seeing so many people who go over 30% lose significant scores, I personally suggest keeping a ceiling of 25% so that you can learn how to control your spending.

There is a very dangerous correlation between maxed out revolving credit and defaults. Part of this may represent out of control consumer behavior. The other part is a result of over limit fees that can further put a debtor into distress by increasing their minimum payments.

If you are concerned that you owe too much on your revolving credit accounts, then you should take immediate steps to reduce what you owe. It is time to curb your spending and aggressively pay down your debt or be ready to see negative impacts.

If you cannot afford to send an extra \$100-200 above your minimum payments each month, then you are exhibiting traits of financial distress. Remember that most defaults and bankruptcies begin with simply building credit card balances that you are initially able to manage. Continued spending combined with some other unexpected expense or change in income can quickly send you over the edge if you are carrying large credit card balances.

Credit counseling is frequently recommended for debtors who have accumulated high credit card balances and find themselves unable to repay the debt in a reasonable period of time. Credit counselors sometimes utilize debt management programs which accelerate repayment through lower interest rates that often allow for lower monthly payments, but mostly these people default again and should just try to control their spending in the first place.

"Amount Owed on Revolving Accounts is Too High"	Credit Score Risk Factor Codes
Equifax	11
Experian	11
TransUnion	11
NextGen	B5

These credit score risk factor codes will be further explained in detail under "Credit Score Factors and Risk Codes".

### Factor 3: Years of Credit

This is 15 percent of your total score. As such, it's generally much less important than the previous two factors, but it still matters. You can have a good score with a short history, but typically the longer you've had credit, the better.

It addresses the age of the information in your credit history, not your own age. Surveys have shown that an overwhelming percentage of consumers wrongly believe that your age can have an effect, either positive or negative, to your credit scores. Your age is not a component of credit scoring models. The reasons that your age doesn't matter might surprise you. Let's take a little quiz.

#### Why doesn't your age matter in credit scoring models?

1. Because it is illegal to use age as a factor in credit scoring models.
2. Because of legal protections to various age groups.
3. Because of the negative public relation that it would cause to those who develop, sell, and use credit scores.

If you guessed #1 then you are mistaken, but don't feel bad about it. This is a common misunderstanding. The use of age as a part of credit or insurance decision-making is not illegal. Think about it, age has been openly used by the insurance industry for decades when they set your automobile policy premiums. You just can't use age as the sole reason to exclude someone from being approved for credit or insurance.

In this case the correct answers are both #2 and #3. Let's discuss the three options...

**The Legality of Using Age as a Component** – Contrary to popular belief, it is not illegal to use someone's age as a component of a credit-scoring model. As stated above, age is openly used as a decision-making component of insurance underwriting and has been for years. In fact, research has proven that someone's age can be a very powerful predictor of someone's future credit performance, because age brings life's experiences.

Credit score developers have gotten around this by identifying and using "proxy" characteristics. These are characteristics within the credit scoring models that are similar to "age" but aren't exactly age. We'll dig further into this practice later in this book.

**Legal Protections** – Arguably the group that stands to lose the most by having their age considered in the scoring models is the elderly. Older Americans, theoretically, are on more fixed incomes and can't afford the

payment amount uncertainties that are common with variable rate loans and the ever-changing minimum payments on credit cards.

As such, the credit score developers were stranded between the proverbial “rock and a hard place.” How were they to take advantage of this powerful characteristic but not treat elderly people unfairly, which would be illegal? The answer is quite simple. You would chose to compromise the predictive value of the model by simply ignoring what the research says about a risky age group by giving them the maximum number of credit score “points” from this category.

This, of course, is the wrong thing to do. From a simply statistical perspective, you are degrading the value of your credit-scoring model by giving away points and going against what's “predictive.” This is exactly the opposite of what research proves. As such, it's easier to make the decision to ignore the consumer's age and hope you can make up for it with other credit score model characteristics.

**Public Relations** – Credit reporting and credit scoring has always been a favorite target of consumer advocates, minority protection groups, and class action lawyers for a real or perceived lack of fairness and consumer access. In fact, in the very recent past the Fair Credit Reporting Act, which governs credit reporting and its use by creditors, has been aggressively amended with the Fair and Accurate Credit Transactions Act of 2003 (also known as FACTA or The FACT Act) to allow for consumers to receive free copies of their credit reports once a year. There are other free credit report providing agencies as well, who provide you with a free credit report, but to buy scores you need to pay.

The last thing that creditors, credit reporting agencies or credit score developers want or need is yet another controversial decision such as weighing a person's age in their scores. As such, public relation concerns are one of the two reasons why age is not considered in the scoring models.

So the bottom line is this: your age has no impact, positive or negative, on your credit scores.

#### **What exactly does “How Long You Have Had Credit” mean?**

What it means is the age of your credit report. Yes, your credit report has an age just like anything else. And that age has a positive or negative value in your credit scores. This value equates to 15% of the points that make up your overall credit scores. The question now becomes how the credit scoring models determine the age of your credit file and how the age impacts your score. Let's investigate the various ways this occurs.

Each of the accounts on your credit report has a field called “Date Opened.” This date has been reported to the credit reporting agencies by

your creditors. The date opened is supposed to be exactly what it sounds like - the month and year that the account was opened.

The credit scoring models can read this date and “age” the account by calculating the number of months and years that the account has been open. Once this is done on all of the accounts, the models will then determine which one is the oldest. This oldest date becomes the age of your credit report.

**The average age of your accounts** – Another important measurement is the average age of your accounts. This is simply the average age of all of your accounts as measured using, again, the date opened fields. For example, if you have 2 accounts that are 3 years old and 5 years old respectively, your “average age of credit” will be 4 years.

Since credit information is constantly being added to and removed from your credit reports, a logical question would be to ask what happens to these two categories when items fall off and get added to your reports. The answer is that accounts falling off and being added to your credit report will cause your average to change constantly. Sometimes this can have negative consequences and effects on your credit report as well as on your FICO.

When information is removed from your credit reports, it essentially disappears and cannot be used in any sort of credit scoring measurements. As such, old accounts that fall off of your credit reports can never help your average again.

#### **Can't Credit Scoring Models Use Other Means to Evaluate My Age?**

You bet they can and they do. Don't be fooled into thinking that creditors, credit reporting agencies, and credit score developers are simply overlooking this potentially valuable measurement without a Plan B, which is the use of “proxy” characteristics. A proxy characteristic is a way of measuring sensitive information, like your age, in an indirect and less offensive manner. Let's look at some ways of measuring personal and sensitive qualities in an indirect manner.

#### **Overweight or not?**

It would be unreasonable to think that asking someone straight out “how much do you weigh” wouldn't be offensive. But, if you wanted to know how much someone weighed, then you could ask him or her where they shop for clothes or how often they exercise or even how much they enjoy fast food restaurants. Knowing the answers to these questions and a few others, could give you a reasonable picture of whether or not someone is overweight. It's not a guarantee, but it certainly gives you something to think about.

### **Do you smoke?**

This is another very sensitive subject. Coming right out and asking if someone smokes might lead to a response like “it's none of your business.” But, if you asked someone if they agree with smoking restrictions in airports and government buildings, you might be able to use their answer and make a more educated assumption about whether or not they smoke. Or, better yet, they might even volunteer the answer. You've accomplished your investigative goal without really asking the most direct question and offending someone.

### **Political affiliation**

This might be even more sensitive than the smoking example. It's not something that you would ask in a professional setting to be sure. But, if you asked someone what they thought about the television coverage of the Republican or Democratic National Conventions, the answer might shed some light on their preference.

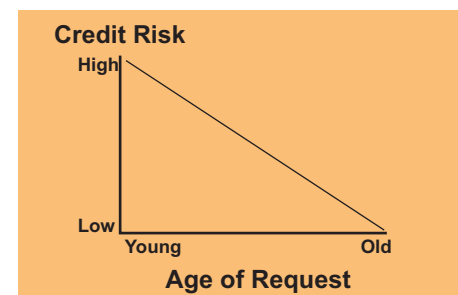
This is exactly how credit scoring models measure your age, in an indirect manner so not to offend anyone. The average age of the credit account and the oldest account measurements are their way of indirectly measuring your age without really asking how old you are.

❖ But, it can be that person's way of thinking as well, and it may lead to a conclusion of guess and estimate and be considered as an educated assumption.

### **Why Does the Age of My Credit Report Matter?**

As with any component of a credit scoring model, the developer's research has determined that these age measurements are valuable enough to make it into their models. In fact, these measurements have made it into the models for decades and it doesn't look like they are losing any value so expect them to be around for a while.

In this case, the use of age makes statistical sense as well as common sense. Consumers with a younger credit history tend to be more risky borrowers than consumers who have had credit for many years. Put yourself in the position of being a lender. If someone came to you and asked you to borrow \$10,000, wouldn't you want to know if they've ever borrowed any money in the past? Or is this their first time? Are you comfortable being their first lender? How about if they wanted to borrow \$250,000 from you to buy a house, but they show no history of borrowing money, especially that amount. Are you willing to take that chance? As you can see, it's not really unreasonable to take age into account when making these decisions. It's not a popular choice, but it's certainly hard to argue that it's not a good idea.



You want your credit accounts to be as old as possible. Here's why:

### **The Impact to Your Credit Scores**

Credit scores are a standard component used in today's lending environment. Each of us has three different credit scores, one generated from each of our three credit reports. It's important to become familiar with the impact the age of your accounts has on your credit scores.

The goal for this category is very simple. You want your credit reports to be as old as possible. You also want the average age of your accounts to be old as possible. The older these measurements, the more stable your credit reports will become. And in this case, with stability comes more points for your credit score.

There really isn't a target age that you should strive to achieve. At some point you will max out on the points for this category and aging your credit files any longer really won't help. While the optimal ages are a closely guarded trade secret, it's safe to say that you will have to have had credit for many years before you will earn the maximum points in this category. The good news is that now that you know how important these age measurements are, the better credit shopping decisions you can make.

### **How Can You Ensure Earning the Maximum Points Available Out of the How Long Have You Had Credit Category?**

Here are some simple steps that you can take to ensure earning the maximum points out of this category:

#### **(1) Get started and be patient**

We all started in the same spot, with no credit and no credit report. If you are a young consumer or have chosen not to ever use credit, then it's time to get started. Applying for an easy-to-get account like a



retail store card or a secured credit card will establish a credit report in your name. Now it's time to be patient as that account ages. As you add new accounts to the credit report, you will hurt your average age of account (remember that the credit scoring models also average the age of your accounts), but eventually the numbers will work in your favor. If you have many accounts that are very old, you won't be able to lower your average any longer. You've arrived.

### **(2) Do NOT ever try and get old accounts removed**

For some reasons, a very common myth floating around is that you should have old or closed accounts removed from your credit reports. Why would you ever want your history and positive payment removed from your records? What if you got excellent grades in high school and college 20 years ago? Why would you ever fight to have that record removed? You wouldn't. Don't be fooled into thinking that old accounts hurt your credit scores. They do nothing but help them.

*Exception* – As with all rules, there are exceptions. In this case, it's more of an “FYI” than an exception. You may be wondering whether to remove old accounts that are negative. Isn't it better to have those accounts removed?

The answer is “don't worry about it.” Negative items will automatically be removed after their statute of limitations expires. You will not have to ask that they be removed. It is done by the credit bureaus as a standard practice, but if you want to have positive entries only, trying to do so doesn't hurt and it will bring you in good practice.

### **(3) Be aware that opening new accounts will lower your account average age**

The advice here isn't to not open new credit accounts. Everyone has to open credit card accounts, buy cars and houses, and finance other things. You should be aware, however, that each time a new account hits your credit file, the age of that account will become part of the averaging process. And, since the account is brand new, it will lower the average age of your accounts. So, be selective when you are shopping for credit. Don't open up multiple retail store credit cards around the holiday season just to save 10% off your purchase. The negative impact to your scores will cost you much more in the long run and you will get a higher interest rate and it will also lower your credit scores and age of credit

account.

### **Factor 4: New Credit**

How many accounts have you opened recently and how many lenders have inquired about your credit? The more activity, the more it appears you're about to go on a debt binge and whether those inquiries are made by lenders with your authorization or hard inquiries.

This is 10 percent of your overall score. Opening new accounts can ding your credit score, particularly if you apply for lots of credit in a short time and you don't have a long credit history.

To put this in perspective: The average American has not opened an account in 20 months.

The score factors in the following:

- How many accounts you've applied for in last 24 months
- How many new accounts you've opened
- How much time has passed since you applied for credit
- How much time has passed since you opened a new account

You might have heard that “shopping around” for credit can hurt your score. We'll deal with this issue more thoroughly in the next chapter, but the FICO formula takes into account that people tend to shop around for important loans like mortgages and auto financing. As long as you do your shopping in a fairly concentrated period of time, it shouldn't affect the score used for your application for a particular shopping in the same line of trade.

Also, pulling your own credit report and score doesn't affect your score. As long as you do it yourself, ordering from a credit bureau or reputable intermediary, the inquiry won't count against you. If you have a lender pull your score “just to see it,” though, you could end up hurting your score.

### **Factor 5: The type of credit**

This is 10 percent of your score. The FICO scoring formula wants to see a “healthy mix” of credit, but Fair Isaac is customarily vague about what that means.

The definition of “types of accounts in your credit report” is a little confusing in this country because lenders are not required to report your accounts to any of the credit bureaus. As such, not all of your

accounts will show up on your credit report. If an account does not show up on your credit report, then you will get no positive credit for it in the credit bureau scoring models, such as a FICO® credit score. What the scoring models will take into account are all accounts that are on your credit report and the type of account that it is.

There are many different types of accounts that can show up on your credit reports. Some of the most common examples are:

### **Revolving Accounts**

Revolving accounts are those that have a different payment each month depending on your current balance. These are the accounts that you are not required to pay in full each month. You have the option to “revolve” some or all of the balance to the following month. Lenders charge you interest on the amount that you revolve and this is how they make money.

Some examples of revolving accounts are:

- **Credit Cards Issued by a Bank or a Credit Union** – These are commonly referred to as Visa® or MasterCard® accounts because of the logo that appears on the front or back of the card. These are extremely common because almost all banks and credit unions are able to issue them to their customers. Remember, credit report will keep a history of your accounts even if they have been closed. As such, most consumers have several of these accounts on their credit reports.
- **Credit Cards Issued by a Non-Bank** – These are accounts that are issued by financial institutions that you do not use for your personal banking. Some examples are Discover® Card, and American Express®. These are also extremely common in part because these are so heavily marketed. Most consumers have or have had at least one of these cards. So, it is likely that one or more of these accounts will show up on your credit report.
- **Credit Cards Issued by a Retail Store** – These are accounts that are issued by the stores where you like to shop. These cards are a little different than the previous two types in that you can only use the card at the store that issued it.

Some examples are:

1. Macys® Card;

2. Home Depot® Card;
3. Lowes® Card;
4. Sears® Card;
5. Target® Card;
6. Pep Boys Card®;
7. Dillard's® Card.

There are hundreds of other examples. Most of us have several of these types of cards.

- **Credit Cards Issued by an Oil Company** – These are accounts that are issued by a petroleum company. As with retail store accounts, these cards can only be used at specific locations, almost always a gas station.

Some examples are:

1. T Mobile® Card;
2. Exxon® Card;
3. Shell® Card;
4. 7 Eleven® Card.

These cards are also very common and easy to obtain. Most of us have or have had several of these types of cards.

**Home Equity Lines of Credit** – Also known as a HELOC, these are loans that allow you to tap into the equity of your home. These loans are generally easy to obtain from most reputable banks and credit unions. Since these loans allow you to access a portion of your home's equity, the payment is determined by the amount borrowed or used. These accounts are very common in part because the interest is tax deductible in most cases. Check with your tax advisor to see if your account qualifies for a tax deduction. But don't get fooled by loan brokers who offer you a second mortgage equity line or refinance only saying that it can reduce your tax liability or can enhance your refund. Check with your tax advisor or financial consultant to see if it will be a benefit for you to obtain these loans, or can it really reduce your tax liability and annual rate, which is more beneficial.

**Notice** - For your information, debit cards (also known as check cards) are not considered true credit cards. They are essentially nothing more than a check in the form of a credit card. As such they do not report on

your credit files and will have no impact, good or bad, to your credit scores.

### **Installment Accounts**

Installment accounts are those that have a fixed payment for a fixed period of time. As with revolving accounts, you are not required to pay them in full each month. You are allowed to make a payment that is going to be the same every month until the loan is paid in full. Lenders charge you an annual percentage rate (also known as an APR) and this is how they make money. Some examples of installment accounts are:

- **Auto Loans** – Auto loans are issued by either a bank, credit union or by a company that specializes in automobile lending. These accounts are generally paid off over 48 to 60 months, but shorter and longer terms are available. Now auto loans are offered for 84 months as well.
- **Mortgage Loans** – Mortgage loans are issued either by a bank, a credit union, or a company that specializes in mortgage lending. These accounts require the most amount of paperwork during the application process, but are generally easy to obtain even with marginal credit scores. Some examples of companies that specialize in mortgage lending are Wells Fargo Mortgage®, Bank of America Home Loan®, Discover Home Loan®, Chase Home Loan®, etc.
- **Student Loans** – These loans, obviously, are used to pay for college related expenses such as tuition, and room and board. Some banks will issue student loans and the Federal Government guarantees a portion of them. Student loans are a unique type of loan because most students are taking classes, and not working full time jobs. As such, the repayment of a student loan generally goes through a process called “deferment.” Deferment essentially allows the student to postpone their payments until several months after they have graduated or stopped going to school. This gives them ample time and opportunity to secure employment before the loan requires the first payment.
- **Home Equity Loans** – These are not the same as home equity lines of credit (aka HELOCs). Although they both allow you access to your home's equity, the structure of the loans are not similar. A home equity loan is a fixed amount of money that you borrow. Once you take that loan out, your payment is fixed for the duration of the payback period. Whereas a home equity line of credit gives you the

flexibility of taking out some or the entire approved amount, it is also considered as a cash out refinance.

- **Signature Loans** – Signature loans are just what they sound like. You walk into a bank or credit union and tell them you want to borrow some money and sign a guarantee to pay it back. You don't have to tell the bank what the money is for and you can use it for anything you like including vacations, investments, home improvements, etc. Borrowers usually use this money for emergency, holiday shopping or a shopping spree in general.

### **Open Accounts**

Open accounts are probably the least common of the three we'll profile. An open account has no credit limit and you have to pay back the full amount at the end of each month. Your payment will vary depending on how much of a balance you run up each month. Some of the examples of the few remaining open accounts are:

- **Cellular Service Accounts** – Yes, there are some cellular service providers that report your account to the credit bureaus each month. Your balance is based on the amount that you use each month. You are required to pay back the full amount each month.
- **Other Home Utilities** – A trend that seems to be gaining momentum in the U.S. is the use of credit data to set deposit requirements for home utilities such as gas, power, water, and cable. The amount you pay each month is determined on your previous month's usage. While it is unlikely that you will see your utilities on your credit reports consistently, it is happening on a more frequent basis.
  - ❖ Open business credit cards are a new line of open credit provided by Costco and Sam's Club to some of their business partners backed by Discover or Bank of America.

Every single account on your credit files will fall into one of the categories below:

- Revolving;
- Installment;
- Or Open.

### **Why Does Your Mix of Accounts Matter?**

When these accounts report on your credit records, they are coded very specifically so that not only consumers and lenders but also

credit scoring models can easily identify them. As such, it is possible to determine if the types of accounts you have are indicative of your future level of credit risk. Statistical analysis has determined that, although a weak correlation, the type of accounts you have is predictive of your future credit risk.

**So what does this entire situation mean to you the consumer?** What it means is that your scores, namely your FICO credit scores, can be negatively impacted by having the wrong mix of accounts on your credit reports. The good news, however, is that your scores can be improved by having the right mix of accounts.

#### **How is That Mix Measured?**

Quite frankly, they are counted. It's as simple as that. Actually, it's not quite that simple. What makes "Type of Accounts" predictive is that you can actually have too many of one kind of account or too few of another type of accounts reported on your credit report.

When your credit files are scored by the credit scoring models, they look at all of your accounts and tally them up by type. You could, for example, have 17 total accounts; 10 credit cards, 1 mortgage, 2 car loans, 3 student loans and one motorcycle loan. These same 17 accounts could also be categorized as 10 revolving accounts (the credit cards) and 7 installment accounts (the mortgage, car loans, student loans and the motorcycle loan). You may think "that is an unrealistic example." However, all of the historical accounts on your credit report are counted too. Most of us have had several credit cards, mortgages, auto loans and student loans in our life so this example is probably very realistic.

You want this mix to be as diverse as possible with a couple of notable exceptions. Here's why:

#### **The Impact to Your FICO® Credit Score**

The FICO® Credit Score is the standard credit scoring model used in today's lending environment. Each of us has three different FICO scores, one generated from each of our three credit reports. It's important to become familiar with the impact our amount of debt has on our credit scores.

These measurements taken from the type of accounts in credit reports are then "scored" and become a small portion of the points in credit scores. This component of the score requires a little more thought

than the previous two categories. The points you earn for the two primary categories (**Payment History and Your Amount of Debt**) progressively decreases as their measurements increase. For example, the more late payments you have, the fewer points you earned. The higher your debt load, the fewer points you earned. This is what is referred to as "directional." Alternatively, the "Type of Account" category only makes up 10% of the points in your score. However, it's tougher to put your finger on the exact "right" amount of different types of accounts that you have on your credit report.

There really isn't one target considered or directed as a "sweet spot" that we should all aim for in our account mix. That's because our mix of accounts might be great for our score, but terrible for someone else's and vice versa. This is a "non directional" category and if you/we look at a credit report, it will be hard to understand in the beginning when reviewing these accounts.

#### **How Can You Ensure Earning the Maximum Points Available Out of the Types of Accounts Category?**

Here are some simple steps you can take to ensure earning the most points out of this category:

- ❖ **You must have a mortgage** - That's right. If you have a mortgage account on your credit report, then it is likely that you will earn more points from this category than someone who does not. Statistics show that consumers who have mortgages tend to show an increased degree of stability and credit responsibility than those who do not.
- ❖ **Avoid finance companies** - Finance companies are commonly referred to as "lenders of last resort." Their rates and terms are not as favorable as those offered by banks and credit unions so higher risk consumers tend to depend on them for their credit needs. As such, having a finance company account on your credit report could cost you points, but high risk consumers with low FICO can start over with these finance companies.

The old argument against this was that banks didn't do business in rural parts of the country so people had to do business with the local finance companies. This argument doesn't hold water any longer especially with the staggering growth in loans that are granted via the internet. Simply put, you can live in Malaga (population 2,500 in rural



California) and still apply for loans from Chase Manhattan Bank, headquartered in New York City or from Wells Fargo, headquartered in San Francisco. There are no excuses for doing business with finance companies. Don't lose points by doing so.

- ❖ **Not too many credit cards** - While the correct number of credit cards that we should have isn't available, it's safe to say that the more you have, the closer you are getting to losing points in this category. Have only as many credit cards as absolutely needed so that you can function efficiently and don't get any more. You could get away with having one or two cards that would be accepted by every retailer and service provider in the country so having 10 credit cards simply isn't necessary. It's not a status symbol to have every card available. It's bad credit management.
- ❖ **You'll eventually want to finance a car** - It's cheaper to pay for things in cash. That's the simple truth because you don't have to pay interest. However, in the world of credit scoring having a car loan (old or new) as part of your credit mix is a good thing to start and establish your new credit history.

You don't need to have a loan of each possible type (credit card, mortgage, auto loan, and so on) to have a good score. Furthermore, you're cautioned against applying for credit you don't need in an effort to boost your score because that can backfire.

To get the highest possible scores, though, you need to have both revolving debts like credit cards and installment debts such as an auto loan, mortgage, or personal loan. These latter loans don't have to still be open to influence your score. But, they do still need to show up on your credit report even if they are paid off.

Bankcards (major credit cards such as Visa, MasterCard, American Express, Discover, and Diner's Club) are typically better for your credit score than department store or other "finance company" cards. Department stores' cards are typically issued by finance companies, which specialize in consumer lending and which, unlike banks, don't receive deposits.

Installment loans can reflect well on you too. That's because lenders generally require more documentation and take a closer look at your credit and earnings, including your employment and references before granting the loan.

To put this in perspective: The average American has four or five bankcards showing on their credit report and most have at least one installment loan, according to the Fair Isaac® Inc.

## Credit Score Factors and Risk Codes

### What Do These Codes Mean on Your Credit Report?

There are credit scoring components that measure positive and negative creditworthiness traits. The negative traits are identified through this list of risk scoring reasons. They explain how certain damaging consumer behaviors are reported to the credit bureaus, and are identified by the code associated to them by each major consumer credit bureau. When you apply for a loan or a credit card, the lender will run a credit report check on you to determine your credit worthiness. If they decide that you're too great a risk for a loan or credit card, they'll send you a letter in the mail letting you know that you've been rejected. In the letter, they'll list the bureau they pulled your credit report from (Equifax, TransUnion or Experian), as well as the risk factor reason codes for the risks you pose.

The risk codes will be listed in the order of importance, so the higher up on the list in your letter, the more significant it is. We have integrated the FICO NextGen codes into the table below with the Equifax, TransUnion, and Experian codes.

**EQ** stands for Equifax; **TU** stands for TransUnion; **EX** stands for Experian; **FICO** stands for FICO NextGen

Credit Bureau Risk Scoring Reason	EQ	TU	EX	FICO
<b><u>Amount Owed on Accounts is Too High:</u></b> High balances are a precursor to financial meltdown.	1	1	1	A3
<b><u>Level of Delinquency on Accounts:</u></b> The level of delinquency can cause big swings in credit scores.	2	2	2	D6
<b><u>Too Few Bank Revolving Accounts:</u></b> Major credit cards are huge indicators of creditworthiness.	3	N/A	3	R4
<b><u>Too Many Bank or National Revolving Accounts:</u></b> Having eighteen major credit cards can be difficult to manage.	4	N/A	4	T2
<b><u>Too Many Accounts with Balances:</u></b> Each	5	5	5	T1

additional balance carries an extra default risk.

**Too Many Consumer Finance Company** 6 6 6 T3

**Accounts:** Lenders outside of traditional lending options carry a stigma, high interest and elevated default patterns.

**Account Payment History Too New** 7 7 7 A0

**to Rate:** It takes more than just a couple of on-time payments on a new account to build a deep credit history.

**Too Many Recent Inquiries in the Last** 8 8 8 T5

**12 Months:** Desperate attempts for new credit are an indication of financial crisis and rejection.

**Too Many Accounts Recently Opened:** 9 9 9 T0

A glut of new credit can be difficult to manage.

**Proportion of Balances to Credit Limits is** 10 10 10 P5

**Too High on Revolving Accounts:** A high credit utilization ratio can temporarily lower credit scores.

**Amount Owed on Revolving Accounts** 11 11 11 B5

**is Too High:** Excessive balances on credit cards can hurt no matter what your credit limits are.

**Length of Time Revolving Accounts**

**Have Been Established:** 12 12 12 J8

**Time Since Delinquency is Too Recent** 13 13 13 K0

**or Unknown:** It takes a while for the swelling to go down when you are late.

**Length of Time Accounts Have Been** 14 14 14 J0

**Established:**

**Lack of Recent Bank Revolving** 15 15 15 F5

**Information:** A lack of major credit card account history reduces repayment predictability.

**Lack of Recent Revolving Account** 16 16 16 G1

**Information:** Failure to use any type of

revolving

accounts causes you to lose experience points.

**No Recent Non-Mortgage Balance** 17 17 17 G4

**Information:** A home loan is a great credit builder, but it doesn't do it alone.

**Number of Accounts with Delinquency:** 18 18 18 M1

Multiple late fees and doubled minimum payments are the beginning of financial ruin.

**Too Few Accounts Currently Paid as** 19 27 19 R0

**Agreed:** Failure to maintain current payments on a majority of accounts carries additional penalties.

**Date of Last Inquiry Too Recent:** An inquiry can lower your score up to 5 points for the first 12 months. N/A 19 N/A D1

**Length of Time Since Derogatory Public** 20 20 20 K1

**Record or Collection is Too Short:** Consider this your cooling off period.

**Amount Past Due on Accounts:** Higher overdue balances are more difficult to recover from. 21 21 21 B6

**Serious Delinquency, Derogatory Public** 22 22 22

**Record or Collection Filed:** Major debt problems can limit new credit opportunities.

**Number of Bank or National Revolving** 23 N/A 23 M6

**Accounts with Balances:** Expect a penalty from high balances on major credit cards.

**No Recent Revolving Balances:** A lack of revolving activity can deny your credit profile of the ideal mix of credit accounts. 24 24 24 G6

**Length of Time Installment Loans Have** 25 N/A 25 J4

**Been Established:**

**Number of Revolving Accounts:** Too few 26 26 26 N6

revolving accounts make measurement of creditworthiness difficult, while too many can be difficult to manage.

**Number of Established Accounts:** Seasoned 28 28 28 N2

accounts are generally at least 2 years old and provide better long-term repayment

predictability.

**No Recent Bankcard Balances:** N/A 29 29 G3

Dormant credit cards are at risk of closure by lender due to inactivity.

**Time Since Most Recent Account Opening** 30 30 30 K2

**is Too Short:** Expect a temporary drop in scores immediately after opening a new credit account.

**Too Few Accounts With Recent Payment** 31 N/A 31 R2

**Information:** Your credit history from 2-7 years back is less relevant than more recent usage of credit.

**Lack of Recent Installment Loan Information** 32 4 32 F7

: Installment loans are important indicators in the credit mix component of scoring.

**Proportion of Loan Balances to Loan** 33 3 33 P9

**Amounts is Too High:** Installment loans provide a greater boost to scores once the balance is less than half the opening balance. Down payments are completely ignored.

**Amount Owed on Delinquent Accounts:** 34 31 34 A6

Credit scores drop as late payments mount.

**Length of Time Open Installment Loans** N/A N/A 36 J6

**Have Been Established:**

**Number of Consumer Finance Company** N/A N/A 37 N0

**Accounts Established Relative to Length of Consumer Finance History:**

**Serious Delinquency and Public Record** 38 38 38 D8

**or Collection Filed:** A defaulted credit account causes additional damage when collections and legal actions commence.

**Serious Delinquency:** Severely late payments 39 39 39 D7

can result in subsequent collections and legal action if not corrected.

**Derogatory Public Record or Collection** 40 40 40 D4

**Filed:** Deferrals of defaults to debt collectors and civil actions against you will reduce your credit scores.

**Payments Due on Accounts:** N/A N/A 46 X0

**Length of Time Consumer Finance Company** N/A 98 N/A J3

**Loans Have Been Established:**

**Lack of Recent Auto Finance Loan** 98 N/A N/A F3

**Information;**

**Lack of Recent Auto Loan Information:** N/A 97 98 F4

**Lack of Recent Consumer Finance Company** 99 99 99 F6

**Account Information:**

These credit scoring factors make up FICO based risk models that are utilized by the main consumer credit reporting agencies (Equifax, Experian, TransUnion and for the first time NextGen has been included). Some factors are heavily weighted in credit scoring formulas while others yield little influence. Credit scoring formulas are secret, so much of the information here has been gathered from different reputable sources including Fair Isaac Corporation and years of work, experiences, and research.

These credit scoring risk factors are what causes credit scores to fall from 877 FICO and NEXT GEN 950. They represent the negative factors that cause credit scores to drop. This is a more detailed list of credit scoring risk factors that are categorized within more broad credit scoring components.

You must note and considered that a single action by a consumer like you could trigger multiple risk codes.

### Your Credit Score Card

How these five factors are weighed when it comes to *you*, as opposed to the general population, depends on a little-known sorting system known as the Fair Isaac “scorecards.” These scorecards allow the FICO formula to segment borrowers into one of 10 different groups, based on information in their credit reports.

If the credit history shows only positive information, the model takes into account the following:

- The number of accounts;
- The age of accounts;
- The age of the youngest account.

If the history shows a serious delinquency, the model looks for these:

- The presence of any public record, such as a bankruptcy or tax lien;
- The worst delinquency, if there's more than one on the file;
- The judgment liens related to financial matters;
- The financial judgments against you.

After the model has this information, it decides which of the 10 scorecards to assign. Although Fair Isaac keeps the details pretty secret, it's known that there is at least one scorecard for people with a bankruptcy in their backgrounds, and another for people who don't have much information in their reports.

Grouping people this way is supposed to enhance the formula's predictive power. The theory is that the same behavior in different borrowers can mean different things. Someone with a troubled credit history who suddenly opens a slew of accounts, for example, might be seen as a much greater risk than someone with a long, clean history. Scorecards allow the FICO formula to give different weight to the same information.

Sometimes, however, the actual results of the scorecards can be a little bizarre.

Mr. & Mrs. XYZ of Fresno, CA, who own their business in Chowchilla, CA spent years rebuilding their credit and couldn't wait for the seven-year mark to pass on three negative items on their credit report (two collection actions and a bankruptcy). These items, they were sure, were the only things holding their credit score down.

When the black marks disappeared from their report, however, XYZ's score actually *dropped* more than 20 points. XYZ got caught in what can be a jarring transition from one scorecard to the next. As of January 2013 their scores are now close to 680.

The negative items on the couple's credit reports got them assigned to a certain scorecard, but their efforts to rebuild their credit (making payments on time and using credit responsibly) helped them rise to the upward scale or upper level of that scorecard group. When their negative marks disappeared, though, they were transferred to another group with tougher standards. In that group, the couple was closer to the bottom, and their credit score drop reflected their fall.

Fair Isaac says its NextGen formula eases this use by segmenting borrowers into finer groups, which should lead to less

dramatic tumbles from one group to the next. In the meantime, XYZ's only solace is that the responsible credit behavior they learned should help boost their score and recover lost ground over time.

### **Your Results Might Differ**

There are a few more complications about which you need to know.

Although all three bureaus use the FICO scoring model, the actual formula differs slightly from bureau to bureau. That's because the way the bureaus collect and report data isn't exactly the same. It's unlikely that these differences would have much impact on your score, but you should know that they exist. You're far more likely, though, to have different scores from bureau to bureau because the underlying information is different.

As discussed earlier, lenders can have their own in-house scoring formulas in addition to, or instead of, using FICO scores. Lenders also can use different “editions” of the FICO formula. Just as not everyone updates to the latest computer operating systems when they're released, not every lender uses the latest versions of credit-scoring formulas, so some use old formulas and some their own formulas.

Older versions of the FICO formula, for example, counted participation in a credit-counseling program as a negative factor; newer versions view it as a neutral factor. So, if you're currently in a debt management program, you might be viewed more negatively by some lenders than by others when considering your loan application.

Just consider what happened to Mrs. Sarabjit of Kerman, CA, a homebuyer who learned too late that her scores weren't what she thought they were.

Mrs. Sarabjit purchased FICO scores from each of the three credit bureaus when she applied for a home loan. Because lenders usually use the middle of your three scores to determine your interest rates, Mrs. Sarabjit was happy to discover her middle score was 685—not great, but high enough to avoid the 650 mark many lenders use to classify a borrower as subprime or high risk. When Sarabjit applied for a loan, however, the lender told her that her middle score was 593. It's not clear whether the lender was using an older FICO formula or was simply using its own modified concoction and calling it a FICO, but



Sarabjit paid the price by not buying the new dream home and still lives in the old home with her family.

*“No one tells you this when you pay your money to get your score”. Sarabjit said. “We actually put our house on the market based on the information we received from the agencies, having to scramble later for a mortgage company to accept our lower score. We went from being able to receive competitive interest rates to being considered very high risk and receiving very high rates.”*

You can help protect yourself somewhat from these discrepancies by getting preapproved for a home loan before you start house shopping. But this is just another reason why it's important to improve and protect your score. The higher your score, the less you have to worry about a few points making a difference. You need to review your credit report at least once a year.

### **How to Pick the Right Service & Boost Your Credit Score?**

You should base your buying decision on how comprehensive you want the monitoring to be and what you're willing to pay for it. If you're conscientious about your credit, there are many common-sense steps you can take yourself to keep your credit healthy. In that case, credit monitoring may not be worth the extra money.

The big three credit agencies all offer products that will try to detect fraud and generate your credit score. Each provides a variety of packages depending on how vigilant you want them to be. Many banks offer similar services, look around, you might be able to get a better offer through your financial institution. And the identity-theft players, like Life Lock and Trusted ID, also pitch credit monitoring as part of their ID theft protection services.

Make sure you consider the cost before signing on. Some services charge as much as \$50 monthly to keep tabs on your credit, which can total \$600 annually. Weigh that expense against your odds of suffering credit card fraud. By one estimate, identity theft touches 3 percent of Americans each year, with credit card fraud just a fraction of that number.

Finally, watch out for the bureaus promoting fancy scores that purport to measure your credit risk by some reconfigured formula. You only want the FICO score, the same one lenders request. The other so-called FAKO scores, like Experian's PLUS score, TransUnion's

TransRisk score or Experian's Credit Score Tracker, are money drains. They'll just confuse you about where you really stand. If you just want your score, you can order it through Fair Isaac.

If you're merely looking to keep your credit in good health, it's not too tricky. Limit your credit cards, set up automated payments to pay your bills on time, space out when you apply for loans and accounts, avoid maxing out your credit cards and carrying unpaid balances. And, keep it up for years and years. In short, don't go nuts with credit and you should be fine.

If you're paying for credit monitoring or just doing it on your own, be sure to report any errors you spot in your report. Contact the agency that sent you the report—each of them has a process for reporting errors. Incorrect information can be damaging to your credit report and credit scores.

### **How To Get Your Credit Score?**

Your credit score is generated by information on your credit report, but it is not part of the credit report itself. Your Equifax credit report is a compilation of information about you and your credit history that has been reported to Equifax by others, mostly by those who granted you credit. Your credit score, on the other hand, is a number calculated using the information in your credit report.

If you've surfed the internet lately, you might find it hard to believe that credit scores were secret only a few short years ago. Sometimes it seems like every other website is either hawking credit scores or running an ad for a website that does.

As you've read, though, not all credit scores are created equal.

The credit bureaus, for example, sometimes market scores to consumers that aren't based on the FICO formula—the one typically used by lenders. The bureaus say these scores are a good indicator of a consumer's credit worthiness, but their results can differ—sometimes markedly—from the FICO numbers that lenders use.

Your first step: Make sure you're getting a real FICO or NextGen score. If it doesn't say FICO or NextGen or use one of the credit bureau's trademarked names for FICO scores (see below), it's not the same formula that lenders use.

In general, when people talk about “Your Score,” they're talking

about your current FICO scores developed by FICO—one at each of the three main US credit reporting agencies. These FICO scores have different names at the three major credit bureaus.

Credit Bureau/Reporting Agency	FICO Score Name
Equifax, Equifax Canada	Beacon
Experian	Experian/Fair Isaac Risk Model
TransUnion, TransUnion Canada	FICO Risk Score, Classic

The FICO scores from all the three credit reporting agencies are widely used by lenders. The FICO score from each credit reporting agency considers only the data in your credit report at the agency. FICO develops all three FICO scores using the same methods and rigorous testing.

Be careful not to be misled by pitches that promise “free” access to your credit score. Typically, those offers require signing up for credit monitoring or other ongoing services that are most assuredly not free. Although you might decide that these services are helpful, make sure to read the fine print so that you understand what you're getting and you can cancel if necessary. Another caution: Some fly-by-night operators might pitch credit scores as a way to get you to reveal your private financial information, such as your Social Security number or credit card numbers. As always on the Web, it's best to do business with companies you know and to make sure you have a secure connection before transmitting sensitive information. Congress recently did give U.S. residents the right to get free copies of their credit reports annually from each of the three bureaus. But, that doesn't include the right to free scores; the bureaus can and will continue to charge for those scores.

One place to look for your score is MyFICO.com, a joint venture between Fair Isaac and Equifax. The site offers to start a **free 10-day trial of Score Watch** and instantly gets your FICO score and credit report. You may cancel at any time during the trial period; if you wish to continue, pay only \$14.95/month (3 months minimum).

In Canada, you can get your FICO score from Equifax Canada.

If you don't have Internet access, your options for getting your FICO scores are more limited. As of this writing, one company called Intersections, Inc. offered FICO scores for U.S. residents that are based on TransUnion credit files. You can reach them at 800-695-7536.

Along with your score, MyFICO.com provides a fever chart that shows where you stand in relation to other borrowers, along with a summary of how lenders are likely to view you as a credit risk.

MyFico.com goes on to tell you more about what this means, saying in part:

*Lenders consider many factors in addition to your credit score when making credit decisions. Looking solely at your FICO score, however, most lenders would consider this score as excellent.*

*This means: It is extremely unlikely your application for credit cards or for a mortgage or auto loan would be turned down based on your score alone.*

*You should be able to obtain relatively high credit limits on your credit card.*

*Most lenders will consider offering you their most attractive and most competitive rates.*

*Many lenders will also offer you special incentives and rewards targeted to their “best” customers.*

*Source: MyFico.com*

Because the primary purpose of a FICO score is to predict default risk, you might be interested to know how you stack up in that regard.

When you get your FICO score, you should get a summary of the major positive and negative factors influencing your score. Be sure to read these carefully, along with any additional explanatory information. These factors are provided to give you some clues about how to improve your score, but if you misinterpret the results, you could end up making things worse.

For example, many people with good credit often find that one of the reasons their score isn't higher is that they have “too many credit cards.” They think they can solve the problem by closing the cards, but the FICO formula doesn't work that way. The closed cards remain on your credit report and continue to influence your score. In fact, the act of closing accounts can actually hurt your score, as explained later, and can never help it.

**The positive factors you will view should be listed in order of importance and might be something like the following:**

- You have no late payments reported on your credit accounts.
- You demonstrate a relatively long credit history.
- You have a low proportion of balances to credit limits on your revolving/charge accounts.

**Negative factors, too, should be listed in order of importance. If you have a bankruptcy, collections action or any other serious delinquency, that would be mentioned first. Other negatives that can show up for even the best borrowers include the following:**

- You have recently been seeking credit or other services, as reflected by the number of inquiries posted on your credit file in the past 12 months.
- You have a relatively high number of consumer finance company accounts being reported.
- The proportion of balances to credit limits (high credit) on your revolving/charge accounts is too high.
- The length of time your accounts have been established is relatively short.

Now, nobody likes criticism and some people get absolutely furious when they read through the reasons they're given for why their score isn't higher. Interestingly, many of these folks tend to have excellent credit, but customers are angry that their score isn't "perfect." Understand that nobody is "perfect" and even if you could achieve a perfect score, the changing circumstances of your life and your credit use would mean you wouldn't keep that score for long.

Also understand that the negative reasons listed are less and less important the higher your score. The bureaus need to give you some reason for why your scores aren't higher, but when your score is already in the mid-700s and above, there's no guarantee that even if you could fix the "problem," your scores would rise that much.

Still, you can always learn something from reading the reasons given. A notation that your balances are too high should spur you to pay down your debt for your own financial health as well as for the sake of your score. Getting dinged for having too many cards should keep you from applying for yet another department store card just to get a 10 percent discount. You don't need one more piece of plastic to keep track of anyway.

If your score is low, though, you should take the negative factors to heart. They can provide a blueprint for fixing your credit and boosting your score. In Chapter 3, "The 5 Step Process to Improve Your Credit Scores" you'll find general information about improving your score; and in later chapters, I'll discuss more specific strategies for people who have troubled credit.

## The 5-Step Process to Improve Your Credit Scores

*If you don't have the kind of credit rating or credit history that you want, then now is the time to do something about it. Whether you simply want to improve your credit score or have sunk into a cycle of debt, there are steps you can take starting today to get better credit.*

There are many misconceptions about credit scores out there. There are customers who believe that they don't have a credit score and many customers who think that their credit scores just don't really matter. These sorts of misconceptions can hurt your chances at some jobs, at good interest rates, and even your chances of getting some apartments, a dream home, including a dream car.

The truth is, if you have a bank account and bills, then you have a credit score and your credit score matters more than you might think. Your credit score may be called many things, including a credit risk rating, a FICO score, a credit rating or a FICO rating. All these terms refer to the same thing: the three-digit number that lets lenders get an idea of how likely you are to repay your bills in your future based upon these ratings and calculations.

Credit scores aren't fixed in stone. Because they're calculated based on your current credit report, they change every time your credit report changes. While this change may be very slight, it can also be much more drastic.

If you go to the bank for a loan and are turned down because your score is too low, your lender will give a list of reasons for that low score. You can use that list to try to turn your score around. Since lenders can also use their own scoring methods, nothing is guaranteed, but you certainly can't hurt your score by taking any of these steps discussed in this book.

One of the most exciting parts of growing up is becoming financially independent, but learning how to do so can be challenging. Building good credit is a must. It will help you qualify for loans, auto insurance, rental applications, cell phone plans and can even affect whether you get a job in today's electronic era where your credit report or score is only a ½ minute away from your application.

Okay, now you know your score and you have a good idea of what goes into creating it. So, how do you make it better?

The thought of a thief running up huge credit-card debts in your name is frightening, and credit-monitoring firms are banking on that fear, especially if you're already a victim of a data breach. Before you shell out \$100 (or more) per year for a credit watchdog, make sure you're doing it for the right reasons. Maybe you know that you won't keep adequate watch yourself. Perhaps you're applying for a mortgage and want to make sure your credit remains pristine. You could also just be obsessed with the idea of credit fraud. If so, credit monitoring might be worth the peace of mind.

**If you're on the fence about whether you need credit monitoring, consider these self-serve approaches for protecting your credit:**

Watch your bank and credit card statements for fishy transactions—make a habit of scanning your financial accounts daily or at least weekly. Some creditors will even allow you to set up your own free alerts to notify you when online transactions are made on your account or when a purchase exceeds a specified amount.

Keep an eye on your credit report, as mentioned previously. By law, you're entitled to a free report every year from each of the three bureaus, **so you might as well order a different one every four months**. Scan it for abnormal activity, such as accounts or credit cards you didn't open. You can order the report through each agency or at [www.annualcreditreport.com](http://www.annualcreditreport.com). Don't fall for the add-ons; you just want the score. Annual credit report can also offer a free credit report and for a minimum fee offers you your credit score.

If you're curious about your credit score, you might be able to access it for free. Many banks don't offer this perk, instead they'll package your score with inflated charts and graphs and make you pay for it. But it doesn't hurt to ask for it. Another tack is to ask an inquirer (car salesman, credit card company or landlord) for a peek at your score. They'll pull your score before doing business with you and might share it if you ask nicely.

You can also take other common-sense measures, such as protecting your credit accounts online and shredding sensitive documents to help prevent fraud. It's good to know that you have the power to control your credit without paying someone else to do it for



you. Remember, [annualcreditreport.com](http://annualcreditreport.com) is where you can order your free credit report.

To improve your credit, follow these procedures step-by-step:

### Step 1: Obtain a Copy of Your Credit Report

The first step is to know where you are and where you need to go. The first thing you should do is obtain a copy of your credit report and make sure there are no errors or inconsistencies. Because your credit score is based on your credit report, you should begin by ordering your report from all three credit bureaus and reviewing each one for accuracy. Your credit report is a collection of information about you and your credit history and can have a major impact on your life.

You can get your report from a service such as [MyFICO.com](http://MyFICO.com) or order from each bureau separately online or by phone or collect it from [www.annualcreditreport.com](http://www.annualcreditreport.com):

<i>Equifax</i>	<i>Experian</i>	<i>TransUnion</i>
<a href="http://www.equifax.com/fcra">www.equifax.com/fcra</a>	<a href="http://www.experian.com">www.experian.com</a>	<a href="http://www.transunion.com">www.transunion.com</a>
1-800-685-1111	1-888-397-3742	1-800-916-8800

Canadians can also get their credit reports online:

(Click on the Canada link)

<i>Equifax Canada</i>	<i>TransUnion Canada</i>	<i>Northern Credit Bureaus, Inc</i>
<a href="http://www.equifax.com">www.equifax.com</a>	<a href="http://www.tuc.ca">www.tuc.ca</a>	<a href="http://www.creditbureau.com">www.creditbureau.com</a>
1-800-465-7166	1-800-663-9980	1-800-646-5876

If you're accessing your reports online, you might want to print out the files to make the review process easier. At the very least, grab some paper and a pen to make a list of the changes needed as you go through the reports.

Exactly how your information is organized varies from report to report. But the basic sections are pretty similar and proceed more or less in the order outlined in this chapter.

### Check Your Identification Information

At the top of each report is identifying information about you. Watch especially for the following:

- Names that aren't yours (not just misspellings of your own name)

- Social Security numbers that don't belong to you.
- An incorrect birth date.
- Addresses where you have never lived.

These are the kinds of errors that could indicate someone else's information is in your file.

You might find other errors, such as an employer listed that you no longer work for or a misspelled address. You can ask the bureau to fix those problems as well, but that shouldn't be your highest priority.

### Review All of Your Credit Accounts

The next section lists credit accounts that you've opened, along with such information as the date you opened them, whether the account is still open, the type of account, the account number (typically abbreviated), your payment history, your credit limits, and your balances.

Scan this section closely for the following:

- Accounts that aren't yours.
- Delinquencies that aren't yours (including late payments and charge-offs).
- Late payments, charge-offs, or other negative entries—other than a bankruptcy that is more than seven years old, but now it stays up to 10 years on your record.
- Debts that your spouse incurred before marriage (unless they improve your credit history, more on that later).
- Any other incorrect account notations, such as showing a debt as past due when it was wiped out in a bankruptcy filing.
- Any foreclosures for more than 7 years, but now these stay on your record for more than 7 years and up to 10 years.

If you find a number of incorrect entries, especially if they're delinquent or unpaid accounts, you could be a victim of identity theft. You'll find more information on how to handle this situation in Chapter 7, "Identity Theft and its Effects on your Credit."

On the other hand, you could be suffering from a credit bureau mix-up that accidentally merged someone else's information with yours. Although the bureaus say they have improved their systems to reduce the chances of this happening, it still occurs. I hear about it most often

when two family members share similar names.

Raman B. and his father have the same first and last names and share a middle initial. They live in different states (South Dakota & North Dakota, respectively) and, of course, have different Social Security numbers. That hasn't prevented the credit bureaus from getting the two men confused.

When Raman bought a piece of property recently, the bank pulled his credit reports from all three bureaus. He discovered that his and his father's credit information had been mixed together.

*"For example, his car payment is on my report, but my car payment does not show up on my own report," Raman said. "I was shocked at the number of discrepancies I found on each of the reports. As important as one's credit history is, one would think that these agencies would take the necessary steps to ensure accuracy."*

You might find other errors, such as accounts you've long since closed still being reported as open or not indicating accurately that you, rather than the creditor, closed the account.

The FICO scoring system doesn't really care who closes the accounts, so you needn't worry too much about fixing those notations. And don't rush to change the notation on closed accounts, if they're listed as active; as I'll explain later, they could be helping your credit score.

### **Examine All the Enquiries**

Inquiries show who has asked to review your credit report. Your credit score doesn't count inquiries made by lenders looking to make preapproved credit offers or your own requests to see your credit history. These are known as *soft* inquiries.

The inquiries that matter are the ones from lenders that resulted from you applying for credit. These are called *hard* inquiries.

What you want to look for are the followings:

- Credit inquiries older than two years on your credit report still being reported and are on your credit report.
- Hard credit inquiries that you didn't authorize.

Add these to your list of items to dispute with the credit bureaus along with other disputable items that you find irrelevant to you.

### **Analyze Public Records and Collection**

The final section of your credit report includes any collection actions or public records, including bankruptcies, foreclosures, garnishments, lawsuit judgments, and tax liens. This is what you want to look for here:

- Bankruptcies that are older than 10 years or that aren't listed by the specific bankruptcy code chapter (Chapter 7, Chapter 13, and so on).
- Lawsuits, judgments, or paid tax liens older than seven years.
- Paid liens or judgments that are listed as unpaid.
- Duplicate collections, such as a loan that's listed under more than one collection agency. (An account you didn't pay often is listed twice, once with the original creditor and once with a collection agency, but there shouldn't be more than one collector listed at a time for the same debt.)
- Any negative information that isn't yours.

If in this review process you didn't find errors of note, skip to the next step. If you did, read on.

### **Dispute the Errors**

Your credit report comes with a form for disputing errors by mail (if you ordered by phone) or online, depending on the way you ordered your report.

Credit bureaus are required by law to investigate any mistakes you bring to their attention and report back to you within 30 days. Typically, they ask the creditor that reported the information to check its records. If the creditor can't vouch for the accuracy of what it reported or doesn't respond within 30 days, the offending item is deleted from your report.

That doesn't mean the error stays off. Unfortunately, some creditors persist in reporting inaccurate information. A consumer might follow the rules to get an error removed, but the creditor simply reports it again a few months later. Therefore, you need to review your reports after an item is removed to make sure it is not back on your report.

That's what happened to Parneet of Fresno, a homeowner, who encountered problems when his mortgage was transferred during a bank merger. The new bank made a mistake and reported to the credit bureaus that he was late with a \$232 payment.

When Mr. Parneet discovered the negative remark on his report, he contacted the bank and a representative agreed to fix the problem.

“He worked with me by giving me a letter stating that the late payment was reported in error,” Mr. Parneet said. Several months later, the late payment showed up again on his credit report. Mr. Parneet contacted another bank official/representative, who again promised to fix it after Parneet faxed him the first representative's letter. When Parneet pulled his report 60 days later, however, the delinquency was still there.

As you can see, the creditor holds a lot of power in this process. Although many errors are fixed promptly, permanently, and without fuss, an unethical or indifferent creditor could make your life difficult by *verifying* to the credit bureau that incorrect information is, in fact, accurate or simply re-reporting an old error. If you run into this problem, check out the information in “When Credit Bureaus Will Not Help” in Chapter 7.

If you're successful in getting errors removed from your report, you might or might not notice an improvement in your credit score. It all depends on the information remaining. The following section presents the best and most effective ways to make sure that information reflects well on you and your score.

### **Step 2: Always Pay Your Bills on Time**

*Always Pay on Time* - Every late payment can affect your credit. Late payments can also make it even harder to pay because you are charged extra fees, interest and penalties. Late payments are reported to the credit bureaus so they can have a negative effect on your credit score. As soon as you begin to pay on time, you begin to improve your situation.

Think only your credit cards affect your credit? “That's how it used to be”, says Attorney Jeff Reich of The Reich Law Firm, “but right now, there are a lot of folks, including credit bureaus, who are developing alternative credit scores for no-file people, which includes lots of young people. They're giving some credibility to utility payments. One of the three major U.S. credit bureaus, Experian, collects and lists rental payments on its credit reports. However, it's still a relatively new phenomenon, and most landlords don't yet report to the bureaus.”

Tascano Luis says other dues, such as taxes and library fees, can make a difference, too. He has seen students whose credit has been ruined because they failed to pay a traffic fine. Attorney Jon Renge agrees: “Paying all your bills from apartment rent to your Internet service consistently and on time is essential.”

If you're new to the idea of credit scoring, you might have no idea how damaging just one late payment can be. I had a conversation with a prospective buyer who wanted to buy a second home in Fresno, CA. He was flabbergasted by the fact that all of his recent efforts to improve his credit score could be undone by one unpaid bill:

*“I recently had a score of 640. I was late on a payment for a personal loan and now it's 555. I now know that I can't afford to be late again, but that shouldn't have dropped my score that much, should it because on the home loan I was current and current as well on my other bills except only this one late payment.”* This client fixed his credit using a credit repair company and purchased an investment property.

Also, the better your credit, the more a late payment can hurt. Lenders are looking for any sign that you might default and a late payment is often a good indicator that you're in financial trouble. Because payment history makes up more than a third of the typical credit score, ensuring that your bills get paid on time, all the time, is essential.

Now, for those of you panicking over that credit card bill you sent in two days past the due date: You can stop sweating. Normally, a payment has to be 30 days overdue for a creditor to report it to the bureaus.

That doesn't mean paying even a day late is a good idea, of course. Creditors increasingly are eager to slap their customers with late fees and jack up interest rates in response to late payments. Some have moved from due *dates* to due *times*, for example, a payment is considered late if it isn't in their hands by 1 p.m. on the date that it's due. Some creditors even want payments 3 days prior to the due date because they want ample time for posting and clearance.

Furthermore, you can face higher interest rates on all your credit cards and your insurance policies if you fall behind with even one creditor. Many lenders and insurers periodically review their customers' credit reports and adjust their rates based on what they find. For a few professionals there are bond requirements and each bond issuer for L.D.A.

{Legal Document Assistant}, U.L.D.A {Unlawful Detainer Assistant}, Notary Public, Process Server, etc., before issuing a bond and giving you a quote, checks your credit and charges more if your score is low.

You also can't skate on creditors that don't regularly report to credit bureaus. You might not have seen your cell phone account or your electric bill showing up on your credit history, but that doesn't mean these vendors won't report your delinquencies if you don't pay them on time or if you have closed one bank account and didn't give them new account information for ACH (Automated Clearing House) withdrawals.

#### **Payment Trends:**

- About 6 percent of consumers have used a prepaid card in the past few months. About 9 percent have used one in the past year. (Source: "The Survey of Consumer Payment Choice," Federal Reserve Bank of Boston, January 2010)
- About 69 percent of consumers have used a credit card in the last month. About 73 percent have used one in the past year. (Source: "The Survey of Consumer Payment Choice," Federal Reserve Bank of Boston, January 2010)
- About 56 percent of consumers carried an unpaid balance in the past 12 months. (Source: "The Survey of Consumer Payment Choice," Federal Reserve Bank of Boston, January 2010)
- About 45 percent of consumers said their unpaid credit card balance had gotten "lower" or "much lower" in the past 12 months. Only 26 percent said it had gotten "higher" or "much higher." (Source: "The Survey of Consumer Payment Choice," Federal Reserve Bank of Boston, January 2010)
- "More consumers now have debit cards than credit cards and consumers use debit cards more often than cash, credit cards or checks individually." (Source: "The Survey of Consumer Payment Choice," Federal Reserve Bank of Boston, January 2010)
- Nearly one in three Americans, 29 percent, said that in some of the past 12 months, they paid only the minimum payment on their credit cards. (Source: "Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)
- More than half of Americans, 54 percent, said that in the past 12 months, they always paid their credit cards in full. (Source:

"Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)

- 41 percent of cardholders from the ages of 18 to 29 made only the minimum required payment on a credit card in some of the past 12 months. (Source: "Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)
- Three in four cardholders age 60 or older always paid their credit card in full in the past 12 months. (Source: "Financial Capability in the United States," FINRA Investor Education Foundation, December 2009)
- 26 percent of Americans, or more than 58 million adults, admit to not paying all of their bills on time. Among African-Americans, this number is at 51 percent. (Source: "National Foundation for Credit Counseling," 2009 Financial Literacy Survey, April 2009)
- The average credit card-indebted family in 2004 allocated 21 percent of its income to servicing monthly debt compared to the 13 percent dedicated to debt payments among all households. (Source: Demos.org, "Borrowing To Make Ends Meet," November 2007)
- 58 percent of Hispanics have not used a credit card in the past 30 days. (Source: "Experian Consumer Research Study," November 2008)
- 31 percent of Hispanics typically pay cash for their purchases. (Source: "Experian Consumer Research Study," November 2008)
- When finances are tight, 59 percent of people would pay their credit card bills last. A majority, 52 percent, would pay the mortgage first and 38 percent say they would pay for utilities before paying other obligations. (Source: "CreditCards.com Survey," December 2008)
- 41 percent of college students have a credit card. Of the students with cards, about 65 percent pay their bills in full every month, which is higher than the general adult population. (Source: "Student Monitor Annual Financial Services Study," 2008)
- 27 percent of U.S. families had no credit cards in 2007. (Source: "Federal Reserve Board Survey of Consumer Finances," February 2009)
- One in six families with credit cards pays only the minimum due every month. (Source: "Experian National Score Index Study," February 2007)
- Of every \$100 spent by consumers, nearly \$40 is in a form other than



cash or check. (Source: “Visa USA Internal Statistics,” 4th quarter 2006)

- 28 percent of those surveyed say their ability to pay off their credit card balance has become more difficult. (Source: Javelin Strategy & Research, "Credit Card Issuer Profitability in a Difficult Economy," July 2008)

#### American Household Credit Card Debt Statistics Through 2012

Average credit card debt stands at a distressing **\$7,073**, a startling number because if you look at only those households that have debt, the average rises to **\$15,162**, and the American debt profile only gets worse. Here are statistics, trends, studies, and methodology behind the average U.S. household debt.

Current as of May 2013:

#### U.S. Household Consumer Debt Profile:

- Average credit card debt: **\$15,162**
- Average mortgage debt: **\$147,967**
- Average student loan debt: **\$33,445**

#### In total, American consumers owe:

- \$11.25 trillion in debt
  - A decrease of 1.2% from last year
- \$846.2 billion in credit card debt
- \$7.88 trillion in mortgages
- \$1,028.3 billion in student loans
  - An increase of 12.5% from last year

Credit card debt is the third largest source of household indebtedness. Only the mortgage and student loan debt markets are larger. Here are the latest credit card debt statistics from the Federal Reserve:

	Total Credit Card Debt	Average Household Credit Card Debt	Average Indebted Household Debt
March 2013	\$846.2 billion	\$7,073	\$15,162
Change from February	-0.21%	-0.28%	-0.28%
Change from March 2012	-0.77%	-1.58%	-1.58%
Change from February annualized	-2.54%	-3.35%	-3.35%

Read on for statistics, data, and conclusions on the state of U.S. credit card debt.

	March 31, 2010	December 30, 2012
Total revolving debt	\$906.7 billion	\$849.8 billion
Number of U.S. households	116,716,292	119,397,330
Average credit card debt per household	\$7,768	\$7,117
% of households with a credit card balance	43.2%	46.7%
Average credit card debt per indebted household	\$17,630	\$15,257

In March 2010, the last date at which the data can be reliably estimated was that:

- The median American household owed \$3,300 of consumer debt;
- The average American household owed \$7,768 and;
- The average indebted American household owed \$17,630.

Note that the **average** American household owed far more than the **median** and also that the average **indebted** household owed far more than the average household overall. Such large discrepancies indicate that a relatively small number of households were deeply underwater.

#### Notes About 2012 Data:

Estimate of the number of household units each month based on census estimates from 2005 as well as official census data from 2010.

The percentage of credit card approval rates is updated every few years by the Federal Reserve and was last published in March 2011 covering a survey period from 2007 to 2009. Monthly estimates of this figure are based on internal data of credit card approval rates.

#### Average U.S. household credit card debt by quarter 2006-2012

Quarter	Average Debt/Household	Average Debt/Indebted Household
1Q2006	\$7,826	\$16,373
2Q2006	\$7,926	\$16,582
3Q2006	\$8,008	\$16,752
4Q2006	\$8,123	\$16,994
1Q2007	\$8,237	\$17,232

2Q2007	\$8,367	\$17,505
3Q2007	\$8,543	\$17,873
4Q2007	\$8,740	\$18,285
1Q2008	\$8,329	\$17,425
2Q2008	\$8,416	\$17,607
3Q2008	\$8,440	\$17,759
4Q2008	\$8,341	\$17,874
1Q2009	\$8,186	\$17,871
Quarter	Average Debt/Household	Average Debt/ Indebted Household
2Q2009	\$7,963	\$17,718
3Q2009	\$7,750	\$17,582
4Q2009	\$7,516	\$17,356
1Q2010	\$7,281	\$16,633
2Q2010	\$7,101	\$15,910
3Q2010	\$6,939	\$15,250
4Q2010	\$6,816	\$14,702
1Q2011	\$6,746	\$14,461
2Q2011	\$6,730	\$14,427
3Q2011	\$6,708	\$14,380
4Q2011	\$6,753	\$14,476
1Q2012	\$6,754	\$14,479
2Q2012	\$7,224	\$15,485
3Q2012	\$7,160	\$15,348
4Q2012	\$7,168	\$15,366

Average U.S. household credit card debt by year 2006-2012

Year	Average Debt/Household	Average Debt/ Indebted Household
2006	\$7,971	\$16,675
2007	\$8,472	\$17,724
2008	\$8,382	\$17,666

2009	\$7,854	\$17,632
2010	\$7,034	\$15,624
2011	\$6,734	\$14,436
2012	\$7,172	\$15,374

### How to Pay Your Bills on Time, Every Time

I occasionally hear stories such as the following, which try to put the blame for late payments on someone else:

*“I recently checked my credit report after moving and found that my credit card company was reporting that I was 60 days overdue. I'm absolutely certain I haven't received the bill for that card in several months or I would have paid it. Aren't they required to give me some notice before they report information like that to the credit bureaus?”*

This might be a shock to some folks, but the answer is no. *You're responsible for paying your bills whether you get a statement or not.* You need to keep track of what you owe, to whom, and make sure that everyone gets paid, even if the U.S. postal service fails on the job.

Keeping track of these details also can help you detect identity theft. Some criminals like to steal credit card statements out of residential mailboxes. The bolder ones file a change-of-address form with the post office so that your mail gets redirected, allowing the bad guys to sort through it at their leisure.

To stay on top of what you owe and when, you should make a list of every bill you must pay each month and the date that it's due. Although credit card due dates can vary, they're usually around the same time each month, give or take a few days. Then list any bills that are due less regularly, every other month, every quarter, every six months, and annually.

Now, using either a paper calendar you can hang prominently on a wall or an electronic calendar in your computer, in your phone or in your electronic email reminder, enter all your bills. Get in the habit of checking the calendar at least weekly to see what bills are coming up and to make sure they're all getting paid on time and posted before the due date.

You can set up electronic reminders to help you as well:

- If you have a Palm or other personal data assistant, you can configure it to alert you.

- Many Internet Service Providers (ISPs), such as AOL, Yahoo, Google, and MSN provide email reminder services.
- Bill-reminder features are part of personal finance software, such as Quicken, QuickBooks, and Money.
- Some credit card companies, including Discover, email you when your bill is due.

If you really want to protect your credit, though, you should take further steps to avoid human errors. The more bills that you put on automatic payments, the fewer worries you'll have about late payments, late charges, and dings on your bill.

### **There Are a Few Options.**

#### ***Know the Due Date***

You cannot pay your bills on time if you're not sure when they are due. Note when you receive your bills and how much time you have before they are due. When possible, do not rely on paper statements. Do not wait for it to come in your mail box, but rather go to the creditor's website and figure it out, if you can do so.

#### ***Adjust Bill Payment Date***

Most credit card companies do offer the flexibility of adjusting payment due dates. You may find it easier to pay your bills if they are all due at the same time of the month. You can adjust due dates to match your paycheck schedule as well. Do not clutter entire month with due dates, try to squeeze the dates into a 5-6 days window in a particular week of the month. If you do not get this option online, call the help desk.

#### ***Automatic Payments***

An automatic payment allows the companies that you owe to take their payments directly from your checking account each month with no action on your part—no checkbook, no stamps, no fuss. This is not my favorite way of paying bills, but it could be yours. Just muster up the guts to try it. I am still an old fashioned person.

A lot of people balk at the idea of letting a mortgage lender, utility company or other vendors have regular access to their bank accounts. Some feel it's somehow an invasion of privacy. In reality, the vendors can't "see" into your account or monitor what other activity is going on there. The money comes out basically the same way it would if you paid by check or by other electronic transfer or by a new method of

scanning a check and sending via email.

A federal law prohibits vendors from taking out more than you authorize. If a mistake is made, the company is obliged to replace the money it took in error from your bank account.

Many people insist that they need control over when bills get paid. Typically, these folks have gotten into the bad habit of juggling bills or of not keeping enough cash in their checking account to cover their ongoing obligations. It's a good idea to always keep a "pad" of \$500 to \$1,000 in your checking account, regardless of how you pay your bills and to sign up for overdraft protection on your checking account. These lines of credit, which usually cost less than \$50 a year, can pay for themselves the first couple of times you avoid a bounced check and if you don't use it during a given year, there is no charge then.

Or perhaps you've fallen into another bad habit, not paying your credit card balances in full. If that's the case, you must realize that it can hurt your credit score. You must also realize that most credit card companies have several automatic payment options. They can take out just the minimum payment or set a dollar amount each month instead of the full statement balance. If you opt for these partial payments, you can always pay more by check or online.

Eventually, you have only two choices: to pay your bills on time or pay them late. If you want good credit and don't want to worry about missing the due dates, automatic payments are the answer. You will still get a bill each month with plenty of time to correct any problems on the statement before the payment is made.

My suggestions to you are: Try it. Pay one bill a month this way. You can start with a mortgage payment or a student loan because these payments tend to be the same each month and the lenders might even give you a break on the rate if you agree to automatic payments. Just phone your lender and ask whether they offer automatic payments. (Some call it "direct debit" or "direct payment.") If they do, they will send you a form to fill out. Do so, send it back, and you'll be on your way.

You'll probably soon find yourself converting more and more bills to automatic payment. Then you'll never again have to worry about forgetting a bill or missing a payment while you're on vacation or not at your home or your office.

### ***Recurring Credit Card Charges***

If you're not quite ready to let vendors have access to your checking account, you can have some of your bills charged automatically on your credit cards.

Using a credit card can give you an extra layer of protection because if a mistake is made, you have the credit card company to act as a middleman. You can dispute an erroneous charge and not have to pay it until the problem is resolved.

This method of paying bills comes with two rather large caveats, though:

- **You should try this only if you can pay off the card in full each month**—Paying credit card interest is rarely a good idea and it's never advised when you're paying basic monthly expenses.
- **You should use this only with your smaller bills**—It matters to your credit score how much of your available credit you use, of whether you pay your bill in full each month or not. If paying your bills would bring you anywhere close to your credit limit, you'll be hurting, not helping your score.

### ***Online Bill Payments***

For those who really need that illusion of control or who pay vendors that don't offer forms of automatic payment, online bill paying can be the answer.

You can set up your system so that you decide when each bill gets paid, but you also can set up recurring payments so that bills get paid automatically. The difference is that you, not the vendor, can decide when these recurring payments start and stop.

Of course, this works only for bills that are the same amount every month. Credit cards and other bills that vary require that you specify the amount that gets paid each month.

The downside of many online bill payment systems is the cost, which can range from \$5 to \$15 a month. Although many banks have wised up and now offer free online bill paying, others still insist on charging. If your bank does charge a fee, you might nag them about making it free.

Online bill paying has another advantage, which is of detecting and trailing payment history that is also shared by you, your bank, and

creditor. Electronic transactions leave excellent “trails” that can show exactly when the bill got paid so there's never a question of a check getting lost in the mail. If you have a vendor that's constantly slapping you with late fees and you suspect they're deliberately not processing your check on time, then you can put a stop to those games with electronic payments.

What if none of these solutions thus far works for you? You have one more good option:

### ***Write Down Reminders on Calendar***

Mark clearly the dates the bills are due. You can also use Google Calendar for this purpose, which is free if you have Gmail account.

### ***Pay Every Bill Before the Due Date***

If you sit down and pay each bill immediately as it arrives, most of your worries about late payments will be solved. You'll still need a calendar to keep track of your statements and due dates to make sure a bill hasn't gone awry, but you won't have to worry about losing a notice in a pile of other paperwork.

### **Step 3: Reduce Your Debt Liability**

**F**act: Calculated by dividing the total revolving debt in the U.S. (\$801.0 billion as of December 2011 data as listed in the Federal Reserve's February 2012 report on consumer credit) by the estimated number of households carrying credit card debt (50.2 million)

The reason that it is so important to pay down your debt is that the amount of debt that you have in contrast to your available credit is the second most heavily weighted factor in credit scoring. The lower your balances compared to your credit limits, the better your credit score will be. For your credit to excel, you need to widen that gap between what you owe and your credit limit.

Recall that the FICO score gages how much of your limit you are exploiting on each card or on any other type of revolving line of credit that you happen to have that is an open account. The FICO score also takes into account how much of the combined credit on all of your cards you are using. Also factored in your FICO score is how much progress you are making when it comes to paying down debt on installment accounts such as auto loans and mortgages.



Paying down your debt over time is a way to show consistent, responsible credit-handling behavior and will boost your score. What does that mean in practice? Keep reading further in this book.

I am also an income tax preparer and am duly registered with the California Tax Educational Council. I have been preparing taxes for my clients more than 10 years and as the tax season disappears in the rear view mirror, one subject that seems to get a lot of attention around this time is credit card debt. If you're one of the many Americans with sizable credit card debt and you just received a fat tax refund, you might be trying to figure out how you can use part of that money to help escape the monthly grind of credit card payments.

While a large tax refund can be useful in reducing your credit card debt, the key to paying down the debt is more systematic than a large payment. You need to change your behavior and adopt some of the strategies I list below in order to truly escape credit card debt. Although the tax return may help, it may not be enough to keep you out of debt.

#### **Here are a few ways to get out of debt:**

##### **1. Start Budgeting**

Paying off debt is just like losing weight, it's a numbers game. Consume more calories than you expend in a day, you will accumulate fat. Spend more dollars than you earn in a day, you will accumulate debt. The ugliness of debt is that it'll keep growing even if you get your numbers in balance. Imagine if every pound of fat on your body continued to grow up to 21.99% a year, now you understand the insidious nature of debt.

To combat this, you need to shed that debt and the only way to shed it is to spend less, putting those savings towards that debt. Conversely, you can also try to earn more and put the additional earnings toward debt. Either way, you will need to start budgeting in order to find the extra dollars. You will not succeed at killing your debt if you do not know how much extra you can afford to pay each month.

##### **2. Consider Balance Transfer Offers**

The best credit card balance transfer offers are for zero percent interest for at least one year, which gives you the opportunity to pay down your debt as quickly as possible. With every penny going towards principal rather than double digit interest rates, you have one full year to

catch up. These offers usually have a transfer fee, somewhere in the neighborhood of 3 to 5 % (percent), but that fee is likely much lower than the interest rate you're currently paying (Generally this transfer fee is 3%).

When researching an offer, be sure to understand the balance transfer fee, the promotional period, and the expected interest rate after the promotional period expires. Make sure to read the legal disclosures written in small letters on the bottom of these offers. The interest rate is likely going to be similar to what you're being charged now. Finally, do not use the credit card at all because the new debt will accrue interest at the non-promotional rate.

##### **3. Cash Out Your Savings Account**

You could cash out your savings and investments and use the proceeds toward debt repayment. No one wants to do that, but sometimes it's just foolish not to do so. Even when debt interest is at 12%, your investments would have to pay more than 18% before federal and state taxes to equal that outflow of dollars. We doubt the dollars in your savings account are earning anywhere near that rate of interest. Pay off the debt and it's the same as getting that 18% return without any risk on your part. The higher the interest rate on your debt, the more attractive repayment versus investment becomes on your deposits because the bank will pay you less than 1% interest on your savings account.

##### **4. Use Your Debit Card**

If you want any hope of paying down your credit card debt, you must stop accumulating credit card debt by cutting down on your credit cards debts. When you carry a balance, you lose the month-long grace period on your purchases. Any purchase you make on a card carrying a balance accrues interest immediately. By using that card, you are simply digging yourself deeper and deeper into debt. It's like working out at the gym and cooling down with a milkshake; it just won't work. So, to work on this the best thing after cutting down on your debt is to start cutting up your credit cards.

To counter this, go strictly cash only. Everything you pay for must be with cash or with a debit card linked to your bank account rather than credit. You can't pay off credit card debt if you are accumulating it at the same time.

##### **5. Pay More Than the Minimum**

The minimum payment for a credit card or other debt is generally not the best option for your overall credit. This is especially true for credit cards because each time you pay only the minimum, you increase your debt. Whenever possible, pay more than the minimum amount. This will also help you to pay off debt sooner, which contributes to a better credit rating. If it is possible for you, pay off your monthly credit card balance in full each month. In this way you will not be accumulating more credit card debt.

First, break the habit of paying only the minimum required each month. Paying the minimum, usually 2% to 3% of the outstanding balance, only prolongs the agony. Besides, it's precisely what the banks want you to do. The longer you take to repay the charges, the more interest they make and the less cash you have in your pocket. Don't play their selfish game that financial institution and banks want you to play.

Instead, bite the bullet and pay as much as you can each month. If your minimum payment is \$100, double that to \$200 or more. Examine your normal expenses, you can find the money. Skip eating out at lunch and bring it from home instead, eliminate desserts, give up happy hour, etc. We all have "luxuries" and you know what yours are.

Make a few sacrifices and you will find the extra dollars needed to increase your debt repayments dramatically. Those increased payments will save you hundreds, if not thousands, in interest payments. Plus, you will get out of the hole you've dug for yourself much more quickly. Is it fun? No, but it sure beats living a hand-to-mouth existence and fearing the bills each month.

## **6. Snowball Your Debt Payments**

Take a long, hard look at all your credit cards. Pay particular attention to the one with the lowest interest rate. Have you reached the maximum limit on that card? If not, consider transferring a higher-interest bill to that one. Many credit cards permit this and it's positively foolish not to trade an 18% debt for one at 12%.

If your entire balance is too large to fit on one low-interest card, pay at least the minimum amounts due on all of your cards except that one. Funnel the majority of your debt repayments into that one credit card and pay it off as quickly as possible. When the balance on that card reaches zero, move on to the next with the same aggressive repayment plan.

Later, rinse, and repeat. This method of repayment is aptly called "snowballing." As your debts decrease, the amount of money you have to attack them increases. Your payments snowball until all of your debt is punned. Pretty neat, right?

Another way to transfer higher-interest debt to a lower-interest card is to take advantage of the promotional offers many banks use to entice you to use their line of credit. You've seen the come-ons. "Transfer all your credit card balances to us and pay just 5.9% until next January." It could be worth it. Moving to 5.9% from 18% interest could mean substantial dollars in savings to you. And the money saved in interest could then be applied toward the principal each month, thus reducing your outstanding debt balance even further.

Take care, though, before you act. Examine the offer closely. Look for the hooks. Will the interest rate after the introductory period be higher than you're paying now? If so, you may have to switch again at that time when the introductory period ends. That, in turn, could give rise to another surprise. Banks have caught onto the charge card hoppers who switch from card to card to take advantage of the low introductory rates. Many of these offers now stipulate that if you transfer balances from the new card within a 12-month period, the normal interest rate will be applied to all outstanding balances retroactively. That proviso could be a bitter pill to swallow for someone short on cash and it certainly doesn't help the debt repayment schedule. Read the fine print and don't be fooled.

## **7. Borrow Against Your Life Insurance**

Do you have life insurance with a cash value? If so, borrow against the policy. Yes, you're borrowing your own money. But the interest rate is typically well below commercial rates and you can take your time repaying the loan. Do repay it, though. If you die before it's repaid, the outstanding balance plus interest will be deducted from the face value of the policy payable to the beneficiary. While that seems a small price to pay to get out of debt now, it could be burdensome to your loved ones should you sleep the eternal sleep before paying it back.

## **8. Finagle Family and Friends**

Perhaps your family or friends could float you a loan. Who else knows, trusts, and loves you like they do? Unless you're really the black sheep of the flock, chances are you'll get a very favorable interest rate.

They may even tolerate a late payment or two. But, if you want to maintain the relationship, it's best to keep things on the straight and narrow by using a written agreement. You should clearly establish the interest and repayment schedule in writing to avoid misunderstandings and hard feelings. And it goes without saying that you must be scrupulous about adhering to that schedule. Otherwise, you can forget the family reunions and birthday presents.

#### **9. Borrow From Your 401(k)**

Do you participate in a 401(k) qualified retirement plan at work? Most 401(k) plans have a feature that lets you borrow up to 50% of the account's value or \$50,000, whichever is smaller. Interest rates are usually a point or two above prime, which makes them cheaper than that found on credit cards. Thus, 401(k) plan loans may not be a foolish option to debt repayment. Not only is the interest typically much lower than that on credit cards, the best part is you pay it to yourself. That's right, every dime in interest paid on a 401(k) loan goes directly into the borrower's 401(k) account, not the lender's.

But there are drawbacks. First, the loan and interest will be repaid with after-tax dollars, and the interest will be taxed again when you withdraw money from the 401(k) years later. Additionally, you must repay this loan within five years. If you leave your employment prior to full repayment, the outstanding balance becomes due and payable immediately. If it's not repaid, that amount will be treated as a distribution to you. You'll be taxed on that amount at ordinary rates. And if you're under the age of 59 and one-half years, you will also be assessed an additional 10% excise tax as a penalty for an early withdrawal of retirement funds. Accordingly, ensure any 401(k) loan can be repaid before you leave your job.

#### **10. Renegotiate Terms With Your Creditors**

OK, you've done all you could up to now in all your capabilities and all your efforts. Savings are gone, relatives have been tapped out, and you don't have a home or 401(k) to borrow against. You feel like you're against that proverbial wall. The money just isn't there. Is bankruptcy the only way out? No way! Try pulling an ace out of your sleeve prior to taking that step. What ace? The *threat* of bankruptcy, of course.

Call your credit card company and see if they would be willing

to lower the interest rate on your credit card balance. If you've been a loyal customer with only a one time late payment, they may consider lowering your interest rate if you just ask politely.

Tell them that if you are unable to renegotiate terms, you'll have no other recourse but to declare bankruptcy. Ask for a new and lower repayment schedule, request a lower interest rate and appeal to their desire to receive payment. Faced with the prospect that you may resort to such a drastic step as bankruptcy, creditors will do what they can to protect themselves against a total loss. They know that you can always transfer the debt to a competitor so this isn't much different than calling up your cable provider and asking for a better deal.

Indeed, many will negotiate away the farm before they'll write off your debt. As lawyers love to say, *everything* is negotiable. Therefore, what do you have to lose, except time? It's worth a try. And if you don't wish to do this yourself, organizations exist that can do it for you or there are professional individuals who can help you.

It helps to have some balance transfer offers on hand in order to help convince the customer service representative that you might move your balance. Just knowing that different issuers have great offers out there shows that you've been doing your homework.

#### **11. As a Last Resort, Just File Bankruptcy**

If you have a significant amount of debt and you've tried everything else, don't be afraid of filing for bankruptcy. The absolute last resort is bankruptcy and it isn't easy. It's a long arduous process in which your financial life will be put on display and anyone who has experienced it will tell you that it's not a pleasant option. But it is an option and one that deserves your attention because sometimes there is no other way. If you do file for bankruptcy, you will be asked to consult with a bankruptcy specialist and you will need to go through the courts. It will trash your credit for a number of years so don't take this decision lightly.

Nevertheless, be aware of the significant drawbacks. Your credit record will contain this information for 10 years, thus ensuring you will have a tough time obtaining credit you can afford during that period. Additionally, as odd as it seems, it costs money to file for bankruptcy. Attorney and court filing fees cost in the hundreds of dollars and they must be paid to obtain the relief sought. Finally, bankruptcy

laws have gotten a lot tougher in recent years so you may not qualify for complete relief.

Credit card debt is a heavy burden on anyone's personal finances so the sooner you can pull yourself out from under the specter of that debt, the better.

### **Reduce Your Debt Rather Than Moving the Balances Around**

Unfortunately, many people mistake reducing what they owe for just moving balances around from one account to another. Credit card companies who allow people to bounce their balance from one low-rate card to another enable this. These folks think they are quite proud of the “earning savings” on these rates, but nothing could be further from the truth.

In actuality, this strategy can ruin credit scores, especially if you are transferring a balance from a higher limit card to a lower limit card. This is because the more of your credit limit that you are using on any given card, the bigger the hit on your credit score. So, you should never do something like transfer a \$1,200 debt from a card with \$5,000 limit to one with a \$1,500 limit.

Also if you continue to charge on your cards instead of paying down the balance, then you are consistently going to do more and more damage to your score. The way to improve your score is get off the debt transfer treadmill and make an attempt to actually make a dent in your overall debt.

### **Adopting New Plans to Pay Off Your Debt**

The usual advice to consumers with debt is that they should pay off their highest rate debts first and use any lump sums to retire any bills they can afford to pay off in full. This makes financial sense, but it doesn't make sense for fastest way to improve your credit score.

Instead, you should try doing the following two things to make a dent in your debt and pay off balances at the same time.

- **Prioritize your debts by how close the balances are to the accounts' credit limits**—If boosting your score is your goal, you should look for the card or other revolving account that's closest to its limit. After that's paid down below 40 percent or so, you can switch to another card or other account that's the second closest to its limit. Your goal should be to eventually pay off all this debt

paying 40% on your cards as you go, continuing in this round-robin fashion.

- **Avoid consolidating your debts**—Many people want to transfer their balances to a single card either to take advantage of a low rate or for the convenience of having only one due date and interest rate to worry about. But for credit scoring purposes, it's better to have small balances on a number of cards than a large balance on one card or other revolving line of credit. That's because the score looks at the gap between the balance and the limit on each card, as well as on all your cards put together.

However, if you've already consolidated, you should probably just stay put. Applying for new credit or transferring balances, as noted earlier, can hurt your score and offset any gain you might get.

If you think all this doesn't apply to you because you never carry a balance, think again!

### **Analyze All of the Charges on Your Card Even If You Pay It Off Every Month**

As noted in the previous chapter, the credit bureaus and your credit scores don't differentiate between the balances you pay off and those you carry from month to month. The balances that are reported to the bureaus are typically the ones that show up on the monthly statements you're sent. Even if you pay off your bills in full the day your statement arrives, you will likely still have balances showing on your credit report and those will be factored into your score.

Paying your balances in full every month is an excellent financial habit. If you're not doing it already, that should be your goal. Not carrying a balance could save you hundreds, if not thousands of dollars a year in interest payments. Besides, carrying a balance leaves you vulnerable to all kinds of nasty creditor tricks such as jacking up your interest rates with little warning—something that's increasingly common as credit card issuers try to boost their profits.

But even if you can and do pay your balances off, you need to pay attention to how much you're charging each month. You need to stay below, well below, your credit limits.

You know by now that you shouldn't max out your cards or come anywhere close to your credit limits. But the amount of your credit



limit you should be using might surprise you. Your balances (the amount you carry plus the amount you charge) shouldn't exceed 30 percent of your total credit limit at any given time. The higher your score, the lower the percentage of your credit limits you would need to use to improve your numbers. If your score is already in the high 700s or 800s, you might need to use 10 percent or less of your limit to boost your score. If there is a high debt payable or percentage that is more than 30%, your score can start plunging.

### **Financial Changes to Reduce Your Debt**

Paying down debt is a lot like losing weight, easier said than done. But most people can find ways to trim their expenses, boost their incomes, and free up more money to pay off their debts. Here are just a few examples. You can learn a lot more on websites devoted to frugality, such as The Dollar Stretcher at [www.stretcher.com](http://www.stretcher.com) or in books such as Amy Dacyczyn's *The Tightwad Gazette*.

- **Stuff you don't need any more**—You can hold a yard sale, take clothes to consignment shops, sell unneeded vehicles, or auction off unneeded items on eBay. The money generated might go a long way toward paying off your debts.
- **You can trim your spending**—The easiest ways to save are to eat out less often, shop using a grocery list, and entertain yourself at home rather than going out. You probably can find several other places in your budget to trim spending. Personal finance software, such as Quicken or Money, can help you track your spending, but you also can try just writing down every penny you spend for a couple of weeks. You're bound to find little ways that money leaks out of your wallet. Close those holes and you can redirect the savings toward debt.
- **You can moonlight**—Few people would want to hold two jobs for long, but you might be able to handle it for several months or however long it takes to put a dent in your debt. You can start a small business or get a second job. Sometimes the surest way to make some cash is to get a second job. This might be painful, but it might be a quicker way to stop that compound interest from multiplying your debts.

### **Step 4: Don't Close Your Credit Cards or Other Revolving Accounts**

As you learned earlier, you must always keep your credit accounts open. If your goal is to improve your credit score, don't close any of your current accounts. Closing credit cards and other revolving accounts can *never* help your score and it might actually hurt it.

The reason closing your revolving credit is so damaging is that your credit score puts a large emphasis on your total available credit. Factored into that figure are total balances so the elimination of any credit source makes any balances appear larger. That narrowing of the gap between the credit you're using and the total credit available to you is one of the things that can hurt your score.

Closing older accounts can also hurt you because the FICO scorecard formula notes both the age of your oldest account and the average age of all your accounts. It's particularly important to keep your oldest account active because closing it could make your credit history look years younger than it actually is and your score could drop as a result. Therefore, to maintain your high scores you need to keep your account opened not closed.

Just keeping the account open might not be enough either. If you don't charge something occasionally, your lender could decide the inactive account is more trouble than it's worth and close it for you. To keep it active, you might want to charge some small, recurring bill to the card such as a newspaper subscription, your health club dues and arrange to have the balance paid off automatically each month.

### **Step 5: Apply for Credit Account Sparingly**

In terms of FICO, the formula recognizes that responsible credit users don't apply for credit they don't need. They also try to pace their credit requests so that they're not opening a bunch of accounts in a short period of time.

Although your first few credit accounts serve to build and improve your credit history, there comes a point when each subsequent credit application can reduce your score. Because the whole FICO scoring system is so mysterious, no one knows for sure when that point is reached. FICO will say that it depends on the other information in your file.

That shouldn't keep you from applying for a car loan if you need a new vehicle or getting or refinancing a mortgage. But if you already have three or four major bankcards, you should think twice before

applying for another one.

You also should resist the urge to apply for those “instant” accounts retail stores are always pushing. Sure you might save 10 percent on your current purchase, but you could wind up paying more in overall interest if the application lowers your score.

### **How to Begin Your Credit History To Get a Score**

You might have heard that you need credit to get credit. It can certainly feel that way if you've ever applied for credit and have been turned down for lack of a credit history. But people establish credit all the time and you can do so fairly quickly if you follow the following steps.

If you're a parent with a teen, you might want to help your child through this process as a way to teach them responsible credit use. As we'll note later, your student will be able to get credit easily when he or she is in college; more than 80 percent of college students have at least one card. The best time for students to learn about credit is while they're at home, under your supervision, and long before they pass by their first credit card sign-up booth on campus.

### ***Review Your Credit Report***

You might think you have no record at the credit bureaus, but you could be wrong.

Molina, an 18-year-old in Bakersfield, California, was turned down when she applied for her first credit card. She pulled her report and was shocked to find a collection action. It turns out that her parents had placed a newspaper ad for her while she was still a minor and then forgot to pay the bill. (Fictitious name has been used)

The collection never should have appeared on her report. Minors can't be held to contracts and therefore are typically not responsible for debts. But the time to detect and fix the problem was before Molina applied for credit.

Another problem you might run into is identity theft. Part of the surge of recent ID fraud cases involves thieves who use children's Social Security numbers to get credit. This kind of theft can go on for years before being detected.

If that's happened to you, you need to clean up your credit report before trying to apply for new accounts. See Chapter 7 for help.

### ***Open Bank Accounts with Checking and Savings***

These usually don't show up on your credit report, but lenders see them as important signs of financial responsibility and stability. They are also one of the few steps you can take as a minor to start building a financial history because you won't be able to apply for credit in your own name until you're 18.

Getting a debit card can give you some practice in using plastic. Debit cards are ATM cards with a Visa or MasterCard logo. You can use them with a personal identification number (PIN), or you can use them like a credit card just by signing a charge slip. The amounts you charge are deducted directly from your account.

### ***Use Someone Else's Good Name to Establish Credit If Possible***

You might be able to jump start your credit history by being added to someone else's credit card as an authorized or joint user. Typically, the history for that account will be imported onto your credit report. That can be a wonderful boost if the person who's adding you is responsible with credit. If not, the results can be disastrous.

If you're added as an authorized user, you're not responsible for paying the bill. But the original user's mistakes could still show up in your credit file. So if your goal is to establish good credit quickly, pick someone who has been responsible with credit and is likely to continue that behavior in the future.

Another strategy in starting a credit history is to get someone with good credit to co-sign a loan with you. The co-signer is taking a considerable risk because if you fail to pay, the delinquencies show up on the other person's credit report. But sometimes soft-hearted relatives or friends are willing to take this chance.

### ***Begin Applying for Credit Cards While in College***

It will never be easier for you to get an unsecured credit card than while you're in school. Lenders are much more lenient about extending credit during the college years because they know your parents are likely to pay your bills if you can't—that parental support typically ends with graduation.

So get a card while you're in school, but choose it carefully. Look for the lowest available annual fee and interest rate. And don't go overboard, one or two major bankcards (Visa, MasterCard, American

Express, or Discover) should be enough for now.

### ***Apply for a Store or Gas Card***

If you can't get a regular credit card, consider applying for a gas or department store charge card, which are typically fairly easy to get.

You also might consider a secured credit card. A secured card requires a cash collateral deposit that becomes the credit line for that account. For example, if you put \$500 in the account, you can charge up to \$500. You may be able to add to the deposit to add more credit or sometimes a bank will reward you for good payment and add to your credit line without requesting additional deposits.

These cards require that you make a deposit with a bank (usually an amount between \$200 and \$1000). Your credit limit is limited to that amount or sometimes that amount plus 50% of it. The best cards don't charge application fees, have low annual fees and convert to a regular unsecured card after a year or so. This is a great way to improve your scores. Websites such as Bankrate.com offer lists of secured cards, including their rates and terms. Make sure in advance that the lender reports to the credit bureaus. You can't build a credit history if the lender isn't reporting your payments.

### ***Get an Installment Loan***

After you've used plastic responsibly for several months, you might try for a small auto or personal loan. Because the credit scoring formula wants to see that you can responsibly handle different types of credit, adding an installment loan to your mix of credit cards can boost your score.

Rajinder & Sandra both got their first credit cards at 18, two weeks after both moved out of their parents' houses. The cards had a \$200 limit and an atrocious 19.8 percent interest rate, but both used it strictly to build their credit history by buying groceries and paying the bill off in full each month.

After six or eight months, both got a credit card with a more reasonable interest rate and a higher limit. Three months after that, both got a used car loan for \$6,000.00 and \$9,000.00.

*“Not bad for 18-year-olds, a year later, one of them got a gold credit card with a 12.9 percent interest rate.”*

Today, Sandra checks her credit report and scores every three

months. She enjoys watching her credit score rise and it motivates her to continue her good financial habits. She just wished more of her peers knew what she knows (Fictitious names have been used).

*“If parents would address the credit issues with their children,” Sandra said, “and explain the importance of establishing a good credit history wisely and responsibly, then maybe there wouldn't be so many problems for the new generations.”*

### ***A Score Without Credit***

Lenders know there's a big market of the “credit underserved”-- people with non-existent or thin credit histories. Fair Isaac estimates that more than 50 million Americans either have no credit bureau files or have too little information in their files to generate a classic or NextGen FICO credit score.

Some mortgage lenders have been experimenting with ways to tap that market by using new approaches to gauging creditworthiness, such as monitoring whether an applicant has paid rent or utilities on time.

It was only a matter of time before Fair Isaac figured out a way to capitalize on the situation. In mid-2004, Fair Isaac introduced the FICO Expansion Score, which uses non-traditional information sources to create credit scores for people who don't already have credit. These sources include:

- Payday lenders
- Check monitoring companies (the ones banks notify if you bounce too many checks)
- Retail purchase payment plans
- Paying utility bills on time
- Paying rents on time

Fair Isaac says it has enough of this non-traditional data to provide scores for half of the underserved population, or 25 million people.

It remains to be seen how quickly lenders will adopt the new score and how accurate the underlying information will be. But this expansion of credit and credit scoring just underlines how important it is to adopt responsible money habits, such as paying your bills on time and managing your bank accounts so you don't bounce checks.

## **7 Ways to Build Your Credit Without Using Credit Cards**

There are two kinds of credit that helps you build or rebuild your credit scores faster. These are the revolving accounts and the installment loans. The former pertains to the credit cards which enable you to make and pay your debts while the latter refers to auto loans, mortgages and other debt that can be paid in installments.

However, some people are not given the opportunity to have a credit card because of the increasing strictness in bank policies. Sometimes people would not use them because of fear of overspending or because of lack of trust in these credit card companies.

Luckily, these people need not give up on acquiring good credit scores. In this era, having a good rate on a loan or mortgage and getting an approval depends largely on one's acquisition of decent scores.

Having a good credit score is vital even if you do not have plans on borrowing since most cell phone companies, employers, insurance companies, and landlords are looking into your credit information in order to assess their applicants.

Here are a number of ways to improve or build one's credit history without the need to use a credit card.

### **1. Obtain a Secured Loan From a Credit Union**

This is oftentimes referred to as a share-secured loan. In this type, the money that you borrow is backed by the money that you deposit in a certificate of deposit or a credit union savings account. This type of loan is easier to get approved as compared to bank loans because of the fact that credit unions are not looking solely at your credit score. The creditors usually stop building your credit score after it is paid off.

### **2. Take Into Consideration Peer-to-Peer Loans**

Different social or peer-to-peer lending sites are available online. Their mission is to build a connection between two individual investors. They usually offer a fixed rate loan. Sometimes, investors would bid on the borrower's request and the investor will give out the lowest interest rate to the winning contract.

### **3. If You are a Student Then You Can Apply for a Federal Student Loan**

Credit checks are not necessary in applying for a federal student loan. However, you must provide evidences showing that you are at the

very least a half-time or part-time college or carrier student. You must complete an application for Federal Student Aid. The loans that you obtain here may possibly be shown on your credit reports only when you are already in the repayment mode. Nevertheless, if they should appear on your credit report, paying your bills on time would definitely improve your credit scores. But if you don't pay after finishing your school and if you receive a federal or state refund, it can be garnished.

### **4. Become an Authorized User on Someone Else's Card**

If you become authorized in using another person's credit card, their credit history is automatically imported into your credit statement. If the owner of this borrowed credit card is very conscientious in their charges and that person pays their bill on time, then this could definitely boost your credit scores.

On the other hand, if the owner of the card is not doing well with their credit history that could be detrimental to you. You can solve this by removing that person as an authorized user so that the bad credit history that they have will not appear on your files anymore.

### **5. Become or Get a Co-Signer**

You can either be a co-signer or otherwise get someone to be a co-signer. This will enhance your chances in getting a loan, which without the co-signer will be impossible to get. However, co-signing also poses a lot of risks since it renders you equally responsible for the other person's debt.

If there has been an omission in the payment, it can tarnish the credit scores of both parties. Here are several tips to follow in order to refrain from any problems that may arise from co-signing. After having been added as a co-signer, you must get online access to your account, see to it that payments are made on time and if necessary, pay off the loan by yourself.

### **6. Put Up Your Own Money with a Secured Credit Card**

If you are not into credit cards, then you might as well skip reading this. However, if you would like to have a credit card, but could not get a regular bank account, then this is the best option for you. Secured cards usually oblige you to make a minimum deposit with the issuing bank. Also, you get to have a credit limit that is equal to the amount that you deposit in your account.

### **7. Continue Charging But Not on a Credit Card**



If you do not want to put any additional charges on your credit card because you think that your credit history is that good, then you must consider getting a charge card. This type of card does not permit you to carry a balance. The bill is expected to be paid in full each month and there is no spending limit set. Also, with the charge card, credit utilization is not observed so you do not have to worry about charging a very big amount as long as you pay the bill in full.

#### **4 Items to Avoid to Build Your Credit**

These methods may be appealing to you in building your credit. However, they have their set of hidden traps so you might as well avoid them.

##### **1. Prepaid Cards**

Although prepaid cards help you in building your credit, the fees that they charge are exorbitantly high rendering it unworthy.

##### **2. Bad-credit Credit Cards**

Determine at once if the credit card is secured or unsecured. The unsecured credit cards usually have very small credit limits, but they come with expensive upfront fees. If you are going to use plastic, then using a secured credit card is still the best choice.

##### **3. Rent to Own**

By patronizing this method, you get to pay twice or thrice the price of the certain items.

##### **4. Other Loans That Are Not Reported to the Credit Bureaus**

The loans from your life insurance policies or retirement plan cannot help enhance your scores since the payments for these are not accounted by the credit bureaus. So not only you but everyone needs to avoid these four items to build credit history and credit scores.

## **The Myths About Credit Scores and Credit Scoring**

For most of credit scoring's history, the vast majority of the people involved in lending decisions pretty much had to guess what hurt or helped a score. Creators of scoring formulas didn't want to reveal much about how the models worked for fear that competitors would steal their ideas or that consumers would figure out how to beat the system.

Fortunately, today we know a lot more about credit scoring because of worldwide web and thanks to internet and electronic media, but not everybody has kept up with the latest intelligence. Mortgage brokers, loan officers, credit bureau representatives, credit counselors, and the media, among others, continue to spread outdated and downright false information. Acting on their bad advice can put your score and your finances at significant risks.

Here are some of the most common myths about the credit score.

### **Myth 1: Closing Accounts Will Improve Your Credit Score**

This one sounds logical, especially when a mortgage broker tells you that lenders are suspicious of people who have lots of unused credit available to them. What's to keep you, after all, from rushing out and charging up a storm?

Of course, if you think about it, what's kept you from racking up big balances before now? If you've been pretty responsible with credit in the past, you're likely to continue to be pretty responsible in the future. That's the basic principle behind credit scoring: It rewards behaviors that show moderate, responsible use of credit over time because those habits are likely to continue.

The score also punishes behavior that's not so responsible, such as applying for a bunch of credit you don't need. Many people with high credit scores find that one of the few marks against them is the number of credit accounts listed on their reports. When they go to get their credit scores, they're told that one of the reasons their score isn't even higher is that they have "too many open accounts." Many erroneously assume they can "fix" this problem by closing accounts. But after you've opened

the accounts, you've done the damage. You can't undo it by closing the account.

You can, however, make matters worse. Closing accounts can hurt you in two ways:

- Closing accounts can make your credit history look younger than it is. Your credit score factors in the age of your oldest account and the average age of all your accounts. So closing accounts, particularly older accounts, can ding your score.
- Closing accounts reduces the total credit available to you, making your debt utilization soar. Remember that the FICO formula measures the gap between the credit you use and your total credit limits. The wider the gap, the better. If you suddenly lower that limit by shutting down accounts, the gap narrows—and that's a bad thing.

This is true whether or not you keep a balance on your credit cards or pay them off in full every month. Remember: The FICO formula doesn't differentiate between balances that are carried and those that are paid off. But lenders look into the liability accounts and debts.

In reality, closing revolving credit accounts can *never* help your score, and it might hurt.

This doesn't mean that you should never close a credit card or other revolving accounts. You might want to get rid of a card that's charging you an annual fee or shut down a few unused accounts to reduce the chances they could be hijacked by an identity thief. If your score is already in the mid-700s or higher, you should be fine closing a few accounts, as long as they're not your oldest cards. Otherwise, though, you'd be smart just to leave those accounts open until your scores improve.

There are other good reasons to close accounts. If you have a serious spending problem, you might find cutting up and canceling your credit cards is the only way to keep yourself in line. If that's true, your credit score is probably the least of your worries.

You also might encounter one of those lenders who is spooked by open credit card accounts and demand that you close some of the accounts. Personally, the same thing happened to me in 2012 when I purchased a property in Fresno and the lender made me close my almost 13 year old Discover account. If the loan is big enough, like a mortgage,

and the lender has already committed to giving you the money, you might have to take the risk to get your loan. But don't close accounts as a pre-emptive measure and endanger your score.

### **Myth 2: Lower Credit Limits Can Improve Your Score**

This one is a variation on the idea that reducing your available credit somehow helps your score by making you seem less risky to lenders. Once again, it's off the mark.

Narrowing the gap between the credit you use and the credit you have available to you can have a negative effect on your score. It doesn't matter that you asked for the reduction; the FICO formula doesn't distinguish between lower limits imposed by a creditor. All it sees is less space between your balances and your limits, and that's not good.

If you want to help your score rise, tackle the problem from the other end: by paying down your debt. Increasing the gap between your balance and your credit limit has a positive effect on your score.

### **Myth 3: If You Check Your Own Report You Will Lower Your Score**

These days, everyone who cares about their financial health is well aware of the power of their credit score. Lenders and landlords **check credit reports** to decide if they should grant an applicant credit or a place to live; insurers use credit scores to determine insurance premiums; even employers check job applicant's credit reports.

But most people **mistakenly believe that checking their own credit will hurt their credit score**. Pulling a consumer's credit report will create an inquiry on that report, the thinking goes, and inquiries temporarily lower one's credit score, as we have discussed in previous chapters about soft inquiries, hard inquiries and pulling your own credit report. We are also discussing the same in this chapter.

While it's true that inquiries, which are created any time a lender or business reviews your credit report can lower your score, that's not always the case. It's important to make a distinction between two different kinds of inquiries: soft inquiries and hard inquiries.

When you apply for credit, the lender will pull your credit report and that will result in a **hard inquiry**, the type that actually has a negative effect on your credit score.

But if you check your own credit report or score, you create a

**soft inquiry.** That type of inquiry will not hurt your credit score.

How do you best distinguish between soft and hard inquiries? Think of it this way: hard inquiries are initiated by you when you apply for credit (a mortgage or auto loan, a credit or retail store card, a private education loan, etc.)

The lender checks your credit report to determine your creditworthiness and an inquiry is placed on your credit report. That inquiry signifies to other lenders (and the credit score algorithm) that you are pursuing credit. This could indicate that you may need additional credit and are living beyond your means.

The one exception is applying for mortgage and car loans, which generally gives you up to 45 days to shop around, with all inquiries within that period counting as one for credit score calculation purposes. An inquiry from a collection agency for skip tracing purposes is also a hard inquiry, even if it is a mistake done by the collection agency.

Hard inquiries will stay on your credit report for 24 months, but will be calculated within your score for only 12 months. You can register at CreditSesame.com to get a FREE credit score and see if you have any hard inquiries that may be impacting your credit score. You can also get your free credit report from annualcreditreport.com or from the three credit bureaus once a year.

Soft inquiries, on the other hand, are initiated by lenders, insurance companies, and even credit card issuers, who are simply monitoring your credit situation or creating a pool of consumers to target with “preapproved” offers. When an employer checks an applicant's credit report, that also creates a soft inquiry. These soft inquiries don't effect your credit scores, but show up on your credit report.

Soft inquiries are only visible to the version of your credit report that you see as a consumer. They are not visible to lenders, employers or any other business entity pulling your credit with or without your authorization. More importantly, soft inquiries are not included in your credit score and don't harm it.

**You are not penalized for checking your own credit score or monitoring your own credit report.** On the contrary, checking your credit score monthly will help ensure you stay on the top of your credit situation. An unexpected drop in your score, for example, might mean that someone has gotten credit in your name and failed to make

payments or that a lender has made an error on one or more of your credit accounts. Checking your own credit score regularly can also be a great motivating factor for those working on paying down their debts and improving their credit.

You need to check your credit report and your score fairly frequently to make sure all is right with your financial world. Checking once a year is about the minimum; given the prevalence of identity theft, you might want to check in with all three bureaus at least twice a year. You should definitely pull all three reports and scores a few months before applying for any new credit because it can take awhile to correct any errors you find.

The folks at Fair Isaac understand your need to review your own data, which is why the FICO formula ignores any inquiries generated when you check your own reports and scores.

Where you can hurt yourself is if you ask a lender to check your score. When a lender pulls your credit, it generates what's known as “hard” inquiry—and those are counted against your score.

As long as you order from a credit bureau or a service affiliated with a bureau such as MyFico.com or annualcreditreport.com or with the credit bureaus, your inquiries won't hurt your score.

#### **Myth 4: Looking for the Best Rate Can Hurt Your Score**

You might have heard a salesperson say to you that shopping around for the best credit rates will hurt your credit score. In actuality, this is just a ploy to get you to quickly sign your name with that company. Whenever you go shopping for rates within a short period of time, these requests are looked at as one inquiry by FICO if it is within a 45 day span.

For example, you may have applied to 5 different mortgage lenders in an effort to find the best rates within a 2 week period of time. FICO would sense this as a shopping for rates and would lump those 5 requests into one and count it as one major inquiry against your credit score. It will be considered a hard inquiry and can bring your scores down between 20 to 50 points.

The danger exists when you drag out this shopping process for longer periods of time whether it is applying for car loans or mortgages. Try to make your applications within a short period of time staying within the 2 week range. This will minimize the risk of having it look

like a bunch of inquiries rather than one **hard inquiry**. You also want to avoid applying for a car loan or a new credit card shortly before applying for a mortgage loan.

Applying for new lines of credit unrelated to the same purchase will affect your credit score negatively. Remember that you want the best interest rate when applying for a mortgage since you will be paying on it for 30 years. You obviously will obtain the best rate by having the highest credit score possible. If you are contemplating purchasing a home, be sure to clean up your credit report before applying for the loan.

Mortgage loans are the most difficult to obtain. Plan ahead at least 90 days or so with the clean up process. It takes time for corrections and adjustments to be made with your score. You also don't want to make the mistake of giving your financial details to a salesperson until you are ready to purchase and make sure that the down payment trail has at least 2 statement periods or LOE {Letter of Explanation} is required. Moreover, without 2 statement periods or LOE your request may possibly be denied.

Beware of car dealers who have the habit of checking your credit history before you even sign a contract to buy. Those types of inquiries will show up as hard inquiries, which would be the same as applying for the loan, even if you never signed an offer to purchase from the dealership. Those types of hard inquiries will negatively affect your credit score when you didn't even open any kind of credit line.

Everyone's credit score will be hurt by a hard inquiry. Having excellent credit helps in being less affected by a hard inquiry as opposed to having poor credit. If you are in the process of rebuilding your credit score, be sure to avoid applying for any loans until you know for sure that you are going to get this loan and that your score has been improved. The best thing you can do while you are waiting to improve your score is to pay down existing lines of credit in a timely manner as well as improving your debt to utilization ratio (the amount of debt vs. the amount of available credit). Doing so will assist you in obtaining the best rate when applying for future loans.

The folks propagating this particular myth might have an ulterior motive. After all, if you don't know what the competition is offering, how will you know that you got a good deal or not?

Creators of scoring formulas know that smart consumers want

to shop around for the best rates, particularly on cars and homes. That's why the FICO formula lumps together all mortgage and auto-related inquiries made within 14 days and counts it as one inquiry. Furthermore, any inquiries made in the 30 days before the score is created are ignored. If you do your shopping for a car loan or mortgage in a concentrated period of time and get the loan before the 30-day window is up, you should be fine. Even if it takes a little longer than 30 days to get your loan approved, as often happens with mortgages, you should be okay if your rate-shopping was confined to a two-week period.

What you don't want to do is drag the process out over several weeks or open credit cards right before you plan to get a mortgage or a car loan. The “deduplication” process, that's what Fair Isaac calls it, only gives special treatment to inquiries that are auto or mortgage related.

You can protect yourself further and make the shopping process easier by doing some research before you contact any lenders. Get your reports and scores so that you know where you stand, and then check internet sites such as MyFico.com, Annualreport.com or Bankrate.com to see the kind of rates you can expect to get based on your score. That way, you'll be able to tell a good deal from a bad one when it's offered.

Speaking of bad deals, you should be careful not to give any credit or other personal financial information to a car dealership until you're ready to buy a car. People have seen multiple inquiries on their credit reports after having casually visited a dealership or two. Although multiple inquiries made on the same day might not affect your score much because they're all lumped together by the FICO formula, a page of inquiries might unnerve any lender who actually looks at your report.

People who have poor credit need to be particularly vigilant about inquiries. Although someone who has a good score might lose less than 5 points from a single inquiry (or a group of inquiries within 14 days), the impact can be greater for someone who has a troubled, sparse or brief credit history. Repeatedly trying for loans and being turned down can take a toll on your score over time.

#### **Myth 5: Using Your Credit Will Not Improve Your Scoring**

Some people are so suspicious of credit that they advise giving up credit cards and living on a cash-only basis. They acknowledge that most people need mortgages and auto loans, but feel the best way to



impress a lender is by living a credit-free life.

Now that you know something about how credit scoring works, you can see the holes in this theory. The credit scoring formula is designed to judge how well you handle credit over time; if you have no credit or you don't at least occasionally use the credit you have, the formula won't have enough information to make an assessment. You don't have to live in *debt* to get a decent score, but you do need to use credit.

In the past, some people were able to get high credit scores without having much credit. Earlier incarnations of the FICO credit score gave scores over 700 to some people with just one or two recently opened accounts. The newer versions of the formula, however, make it much tougher to get a lofty score if you have a thin credit history.

You probably need to be concerned about your score even if you have no plans to take out loans. Now that insurers are using credit information for underwriting and rating decisions, your failure to maintain a credit history could cost you in the form of higher premiums.

It's too bad that conscientious people who simply don't like debt should be punished with higher premiums; some states have even banned insurers from using a lack of credit history as a reason to raise rates. If your state hasn't prohibited the practice, though, you might want to dust off your credit card and use it once in a while.

#### **Myth 6: Paying Interests Will Improve Your Credit Score**

This is the exact opposite of the previous myth and it's just as misguided.

You don't need to carry a balance on your credit cards and pay interest to have a good score. As you've read several times already, your credit reports—and thus the FICO formula—make no distinction between balances you carry month to month and balances that you pay off. Smart consumers don't carry credit card balances for any reason and certainly not to improve their scores.

Now, it is true that to get the highest FICO scores, you need to have both *revolving accounts*, such as credit cards, and *installment loans*, such as a mortgage or car loan. With the exception of those 0 percent rates used to push auto sales after Sept. 11, most installment loans require paying interest so try to buy auto loans with 0.9% or 1.9% if you want your FICO scores to be high.

But here's a news flash: You don't need to have the *very highest score* to get good credit. Any score over 720 or so is going to get you the best rates and terms with the vast majority of lenders. You'll have all the credit you need.

If you're trying to improve a mediocre score, a small, affordable installment loan can help—provided that you can get approved for it and pay it off on time. But otherwise, there's no reason to get yourself into any debt and pay interest.

#### **Myth 7: Having a Statement with the Credit Bureau on File About an Unresolved Issue Can Boost Your Scores**

Raman in Fresno wound up in a protracted fight with his phone company, which for months billed him for a phone line that never worked. He went round and round with the company's technical service, customer service, and billing department. Finally, he gave up and refused to pay the bill even when it went into collections and onto his credit report. Raman figured he could offset the damage to his credit by sending the credit bureaus a 100-word statement explaining the problem.

Federal law does give you the right to have such statements attached to your credit file. Unfortunately, the credit scoring formula can't read, at least not in the traditional sense. It calculates scores based on how items on your credit report are coded and these 100-word statements aren't coded at all, so they're not counted. It's not clear how helpful such statements were before credit scoring became so widespread, but they're certainly not much help now.

Given how damaging late payments, collections, and other recent negative marks are on your score, you want to avoid them if at all possible. This doesn't necessarily mean that you have to give in and pay a bill that's clearly in error. But you also shouldn't let a \$30 spat with your book club escalate into a collection that could trash your score. You might have to pay the bill under protest and then sue the vendor in small claims court.

Fortunately, most credit disputes can be resolved well short of that. If you used a credit card to purchase something that didn't work, you can use the credit card company's dispute resolution process as outlined on the back of your statements. Patient, polite persistence with a

company's customer service department can also help, as can a willingness to seek out supervisors or regulators who might be able to cut through a log jam.

If the collection has already landed on your report, follow the steps in Chapter 6, “Rebuilding Your Score After a Credit Disaster,” to minimize or eliminate the impact.

#### **Myth 8: Your Efforts Having Wording “Closed by Consumer” on Your Credit Report Will Hurt Your Score**

The theory behind this myth is that lenders will see a closed account on your credit report and, if not informed otherwise, will assume that a disgusted creditor cut you off because you screwed up somehow.

Of course, as you know by now, many lenders never see your actual report. They're just looking at your credit score, which couldn't care less who closed a credit card. Fair Isaac figures that if a lender shuts down your account, it's either for inactivity or because you defaulted. If you defaulted, that will be amply documented in the account's history.

If it makes you feel better to contact the bureaus and ensure that accounts you closed are listed as “closed by consumer,” by all means do so. But it won't make any difference to your credit score.

#### **Myth 9: Credit Counseling Will Not Help You and May Prove Worse Than Bankruptcy**

Sometimes this is phrased as “credit counseling is as bad as bankruptcy” or “credit counseling is as bad as Chapter 13 bankruptcy.” None of these statements are true.

A bankruptcy filing is the single worst thing you can do to your credit score. By contrast, the current FICO formula completely ignores any reference to credit counseling that might be on your credit report. Credit counseling is treated as a neutral factor, neither helping nor harming your score.

Credit counselors, in case you're not familiar with the term, specialize in negotiating lower interest rates and working out payment plans for debtors who might otherwise file for bankruptcy. Although credit counselors might consolidate the consumer's bills into one monthly payment, they don't offer loans, as debt consolidators do, or promise to eliminate or settle debts for less than the principal amount you owe.

The fact that credit counseling itself won't affect your score does not mean, however, that enrolling in a credit counselor's debt management plan won't affect it. Their reasoning is that you're not paying them what you originally owed so you should have to suffer some pain.

That's not the only way you could be reported late. As you'll read in the next chapter, not all credit counselors are created equal and some have been accused of withholding consumer payments that were intended for creditors. The missing payments showed up as “late” on the consumers' credit reports, hurting their scores.

Finally, some lenders, particularly mortgage lenders, do indeed view current participation in a credit counseling program as the equivalent of a Chapter 13 bankruptcy. If they see it mentioned on a credit report, they won't extend credit as long as the notation of credit counseling remains on the borrower's file. But typically such notations are dropped as soon as the borrower completes a repayment plan. By contrast, a Chapter 13 bankruptcy can be reported for 7 years or more. (A chapter & bankruptcy, which involves erasing your debts rather than retiring them with a repayment plan stays on your report for up to 10 years.)

Credit counseling isn't something you should sign up for just because you want a lower interest rate or one place to send your payments instead of many. But if you're behind on your debts or able to pay only the minimums and you want an alternative to bankruptcy, you shouldn't stay away because of myths about its long-term impact on your credit. I was using and referring my clients to a non-profit organization ucan2 for debt consolidation and counseling.

#### **Myth 10: Bankruptcy Can Ruin Your Credit Score and You May Not Get your Credit Again**

While most negative information must be removed from your credit report after seven years, the Fair Credit Reporting Act allows bankruptcy to be listed on your credit report for up to ten years. It's true a bankruptcy will negatively affect your score, though the impact on your score lessens over time as the bankruptcy ages.

Bankruptcy does deal a devastating blow to your score, but that doesn't mean you can't get credit afterward or even that you'll have to wait that long.

You can get a mortgage in as little as six months after your bankruptcy is discharged (completed). You might get credit card offers before your case has even closed.

How quickly you'll re-establish credit and how much you'll pay for it will depend largely on your behavior after you file for bankruptcy. If you start handling credit responsibly, paying your bills on time, not running up big balances, and not applying for a bunch of credit at once, your score will begin to recover.

But it also will matter which lenders you approach for credit. Most mainstream lenders shun people who have filed for bankruptcy, sometimes just for the first few years, although sometimes for as long as the bankruptcy remains on your report.

Other lenders specialize in what's known as “subprime” borrowers—those with less-than-perfect credit, including bankrupts. You'll have to be careful because some subprime lenders charge outrageous rates and fees. But you most likely will be able to get the loans you need if you search.

Mr. Singh, formerly a restaurant owner then a loan consultant in Fresno, CA, said he and his wife were able to buy a house one year after their Chapter 7 bankruptcy filing and have been approved for other accounts, including a credit card and a cell phone. Buying a car has proven to be more of a challenge though.

#### **Myth 11: 877 is the Perfect Score**

While 877 may be the highest FICO score, it is not a “perfect” score. The “perfect score” is what a lender requires to approve you for the credit & credit terms you are seeking.

#### **Myth 12: Every Inquiry For Credit Costs 5 Points**

There is no fixed set number of points that an inquiry will cost. Generally speaking, inquiries have a relatively minor contribution to the overall score and it is between 20 to 50 points, but as little as 5 points, and it also depends upon the type of loan applied for and the loan application.

#### **Myth 13: A Short Sale Has Less of an Impact on a Score Than a Foreclosure**

The presence of either a foreclosure or short sale information on a credit bureau report is considered negative by credit scores, as it is predictive of future credit risk. Generally speaking, both will have a

similar impact on a score.

#### **Myth 14: Making a Lot of Money Results in a Higher Score**

Your income does not have a direct impact on credit bureau scores, as your income information is not recorded on your credit report. The score focuses on how you manage your credit, not on how you *could* manage your credit given your income.

#### **Myth 15: Carrying Smaller Balances on Several Credit Cards is Better Than Having a Large Balance on Just One Card**

Not always. A credit score will often consider the number of accounts or credit cards you carry that have a balance, in addition to your overall utilization of available credit. Thus, you may lose points for having a higher number of accounts with balances.

#### **Myth 16: Part of My Credit Score is Calculated Based on Where I Live**

Credit score calculations do not factor in where you live (city or zip code, for example). Effectively managing your credit, on the other hand, will result in a higher score, regardless of whether you live in Beverly Hills, Calif. or Zanesville, Ohio.

**Comment #1:** *“If this is true, then why is it every time I apply for credit my score drops?”*

**Comment #2:** *“Any credit application you make triggers an “investigation” which a financial institution makes about your credit history in order to establish your credit worthiness. This investigation is considered a “hard inquiry” on your credit profile. It takes about three months before these inquiries drop off from your credit report. Excessive hard inquiries can have an adverse effect on your credit score: It may be a signal to a potential lender that you are desperate and are attempting to take on more financial obligation than you can manage. On the other hand, the unexpected promotional offers you receive from banks and other financial institutions are considered “soft inquiries”. Soft enquiries do not impact your credit score as do hard inquiries. I believe you should wait for at least three months before attempting another credit application whenever you have been denied credit.”*

For more information on how best to rebuild your credit after bankruptcy or other credit disaster, see Chapter 5, “How to Deal with a Credit Crisis”.

## How to Deal with a Credit Crisis

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It does not have to be a life altering event for you to realize you are in the midst of a credit crisis. Maybe a utility service was turned off for non-payment or a debt collection agency called you at your work. A credit crisis, being unable to manage your debt, can come slowly as the result of overspending for many years. The balances on your accounts grow and grow; pretty soon you're able to make only the minimum payments, and then not even that. Regardless of how you became aware of your credit crisis, it can come as a shock when you realize how much money you owe to creditors.

Sometimes a credit crisis comes at you in a rush as a result of another financial setback, a job loss, a divorce or a major illness. Suddenly, you have more “outgo” than “income,” and you're not sure where to turn and what to do and how to manage the finances and situation.

In the case of a credit crisis, banks either do not charge enough interest on loans or pay too much for the securitized loan, or the rating system does not rate the risk of the loans correctly. A crisis occurs when several factors combine in the marketplace affecting a large number of investors.

For example, banks will charge teaser rates on loans, but when the initial low payments change, they become too high for borrowers to pay. The borrowers default on the loans, and the loan's collateral value simultaneously drops. If enough lending institutions reduce the number of new loans issued, the economy will slow down, making it even harder for other borrowers to pay their loans and existing borrowers or mortgages will have a hard time surviving.

When you are unable to manage your debts, you know it is time to start putting a credit crisis plan into action, find more money to pay bills, trim your expenses and make a commitment to take control of your finances as soon as possible to avoid further consequences.

### Unable to Manage Debts

When you owe more in monthly payments than you bring in for the month, you know you are unable to manage your debts. You will

never be able to pay off your bills if you are only making minimum payments. It will be impossible to take control of your credit crisis without first admitting you are out of control and unable to manage your current debts. You won't be able to pay off your debts in a set time frame and your payments will linger on and on if you continue to make only the minimum payments on your existing debt.

### Finding More Money

It sounds harder than it actually is. Finding more money to pay your bills is not as difficult as you might think. Lower your retirement contributions, take on a second job or sell items in a garage sale are all the ways for you to find more money to help you pay down your debts.

If you want to take control and get things within in your reach, you can try selling items you make or having a bake sale, even raking the lawn for neighbors. There is always a way to make more money, if you are willing to think outside the box and work hard. Make a list of all the ways you could make more money with the skills and resources you have available to you, be creative.

### Trimming Current Expenses

Think about all the times you eat out or buy a fancy pair of jeans. These are easy ways for you to trim your expenses. But, sometimes these things are not enough and you need to look closer at your monthly expenses and see where you can trim unnecessary expenses.

1. Could you live without cable?
2. Can you ride your bike to work?
3. Which areas are you willing to trim expenses in and how long will you have to cut those expenses to get yourself out of a credit crisis?

Make a list of the expenses that would be easiest for you to trim and another of the more difficult things you might trim if you absolutely had to.

### Making a Commitment

It is going to take a commitment of your time, resources, and money, if you want to cope with the credit crisis you may be in. You will be amazed at how fast you can get control of a credit crisis if you put your mind to it and really make an effort. Coping with any crisis is difficult, but a credit crisis is a manageable event in your life and you can cope by following these easy steps.



A friend, I'll call her Angela, experienced a credit crisis that resulted from a combination of forces. For years, she'd made a successful living as a County employee and then as a State employee, earning as much as three figures a year. She and her family didn't have to worry about money because so much was flowing their way.

Like hundreds of others in her field of employment, though, she was caught in the industry's downturn at the beginning of the 2011 when furloughs started with the State employees. By the time she contacted me, she had been furloughed for 3 days a week, cutting her hours drastically.

Her primary concern was how she could get her home refinanced so that she could lower her interest rate and reduce her monthly expense. Among the problems, though, was that she had, of course, very little income, just what she could scrape together from an occasional freelance assignment offering her services as a Spanish interpreter or translator.

Angela's situation was unusual only in the amount of debt she'd managed to rack up. I hear from so many other people every month who are similarly struggling with serious credit and financial problems.

Many are hoping for some quick, magical fix. Some ask if they should get a debt consolidation loan, use credit counseling or tap their retirement funds. Amrik & Jack of Fresno and Fowler of CA are fairly typical examples. At 50, they have accumulated more than \$60,000 in credit card debts and are finding it tough to pay much more than the minimum balances they owe.

The truth is that there frequently are no easy fixes when you're in a credit crisis. Even solutions that seem like a golden bullet often end up having unintended consequences on your pocketbook, in your credit score, and in your future financial options.

How you handle credit problems will have a huge effect not only on your credit-worthiness, but also on your financial future. The wrong move can sink you further into debt, devastate what's left of your credit score, and put your entire financial life at risk. The right moves can help you climb out of the hole stronger, wealthier, and more credit-worthy than ever before.

If you're in the midst of a crisis, you'll want to get to work right away to minimize the damage, evaluate your options, and steer your

financial ship away from the rocks.

If you've already endured the crisis and are getting back on your feet, you can skip ahead to the next chapter, but you might find some important information here that could help prevent a future catastrophe.

The steps you need to take are fairly straightforward:

1. **Figure Out How to Free Up Some Cash**—You might not need to tap every source of income you identify, but it's good to know what's available before you go any further.
2. **Evaluate Your Options**—If you find enough cash, you might be able to set up a repayment plan and put the crisis behind you. If you don't, you have an array of tough but important choices you'll need to consider.
3. **Choose a Path and Take Action**—You might not like all the consequences that you'll have to face, but further delay will simply make matters worse. The quicker you act and pick a plan of action and get started, the sooner your credit can start to recover.

Before you get started, you'll want some breathing room, psychological “space,” if you will, to deal with your financial problems. If you're stressed over bills, give yourself permission to take a deep breath and know that by the end of this process you'll have a plan to come out of your financial crisis situation. If you and your partner have been fighting over money issues, you should try to declare a truce while you get things sorted out and have a peaceful life.

If debt collectors are hounding you, you have the legal right to send them a letter telling them not to contact you, and they're required to comply, according to federal laws. You will find a sample letter in this book.

Unfortunately, most of the collection agencies have taken to filing lawsuits against consumers who send them such letters. They figure if you won't talk to them on the phone, they'll get your attention by dragging you to the court and suing you over debts. That, of course, can make your current problems even worse, and on top of everything else, you need to pay legal fees, court costs, etc.

To avoid having to deal with collectors right now, you might simply want to install caller ID on your phone and screen your calls until you know how you're going to deal with your debt collectors. I'll try to

provide a few suggestions on dealing with collectors in the next two chapters, but this is a complicated area of finance with laws that vary widely across the country. You might well need additional help that is beyond the scope of this book. You may need to talk to a paralegal, certified financial advisor, certified financial educator, an attorney at law, or a C.P.A. to resolve your collection issues and in writing or drafting letters for you and talking to the collectors on your behalf. You may have to give written permission and/or Power of Attorney to someone you choose to talk to collectors and creditors on your behalf.

### **Step 1: Free Up Some Cash**

One of the most common mistakes that people make during a credit crisis is not cutting back on their expenses immediately and trying to find other means to cope with it. This rapidly compounds the problem.

The refusal to cut back during a financial emergency is not unique. Most people in a credit crisis are still wallowing in a sustained form of denial. We know that denial is another form of crisis. A person knows the situation and reality, but doesn't admit to it. Even when the writing is clearly on the wall, many people in dire financial straits are still hoping that something will miraculously come along, such as a lottery win, job or inheritance that will save them. Many hope for another loan or credit card to get them out of trouble. It is human nature to expect and be hopeful. However, it may be time to wake up and face reality, regarding your financial situation. It doesn't make much sense to insist that you can't take your kids out of a private school only to wind up losing your home. You might not be paying \$50,000 for tuition, but chances are you could find plenty of ways to cut your expenses if you got serious.

The first thing you need to do during a financial crisis is take a look at some of your biggest bills and figure out where you can cut back. Being frugal with little things does not always get you out of debt. Cutting back on the big stuff, as painful as it may be, usually makes a noticeable dent in an overwhelming debt.

In order to figure out how to free up some cash to pay your debts, you need to break your savings down into four categories:

1. Expenses that are just there for luxury which can be cut down
2. Expenses that can be ditched with little effort

3. Expenses that require more sacrifice
4. Expenses you would only cut as a last resort

If you need help in finding ways to cut costs, check out some of the frugality-oriented websites, such as The Dollar Stretcher at [www.stretcher.com](http://www.stretcher.com) or Bankrate.com's Frugal University. You'll also find shelves of books on this topic at your local library.

You may need to take a closer look at some of your bigger bills. Even your so-called “fixed” expenses, such as your mortgage or rent aren't really set in stone. If your home payment is too high, perhaps you can move out of that home and sell it and buy a smaller one to cut down your fixed expenses.

Don't panic quite yet though. For the moment, you don't have to do anything other than write down the potential savings you can identify. You might find it helpful to break those savings down into four categories:

- The “no need” load on you—Expenses that are just there for luxury and can be cut down.
- The easy stuff—Expenses that you could ditch with little effort.
- The harder stuff—Expenses that would require more sacrifice to trim.
- The last-ditch stuff—Expenses you would cut only as a last resort.

Again, at this point we're trying to find potential sources of cash so that you can better evaluate your options. Don't close your mind to what might seem to be drastic measures at the moment.

### **Solutions That Are Not Solutions**

You might notice that I haven't included some of the most-touted “fixes” for credit problems such as home equity loans, other debt consolidation loans, and withdrawals or loans from retirement plans. These actually make the credit crisis worse. That's because these “solutions,” as typically applied, often make your credit score and your debt load heavier to handle in the long run!

Home equity loans, lines of credit, and cash-out mortgage refinances are particularly seductive because they tend to offer low rates and tax-deductable interest. But they come with big problems:

- Most people who use home equity to pay off credit card and other

unsecured loans ultimately end up deeper in debt within a few years. That's because they haven't changed the fundamental problem of overspending that got them in trouble in the first place.

- Such loans usually turn what should be short-term debt into long-term debt. You could end up paying more in interest, and again, wind up poorer than if you'd buckled down and just paid off the cards out of your current income.
- Using these loans to pay off credit cards, medical bills or personal loans turn unsecured debt, which could have been erased in bankruptcy court, into secured debt that can't be wiped out--and that puts your home at risk as well.

Most retirement plans are protected from creditors' claims in bankruptcy court and typically shouldn't be used to pay off unsecured debt. In addition, a withdrawal from a 401(k) or IRA means you're losing out on the tax-deferred returns that your money could earn in the plan, if you left it alone. Every \$10,000 you take out of a 401(k), for example, could cost you \$100,000 or more in future retirement income, assuming it had been left alone to grow at an 8 percent average annual rate for 30 years.

The idea that you would protect your retirement or home equity instead of paying debts outrages some people. They feel every possible source of funds should be tapped to pay off debts you owe. If that's the way you feel, fine. But, you should remember that the credit card companies are going to thrive whether or not you pay your bills. How will you thrive in retirement if you decimated your funds before you even get there? Hopefully, your finances will turn out to be healthy enough that you can pay off all your debts, but you should think twice, and then again, before raiding either your retirement or your home equity.

In addition to the long-term cost, withdrawals from 401(k)s, IRAs, and other plans typically incur heavy penalties and fees. Come April 15, you would face a tax bill equal to 25 percent to 50 percent of what you took out depending upon the category you fall under the tax table: 10%, 15% or 50%.

Loans from 402 (k)s and 403 (k) s also come with fraught perils. If you lose your job, you typically must repay the loan within a few weeks or else you incur penalties and taxes on the balance.

Are there exceptions? Of course. You might decide to borrow from your 401(k) to pay the mortgage for a month or two to avoid foreclosure, for example. But if you can't make your house payment any other way than by tapping your retirement funds, you're probably better off selling the place than continuing to struggle only to ultimately lose the property. At least by selling, you can preserve what's left of your equity and your credit score so that you'll be in a better position to buy another home when your finances improve.

That's a far better approach than trying to cover up your problem with more loans. Your long-term financial health depends on your fixing these fundamental troubles, not merely delaying the day of reckoning.

As far as debt consolidation loans go, you're almost certainly better off steering clear. There's a lot of consumer abuse, if not outright fraud, in this area. High, hidden fees are common, as are loans that stretch out your obligation and ultimately cost you more than if you'd paid off the original debt.

The same goes for debt settlement firms. These outfits promise to settle your debts for pennies on the dollar, often, supposedly, without hurting your credit. In reality, debt settlement tactics often leave your credit score in shreds, and sometimes the company simply disappears with your big up-front fee.

Settling a debt can also raise your tax liability because of unearned income and if not reported on time can be a cause of penalties and interest. So, before settling a debt review your tax liabilities. Beginning in 2008-09 to present 2013, sometimes settled debt is tax free, depending on what type of forgiven debt it is. Consult with your tax preparer, C.P.A or tax analyst.

And don't get me started about “debt elimination” firms, which use cockamamie theories about the Declaration of Independence or “natural law” to argue that you don't really owe what you owe. By falling into the hands of these companies, not only will you lose money, but you also destroy your credit score.

If you really can't pay all of your unsecured debts, your best bet usually is to file for bankruptcy rather than messing with half measures. By filing Bankruptcy, you can get a fresh start and you'll have the money you otherwise would have thrown at these non-starter “solutions.”

But before you take that drastic step, you need to know more

about your choices. Consult with a bankruptcy attorney and seek honest advice.

## Step 2: Assessing Your Options

This step actually includes a number of other tasks, all of which take a little time, but are essential to making sure you choose the right option.

### Task 1: Make a Priority List of Your Bills

If you're being hounded by creditors or are simply stressed out by debt, it can be easy for you to lose sight of your priorities. Since panic is the main mode you are in when faced with a financial crisis, you might find yourself paying whoever is complaining the most first rather than paying other more important bills, such as the rent or mortgage. It is quite common for people to be facing eviction or foreclosure over a bill that could have been postponed without major consequences or wiped out in a bankruptcy court. Sometimes if the mortgage is not paid on time and your home falls into foreclosure proceedings, you may end up paying almost double in fees and penalties, including late payments, if you try to keep your home. Mr. Gill of Manteca was behind 9 payments in the amount of 15K, but to save the home he ended up paying payments of 15K plus 11K in fees, penalties, and attorney fees. As you can see, falling behind in payments leads you towards an even worse situation.

That's why it's so important to get creditors off your back by writing a letter as I mentioned earlier. *You* need to be the one deciding how your bills get paid without interference from pushy collection agencies who may distort your perspective on your priorities.

Once again, we'll be dividing your bills into three categories:

1. Essential bills
2. Important bills
3. Non-essential bills

**Essential bills** are the ones that if not paid would be catastrophic to your very survival.

Here are some examples of essential bills:

The Bill	The Consequence for Not Paying
Mortgage or rent	Foreclosure or eviction
Home equity loans or	Foreclosure or eviction

lines of credit	
Groceries	Starvation
Utilities	Absence of lights, heat, water or phone
Payments on a car needed for work	Lost job
Essential medical treatments	Death or serious illness
Child support	Jail, losing privilege of your driver's license, wage garnishment and legal fees

**Important bills** are the ones that you should pay if at all possible because failure to pay them would have serious consequences. Here are some examples of important bills:

The Bill	The Potential Consequence
Income taxes	Wage garnishment, loss of tax refund
Court judgments	Wage garnishment
Student loans	Wage garnishment, loss of tax refund
Loans secured by property	Repossession of property
Auto insurance accident, law suit	Loss of license, fine, if involved in
Medical insurance	Catastrophic medical bills

**Nonessential bills** include debts that aren't secured by property. Failure to pay these debts could have serious repercussions for your credit score and might eventually result in lawsuits and judgments. Skipping the payments listed below won't put you out on the street, and I am not suggesting you not to pay these bills, but you can delay the nonessential bills. Here are some examples of nonessential bills:

- Credit cards
- Department store cards
- Gas cards
- Medical bills
- Legal bills
- Personal loans
- Loans from friends or family members

You might have other bills not mentioned here. Use your best judgment to categorize them and list the minimum payments you need to make to stay current on your bills.



If you still can't pay your essential and important bills, you might have to take some drastic action such as selling a house or moving to a cheaper apartment. You might also need to consult with a bankruptcy attorney about wiping out non-essential debts that may not get paid, but you need to keep in mind that student loans and tax liabilities don't get wiped off in bankruptcy proceedings. You will need to talk to your bankruptcy attorney in detail before filing for bankruptcy and be completely honest with your attorney and tell him/her the entire situation so he/she can assist you in the best possible way to get you out of your financial mess.

If you have money left over, however, you can pay the minimum payments on your nonessential bills and even make progress towards your goal of getting out of debt and improving your credit score.

### **Task 2: Compare Your Income and Debts Owed**

Look at the first two categories of savings that you identified in Step 1—the easy stuff to cut and the harder stuff—and then add those to your monthly net income (what you get in your paycheck after all the taxes and other deductions have been taken). Now compare that income to your first two priorities, essential bills and important bills. Can you cover the minimum required?

If not, you might have some options before opting for the last-ditch cost cutting measures. It's frequently possible, for example, to get forbearance on your student loans or negotiate payment plans with the IRS. The forbearance on student loans, you can do yourself by talking to your lender; for IRS help, you're probably best off using a tax professional who has experience, a C.P.A., an attorney or go to the I.R.S. directly. Even child support can be reduced if you prove to the court that your financial situation has worsened, but this can take awhile and might require an attorneys or a paralegal's assistance which may include filing and preparing legal documents or going to a self-help center of the court system.

Other possibilities: You might take that second job we talked about earlier. You could increase your paycheck by eliminating or reducing 401(k) contributions temporarily or, if you get a tax refunds, by reducing your withholding, but try not to use your 401(k) to pay off your debts.

If you still can't pay for the essential and the important expenses, you'll probably need to take some last-resort actions, such as selling a house if you own one or renting a cheaper one. You'll also need to consult a bankruptcy attorney about wiping out any non-essential debts because those obviously aren't going to get paid as discussed in Task 1. Keep in

mind expenses such as student loans, tax liens and payable taxes when discussing your financial situation with your attorney.

If you have your bases covered and have money left over, however, check to see if you can pay the premiums on your non-essential bills. If you can pay at least that much, you're ready for the next task.

### **Task 3: Create a Sustainable Plan to Pay Off Your Debt**

Once you have figured out how much you owe and prioritized your bills, it is time to see if you can pay them all off in a time period that should span approximately three years.

A three year time period is the right amount of time over which to span a payment schedule, but if you can't make it in 3 years, you can ask for an extension or go for a 5 years plan with the suggestion of your attorney. Three years is the standard amount of time used in a bankruptcy court for Chapter 13 to pay an owed amount back. The theory is that if you could acquire enough income and assets to pay off most or all of your bills within that time frame, you would probably not have to pursue a Chapter 7 bankruptcy. No judge would allow it. So before things go to court, you might want to give the three-year pay back plan a try. Before filing for any chapter of bankruptcy, discuss everything with your attorney and find out all your options to survive and then rebuild your credit, but keep in mind that bankruptcy and foreclosures stay on your record for 10 years.

The best way to figure out a repayment plan for your debts is to use one of the many free online tools available on the internet. There is a great one on the Quicken.com website called the Debt Reduction Planner. With it, you experiment to see how long it might take you to pay off your unsecured debts. Similar tools are available in personal finance software, such as Quicken and Money. Don't include your mortgage, student loans or any other "essential" or "important" bills I have covered in the previous task. Remember, you're just trying to design a plan for those non-essential debts.

When inputting figures into one of these programs, see how much progress you can make by adding in lump sums that you estimate you could raise by selling stuff or taking some of the last-ditch options (such as not paying into a 401(k) plan) described in the last chapter.

You should also consider, with great wariness, taking out a home equity loan or line of credit to pay off your credit cards. However, don't think for two seconds about taking out a home equity loan to do this unless you can promise the following:

- Not using your credit cards again to pile up more debt or putting

yourself in the same position again. (For most people, this will mean not using cards at all until the home equity loan is paid back.)

- Not borrowing more than 90 percent of your home equity (and preferably less than 80 percent) when your mortgage and home equity are combined. Home equity can be an important source of emergency funds that you don't want to squander.
- Paying off the debt in the same three-to-five-year period. In other words, don't use the home equity loan as an excuse to stretch out your debt.

Remember: If you don't commit to these steps, you'll ultimately just drive yourself deeper into debt.

In the best-case scenario, you'd be able to retire your credit card and other unsecured debt in less than five years without too much strain and without going to bankruptcy court for Chapter 13 Bankruptcy. If you still have good credit scores, you might even be able to convince your lenders, just by asking, to lower your interest rate so you can get the debt paid off faster. Credit card companies are often eager to give their best customers a break rather than risk losing them to competitors.

Of course, that particular door might be closed to you if you've already fallen behind on your payments. Late payments to even one of your creditors can cause the others to raise their interest rates and get tougher about terms. Most credit card companies today periodically check your credit report and, as soon as they notice trouble on any of your accounts, take punitive actions. They might jack up your rates by 10 percentage points or more, or quickly lower your credit limits so that you start racking up “over limit” fees. All this can make it that much harder to try to get your head above water.

If things are bad when you're just late with a few payments, you can imagine how lenders, and your credit score, react when an account is unpaid for so long that the original creditor “charges off” the account. A charge-off is an accounting term that means the lender has given up hope of collecting. Accounts are typically charged off if they are unpaid for six months or one year and not sold to collectors. Although some creditors then turn the account over to their internal collections department, others sell the account for pennies on the dollar to outside collection firms. If accounts are charged off, keep in mind that there will be income tax consequences on the charged off accounts, and it is considered as unearned income and you need to pay income tax on it.

Interestingly, it's the charge-off itself that does the most damage to your score. Collection actions are serious as well, but what matters most is what the original creditor says about your account, and a charge-

off is pretty much the worst thing the creditor can say.

If you're in this situation, consult with a professional debt and credit consultant or an attorney for a detailed summary of your rights as well as the best strategies for negotiating with collection agencies. The fine points of dealing with collectors are well beyond the scope of this book.

But, as far as your credit score is concerned, you should keep these points in mind:

- Although late payments can really hurt a credit score, a charge-off is even worse. If at all possible, you should try to avoid letting an account lapse for so long that it's charged off.
- If an account has not yet been charged off, try to pay the balance in full either at once or over time. Settling the account with the original creditor for less than you owe can really hurt your credit score. (Settlements on collection accounts typically don't have as negative an effect; see the next chapter for details.)
- If an account has been sent to collections, you'll have the most leverage to negotiate if you can pay a lump sum. But even if you have to make payments, try to negotiate to have the collection action deleted from your credit report if at all possible. Although having the collection deleted won't erase the negative marks from your file—the most damaging mark is the charge-off, which the original creditor typically won't drop—getting rid of the collection notation often helps. Sometimes settled account can be wiped off from your credit report if discussed with the collection agency and agreed upon to pay a lump sum on this condition.

What if you can't find a way to get all your unsecured debts paid off or you're simply not sure if your plan will work? You essentially have two options: credit counseling or bankruptcy. Read on for what you need to know about each.

### **The Truth About Credit Counseling**

You've probably seen and heard the ads on television, the radio, and the internet promising to “lower your interest rates,” “reduce your monthly payments,” “end collection calls,” and “get you on the road to financial freedom.”

Sometimes credit counseling agencies deliver on their promises. Other times, consumers wind up much worse off. The following article will tackle the pros and cons of credit counseling.

One of the best examples of a credit counseling racket was Ameridebt who promised clients they could lower interest rates on

credit cards. After being advised to call a 1-800 number, clients apply to have the interest rates lowered and then within half an hour would receive a call back from a representative from Ameridebt stating that the mission was accomplished. Then the client would be asked to pay an amount, usually around \$500 a month, to disburse funds to their creditors. At least that's how Ameridebt should have worked if it was ethical.

Many people found out the hard way that Ameridebt never paid the lenders. This sent many people's credit into a tailspin. The credit card companies had received no payments from Ameridebt. This ruined many people's credit scores within weeks.

The Federal Trade Commission sued the company in 2003 saying that it lied to customers about the fees it charged and services it offered leaving many of its customers worse off. It also posed as a non-profit company when it was a for profit company. Still, AmeriDebt insisted to the very end that it helped hundreds of thousands of people pay off their bills and avoid bankruptcy.

AmeriDebt responded by closing its doors to new customers—but sending them to another heavily advertised credit counselor making similar claims of quick-and-easy solutions to debt problems.

The point is that even though Ameridebt got caught, there are many unethical companies operating in a similar manner to Ameridebt that have not been regulated, stopped or caught.

My good friend Mr. Dave of Fresno was trapped by a similar company of California and paid them almost \$4,000.00 to settle his medical bill with C. M.C., but this company never did anything. When Mr. Dave filed a complaint against this company with the District Attorney's office and Attorney General's office, the company returned his \$4,000.00 and the account was settled at 60% in a Pro-Per case in court after that.

Credit counseling used to be a sleepy field dominated by the National Foundation for Credit Counseling, a truly nonprofit organization that was funded in large part by contributions from banks and credit card companies. Its mission was to negotiate lower interest rates and payments for cash-strapped consumers so that they could avoid bankruptcy. The lenders receiving these payments would return a portion of each check—a contribution known as “fair share”—to the credit-counseling agency to fund its operations.

As consumer debt spiraled in the 1990s, however, a new breed of credit counselors emerged, eager to get a piece of those lender

contributions. To boost market share, these new counselors started going after customers who were perfectly able to make their payments, but who just wanted lower interest rates.

Disgusted, the major creditors started dropping their “fair share” contributions, making it tougher for the older agencies to make ends meet. Instead of supporting legitimate counselors, some credit card companies even tried to steer consumers away from counseling, telling them erroneously that such help was as bad for their credit as bankruptcy.

But that wasn't the worst of it. Many of the new credit counselors kept the first month's contributions or charged other fat, hidden fees. Some failed to pass along consumers' contributions at all, causing multiple late payments that devastated scores. Former employees of such firms told Congress that they were forced to use fake names and employ high-pressure “boiler room” tactics to sign up new customers. The emphasis was on collecting fees—not providing counseling or offering education that might help consumers to understand how to avoid debt in the future.

The fact that there are so many bad guys out there shouldn't make you avoid credit counseling entirely if you could benefit from legitimate help. If you're already behind on your bills, unable to make minimum payments, borrowing from one card to pay another or otherwise demonstrating signs of extreme financial distress, credit counseling might be preferable to bankruptcy.

Credit counseling is not a good option if you're current on your bills and able to pay more than the minimum. As I have explained in a previous chapter, credit counseling itself won't hurt your credit score, but the reactions of some of your lenders might.

### Choosing a Credit Counselor

In short, you need to tread carefully. Here are some of the things you need to consider before signing up with a credit counseling agency or counselor:

- **Is it Accredited?** You'll want a counselor affiliated with the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agencies. You can find affiliated agencies at [www.nfcc.org](http://www.nfcc.org) or [www.aiccca.org](http://www.aiccca.org), respectively.
- **How Do Regulators Rate It?** At a minimum, make two calls: one to your local Better Business Bureau and one to your State Attorney General's office. Ask how many complaints have been made about

the agency and see if any regulatory actions are pending against them.

- **How Does the Credit-Counseling Agency Describe Itself?** Avoid an outfit that says credit counseling will have no negative impact on your credit score or one that promises to settle your debts for less than you owe without affecting your credit. Such unrealistic promises are a clear sign that you're not dealing with a legitimate operator.
- **What Kinds of Fees are Involved?** Legitimate credit counselors have had to raise their fees in recent years, but if you're paying much more than \$100 to set up your plan, you're probably paying too much.
- **When and How Much Will Creditors Get Paid?** You know that missing or late payments can devastate your credit score. Make sure the counselor tells you, preferably in writing, how much of each monthly payment you make will go directly to your creditors and when the payments will be posted.

It's possible that after all this investigation, you'll discover that a credit counselor's debt management plan won't work for you. If your credit counselor crunches the numbers and discovers the agency can't help you pay off your bills within five years, you'll probably be told to "explore other legal options." That's code for: Talk to a bankruptcy attorney to discuss your situation and find out the best solution for yourself.

You might want to do that anyway, just to get more information about your options before you decide on a plan. Such a consultation is particularly important if your debts are overwhelming and you have equity in a home. States treat this equity differently, with some protecting all or most of it in bankruptcy court and others figuring it's up for grabs. If you can't protect your equity, it might be worth getting a home equity loan to pay off your debts, assuming you have enough equity available, but there is a home stead for bankruptcy and federal relief for your personal residence.

After you've heard what both the credit counselor and the bankruptcy attorney have to say, you can weigh all the information you've been given and make a choice that is best for you and proceed with that option.

### **Should You File for Bankruptcy?**

#### **Bankruptcy Basics**

If your financial situation is causing you problems at work, at

home, and with your health, you may be considering whether it's worth filing for bankruptcy or just staying with your current situation. The bankruptcy system was intended to help honest people who are in financial trouble to get a fresh start. If you are struggling under a mountain of debt and the stress that goes with it, that may sound really good and you can consider yourself a good candidate for bankruptcy, says Jeff Reich a Bankruptcy Attorney in Fresno.

There are certain advantages to filing for bankruptcy. Once you file, your creditors can't try to collect any more from you and you get to start over. Most people are surprised at how quickly and easily they can go through the system. They appreciate the chance to start over.

There are also drawbacks to filing bankruptcy, such as the effect on your credit report. A bankruptcy is the biggest black mark and it stays on your report for up to ten full years. This doesn't mean that you can't get a credit card or a loan, but you'll pay much higher interest rates as a high credit risk. Lenders who look at your credit report see any kind of bankruptcy filing and simply charge you the most that they can. Bankruptcy can also affect your ability to rent an apartment or even be hired for certain jobs. Many employers check your credit history and perceive bankruptcy as a sign of irresponsibility on your part.

The very process of filing for bankruptcy can be stressful as well because emotionally it may seem as a failure in life, business and sometimes a person may even consider it as a failure in society. Acknowledging and preparing yourself to deal with that can minimize the negative aspects, but it doesn't simply go away.

Here are some basic facts about bankruptcy:

1. To decide which chapter is best for you, you should talk to an attorney who specializes in bankruptcies;
2. Attorneys cost money: with a Chapter 13 filing, attorneys often will take their fees from the repayment plan, but for Chapter 7 filing, your attorney may want to be paid up front between \$1,200.00 and \$2,000.00 or including filing fees and credit counseling;
3. You must have a complete list of all your assets and debts in order to effectively file for bankruptcy;
4. The majority of people file for Chapter 7 protection, where their assets are sold to pay their debts;
5. The assets that can be sold depend on the state you live in, but if you own a house, it may be an exempt asset along with your car, if you have only one car as a source of transportation;
6. Chapter 13 is actually a repayment plan for repaying your debts or a



negotiated portion over three to five years. Mostly it is within three years and after three years any unpaid debt is either forgiven or extended upon review;

7. No matter how much of your debt is actually repaid, the entire amount is wiped away, with a few notable exceptions such as student loans, child support or alimony and tax liens;
8. Just because you file for bankruptcy doesn't mean it will happen. After reviewing your petition, the judge makes the decision;
9. The quickest way to get your bankruptcy petition rejected is to hide something;
10. If you have assets and try to keep them away from your creditors, the court will look at this as fraud, which is a federal offense. There can be a punishment of up to a \$250,000 fine and five years of prison;
11. Be prepared to be asked some very personal questions about how you spend your money;
12. If you change your mind after you file, it doesn't mean the court will let you out of bankruptcy;
13. It usually takes about three to six months to complete a Chapter 7 liquidation and for Chapter 13, the time frame to repay your debt won't be more than five years.

If you decide to look into filing for bankruptcy, make certain to consider all of the facts and the consequences. While the idea of having the slate wiped clean may be appealing, remember that nothing is ever as simple as it seems to be.

People's experiences with bankruptcy can vary widely. Whether or not it's the right choice for you depends on a number of factors such as the types of debt that you owe and the amounts, your income and financial resources and your ability to survive life without credits after filing bankruptcy and discharge of a bankruptcy.

### **The Type of Bankruptcy You File Matters**

The majority of people who file for bankruptcy choose to file Chapter 7. This form of bankruptcy wipes out all unsecured debts. These are debts that aren't linked to a specific property such as a car or a house.

For example:

- Your mortgage is a secured debt;
- Your credit cards are unsecured debt.

Filing Chapter 7 bankruptcy is not a free ride by any means. It can mean you have to give up some of your assets (property or cash) to pay your creditors. However, the reality is that most people filing

Chapter 7 are not required to give up anything, either because they don't own anything or because the money or property that they have is exempt or protected by creditors. What is exempt and what is not varies in different states and provinces. Most of the time exemptions include things like household furnishings, clothing, tools you need for work, retirement accounts 401(k)s and RRSPs (Registered Retirement Savings Plan) and some or all of the equity in your home (homestead).

If you want to keep property that isn't exempt according to bankruptcy laws, then you can file for Chapter 13 bankruptcy. Chapter 13 requires that you come up with a plan to repay all or most of your debts within three years. If you successfully complete your plan, you are allowed to keep your property while having any remaining debts removed. Usually you are given three years to repay your debts, but it can be extended for up to five years to repay.

Although a Chapter 13 bankruptcy seems like a good compromise (you get to keep some property and wipe out some debts), it is much more difficult to get through. Most people don't make it all the way through the payment ritual and then their cases are either dismissed, which allows creditors to resume their collection activities or the Chapter 13 Bankruptcy is then converted to a Chapter 7 bankruptcy. Chapter 13 can be filed if you pass a means test and then you have either 3 years or 5 years to repay, according to bankruptcy attorney Mr. Jeff Reich of the Reich Law Firm, who also says that he charges his clients \$2,000.00 upfront for filing a Chapter 13 bankruptcy and \$2,000.00 at the conclusion for dealing with the creditors when submitting ordered payments. Mr. Reich's office also charges between \$1,400.00 to \$1,700.00 including hard costs, court fees, means test, counseling fees for Chapter 7.

A bankruptcy filing can make sense if any of the following apply:

- You can't pay back most or all of your unsecured debts in three to five years;
- You don't have much equity in a home or vehicle or other property to speak of;
- You *do* have considerable equity in a home or vehicle or other valuables that wouldn't be exempt in bankruptcy—jewels, family heirlooms, valuable artwork or collections, stocks, bonds, or cash held outside a retirement plan—and you're willing to agree to a Chapter 13 repayment plan rather than a Chapter 7 liquidation.

Bankruptcy might not make sense if any of these apply to your situation as an individual. Before making any decision consider the

following:

- You could repay your debts within five years;
- Most of your debts are the kind that can't be wiped out. Debts that typically can't be erased include student loans, child support, and recent taxes. You might still decide to file for bankruptcy so that you can free up more money for these debts, but the disadvantages of filing might well overwhelm the advantages;
- You defrauded your creditors by hiding assets or lied about your income or debts on a credit application;
- You recently ran up large debts buying luxuries, which can include vacations and entertainment. If you did so while you were clearly broke, that can constitute fraud. If you ran up the bills and then lost your job, you might be able to file for bankruptcy on other debts, but the luxury debts might not be wiped out;
- You want to file a Chapter 7 liquidation bankruptcy and received a discharge for a previous bankruptcy filing within the past 6 years. (You can file for a Chapter 13 repayment plan bankruptcy at any time);
- You're reluctant to leave a co-borrower solely responsible for a debt. A bankruptcy filing can wipe out your legal obligation to repay a loan, but creditors can still go after a cosigner or joint borrower.

Making the decision to file isn't an easy one, and you'd be smart to get expert help to explore your options so talk to an attorney at law who has expertise, experience and a good handful of knowledge in bankruptcy law and has worked on these cases like my bankruptcy class teacher Mr. Hagop T. Bedoyan.

### **Step 3: Create a Plan and Follow it Through**

When faced with unappealing choices, it's natural to procrastinate. After you've assessed your situation, gathered the relevant information, and sought expert help, the path you need to take should be pretty clear for you. Here are a few ways and options for you to adopt and work on.

#### **Option 1: The Pay-off Plan**

If you can pay off your unsecured debts without help or with the help of home equity borrowing, you're ready to take the first step: Cutting up your credit cards. "What?" you might be saying. "Cutting up my cards? How can I live without my cards?" News flash: People do it all the time and even I have done it myself.

You can't get out of debt if you keep digging. And if you have

easy access to your cards, you'll keep using them. Your credit cards need to be off limits until you're debt free. Debit cards with Visa or MasterCard logos are accepted at most places that take credit cards; the difference is that the money comes directly out of your checking account so it's much tougher to overspend and to get into financial trouble.

You don't need to actually close your credit card accounts, which could potentially hurt your score, unless you really have an uncontrollable spending issue and habits.

Next, set up an automatic payment plan as outlined earlier to pay off your debts. The order in which you pay them depends on your particular situation. If you have an account that's close to being charged off, for example, you'll probably want to catch up with that one right away while paying the minimum on your other debts. If you're not behind, you could start paying down the account that's closest to its limit or the one that's charging the highest nondeductible interest rate. After the first debt is retired, redirect the biggest payment to the next highest-rate—or closest-to-the-limit—debt. Continue this pattern until all the debts are retired and you are a debt free person.

#### **Option 2: Credit Counseling**

If you decide you need a credit counselor's aid, make the appointment to get started on a debt management plan. Every day you delay is costing you more in interest and putting off the moment when you'll be debt free. Your delay can cause more financial hardship and problems in your life. The sooner you act, the sooner you will be debt free.

Understand that paying off your debts will be a long-term commitment, and living on a tight budget necessary to accomplish your goal may be frustrating. If you need moral support for this, keep thinking positively and talk to your counselor about managing your debts.

#### **Option 3: Bankruptcy**

If bankruptcy is the best of the bad options, then file it. The bankruptcy laws were designed to give people a fresh start and if you've done your best to find money to pay your bills, but were unable to do so and failed, you shouldn't shun this option. Move forward, hire an attorney and file bankruptcy and start over.

**Some Bankruptcy and Delinquency Statistics Within the Past Few Years are as Following:**

#### **Bankruptcy Filings Over the Next 12 Months**

### Total U.S. Bankruptcy Filing by Calender Year

Year	Bankruptcy Filings	Source & Notes
1998	1,442,549	AO data
1999	1,319,465	AO data
2000	1,253,444	AO data
2001	1,492,129	AO data
2002	1,577,561	AO data
2003	1,589,383	AO data
2004	1,597,462	AO data
2005	2,078,415	AO data, includes spike in filing before 2005 bkr. law
2006	590,972	EPIQ data
2007	827,395	EPIQ data
2008	1,096,648	EPIQ data
2009	1,448,272	EPIQ data
2010	1,561,225	EPIQ data
2011	1,379,658	EPIQ data
2012	1,885,328	EPIQ data
2013	1,019,000-1,00,000	May 2013 projection based on daa from EPIQ System

from Credit slips at <http://www.creditslips.org> © 2013, Robert M. Lawless

- Bankruptcy filings have continued to decline. First, looking back at March 2013 and April 2013, bankruptcy filings declined 12.0% and 11.8% respectively on a year-over-year basis. The daily filing rate in March was just short of 4,900 and in April was 4,575. If we extrapolate these numbers out over the rest of the year, bankruptcy filings should just barely surpass 1.0 million for calendar year 2013. If filings continue for the rest of 2013 at the same pace they have for the first four months, the number will be closer to 1.1 million, but the filing rate is typically strongest in the spring and then tapers off each year. Thus, a figure closer to 1.0 million is more likely and that rate of filing would represent an annual decline of 14% in the number of U.S. bankruptcies for the second straight year in a row.
- On a year-over-year basis, the bankruptcy filing rate has been dropping around 12-16%, and last month was no exception. According to the most recent data from Epiq Systems, the daily bankruptcy filing rate in July was 4,622. That represents a 16.1% decline from the same time last year and a 2.0% decrease from June.
- We continue to be on track for just above or below 1.2 million filings for the 2012 calendar year. That will be a 13.9% decline from 2011 (1.38 million filings), which in turn was a 13.6% decline from 2010 (1.56 million filings).
- The 2012 calendar year bankruptcy statistics from Epiq Systems show that total U.S. bankruptcy filings declined in 2012 by 14.1 percent. Specifically, there were just over 1,185,000 filings in 2012 as compared to 1,380,000 in 2011.

- Total bankruptcy filings for 2011 are also down from 2010. Last year there were less than 1.37 million bankruptcy filings. In 2010, they'd soared to almost 1.55 million.
- Total bankruptcy filings in 2009 reached 1.4 million in 2009, up from 1.09 million in 2008. The vast majority were personal bankruptcies -- Chapter 7 and Chapter 13. Business bankruptcies made up 6 percent of all filings. (Source: AACER, the American Bankruptcy Institute, January 2010)
- Nevada surpassed Tennessee atop the listing of bankruptcies per capita, with more than 11 bankruptcies filed for every 1,000 residents. Tennessee and Georgia took the second and third slots behind the Silver State. Compared to 2009 third-quarter data, the biggest mover was Arizona, which rose six spots from No. 21 to No. 15. At the other end of the scale is Alaska, which had only 1.4 bankruptcies per capita, meaning the average Nevadan was eight times more likely to file bankruptcy than the average Alaskan. (Source: AACER, the American Bankruptcy Institute, January 2010)
- Young Americans now have the second highest rate of bankruptcy, just after those aged 35 to 44. The rate among 25- to 34-year-olds increased between 1991 and 2001, indicating that this generation is more likely to file bankruptcy as young adults than were young boomers at the same age. (Source: "Generation Broke: Growth of Debt Among Young Americans")
- Memphis, Tenn., consumers have suffered the most bankruptcies. (Source: Men's Health magazine's personal debt survey, July 2008)
- Yonkers, N.Y., has suffered the fewest bankruptcies. (Source: Men's Health magazine's personal debt survey, July 2008)

### Delinquency

- TransUnion recently announced that the national mortgage delinquency rate, the rate of borrowers who are 60 days or more past due on their mortgage payment, declined 21 percent in the first quarter of this year compared to the first quarter of 2012.
- On a quarter-over-quarter comparison, the delinquency rate fell 12 percent. Both of these declines are the largest on record since TransUnion began tracking the data in 1992.

- The areas that saw the largest decreases in the mortgage delinquency rate were Arizona and California, which dropped 37.9 and 36.6 percent on a year-over-year comparison, respectively.
- There were nearly 1.5 million properties that were actively in the foreclosure process or were owned by the bank during the first quarter, according to the U.S. Foreclosure Inventory Analysis from RealtyTrac. The report noted that foreclosures were up 9 percent from the first quarter of 2012.
- U.S. credit card 60-day delinquency rate: 4.27 percent. (Source: Fitch Ratings, April 2010)
- According to Fitch Ratings, the number of cardholders 60 or more days late on payments fell in January of 2010 to 4.50 percent. That number is flat year-to-year. Those 30 days late declined to 5.72 percent and is down 5 percent year-to-year. (Source: Associated Press, March 2010)
- According to Fitch Ratings, the number of credit card defaults hit 11.37 percent, the highest level since a record 11.52 percent in September 2009. (Source: Associated Press, March 2010)
- In the last 12 months, 15 percent of American adults, or nearly 34 million people, have been late making a credit card payment and 8 percent (18 million people) have missed a payment entirely. (Source: National Foundation for Credit Counseling, 2009 Financial Literacy Survey, April 2009)
- 26 percent of Americans, or more than 58 million adults, admit to not paying all of their bills on time. Among African-Americans, this number is at 51 percent. (Source: National Foundation for Credit Counseling, 2009 Financial Literacy Survey, April 2009)
- Penalty fees from credit cards will add up to about \$20.5 billion in 2009, according to R. K. Hammer, a consultant to the credit card industry. (Source: New York Times, September 2009)
- Only eight percent of cards with penalty rate conditions offered to restore the original rate terms when payments are made on-time, usually after 12 months. (Source: Pew Safe Credit Cards Project, March 2009)
- 72 percent of cards included offers of low promotional rates which issuers could revoke after a single late payment. (Source: Pew Safe

#### Credit Cards Project, March 2009)

- From 1989 to 2004, the percentage of cardholders incurring fees due to late payments of 60 days or more increased from 4.8 percent to 8.0 percent. (Source: Demos.org, "Borrowing To Make Ends Meet," November 2007)
- One-fourth of the students surveyed in US PIRG's 2008 Campus Credit Card Trap report said that they have paid a late fee, and 15 percent have paid an "over the limit" fee. (Source: U.S. PIRG, "Campus Credit Card Trap")
- When finances are tight, 59 percent of people would pay their credit card bills last. A majority -- 52 percent -- would pay the mortgage first and 38 percent say they would pay for utilities before paying other obligations. (Source: CreditCards.com survey, December 2008)
- On average, today's consumers are paying their bills on time, with less than half of all consumers having ever been reported as 30 or more days late on a payment. Only three out of 10 have ever been 60 or more days overdue on any credit obligation. Seventy-seven percent of all consumers have never had a loan or account that was 90+ days overdue, and fewer than 20 percent have ever had a loan or account closed by the lender due to default. (Source: myfico.com)



## How to Fix a Score After a Major Credit Mishap

### Putting the Past Behind You

So you've weathered the financial storm and learned a lot in the 5 chapters you have read in this book. Now what do you do about the mess that was left behind and needs to be fixed.

Your credit file might be littered with delinquencies, collection actions, law suits, liens, repossessions or even bankruptcy. You might worry that these mistakes will haunt you forever or at least make getting credit terribly difficult and expensive and you feel now it is time to make some changes in your credit report.

Some people are so frustrated with their bad credit that they simply give up and feel nothing can be done, but that's not true. A lot can still be done.

How quickly you recover from your past credit mistakes depends largely on you—and what you want to do and how you want to manage it. If you understand how the system works, you can minimize the length of time you spend in the credit penalty box.

You can start putting the past behind you immediately. Credit scoring formulas care more about what you've done recently than what you've done in the past, so making the right moves now can set you on the path to a good credit future.

You won't be able to erase your mistakes overnight. However, most people with past credit problems can achieve a substantial boost in their credit scores within the first 2-3 years. By the time the last negative item drops off your credit report, after seven years for most black marks or up to 10 for a Chapter 7 bankruptcy, you could have a credit score that's actually better than average.

### Part 1: Repairing Your Credit Report

Many people who have credit problems are terrified at the prospect of looking at their own credit report. It's the same dread they might have felt as children about a bad report card, only amplified by their knowledge as adults of how destructive poor credit can be.

In actuality, your report might be better than you think. Some of the problems you are worried about might never have been reported to

the credit bureaus or they might have less of an effect than you fear.

On the other hand, your credit file might be a bit of a nightmare, with every slipup documented in black and white. Your report might even make your problems look worse than they actually were. It's not uncommon to have two or more collections reported for the same debt, for example, or for other errors to creep in that can really hammer your credit score and your report may look disastrous to you. You may be thinking about one collection, but it can show up 2 or 3 times.

You might, for example, be the victim of an unscrupulous collection agency that has illegally “re-aged” a debt—in other words, reported the account to the credit bureaus in a way that makes your mistake look more recent than it actually is. Beth in Los Angeles wrote about such a scofflaw:

*“My husband and I had a dispute with a cable company over a box that they never gave us, but that they claimed we owed \$200 for it when we closed the account before we moved. To make a long story short, the item ended up on our credit report as a collection account. We waited anxiously for that to roll off of our report. At the six-year, two month mark, another collection agency called us. They said they had bought the account, and that the seven-year 'clock' started again when they bought it. They said unless we paid them, they would report it as a new debt and it would remain on our credit report for seven more years.”* Based upon this, the account stayed on the record for 14 years, instead of 7 years.

The good news is that you're not helpless. There are steps you can take to clean up your credit, chase off mistakes, fight back against illegal tactics, and even—perhaps—scoot some of those bad marks off your credit report without having to wait for the usual 7 or 10-year period to expire or in this type of illegal reporting, 14 years or maybe more.

### Thoroughly Examine Your Credit Report for Any Errors

Your first move, obviously, is to get copies of your credit reports from all three bureaus, using the addresses or websites listed in Chapter 3, “The 5 Step Process to Improve Your Credit Scores” Make sure you get three separate reports, rather than a “3-in-1” or “tri-merged” report that combines information from the three bureaus. Although these merged reports are helpful to lenders, they might not include all of the

information that's included in each of the individual bureaus' files.

You should follow the steps listed in Chapter 3 for reviewing and analyzing your report, noting any problems for dispute with the respective credit bureaus. Look especially for the following:

- Delinquencies that are older than seven years or accounts listed as delinquent that don't include the date of delinquency;
- Bankruptcies that are older than 10 years or that aren't listed by the specific chapter;
- Judgments or paid liens older than seven years;
- Paid-off debts listed as unpaid;
- Accounts that were wiped out by a bankruptcy filing still listed as “past due” instead of as “included in bankruptcy”;
- More than one collection account for the same debt;
- Collection accounts that don't show the date that the original account went delinquent;
- Any accounts, delinquencies, collections, and so on that aren't yours.

When it's time to actually dispute the errors you find, you have a choice about whether to make your beefs online or by snail mail. Some credit repair veterans prefer to use the online dispute process that's available when you get your reports via the Web; they believe there's less likelihood of their disputes getting “lost” because the electronic process typically dumps their complaints directly into the bureaus' computer systems. If you opt for online disputes, make printouts of every form you fill out and every response you get. Doing so establishes the kind of paper trail that can be incredibly helpful if you run into problems. I personally like typing up or writing up a dispute in my own words with a full explanation and sending it via certified mail and keeping track of it.

The need for a paper trail is why others insist that all communication with bureaus, creditors, and especially collection agencies should be in writing and sent certified mail, return receipt requested. Keep the little green cards you get back, along with copies of the letters and any documentation you might submit. Because you're probably new to the credit repair process, you might want to start out doing things the old-fashioned way and switch to the electronic process only when you become more comfortable with the system.

## Know Your FCRA Rights

Before you dispute anything, though, you need to know your rights under the Fair Credit Reporting Act. The Federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness, and privacy of information in the files of consumer reporting agencies, including banks, lenders, collection agencies and even lien filing agencies, etc. and furthermore, there are many other types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records, and rental history records). **For more information, including information about additional rights, go to [www.ftc.gov/credit](http://www.ftc.gov/credit) or write to: Consumer Response Center, Room 130-A, Federal Trade Commission, 600 Pennsylvania Ave. N.W., Washington, D.C. 20580.** They are as follows:

- **You must be told if information in your file has been used against you.** Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance, employment, or to take another adverse action against you, must tell you and must give you the name, address, and phone number of the agency that provided the information and upon request you can get a credit report free of charge.
- **You have the right to know what is in your file.** You may request and obtain all the information about you in the files of a consumer reporting agency (your “file disclosure”). You will be required to provide proper identification, which may include your social security number, legal name, address and a photo I.D. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:
  - A person has taken adverse action against you because of information in your credit report;
  - You are the victim of identity theft and place a fraud alert in your file;
  - Your file contains inaccurate information as a result of fraud;
  - You are on public assistance;
  - You are unemployed, but expect to apply for employment within 60 days.

In addition, by September 2005, all consumers were entitled to one free disclosure every 12 months upon request from each nationwide credit bureau and from nationwide specialty consumer reporting agencies. See [www.ftc.gov/credit](http://www.ftc.gov/credit) for additional information.

- **You have the right to ask for a credit score.** Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it. In some mortgage transactions, you will receive credit score information for free from the mortgage lender.
- **You have the right to dispute incomplete or inaccurate information.** If you identify information in your file that is incomplete or inaccurate, and report it to the consumer reporting agency, the agency must investigate unless your dispute is frivolous. See [www.ftc.gov/credit](http://www.ftc.gov/credit) for an explanation of dispute procedures.
- **Consumer reporting agencies must correct or delete inaccurate, incomplete or unverifiable information.** Inaccurate, incomplete or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report the information until it has verified its accuracy.
- **Consumer reporting agencies may not report outdated negative information.** In most cases, a consumer reporting agency may not report negative information that is more than seven years old or bankruptcies that are more than 10 years old.
- **Access to your file is limited.** A consumer reporting agency may provide information about you only to people with a valid need -- usually to consider an application with a creditor, insurer, employer, landlord, legal system for sentencing or other business. The FCRA specifies those with a valid need for access.
- **You must give your consent for reports to be provided to employers.** A consumer reporting agency may not give out information about you to your employer or a potential employer without your written consent given to the employer. Written consent generally is not required in the trucking industry. For more information, go to [www.ftc.gov/credit](http://www.ftc.gov/credit).

- **You may limit “prescreened” offers of credit and insurance you get based on information in your credit report.** Unsolicited “prescreened” offers for credit and insurance must include a toll-free phone number you can call, if you choose to remove your name and address from the lists these offers are based on. You may opt-out with the nationwide credit bureaus at 1-888-5-OPTOUT (1-888-567-8688).
- **You may seek damages from violators.** If a consumer reporting agency or, in some cases, a user of consumer reports or a furnisher of information to a consumer reporting agency violates the FCRA, you may be able to sue in state or federal court for violation, damages, and other remedies set forth by state and federal law as precedents.
- **Identity theft victims and active duty military personnel have additional rights.** For more information, visit [www.ftc.gov/credit](http://www.ftc.gov/credit).

**States may enforce the FCRA and many states have their own consumer reporting laws. In some cases, you may have more rights under state law. For more information, contact your state or local consumer protection agency or your state Attorney General. Federal enforcers are:**

TYPES OF BUSINESS:	CONTACT:
Consumer reporting agencies, creditors, and others not listed below	Federal Trade Commission: Consumer Response Center – FCRA Washington, DC 20580 1-877-382-4357
TYPES OF BUSINESS:	CONTACT:
National banks, federal branches/agencies of foreign banks (word "National" or initials "N.A." appear in or after bank's name)	Office of the Comptroller of the Currency Compliance Management, Mail Stop 6-6 Washington, DC 20219 800-613-6743
Federal Reserve System member banks (except national banks and federal branches/agencies of foreign banks)	Federal Reserve Consumer Help (FRCH) P.O. Box 1200 Minneapolis, MN 55480 Telephone: 888-851-1920 Website Address: <a href="http://www.federalreserveconsumerhelp.gov">www.federalreserveconsumerhelp.gov</a> Email Address: <a href="mailto:ConsumerHelp@FederalReserve.gov">ConsumerHelp@FederalReserve.gov</a>
Savings associations and federally chartered savings banks (word "Federal" or initials "F.S.B." appear in federal institution's name)	Office of Thrift Supervision Consumer Complaints Washington, DC 20552 800-842-6929

Federal Credit Unions (words "Federal Credit Union" appear in institution's name)	National Credit Union Administration 1775 Duke Street Alexandria, VA 22314 703-519-4600
State-chartered banks that are not members of the Federal Reserve System	Federal Deposit Insurance Corporation Consumer Response Center, 2345 Grand Avenue, Suite 100 Kansas City, Missouri 64108-2638 1-877-275-3342
Air, surface or rail common carriers regulated by former Civil Aeronautics Board or Interstate Commerce Commission	Department of Transportation, Office of Financial Management Washington, DC 20590 202-366-1306
Activities subject to the Packers and Stockyards Act, 1921	Department of Agriculture Office of Deputy Administrator - GIPSA Washington, DC 20250 202-720-7051

## Organize Your Work

At this point, you should divide the errors you've discovered into two groups. The first group includes unpaid debts that actually belong to you (as opposed to debts that you didn't incur or that belong to someone else), including any debt you suspect was illegally re-aged and any collection accounts (whether they're legitimately yours or not). All the other errors you discover—accounts that aren't yours, old delinquencies and paid-up accounts, debts that were included in bankruptcy but aren't listed that way, and so on—should be included in the second group.

You can get started disputing the items in that second group right away. Include copies of any documentation you have that supports your assertion with your letters to the credit bureaus (never send originals). After you've notified the credit bureaus, follow up by sending a letter (certified, return receipt requested) to the creditor that supplied the erroneous information. Now the creditors and the bureaus are all on notice that there's a problem. Failure to act on their part would be a violation of the FCRA and grounds enough for a lawsuit. Again, if it comes to that level and requires court interference, then hire an attorney to represent your legal rights.

In many cases, the creditors and bureaus will correct legitimate errors. However, you'll still need to monitor your credit reports to make sure the bad information doesn't pop up again in the future. If that happens, the paperwork you've kept—including notification that the bureaus gave you about the change they've made—might help you get the errors removed more quickly.

The National Association of Consumer Advocates at

[www.naca.net](http://www.naca.net) can provide referrals to attorneys. You can also check out one of the many websites devoted to do-it-yourself credit repair, such as CreditBoards.com, for help in researching these issues or even pursuing a lawsuit on your own. These sites in which consumers exchange information with each other can be incredibly helpful to the beginner, but might also include erroneous information and are no substitute for real advice. If you do choose to use such a site, plan to spend several hours reading the “frequently asked questions” sections and learning the protocol for asking questions before posting for the first time and trying to fix your credit problems yourself.

## The Importance of Collections and Unpaid Debts

Now let's return to that first group of errors you identified--the ones dealing with collection accounts and valid, unpaid debts. These were some of the credit matters which were segregated for correction purposes because different rules apply to such matters.

When it comes to collections, you have another important right as outlined in the Fair Debt Collection Practices Act:

- **The right to have a collection account “validated.”** This process, as outlined the FDCPA, is quite different from the “verification” process referred to above. When a credit bureau asks a creditor to “verify” information, the investigation that follows can be pretty cursory. The creditor reviews its records and any information supplied by the consumer and then decides whether it (the creditor) was right or wrong.
- When a collection agency is asked to validate a debt, by contrast, the process can get pretty involved. The collector must *prove* that the debt is your responsibility and also that they have the legal right to collect it from you. Furthermore, the collector has to cease all collection activities until they provide the evidence to you. If the agency can't validate the debt, it must end its attempts to collect on the debt and stop reporting the collection account to the credit bureaus.

Note that your right to validation applies specifically to the collection agency, not to the original creditor. Collection agency records are presumed to be less reliable than those kept by the original creditors. Collectors are often guilty of going after the wrong people or misstating the amount owed. The validation process is meant to protect consumers from those practices.



To validate a debt, the collector needs to present documentation obtained from the original creditor proving that you do indeed owe money.

Validation can be a powerful weapon in your fight to clean up collection actions on your credit report. Many times collectors don't have the documentation required, especially if the debt has been passed around from one collection agency to another, as often happens. Frequently, they have little more than a computer printout to back up their claims and the Federal Trade Commission has made it clear that such a "mere itemization" isn't sufficient proof to constitute a validation of a debt.

The validation process can not only help you eliminate collection accounts that don't belong to you, but it might help you get rid of some that actually do.

That last statement might surprise you, particularly if you've heard the credit bureau company's line that you can't legally remove true, negative information from your credit report. I admit that I used to parrot that line myself, usually when trying to warn people about the many scam artists who promise to erase all of the bad information on your credit report in exchange for a fat fee.

I've since learned that sometimes, not always, but sometimes you can get accurate information removed from your file, especially if it has to do with an old collection account.

Now, the bureaus and Fair Isaac will tell you that this isn't "playing fair"--that the integrity of the credit system depends on credit reports reflecting the most complete picture possible, including all available negative and positive information.

Unfortunately, the bureaus are still allowing far too much erroneous data to steep into their system and that's hurting consumers. The credit-reporting process is still weighted heavily in favor of lenders and collectors.

That has fired up Jim Stephenson, a realtor in Branson, Missouri, who has watched several of his clients struggle with inaccurate credit information.

Now we talk about the issue of re-aging which can be particularly troublesome. The 7-year limit on reporting most negative items was designed to give consumers some protection against relentless creditors. In

effect, lawmakers were trying to prevent collection agencies from creating a sort of perpetual debtors' prison for people who had made mistakes. Congress even strengthened the law in the mid-1990s to prevent collectors from endlessly extending the 7-year period time just by passing an account from one agency to the next. Instead of using the "date of last activity" as was common before 1997, the 7-year clock now starts 180 days after the account first becomes delinquent.

To get around the limit, some collection agencies are now simply flouting the law and pretending an old debt is a new one. I've seen many consumers who had long-forgotten delinquent accounts suddenly pop back up on their credit reports with a new and phony date. One of the largest collection agencies, NCO Financial Systems, agreed in early 2004 to settle a lawsuit with a group of borrowers over this very issue. You being a consumer also may have seen letters of class action law suits received from big law firms or settlement letters from lenders and sometimes small checks for wrong reporting and excess charges.

Unfortunately, the type of collector that would actually post false information to a credit bureau file might not be the type that will back down in the face of a validation demand or a credit bureau investigation. You'll still need to make the validation demand, of course, and follow up with a credit bureau dispute if you don't get the response you want. But, it might take a lawsuit to get the falsely incriminating information out of your file. If you need to do so, get a paralegal who has experience in this line or have an attorney at law. My recommendation is having a licensed attorney represent you.

There's another issue. Plenty of consumers are like Beth and Dave in Chapter 5 in that they let a spat with a merchant get out of hand and ended up with a collection issue on their reports. These collections--even for small amounts--can have an outsized effect on a credit score. The thinner or younger your credit file, the worse a collection can hurt. Although mortgage lenders tend to ignore these small accounts, the credit scoring formula most emphatically does not. Getting rid of collections can create a more accurate picture of your credit habits.

It's also not uncommon to have two, three or even more collection accounts reported for the same debt. That amplifies the damage to your credit score and reflects the collection industry's practice of selling and reselling the same debt to different companies.

Weeding out some of these overlapped extraneous collection accounts provide a more accurate picture of your credit situation.

Besides, I'm going to assume that if you care enough about your credit to read this book and spend the time necessary to clean up your own credit report, you're demonstrating the kind of dedication and responsibility that should make you a good credit risk in the future.

You shouldn't assume, however, that you can get every piece of negative information removed from your credit report. The more recent the negative mark, the less likely you'll get it to budge. Your chances of success will improve as the "sin" gets more older.

You also have no guarantee that getting rid of a collection action will help your score much, if at all. The scoring formula generally weighs what the original creditor had to say about you more heavily than what any subsequent collector reports. In other words, delinquencies and charge-offs reported by the original creditor can still hurt your score even if the subsequent collection(s) disappear.

If you're trying to get rid of a collection action, credit repair veterans suggest first disputing it as "not mine" rather than starting off with a validation demand.

Sometimes, the collection agency simply won't bother to verify the account, particularly if it's old or small. If that's the case, the collection will be dropped from your report--no muss, no fuss.

If the credit bureau verifies the account, go directly to the collection agency and demand validation. You can find sample letters in this book and on websites such as CreditBoards.com, CreditInfoCenter.com or CreditInsider.com. Essentially, you need to tell the collection agency that under the Fair Debt Collection Practices Act & Fair Credit Reporting Act it must prove that you owe this debt. Demand copies of documents such as the signed account agreement that created the debt and the agreement with the original creditor that gives the agency the right to try to collect the debt.

If the collector fails to respond or can't provide sufficient evidence that you owe the debt, it's supposed to remove the collection from your report. If that doesn't happen, you can bring the matter to the attention of the credit bureaus and ask for re-investigation. Make sure you make it clear to the bureaus that this is not a repeat of your earlier request; provide the evidence that you asked for validation and let them know that the collector didn't comply.

If the account doesn't disappear at this point, you have both the bureaus and the collection agency on the hook for credit-reporting violations and potentially could pursue a lawsuit. Before seeking legal action, report it to the FTC (Federal Trade Commission), to your Congressman's office, Federal Senator's office & State Attorney General's office.

### **Facts That You Must Know About the Statues of Limitations**

Before we go any further down this path, however, you need to know about one more factor that will affect your credit repair efforts: statutes of limitation.

You already know that credit bureaus have a limited time (7 to 10 years) in which they can report negative information. The statues of limitations I'm talking about, however, curb the amount of time that a creditor can sue you over a debt.

Statutes of limitations vary widely by state and might depend on the type of debt involved. In Alaska, for example, creditors can't sue you after three years have passed since the delinquency. In Kentucky, the statute is 15 years for written contracts and 5 for oral contracts. Depending on the state, open-ended contracts have a different statute of limitations altogether. In the State of California, statute of limitation for written contracts is 4 years and for oral it is 2 years.

That's not the end of the complexities and vagaries. What if you incurred the debt in one state, but now live in another? Typically, it's the state you live in now that matters, but not always.

Also, you can restart an expired statute of limitations in some states by making a payment on an old debt or just by acknowledging that you owe the money.

Now, you don't have to worry about any of this if the item you're trying to get deleted is a paid collection and is listed that way on your credit report. If it's an unpaid collection or any unpaid account for that matter, you'll want to do some legal research to make sure that you understand the statues that apply in your situation.

- If a debt is still within the statue of limitations and it's actually your debt, you want to be careful about disputing the information with the credit bureaus. Remember the phrase, "Let sleeping dogs lie"? You could reawaken interest in collecting the debt by drawing it to the creditor's attention .If you're not prepared to pay the debt or get

sued and suffer the potential ding to your credit score that either action could evoke, the better course might be to leave the debt alone and hope it slides silently off your credit report in a few years. (See the later section, “Is it Necessary to Pay off Old Debts?” for more details.)

- If the statute of limitations is well past, you can be more aggressive in trying to get an old debt off your report. If you choose this course, though, make sure you don't do anything that could start the statute of limitations all over again. If you're unwilling to handle all this yourself—and it is a lot to expect a layperson to do—a few good law firms handle cases like this. Use the National Association of Consumer Advocates to get a referral, though, and steer clear of any law firm or other outfit that guarantees results or demands enormous fees in advance.

### **Is it Necessary to Pay off Old Debts?**

Legally, you owe a debt until it's paid, settled or wiped out in bankruptcy.

Some people erroneously believe that their obligation ends when a creditor charges off the debt. But a charge-off is essentially just an accounting term. The creditor can continue trying to collect or sell the debt to a collection agency, which can try to get you to pay.

Your obligation to pay doesn't end when an unpaid debt falls off your credit report after seven years. The creditor might not be allowed to report the account, but collection actions can continue.

Similarly, your state's statute of limitations defines how long a creditor or collection agency can take you to court over a debt. But even if you can't be sued, a creditor or collector can still ask you to pay.

Given all that, shouldn't you just pay what you owe if you can?

Many people would say yes, pointing out that we have a moral obligation to pay the debts we incur. But the answer to this question is actually trickier than it might appear for several reasons.

### **How Paying Old Debts May Hurt Your Score**

This seems unfair because you're trying to make good, but that's the way credit scoring often works. When the creditor or collection agency updates your credit report to reflect the payment, the date of the new activity can make the old, troubled account look more recent to the

credit scoring formula. Because the formula is designed to weigh recent behavior--good and bad--more heavily than past behavior, anything that looks like you've incurred recent problems is likely to hurt.

*“It would seem that the score should improve if someone fulfills his end of the bargain by paying off a bona-fide debt.”* Many folks would agree with this, but unfortunately, that's not how the formula works.

### **How Getting in Touch With an Old Creditor Can Be Harmful**

Each state has different guidelines on how long a creditor can sue you over a debt, but many states have provisions that allow this statute of limitations to be extended if you make a payment on an old debt or even acknowledge that you owe it. You could be making a good-faith effort to pay your bill, but the creditor could use that as an excuse to haul you into court and get a judgment against you--an action that might not have been permitted if you had just left the debt unacknowledged and unpaid. The judgment would be a new and serious black mark on your file that could be reported for another seven years.

### **You May Not Be Dealing With the Original Creditor**

The company that you owe the money to might have long cleared the debt off its books, taken a tax write-off for the loss, and sold the debt--usually for pennies on the dollar--to a collection agency. The original creditor might not accept money if you tried to offer it, but would instead direct you to the collector. Many people understandably feel less obligated to a collection agency that bought their debts for a tiny fraction of face value than they do to the company that originally extended the credit.

### **The Possibility of Exposing Yourself to Being an Identity Theft Victim**

Despite laws designed to curb them, many collection agencies employ people who harass, abuse, and lie to borrowers. They might scream at you, use obscene language or threaten you with jail time (all of these actions and tactics are, of course, illegal, but that doesn't deter the callers). I have repeatedly received calls from some of these people asking me to sell my collection accounts to them. They even go as far as telling me that they are an investigator with the District Attorney's office and I must sell them my collectable accounts or may face legal ramifications. The methods these people often use to collect debts are truly shocking and outrageous.

Even if collectors are polite to your face, they might do things behind your back to further endanger your financial life. Collectors might promise to drop a harmful remark from your credit file and then not follow through or make the black mark even worse. They might arrange a deal that they say will settle your debt and then sell the unpaid portion to another agency that renews collection activity. Or, they might report any debt you didn't pay to the IRS, and the so-called “forgiven” debt can be taxed as income.

More than a few collectors feel that anything they do is justified because--don't you know--debtors are *bad people*. Collectors have written me insisting that debtors are actually thieves and deserve what they get. The fact of the matter is that owing money is usually not illegal, but violating fair credit reporting and collecting laws is illegal, which remains a distinction that completely escapes them.

You might still decide to brave all this and try to pay off an old debt. You might feel a strong moral obligation to do so, regardless of the potential consequences. Or you might need to settle a debt because you want to get a mortgage sometime soon (lenders typically won't give you a home loan with an open collection on your report. If you want a mortgage before the account is scheduled to drop off your report, you're probably better off paying the collection sooner rather than later so that your score has more time to recover).

If you decide to proceed, make sure you've done your research on the statutes of limitations that apply (it's tricky, but you can conduct an entire settlement negotiation with a collector without ever acknowledging that you owe the debt and most attorneys & consultants would recommend that's exactly what you should try to do).

If you're still dealing with the original creditor, you should try to get them to report your account as positively as possible in exchange for your payment. Having the account reported as “**paid as agreed**” would be good. Having the account reported as “settled,” however, could leave your score worse off than if you'd left the account open and unpaid. Some credit repair veterans have had luck getting the creditor to stop reporting the troubled account altogether in exchange for payment, which could be great for your score, although the bureaus strongly discourage this.

If you're dealing with a collection agency, though, push hard to

have the entire account deleted. You will have the most leverage if you can make a lump sum payment rather than having to make payments. Remember: Any updating that the collection agency does--even if it's to report that you've paid your debt--can make the black mark appear more recent than it is and hurt your score.

If, on the other hand, you decide that the cost of paying old bills is greater than the payoff--well, you wouldn't be the first. Some people just decide to donate to their favorite charity an amount equal to the unpaid debt and call it a day.

### “But You've Got the Wrong Guy!”

It's not uncommon for debts that you don't owe to pop up on your credit report. Thanks to identity theft, credit bureau mistakes, and greedy collection firms, this happens way too often for comfort. You might find yourself truly on the hook for a debt you didn't personally incur.

How can that happen? Here are two of the most common ways:

- **You cosigned a loan for someone else** – If that person doesn't pay, you're legally obligated to foot the bill otherwise any delinquencies, charge-offs or collection actions that are related to the debt will be reported on your credit file. The creditor isn't even required to notify you if the other borrower defaults. The first time you find out about it might well be when it pops up on your credit report.
- **It's a joint account even if you have since divorced the other account holder-** This one gets people all the time. It doesn't matter what your divorce decree says about who was supposed to pay what. If it's a joint account, it's a joint debt. Your ex can easily trash your credit & credit history or report by not paying a joint credit card or mortgage. That's why it's so important to close joint accounts and refinance mortgages and other loans before a divorce is final. I'll go into more detail in Chapter 10, “Keeping Your Score Healthy.”

What if you're just an authorized (rather than a joint) user on someone else's account, and that person's negative information is showing up on your report? If the person added you to the account after opening it and didn't use your income and credit information to get the credit, you should be able to get the information removed from your report.



If, however, the person used your information and forged your signature to qualify, you might need to file a police report to get the creditors to eliminate the information. See Chapter 7, “Identity Theft and Its Effects On Your Credit,” for more details.

## **Part 2: How to Get Positive Information Added to Your File**

There's more to credit repair than just getting rid of the negative information. You need to ensure that any positive information that can be included in your file actually is and it is yours.

### **Make Sure to Get Positive Accounts Reported**

You know that the credit bureaus typically don't share information, but it can be frustrating if one of your good, paid-on-time accounts doesn't show up on all of your credit reports.

What's worse is when a credit account isn't reported at all. Some creditors simply don't bother to use credit bureau services and others—usually subprime lenders--deliberately hide the histories of their best customers for fear that their competitors will swoop in. Although you can't force a creditor to report an account to a bureau or report more frequently, you can always ask.

Sometimes it's all but impossible to get your on-time payments recorded. Most landlords, utility companies, and phone companies will only report you to the credit bureaus if you screw up (so be sure you don't screw up).

### **Try to Borrow Someone Else's Good History**

No, I'm not suggesting that you commit identity theft. Being added to someone else's credit account as an authorized user can instantly improve your credit report if that person's credit is in good shape (the opposite can also happen, so make sure you pick the right person). A cooperative credit issuer imports the card user's account history into your report so that you can benefit from the other person's good financial habits. Not all credit issuers do this import, though, so it's important to call first and ask for it, but this practice is not supported after the collapse of the housing industry.

There's another plus to being an authorized, rather than a joint, user: You're not liable for any debt the original account holder runs up.

### **Get Credit or Charge Cards**

You need to actively use some plastic to rebuild your score.

Although it's anybody's guess how many cards are optimal, it's a safe bet that you'll eventually need more than one--but less than a dozen.

If you still have accounts you can use, that's great. If your accounts have been closed, you'll need to start from scratch. The plan is outlined in the following sections.

### **Apply for a Secured Card**

Secured cards give you a credit limit that's generally equal to the deposit that you make. You want a card that reports to all three credit bureaus, that doesn't charge an application fee or outrageous annual fees, and that converts to a regular, unsecured card after 12 months or so of on-time payments. Bankrate.com has a whole section on secured cards, including current information about which bank is offering what, but talking to the bank you have accounts with is the best bet.

### **Apply for Department Store Cards or Gas Cards**

These cards tend to be the easiest unsecured plastic you can obtain. After you've had your secured card for a few months, apply for one of these and perhaps a second one about six months later. Don't rush this process because applying for too much credit in a short time period can hurt your score.

### **Obtain an Installment Loan**

You might take out a small, personal loan from your bank or credit bureau and pay it back over time. Or you might go for a high-rate auto loan & pay it on time. Making payments on time can build your good credit history.

### **Find a Cosigner**

If you can't get a loan on your own, you can try to find a cosigner to facilitate the deal. But realize that person is putting his credit history on the line for you. If you mess up, your cosigner pays the price because they're just as legally obligated to pay the debt as you are. Before cosigning, a cosigner must think three times instead of twice just to be safe.

### **Review and Consider the Correction of Your Credit Limits**

This is a point that many credit rebuilders unfortunately overlook. A big chunk of your credit score has to do with how much of your available credit you're using. If the credit limits are showing up on your report as lower than they actually are, your debt utilization ratio

will be higher than it needs to be. You can use the dispute process, but it might be just as expeditious to call your creditors and ask them to update your credit bureau files.

### **Part 3: Properly Use Your Credit**

You might want to review the information in Chapter 3 on improving your score the right way. If you're rebuilding after a disaster, you need to be particularly careful about what's discussed in this section.

#### **Pay Your Bills On Time**

Remember: The biggest chunk of your credit score is likely to be your payment history and even one late payment can be devastating. Become religious about making sure all your bills are paid on time, all the time.

If you get an installment loan, set up an automatic payment system either by direct withdrawals from your checking account or automatic recurring payments through an online bill paying system. Leave nothing to chance that can mess up your credit and credit report.

#### **Use Your Available Credit**

Make a few small purchases every month with your plastic, but not more than you can pay off each month. If you worry that you'll give in to temptation if you carry your card with you, arrange to have some small monthly bills, such as your newspaper subscription or health club dues, charged to the card each month. Then set up an automatic payment from your checking account. That way the card is being used and the bill is being paid without your having to think about it.

#### **Keep Low Balances on Your Credit Cards**

Somebody who has good credit can occasionally afford to run up a big balance on a credit card. You, my dear, cannot. It doesn't matter if your credit limits on your new cards are ridiculously low. You never want to use more than about 30 percent of the limits you have.

How will you know? You can keep track of your purchases in a checkbook register or just check your balances frequently at the card's website. Personal finance software such as Quicken or Money can also help you keep track.

Remember: These cards are not for your convenience and they certainly shouldn't be an excuse for you to carry debt. The plastic you have now is meant to help rehabilitate your beaten-up credit.

### **Keep Yourself on Track**

It's never a good idea to apply for a bunch of new credit in a short period of time. That's particularly true when you're trying to rebuild a score. It's not a bad idea to wait at least six months between applications for credit. Don't apply for cards just to see if you'll be accepted or not, and do try to target your applications to lenders that are likely to want your business.

#### **Credit Repair Mistakes That You Shouldn't Commit**

You can see from the information in this chapter that fixing your credit can be a long and involved process with many opportunities for the novice to make a mistake. Three of the biggest mistakes you should avoid are spelled out below:

#### **Hiring an Instant Credit Repair Company**

The Federal Trade Commission is constantly trying to stamp out scam artists promising instant credit repair, but, like cockroaches, they always return. You can pretty much assume a scam if the company guarantees its results in advance, wants to charge you a big, upfront fee or suggests you can create a “new” credit report by using a different social security or taxpayer identification number.

Most people can handle their own credit repair without paying big fees or committing fraud. If you run into problems, look for a legitimate law firm through the National Association of Consumer Advocates at [www.naca.net](http://www.naca.net) for help or find a person who has experience in dealing with credit repair matters or hire a paralegal, but don't get into hiring a fake person or cheater.

#### **Conduct Your Credit Repair Communication in Writing**

The phone is not your friend. Although you can and should take copious notes if you ever have to have a phone conversation with a creditor, collector or credit bureau, you're much better off conducting credit repair in writing.

#### **Reviewing the Statute of Limitations**

States have differing rules about how long a creditor can sue you over a debt, with most limiting the period to three to six years. Making a payment on an old debt or even acknowledging that you owe it, can revive that statute and leave you vulnerable to a lawsuit. Make sure you know the rules for your state when dealing with old debts.

## Identity Theft and Its Effects On Your Credit

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### Identity Theft and the Internet: Protect Your Credit

Most internet shoppers who use credit cards for their purchases realize that their credit card information is usually safeguarded. Because of this, they feel confident when completing online credit card transactions. The popularity of online shopping continues to increase in spite of news stories that focus on major security breaches endangering hundreds of credit card numbers. What you may not realize is that credit card dangers may still lie in wait on the internet. Hackers are increasingly targeting smaller, commercial websites in their search for unprotected credit card numbers.

Some of these hackers are even able to gain real-time access to these small websites as they complete transactions. With this information, these thieves are able to steal valid credit card information and quickly make a large number of fraudulent charges.

While these identity thieves may have fewer potential victims at these smaller websites, they are often able to operate with more ease due to defects in the software the sites use for online order processing or outsourced website security. Professionals in fraud prevention are aware that many smaller websites rely on generic shopping card software that they may not always keep updated with the latest software security patches.

Unfortunately for victims of identity theft, the stolen credit card number may be merely the first step into a nightmare world of identity theft. The criminals who actually steal credit card information often do not use it themselves, but actually sell it to other scammers through underground chat rooms. The theft of your credit card data, if combined with other personal information, can allow an identity thief to gain additional information about you, which leads to greater losses.

Victims of identity theft may actually find charges made at the very websites that sell online background checks. The thief may use this website to run consumer background checks that will help such fraudsters to create a more complete file on you or another victim to further aid in their identity theft. A thief who starts with a simple credit card number may eventually get hold of an identity theft victim's phone

number, address, e-mail address, and other information that can be used to gain more access to the target or open up new lines of credit in their victim's name.

The worst part is that it may take time to notice that someone has stolen your identity or is even simply using your credit card. A transaction as simple as a one dollar donation made to a charity's website on your credit card bill may actually be the work of one of these criminals. The signs of an internet thief can be found in such small, unexplained charges because they allow the thief to find out whether a credit card is still valid or not.

Luckily, there are actions being taken to continually make the internet a safer place to shop. The danger to credit card data at internet merchant sites has become serious enough that major credit card companies such as Visa and MasterCard have threatened to fine online businesses that fail to take steps towards meeting stricter security guidelines.

These problems included missing or outdated software security patches, misconfigured web servers, and the use of vendor-provided default passwords and settings. All of these problems are violations of the new credit card industry standards.

All merchants, but especially those operating online, have to become more aware of the threat from hackers and be willing to make the effort to protect against it.

Consumers also need to be aware of what internet sites are actually taking the necessary precautions to guard credit card information. Some of those shoppers who simply found the least expensive internet vendor possible through a bargain shopping website have become the victims of identity theft. As a credit card holder, you need to make sure that any site you shop on is taking all of the necessary steps to ensure the security of your credit card transaction. There is no real value to saving a few dollars if you end up losing the most important thing of all – your identity.

### Identity Theft & Credit Card Fraud – How to Protect Yourself

Identity theft occurs when one person's identification (which can include name, social security or social insurance number or any account number) is used or transferred by another person for unlawful activities. It is one of the fastest growing crimes in North America. The

consequences of identity theft can be staggering. Victims spend extensive time closing bad accounts, opening new ones, and fixing credit records. There can be high out of pocket expenses related to clearing your name. You could be denied loans and jobs, and you could even be mistakenly arrested as a result of crimes committed in your name.

The Federal Trade Commission estimates that as many as 10 million Americans have their identities stolen each year. It sounds like a big number, but it isn't. In fact, an FTC-commissioned survey found that 27.3 million Americans have been victimized in the past five years, including 9.9 million people in the past year alone.

**The annual costs of this crime are staggering:**

- \$48 billion in annual losses for business and institutions.
- \$5 billion in out-of-pocket expenses for consumers.
- 300 million hours spent by consumers trying to resolve the problem, stop the fraud, and clear up their credit reports.

Identity theft encompasses a variety of crimes, from stealing someone's credit card number to opening accounts in the victim's name. About 15 percent of victims report that their identities were stolen for purposes other than obtaining credit, such as to get government documents, commit tax fraud or mislead police. It's relatively common, for example, for someone to give a phony name and social security number when arrested or stopped for a traffic violation.

Thieves tend to do the most damage when they can take over your identity wholesale. By pretending to be you, they can open up credit card accounts, get an auto loan, be treated at a hospital or rent an apartment. When the bills are due, they don't pay—and those delinquencies, charge-offs, collections, repossessions, evictions, and judgments wind up on your credit report, sending your credit score astray.

This kind of “new account” theft costs, on average, \$10,200 per victim and makes up nearly 70 percent of the costs incurred by businesses and financial institutions. The out-of-pocket expenses for consumers tend to be higher as well--\$1,200 compared to the average \$500 when all types of identity theft are considered and averaged and divided by the total numbers of consumers living in the United States of

America.

The FTC's estimate of the time that consumers spend clearing up problems—30 hours on average—was decried by many identity theft experts as far too low. The Identity Theft Resource Center said that many victims spend 300 to 600 hours dealing with the various problems that identity thieves can cause or pay between \$1,500.00 to \$5,000.00 per year to fix the problem.

For one, the hysteria has been stoked by much-publicized data breaches. In reality, identity theft only touches a sliver of the U.S. population each year (about 3%). One-quarter of those cases are credit-card fraud and not full-blown identity theft, according to FTC figures. The credit-card fraud occurs when a thief uses your credit card to make purchases. More serious is when someone uses your information to open up an account or take out loans in your name. That's when you'll have to fight to get your credit restored and your name cleared, an arduous process that can take months or years to complete.

In response to concerns over identity theft, numerous companies and financial institutions have stepped in with products that monitor your credit, reimburse you for lost wages or funds, and guard your identity. Some employers also now offer ID theft insurance to help you reduce the amount of time and money spent resolving the crime, so check with your company's benefits specialist about your eligibility of identity theft protection and identity theft insurance.

**How Identity Theft Happens**

**Top 5 ID Theft Scams**

With all the money flowing in and out of retailers and through credit cards via online shopping, it isn't any wonder that scammers want to keep trying to get a piece of this pie. Your identity may not seem like a big deal to you, but for someone trying to get a lot of free money, you are their next little gold mine and targeted victim of fraud. Before they can get a single penny of yours, they have to get your information. Here are some of the ways they might try to get your identity:

**1. Going Phishing**

Phishing is a term used for a specific type of online identity theft scam. It has become more prevalent in emails, in which the sender requests your personal information. They make it look as legitimate as



possible, such as the phishing scam that appeared for eBay users claiming there was a problem with their account and they needed to provide their user name, password, and other sensitive information for the problem to be corrected. Thousands of people fell victim to this identity theft scam everyday, even though eBay made sure to alert all users, telling them that eBay would never request sensitive information like passwords. This goes for all other businesses and banks as well.

## **2. Help Me!**

Somewhat similar to the phishing scam, the thief will attempt to get your information by sending you a different sort of letter. Instead of appearing like an actual business, they claim to be from a foreign country, such as Nigeria, Russia, or elsewhere, and ask for you to help them move money from their country to the US. They can either be embezzlement claims or simple please help requests. For the specific Nigeria 419 letters, people actually travel overseas to help move the money and find themselves in bad situations, losing money or even their life. Other people simply hand over money or information and never hear from the contact again.

## **3. You Won!**

Congratulations! You've won \$100,000.00 or \$1 Million! That is the basic layout of another scam. However, in order to receive the item, you have to provide all your information, including credit card or debit card information in order for the shipping and handling costs to be covered. Remember; when you pay online with a debit card, you should never be asked for your PIN number. And think; what contest did you enter in order to win such a great prize? My good friend, who is a radio host and a business owner in Fresno, became a victim of this type "you won a lottery"; both husband and wife were slapped with 20K.

## **4. Can I Have Your Number, Please?**

Fake phone calls have been a huge source of identity theft. This method is also similar to the phishing scam, though instead of email, the thief makes a call to your phone claiming to be your credit card company, bank or a different business offering extra services to your card. Not long ago a group in Canada was caught offering bogus services. All they needed to give you the service was your credit card information. Never give anyone any sensitive information over the phone unless you know you are explicitly dealing with your credit card

company or bank.

## **5. Secret Skimming**

Stealing your identity couldn't be easier if a thief has a good skimmer. This is a device that allows them to swipe your card and then make a fake one using all of your information. This means the card is under your name and the information can be sold just about anywhere from Europe to Latin America. A scary thought is that at a restaurant when you pay with your card, your server takes it and after swiping it through the cash register can swipe it through a skimmer as well. It's that simple and skimming can also take place at ATM machines.

Always monitor your credit card bills and bank statements so you can stay on top of any abnormal purchases. The instant you see one, immediately call your credit card company or bank and have the account flagged or frozen to stop the thief from getting any more money. Close your account immediately and report to your local police department as well as to the credit bureaus.

Identity thieves frequently open new accounts in your name. They often apply for new credit cards using your information, make charges, and leave the bills unpaid. It is also common for them to set up telephone or utility service in your name and not pay for it. Some victims have found that identity thieves applied for loans, apartments, and mortgages. Thieves also often access your existing accounts. They may take money from your bank accounts, make charges on your credit cards, and use your checks and credit to make down payments for cars, furniture, and other expensive items that you never owned or received as the owner of your own identity.

Unfortunately, thieves often use a stolen identity again and again. It is very common for victims to learn that thieves have opened and accessed numerous accounts, often over a long span of time. One of my clients has LifeLock on his accounts as protection, but after all of the precautions, someone has opened a new account under this client's name.

Four out of five victims have no idea how an identity thief obtained their personal information. Among those who think they know what happened, many believe the identity theft occurred when their purse or wallet was stolen or lost. Thieves also steal identities from the trash - this is called *dumpster diving* - and it can occur at home, at work or

at a business. Mail can be stolen from your home mailbox, from a drop box, at businesses, and even directly from postal workers. Home computers can be infected with viruses that transmit your data to thieves, including access to your computer system.

*Pretexting* is a method of identity theft that is on the rise. The identity thief poses as a legitimate representative of a survey firm, bank, internet service provider, employer, landlord or even a government agency. The thief contacts you through the mail, telephone or email and attempts to get you to reveal your information, usually by asking you to *verify* some data.

Victims of identity theft often find that someone they know has committed the crime. Roommates, hired help, and landlords all have access to your home, and it is possible for them to access private information.

Identity theft within families is also fairly common. Identity theft often goes undetected. Within a month of being committed, half of the crimes still remain unnoticed. One in ten stays hidden for two or more years. Identity thieves may change "your" address on an account so that you won't ever receive the bills with the fraudulent charges on them. They will often pay the minimum balances on accounts they have opened, so as to avoid calling attention to the account and having it cut off.

### **Do You Need Identity Theft Protection?**

Before examining the services available, try these common-sense, no-cost measures to protect against identity theft and fraud:

- Clear your logins and passwords. This is especially important if you've been working on a public computer. Change logins and passwords monthly.
- Pay for online purchases with your credit card, which has better guarantees under federal law than your online payment services or your debit card.
- Be alert for phishing, a trick in which spam or pop-ups mimic legitimate banks or businesses to obtain your personal information, which they use to access your accounts. Always verify that you're on a familiar website with security controls before entering personal data.

### **Monitor Your Bank and Credit Card Statements**

Check your accounts regularly so you know when something's awry. Purchases you didn't make should be obvious—like a gas fill-up halfway across the country.

### **Verify Your Mailing Address with the Post Office and Financial Institutions**

Identity bandits may fill out change of address forms so that delinquent credit notices remain off your paper billing radar.

### **Monitor Your Credit Report**

By law, you're entitled to a free report every year from each of the three bureaus (Equifax, Experian, and TransUnion). Request one every four months, changing bureaus each time. You can order the report directly through each agency or at [annualcreditreport.com](http://annualcreditreport.com). Use this URL—there are hordes of knockoff sites that will try to charge you for your report and other needless services (and don't fall prey to faux free credit report advertisements). Scan your report for abnormal activity such accounts or credit cards you didn't open.

### **Shred Sensitive Documents**

Buy a shredder and regularly shred outdated bank statements, credit card applications, bills, and anything with your personal information before tossing it into the trash or recycling. Junk mail often includes some of your personal details.

Does it make sense to pay for ID theft protection if you've taken all these precautions? It depends on your spending habits and overall level of precautions you use. You might want to invest in an identity theft protection service if:

- You do lots of online banking or shopping.
- You don't have time to monitor your information on your own.
- The thought of investing time and money into recovering from an identity theft sickens you.

### **Picking the Right Service**

Before you spring for identity theft protection, which, at a minimum, is likely to set you back at least \$150 a year, consider the no-cost measures you can take to protect yourself. Remember, despite the hype, the odds of having your identity swiped are actually quite low. And

no identity theft protection is bulletproof, so consider these factors before you buy. Also consider the example I mentioned in this chapter about one of my clients who after having protection still became a victim of identity theft.

First, decide whether you'd like to purchase the services of a dedicated identity theft protection firm or one of the products offered by your bank or insurer. Many banks now offer customers daily credit checks that alert them to fishy activity in their accounts. Some will also provide insurance to repay lost wages or legal fees incurred as a result of identity theft or fraud. Other plans assign you a caseworker to help restore your credit. You can also try to bundle identity theft insurance with your home or auto coverage. Be wary of this kind of insurance, however, these policies can be riddled with exclusions that may prevent you from ever collecting in the event of theft.

Then there are the specialty companies, LifeLock and TrustedID are two of the most prominent that market themselves as identity theft protection experts. These companies offer a mix of preventive and reactive tools to maintain your identity and credit, the most common being fraud alerts and credit freezes.

### **Fraud Alerts**

Some identity-theft protectors will immediately place fraud alerts on your files with the three main credit bureaus, whether you've been victimized or not. In essence, it forces any bank or credit agency to balk before approving credit requests in your name. It's not foolproof, though. The law only requires the creditor to take reasonable precautions before extending credit. This may only be a speed bump for a practiced thief, so don't consider it a guarantee that your identity won't be swiped or breached.

### **Credit Freezes**

Freezes are far more effective than alerts. Icing your files prevents any company from accessing your credit unless you already do business with them, effectively sealing your records against any new creditor. Freezes can be a pain if you're seeking a mortgage or student loan, or any form of credit. You'll have to contact the bureaus to unfreeze your records, which can take up to three days. Plus, the credit bureaus normally charge a small fee whenever you freeze and unfreeze your files. Credit freeze rules vary by state.

Alerts and freezes are two measures you can take yourself, so consider whether you want to pay a company to do it for you.

If you've detected fraudulent activity, notify the financial institution where the fraudulent activity occurred first so they can freeze your account. Depending on the situation, you'll need to file a complaint with the FTC and your local police department, as well as investigate all of your other accounts. And keep a vigilant eye on that credit report.

Often, the biggest time-consumer is trying to get fraudulent accounts expunged from credit reports. Many victims complain they get the runaround from credit bureaus. The bureaus say the problem is lenders who continue to report account information to the bureaus even after they've been told the accounts might be fraudulent. Either way, the ID theft victim gets squeezed. Mr. Chahal, a successful businessman in Fresno, California, spent months trying to convince the three credit bureaus to remove delinquent accounts from his credit report before finally giving up and having LifeLock placed on his account.

Mr. Chahal was unable to get a mortgage and he does reflect the frustration experienced by many identity theft victims trying to clear their names.

Even if you're successful in getting your report cleaned up, your work might not be done. After identity thieves find someone who has good credit, they can strike over and over again.

Here are just a few of the ways your identity can be stolen.

- You give your credit card to a waiter in a restaurant. Out of your sight, the waiter runs the card through a small, handheld device called a skimmer. All of the relevant information contained on your card's black magnetic strip, including your name and the account number, is stored in the device and can be used to create new cards.
- You fill out an application for credit, an apartment, insurance, or employment. A crooked employee sells the information to a ring of identity thieves or uses it them self to open accounts. Or perhaps the employees are honest, but the business tosses the application into the trash, where any dumpster diver could find it.
- Hackers break into online databases where your personal financial data is stored. In February 2003, one such thief accessed eight million credit card numbers stored by a company that processes

transactions for Visa, MasterCard, American Express, and Discover. Another hacker snuck into a California State government database and scored the names and social security numbers of 265,000 state employees, including the governor and all 120 legislators.

- Thieves pretending to be legitimate lenders, or again, dishonest employees of actual lenders, obtain credit reports from the bureaus and use the information to open new accounts. One example: Thieves posing as Ford Motor Credit Co. personnel stole credit reports for more than 30,000 consumers, causing at least \$2.7 million in losses.

You might notice a common thread to these examples: There's precious little you, as an individual, could have done to prevent these crimes. Sure, you could stop using plastic at restaurants, refuse to fill out any more applications, and cancel all of your credit cards, but there's still enough information about you floating around out there for a thief to use.

This is a point in most identity theft issues, which tend to focus on simplistic solutions like, "Buy a shredder!" and, "Get a locking mailbox!" Yes, these measures can help, and later in the chapter you'll find quite a few more preventative suggestions. But they don't change the fact that much of your exposure to identity theft is beyond your control.

If you really want to see why identity theft is an epidemic, look no further than your own wallet. Chances are, if you have one credit card, you have five, and just about every chain store you walk into is trying to get you to apply for another card. Lenders are so desperate to extend credit cards or credit limits that they offer instant credit to you and send out billions of preapproved applications, and mail customers so called "convenience checks" that thieves can fish out of the mail or trash. You've probably heard the stories about dogs being sent credit card applications ([www.bankrate.com](http://www.bankrate.com)).

Even without a prefilled out form, identity thieves have discovered that getting approved for new credit is pretty easy. Many lenders don't require photo IDs, and some accept incorrect addresses and misspelled names. Often all the thief needs is your social security number and an approximate spelling of your name.

Simply put, the answer is money. The more credit that lenders and retailers can extend, the more money they can make. Speed is key, and most lenders' computerized processes are designed to make decisions in minutes, if not seconds. If the decisions are wrong, most lenders can easily absorb the costs of the resulting fraud. The costs that consumers pay in out-of-pocket expenses, time, and legal fees trying to clear up their credit reports aren't taken into account.

Incredibly enough, some lenders are in such a hurry that they even ignore fraud alerts, which are the flags that identity theft victims can put on their credit reports to let lenders know their credit has been misused and to indicate that they want to be contacted personally if credit applications are submitted in their names. Some lenders feel the extra step is too expensive, whereas others never see the alert because they buy truncated credit information that doesn't include the red flag.

All these problems finally prompted Congress to pass new laws in 2003 that might help identity theft victims get back some control of their lives. Most of these changes, contained in the Fair and Accurate Credit Transactions Act (FACTA), will be phased in over time, so it's too early to tell how effective they'll be. According to a summation by Consumers Union, the law includes the following provisions:

- If a fraud alert is on a consumer's credit report, lenders will be required to phone the consumer or take other "reasonable steps" to verify the applicant's identity before issuing credit or raising a credit limit. The alert must be included with any credit report or score sold to lenders.
- Any consumer will be able to put a 90-day fraud alert on his or her credit file. The alert can be extended for 7 years if the consumer provides an *identity theft report*, such as the ID theft affidavit provided by the Federal Trade Commission, as long as the report is filed with a local police agency. Those who file for extended alerts are automatically kept off the marketing lists that sell to credit card companies and other lenders.
- When a consumer files a fraud alert with one bureau, that bureau will be required to contact the others so that alerts can be put on their records as well.
- Credit bureaus will be required to stop reporting accounts or account information that a consumer identifies as fraudulent if the consumer



provides an identity theft report filed with a police agency. This procedure is known as *trade line blocking*.

- After a bureau informs a creditor that a block is in effect, the creditor must have “reasonable” procedures to keep it from reporting the bad information again and “repolluting” the consumer's file.
- When a block is in effect, creditors will not be able to sell or transfer the debt to a collection agency. If the debt is already in collections, the collector will be required to notify the original creditor that the debt might be fraudulent and to provide the consumer a notice of his or her collection rights—if the consumer asks for such a notice.
- Businesses where a thief has opened accounts will have new duties to produce records that the ID theft victim might need to clear his name. The businesses, however, might require the ID theft victim to get an actual police report (which is different, and more difficult to get than an affidavit filed with a police agency).
- Credit card machines will be required to truncate all credit and debit card numbers on receipts by 2007, and consumers will be able to request that the credit reports sent to them truncate social security numbers.

Will these measures help? Identity theft experts worry that Congress gave lenders several big loopholes, such as allowing them to take “reasonable steps” for identity verification rather than requiring phone contact. They note that many law enforcement agencies still refuse to take identity theft seriously and won't create police reports or accept affidavits. They point out that creditors and credit bureaus are already prohibited from reporting false information by the Fair Credit Reporting Act. If those laws haven't worked, they wonder how will the new laws? Time will tell. In the meantime, you need to be vigilant about monitoring and protecting your credit. In addition to these, all police agencies don't investigate identity theft until there is a major crime, furthermore, some victims are even victims of identity theft multiple times. You need to monitor your credit report and you need to protect yourself acting in pro-per.

### **How to Prevent Identity Theft--Steps to Prevent Fraud**

Think about taking care of your identity on a regular basis just like you take care of your health. Some things you should do every day, like brushing your teeth and taking vitamins. Other actions should be

taken once or twice a year, like getting dental checkups and an annual physical. There are several things that you can do to reduce the possibility of having your identity stolen.

### ***Change Your Daily Routine At Home***

- In the home, keep personal information safe, especially if you have roommates or are having any work done in your home. Do not keep Personal Identification Numbers (PINs) near your checkbook, ATM card, or debit card.
- Shred any papers with confidential information before you throw them out - even the junk mail. Anything with an account number can be used in identity theft. This includes prescreened credit card offers, receipts, canceled checks, bank statements, expired charge cards, doctor's bills, and insurance documents.
- Since many identity thefts are traced to having a purse or wallet stolen, carry as few cards with identification and personal information as possible. Do not keep your social security number, and keep as few credit cards as you can in your purse or wallet.
- You should be wary of any mail, telephone, or internet request for information - it could be *pretexting*. Unless you initiated the contact with a business, don't give out any confidential information - such as your credit card number, social security number, PIN, birth date, or even your mother's maiden name. Also be careful of unexpected emails that look as if they are from a legitimate company asking you to enter some information at a linked website; phony websites can look real. Make sure your family members also know not to give out any information to others.
- Check your banking and credit statements soon after you receive them and make sure there is no unexplained activity. Keep track of when in the month each of your bills usually arrives. If a bill does not arrive on time, call the company to make sure no changes have been made to your account.

### **Out of the Home - Shopping and Services**

- When you sign a credit card slip, avoid putting your address, telephone number, or driver's license number on it. Also, be sure to take your receipts with you to shred at home because *dumpster diving* is very common at large retail areas, such as malls.

- Be particularly wary of giving out your social security number. Few institutions (other than businesses granting you credit, employers filling out tax forms for you, or government agencies) have any reasonable cause to know your social security number.

### ***Get Your Check Ups***

#### **Your Credit Report**

- To stop the crimes as soon as possible, make sure you carefully check your credit reports regularly. Your credit reports are important tools for limiting the amount of damage a thief can cause.
- Contact each of the three major credit reporting agencies to order a copy of your credit report at least once each year. Your credit report will generally contain information on where you work and live, the credit accounts that have been opened in your name, if you own a home, if there are any liens against your home, how you pay your bills, and whether you've been sued, arrested, or have filed for bankruptcy.
- Consider canceling credit cards you haven't used in a long time.

#### **Your Mail**

- Reduce the circulation of your information through the mail. Stop receiving prescreened credit offers by calling 1-888-5OPTOUT.
- You can also reduce direct mail marketing and telemarketing by contacting the Direct Marketing Association. Notify each of the three major credit bureaus that you do not want personal information about you shared for promotional purposes. (This will also reduce unsolicited mail.)
- Consider putting a lock on your mailbox.

#### **Guard Your Information Online**

These days, many of us do most of our shopping and banking on the web. With all those account numbers and passwords floating around, it's easy for someone to nab your information and go on a spree.

- Clear your logins and passwords. This is especially important if you've been working on a public computer. Change logins and passwords monthly.
- Pay for online purchases with your credit card, which has better guarantees under federal law than your online payment services or

your debit card.

- Be alert for phishing, a trick in which spam or pop-ups mimic legitimate banks or businesses to obtain your personal information, which they use to access your accounts. Always verify that you're on a familiar website with security controls before entering personal data.
- Each time, before turning off your computer, delete all cookies and history on your browser. Learn how to do this from your internet service provider's browser help icon.

#### **Buy a Shredder**

Buy a shredder and regularly shred outdated bank statements, credit card applications, bills, and anything with your personal information before tossing it into the trash or recycling. Junk mail often includes some of your personal details, as I have mentioned in this chapter already, but I am repeating it because you as a reader must use these tips.

Does it make sense to pay for ID theft protection if you've taken all these precautions? It depends on your spending habits and overall level of caution. You might want to invest in an identity theft protection service if:

- You do lots of online banking or shopping.
- You don't have time to monitor your information on your own.
- The thought of investing time and money into recovering from an identity theft sickens you.

You can get a shredder for less than \$20 at an office supply store and no home should be without one. Any piece of paper that includes personal financial information or your social security number should be shredded before it's sent to the trash.

#### **Get a Mailbox That Must Have a Lock**

Think of all the bounty that comes into your mailbox—bank statements, credit cards, credit card offers, “convenience checks” you can write against your accounts, health insurance documents with your social security numbers printed on them...the list goes on and on. Many identity thieves simply follow the postal carrier around and snatch what they want from unprotected mailboxes.

#### **Protect Your Outgoing Mail**

Think of all that goes out in your mail, including checks and credit card account numbers on the coupons you use to pay your bills. If you still rely on snail mail to pay your bills, use the post office nearest to you to send all your mail, rather than leaving it out where anyone can get it. Better yet, consider signing up for online bill payment, which offers encryption and other security measures to keep your transactions safe from criminals (hacking incidents typically target big unencrypted databases sitting in poorly guarded mainframe computers, not the heavily protected transactions that zip back and forth between consumers and their banks or merchants.)

### **Keep Track of Your Receipts**

All that a dumpster diver needs to find is a credit card receipt with your full account number printed on it and he's struck gold. These so-called "flimsies" have pretty good street value when sold to identity thieves.

As mentioned before, federal FACTA legislation didn't require merchants to truncate credit card numbers on receipts until 2007. Even then, some didn't change their systems. I still occasionally get receipts with my full credit card number printed on them, even though a similar law has been in effect in my state of California for a few years now.

### **Keep Your Financial Documents Locked and In a Secure Place**

How easy would it be for a repairman to walk off with your checkbook or for a guest in your home to rifle through your files? Most people are perfectly trustworthy, but enough aren't that you should take steps to secure your checks and files and other confidential information, sometimes not only guests or repairman, but your own relatives harm you and damage your credit so bad that it is not even describable.

### **Protect Your Social Security Number**

This nine-digit number was never meant to be an all-purpose identifier, but that's exactly how many businesses use it now. Everyone from your dry cleaner to your vet might ask for it, but few have the right to demand it.

You need to give your social security number to employers, financial institutions, and certain government agencies, such as your state's Department of Motor Vehicles. Your social security number is also important for credit transactions. Many issuers use the number as an

identifier or to run credit checks to determine your premiums (see Chapter 9, "Insurance and Your Credit Score").

Beyond that, though, you should try to keep your number to yourself. If the business insists that it needs the number, you can either do business with someone else or "mis-remember" a digit or nine to protect your privacy.

### **Keep Track of What is in Your Wallet**

Obviously, you shouldn't carry your social security number with you or have it printed on your checks. You should also lobby your health insurer to print "Participant's SSN" instead of the actual number on your card. This system is working fine in California, which lead the nation in privacy protection by insisting that health insurers stop printing the numbers on health cards by 2005. Many had done so well before the deadline.

Beyond that, you should try to carry as few credit and debit cards as possible. The more you carry, the more chances an identity thief has to wreck your credit if your wallet is stolen.

If you have your wallet stolen, don't wait until you get home to report stolen credit cards. Grab your cell or nearest phone and call 1-800-VISA 911 to report missing Visa cards and 1-800-MasterCard to report stolen MasterCards. These are among the most valuable cards to thieves and should be canceled right away. When you get home (or back to your hotel, if you're traveling), you can work on canceling the rest.

It can help to periodically empty your wallet onto a photocopier and get images of both sides of every card, plus your driver's license. This will make it easier for you to report the thefts and get replacement cards (just remember to put the cards back in your wallet and keep copies in a safe place. You don't want to leave your financial life laying around at the local Kinko's).

### **Shredding Policies**

If you're required to give personal financial information to any business or professional, ask how they dispose of old documents. If the business doesn't have a shredding policy in place, take your business elsewhere or press it to institute one. In Georgia and California, state laws don't allow businesses to discard records with personal information unless they first shred or erase the records, or modify them to make the

data unreadable. Wisconsin has a similar law that applies to financial institutions, tax preparers, and companies with medical information.

It's not too much to ask, for example, that your accountant shred copies of your old tax returns, or at least call you so that you can come pick them up and do the same. Ditto for your doctor or any other professional.

### **Keep Your Debit Card With You At All Times**

If your ATM card has a Visa or MasterCard logo, it's known as a debit or check card and can be used just like a credit card without punching in a personal identification number. A thief who swipes it or skims the information off the magnetic stripe can quickly empty your bank account.

The good news is that banks won't hold you responsible for fraud committed with a debit card with a Visa or MasterCard logo, but you can still wind up without money for a few days before the bank restores the stolen cash. That's why it's better to use a credit card or cash anywhere you won't be able to monitor the actual transaction (such as when you hand payment to a waiter in a restaurant).

Don't give your credit or debit cards to anyone else to use. A small but significant portion of fraud and identity theft is committed by family members, friends, and lovers—either current or ex. Some of the most heartbreaking cases are when a parent snatches the identity of a child (see “When Parents Steal,” later in this chapter).

### **Opt Out of Credit Card Solicitations, Junk Mail, & Telemarketing**

The credit bureaus have a toll-free number (888-5OPT-OUT) that allows you to take your name off marketing lists that are sold to credit card companies. Signing up won't eliminate credit card solicitations, but it will cut down the volume significantly. The fewer such offers in the mail, the fewer chances that thieves will have to steal them.

You can contact the Direct Marketing Association to be removed from their mail and phone lists, as well. Write to Mail Preference Service, P.O. Box 643, Carmel, NY 10512 and Telephone Preference Service, P.O. Box 1559, Carmel, NY 10512. Even better, to all but eliminate telephone solicitations, register for the federal do-not-call list at [www.donotcall.gov](http://www.donotcall.gov) or 1-888-382-1222. If a solicitor calls

you after you've been on the registry at least three months, and the caller isn't a charity, survey-taker, political fundraiser, or a company that you already do business with, odds are good it's a scam artist, because a legitimate company would abide by the do-not-call list.

### **Avoid Using a Cell or Cordless Phone to Discuss Financial Matters**

It's pretty easy to intercept wireless signals, or simply to overhear any conversation when you're booming along at your local coffee house.

### **Be Careful of Telephone Solicitors and Email Purporting to be From Financial Institutions**

Don't give out your credit card number, social security number, or other sensitive financial information by email, and don't do it by phone unless you initiated the contact. Even then, make sure that you trust the business before divulging any information.

Criminals have become increasingly proficient at *phishing*, a fraud that typically uses an email purporting to be from your bank or credit card issuer and that directs you to a look-alike website where you're supposed to input your account numbers. If a financial institution contacts you, call them using the toll-free number on your statement rather than a number provided on an email or website.

### **Review & Monitor Your Social Security Statements**

Each year a few months before your birthday, you should receive a statement from the Social Security Administration summarizing your earnings during your working years, plus an estimate of the benefits you and your family can expect. The statements are sent automatically to workers and former workers 25 and older. If you meet those criteria and aren't getting statements, you should call the SSA immediately at 1-800-772-1213 to request the latest copy and make sure your contact information is correct. But now because of deflections, paper statements are not mailed out to consumers and you need to enroll on [www.ssa.gov](http://www.ssa.gov) to review your statements.

It is a good idea to review your statement to make sure you're being properly credited for all the taxes you've paid into the system, but it can also help you spot fraud. Missing earnings or earnings that aren't yours can be a tip-off.



Don't worry too much, though, if your previous year's earnings seem too low. It sometimes takes a while for the SSA to update its information. If that year's earnings are still too low when you get your next statement, contact the SSA.

### Review & Monitor Your Credit Reports

By law, you're entitled to a free report every year from each of the three bureaus (Equifax, Experian, and TransUnion). Request one every four months, changing bureaus each time. You can order the report directly through each agency or at [annualcreditreport.com](http://annualcreditreport.com). Use this URL, there are hordes of knockoff sites that will try to charge you for your report and other needless services. Scan it for abnormal activity, such as accounts or credit cards you didn't open (and don't fall prey to faux free credit report advertisements). **This information is provided multiple times in this book for your convenience so that you can check your credit report at least once a year.**

A few years ago, it was enough to check your credit report annually. Now, many identity theft experts recommend that you review your reports at least twice a year, if not more often. The first hint you might have that you're a victim is often a suspicious entry on your credit report.

Should you spring for one of those credit-monitoring services that promise to do the work for you? Maybe not. Read on.

### Does the Benefits of Credit Monitoring Work?

The public's rising concern about identity theft has prompted the credit bureaus and other companies to see a lucrative marketing opportunity. The result is credit monitoring or services that promise to watch over your credit report and alert you if anything suspicious occurs.

Almost nonexistent 10 years ago, credit monitoring and similar “privacy protection” services are now a \$205-billion plus industry, according to the Center for Social & Legal Research, a nonpartisan research organization.

What credit monitoring can't do is *prevent* identity theft, despite marketers' claims that it provides “protection” against such crimes. Credit monitoring services can't snatch credit applications out of thieves' hands or prevent lenders from opening up accounts for the

wrong people. What the better services can do is give you some early warning that there's a problem, which can give you a head start in cleaning up the mess.

The quality, however, varies widely, and most credit monitoring services have serious drawbacks:

- **They're not comprehensive**—The better services promise to check your report at all three credit bureaus, but typically they provide ongoing monitoring of your report at only one bureau, with only periodic checks of the other two. These periodic checks usually happen once every three months, but they might be annual. Some services stick solely to one bureau and never check in at the other two.
- **They might not provide much of a head start**—The best services promise to alert you within 24 hours if someone applies for credit in your name. Others settle for weekly, monthly, or even quarterly updates. Again, because most don't provide daily monitoring of all three bureaus, ID theft might not be detected for months.
- **They're costly**—At this writing, the cheapest services cost more than \$40 a year for a single bureau's credit report that's updated quarterly. The more comprehensive services cost more than \$100 a year for daily monitoring of one bureau's report, and quarterly updates of the others. To get ongoing monitoring of all three bureaus, you'd need to subscribe to several different services and pay more than \$200 a year.

Being an author of this book, I am not saying or claiming that these credit monitoring companies don't do their work, I am simply saying that money makes the world go around, so it depends on how much are you spending and what service you are getting. It's possible that credit monitoring services will get cheaper and more comprehensive as consumers catch on to these flaws. Also, the new FACTA legislation mandates that everyone be allowed a free credit report annually from each of the three bureaus—a reality that might cut into the credit monitoring business and force it to improve (of course, the FACTA legislation also allows credit bureaus to pitch monitoring services and other products to anyone who requests free reports, so the services might not feel a great need to innovate).

Many ID theft experts suggest that most people are better off

requesting their reports periodically from the bureaus rather than paying for credit monitoring. I personally suggest rotating your requests, so that you first get a report from Experian, then three months later one from TransUnion, and then three months after that one from Equifax. If you keep up the rotation, you'll see each bureau's report at least twice every 12 months for much less than you'd pay a credit monitoring service.

If you decide that you want a monitoring service's help, though, make sure you find out the following:

- How often your report is checked at each bureau and how often those reports are updated;
- How quickly you'll be sent an email if something suspicious occurs. Find out the longest that a problem could appear on your report at any of the bureaus before the service would bring it to your attention;
- How much the service costs and how often you will be charged;
- What other services are provided (identity theft insurance, concierge help in reporting identity theft, etc.) and how you can access those services.

#### **If You Are Already a Victim, What You Need To Do:**

The only good news about the rise in identity theft is that there are now more resources than ever before to help victims. You still need to gird yourself for battle with credit bureaus, creditors, and even collection agencies, but you're not out there alone. There are several steps you can and should take to protect yourself if you are a victim of identity theft.

The Federal Trade Commission has extensive information for ID theft victims at [www.consumer.gov/idtheft](http://www.consumer.gov/idtheft), or you can call 1-877-FTC-HELP (1-877-382-4357) to get free information. You also can find helpful resources at the Identity Theft Resource Center ([www.idtheftcenter.org](http://www.idtheftcenter.org) or 1-858-693-7935) and the Privacy Rights Clearinghouse ([www.privacyrights.org](http://www.privacyrights.org) or 1-619-298-3396), among other locations.

Some financial institutions are remarkably responsive to identity theft victims, whereas others presume that anyone reporting ID theft is a liar until proven otherwise. Either way, you'll want to be assertive, persistent, and relentless in your efforts to clear your name. The Privacy Rights Clearinghouse, the California Public Interest Research Group, and the Identity Theft Resource Center suggest that

you take the steps outlined in the next sections. If you don't live in California, check the Privacy Rights Clearinghouse for your state's complaint centers or just contact your local District Attorney's office or State Attorney General's office.

#### **Make Sure to Document Your Actions**

- Begin documenting the time and money you spend on straightening out identity theft. In some states, any person found guilty of financial identity theft will be ordered to pay restitution to the victim for any financial loss, including lost wages;
- Keep copies of correspondence and documents related to the theft;
- Write records of all telephone calls, including the date and time of your call and the name and title of the person who assisted you;
- Write letters to confirm all phone conversations. Include the date, the name of the person you spoke with, and what actions were taken;
- To be extra careful, send documents and letters "Return Receipt Requested" and keep the postal receipt with your copies and record.

#### **Contact Law Enforcement**

Some jurisdictions are terrific about taking identity theft reports and some aren't, even though it's a federal crime (18 USC 1028) to assume someone else's identity. Immediately call the police to file a report with your local law enforcement. If your identity was stolen when you were away from home, you may need to contact the police in that jurisdiction, too. Be persistent, bring as much documentation of the fraud as you can and try to get the law enforcement agency to list the affected accounts on the report. A police report can help enormously in getting problems resolved with creditors. In these days, you can file an I.D. theft report online with your local law enforcement.

Opening a police case accomplishes two things: First, the police can start investigating the crime. Second, you will need information from the police report to help you straighten out your credit and accounts after the crime.

When you talk to the police, make sure you get the **police report number** and information on how to reach the investigator. **Keep this information with you at all times.** Give this information to all the companies you contact in getting your credit cleared up after the crime. Also, don't forget to collect a certified copy of your police report. When

you are a victim, it doesn't cost you anything.

### Stop the Damage

After you call the police, contact the credit bureaus. Next, contact any credit card companies and banks where your accounts may be at risk.

### Contact Credit Bureaus by Phone and with a Follow-up in Writing

In most cases, you'll want to add a fraud alert to your credit file and to make sure the alert is for 7 years, rather than any shorter period. Fraud alerts can make “instant” credit more difficult to obtain, but you can always cancel an alert if you want.

The bureaus now have a system whereby you need to contact only one for the other two to be notified. Take your choice: You can call **Equifax at 800-525-6285, Experian at 888-397-3742 or TransUnion at 800-680-7289**. The credit bureaus are required to send you a free credit report when you add a fraud alert.

The credit bureaus should be able to supply you with contact information for any creditors that are listed on your credit report.

At this writing, you also have the option, if you're a California resident, of putting a “freeze” on your credit reports. This freeze prevents anyone from accessing your credit report for any reason. You will be issued a personal identification number to “unlock” your file when you need to apply for credit. The freeze is free for ID theft victims and available for a fee to anyone else. The California Office of Privacy Protection at [www.privacy.ca.gov](http://www.privacy.ca.gov) has more information.

- Get all three agencies to flag the accounts with a *fraud alert*. Find out from each credit reporting agency how long the fraud alert will remain on your report and how to extend that time, if needed. Ask that all creditors contact you at a phone number you provide to verify all future applications.
- Add a *victim's statement* to the report; include your name, state the problem, and provide a telephone number where you can be reached.
- Have each credit bureau send you a copy of your report. These reports will guide you in tracing where and when any fraud occurred to your accounts.
- In a few months after you make the corrections, order new copies of your reports to verify your corrections and changes, and to make sure no new fraudulent activity has occurred. Unfortunately, identity thieves often strike the same accounts again and again.

Because of this, it is very important to continue to monitor your credit reports very closely for a while after the initial crime.

### Credit Card Companies

If a thief has gained access to a credit card, contact the security department of that credit card company immediately.

- Close any affected accounts so that they're registered as *closed at customer's request*;
- Get new account numbers and protect the accounts with passwords;
- Follow up with a letter documenting the date, the name of the person who helped you, and what actions were taken.

### Contact Banks to Check Verifications

Inform your bank, if your wallet or purse was stolen or lost. Tell them what bank account information, including account numbers, ATM cards, or checks it contained. If the thief set up phony bank accounts in your name or stole checks, you need to:

- Cancel checking and savings accounts and open new accounts;
- Stop payments on outstanding checks;
- Get a new ATM card, account number, and PIN or password;
- Contact the major check verification companies to report the theft.

Here are some of those companies:

- **CheckRite**—800-766-2748
- **ChexSystems**—800-428-9623
- **Certigy**—800-437-5120
- **International Check Services**—800-526-5380
- **TeleCheck**—800-710-9898

### Contact the Government Authorities

Speak to your banking representative about the appropriate government authorities to contact. It is also good to contact other authorities that specialize in identity theft. In the United States, The Federal Trade Commission (FTC) runs the ID Theft Hotline and the ID Theft Data Clearinghouse (877-438-4338).

*Sources: US Federal Reserve Bank; Office of the Privacy Commissioner of Canada*

### Keep Detailed Notes of all Conversations

Include dates, times, and first and last names, if possible, of everyone you contact (it can be helpful to use one notebook in which you jot everything down so your notes aren't scattered all over the house). Follow up these conversations in writing by sending letters via certified mail, return receipt requested. Keep track of the hours and should be costs you incur; you might be eligible for restitution if the thief is caught and prosecuted.

### **Contact Lenders & Creditors by Phone and With a Follow-Up in Writing**

If someone is using one of your existing credit or bank accounts to run up charges, the bank or lender typically closes the account and issues you a new one, along with some kind of form or affidavit to report the fraud. If new accounts have been opened, the financial institution also asks you to fill out a fraud affidavit. Many accept the uniform fraud affidavit available on the FTC website.

### **Contact the Collection Agencies**

FACTA legislation makes it illegal for fraudulent accounts to be turned over to collections, but that doesn't mean it won't happen—or doesn't help you much if it's happened already.

Dealing with collection agencies can be especially difficult because they're used to dealing with bad debts every day, and have heard every excuse in the book—including many false claims of identity theft. In addition, more than a few collectors are unresponsive, unethical, and abusive in their dealings with consumers. Tread carefully here, but don't give up. The Identity Theft Resource Center has a separate fact sheet (FS 116) on how to cope. The following are some suggestions:

- In addition to keeping good notes and following up in writing (certified mail, return receipt requested), ask for a written statement from the collector outlining any agreements or decisions you discuss. Ask for confirmation in writing that you don't owe the debt and that the account has been closed;
- Stay cool and calm. The more professional you act, the more likely the collection agency will treat you seriously;
- Ask for a supervisor or the company's fraud investigator. Customer service representatives are usually little help;
- Tell the collector that you are a victim of identity theft and you are not responsible for the account. Don't say that you “dispute” the account because collection agencies associate that word with

people who are arguing about the amounts they owe or trying to evade a legitimate debt.

Collection protocols for dealing with identity theft are constantly evolving, so contact the center for more details on your rights and the best approaches.

### **Obtain Legal Assistance**

If your efforts to solve the problem yourself aren't working, you might need to hire a consultant such as a paralegal or lawyer. You can get referrals from your local bar, legal aid office or the National Association of Consumer Advocates at 202-452-1989.

### **Keep Trying and Do Not Give Up**

Be determined to be the last one standing when this is over. Don't pay bills that aren't yours to get a creditor off your back and don't file for bankruptcy. If a creditor or collector threatens you with a lawsuit, jail time or other punishment, point out calmly that such threats are violations of federal debt collecting and credit reporting laws. Then report them to the Federal Trade Commission and your state Attorney General's office, including your local District Attorney's office and keep a record of these correspondence.

### **Identity Theft by Your Own Parents**

Ms. Cabrera (fictitious name) was a Fresno City College student in 2010 when she discovered an awful fact: Her credit score had been trashed by her mother, who had taken out more than eight credit cards in Cabrera's name and failed to pay debts totaling more than \$9,000.00.

*“No one would believe me, not the police, judges, lawyers,” Cabrera said. “I was harassed by collectors telling me I was a liar.”*

*“I have spent so much time in tears, worry, depression, and rage over this ordeal,” she said. “I can't get a new credit card, and when I moved off campus last year, my roommate had to sign the lease because my credit was too bad to get an apartment.”*

What's worse, Cabrera said, is her mother's reaction to the chaos she created in her daughter's life.

*“To this day,” Cabrera said, “she (Mother) still will not admit she did anything wrong.”*

Unfortunately, Cabrera's experience is far from unique. Some parents intercept credit card applications meant for their adult children



and then add themselves to the accounts. Others use their minor children's social security numbers to get utilities, cell phones, or new credit cards. Often, the crimes can continue for years before the victims have any clue what happened or understand the price that they'll pay.

Parental thieves put their victims into a horrific bind in other ways. Many creditors won't drop a fraudulent account unless the victim files a police report, which could result in the arrest and prosecution of the parent. Few children are willing to take that step.

Katie Mann (fictitious name) finally did after being repeatedly victimized by her mother. The older woman first drained Katie's credit union account, and then she applied for utilities in Katie's name.

*"At that time, I didn't really know what to do," Katie said. "No one I knew had ever been in this situation."*

It wasn't until Katie and her husband applied for a mortgage, and two more fraudulent accounts appeared on Katie's credit report, that she finally took action.

*"I really am worried that this will happen again in the future," Katie said. "She will find someone to latch on to, and use them until they find out about it."*

### **When Credit Bureaus Will Not Help**

It shouldn't be that hard to prove you're alive or correct any other mistake in your credit file, for that matter. But sometimes, it is. If you've followed the suggestions in this book and are still slamming into a brick wall, you might need to take extraordinary measures.

Here's what can help:

- **Resolve to be the last person standing:** Many people are appalled at the amount of time and energy it can take to get the simplest problem solved. Those who are tenacious to the point of obsession are in the best position to wear the opposition down. The bureaus, creditors, and collection agencies are counting on you to go away after a few rebuffs; credit repair veterans say they often win their cases by repeatedly refusing to take "no" for an answer.
- **Consult with those who have gone before:** The best tactics for winning the battle is to change constantly as all sides adjust their strategies. Check out credit repair sites like CreditBoards.com, which can give you some ideas and strategies from people who have some experience fighting the

same battles. Just remember to take everything you read with a grain of salt, anyone can post on these boards.

- **Get a lawyer's help:** It's not easy to find a good attorney who's up on the nuances of the Fair Credit Reporting Act and the Fair Debt Collection Practices Act. But they're out there. Once again, you can get referrals from your local bar, legal aid office or the National Association of Consumer Advocates at 202-452-1989. Even if your lawyer isn't crackerjack, the other side might take you more seriously if correspondence about your case suddenly starts coming on the letterhead of Wanger Jones Helsley PC or Mike & Mike Attorneys at Law, etc.
- **Get Congress involved:** Many people are surprised to learn that their U.S. Representative is willing to weigh in on consumer issues, and most maintain a staff to help their constituents. Don't expect your elected representative to get excited about aiding your campaign to delete a \$99 collection from your credit report. But if your story has any outrage factor at all, why can't the bureaus figure out you're alive, or you're not your father, or you're the victim of identity theft? You might be able to enlist their help.
- **Call a local newspaper, television or radio reporter:** Most media outlets have someone who covers finance or consumer issues. An ongoing battle with a credit bureau can be a juicy story, if told correctly. Be as succinct as you can when contacting the reporter (by email is usually best). If you don't get a response, follow up politely in a few weeks to ask if they can refer you to anyone else. You'll probably have the best luck at a smaller newspaper, station, or website. Reporters and columnists at large outlets get so many of these sad stories that they can only follow up on a fraction of the leads. Like the big regulators, they usually wait for a pattern of specific abuses to develop before they act, so your letter might not ever get answered. That doesn't mean you shouldn't try, but if you get no response, aim for a smaller media outlet closer to home.

## **10 Ways for Credit Card Recovery**

### **Step 1: Acknowledge the Problem**

As with any other problem or addiction, the first step towards curing credit card debt problems is simply admitting that they exists. Even if your debt is the result of a situation beyond your control, such as

an illness, job loss, divorce or other crisis, you still need to admit that you are in trouble before you can begin to fix the problem.

### **Step 2: Seek Assistance**

If your damaged credit is a result of compulsive shopping or other emotional or psychological issues, you may need to seek professional help. Professional counseling can not only help you to take control of your credit, but of your entire life. Even if the cause of your credit crisis is something beyond your control, counseling may be helpful. It is often most difficult to recover from those problems that we feel no control over.

Non-profit organizations can also help you gain control of your finances and your life. Their credit counselors will work with you, educating you about consumer credit, money and debt management, and budgeting. These counselors can teach you financial management. Such companies usually provide you with these services without charge and offer free educational materials and workshops.

### **Step 3: Patience is Key**

Whatever the reason for your bad credit, or how serious it is, only time and patience can allow you to re-establish good credit. At best, with a slightly damaged credit history, such as a few late payments, you may be able to catch up and improve your credit in a few months. On the other hand, if there are issues such as judgments, bankruptcies or foreclosures, these are likely to remain in your credit file for seven to ten years. In spite of this, you can begin to improve your credit history and see your credit scores rise within a few years.

### **Step 4: Take Initiative**

Regardless of what has led you to your current situation, the first step to fixing it is taking responsibility for your actions. You may not be able to change or undo what you have done in the past, but you can decide to take control of your current and future finances.

### **Step 5: Examine Your Records**

You need to obtain and scrutinize your credit report from each of the three national credit bureaus: Experian, Equifax and TransUnion. First, determine if the information is correct. Any information that is in error should be immediately reported to the national bureau. Next, make certain that the negative information that is correct is *completely*

accurate. Check that any debts that have since been paid off or paid down are noted in your report to accurately reflect the current situation. Also, find out if any information that is accurate is outdated and legally should not appear on the report.

### **Step 6: Give a Detailed Explanation of Your Errors**

You should add a 100-word written explanation for any problem accounts listed in your report. Send this to the credit bureau(s). Anyone asking for your credit report will then also get a copy of your explanation.

### **Step 7: Change To New Habits**

You must create a new pattern of always paying on time and meeting all financial obligations. *Over time*, your more recent record will begin to make up for the mistakes of the past. This will only happen, however, if you follow your plan, cut back on your spending, and are consistent.

### **Step 8: Clear Your Debt**

Begin paying off your current debt. Unpaid debts are among the most damaging components on your credit report, so this is important to rebuilding your credit. Lenders and collection agencies will work with you to set up a practical payment plan. Decide on a realistic payment schedule that allows you to begin repaying debt while continuing to make all new and current payments on time. You need to show that you are serious and can now be trusted.

### **Step 9: Start Over with New Credit**

Eventually, once your current debt is under control, you will want to open new accounts to help you rebuild your credit. Apply for a credit card or even a small loan from your bank, credit union or local department store. Be honest about your credit history, but show them that you are serious about improving your credit record. Another option is to apply for a secured credit card, use it on a regular basis, and pay in full monthly. As a last resort, ask a relative or friend with good credit to co-sign for a credit card or small loan, but remember that you then put their credit on the line along with yours.

### **Step 10: Consistently Review Your Credit**

Recheck your credit report between a year and 18 months after establishing new accounts. Monitor all information so that it is correct and up to date. From now on, keep a watch on your credit as it slowly but steadily begins to rise.

## How to Fix Your Credit Scores Quickly

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Even if the problems on your credit report are not your fault, they are still going to be a problem to fix. Usually credit repair is a long tedious process that involves making requests twice or even three times before they are fulfilled.

Credit bureaus have 30 days to investigate complaints and often defer to what lenders say about you, whether or not it's true. Even if all parties agree that a mistake has been made, the errors can continue to crop up in your life thanks to the automated nature of most credit reporting methods. You might have to contact creditors and the bureaus several times to get inaccuracies deleted from your report. The process usually takes weeks; at worst, you might be fighting the battle for months or even years.

If you're in the midst of trying to get a mortgage, these errors can cause serious problems. You might not have enough time to fix your report before the house falls out of escrow or you get stuck with an interest rate much higher than you deserve to pay.

Troubles like these might tempt you to turn to one of the many companies that promise “instant credit repair” or that guarantee to boost your credit score. No legitimate company makes such promises or guarantees, though, so anyone who hires one of these outfits is begging to be scammed. My great friend who has a practice in Selma, California paid \$4,000.00 for nothing to one of these shady companies and suffered further hassle as well.

There are, however, a growing number of genuine services that really *can* fix mistakes on your credit report in 72 hours or less. Read on to learn more.

### Rapid Rescoring: Repair Your Credit Very Quickly in Hours

*Rapid rescoring services* came about because too many people were losing loans or paying too much interest because of credit bureau's inaccuracies. Before you get excited, though, you should learn what these services can and can't do:

- **They can't deal with you directly as a consumer**—Rapid rescoring is typically offered by small credit reporting agencies,

which serve as a middleman between the bureaus and the lending professionals. These agencies, which are often independent, but which might be subsidiaries of credit bureaus, provide special services for loan officers and mortgage brokers such as merged or “3-in-1” credit reports. To benefit from rapid rescoring, you need to be working with a loan officer or mortgage broker who subscribes to an agency that offers the service.

- **They can help you only if you have proof or if proof can be obtained**—Rapid rescoring services aren't designed to help people who have yet to start the credit repair process. You need something in writing, such as a letter from the creditor acknowledging that your account was reported as late when you were in fact on time (this is one of the reasons that it's so important to get everything in writing when you're trying to fix your credit). If you don't have such proof, but the creditor has acknowledged the error, some rapid rescorers can get the proof for you. However, that might add days or weeks to the process.
- **They can help you get errors fixed, but they can't remove true negative items that are in dispute**—Again, you need proof that a mistake was made—not just you say-so. If the credit bureau is already investigating your complaint about an error, the item typically can't be included in a rapid rescoring process.
- **They can't promise to help your score**—As you read in Chapter 2, “The Process of Credit Scoring,” sometimes removing negative items can actually hurt a score—strange as that might seem.

The scoring formula tries to compare you to people who have similar credit histories. If you've been lumped into the group with a bankruptcy or other black marks on your report, you might find that your score *falls* when some of those negative items are removed. Instead of being at the top of the bankrupts' group, in other words, you've dropped to the bottom of the next group, the folks who have better credit.

More commonly, removing an error might not help your score as much as you might have hoped and might not win you a better interest rate. There are no guarantees with rapid rescoring.

Mr. Singh & Mrs. Kaur in Los Banos are one of the many borrowers who have benefited. Mr. Singh & Mrs. Kaur filed for bankruptcy in 2008, but several of their wiped-out debts were still

shown as open and unpaid on his credit report five years later when they applied for a mortgage with 1<sup>st</sup> Continental Mortgage of Fresno, California.

Technically, the accounts all should have been reported as “included in bankruptcy.” It's a common enough error, and one that can usually be fixed if you have a month or more.

Mr. Singh & Mrs. Kaur didn't. They worried that they would lose the house they wanted to buy and perhaps miss out on some of the lowest rates borrowers had seen in years. Singh's & Kaur's mortgage broker, Mr. Inder, used their bankruptcy papers to prove the errors to a rapid rescoring service, which fixed the problem, and boosted their score.

The interest rate they got, just over 4.75 percent, was still higher than someone who had good credit would have received at the time, but it was much better than the interest rate they might have received without the fix.

This is exactly the kind of intervention that the National Association of Mortgage Brokers was hoping for when it began agitating in 1997 for a way to speed up the dispute process and keep old, proven errors from killing mortgage deals. Congress had made some updates to the Fair Credit Reporting Act in 1996 that were supposed to help consumers, but the problems remained widespread.

Once upon a time, brokers and other lending professionals could do something about these problems. In the days before widespread use of a credit score, a broker or loan officer could intervene to convince a lender to ignore mistakes or small blemishes on a client's credit file. Everyone involved understood that credit report mistakes were common, and having an experienced loan pro vouch for your credit-worthiness could often get a deal done.

With the advent of credit scoring and automated loan processes, though, those opportunities to advocate for clients quickly evaporated. Lending professionals shared consumers' frustration when erroneous information continued to be reported by the bureaus—information that often dampened credit scores and resulted in worse interest rates and terms than the borrower deserved.

The mortgage brokers wanted a way to cut through the bureaucracy and speed up the process. Independent credit reporting

agencies, with their smaller, specialized staffs, began to fill the need.

Here's how it works. Your loan officer or broker collects proof from you that a mistake has been made and he transmits that proof to the credit agency that provides the rapid rescoring service.

The re-scorers, in turn, have special relationships with the credit bureaus that allow their requests to be processed quickly for a fee for each entry. The rescoring service sends proof of errors to special departments at the credit bureaus, and the departments contact the creditors (usually electronically). If the creditor agrees that an error was made, the bureaus quickly update your credit report. After that happens, a new credit score can be calculated.

The cost for this service is typically somewhere between \$50 and \$100 for each “trade line” or account that's corrected, although some agencies provide the rescoring for no extra charge as part of a package of services provided to lending professionals.

The availability of rapid rescoring doesn't change the fact that you need to be proactive about your credit. Months before applying for any loan, you need to order copies of your reports and start challenging any inaccuracies. You also need to keep your correspondence about these errors. After all, rapid re-scorers typically require some kind of paper trail to follow to prove to the bureaus that the mistakes indeed exist. But if you find yourself in the middle of getting a mortgage and an old problem recurs, rapid rescoring can help you get rid of the problem and save the deal.

So, how do you find one of these services?

If you're already dealing with a loan officer or mortgage broker, ask if he or she has access to a rapid rescoring service. If your lending provider has never heard of rapid rescoring, it's a recent enough innovation that some haven't, ask him or her to contact the agency that provides their company with credit reports to see if it's available.

Kyle, a mortgage consultant from Chicago learned about rapid rescoring from an article I wrote and emailed me for suggestions on how to find such a service. It turned out that the agency his company used for credit reports had long provided rescoring, but Kyle just didn't know it.

If you're still in the market for a lending provider, make sure you inquire about access to rapid rescoring. Some of the online mortgage



brokers, such as Quicken Loan, also use rapid rescorers to help their customers.

What if you're not in the market for a mortgage or otherwise don't qualify for rapid rescoring, but you still want quick results? You'll have to redefine your definition of “quick,” for starters. Few things are rapid in credit repair. The following techniques typically won't show results in 72 hours, but you might see a noticeable bounce in your score in 30 to 60 days.

### **Increasing Your Scores Within 60 Days**

Rebuilding your credit can be an agonizingly slow process, but there are a few shortcuts you can take that may increase your score in as little as a month or two. Among them:

#### **Paying Off Your Debts**

One of the fastest ways to boost a score is to lower your *debt utilization ratio*—the difference between the amount of revolving credit that's available to you and the amount that you're using.

The best way to pay off revolving debt isn't with another loan, which would likely show up on your credit report anyway and could cause more damage. You're usually better off paying down the debt out of your current income, using cash that's sitting in a savings account or selling stocks or other investments, as long as they aren't in a retirement account.

A riskier strategy might be to take out a 401(k) loan. These loans don't show up on your credit report, but you do face a big hazard: If you lose your job, you typically have to pay the money back quickly or you'll incur taxes and penalties on the balance. If you decide to take a 401(k) loan, make sure you'll be able to repay the loan quickly to minimize the risk.

Whatever you do, don't cash out a 401(k) or withdraw money from an IRA to pay off credit card debt. A few points difference on your credit score is not worth the short- and long-term costs you'll pay for a premature withdrawal.

#### **Reduce Spending on Your Credit Cards**

Remember: The scoring formula likes to see a big gap between your balances and your limits, and it doesn't really care if you pay off your balances in full every month or carry them from month to month.

What matters is how much of your credit limits you're actually using at any given time.

Some people insist they've boosted their scores by paying off their credit cards in full a few days before their statement closes. If their credit card issuers usually send out bills around the 25<sup>th</sup>, for example, these folks check their balances online about a week before and pay off whatever's owed, plus a few bucks to cover any charges that might crop up before the 25<sup>th</sup>. By the time the bills are actually printed, their balances are pretty close to zero (if you use this technique, just make sure you make a second payment after your statement arrives if your balance isn't already zero. That will make sure you don't get dinged with late charges, and yes, that can happen, even though you made a payment earlier in the month). An easier way to keep your balances down is simply to pay cash for most purchases in the three months or so before you plan to get a loan or pay when statement arrives in your mail box and pay it in full. The other technique some people use is dangerous towards your credit if you don't make your 2<sup>nd</sup> payment.

#### **Fix the Major Mistakes on Your Credit Reports**

If someone else's bankruptcy, collections, or charge-offs are showing up on your report, you will most likely benefit by having those removed. If an account you closed is reported as open, on the other hand, you'll probably want to leave it alone. Having an account reported as “closed” on your file can't help your score and might hurt it.

Don't ignore a collection just because it's small or it's listed as paid off. These are serious negative marks that can significantly depress a credit score. But don't get your knickers in a twist if the credit bureaus list the wrong employer or misspell your middle name. The credit scoring formula doesn't even consider these minutiae.

#### **Use Available Resources to Help Repair Your Credit**

Some credit repair veterans swear they get quicker results this way, but you'll still need to make printouts of everything you send to the bureaus and every communication you receive from them.

#### **Look Into Having Creditors Update Your Positive Accounts**

As you've read, not all creditors report to all three bureaus and some don't report consistently. If you can get a creditor to report an account that's in good standing, though, you might see an immediate

bump in your score.

### **What May Not Work**

There's a lot of folklore out there about how to fix a credit report fast. Most of it is bogus, such as outlined in the next section.

#### **Disputing All the Necessary Errors**

Some of the phony credit repair places blitz credit bureaus with disputes about anything and everything. Because the disputed items are supposed to be temporarily removed from your file while the credit bureau investigates, the scam artists pretend they've actually purged your file.

Of course, most or all of the negative items simply come right back as soon as the original creditor confirms that they're correct. What might not come back are the accounts that are helping your score. The creditors might not bother to respond to the bureaus' requests for confirmation, and you could end up making matters worse.

Disputing too many items at once is also a good way to convince credit bureaus that you're filing “frivolous” disputes and they might refuse to investigate at all. To be on the safe side, don't dispute more than 3 or 4 negative items at once, unless your disputes are related. And don't pay anyone a fat fee to do this for you.

#### **Creating a “New” Credit Identity**

This is another favorite of scam artists. They might have you use a dead infant's social security number or tell you to apply for a taxpayer identification number, which the IRS typically issues to businesses.

Even if you do manage to pull off this fraud, you're left with an absolutely empty credit file. If you think it's hard to get loans when you have troubled credit, just try getting credit with no history at all. It could be years before you qualify for decent rates and terms, and by then all the negative marks you were so worried about would have either fallen off your original credit report or become so old that they would hardly affect your score.

#### **Closing Bad Accounts**

You can't get negative marks to fall off any quicker by closing accounts and you might wind up seriously damaging your credit score.

Delinquencies, charge-offs, collections, and other negative marks can remain on your credit report for seven years, whether or not

the original account is still open; bankruptcies can stay there for 10 years.

Even if you've had problems with an account, it might still be having a positive influence on your credit score. If it's one of your older accounts, it could be helping to make your credit history look nice and long—remember; older is better when it comes to credit scoring. If it's a revolving account, the credit limit is factored into your overall debt utilization ratio. If you close the account, you could make your existing balances look larger while making your credit history look younger than it is.

#### **Paying Off the Collection Accounts**

As we covered in Chapter 6, “How Paying Old Debts May Hurt Your Score”, making a payment can update the old account and make the negative look younger than it really is. This quirk in the credit scoring formula doesn't mean you shouldn't pay old debts, but you should negotiate hard with the collector to get the account dropped from your report as a condition of your payment.

## How Your Credit Score Affects Your Insurance Rate

### How Your Credit Score Can Change Your Insurance Quote or Insurance Policy

Did you pay all your bills this month? Your insurance company wants to know. Credit scoring, the term used by insurance companies to rate your credit, has been a disaster for some consumers. Most insurance companies are now basing the cost of your insurance policy on your credit score. Missing as little as two payments on credit cards or other financial obligations could lead to your insurance premium possibly doubling. If your credit score is bad, you could pay more when getting an insurance quote. And, regardless of the time you have been with your insurance company or your loss history, a low credit score could lead to a higher insurance premium or possible loss of your policy.

### Not Responsible With Your Money--Not Responsible on the Road?

Many are asking, "What does one's credit rating or credit score have to do with their insurance policy premium or insurance quote?" The answer may surprise you. Insurance companies feel that if you are not responsible with your money, then you are more than likely not going to be responsible on the road. According to this recent statement to CBS, Donald Hanson of the National Association of Independent Insurers agrees. Hanson stated, "Research indicates that people who manage their personal finances responsibly tend to manage other important aspects of their life with that same level of responsibility and that would include being responsible behind the wheel of their car or being responsible in maintaining their home". Some disagree with Hanson's ideas on insurance credit scoring and feel it creates a hardship for many who are already struggling and are low income families with kids in home.

### Using a Credit Score for an Insurance Quote and an Insurance Policy Premium is Unfair

Critics feel using a credit score for an insurance quote or insurance policy premium is unfair and hurts only the working class because after the rich, the working class is more concerned about savings and protections, but have a lack of education. A great deal of consumers that have a low credit score are blue collar workers. Opponents argue that the low economy has put a strain on the large

amount of working class in America. While struggling to pay for basic necessities, they may miss a few payments, which in turn could make their insurance policy premium or insurance quote skyrocket. In many areas, public transportation is not readily available and insurance is a necessity. Also, in the case of many Americans who have no health insurance, a medical emergency could be even more devastating when one is having a hard time paying the medical bills and then come to find that their insurance policy premium has been raised tremendously because of a few missed medical payments. Opponents feel the new credit scoring system by insurance companies just makes the working class fall even further behind.

Insurers, though, think otherwise. They believe credit is an excellent predictor of whether you'll file a claim, better in fact than almost any other factor, including your previous driving history.

What's more, using credit for insurance decisions is not only legal in most states, it's the norm. The vast majority of big U.S. auto insurers, 92 of the 100 largest companies—used credit information in 2001, according to a Conning & Co. survey, and so-called credit-based insurance scoring is widespread in the homeowners' market as well.

Credit scoring has been slower to take hold in Canada, but a study by the Insurance Bureau of Canada's Quebec office arm found an increasing number of companies employing credit information in their decisions, according to the Insurance Journal published in Canada & U.S.A.

The way insurers use credit information, however, can differ markedly from the way lenders use the same data. That's why some people, who have good credit scores and would qualify for the best rates and terms from most lenders still wind up paying higher insurance premiums.

### An Overview of Using Credit Scores to Price Insurance Premiums

Insurers have actually been using credit information since at least 1970, when the Fair Credit Reporting Act first sanctioned the practice. Lamont Boyd, now a Fair Isaac executive, remembers his days reviewing credit reports as a young insurance underwriter in the 1970s.

Boyd says his job was to look for “clearly 'bad' signals,” such as bankruptcies, foreclosures or collections, which would be used as a reason to turn down the customer who was applying for insurance.

The process, according to Boyd and Fair Isaac, was subjective and inconsistent—much like the human-powered lending decisions being made in much of the credit industry at the time. People who might have been good risks, despite a few blemishes, were being turned down, whereas those who might have been worse risks were being accepted, based upon the relationship, friendship, and public reputation at that time in general and with the lending broker's office.

Fair Isaac decided to tackle the insurance market in the late 1980s, shortly after introducing the first credit scores based on credit bureau information. Although the company doesn't dominate insurance scoring the way that it does credit scoring, Fair Isaac has been instrumental in promoting the idea that credit information can give insurers an edge in predicting losses.

Fair Isaac introduced its first credit-based insurance score in 1991, and it hired actuarial consultants Tillinghast-Towers Perrin to review Fair Isaac's in-house studies of the links between credit history and insurance losses. The correlations were so strong, said Tillinghast, principle Wayne Holdredge, that the consultants were suspicious.

*“We went back to the companies [that supplied the insurance data] and made them sign affidavits, saying that they hadn't cooked the books,” Holdredge remembered. “Now the correlation is well understood, but back then it wasn't.”*

The cause of credit-based insurance scoring got another boost in 2000, when MetLife actuary James E. Monaghan published a study that matched 170,000 auto policies to the credit histories of the drivers. Over and over, Monaghan found a correlation between black marks on credit reports and higher loss ratios for insurers (a loss ratio measures how much an insurer pays out in claims for each dollar collected in premiums).

Loss ratios rose steeply, for example, with the number of collection accounts appearing on a driver's record. Those who had no collection accounts cost the insurers an average of 74.1 cents for each dollar collected. Drivers who had one collection account had 97.5 cents in claims for each premium dollar collected, whereas those who had three or more collections cost insurers about \$1.19.

<b>Collection Accounts</b>	<b>Loss Ratio</b>
None	74.1%

1	97.5%
2	108.4%
3 or more	118.6%

Monaghan found similar patterns with derogatory public records such as bankruptcies, liens, repossessions, and foreclosure...

<b><u>Derogatory Public Records</u></b>	<b><u>Loss Ratio</u></b>
None	73.8%
1	96.5%
2	104.2%
3 or more	114.1%

...With delinquencies...

<b><u>Account Status</u></b>	<b><u>Loss Ratio</u></b>
No lates	72.2%
At least one late	92.3%

...and with debt utilization, or how much of available credit was in use:

<b><u>Leverage Ratio</u></b>	<b><u>Loss Ratio</u></b>
1-10%	64.3%
11-39%	70.9%
40-60%	75.2%
61-80%	81.2%
80-100%	88.1%
101%+	96.6%

Correlations were a bit less linear for other credit information, such as inquiries, age of consumer's oldest account, and amount past due...

<b><u>Amounts Past Due</u></b>	<b><u>Loss Ratio</u></b>
\$0	70.20%
\$100 to \$199	95.9%
\$200 to \$499	92.7%
\$500 to \$999	107.2%
\$1,000 to \$1,999	97.2%
\$2,000 to \$4,999	100.5%



\$5,000 to \$9,999	106.1%
\$10,000+	99.8%

...but the links were still strong enough to suggest a definite relationship between how well people handled their credit and how much they cost their insurers.

Monaghan's status as an industry insider, of course, led many consumer advocates to question his results. An independent study by the University of Texas at Austin a few years later, however, found similar patterns and a “statistically significant” link between credit scores and auto losses.

The UTA researchers matched credit scores to 153,326 auto policies issued in early 1998 and tracked which policies made claims in the ensuing 12 months.

*“The lower a named insured's credit score, the higher the probability that the insured will incur losses on an automobile insurance policy,” the UTA researchers said, “and the higher the expected loss on the policy.”*

The average loss per policy during the period was \$695, but drivers who had the lowest credit scores cost their insurers \$918, whereas those with the highest scores cost \$558, so based upon this study the better your credit score, the more savings on your insurance premiums and better coverage for less premiums paid on your insurance.

#### **How are Insurance and Credit Scores Connected?**

What none of the studies have been able to prove is a *causal* link between credit and claims. In other words, they can't explain why poor credit should lead to more insurance losses.

Insurers speculate that people who are responsible with their credit might be more likely to be responsible with their cars and homes. Or, perhaps people who mismanage their finances are more likely to make claims because they need the cash.

MetLife's Monaghan, like the others in the insurance industry, believes no one will ever be able to say for certain why the two are linked. He points out that it's impossible to prove a causal link for *most* factors used in insurance decisions.

The fact that you've been in an accident in the past, for example, doesn't *cause* you to have another accident. But most people can accept

the idea that someone who has already had an accident or two might be more likely to have another one. It doesn't make sense, in a way that using credit history for insurance does not make any sense, but the old saying is if you are not trustworthy on one thing you are not trustworthy on anything.

The lack of a clear, logical link isn't the only thing that concerns consumer advocates about insurance scoring. Among the leading critics of insurance scoring is Birny Birnbaum, a former Texas insurance commissioner, who believes insurance scoring might be illegally discriminating against low income people and minorities, with which I personally agree, but, again the industry doesn't.

Birnbaum doesn't believe the UTA study was rigorous enough to determine whether it's really credit, rather than some other factor, that correlates with insurer losses. He fears credit is actually some kind of proxy for a factor that insurers wouldn't otherwise be allowed to use, such as ethnic background or income. As of this writing, though, the few studies that have been done on this issue have either been too small or too flawed to settle the issue either way.

Alaska regulators, for example, concluded that the use of insurance scoring discriminated against rural, older, and low-income groups. But the Alaska study didn't use actual scores. Instead, the researchers took insurance industry designations that policyholders were “preferred,” “standard” or “substandard” risks as a proxy for the policyholders' presumed credit risk. Insurers use plenty of factors besides credit to rate people, so the proxy probably wasn't a good one. The study also grouped its subjects by zip code, rather than examining individuals' histories of claims. Even in California, zip codes are used from theft rate and insurance quotes.

Another study by Washington state regulators seemed to show credit varied by ethnic background, but the researchers admitted that the number of minorities polled was too small. The Washington study found that credit scores were lower among the poor, whereas one in Michigan found no racial bias but slightly higher scores among low-income groups.

A study in Maryland found credit scores were lower among minorities and low-income populations it studied, a finding that helped lead to serious restrictions on the use of credit information in that state.

Even there, however, regulators said more research was needed.

The qualifications were settled; the Fair and Accurate Credit Transactions Act (FACTA) of 2003 called for a comprehensive national study of the issue with results to be reported to Congress by December 2005. In the meantime, many states had adopted model legislation crafted by the National Conference of Insurance Legislators to regulate and restrict the use of credit. Among other things, the model legislation does the following:

- Forbids insurers from using credit information to deny, cancel or fail to renew a policy;
- Prevents insurers from using a consumer's lack of a credit history as a factor in determining premiums or coverage;
- Requires insurers to review their credit-related decisions within 30 days if it turns out those decisions were based on erroneous credit reports.

Critics say the legislation does more to legitimize insurance scoring than protect consumers, but others say the laws at least provide insurers with some curbs.

Consumers already had some protections, theoretically, under the Fair Credit Reporting Act. The act requires insurers to notify consumers if credit information has affected a policy decision in any way and include the following in the notification:

- The reasons for the insurer's decision;
- The bureau from which the credit information was obtained;
- Instructions on how the consumer can get a credit report.

Adding to the confusion is the lack of a dominant formula in the insurance scoring market. Fair Isaac sells its model to more than 300 insurers, but the biggest companies—State Farm, Allstate, Farmer's—have their own custom insurance scores using their own developed formulas, not Fair Isaac's developed formulas.

Many people who have good credit scores, for example, have been told by their insurers that their rates increased because of their attempts to get credit.

If the insurer were using Fair Isaac's score, too many inquiries might, at worst, cause the customer to miss out on the insurer's best discounts. You would still enjoy a break on premiums because of good

credit, it just might not be the best discount available.

If the insurer were raising everyone's rates by 15 percent, a customer who had a few too many inquiries might be charged 10 percent more, whereas the insurer's highest-rated customers might pay 5 percent more, and its worst-rated customers 20 percent more.

Insurers are doing themselves no service by failing to explain the rules to their customers, particularly those who have good credit. Someone who has bad credit might just accept a high premium as fate, but someone who has good credit is likely to react badly, even if they're just being shut out of the insurer's top tier of customers.

Insurers insist that credit-based scoring helps more people than it hurts. They say responsible policyholders pay less for their coverage than those who are more likely (in the insurers' view) to file a claim. Indeed, some of the people who have written to me about their insurance scoring experience had happy news.

### **Parts of an Insurance Score**

It's hard to be definitive about what does and doesn't affect your insurance score. Many big insurers have their own credit-based scoring models, and they're not talking about how those models and these insurers consider them in figuring out how premiums work. Fair Isaac is talking about some of the models and formulas, but its formula doesn't dominate the insurance scoring world the way its credit score does the lending world.

But some information is better than nothing, and Fair Isaac is willing to share some of the details of what goes into its insurance scoring model. The factors used are similar to the ones considered with credit scoring, although their weight can vary:

- 40 percent of the average insurance score is determined by payment history, whether you've paid your bills on time. That compares to 35 percent for the credit-scoring model. As with credit scoring, the model looks at your payment history on different types of accounts, including credit cards and installment loans. Black marks such as delinquencies, charge-offs, collections, foreclosures, repossessions, liens, and judgments can seriously affect your score;
- 30 percent of an insurance score is based on your credit utilization, which is roughly the same percentage that your credit score uses.

The score factors in the amount you owe on all your accounts and how that compares to your credit limit (in the case of a credit card) or the amount you originally borrowed (for an installment loan);

- 15 percent of an insurance score has to do with the types of new credit you've been granted recently, how many new accounts you have, how long it's been since you opened a new account, and the number and type of inquiries on your report. By contrast, about 10 percent of the credit scoring model is derived from the number and types of new credit you've acquired;
- 10 percent of the insurance score is based on the length of time you've had credit, which counts for about 15 percent of your credit score. Both scores factor in the age of your oldest account as well as the average age of all your accounts;
- 5 percent of your insurance score measures types of credit in use, compared to 10 percent of your credit score. Once again, Fair Isaac is looking for that “healthy mix” of different types of credit without providing much guidance about how many of each type of accounts you have.

As you can see, Fair Isaac's insurance scoring model puts slightly more emphasis on your payment history and your recent behavior in applying for new credit. The age of accounts and their mix is slightly less important.

### **How to Reduce Your Insurance Costs**

The strategies you're learning in this book will help you improve and protect your credit, which should, in turn, help you to qualify for lower insurance rates in most states.

Good credit alone, however, isn't enough to keep you from overpaying for insurance. You need to be smart about the kinds of coverage you buy and how you use that coverage.

Whether your credit is good or bad, you should consider the steps outlined in the next sections to control your insurance costs.

### **Take Another Route of Thinking about Insurance Industry**

Lots of people feel somehow ripped off if they pay their premiums for years without ever filing a claim. But this is exactly what you *want* to happen. Insurance is meant to protect you against the kind of big expenses that could wipe you out financially—not to pay for the little

stuff you could easily cover out of your own pocket.

So, if you're using insurance properly and you never make a claim, that means you've never suffered a major catastrophe. Who among us wouldn't like to get through life without having a car totaled, a house burn down, or a lawsuit filed against us?

People who don't understand the role of insurance often try to shift as much risk as possible to their insurer, by choosing low deductibles, for example, or making claims for every little ding their cars suffer in supermarket parking lots. That's a quick road to higher premiums that these claimant pay for their insurances.

In fact, making lots of claims, or making even one of the wrong kind of claim, as you'll see later, can make it difficult for you to get coverage at all. Insurers share claims information and are on the lookout for people who are likely to cost them money. People who constantly turn to insurers to pay for damage they could have covered themselves often find fewer and fewer companies willing to insure them, and those companies are charging more and more to do so.

Does this seem unfair? If you think it does, you would expect to get some support from J. Robert Hunter, a consumer advocate and insurance expert for the Consumer Federation of America. He's been sharply critical of the insurance industry on many occasions, and he's seen by many reporters as the “go-to guy” when they need a succinct quote damning some bit of insurer foul play against consumers.

But Hunter, an insurance actuary and former Texas insurance commissioner, also knows how insurance is supposed to work. He maintains high deductibles on all his personal insurance policies, and he urges others to do so as well. He sets aside the money he saves on premiums to pay for out-of-pocket expenses. Rather than protest, realize that this is how the insurance game is meant to be played. Preserve your coverage for the big disasters, and you'll save in the long run.

### **Increasing Deductibles**

This is one of the fastest and smartest ways to save money on insurance—but many people balk. Raising your deductible means you'll pay less every year in premiums. You're also less likely to make claims for piddling stuff—claims that would likely result in your rates being jacked up. So, if you can, boost your deductibles to at least \$1000.00 and preferably \$2,000 or 2500.00. Leave at least that much money in your

savings account to cover the cost of any accidents, and you'll be money ahead in the long run.

### **Don't Make Certain Kinds of Claims**

There's something else that insurance is not—and that's a maintenance fund for your house and other property. Insurance is designed to cover sudden and unexpected losses, such as a fire. If damage happens that you could have foreseen and prevented, you're on the hook. Insurers expect you to inspect, maintain, and protect your property without their help.

So, if a storm tears shingles off your roof and the resulting leak ruins your dining room ceiling, your policy will probably pay for repairs. If your roof is just old and falling apart, though, you'll have to reroof and replaster on your own.

Termite and rodent infestations are another frequent cause of damage that few insurers will cover. They figure you should have noticed the little critters and had them exterminated long before they had a chance to ravage your home.

If you make a claim for such problems, you very likely won't get a dime. But the claim could still count against you when it's time to renew your insurance.

Okay, let's say that the damage is indeed “sudden and unexpected”: The rubber hose on your washing machine breaks and floods your house. Surely you should make *that* claim, right?

Maybe not. Insurers are particularly paranoid right now about water damage claims. They've taken a beating from an exploding number of mold related claims, including some famous ones, such as the contention from former *Tonight* show regular Ed McMahon that his home's toxic mold killed his dog according to the Mold Cases in the United States: An Update of Recent Cases by Ramund C. King and Gregory J. Lensing, who not only wrote mold cases about celebrities, but highlighted other cases as well and these cases are available on Google Books as well, but there is a recent denied case by the insurance company in Madera California where the family stayed in a motel for more than a month, but even their motel bill claim has been denied as well.

Insurers share their claims experience in a huge database called

C.L.U.E. (Comprehensive Loss Underwriters Exchange). A single mention in the CLUE database is enough to blackball their home for years. Some say they didn't even make an actual claim, but simply asked their insurer for information.

The best course for policyholders is prevention—and silence for small damages up to few thousand dollars. Among the things you should be doing:

- Regularly inspect your home. Every few months, check your roof and foundation for leaks or standing water;
- Fix any leaks immediately;
- Replace hoses on older washing machines and dishwashers. Your plumber can point you to a type that's less likely to break;
- If you live in a cold climate, take steps to adequately insulate your pipes and prevent breakage.

If, despite your best efforts, you suffer small damage related to water, seriously consider paying for repair yourself, if you possibly can, and avoid mentioning the incident to your insurer. It can prevent you from putting your name and property in Comprehensive Loss Underwriters Exchange (C.L.U.E).

### **Drive Defensively**

Considering the word accident and looking at the definition of accident, there are only few true accidents on the road but many crashes.

What's the difference? “Accident” implies the collision was out of the control of at least one of the drivers involved. That's rarely the case. Although one driver might be the direct cause, many times the other driver could have avoided the crash had they been driving more defensively.

In most crashes, though, all of the drivers involved are at least partially at fault. If you've ever been hit, you can probably think of ways you could have avoided the collision. Maybe you were tailgating, driving too fast or not giving yourself enough time and road space to react. Maybe you just weren't paying enough attention to what was going on ahead of you, to the sides or in your rear-view mirror. Who among us hasn't been distracted in a car by a child, a conversation, a cell phone or a CD player?

Driving is a dangerous business and we owe it to ourselves, our



passengers, and our pocketbooks to give it our full attention.

### **Use Right Liability Limits**

This might not save you money in the short run, but it could really save your chicken bones, if you ever cause a serious accident or get sued.

Liability coverage pays for the damage you cause (or are accused of causing) to other people and other people's property. If someone slips and falls in your house or suffers injuries in a car crash for which you're found to be at fault, they can sue you for everything you're worth, and then some.

That's why you want to have liability coverage on your home and cars that's at least equal to your net worth. Some insurance experts recommend having twice that amount, or even more for people who are "lawsuit targets", doctors, lawyers, and public figures.

If you need to buy more coverage than your insurer offers, liability coverage for autos and homes usually maxes out at \$500,000 consider buying a separate "umbrella" or personal liability policy. These policies kick in after the liability limits on your auto or homeowner's insurance have been exhausted, and typically cost about \$200 to \$300 for \$1 million of coverage per annum. To get this type of extra protection, talk to your insurance agent.

### **Don't Buy Collision and Comprehensive on Older Vehicles**

Collision coverage pays for the damage you do to your own car in an accident, whereas comprehensive covers the other disasters that can happen, such as your car is stolen, dented in a hailstorm or squashed by a falling tree branch.

This coverage is usually a good idea on newer cars, and is sometimes required by your financing company. The older your car, though, the less likely you are to get much money from the insurer even if the worst happens.

If your car is stolen or totaled, your insurance company will send you a check for an amount that's usually somewhere between its trade-in value at a dealership and what it would be worth if you sold it yourself. If you haven't checked the value of your car lately, you might be surprised at how small that check is likely to be (online sites like [dodge.com](http://dodge.com), [nadaguides.com](http://nadaguides.com), [Edmunds.com](http://Edmunds.com), [KBB.com](http://KBB.com), the Kelley

Blue Book site, etc., can clue you in).

If your car is old enough that you'd just replace it with a new one, and you wouldn't have much trouble coming up with a down payment on that next car without your insurer's help, then dropping comprehensive and collision is a no-brainer.

### **Look for Better Quotes**

This has always been important, but never more so now that credit is such a factor.

Insurers tend to set their rates based on their own experiences. That's why premiums for the same drivers and cars can vary by thousands of dollars for Class 'A' drivers and by hundreds for Class 'C' drivers from one insurance company to the next, even when credit isn't a factor.

If your credit is mediocre or poor, you'll probably want to look for insurers that don't use credit information. There are still a number of these companies out there; they believe they've found other good ways to manage their risk.

You can look for an independent insurance agent or broker who can tell you which companies don't use credit information, or simply call around and ask. But be advised that, unlike many other companies, an insurer can pull your credit without your permission. All it needs to have is your name and social security number. So make sure the insurer doesn't use the credit information before you give it identifying information. If your credit is decent, you shouldn't shy away from companies that use insurance scores because you could benefit.

A good place to start shopping is often your state Department of Insurance, which might offer some kind of premium survey that can help you see which companies are most likely to offer you a good deal, given your location and situation (these regulators also might provide complaint surveys, so you can avoid the insurers that create the most problems for their customers). An auto insurer that has a good track record of managing the risks of teenage drivers, for example, is likely to give you and your 16-year-old a better rate than one that wants to steer clear of underage drivers. You can also use quote services such as [InsWeb.com](http://InsWeb.com) or call the companies directly like State Farm, AAA, Farmers or anyone else.

## Keeping a Positive Score

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You should be okay letting the insurers pull your credit at this point. Insurance inquiries shouldn't count against your insurance score. The Fair Isaac insurance score doesn't count insurance inquiries against you, but other insurance scores might.

### Protect Your Score

Although insurance scores are a bigger mystery, much of the same behavior that protects your credit score should help improve and maintain your insurance score. Those behaviors include the following:

- Paying your bills on time;
- Keeping balances low on credit cards and lines of credit;
- Not applying for credit you don't need.

If you do need to open new accounts, try to do so after you've renewed your policies for the year.

It doesn't take much these days to damage a credit score. Before the recession, late payments and blasting through credit limits would take its toll. But in the past years, Fair Isaac, the company that developed the algorithm that is the leading determinant of our scores, made an important change in its formula.

It's now putting much more emphasis on the size of your balances and how close they are to your total credit limit. It's a behavior trigger that creditors see as a bigger worry than ever. So the best thing you can do for your credit score is to get your balances down to under half of your credit limit.

Even better, pay them off entirely and use them only when you know you can pay them off at the end of the month. Inactive accounts will ding your credit score, but quick payments can only help.

The latest revision in the FICO system will actually allow a bit of lenience on late payment – something that might affect more than a few consumers with the downturn in the economy. Obviously, this won't mean that someone can chronically pay late, but once or twice won't make the same impact as in earlier FICO versions.

Yet credit utilization – the amount of credit you're actually using relative to your credit limit – is a much bigger deal simply because high balances are still prevalent among consumers. From the lender's perspective, high balances mixed with a tough economy means a higher risk of default among customers.

So, one more time. What's a good target utilization rate for all your revolving credit accounts? No more than 50 percent of your credit limit, and if you can get it significantly lower than that over time, that's a good plan. The lower your credit utilization, the better your score.

What does that mean for ordinary Americans who don't meet that under-50 percent goal? It means you shouldn't be applying for new credit or refinancing for awhile, and that includes something as innocuous as a department store charge.

So maybe that means deferring gratification for awhile until you get things under control. But look at it this way – you can use this time as a way to develop more knowledge about credit and be in a better position

long-term. Here are some things you need to know:

**You'll need at least a 740 score for the best rates:** You'll often hear that credit scores of 700 and up will get you best customer status with lenders. That's true, but you need to aim significantly higher. For the lowest rates and best terms, you need to get your credit score above 740 (the top credit score, by the way, is 877), so keep that target in mind.

**Budget:** If you've never reviewed your spending and picked out areas where you can cut, you've never done a budget. Start tracking your spending either on paper or with financial planning software and start pinpointing what spending you can shift over to paying off debt.

**Get some advice:** Remember that debt is just one part of your overall financial picture. It might not be a bad time to sit down with a financial planner to talk about your debt issues, planning for retirement, your kids' college education and any other key financial goals.

**Monitor your credit reports:** Remember that you have the right to get all three of your credit reports, from Experian, TransUnion and Equifax, once a year for free. You can do so by ordering them at [www.annualcreditreport.com](http://www.annualcreditreport.com). Order them individually at different points in the year. That means you'll get an extended picture of how your credit picture looks because the three bureaus feed each other the latest information. You'll also be able to clean up errors as you find them -- errors can drag down a credit score -- and you'll also keep an eye on identity theft. Oh, and make sure you use the site above and avoid the businesses that use "free credit report" in their title. It's easy. If they ask for your credit card number, don't do business with them.

**Make electronic payments:** Electronic bill payment will allow you to save on postage while guaranteeing on-time payment, and the budgeting advice mentioned above will allow you to put a few more bucks toward getting that loan or credit card bill paid off. It's important to always pay more than the minimum payment on your bill -- otherwise your balance will barely move.

People, who are having financial problems for many reasons file for bankruptcy and most of them give up to restart their financial life. People do this, but what percent of that population is considerable. Many families simply don't have the resources to financially survive the inevitable setbacks that life throws at them such as job loss, divorce, accidents, or illness. And not all of these families are subsisting below

the poverty line. Many have good incomes, nice homes, and new cars, but they've made no provision for the rainy days that come into everyone's lives sooner or later.

In fact, the leading cause of bankruptcy is job loss combined with consumer debt and inadequate savings, according to comprehensive research by Jay. L. Westbrook, Teresa A. Sullivan, and Elizabeth Warren, authors of *The Fragile Middle Class: Americans in Debt*. Medical bills, divorce, and burdensome mortgage debt are other key factors.

If you want to make sure you don't become yet another statistic, you can take measures to make sure that your score stays healthy. You might call them the three "do's" and four "don'ts" of bankruptcy-proofing your life.

### How to Keep a Good Score

The following actions can help you survive life's setbacks and keep you out of bankruptcy court. The idea is to increase your financial flexibility and to protect yourself against some of the bigger risks you might face.

### Pay Off Balances

If one thing should be taught in schools about credit, it should be that paying your credit cards off in full every month is the best way to stay out of debt, and to always live within your means. This one tact can give you the financial flexibility to endure bad times and take advantage of good times. If one lesson about credit could be taught to every schoolchild, it should be this.

If you are not carrying a credit card balance then you are likely not going to be paying the thousands or tens of thousands of dollars in necessary interest that can accumulate over a lifetime.

Here are your options. You can either carry a \$5,000 credit card balance that garners you \$70 a month in interest or you could take that same money and have it grow to \$250,000 over a lifetime at an 8 percent average annual return. That's a lot of money to pay for the convenience of not paying cash!

Carrying a balance and it's never ending interest can also lead to a huge debt that you can no longer manage. Credit card debt plays a big role in bankruptcies and other financial catastrophes. The actual trigger

for the bankruptcy might be a job loss, divorce or other setbacks, but it is often the heavy burden of credit card debt that causes most people to have to file bankruptcy.

Carrying a heavy balance has other punitive effects as it leaves the credit card companies open to the following:

- Deciding your fixed rate is no longer fixed and raising it or replacing your fixed rate with a variable one or both in order to make it more difficult for you to pay so they can make more money off of you over a longer period of time;
- Raising your rate if you are late with just one payment;
- Raising your rate if you use the credit card too many times in one month;
- Raising your rate if you pay just the minimum payment and don't make any dent into the actual debt;
- Raising your rate if you are close to maxing out the limit on the credit card;
- Raising your rate if they get wind that you are also having problems paying back any other creditor.

People pay high interest rates up to 29.99% if there is a problem in their credit report. Even when checked periodically by the credit card companies, a card holder may be paying an increased interest rate, even if they have no problems with their credit cards or on their report. The only winners in this game are the ones who don't play, who don't carry credit card balances from month to month and who never pay interest. Despite what you might have heard, that's actually the norm in America.

Most American households have *no* credit card debt, according to the latest Federal Reserve study of consumer finances. About a quarter of American households have no credit cards and another 30 percent or so regularly pay off their balances. Most of those who do carry some credit card debt owe \$2,000 or less.

The statistic you might have heard that “the average American owes more than \$9,000 in credit card debt,” is bogus, even though the number is usually attributed to CardWeb.com, a legitimate research company that tracks credit card trends.

What CardWeb.com statistics actually show is that the average debt per American household with at least one credit card was \$9,205 in

2003. To get that number, CardWeb simply divided the total outstanding credit card debt by the 84 million American households that it says have at least one credit card.

Using averages can be misleading because a relative handful of consumers with huge credit card balances can skew the statistics. It's kind of like measuring the “average” net worth of a group of 20 people when one of them is Warren Buffet. Even if the other 19 were stone cold broke, the “average” wealth of a person in that group would be more than \$2 billion.

On a less extreme scale, that is what's happening with the CardWeb statistic. The Federal statistics show that fewer than 1 in 20 households are skewing the average. If you're one of those who thought you were “average” in carrying credit card debt, realize you're not—and get ahead by leaving the debt behind.

### **Always Have Emergency Fund**

A whopping 43 percent of American households live paycheck-to-paycheck with less than \$1,000 in liquid assets. That's according to SMR Research, which has studied detailed income, asset, and debt statistics gathered by the Census Bureau.

Also of some concern, researchers have found that only one in three American households has saved enough money to get through even a short stint of unemployment. Considering how volatile the weather is and how unpredictable the economy is that is just begging for trouble. Many people focus on the difficulty of scraping together enough cash to survive six months without a job. There would be no way to pay your mortgage, credit cards, child support and other necessities if you lost your job as you had not bothered to save up a contingency fund for emergencies.

You might think that you don't make enough money to set aside a reserve, but people who have studied the issue have found that whether you save has relatively little to do with what you bring in.

Steven Venti of Dartmouth and David Wise of Harvard used social security lifetime earnings and net income assessments for 3,992 households whose heads were near retirement age. Here's what they found:

- Savings and wealth vary enormously at every income level. Many



low-income households don't have anything saved, but that's also true of many high-earning families;

- Disparities in wealth can't be explained by income alone because some of the lowest-earning households managed to build significant wealth;
- Income differences explained just 5 percent of the variations, and life events—inheritances, big medical bills, divorce, the number of children—accounted for just 4 percent of the dispersion. Investment choices accounted for another 8 percent.

In other words, the vast majority of the differences in wealth had nothing to do with income, life events, or how the money was invested.

What did make the difference? How much the families chose to save. Venti and Wise determined that those who had a goal of saving built wealth, regardless of their circumstances.

Of course saving is not easy if you are already deep in debt and trying to improve your credit card score. This is because saving might not be your first priority as you try to pay everything off. However, to be on the safe side, try to keep at least \$1000 handy in emergency cash in case you lose your job. Toss in any tax refunds you get, and as soon as possible, set up an automatic transfer so that the money is whisked from your paycheck to your emergency fund before you even see it.

You'd be wise to keep the money somewhere safe and accessible, such as a savings account or a money market mutual fund. For a while in the go-go 1990s, it was fashionable to believe that people could put their emergency funds in the stock market and make great returns. The bear market that started in March 2000 pretty much squashed that theory. You don't want your funds to lose 50 percent or more of its value right when the economy is tanking and your boss decides that your job is now superfluous. Then between 2005 and 2012 when the U.S. housing industry rose and then collapsed, the economy was at its worst. Many people lost jobs, but didn't have any emergency fund. Even the government laid off their employees, who were out of savings funds and didn't have an emergency backup.

If you're a homeowner, consider opening a home equity line of credit as a stand-in for an emergency fund until you can get the appropriate amount saved. For this strategy to work, though, you have to leave the line unused. Don't be tempted to rack up more debt by this

relatively cheap form of borrowing.

### **Have Sufficient Insurance on Your Vehicles**

This might be easier said than done but no matter how expensive it is, you must have health insurance. That's why more than 40 million Americans are uninsured, and why medical bills are a factor in one out of five personal bankruptcies in the United States., according to studies by VISA and other researchers. This is partly due to the fact that insurance can be tough to get, especially, if you have a bad credit score. It is a terrible vicious circle that you do not want to get caught up in so make sure that you keep your credit scores in fine order so you can afford good medical insurance as well! Thanks to Obama Care Health Insurance that will start in 2014, everyone may be or will be able to obtain affordable health insurance, but Businesses and Employers are uncertain about the effects of it.

Medical bills are the direct cause of at least one in 10 filings, according to research by Harvard professor Elizabeth Warren. Medical bills are a negligible factor in Canada, which has Universal Health Insurance. It's one of the reasons why Canada's bankruptcy rate is less than one-third that of the U.S.

Even people who have health insurance are often blindsided by huge medical bills. An insured woman's policy required her to make 30 percent co-payments, which was affordable when she sought routine care, but not when her daughter was born critically ill.

*“My daughter...spent several weeks in intensive care. Add this to already maxed out credit cards,” insured said, “and it was a disaster for me.”*

The insured woman wound up filing bankruptcy to wipe out thousands of dollars in doctor and hospital bills.

Some people who are young and healthy think they don't need coverage, but no one can predict when an accident or major illness might strike. If you have coverage through your employer, by all means take advantage of it. If you don't and your income is low, check to see if your state offers bare-bones coverage.

Another solution: A high-deductible or “catastrophic” policy, perhaps combined with a health savings account. You're required to pay the first \$1,000 or more of the medical expenses before your coverage

kicks in, but your out-of-pocket expenses are capped in case of an accident or major illness. High-deductible policies tend to cost 25 percent to 50 percent less than a full coverage HMO policy, depending on how much you're willing to pay out of pocket.

If you buy a policy that's compatible with the new Health Savings Accounts (HSA), you can put an amount equal to your deductible into an HSA and write the contribution off on your taxes. You can withdraw the money for medical expenses at anytime, tax free; any money you don't use can roll over tax-deferred from year to year. You can find out more about HSAs at [www.hsainsider.com](http://www.hsainsider.com), or by talking to a knowledgeable insurance agent.

Take a look, too, at your liability coverage. This is the part of your homeowner's and auto insurance policies that protects you against lawsuits. Make sure your liability limits on each of your policies is at least equal to your total net worth.

I'd like to include a pitch for disability insurance, as well, if it's available through your employer. You're much more likely to be disabled and unable to work than you are to die before you retire, yet most people don't have a long-term disability plan. You can also try buying an individual policy, although these have become expensive in recent years.

### **What Not to Do**

Building and protecting your financial resources is a good start, but equally important is limiting how much debt you incur in your lifetime.

### **Only Buy What You Can Afford**

It seems that everybody who is involved in the home-buying process is pushing you to buy the most house you possibly can. Your friends and relatives might be urging you to stretch, and your real estate agent might have her eye on the bigger commission that a more expensive house can bring.

Lenders have greatly loosened their standards and will give you more money than you can comfortably afford to repay. Mortgage payments used to be capped at 26-28 percent of your gross monthly income, but many lenders today let homebuyers borrow up to 33 percent, and some go even higher--to a whopping 50 percent or more of

their gross on W-2 or AGI (Adjust Gross Income) on your Income Tax Return 1040 Form.

Lenders know you probably will do whatever it takes to keep your home, even if it means short-changing your retirement, giving up vacations, and driving yourself deep into debt. Homeowners' desire to hang on to their houses despite "insurmountable debt," according to researchers Sullivan, Warren, and Westbrook, is a leading contributor in Chapter 13 bankruptcies.

Many homebuyers also underestimate all of the ancillary costs of buying a home, such as maintenance, repairs, improvements, and decoration. At the same time, lenders are falling over themselves to extend you credit, because homeowners are generally viewed as more stable and financially responsible than renters.

Ms. X Queen actually a conservative when she bought her first home, kept her mortgage payments to just 20 percent of her adjusted gross income. The problems started immediately, though, as lenders rushed to give her more money.

*"It was heady to have so many offers of loans after I purchased my home," Ms. X. Queen says. "I soon found myself borrowing to buy carpeting, insulation, storm windows, landscaping, and even a new pick-up truck. Within three years, I was insolvent." "Then the worst happened...I lost my job, and my insolvency was more than inconvenient, it was critical."*

In reality, nobody else, not your lender, your real estate agent, or your relatives, can tell you how much loan for your home you can really handle. That depends on a number of factors that others typically don't know, such as how much you need to save for retirement, how many children you want to have, and how tied down to a house you want to be.

Buying a house today is a lot different than it was 20 or 30 years ago, when your parents might have bought their first house. Back then, rampant inflation meant big annual pay raises, which made a mortgage payment look smaller and smaller as years passed. People back then were also more likely to be covered by a traditional pension, which meant they didn't have to save gobs of money to pay for their own retirements. And fewer families had two wage-earners, which meant Mom could always go to work if Dad lost his job. Today, many families need both salaries to pay the mortgage, and the loss of one is a disaster

for not only the couple, but for the whole family.

Those are among the reasons why it's often smart to limit your total housing payments, principle, interest, taxes, and insurance to 25 percent of your adjusted gross monthly income. You might be able to go a bit higher if you have no other debt or a great pension that lessens your need to contribute to your own retirement. You might want to aim a little lower if you plan to have kids and want one spouse to stay home to care for them.

### **Don't Take Too Much Student Loan**

Student loans are often referred to as “good” debt, the kind of borrowing that will increase your earning power and thus more than pay for itself.

Unfortunately, lots of students are taking a good thing way too far.

Ms. Y. Queen owed \$120,000 in student loans—and was making just under \$50,000 as an Office Administrator. She had consolidated all of her federal loans and deferred payment, when she could, but the cold hard truth was setting in.

*She says “I am staring at a debt that I cannot repay. Our salaries have been frozen for the next two years due to state budget problems, and I've calculated that even paying the minimum on all my loans would leave me with less than 100 dollars to live out the month. Is bankruptcy my only option? I'm not seeing a way out of this.”*

*“But student loans, federal & state taxes are not discharged in bankruptcies,” says Attorney Jeff Reich.*

Furthermore, student loans can almost never be wiped out in bankruptcy court. Federal law requires that student borrowers prove repayment would be an extreme hardship, a tough standard to meet “unless you're totally permanently disabled.”

You'll do yourself a huge favor by limiting how much you borrow. Your student loan payments shouldn't total more than 10 percent of your first job's monthly pay. Although how much that lets you borrow depends on the interest rates you'll pay, you can pretty much figure that your total student loan debt shouldn't equal more than one-half to two-thirds of that first job's annual pay.

What if you discover that you're already in too deep? If you haven't gotten your degree yet, you can save yourself some pain by

transferring to a less expensive school or taking a year off to work. If you're already out, you should consider consolidating your federal loans to stretch out the payments. You might even need to work a second job for a while to raise the cash to retire this debt.

### **Don't Pay off Your Credit Card Debts Using Your Retirement Funds or Home Equity Line of Credit**

Lenders love to push home equity loans or lines of credit as the “solution” to your debt problems. In fact, these loans often cause more problems than they solve:

- You're draining away the equity that could give you a financial cushion in an emergency, especially if your savings are meager. You might need to turn to your home equity to help you survive a job loss. How are you going to feel if your equity is already gone?
- More importantly, you're not dealing with the overspending that got you into credit card debt in the first place. Nearly two-thirds of the people who took out home equity loans between 1996 and 1998 to pay off credit cards had incurred more card debt within two years, according to a study by Atlanta research firm Brittain Associates.
- You're turning unsecured debt, which could be erased in bankruptcy, into debt that's secured by your home. If you can't pay this loan, you could lose your house.

Turning to your retirement funds isn't much better, as I detailed in Chapter 5, “How to Deal with a Credit Crisis.” The taxes and penalties that are due on premature withdrawals will equal up to half of any money you take out. You'll also be missing out on the future tax-deferred returns that money could have made; you should figure that every \$10,000 withdrawal costs you at least \$100,000 in future retirement income. Since I am an accounting person in the tax preparation business, when I see these withdrawals and talk to my clients about them, they are surprised and regret the withdrawals, but by then it is too late to go back.

Even loans against 401(k)s are risky because you typically have to pay the money back promptly if you lose your job or the balance will be taxed and penalized as a withdrawal.

A much better course, for most people, is to pay off credit card debt out of current incomes whenever possible. Leave retirement funds for retirement and your home equity for true emergencies.

### **Your Credit Rights During Marriage**

Women, and sometimes men, change their names when they marry. This happens, when you take your spouse's last name, hyphenate the two names, or create a new surname to use together. When you do this, you risk losing your old credit history. If you change your name due to marriage or for any other reason, be sure to have your accounts changed to your new name and asked that this change be reported on your credit report.

If joint accounts are opened during marriage, be sure that they are reported to both spouse's credit reports. If a woman changes her name due to marriage, she has a right to apply for and hold credit in her birth name, married name or both. It is not so clear cut for men who change their name during marriage. The rules should apply to men as well, but our society does not take for granted that men may want to take on a marital name, and men may find there to be obstacles in the way.

There is no requirement to tell a creditor if you should be addressed as Miss, Ms., or Mrs. The Equal Credit Opportunity Act states that no one may be denied credit because of marital status. Creditors also may not ask about a person's desire to have children or his or her use of birth control. When a married person applies for credit, the creditor may ask for information about the person's spouse if his or her income is not high enough alone, he or she is in a community property state like California or the spouse will be a joint holder or a user on the account. The most important thing to understand about marriage and credit is that what happens to one happens to both. If your spouse has a judgment against him or her, this will be noted on your report as well. You are both liable for debts incurred during the marriage on joint accounts, even if only one of you knew about them.

If you are in a situation where your credit has been impaired because of your spouse, you need to take steps to separate yourself from him or her and improve your credit rating. Obtain credit in your own name. Many women never do this and never develop an independent credit rating based on their own payment abilities. Upon divorce or the death of their spouse, they find themselves unable to get credit, even though the couple, as a marital unit, may have had a perfect credit rating.

### **How a Divorce Can Affect Your Credit Scores**

Some people believe that if they could just get away from their

spouse, they could get out of the debt, or at least stop building up debt. While you are married, creditors can pursue you for your spouse's debts that were incurred without your knowledge on a joint account. If you live in a community property state, then you are both responsible for each other's individual debts incurred during marriage as well. Once you are divorced, a court rules who will be responsible for each debt, but until then, expect to hear from your spouse's creditors. Even after the court rules who is responsible for the debt, creditors can still come after you because the debt occurred when both were liable. If you are separated, you can simply tell them that you are divorcing, and ask not to be contacted again.

Divorce usually makes financial troubles worse. When a couple is married, they have a certain combined income and pay for one residence and one set of furniture. They have one set of utility bills. After the divorce, they still have the same combined income, but must now pay for two residences, two set of bills, and buy duplicate furnishing and household items. The expenses are doubled, but the income stays the same. Divorce can cause tremendous debt problems for any couple. A divorce can also be expensive when you consider the attorney's fees and court costs involved in the process. My former partner and his spouse paid almost \$20,000.00 in divorce proceedings in a Fresno County Superior Court case to their attorneys.

The emotional trauma of divorce is bad enough, but when divorce kills your credit, it can suck you into a downward spiral that can take a decade or more to recover from.

Here's the ugly truth few divorce attorneys seem not to bother telling their clients, a divorce ends your marriage, *not* your shared financial responsibilities.

Many divorced people are shocked to discover that their exes can hurt their credit years after the split is final. Even though a divorce judgment might clearly state that a particular debt is the responsibility of your ex-partner, you can still be on the hook and court orders do not negate the original contracts with your creditors.

That's because creditors don't have to care what a divorce decree says. You made your arrangements with lenders well before your divorce, and your lenders didn't have any say in the decree's terms. So when you walk away from divorce court holding the paper that says s/he has to make the payments on your car/house/TV or whatever, don't be



misled. If you were a party to any of those loans, and your ex-partner misses a payment or two, you can expect the credit company to ring you and demand that you make up the shortfall.

Some people are in this fix because they didn't use an attorney to help with their divorces, but some did have legal representation, and still weren't alerted to the potential problem.

Many lawyers let couples work out how they're going to handle joint debts on their own. The attorney might not know or bother to communicate the potential ramifications of not shutting down joint credit. I have worked on few divorce proceedings with Mr. Christopher Rusca, Family Law Attorney, as an interpreter and paralegal in Fresno, California, and he always discusses with his clients about the consequences of debts and tries to put everything in writing and even prepares a MSA (Marital Settlement Agreement).

And according to the Federal Trade Commission and the Consumer Credit Counseling Service, by law, the creditors are perfectly within their rights.

Yikes! And you thought the judge had ended the pain!

No, it's only just starting. You see, not only can creditors come after you for payment of the arrears, but the longer they remain unpaid, the more your own personal credit rating drops!

So when the little nest egg you've been accumulating to make a new start is big enough to venture into some new individual credit application, you may expect to be confronted with a dreadful credit rating that prevents you from borrowing at any sort of a reasonable interest rate. Or being rejected outright! And there is no mechanism to alert you to the fact if your ex partner gets caught up in financial disaster, that debts are piling up against your name, or that your credit history is in tatters.

There are many stories of people who thought their divorce decree settlement and property order had set them free from debts and repayments, only to find out later that they were now in debt to the tune of tens of thousands of dollars including interests, penalties, legal costs, and fines. Although they knew nothing of the purchases involved, creditors could legally pursue them for repayment of debts including costs of collection efforts.

### **How Do You Protect Your Credit During Divorce?**

The Consumer Credit Counseling Service lists three steps to

starting over, but from personal experience I suggest these six steps:

- Obtain a copy of your credit report;
- Protect your credit by calling your creditors and asking them to transfer your joint accounts to the person who will be solely responsible for payments;
- Establish your own good credit;
- Pay your bills on time;
- If you're having trouble paying your bills, get help;
- Write letters and send them via certified mail and keep records of the mailings.

Credit advisors says to take the following steps to protect your credit before the divorce:

- Assess which debts or accounts are your responsibility;
- Dissolve all joint accounts – institutions will often transfer assets and responsibilities into individual accounts upon written instructions, but they may require you to cancel current arrangements and reapply individually;
- Sell the house together and divide the profit;
- Fairly divide all shared cash;
- Document all of your financial arrangements and agreements.

Consumer Data Industry Association says all joint and authorized-user accounts should be closed and new accounts need to be opened separately. If a joint account remains open, you are responsible for the balance on the account despite what the divorce decree stipulates, even if you don't make a purchase.

When the final divorce is granted, the court decree that assigns a bill to your spouse only determines rights between you and your ex-spouse. Legally, on a joint account, you are still obligated to the creditor for all accounts due regardless of the divorce decree settlement. Either spouse can be sued for the balance jointly or separately.

Consumers should be especially careful about an authorized-user account, which permits one spouse to use the account while the other is responsible for the bill.

The first step should be to get your credit reports from all three major agencies, identify your vulnerable accounts and decide what to do

with each account. You can:

- Close the account;
- Freeze the account;
- Remove authorized users from the account;
- Leave the account alone.

If any of this stuff has set alarm bells ringing in your ears, do something about it. Local laws may vary, so get local legal advice from an attorney licensed in your state and practicing in your own city that you can communicate with easily.

And ultimately remember, creditors were not party to your divorce, so they're not bound by the court rulings. They can come after you, and they can destroy your credit rating for years on debts you may know nothing about. Get your house in order and take the simple steps to protect yourself.

The best time to handle the issue is well before the divorce is final and ask your attorney or other party for MSA (Marital Settlement Agreement) for assistance, but there are some things you can do even afterward. Read on.

### **Obtain a Copy of Your Credit Reports**

Ideally, you would close all your joint accounts, but that may not be desirable or possible. Closing old accounts and opening new ones, for instance, can have a negative effect on your credit score. That's why it's important to apply only for the credit you need, not half a dozen new cards and to close only those accounts that are vulnerable to being misused.

After couple of months, order your credit reports again and review them to make sure the accounts have been properly handled and order from one credit bureau not from all three.

Identify every credit account that your ex could access. If the account is listed as joint, rather than individual, your spouse can probably use it. If the account is listed as individual and is still open, call the creditor to find out whether your spouse is listed as an authorized user. If so, call and stop it and cancel authorized user permission.

### **Take Action**

You might be able to get your spouse removed as an authorized user with a phone call to the card issuer, but follow up in writing as well

and send certified mail with return receipt request.

With joint accounts, your best bet is to close them whenever possible, but sooner is better, although you might have to settle for “freezing” the account if you owe a balance. A freeze is supposed to prevent either of you from using the card. This can not only protect your credit, but also gives peace of mind.

Unfortunately, though, sometimes a spouse can talk a creditor into lifting a freeze, which is why it's important to put your request in writing, note that you and your spouse are divorcing, and make it clear that you won't be responsible for any charges made after the freeze is in place. If you do have a balance, it should be transferred as soon as possible to the card of the spouse who will be responsible for paying it off.

What if your spouse can't get credit in his or her own name? If the divorce isn't final, you might want to take on the debts and get a larger property settlement to offset the extra burden, rather than leave your future credit score in the hands of someone who could so easily trash it.

If the divorce is final, you might need to take over the payments to prevent further damage to your credit rating. Your divorce decree might allow you to take your ex back to court for reimbursement, but either way, you shouldn't leave your credit in his or her hands for a second longer.

A few months after you make your requests, get another copy of your credit reports to make sure the accounts are listed properly. If an account that was closed is listed as open, or if the balance on a frozen account has grown, follow up immediately with the creditor.

### **Don't Be Late**

Divorce negotiations can drag on almost endlessly, but one late payment can really hurt your credit. You might need to make a few payments on debts that will ultimately be your spouse's just to make sure they don't go delinquent while you're still responsible for the account.

If you're already divorced and your ex is falling behind on a joint debt, you may need to start sending in the payments yourself, or – horror of horrors – even pay the debt off entirely to protect your credit.

There are credit repair software programs available for less than

\$100. They basically consist of a plan and draft letters for the most common complaints, defenses, demands and explanations. Only you can decide whether this is a comfortable option for you. My book has all the forms, well drafted and all you need to do is insert your own information and your problem and situation to take care of it.

### **Dealing with Mortgages, Car Loans, and Other Secured Debts**

Ideally, you should either sell the asset and split up the proceed or refinance the loan so that you're no longer on the hook. If refinancing is an option, make sure it gets done before the divorce is final.

Sometimes, though, your ex won't want to sell and won't have the income or credit to swing a refinance. If that's the case, set some kind of time limit on how long you're willing to stay on the loan.

Mostly in a divorce, one spouse ends up keeping the house. Usually this means that the person who keeps the house assumes responsibility for the mortgage. What about the other spouse? When you bought the house, you did it together and you both signed the mortgage papers, making both of you responsible to the bank for the payments. If your ex wants to continue living in the family home with your kids, you might agree that the house will be sold when the youngest is 18. Make sure this agreement is a part of your divorce decree and ask the lender to send loan statements and payment coupons to you so that you can make sure the loan is getting paid. At the very least, you should be able to get internet or phone access to the account so that you can monitor the situation.

When the judge awards the house to one spouse and makes that spouse responsible for the mortgage payments, the divorce decree often says that the other spouse is to be held harmless for the mortgage, meaning he or she is not to be responsible for the debt. This spouse sometimes thinks he or she is off the hook.

However, the judge's ruling does not affect the bank at all. The judge's ruling means that the spouse keeping the house is supposed to make mortgage payments. If he or she does not make the payments, the bank can come after the other spouse. As far as the bank is concerned, tough, you are both still responsible for the mortgage.

If you're already divorced, you might still want to get access to the account and make the payments if your ex is falling behind. Again, your divorce decree might allow you to take him or her back to court for

reimbursement.

If your ex could refinance but won't, you might have to resort to bribes, a cash payment or more time with the kids in exchange for getting a new loan.

Whatever your arrangement is, don't sign a quit-claim or let your name be taken off the title as long as your name is still on the loan. You don't want to be responsible for the debt if you no longer own the asset.

### **Consider a Fraud Alert**

If you're in a particularly nasty divorce or if your spouse is unethical, you might wind up a victim of identity theft. After all, your spouse knows your social security number, your address, and just about any other detail required to open up a new account in your name, run up a balance, and leave you holding the bag of trashed credit.

Your ex could even file a bankruptcy in your name because many districts of the federal court system don't require identification when a bankruptcy is first filed. By the time the first hearing rolls around, the bankruptcy has already been logged in the huge central database combed by credit bureaus and will show up on your credit report. Such a bogus filing is a crime according to the federal laws, but that doesn't prevent some vengeful exes from doing it.

Asking the three credit bureaus to put a fraud alert on your files won't necessarily prevent any of this from happening, particularly not the bankruptcy filing. But, it should make it a little harder for your ex to open up a new account in your name. You should get regular copies of your credit reports, at least thrice a year, to monitor for anything suspicious.

If a phony bankruptcy has been filed, you'll need to hire a bankruptcy attorney who knows how to get the filing expunged and removed from your credit history.

### **Look for Those Lenders Who Are Not FICO-Driven**

Although the vast majority of mortgage companies use FICO scores in their lending decisions, a few don't and that can benefit someone whose ex is creating problems for him/her. If something of that nature comes up, discuss it with the lender.

Kevin Smith, for example, wants to buy another home after the Army transfers him to a new station. Even if he succeeds in getting his ex

to refinance the loan, his credit score will still be affected by all the late payments he previously had on his credit report.

### For More Information

Credit Bureau Contact Information

(For questions or to dispute an item on your credit report)

### Equifax Information Service Center

P.O. Box 740241

Atlanta, GA 30374-0241

800-685-1111

[www.equifax.com](http://www.equifax.com)

### Experian Information Solutions, Inc.

P.O. Box 2002

Allen, TX 75013

888-397-3742

[www.experian.com](http://www.experian.com)

### Trans Union Corporation

P.O. Box 34012

Fullerton, CA 92834

800-916-8800

[www.transunion.com](http://www.transunion.com)

### To Get Your Free Credit Report

[www.annualcreditreport.com](http://www.annualcreditreport.com)

### To Get Your FICO Score

[www.myfico.com/Products/FICOOne/Description.aspx](http://www.myfico.com/Products/FICOOne/Description.aspx)

### Credit Education

[www.credco.com/crediteducation](http://www.credco.com/crediteducation)

[www.myfico.com/crediteducation](http://www.myfico.com/crediteducation)

### Credit Counseling

National Foundation of Credit Counseling (NFCC)

[www.nfcc.org](http://www.nfcc.org)

The Department of Housing and Urban Development

[www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm)

Association of Independent Consumer Credit Counseling Agencies (AICCCA)

[www.aiccca.org](http://www.aiccca.org)

## FICO FACTOR CODES

### FICO Scoring System - Factor Codes

This chart lists the score factor codes and corresponding reason statement descriptions for Fair Isaac broad-based credit bureau risk scores and associated Industry Option scores (*Auto, Bankcard, Installment and Personal Finance*) across the major credit bureaus. This chart may be used as a reference when taking adverse action or in customer service when responding to consumers' inquiries as to the reasons for declination.

Reason Statement	Equifax (BEACON 5.0)	TransUnion FICO Classic 98/04)	Experian (Alpha/Num) (FICO II)
Amount owed on accounts is too high	01	01	A/01
Level of delinquency on accounts	02	02	8/02
Too few bank revolving accounts	---	---	C/03
Proportion of loan balances is too high	33	03	1/33
Too many bank or national revolving accounts	04	---	D/04
Lack of recent installment loan information	32	04	Y/32
Too many accounts with balances	05	05	E/05
Too many consumer finance company accounts	06	06	F/06
Account payment history is too new to rate	07	07	G/07
Too many inquiries in last 12 months	08	08	H/08
Too many accounts opened recently	09	09	J/09
Proportion of balance to credit limits is too high on bank revolving and other revolving accounts	10	10	K/10
Amount owed on revolving accounts is too high	11	11	L/11
Length of time revolving accounts have been established	12	12	M/12
Time since delinquency is too recent or unknown	13	13	N/13
Length of time accounts have been established	14	14	O/14
Lack of recent bank revolving information	15	15	P/15
Lack of recent revolving account information	16	16	Q/16
No recent non-mortgage balance information	17	17	R/17
Number of accounts with delinquency	18	18	S/18
Too few accounts currently paid as agreed	19	27	T/19
Date of last inquiry is too recent	---	19	---
Time since derogatory public record or collection is too short	20	20	V/20
Amount past due of accounts	21	21	W/1
Serious delinquency, derogatory public record or collection	22	22	X/22
Number of bank or national revolving accounts with balances	23	---	23
No recent revolving balances	24	24	U/1
Length of time installment loans have been established	I/O	---	I/O
Number of revolving accounts	I/O	---	I/O
Number of bank or other revolving accounts	I/O	---	I/O
Too few accounts currently paid as agreed	19	27	T/27
Number of established accounts	28	28	I/O
No recent bankcard balances	---	29	29
Date of last inquiry is too recent	---	19	---
Time since most recent account opening is too short	30	30	Z/30
Too few accounts with recent payment information	31	---	I/O
Amount owed on delinquent accounts	34	I/O	34



Lack of recent installment loan information	32	04	Y/32
Proportion of loan balances to loan amounts is too high	33	03	I/33
Amount owed on delinquent accounts	34	31	I/O
Payment due on accounts	---	---	45
Length of time open installment loans have been established	---	---	I/O
Number of consumer finance company accounts established relative to length of consumer finance history	---	---	I/O
Serious delinquency and public record or collection filed	38	38	38
Serious delinquency	39	39	39
Derogatory public record or collection filed	40	40	40
Lack of recent auto loan information	---	I/O	98
Length of time consumer finance company loans have been established	---	98	---
Lack of recent auto information	---	97	---
Lack of recent finance loan information	I/O	---	---
Lack of recent consumer finance company account information	I/O	I/O	I/O

#### Credit bureau risk score factor reason codes legend

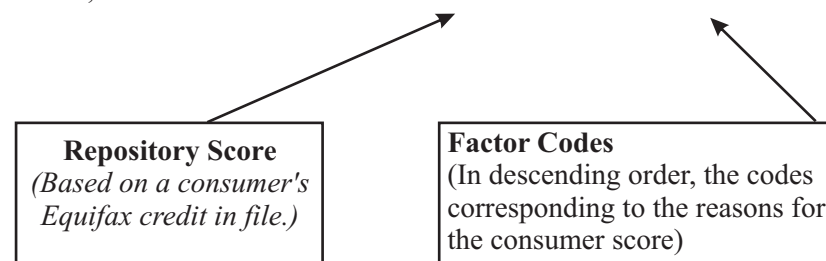
- I/O in the column indicates that the code is only used in one or more Industry Options but is not currently used in the base model;
- A number in the column specifies the code associated with the reason statement for that score;
- A blank in the column indicates that the code is not presently delivered with that particular score.

Fair Isaac has worked closely with the Federal Reserve Board and the Office of the Comptroller of the Currency in developing the statements associated with these score factor reason codes, but in any event we recommend that Fair Isaac be consulted whenever changes to score factor code reason statements are made. If this is necessary, please contact Fair Isaac's toll-free Credit Bureau Scores Helpline at 1-800-777-2066.

#### Equifax Beacon 5.0

How the Equifax Beacon 5.0 score appears on a Rels Credit Instant Merge Report:

EQX BEACON Score (Subject) = 00595 Score Factors: 00022, 00013, 00010, 00021



#### Equifax BEACON Adverse Action Codes

The Adverse Action Codes reflect the most significant characteristics contributing to the score a consumer's credit file receives when requesting BEACON. The Adverse Code is a number code that corresponds to the following narratives.

#### CODE Explanation

- 01..... Amount owed on accounts is too high
- 02..... Level of delinquency on accounts
- 03..... Too few bank revolving accounts
- 04..... Too many bank or national revolving accounts
- 05..... Too many accounts with balances
- 06..... Too many consumer finance company accounts
- 07..... Account payment history is too new to rate
- 08..... Too many inquiries over last 12 months
- 09..... Too many accounts recently opened
- 10..... Proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 11..... Amount owed on revolving account is too high
- 12..... Length of time revolving accounts have been established
- 13..... Time since delinquency is too recent or unknown
- 14..... Length of time accounts have been established
- 15..... Lack of recent bank revolving information
- 16..... Lack of recent revolving account information
- 17..... No recent non-mortgage balance information
- 18..... Number of accounts with delinquency
- 19..... Too few accounts currently paid as agreed
- 20..... Length of time since derogatory public record or collection is too short
- 21..... Amount past due on accounts
- 22..... Serious delinquency, derogatory public record or collection filed
- 23..... Number of bank or national revolving accounts with balances
- 24..... No recent revolving balances
- 28..... Number of established accounts
- 30..... Time since most recent account opening is too short
- 31..... Too few accounts with recent payment information

- 32..... Lack of recent installment loan information
- 33..... Proportion of loan balances to loan amounts is too high
- 34..... Amount owed on delinquent accounts
- 38..... Serious delinquency, and derogatory public record or collection filed
- 39..... Serious delinquency
- 40..... Derogatory public record or collections filed

#### List of Equifax BEACON 5.0 Reject Messages

The Reject message is a one-byte alpha code that corresponds to the following narratives.

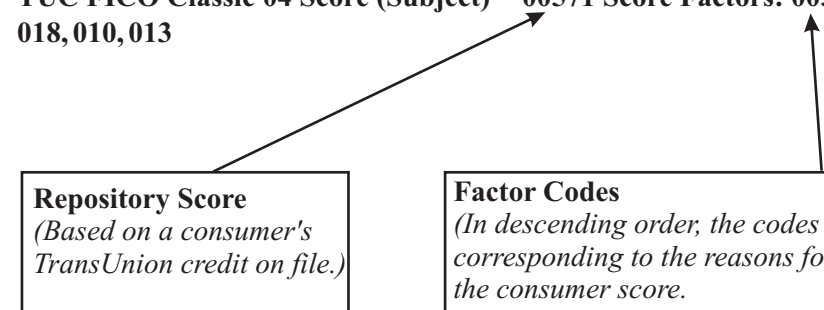
#### Narrative Table

- A BEACON NOT VALID FOR THIS SERVICE
- B BEACON NOT AVAILABLE, PLEASE CONTACT YOUR SALES REP
- C BEACON NOT AVAILABLE, PLEASE CONTACT YOUR SALES REP
- G BEACON IS TEMPORARILY UNAVAILABLE
- H BEACON IS TEMPORARILY UNAVAILABLE
- I BEACON NOT AVAILABLE, FILE CANNOT BE SCORED
- J BEACON NOT AVAILABLE, FILE UNDER REVIEW
- L BEACON NOT AVAILABLE, SUBJECT IS DECEASED
- M BEACON NOT AVAILABLE, NO QUALIFYING ACCOUNTS PRESENT
- N BEACON NOT AVAILABLE, INSUFFICIENT OR UNKNOWN ACCOUNT HISTORY
- O BEACON NOT AVAILABLE, NO RECENTLY REPORTED ACCOUNT INFORMATION
- P BEACON NOT AVAILABLE, NO QUALIFYING ACCOUNTS PRESENT
- Q BEACON NOT AVAILABLE, PLEASE ALERT YOUR BEACON REP

#### TransUnion FICO Classic 98/04

How the TransUnion FICO Classic 98/04 score appears on a Rels Credit Instant Merge Report:

**TUC FICO Classic 04 Score (Subject) = 00571 Score Factors: 005, 018, 010, 013**



#### FICO Classic 98/04 Scoring Factors

##### CODE Explanation

- 00..... No adverse factor
- 01..... Amount owed on accounts is too high
- 02..... Level of delinquency on accounts
- 03..... Proportion of loan balances to loan amounts is too high
- 04..... Lack of recent installment loan information
- 05..... Too many accounts with balances
- 06..... Too many consumer finance company accounts
- 07..... Account payment history is too new to rate
- 08..... Too many inquiries over last 12 months
- 09..... Too many accounts recently opened
- 10..... Proportion of balances to credit limits is too high on bank revolving or other revolving accounts
- 11..... Amount owed on revolving account is too high
- 12..... Length of time revolving accounts have been established
- 13..... Time since delinquency is too recent or unknown
- 14..... Length of time accounts have been established
- 15..... Lack of recent bank revolving information
- 16..... Lack of recent revolving account information
- 17..... No recent non-mortgage balance information

*Codes continued*

## CODE Explanation

- 18..... Number of accounts with delinquency  
19..... Date of last inquiry too recent  
20..... Length of time since derogatory public record or collection is too short  
21..... Amount past due on accounts  
22..... Serious delinquency, derogatory public record or collection filed  
24..... No recent revolving balances  
26..... Number of bank revolving or other revolving accounts  
27..... Too few accounts currently paid as agreed  
28..... Number of established accounts  
29..... No recent bankcard balances  
30..... Time since most recent account opening is too short  
31..... Amount owed on delinquent accounts  
36..... Payments due on accounts  
38..... Serious delinquency, and public record or collection filed  
39..... Serious delinquency  
40..... Derogatory public record or collection filed  
41..... No recent retail balances  
42..... Length of time since most recent consumer finance company account established  
50..... Lack of recent retail account information  
56..... Amount owed on retail accounts

### FICO Classic 98/04 Message Codes

FICO Classic 98/04 ALERT message occurs when a credit file scored by FICO Classic 98/04 contains one or more of the following: previous bankruptcy, derogatory public record, collection activity or an MOP 7 or higher.

FICO Classic 98/04 NOT SCORED: DECEASED message occurs when the subject's Social Security Number matches the Social Security Administration's deceased Social Security Number file.

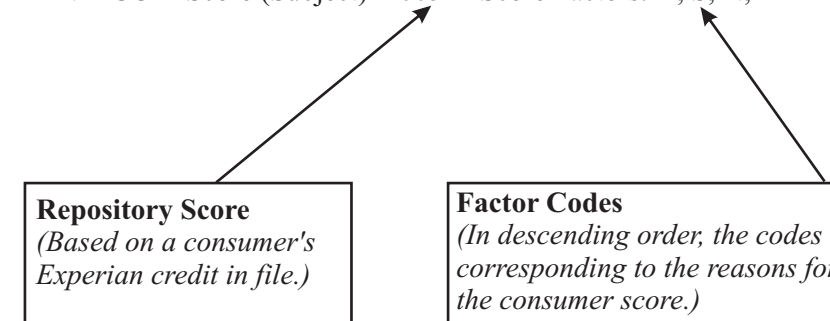
FICO Classic 98/04 NOT SCORED: INSUFFICIENT CREDIT

message occurs when the subject's credit file contains only new trade lines, or when the subject's credit file contains only trade lines that have not been updated within the last six months.

## Experian FICO II Model

How the Experian FICO II score appears on a Rels Credit Instant Merge report:

XPN FICO II Score (Subject) = 00522 Score Factors: X, S, N, K



(Auto Loan, Bank Card Loan, Installment Loan, and Personal Finance Options Included)

Numerical Factor	Alpha Factor	Definition
01.....	A.....	Current balances on accounts
02.....	B.....	Delinquency reported on accounts
03.....	C.....	Too few bank revolving accounts
04.....	D.....	Too many bank revolving accounts
05.....	E.....	Number of accounts with balances
06.....	F.....	Number of finance company accounts
07.....	G.....	Unable to evaluate recent payment history
08.....	H.....	Number of recent inquiries
09.....	J.....	Number of accounts opened within the last twelve months
10.....	K.....	Proportion of balance to high credit on bank revolving or all revolving accounts
11.....	L.....	Current balances on revolving accounts
12.....	M.....	Length of revolving account history
13.....	N.....	Length of time (or unknown time) since

- account delinquent
- 14..... O.....Length of time accounts have been established
- 15..... P.....Insufficient or lack of bank revolving account information
- 16..... Q.....Insufficient or lack of revolving account information
- 17..... R.....No recent (non-mortgage) account balance information
- 18..... S.....Number of accounts delinquent
- 19..... T.....Too few accounts rated “current”
- 20..... V.....Length of time since legal item filed or collection item reported
- 21..... W.....Amount past due on accounts
- 22..... X.....Serious delinquency, derogatory public record or collection filed
- 24..... U.....Lack of recently reported balances on revolving/open accounts
- 25..... \*.....Length of installment loan history
- 26..... \*.....Number of revolving accounts
- 28..... \*.....Number of accounts established
- 30..... Z.....Length of time since most recent account established
- 31..... \*.....Too few accounts with recent payment information
- 32..... Y.....No recent installment loan information
- 33..... I.....Proportion of current loan balance to original loan amount
- 36..... \*.....Length of time open installment loans have been established
- 37..... \*.....Number of finance company accounts established relative to length of finance history
- 38..... Serious delinquency, and public record or collection filed
- 39..... Serious delinquency
- 40..... Derogatory public record or collection filed

- 98..... \*.....Lack of recent information on auto loan, or lack of auto loans
- 99..... \*.....Lack of recent information on finance accounts, or lack of finance accounts

#### Experian Exclusion Messages – FICO II

When a score does not appear on the Experian credit profile report for a particular consumer account, an exclusion message is generated as shown below.

CPU Code #	Message	Description
9000	EXPERIAN’S FICO II SCORE NOT AVAILABLE DUE TO SYSTEM FILE PARAMETERS	The Profile report contains more subscriber trade line and inquiry transactions.
9001	EXPERIAN’S FICO II SCORE NOT AVAILABLE DUE TO REPORT OF “DECEASED” STATUS	The Profile report contains a subscriber transaction with a status code of “21” or an association code of “X” indicating the consumer is deceased.
9002	EXPERIAN’S FICO II SCORE NOT AVAILABLE DUE TO MODEL EXCLUSION CRITERIA	The Profile report does not contain any trade line which satisfied both of the following: <ul style="list-style-type: none"> <li>• Status date within the last six (6) months OR a balance with the last six (6) months if the status code is not ‘11’ (curr. acct.)</li> <li>• Does not contain disputed information</li> </ul>
9003	EXPERIAN’S FICO II SCORE NOT AVAILABLE DUE TO LACK OF CREDIT HISTORY	The Profile report does not contain any trade lines which have been open for at least six (6) months



## APPENDIX A: STATE-BY-STATE RESOURCES

This appendix contains a state-by-state listing of attorneys general, banking authorities, and consumer protection agencies. These can answer questions, help you solve problems, and provide assistance for problems involving discrimination, credit concerns, hate crimes, and housing problems (names of the officials are not included since these change often).

<b><u>Alabama</u></b> <b>Attorney General</b> 11 South Union Street 3rd Floor Montgomery, AL 36103 <b>Banking Authority</b> Superintendent of Banks Center for Commerce 401 Adams Avenue, #680 Montgomery, AL 36130-1201 334-242-3452 www.legislature.state.al.us <b>Consumer Protection Agency</b> Office of the Attorney General Consumer Affairs Section 11 South Union Street 3rd Floor Montgomery, AL 36130 334-242-7335 www.ago.state.al.us <b><u>Alaska</u></b> <b>Attorney General</b> State Capitol P.O. Box 110300 Juneau, AK 99811-0300  <b>Banking Authority</b> Director of Banking Securities and Corporations Department of Commerce 150 Third Street Room 217	Juneau, AK 99801 907-465-2521 www.dced.state.ak.us <b>Consumer Protection Agency</b> Consumer Protection Unit Office of the Attorney General 1031 West 4th Avenue Suite 200 Anchorage, AK 99501-5903 907-269-5100 <a href="http://www.law.state.ak.us">www.law.state.ak.us</a> <b><u>Arizona</u></b> <b>Attorney General</b> 1275 West Washington Street Phoenix, AZ 85007 <b>Banking Authority</b> Superintendent of Banks Arizona State Banking Department 2910 North 44th Street Suite 310 Phoenix, AZ 85018 602-255-4421 www.azbanking.com <b>Consumer Protection Agency</b> Chief Counsel Consumer Protection and Advocacy Section Office of the Attorney General 1275 West Washington Street Phoenix, AZ 85007 602-542-5763 www.ag.state.az.us Office of the Attorney General
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Consumer Protection  
400 West Congress South Building  
Suite 315  
Tucson, AZ 85701-1367  
520-628-6504  
www.ag.state.az.us  
**Arkansas**  
**Attorney General**  
Tower Building  
323 Center Street  
Suite 200  
Little Rock, AR 72201-2610  
**Banking Authority**  
Bank Commissioner  
Arkansas State Bank Department  
Sedgwick Center  
400 Hardin Road  
Little Rock, AR 72211  
501-324-9019  
www.state.ar.us/bank  
**Consumer Protection Agency**  
Consumer Protection Division  
Office of the Attorney General  
323 Center Street  
Suite 200  
Little Rock, AR 72201  
501-682-2007  
www.ag.state.ar.us  
**California**  
**Attorney General**  
1515 K Street  
Suite 511  
Sacramento, CA 95814  
**Banking Authority**  
Commissioner  
Department of Financial Institutions  
State of California  
111 Pine Street  
Suite 1100  
San Francisco, CA 94111-5613  
415-263-8500  
www.dfi.ca.gov

**Consumer Protection Agency**  
Acting Chief  
Bureau of Automotive Repair  
California Department of Consumer  
Affairs  
10240 Systems Parkway  
Sacramento, CA 95827  
916-255-4300  
www.autorepair.ca.gov  
Director  
California Department of Consumer  
Affairs  
400 R Street  
Suite 3000  
Sacramento, CA 95814  
916-445-1254  
www.dca.ca.gov  
Office of the Attorney General  
Public Inquiry Unit  
P.O. Box 944255  
Sacramento, CA 94244-2550  
916-322-3360  
www.caag.state.ca.us  
**Colorado**  
**Attorney General**  
Department of Law  
1525 Sherman Street  
5th Floor  
Denver, CO 80203  
**Banking Authority**  
State Bank Commissioner  
Department of Regulatory Agencies  
Division of Banking  
1560 Broadway  
Suite 1175  
Denver, CO 80202  
303-894-7575  
www.dora.state.co.us/banking  
**Consumer Protection Agency**  
Consumer Protection Division  
Colorado Attorney General's Office  
1525 Sherman Street

5th Floor  
 Denver, CO 80203-1760  
 303-866-5079  
**Connecticut**  
**Attorney General**  
 P.O. Box 120  
 Hartford, CT 06141-0120  
**Banking Authority**  
 Banking Commissioner  
 Connecticut Department of Banking  
 260 Constitution Plaza  
 Hartford, CT 06103  
 860-240-8299  
[www.state.ct.us/dob](http://www.state.ct.us/dob)  
**Consumer Protection Agency**  
 Commissioner  
 Department of Consumer Protection  
 165 Capitol Avenue  
 Hartford, CT 06106-1630  
 860-713-6050  
[www.state.ct.us/dcp](http://www.state.ct.us/dcp)  
**Delaware**  
**Attorney General**  
 Carvel State Office Building  
 820 North French Street  
 Wilmington, DE 19801  
**Banking Authority**  
 State Bank Commissioner  
 555 East Loockerman Street  
 Suite 210  
 Dover, DE 19901  
 302-739-4235  
[www.state.de.us/bank](http://www.state.de.us/bank)  
**Consumer Protection Agency**  
 Director  
 Consumer Protection Unit  
 Office of Attorney General  
 820 North French Street  
 5th Floor  
 Wilmington, DE 19801  
 302-577-8600  
 Director

Fraud and Consumer Protection  
 Division  
 Office of the Attorney General  
 820 North French Street  
 5th Floor  
 Wilmington, DE 19801  
 302-577-8600  
**District of Columbia**  
**Office of the Corporation Counsel**  
 441 4th Street, NW  
 Suite 450-N  
 Washington, D.C. 20001  
**Banking Authority**  
 Commissioner of  
 Banking and Financial Institutions  
 Office of Banking & Finance  
 1400 L Street, NW  
 Washington, D.C. 20005  
 202-727-1563  
[www.obfi.dcgov.org](http://www.obfi.dcgov.org)  
**Consumer Protection Agency**  
 Senior Counsel  
 Office of the Corporation Counsel  
 441 4th Street, NW  
 Suite 450-N  
 Washington, D.C. 20001  
 202-442-9828  
**Florida**  
**Attorney General**  
 The Capitol, PL 01  
 Tallahassee, FL 32399-1050  
**Banking Authority**  
 State Comptroller  
 Department of Banking and Finance  
 200 East Gaines Street  
 Tallahassee, FL 32399-3000  
 850-413-3100  
[www.dbf.state.fl.us](http://www.dbf.state.fl.us)  
**Consumer Protection Agency**  
 Economic Crimes Division  
 Office of the Attorney General  
 110 SE 6th Street

Fort Lauderdale, FL 33301-5000  
 954-712-4600  
 Fax: 954-712-4706  
[www.myfloridalegal.com](http://www.myfloridalegal.com)  
 Chief of Multi-State Litigation  
 Consumer Litigation Section  
 110 SE 6th Street  
 Fort Lauderdale, FL 33301  
 954-712-4600  
 Economic Crimes Division  
 Office of the Attorney General  
 135 West Central Boulevard  
 Century Plaza  
 Suite 1000  
 Orlando, FL 32801  
 407-999-5588  
 Economic Crimes Division  
 Office of the Attorney General  
 The Capitol, PL-01  
 Tallahassee, FL 32399-1050  
 850-414-3600  
 Director of Division Consumer  
 Services  
 Department of Agriculture &  
 Consumer Services  
 Terry L. Rhoads Building  
 2005 Apalachee  
 Tallahassee, FL 32399-6500  
 850-922-2966  
[www.800helpfla.com](http://www.800helpfla.com)  
**Georgia**  
**Attorney General**  
 40 Capitol Square SW  
 Atlanta, GA 30334-1300  
**Banking Authority**  
 Legal & Consumer Affairs Specialist  
 State of Georgia  
 (Department of Banking and Finance)  
 2990 Brandywine Road  
 Suite 200  
 Atlanta, GA 30341-5565  
 770-986-1633

**Consumer Protection Agency**  
 Administrator  
 Governor's Office of Consumer  
 Affairs  
 2 Martin Luther King, Jr. Drive  
 Suite 356  
 Atlanta, GA 30334-4600  
 404-656-3790  
[www2.state.ga.us/gaoca](http://www2.state.ga.us/gaoca)  
**Hawaii**  
**Attorney General**  
 425 Queen Street  
 Honolulu, HI 96813  
**Banking Authority**  
 Commissioner  
 Financial Institutions  
 State of Hawaii  
 1010 Richards Street  
 Room 602A  
 Honolulu, HI 96813  
 808-586-2820  
**Consumer Protection Agency**  
 Investigator  
 Office of Consumer Protection  
 Department of Commerce and  
 Consumer Affairs  
 345 Kekuanaoa Street  
 Suite 12  
 Hilo, HI 96720  
 808-933-0910  
 Acting Executive Director  
 Office of Consumer Protection  
 Department of Commerce and  
 Consumer Affairs  
 235 South Beretania Street  
 Suite 801  
 Honolulu, HI 96813  
 808-586-2630  
 Investigator  
 Office of Consumer Protection  
 Dept of Commerce and Consumer  
 Affairs  
 1063 L Main Street

Suite C-216  
Wailuku, HI 96793  
808-984-8244  
[www.state.hi.us/dcca/](http://www.state.hi.us/dcca/)  
**Idaho**  
**Attorney General**  
P.O. Box 83720  
Boise, ID 83720-0010  
**Banking Authority**  
Director  
State of Idaho Department of Finance  
700 West State Street  
2nd Floor  
Boise, ID 83702  
208-332-8000  
<http://finance.idaho.gov>  
**Consumer Protection Agency**  
Consumer Protection Unit  
Idaho Attorney General's Office  
700 West Jefferson Street  
Boise, ID 83720-0010  
208-334-2424  
[www.state.id.us/ag](http://www.state.id.us/ag)  
**Illinois**  
**Attorney General**  
J.R. Thompson Center  
100 West Randolph St.  
Chicago, IL 60601  
**Banking Authority**  
Commissioner of Banks and Real Estate  
Illinois Office of Banks and Real Estate  
310 South Michigan Avenue  
Suite 2130  
Chicago, IL 60604-4278  
312-793-3000  
[www.idfpr.com](http://www.idfpr.com)  
Illinois Office of Banks and Real Estate  
Springfield Office  
500 East Monroe Street

Springfield, IL 62701-1509  
217-782-3000  
[www.idfpr.com](http://www.idfpr.com)  
**Consumer Protection Agency**  
Office of the Attorney General  
1001 East Main Street  
Carbondale, IL 62901  
618-529-6400  
Bureau Chief  
Consumer Fraud Bureau  
100 West Randolph  
Chicago, IL 60601  
312-814-3580  
[www.ag.state.il.us](http://www.ag.state.il.us)  
Chief  
Consumer Protection Division  
of the Attorney General Office  
100 West Randolph  
Chicago, IL 60601  
312-814-3000  
Governor's Office of Citizens Assistance  
222 West College  
Floor 1  
Springfield, IL 62706  
217-782-0244  
**Indiana**  
**Attorney General**  
302 West Washington Street  
Indianapolis, IN 46204  
**Banking Authority**  
Director  
Department of Financial Institutions  
30 South Meridian Street  
Suite 300  
Indianapolis, IN 46204-2759  
317-232-3955  
[www.in.gov/dfi](http://www.in.gov/dfi)  
**Consumer Protection Agency**  
Chief Counsel and Director  
Consumer Protection Division  
Office of the Attorney General

Indiana Government Center South  
302 West Washington Street  
5th Floor  
Indianapolis, IN 46204  
317-232-6201  
[www.in.gov/attorneygeneral](http://www.in.gov/attorneygeneral)  
**Iowa**  
**Attorney General**  
1305 East Walnut Street  
Des Moines, IA 50319  
**Banking Authority**  
Superintendent of Banking  
Iowa Division of Banking  
200 East Grand Avenue  
Suite 300  
Des Moines, IA 50309-1827  
515-281-4014  
[www.idob.state.ia.us](http://www.idob.state.ia.us)  
**Consumer Protection Agency**  
Consumer Protection Division  
Office of the Attorney General  
Director of Consumer Protection Division  
1305 East Walnut Street  
Des Moines, IA 50319  
515-281-5926  
[www.IowaAttorneyGeneral.org](http://www.IowaAttorneyGeneral.org)  
**Kansas**  
**Attorney General**  
120 SW 10th Avenue  
2nd Floor  
Topeka, KS 66612-1597  
**Banking Authority**  
State Bank Commissioner  
Office of the State Bank Commissioner  
700 Jackson Street  
Suite 300  
Topeka, KS 66603-3714  
785-296-2266  
[www.osbckansas.org](http://www.osbckansas.org)  
**Consumer Protection Agency**

Consumer Protection Division  
Office of the Attorney General  
120 SW 10th Avenue  
2nd Floor  
Topeka, KS 66612-1597  
785-296-3751  
[www.accesskansas.org/ksag](http://www.accesskansas.org/ksag)  
**Kentucky**  
**Attorney General**  
State Capitol Suite 118  
Frankfort, KY 40601-3449  
**Banking Authority**  
Commissioner  
Department of Financial Institutions  
1025 Capitol Center Drive  
Suite 200  
Frankfort, KY 40601  
502-573-3390  
[www.dfi.state.ky.us](http://www.dfi.state.ky.us)  
**Consumer Protection Agency**  
Director  
Consumer Protection Division  
Office of the Attorney General  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601  
502-696-5389  
[www.ag.ky.gov/cp](http://www.ag.ky.gov/cp)  
Consumer Protection Division  
Office of the Attorney General  
9001 Shelbyville Road  
Suite 3  
Louisville, KY 40222-8003  
502-595-3262  
**Louisiana**  
**Attorney General**  
Department of Justice  
P.O. Box 94005  
Baton Rouge, LA 70804  
**Banking Authority**  
Acting Commissioner  
LA Office of Financial Institutions

P.O. Box 94095  
Baton Rouge, LA 70804-9095  
225-925-4660  
www.ofi.state.la.us

**Consumer Protection Agency**  
Chief

Consumer Protection Section  
Office of the Attorney General  
1885 North 3rd Street  
Baton Rouge, LA 70802  
800-351-4889  
www.ag.state.la.us

**Maine**

**Attorney General**

State House Station  
Augusta, ME 04333

**Banking Authority**

Superintendent of Banking  
36 State House Station  
Augusta, ME 04333-0036  
207-624-8570  
www.mainebankingreg.org

**Consumer Protection Agency**

Director  
Office of Consumer Credit Regulation  
35 State House Station  
Augusta, ME 04333-0035  
207-624-8527

www.mainecreditreg.org  
Maine Attorney General's  
Consumer Mediation Service  
6 State House Station  
Augusta, ME 04333  
207-626-8849

www.state.me.us/ag  
Division Chief  
Public Protection Division  
Office of the Attorney General  
6 State House Station  
Augusta, ME 04333  
207-626-8800

**Maryland**

**Attorney General**

200 Saint Paul Place  
Baltimore, MD 21202

**Banking Authority**

Commissioner of Financial  
Regulation Division

500 North Calvert Street  
Suite 402  
Baltimore, MD 21202  
410-230-6100

www.dllr.state.md.us/finance

**Consumer Protection Agency**

Chief

Consumer Protection Division  
Office of the Attorney General  
200 Saint Paul Place  
Baltimore, MD 21202-2021  
410-528-8662

www.oag.state.md.us/consumer  
Manager

Business Licensing & Consumer  
Service

Motor Vehicle Administration  
6601 Ritchie Highway, NE  
Glen Burnie, MD 21062  
410-768-7248

**Massachusetts**

**Attorney General**

1 Ashburton Place  
Boston, MA 02108-1698

**Banking Authority**

Commissioner of Banks  
MA Division of Banks  
One South Station  
Boston, MA 02110  
617-956-1500

www.state.ma.us/dob

**Consumer Protection Agency**

Director

Executive Office of Consumer Affairs  
and Business Regulation  
10 Park Plaza

Suite 5170  
Boston, MA 02116  
617-973-8787

www.state.ma.us/consumer

Consumer Protection and Antitrust  
Division

Office of the Attorney General  
200 Portland Street  
Boston, MA 02114  
617-727-2200

www.ago.state.ma.us

Consumer Protection and Antitrust  
Division

Office of the Attorney  
General—Springfield

1350 Main Street  
4th Floor  
Springfield, MA 01103-1629  
413-784-1240

**Michigan**

**Attorney General**

525 West Ottawa Street  
Lansing, MI 48909-0212

**Banking Authority**

Commissioner  
Office of Financial and Insurance  
Services  
Office of the Commissioner  
P.O. Box 30220

Lansing, MI 48909  
517-373-0220

www.michigan.gov/cis

**Consumer Protection Agency**

Director

Bureau of Automotive Regulation  
Michigan Department of State  
Lansing, MI 48918-1200  
517-322-1460

Assistant in Charge

Consumer Protection Division  
Office of Attorney General  
P.O. Box 30213  
Lansing, MI 48909

517-373-1140

**Minnesota**

**Attorney General**

1400 NCL Tower  
445 Minnesota Street  
St. Paul, MN 55101

**Banking Authority**

Assistant Commissioner  
Minnesota Department of Commerce  
Financial Exams  
133 East Seventh Street  
St. Paul, MN 55101  
651-296-2751

www.commerce.state.mn.us

**Consumer Protection Agency**

Manager

Consumer Services Division  
Minnesota Attorney General's Office  
1400 NCL Tower  
445 Minnesota Street  
St. Paul, MN 55101  
651-296-3353

www.ag.state.mn.us/consumer

**Mississippi**

**Attorney General**

Department of Justice  
P.O. Box 220  
Jackson, MS 39205-0220

**Banking Authority**

Director Consumer Finance Division  
Department of Banking and Consumer  
Finance  
Consumer Finance  
Walter Sillers Building  
550 High Street  
Suite 304  
Jackson, MS 39205-3729  
601-359-1031

www.dbcf.state.ms.us

**Consumer Protection Agency**

Director

Consumer Protection Division of the



Mississippi Attorney General's Office  
P.O. Box 22947  
Jackson, MS 39225-2947  
601-359-4230  
[www.ago.state.ms.us](http://www.ago.state.ms.us)  
Director  
Bureau of Regulatory Services  
Department of Agriculture and Commerce  
121 North Jefferson Street  
Jackson, MS 39201  
601-359-1111  
[www.mdac.state.ms.us](http://www.mdac.state.ms.us)  
**Missouri**  
**Attorney General**  
Supreme Court Building  
207 West High Street  
Jefferson City, MO 65102  
**Banking Authority**  
Acting Commissioner of Finance  
Department of Finance  
301 East High Street  
Jefferson City, MO 65102  
573-751-3242  
[www.ecodev.state.mo.us](http://www.ecodev.state.mo.us)  
**Consumer Protection Agency**  
Deputy Chief Counsel  
Consumer Protection and Trade  
Offense Division  
1530 Rax Court  
Jefferson City, MO 65102  
573-751-6887  
[www.ago.state.mo.us](http://www.ago.state.mo.us)  
**Montana**  
**Attorney General**  
Justice Building  
215 North Sanders  
3rd Floor  
Helena, MT 59620-1401  
**Banking Authority**  
Commissioner  
Division of Banking & Financial  
Institutions  
301 South Park Avenue  
Helena, MT 59620-0501  
406-841-2700  
[www.commerce.state.mt.us/finance/index.html](http://www.commerce.state.mt.us/finance/index.html)  
**Consumer Protection Agency**  
Chief Legal Counsel  
Consumer Affairs Unit  
Department of Administration  
1424 Ninth Avenue  
Box 200501  
Helena, MT 59620-0501  
406-444-4312  
**Nebraska**  
**Attorney General**  
2115 State Capitol  
Lincoln, NE 68509  
**Banking Authority**  
Director  
Department of Banking & Finance  
Commerce Court  
1230 "O" Street  
Suite 400  
Lincoln, NE 68509-5006  
402-471-2171  
[www.ndbf.org](http://www.ndbf.org)  
**Consumer Protection Agency**  
Department of Justice  
2115 State Capitol  
Lincoln, NE 68509  
402-471-2682  
[www.nol.org/home/ago](http://www.nol.org/home/ago)  
**Nevada**  
**Attorney General**  
100 North Carson Street  
Carson City, NV 89701-4717  
**Banking Authority**  
Commissioner  
Department of Business & Industry  
Financial Institutions Division  
406 East Second Street

Suite 3  
Carson City, NV 89701-4758  
775-684-1830  
<http://fid.state.nv.us>  
**Consumer Protection Agency**  
Commissioner  
Nevada Consumer Affairs Division  
1850 East Sahara  
Suite 101  
Las Vegas, NV 89104  
702-486-7355  
[www.fyiconsumer.org](http://www.fyiconsumer.org)  
Bureau of Consumer Protection  
555 East Washington Avenue  
Suite 3900  
Las Vegas, NV 89101  
702-486-3420  
Deputy Chief Investigator  
Consumer Affairs Division  
Department of Business and Industry  
4600 Kietzke Lane  
Building B  
Suite 113  
Reno, NV 89502  
775-688-1800  
**New Hampshire**  
**Attorney General**  
State House Annex  
33 Capitol Street  
Concord, NH 03301-6397  
**Banking Authority**  
State of New Hampshire Banking  
Department  
Consumer Credit  
64B Old Suncook Road  
Concord, NH 03301  
603-271-3561  
[www.state.nh.us/banking](http://www.state.nh.us/banking)  
**Consumer Protection Agency**  
Consumer Protection and Antitrust  
Bureau  
New Hampshire Attorney General's

Office  
33 Capitol Street  
Concord, NH 03301  
603-271-3641  
[www.state.nh.us/nhdoj/consumer](http://www.state.nh.us/nhdoj/consumer)  
**New Jersey**  
**Attorney General**  
Richard J. Hughes Justice Complex  
25 Market Street  
CN 080  
Trenton, NJ 08625  
**Banking Authority**  
Acting Commissioner  
Department of Banking and Insurance  
20 West State Street  
Trenton, NJ 08625  
609-292-3420  
<http://states.naic.org>  
**Consumer Protection Agency**  
Department of Law and Public Safety  
Division of Consumer Affairs  
124 Halsey Street  
Newark, NJ 07102  
973-504-6200  
[www.state.nj.us/lps/ca/home.htm](http://www.state.nj.us/lps/ca/home.htm)  
**New Mexico**  
**Attorney General**  
P.O. Drawer 1508  
Santa Fe, NM 87504-1508  
**Banking Authority**  
Financial Institutions Division  
Regulation and Licensing Department  
725 St Michaels Drive  
Santa Fe, NM 87501  
505-827-7100  
[www.state.nm.us](http://www.state.nm.us)  
**Consumer Protection Agency**  
Director  
Consumer Protection Division  
Office of the Attorney General  
407 Galisteo  
Room 260

Santa Fe, NM 87504-1508  
505-827-6000

[www.ago.state.nm.us](http://www.ago.state.nm.us)

**New York**

**Attorney General**

120 Broadway  
New York, NY 10271

**Banking Authority**

Acting Superintendent of Banking  
New York State Banking Department  
One State Street  
New York, NY 10004-1417  
212-618-6553  
[www.banking.state.ny.us](http://www.banking.state.ny.us)

**Consumer Protection Agency**  
Bureau Chief

Bureau of Consumer Frauds and  
Protection  
Office of the Attorney General  
State Capitol  
Albany, NY 12224-0341  
518-474-7330

[www.oag.state.ny.us](http://www.oag.state.ny.us)

Chairwoman and Executive Director  
New York State Consumer Protection  
Board

5 Empire State Plaza  
Suite 2101  
Albany, NY 12223-1556  
518-474-3514

[www.consumer.state.ny.us](http://www.consumer.state.ny.us)

Deputy Bureau Chief  
Consumer Frauds and Protection  
Bureau

Office of the Attorney General  
120 Broadway  
3rd Floor  
New York, NY 10271  
212-416-8300

Assistant Attorney General in Charge  
Consumer Fraud and Protection  
Bureau

New York State Office of the Attorney

General

Harlem Regional Office

163 West 125th Street

New York, NY 10027-8201

212-961-4475

Assistant Attorney General in Charge

Plattsburgh Regional Office

Office of Attorney General

70 Clinton Street

Plattsburgh, NY 12901-2818

518-562-3282

Assistant Attorney General in Charge

Consumer Fraud and Protection  
Bureau

New York State Office of the Attorney  
General

Westchester Regional Office

101 East Post Road

White Plains, NY 10601-5008

914-422-8755

**North Carolina**

**Attorney General**

Department of Justice

9001 Mail Service Center

Raleigh, NC 27699-9001

**Banking Authority**

North Carolina Commissioner of  
Banks

316 West Edenton Street

Raleigh, NC 27603

919-733-3016

[www.banking.state.nc.us](http://www.banking.state.nc.us)

**Consumer Protection Agency**

Senior Deputy Attorney General

Consumer Protection Division

Office of the Attorney General

9001 Mail Service Center

Raleigh, NC 27699

919-716-6000

[www.ncdoj.com/consumerprotection](http://www.ncdoj.com/consumerprotection)

**North Dakota**

**Attorney General**

State Capitol

600 East Boulevard Avenue

Department 125

Bismarck, ND 58505-0040

**Banking Authority**

Commissioner

ND Department of Financial  
Institutions

2000 Schafer Street

Suite G

Bismarck, ND 58501-1204

701-328-9933

[www.discovernd.com](http://www.discovernd.com)

**Consumer Protection Agency**

Director

Consumer Protection and Antitrust  
Division

Office of the Attorney General

600 East Boulevard Avenue

Department 125

Bismarck, ND 58505-0040

701-328-3404

[www.ag.state.nd.us](http://www.ag.state.nd.us)

Office of the Attorney General

600 East Boulevard Avenue

Department 125

Bismarck, ND 58505-0040

701-328-2210

[www.ag.state.nd.us](http://www.ag.state.nd.us)

**Ohio**

**Attorney General**

State Office Tower

30 East Broad Street

17th Floor

Columbus, OH 43215-3428

**Banking Authority**

Training and Communications  
Manager

Department of Commerce—State of  
Ohio

Financial Institutions Division

77 South High Street

21st Floor

Columbus, OH 43215-6120  
614-728-8400

[www.com.state.oh.us/dfi](http://www.com.state.oh.us/dfi)

**Consumer Protection Agency**

Ohio Consumers' Counsel

10 West Broad Street

Suite 1800

Columbus, OH 43215-3485

614-466-8574

[www.pickocc.org](http://www.pickocc.org)

Ohio Attorney General's Office

30 East Broad Street

17th Floor

Columbus, OH 43215-3428

614-466-8831

[www.ag.state.oh.us](http://www.ag.state.oh.us)

**Oklahoma**

**Attorney General**

State Capitol

2300 North Lincoln Boulevard

Room 112

Oklahoma City, OK 73105

**Banking Authority**

Bank Commissioner

OK State Banking Department

4545 North Lincoln Boulevard

Suite 164

Oklahoma City, OK 73105

405-521-2782

[www.state.ok.us/~osbd](http://www.state.ok.us/~osbd)

**Consumer Protection Agency**

Administrator

Department of Consumer Credit

4545 North Lincoln Boulevard #104

Oklahoma City, OK 73105

405-521-3653

Oklahoma Attorney General

Consumer Protection Unit

4545 North Lincoln Avenue

Suite 260

Oklahoma City, OK 73105

405-521-2029

www.oag.state.ok.us  
Consumer Protection Division  
Office of the Attorney General  
2300 North Lincoln Boulevard  
#112

Tulsa, OK 74127-8913  
918-581-2885

www.oag.state.ok.us

**Oregon**

**Attorney General**

Justice Building  
1162 Court Street NE  
Salem, OR 97301-4096

**Banking Authority**

Administrator  
Department of Consumer & Business  
Services

Division of Finance & Corporate  
Securities

350 Winter Street NE

Room 410

Salem, OR 97310-3881

503-378-4140

www.cbs.state.or.us/external/dfcs

**Consumer Protection Agency**

Attorney in Charge  
Financial Fraud/Consumer Protection  
Section

Department of Justice

1162 Court Street NE

Salem, OR 97310

503-378-4320

www.doj.state.or.us

**Pennsylvania**

**Attorney General**

Strawberry Square  
Harrisburg, PA 17120

**Banking Authority**

Secretary of Banking Department  
333 Market Street  
16th Floor

Harrisburg, PA 17101-2290

717-214-8343

www.banking.state.pa.us

**Consumer Protection Agency**

Director

Bureau of Consumer Protection

Office of Attorney General

14th Floor

Strawberry Square

Harrisburg, PA 17120

717-787-9707

www.attorneygeneral.gov

Senior Deputy Attorney General

Health Care Unit

Bureau of Consumer Protection

Office of the Attorney General

14th Floor

Strawberry Square

Harrisburg, PA 17120

717-705-6938

Consumer Advocate

Office of the Consumer Advocate

Office of the Attorney General

555 Walnut Street

Forum Place

5th Floor

Harrisburg, PA 17101-1921

717-783-5048

www.oa.state.pa.us

**Rhode Island**

**Attorney General**

150 South Main Street

Providence, RI 02903

**Banking Authority**

Associate Director and Superintendent  
of Banking

233 Richmond Street

Suite 231

Providence, RI 02903-4231

401-222-2405

**Consumer Protection Agency**

Director

Consumer Unit

Consumer Protection Unit  
Department of Attorney General  
150 South Main Street  
Providence, RI 02903

401-274-4400

Consumer Credit Counseling Services

535 Centerville Road

Suite 103

Warwick, RI 02886

www.creditcounseling.org

**South Carolina**

**Attorney General**

Rembert C. Dennis Office Building

P.O. Box 11549

Columbia, SC 29211-1549

**Banking Authority**

Commissioner of Banking

State Board of Financial Institutions

1015 Sumter Street

Room 309

Columbia, SC 29201

803-734-2001

**Consumer Protection Agency**

Senior Assistant Attorney General

Office of the Attorney General

P.O. Box 11549

Columbia, SC 29211

803-734-3970

www.scattorneygeneral.org

Administrator/Consumer Advocate

SC Department of Consumer Affairs

3600 Forest Drive

3rd Floor

Columbia, SC 29250

803-734-4200

www.state.sc.us/consumer

State Ombudsman

Office of Executive Policy and  
Program

1205 Pendleton Street

Room 308

Columbia, SC 29201

803-734-0457

www.myscgov.com

**South Dakota**

**Attorney General**

500 East Capitol Avenue

Pierre, SD 57501-5070

**Banking Authority**

Director

SD Division of Banking

217 1/2 West Missouri

Pierre, SD 57501-4590

605-773-3421

www.state.sd.us/drr2/reg/bank/BAN  
K-HOM.htm

**Consumer Protection Agency**

Director of Consumer Affairs

Office of the Attorney General

500 East Capitol Avenue

Pierre, SD 57501-5070

605-773-4400

**Tennessee**

**Attorney General**

P.O. Box 20207

Nashville, TN 37202-0207

**Banking Authority**

Commissioner

511 Union Street

Suite 400

Nashville, TN 37219

615-741-2236

www.state.tn.us/financialinst

**Consumer Protection Agency**

Director

Division of Consumer Affairs

500 James Robertson Parkway

Nashville, TN 37243-0600

615-741-4737

www.state.tn.us/consumer

Deputy Attorney General

Division of Consumer Protection

Consumer Advocate and Protection

Tennessee Attorney General's Office

P.O. Box 20207  
Nashville, TN 37243-0491  
615-741-1671  
Fax: 615-532-2910

**Texas**

**Attorney General**

Capitol Station  
P.O. Box 12548  
Austin, TX 78711-2548

**Banking Authority**

Banking Commissioner  
Texas Department of Banking  
2601 North Lamar  
Austin, TX 78705  
512-475-1300

[www.banking.state.tx.us](http://www.banking.state.tx.us)

**Consumer Protection Agency**

Consumer Protection/Austin Regional  
Office

P.O. Box 12548  
Austin, TX 78711-2548  
512-463-2185  
Fax: 512-463-8301

[www.oag.state.tx.us](http://www.oag.state.tx.us)

Public Counsel

Office of Public Insurance Counsel  
333 Guadalupe  
Suite 3-120  
Austin, TX 78701

512-322-4143

[www.opic.state.tx.us](http://www.opic.state.tx.us)

Consumer Protection/Houston  
Regional Office

Office of the Attorney General  
808 Travis  
Suite 300  
Houston, TX 77002-1702  
713-223-5886, ext. 118

**Utah**

**Attorney General**

Utah State Capitol Complex  
East Office Building

Suite 320  
Salt Lake City, UT 84114

**Banking Authority**

Commissioner  
Department of Financial Institutions  
P.O. Box 89  
Salt Lake City, UT 84110-0089  
801-538-8854  
[www.dfi.state.ut.us](http://www.dfi.state.ut.us)

**Consumer Protection Agency**

Director  
Division of Consumer Protection  
Department of Commerce  
160 East 300 South  
Box 146704  
Salt Lake City, UT 84114-6704  
801-530-6601

[www.commerce.state.ut.us](http://www.commerce.state.ut.us)

**Vermont**

**Attorney General**

109 State Street  
Montpelier, VT 05609-1001

**Banking Authority**

Information Policy & Program Chief  
State of Vermont  
Banking, Insurance, Securities and  
Health Care Administration  
89 Main Street  
Drawer 20  
Montpelier, VT 05620-3101  
802-828-4872

[www.state.vt.us/bis](http://www.state.vt.us/bis)

**Consumer Protection Agency**

Consumer Assistance Program  
for Consumer Complaints &  
Questions  
104 Morrill Hall  
UVM  
Burlington, VT 05405  
800-549-2424  
[www.state.vt.us/atg](http://www.state.vt.us/atg)  
Chief

Public Protection Division  
Office of the Attorney General  
109 State Street  
Montpelier, VT 05609-1001  
802-828-5507

[www.state.vt.us/atg](http://www.state.vt.us/atg)

Supervisor

Consumer Assurance Section  
Food and Market  
Department of Agriculture  
116 State Street  
Montpelier, VT 05602  
802-828-3456

**Virginia**

**Attorney General**

Supreme Court Building  
900 East Main Street  
Richmond, VA 23219

**Banking Authority**

Commissioner  
Bureau of Financial Institutions  
1300 East Main Street  
Suite 800  
P.O. Box 640  
Richmond, VA 23218-0640  
804-371-9657  
[www.state.va.us/scc](http://www.state.va.us/scc)

**Consumer Protection Agency**

Senior Assistant Attorney General and  
Chief  
Office of the Attorney General  
Antitrust and Consumer Litigation  
Section  
900 East Main Street  
Richmond, VA 23219  
804-786-2116  
[www.oag.state.va.us](http://www.oag.state.va.us)  
Program Manager  
Office of Consumer Affairs  
Department of Agriculture and  
Consumer  
Services

Washington Building  
Suite 100

P.O. Box 1163  
Richmond, VA 23219  
804-786-2042  
[www.vdacs.state.va.us](http://www.vdacs.state.va.us)

**Washington**

**Attorney General**

1125 Washington Street, S.E.  
P.O. Box 40100  
Olympia, WA 98504-0100

**Banking Authority**

Director  
Department of Financial Institutions  
P.O. Box 41200  
Olympia, WA 98504-1200  
360-902-8707  
[www.wa.gov/dfi](http://www.wa.gov/dfi)

**Consumer Protection Agency**

Consumer Resource Center  
Office of the Attorney General  
103 East Holly Street  
Suite 308  
Bellingham, WA 98225-4728  
360-738-6185  
Consumer Resource Center  
Office of the Attorney General  
500 North Morain Street  
Suite 1250  
Kennewick, WA 99336-2607  
509-734-7140  
Consumer Resource Center  
Office of the Attorney General  
905 Plum Street  
Building 3  
Olympia, WA 98504-0118  
360-753-6210  
Consumer Resource Center  
Office of the Attorney General  
900 Fourth Avenue  
Suite 2000  
Seattle, WA 98164-1012



206-464-6684  
[www.wa.gov/ago](http://www.wa.gov/ago)  
 Consumer Resource Center  
 Office of the Attorney General  
 1116 West Riverside Avenue  
 Spokane, WA 99201-1194  
 509-456-3123  
 Program Manager  
 Consumer Resource Center  
 Office of the Attorney General  
 Consumer Protection Division  
 P.O. Box 2317  
 Tacoma, WA 98401-2317  
 253-593-2904  
[www.wa.gov/ago](http://www.wa.gov/ago)  
 Consumer Resource Center  
 Office of the Attorney General  
 1220 Main Street  
 Suite 549  
 Vancouver, WA 98660-2964  
 360-759-2150  
**West Virginia**  
**Attorney General**  
 State Capitol  
 Charleston, WV 25305-0070  
**Banking Authority**  
 Commissioner  
 State Capitol Complex  
 Division of Banking  
 1900 Kanawha Boulevard, East  
 Building 3  
 Room 311  
 Charleston, WV 25305-0240  
 304-558-2294  
[www.wvdob.org](http://www.wvdob.org)  
**Consumer Protection Agency**  
 Consumer Protection Division  
 Office of the Attorney General  
 1900 Kanawha Boulevard, East  
 Room 26E  
 Charleston, WV 25305-9924  
 304-558-8986

[www.wvs.state.wv.us/wvag](http://www.wvs.state.wv.us/wvag)  
 Director  
 Division of Weights and Measures  
 Section  
 570 MacCorkle Avenue  
 St. Albans, WV 25177  
 304-722-0602  
**Wisconsin**  
**Attorney General**  
 State Capitol  
 P.O. Box 7857  
 Madison, WI 53707-7857  
**Banking Authority**  
 Secretary  
 Department of Financial Institutions  
 345 West Washington Avenue  
 5th Floor  
 P.O. Box 7876  
 Madison, WI 53708-8861  
 608-261-1622  
[www.wdfr.org](http://www.wdfr.org)  
**Consumer Protection Agency**  
 Regional Supervisor  
 Division of Trade and Consumer  
 Protection  
 Department of Agriculture  
 Trade and Consumer Protection  
 3610 Oakwood Hills Parkway  
 Eau Claire, WI 54701-7754  
 715-839-3848  
 Regional Supervisor  
 Department of Agriculture Trade &  
 Consumer  
 Protection  
 Division of Trade and Consumer  
 Protection  
 200 North Jefferson Street  
 Suite 146A  
 Green Bay, WI 54301  
 920-448-5110  
[www.datcp.state.wi.us](http://www.datcp.state.wi.us)  
 Administrator  
 Division of Trade and Consumer

Protection  
 Department of Agriculture  
 2811 Agriculture Drive  
 P.O. Box 8911  
 Madison, WI 53718  
 608-224-4953  
[www.datcp.state.wi.us](http://www.datcp.state.wi.us)  
**Wyoming**  
**Attorney General**  
 State Capitol Building  
 Cheyenne, WY 82002  
**Banking Authority**  
 Commissioner Division of Banking  
 Herschler Building  
 3rd Floor, East  
 122 West 25th Street  
 Cheyenne, WY 82002  
 307-777-7797  
[audit.state.wy.us/banking/default.htm](http://audit.state.wy.us/banking/default.htm)  
**Consumer Protection Agency**  
 Office of the Attorney General  
 Consumer Protection Unit  
 123 State Capitol Building  
 Cheyenne, WY 82002  
 307-777-7874  
[attorneygeneral.state.wy.us](http://attorneygeneral.state.wy.us)

**APPENDIX B:  
STATE-BY-STATE CRIMINAL  
LAW STATUTES REGARDING  
IDENTITY THEFT**

This appendix provides a list of state-by-state criminal law statutes regarding identity theft and gives a web address for finding the text of the statute (where available).

**Alabama**

Ala. Code Sec. 13A-8-190 through 201  
[www.legislature.state.al.us/Search/SearchText.htm](http://www.legislature.state.al.us/Search/SearchText.htm)

**Alaska**

Alaska Stat Sec. 11.46.565 [www.legis.state.ak.us/folhome.htm](http://www.legis.state.ak.us/folhome.htm)  
Click on “The Current Alaska Statutes” and navigate to citation.

**Arizona**

Ariz. Rev. Stat. Sec. 13-2008  
[www.azleg.state.az.us/ars/13/02008.htm](http://www.azleg.state.az.us/ars/13/02008.htm)

**Arkansas**

Ark. Code Ann. Sec. 5-37-227  
[www.arkleg.state.ar.us/data/ar\\_code.asp](http://www.arkleg.state.ar.us/data/ar_code.asp)  
Click on “Arkansas Code” and then enter the citation.

**California**

Cal. Penal Code Sec. 530.5-8 [www.leginfo.ca.gov/calaw.html](http://www.leginfo.ca.gov/calaw.html)  
Click on “Penal Code” and navigate to citation.

**Colorado**

Colo. Rev. Stat Sec. 18-5-102  
Colo. Rev. Stat Sec. 18-5-113

**Connecticut**

Conn. Stat. Sec. 53a-129a  
[http://search.cga.state.ct.us/dtsearch\\_pub\\_statutes.html](http://search.cga.state.ct.us/dtsearch_pub_statutes.html)

**Delaware**

Del. Code Ann. tit. II, Sec. 854  
[www.delcode.state.de.us/title11/c005/sc03/index.htm#P650\\_58497](http://www.delcode.state.de.us/title11/c005/sc03/index.htm#P650_58497)

**District of Columbia**

(Does not have specific ID Theft law.)

**Florida**

Fla. Stat. Ann. Sec. 817.568  
[www.leg.state.fl.us/statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=Ch0817/SEC568.HT](http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0817/SEC568.HT)

M&Title=->2000->Ch0817->Section 568

**Georgia**

Ga. Code Ann. Sec. 16-9-120, through 128 [www.legis.state.ga.us](http://www.legis.state.ga.us)  
Click on “Legislature” and then “Code of GA”, then navigate to citation.

**Hawaii**

HI Rev. Stat. Sec. 708-839.6 through Sec. 708-839.8  
[www.capitol.hawaii.gov/hrscurrent/Vol14\\_Ch0701-0853](http://www.capitol.hawaii.gov/hrscurrent/Vol14_Ch0701-0853)  
Find and click on “HRS0708” then “-0839\_0006,” “-0839\_0007,” or “-0839\_0008.”

**Idaho**

Idaho Code Sec. 18-3126 (criminal)  
[www3.state.id.us/cgi-bin/newidst?sctid=180310026.K](http://www3.state.id.us/cgi-bin/newidst?sctid=180310026.K)

**Illinois**

720 ILCS 5/16 G  
[www.ilga.gov/legislation/ilcs/ilcs.asp](http://www.ilga.gov/legislation/ilcs/ilcs.asp)  
Click on “CHAPTER 720 - CRIMINAL OFFENSES” then “720 ILCS 5/ - Criminal Code of 1961” then “Article 16 - Theft And Related Offenses.”

**Indiana**

Ind. Code Sec. 35-43-5-3.5  
[www.state.in.us/legislative/ic/code/title35/ar43/ch5.html](http://www.state.in.us/legislative/ic/code/title35/ar43/ch5.html)

**Iowa**

Iowa Code Sec. 715A.8  
<http://nxtsearch.legis.state.ia.us/NXT/gateway.dll?f=templates&fn=default.htm>

**Kansas**

Kan. Stat. Ann. Sec. 21-4018  
[www.accesskansas.org/legislative/statutes/index.cgi/21-4018.html](http://www.accesskansas.org/legislative/statutes/index.cgi/21-4018.html)

**Kentucky**

Ky. Rev. Stat. Ann. Sec. 514.160 <http://162.114.4.13/KRS/514-00/160.PDF>

**Louisiana**

La. Rev. Stat. Ann. Sec. 14:67.16 [www.legis.state.la.us](http://www.legis.state.la.us)  
Enter 14 in “Title, Article, or Rule Number” and 67.16 in “Section Number.”

**Maine**

ME Rev. Stat. Ann. tit. 17-A Sec. 905-A  
<http://janus.state.me.us/legis/statutes/17-A/title17-Asec905-A.html>

**Maryland**

Md. Code Ann. art. 27 Sec. 231

**Massachusetts**

Mass. Gen. Laws ch. 266, Sec. 37E

[www.state.ma.us/legis/laws/seslaw98/sl980397.htm](http://www.state.ma.us/legis/laws/seslaw98/sl980397.htm)

**Michigan**

(Does not have specific ID Theft law.)

**Minnesota**

Minn. Stat. Ann. Sec. 609.527 [www.leg.state.mn.us/leg/statutes.asp](http://www.leg.state.mn.us/leg/statutes.asp)

**Mississippi**

Miss. Code Ann. Sec. 97-19-85

[www.mscode.com/free/statutes/97/019/0085.htm](http://www.mscode.com/free/statutes/97/019/0085.htm)

**Missouri**

Mo. Rev. Stat. Sec. 570.223 [www.moga.state.mo.us/statutes/c500-599/5700000223.htm](http://www.moga.state.mo.us/statutes/c500-599/5700000223.htm)

**Montana**

Mon. Code Ann. Sec. 45-6-332

<http://data.opi.state.mt.us/bills/mca/45/6/45-6-332.htm>

**Nebraska**

NE Rev. Stat. Sec. 28-608 & 620

<http://statutes.unicam.state.ne.us/default.asp>

Click on “28 - Crimes and P...” and then “View Chapter” then scroll to 28-608.

**Nevada**

Nev. Rev. State. Sec. 205.463-465 [www.leg.state.nv.us/NRS/NRS-205.html](http://www.leg.state.nv.us/NRS/NRS-205.html)

**New Hampshire**

N.H. Rev. Stat. Ann. Sec. 638:26

[www.gencourt.state.nh.us/ras/html/LXII/638/638-26.htm](http://www.gencourt.state.nh.us/ras/html/LXII/638/638-26.htm)

**New Mexico**

N.M. Stat. Ann. Sec. 30-16-24.1

[www.conwaygreene.com/nmsu/lpext.dll?f=templates&fn=main-hit-h.htm&2.0](http://www.conwaygreene.com/nmsu/lpext.dll?f=templates&fn=main-hit-h.htm&2.0)

**New York**

NY CLS Penal Sec. 190.77 through 190.84

<http://assembly.state.ny.us/leg/?cl=82&a=45>

**New Jersey**

N.J. Stat. Ann. Sec. 2C:21-17 [http://lis.njleg.state.nj.us/cgi-](http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=94163&Depth=2&depth=2&expandheadin)

[bin/om\\_isapi.dll?clientID=94163&Depth=2&depth=2&expandheadin](http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=94163&Depth=2&depth=2&expandheadin)

[gs=on&headingswithhits=](#)

[on&hitsperheading=on&infobase=statutes.nfo&record=%7B159D%7D&softpage=Doc\\_Frame\\_PG42](#)

**North Carolina**

N.C. Gen. Stat. Sec. 14-113.20 through 23

[www.ncga.state.nc.us/enactedlegislation/statutes/html/bysection/chapter\\_14/gs\\_14-113.20.html](http://www.ncga.state.nc.us/enactedlegislation/statutes/html/bysection/chapter_14/gs_14-113.20.html)

**North Dakota**

[www.state.nd.us/lr/cencode/t121.html](http://www.state.nd.us/lr/cencode/t121.html)

Click on “12.1-23 Theft and Related Offenses” and scroll down.

**Ohio**

<http://onlinedocs.andersonpublishing.com/oh/lpExt.dll?f=templates&fn=main-h.htm&cp=PORC> Put “2913.49” and select “Sec. 2913.49. Identity fraud.”

**Oklahoma**

Okla. Stat. tit. 21, Sec. 1533.1

[www.lsb.state.ok.us/osStatuesTitle.html](http://www.lsb.state.ok.us/osStatuesTitle.html)

Click on “Title 21. Crimes and Punishments” and scroll to 21-1533.1.

**Oregon**

Or. Rev. Stat. Sec. 165.800 [www.leg.state.or.us/ors/165.html](http://www.leg.state.or.us/ors/165.html)

**Pennsylvania**

18 Pa. Cons. State Sec. 4120

**Rhode Island**

R.I. Gen. Laws Sec. 11-49.1-1

[www.rilin.state.ri.us/Statutes/TITLE11/11-49.1/INDEX.HTM](http://www.rilin.state.ri.us/Statutes/TITLE11/11-49.1/INDEX.HTM)

**South Carolina**

S.C. Code Ann. Sec. 16-13-500, 501

[www.scstatehouse.net/code/t16c013.htm](http://www.scstatehouse.net/code/t16c013.htm)

**South Dakota**

S.D. Codified Laws Sec. 22-30A-3.1.

<http://legis.state.sd.us/statutes/index.aspx?FuseAction=DisplayStatute&Statute=22-30A-3.1&Type=Statute>

**Tennessee**

TCA Sec. 39-14-150

**Texas**

Tex. Penal Code Sec. 32.51

[www.capitol.state.tx.us/statutes/docs/PE/content/htm/pe.007.00.000032.00.htm](http://www.capitol.state.tx.us/statutes/docs/PE/content/htm/pe.007.00.000032.00.htm)

**Utah**

Utah Code Ann. Sec. 76-6-1101 through 1104  
[www.le.state.ut.us/~code/TITLE76/htm/76\\_07102.htm](http://www.le.state.ut.us/~code/TITLE76/htm/76_07102.htm)

### **Vermont**

(Does not have specific ID Theft law.)

### **Virginia**

Va. Code Ann. Sec. 18.2-186.3

<http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+18.2-186.3>

### **Washington**

Wash. Rev. Code Sec. 9.35.020 [www.leg.wa.gov/wsladm/rcw.htm](http://www.leg.wa.gov/wsladm/rcw.htm)

Click on “Title 9 - Crimes and Punishments” then “9.35 Identity crimes.”

### **West Virginia**

W. Va. Code Sec. 61-3-54

[www.legis.state.wv.us/WVCODE/masterfrm3Banner.cfm](http://www.legis.state.wv.us/WVCODE/masterfrm3Banner.cfm)

Use Drop down menu to go to “Chapter 61. Crimes and Their Punishment,” Then click “WVC 61-3-54.”

### **Wisconsin**

Wis. Stat. Sec. 943.201

[http://folio.legis.state.wi.us/cgi-](http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=38879587&infobase=stats.nfo&j1=sec.%20943.201&jump=sec.%20943.201&softpage=Browse_Frame_Pg)

[bin/om\\_isapi.dll?clientID=38879587&infobase=stats.nfo&j1=](http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=38879587&infobase=stats.nfo&j1=sec.%20943.201&jump=sec.%20943.201&softpage=Browse_Frame_Pg)

[sec.%20943.201&jump=sec.%20943.201&softpage=Browse\\_Frame\\_Pg](http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=38879587&infobase=stats.nfo&j1=sec.%20943.201&jump=sec.%20943.201&softpage=Browse_Frame_Pg)

Scroll down to “943.201” and hit the PDF icon.

### **Wyoming**

Wyo. Stat. Ann. Sec. 6-3-901

<http://legisweb.state.wy.us/statutes/titles/title06/c03a09.htm>

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Form 44: Letter to collection agency or company stating not to call you

## FORM 1

### VALIDATION OF DEBT

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Dear Sir or Madam:

In accordance with Section 809 of the Fair Debt Collection Practices Act, I am requesting validation of the debt related to account #\_\_\_\_\_. According to the statute, you must cease any debt collection activities until you have verified this debt.

Sincerely,

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FORM 2

**DEBT ASSESSMENT**

Fill in the blanks to list all your monthly debts. Total the items at the bottom to get the number for your total monthly debts.

Name of Creditor	Account Number	Total Due Payment	Monthly
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

**Total amount due:** \_\_\_\_\_

**Total monthly payments due:** \_\_\_\_\_

FORM 3

**ASSET ASSESSMENT**

**Salary:**

Monthly amount earned: \_\_\_\_\_

Yearly amount earned: \_\_\_\_\_

**Other Income (such as child support, alimony, etc.)**

Monthly amount: \_\_\_\_\_

Yearly amount: \_\_\_\_\_

**Other Income (include interest, unreported income, etc.):**

Monthly amount: \_\_\_\_\_

Yearly amount: \_\_\_\_\_

**Total Income:**

Monthly: \_\_\_\_\_

Yearly: \_\_\_\_\_

**Other Assets: List name of item, account number, if applicable, and value.**

Name/Description	Account Number	Value
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

**Total value of other assets:** \_\_\_\_\_

## FORM 4

### TOTAL ASSESSMENT (MONTHLY)

Total Monthly Income: \_\_\_\_\_

Total Monthly Debts: \_\_\_\_\_

Subtract debts from assets and you get this:

\_\_\_\_\_

If this is a negative number, you know you need to make some changes.  
If this is a positive number but is not enough to pay your expenses, such as food and gas, you need to make some changes.

**Total Assets:** \_\_\_\_\_

**Total Debts:** \_\_\_\_\_

Compare these two numbers. If your assets are larger than your debts, you are in good shape. If your debts are larger than your assets, you know this is something you need to work on.

## FORM 5

### NEW ADDRESS LETTER

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Re: Account Number \_\_\_\_\_

Dear Sir or Madam:

This is to notify you that I am moving. Effective \_\_\_\_\_  
\_\_\_\_\_, my address will be:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please direct all correspondence and bills to this address.

Thank you.

Sincerely,

\_\_\_\_\_

FORM 6

**LETTER TO MERCHANT**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
  
\_\_\_\_\_

Dear Sir or Madam:

On \_\_\_\_\_, I purchased \_\_\_\_\_. I made  
this purchase at \_\_\_\_\_. Unfortunately \_\_\_\_\_,  
because \_\_\_\_\_,  
\_\_\_\_\_.

Therefore, to resolve the problem, I would appreciate your  
\_\_\_\_\_. Enclosed are copies of my records.

I look forward to your reply and a resolution to my problem and will wait  
for \_\_\_\_\_ before seeking third-party assistance.  
Please contact me at the above address or by phone at  
\_\_\_\_\_.

Thank you.

Sincerely,

\_\_\_\_\_  
\_\_\_\_\_

FORM 7

**LETTER COMPLAINING OF UNFAIR DEBT  
COLLECTION PRACTICES**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
  
\_\_\_\_\_

Dear Sir or Madam:

I am writing to inform you that your agency/company violated the Fair  
Debt Collection Practices Act, a federal law, in your dealings with me.  
The incident(s) occurred on \_\_\_\_\_ and was/were  
as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_.

I am requesting that you take steps to change your practices. I am also  
forwarding a copy of this letter to the Federal Trade Commission and the  
State Attorney General.

Sincerely,

\_\_\_\_\_

cc: Federal Trade Commission  
State Attorney General



FORM 8

**LETTER REQUESTING CREDIT REPORT**

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Dear Sir or Madam:

I am writing to request a copy of my credit report.

\_\_\_\_\_ I have been denied credit or employment in the last sixty days  
based on my credit

report and request my free copy.

\_\_\_\_\_ I am enclosing \$\_\_\_\_\_ as required in my state and  
request that you send me my credit report.

Please use the following information for verification purposes:

Social Security #: \_\_\_\_\_

Employer: \_\_\_\_\_

My last previous address: \_\_\_\_\_

One credit card name and account number I hold: \_\_\_\_\_

Please forward my report to me at the above address.

Sincerely,

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FORM 9

**LETTER REQUESTING MERGER OF SPOUSE'S REPORT**

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Dear Sir or Madam:

Please merge my spouse's credit report with mine. I am enclosing a  
certified copy of our marriage license.

My Social Security #: \_\_\_\_\_

Number of my file or report number from your agency: \_\_\_\_\_

My spouse's name: \_\_\_\_\_

My spouse's Social Security #: \_\_\_\_\_

Thank you.

Sincerely,

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FORM 10

**LETTER REQUESTING INDIVIDUALIZATION OF  
CREDIT REPORT**

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Dear Sir or Madam:

I recently received a copy of my credit report and noticed that it contains information about my spouse, as well as about me. I would like my spouse's information removed from my report.

My Social Security #: \_\_\_\_\_

Number of my file or report number from your agency: \_\_\_\_\_

My spouse's name: \_\_\_\_\_

My spouse's Social Security #: \_\_\_\_\_

Thank you.

Sincerely,

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FORM 11

**LETTER TO CREDITOR REGARDING BILLING ERROR**

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Dear Sir or Madam:

I recently received a bill from you that contains an error.

My account number is: \_\_\_\_\_

The item that is incorrect is \_\_\_\_\_  
for \$ \_\_\_\_\_, dated \_\_\_\_\_.

This is incorrect because \_\_\_\_\_  
and should be for \_\_\_\_\_.

I would appreciate it if you could correct this item and send me a corrected statement.

Sincerely,

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**COLLECTION AGENCY VALIDATION LETTER**

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Dear Sir or Madam:

This letter is sent in response to the notice you sent me on \_\_\_\_\_. Be advised this is not a refusal to pay, but a notice pursuant to the Fair Debt Collection Practices Act, 15 USC 1692g Sect. 809(b) that your claim is disputed and validation is requested.

This is NOT a request for “verification” or proof of my mailing address, but a request for validation pursuant to the above named law. I request that you provide me with competent evidence that I have a legal obligation to you for the debt.

Please provide me with the following.

- ☐ An explanation of what the amount owed is for and how it was incurred.
- ☐ An explanation of how this amount was calculated.
- ☐ Copies of any documents that show I agreed to pay this amount.
- ☐ A verification or copy of any judgment, if applicable.
- ☐ An identification of the original creditor.
- ☐ Proof that the statute of limitations has not expired on the account.
- ☐ Proof that you are licensed to collect in my state.
- ☐ Your license numbers and registered agent documentation.

If your offices have reported invalidated information about me to any of the three major credit bureaus-Equifax, Experian, or TransUnion-this may constitute fraud under federal and state laws. If any negative mark is placed on any of my credit reports by your company or the company that you represent, I will not hesitate to bring legal action against you for violation of the Fair Credit Reporting Act, violation of the Fair Collection Practices Act, and defamation of character.

If your offices are able to provide the proper documentation I have requested, I require at least thirty days from the date of my receipt to investigate this information. During this time all collection activity by you must cease and desist. During this validation period, if any action is taken that could be considered detrimental to any of my credit reports, I will consult an attorney and consider legal action.

If your offices fail to respond to this request within thirty days from the date of your receipts, all references to this account must be deleted and completely removed from my credit file and a copy of such deletion must be sent to me immediately.

I formally request that you and your representatives do not contact me by telephone at my home or my place of employment. If your offices attempt telephone communication with me, including but not limited to computer-generated calls and calls or correspondence sent to or with any third parties, it will be considered harassment and I will instruct my attorney to proceed with legal action. All future communication with me must be in writing and sent to the address noted in this letter by USPS.

This letter is an attempt to correct your records and any information obtained shall be used for that purpose only.

Thank you.

Sincerely,  
\_\_\_\_\_

**LETTER TO CREDITOR DISPUTING CREDIT REPORT**


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Dear Sir or Madam:

I recently received my credit report from your agency. My file or report number is \_\_\_\_\_. In reviewing my report, I noticed the following error(s):

1. \_\_\_\_\_ This item is incorrect because \_\_\_\_\_ and should instead indicate \_\_\_\_\_

2. \_\_\_\_\_

This item is incorrect because \_\_\_\_\_ and should instead indicate \_\_\_\_\_

3. \_\_\_\_\_ This item is incorrect because \_\_\_\_\_ and should instead indicate \_\_\_\_\_

I would appreciate it if these errors could be corrected. I look forward to hearing from you within thirty days.

Thank you.

Sincerely,

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**SECOND REQUEST FOR REINVESTIGATION**


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Dear Sir or Madam:

On \_\_\_\_\_ I sent you a written request for reinvestigation (your file or report number \_\_\_\_\_) of the following errors on my credit report:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

I am enclosing a copy of the letter I sent you. Thirty days have passed and I have not received any response from you regarding this matter. I would appreciate it if you would please notify me of the status of this request as soon as possible.

Sincerely,

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**LETTER REQUESTING CORRECTION OF  
REAPPEARING INCORRECT ITEM**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Dear Sir or Madam:

I am writing to you in regard to my credit report, your file, or report number \_\_\_\_\_.

On \_\_\_\_\_ you removed the following incorrect information from my report: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ at my request because

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

On the latest copy of my credit report, dated \_\_\_\_\_,

this incorrect information has reappeared. I am requesting that you immediately remove this incorrect information and replace it with the following correct information: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Please advise me when the correction has been made and send me a corrected credit report.

Thank you.

Sincerely,

\_\_\_\_\_

**LETTER TO CREDITOR REGARDING INCORRECT  
CREDIT REPORT**

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Dear Sir or Madam:

I am writing to you in regard to my account number \_\_\_\_\_.  
I recently received a copy of my credit report from the following credit reporting agency: \_\_\_\_\_. My account with you is incorrectly listed as \_\_\_\_\_, when in fact it is \_\_\_\_\_. I have asked that the credit reporting agency verify this with you and was told you did not verify the correct information.

I am requesting that you immediately contact the credit reporting agency with the correct information regarding this account. Please provide me with a copy of your correspondence correcting this. I am prepared to enforce my rights under the Fair Credit Reporting Act if you do not report the correct information to this agency.

Thank you.

Sincerely,

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**LETTER SHOWING CREDITOR ERROR**

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Dear Sir or Madam:

I am writing to you in regard to my file or report number \_\_\_\_\_.  
There is an error on this report. \_\_\_\_\_  
is listed incorrectly. I have contacted the creditor directly and the creditor has made an error in reporting this account to you. I am enclosing written proof of this and am requesting that you change this listing on my report as soon as possible and send me a correct copy of my report.

Thank you.

Sincerely,

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**LETTER REQUESTING DISCHARGE**


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Dear Sir or Madam:

I am writing to you in regard to a judgment against account number \_\_\_\_\_, which resulted in a judgment in your company's favor in the amount of \$ \_\_\_\_\_. This judgment has been paid in full and I am requesting that your company complete and file a formal discharge with the court immediately. Please send me a copy of the discharge and report it to all credit reporting agencies, as well.

Thank you.

Sincerely,

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**LETTER REQUESTING INCLUSION OF ACCOUNTS**


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Dear Sir or Madam:

I recently received my credit report (your file or report number \_\_\_\_\_) from you. I noticed that some accounts of mine do not appear on the report. Since these reports demonstrate excellent payment histories, I would appreciate it if you could include them on my credit report. The name of the creditors, addresses, and account numbers are listed below. I am attaching the copies of my most recent statements from these accounts for verification purposes.

<u>Name of Creditor</u>	<u>Address</u>	<u>Account Number</u>
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Please notify me when the information has been included.

Thank you.

Sincerely,

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**LETTER REQUESTING ADDITION OF INFORMATION**

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Dear Sir or Madam:

I recently received a copy of my credit report from your agency  
\_\_\_\_\_. I would like you to include the information listed  
below on my report. This information is not included on the current  
report and demonstrates stability and would thus make my report more  
favorable. I would appreciate your assistance with this.

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Thank you.

Sincerely,

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**LETTER REQUESTING REMOVAL OF INQUIRY**

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Dear Sir or Madam:

I recently obtained my credit report and it contained a listing that you  
placed an inquiry about me that I did not authorize. Since I did not give  
you permission to make such an inquiry, I request that you remove it  
from my credit report immediately, since it is making it difficult for me  
to obtain credit.

Please send me documentation showing that you have removed this. If  
you believe I am incorrect, please send me the authorization you have.

Thank you.

Sincerely,

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**LETTER WITH 100 WORD STATEMENT**


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Dear Sir or Madam:

In accordance with Section 611(b) of the Fair Credit Reporting Act, I am including a 100 word statement to be included in my credit report.

This statement is in reference to account number \_\_\_\_\_  
with \_\_\_\_\_ *or* this statement is in reference to my  
general credit situation [delete the clause that does not apply.]

Please add this statement to my file:

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Please notify me within thirty days once this has been added to my file.

Thank you.

Sincerely,

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**CORRESPONDENCE LOG**

Date

Name of Business

Account Number

Type of Action/Steps Taken

Person Contacted

Other Important Correspondence Information

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_
11. \_\_\_\_\_
12. \_\_\_\_\_

**DEBT PRIORITIZATION**

Look at the debts on your DEBT ASSESSMENT. List them in order of importance below, so that you can pay or settle the most urgent first.

Priority Item	Amount
1. _____	
2. _____	
3. _____	
4. _____	
5. _____	
6. _____	
7. _____	
8. _____	
9. _____	
10. _____	
11. _____	
12. _____	
13. _____	
14. _____	
15. _____	
16. _____	
17. _____	
18. _____	
19. _____	
20. _____	

**LETTER REQUESTING PAYMENT PLAN**


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Dear Sir or Madam:

I am the holder of account number \_\_\_\_\_. I have been experiencing financial difficulties and have been having trouble paying on this account. I fully intend to pay you the full amount due, but I find that right now my finances are not able to pay for this account. I would like to arrange a payment plan as follows:

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I would also propose that as part of this plan, you will report my account to credit reporting agencies as follows:

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Please respond to this proposal in writing within fourteen days.

Thank you.

Sincerely,

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**Section 4: Personal Asset Information for All Individuals**

12 CASH ON HAND Include cash that is not in a bank			Total Cash on Hand	\$
PERSONAL BANK ACCOUNTS Include all checking, online and mobile (e.g., PayPal) accounts, money market accounts, savings accounts, and stored value cards (e.g., payroll cards, government benefit cards, etc.).				
Type of Account	Full Name & Address (Street, City, State, ZIP code) of Bank, Savings & Loan, Credit Union, or Financial Institution	Account Number	Account Balance As of _____ mmddyyyy	
13a			\$	
13b			\$	
13c			\$	
13d Total Cash (Add lines 13a through 13c, and amounts from any attachments)			\$	
INVESTMENTS Include stocks, bonds, mutual funds, stock options, certificates of deposit, and retirement assets such as IRAs, Keogh, and 401(k) plans. Include all corporations, partnerships, limited liability companies, or other business entities in which you are an officer, director, owner, member, or otherwise have a financial interest.				
Type of Investment or Financial Interest	Full Name & Address (Street, City, State, ZIP code) of Company	Current Value	Loan Balance (if applicable) As of _____ mmddyyyy	Equity Value minus Loan
14a				
	Phone	\$	\$	\$
14b				
	Phone	\$	\$	\$
14c				
	Phone	\$	\$	\$
14d Total Equity (Add lines 14a through 14c and amounts from any attachments)			\$	
AVAILABLE CREDIT Include all lines of credit and bank issued credit cards. Full Name & Address (Street, City, State, ZIP code) of Credit Institution		Credit Limit	Amount Owed As of _____ mmddyyyy	Available Credit As of _____ mmddyyyy
15a				
Acct. No		\$	\$	\$
15b				
Acct. No		\$	\$	\$
15c Total Available Credit (Add lines 15a, 15b and amounts from any attachments)			\$	
16a LIFE INSURANCE Do you own or have any interest in any life insurance policies with cash value (Term Life insurance does not have a cash value)				
<input type="checkbox"/> Yes <input type="checkbox"/> No If yes, complete blocks 16b through 16f for each policy.				
16b Name and Address of Insurance Company(ies):				
16c Policy Number(s)				
16d Owner of Policy				
16e Current Cash Value	\$	\$	\$	
16f Outstanding Loan Balance	\$	\$	\$	
16g Total Available Cash (Subtract amounts on line 16f from line 16e and include amounts from any attachments)			\$	

REAL PROPERTY Include all real property owned or being purchased							
	Purchase Date (mmddyyyy)	Current Fair Market Value (FMV)	Current Loan Balance	Amount of Monthly Payment	Date of Final Payment (mmddyyyy)	Equity FMV Minus Loan	
17a Property Description		\$	\$	\$		\$	
Location (Street, City, State, ZIP code) and County		Lender/Contract Holder Name Address (Street, City, State, ZIP code), and Phone					
		Phone					
17b Property Description		\$	\$	\$		\$	
Location (Street, City, State, ZIP code) and County		Lender/Contract Holder Name Address (Street, City, State, ZIP code), and Phone					
		Phone					
17c Total Equity (Add lines 17a, 17b and amounts from any attachments)						\$	
PERSONAL VEHICLES LEASED AND PURCHASED Include boats, RVs, motorcycles, all-terrain and off-road vehicles, trailers, etc.							
Description (Year, Mileage, Make/Model, Tag Number, Vehicle Identification Number)		Purchase/Lease Date (mmddyyyy)	Current Fair Market Value (FMV)	Current Loan Balance	Amount of Monthly Payment	Date of Final Payment (mmddyyyy)	Equity FMV Minus Loan
18a Year	Make/Model		\$	\$	\$		\$
Mileage	License/Tag Number	Lender/Lessor Name, Address (Street, City, State, ZIP code), and Phone					
Vehicle Identification Number		Phone					
18b Year	Make/Model		\$	\$	\$		\$
Mileage	License/Tag Number	Lender/Lessor Name, Address (Street, City, State, ZIP code), and Phone					
Vehicle Identification Number		Phone					
18c Total Equity (Add lines 18a, 18b and amounts from any attachments)						\$	
PERSONAL ASSETS Include all furniture, personal effects, artwork, jewelry, collections (coins, guns, etc.), antiques or other assets. Include intangible assets such as licenses, domain names, patents, copyrights, mining claims, etc.							
	Purchase/Lease Date (mmddyyyy)	Current Fair Market Value (FMV)	Current Loan Balance	Amount of Monthly Payment	Date of Final Payment (mmddyyyy)	Equity FMV Minus Loan	
19a Property Description		\$	\$	\$		\$	
Location (Street, City, State, ZIP code) and County		Lender/Lessor Name, Address (Street, City, State, ZIP code), and Phone					
		Phone					
19b Property Description		\$	\$	\$		\$	
Location (Street, City, State, ZIP code) and County		Lender/Lessor Name, Address (Street, City, State, ZIP code), and Phone					
		Phone					
19c Total Equity (Add lines 19a, 19b and amounts from any attachments)						\$	



If you are self-employed, sections 6 and 7 must be completed before continuing.

Section 5: Monthly Income and Expenses

Monthly Income/Expense Statement (For additional information, refer to Publication 1854.)

Total Income		Total Living Expenses		IRS USE ONLY
Source	Gross Monthly	Expense Items <sup>6</sup>	Actual Monthly	Allowable Expenses
20 Wages (Taxpayer) <sup>1</sup>	\$	35 Food, Clothing and Misc. <sup>7</sup>	\$	
21 Wages (Spouse) <sup>1</sup>	\$	36 Housing and Utilities <sup>8</sup>	\$	
22 Interest – Dividends	\$	37 Vehicle Ownership Costs <sup>9</sup>	\$	
23 Net Business Income <sup>2</sup>	\$	38 Vehicle Operating Costs <sup>10</sup>	\$	
24 Net Rental Income <sup>3</sup>	\$	39 Public Transportation <sup>11</sup>	\$	
25 Distributions (K-1, IRA, etc.) <sup>4</sup>	\$	40 Health Insurance	\$	
26 Pension (Taxpayer)	\$	41 Out of Pocket Health Care Costs <sup>12</sup>	\$	
27 Pension (Spouse)	\$	42 Court Ordered Payments	\$	
28 Social Security (Taxpayer)	\$	43 Child/Dependent Care	\$	
29 Social Security (Spouse)	\$	44 Life Insurance	\$	
30 Child Support	\$	45 Current year taxes (Income/FICA) <sup>13</sup>	\$	
31 Alimony	\$	46 Secured Debts (Attach list)	\$	
Other Income (Specify below) <sup>5</sup>		47 Delinquent State or Local Taxes	\$	
32	\$	48 Other Expenses (Attach list)	\$	
33	\$	49 Total Living Expenses (add lines 35-48)	\$	
34 Total Income (add lines 20-33)	\$	50 Net difference (Line 34 minus 49)	\$	

<sup>1</sup> Wages, salaries, pensions, and social security: Enter gross monthly wages and/or salaries. Do not deduct tax withholding or allotments taken out of pay, such as insurance payments, credit union deductions, car payments, etc. To calculate the gross monthly wages and/or salaries:

If paid weekly - multiply weekly gross wages by 4.3. Example: \$425.89 x 4.3 = \$1,831.33

If paid biweekly (every 2 weeks) - multiply biweekly gross wages by 2.17. Example: \$972.45 x 2.17 = \$2,110.22

If paid semimonthly (twice each month) - multiply semimonthly gross wages by 2. Example: \$856.23 x 2 = \$1,712.46

<sup>2</sup> Net Income from Business: Enter monthly net business income. This is the amount earned after ordinary and necessary monthly business expenses are paid. This figure is the amount from page 6, line 89. If the net business income is a loss, enter 0. Do not enter a negative number. If this amount is more or less than previous years, attach an explanation.

<sup>3</sup> Net Rental Income: Enter monthly net rental income. This is the amount earned after ordinary and necessary monthly rental expenses are paid. Do not include deductions for depreciation or depletion. If the net rental income is a loss, enter 0. Do not enter a negative number.

<sup>4</sup> Distributions: Enter the total distributions from partnerships and subchapter S corporations reported on Schedule K-1, and from limited liability companies reported on Form 1040, Schedule C, D or E. Enter total distributions from IRAs if not included under pension income.

<sup>5</sup> Other Income: Include agricultural subsidies, unemployment compensation, gambling income, oil credits, rent subsidies, etc.

<sup>6</sup> Expenses not generally allowed: We generally do not allow tuition for private schools, public or private college expenses, charitable contributions, voluntary retirement contributions or payments on unsecured debts. However, we may allow the expenses if proven that they are necessary for the health and welfare of the individual or family or the production of income. See Publication 1854 for exceptions.

<sup>7</sup> Food, Clothing and Miscellaneous: Total of food, clothing, housekeeping supplies, and personal care products for one month. The miscellaneous allowance is for expenses incurred that are not included in any other allowable living expense items. Examples are credit card payments, bank fees and charges, reading material, and school supplies.

<sup>8</sup> Housing and Utilities: For principal residence: Total of rent or mortgage payment. Add the average monthly expenses for the following: property taxes, homeowner's or renter's insurance, maintenance, dues, fees, and utilities. Utilities include gas, electricity, water, fuel, oil, other fuels, trash collection, telephone, cell phone, cable television and internet services.

<sup>9</sup> Vehicle Ownership Costs: Total of monthly lease or purchase/loan payments.

<sup>10</sup> Vehicle Operating Costs: Total of maintenance, repairs, insurance, fuel, registrations, licenses, inspections, parking, and tolls for one month.

<sup>11</sup> Public Transportation: Total of monthly fares for mass transit (e.g., bus, train, ferry, taxi, etc.)

<sup>12</sup> Out of Pocket Health Care Costs: Monthly total of medical services, prescription drugs and medical supplies (e.g., eyeglasses, hearing aids, etc.)

<sup>13</sup> Current Year Taxes: Include state and Federal taxes withheld from salary or wages, or paid as estimated taxes.

Certification: Under penalties of perjury, I declare that to the best of my knowledge and belief this statement of assets, liabilities, and other information is true, correct, and complete.

Taxpayer's Signature	Spouse's signature	Date
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After we review the completed Form 433-A, you may be asked to provide verification for the assets, encumbrances, income and expenses reported. Documentation may include previously filed income tax returns, pay statements, self-employment records, bank and investment statements, loan statements, bills or statements for recurring expenses, etc.

IRS USE ONLY (Notes)

Sections 6 and 7 must be completed only if you are SELF-EMPLOYED.

Section 6: Business Information

51 Is the business a sole proprietorship (filing Schedule C) ☐ Yes, Continue with Sections 6 and 7. ☐ No, Complete Form 433-B.  
All other business entities, including limited liability companies, partnerships or corporations, must complete Form 433-B.

52 Business Name & Address (if different than 1b)

53 Employer Identification Number

54 Type of Business

55 Is the business a Federal Contractor ☐ Yes ☐ No

56 Business Website (web address)

57 Total Number of Employees

58 Average Gross Monthly Payroll

59 Frequency of Tax Deposits

60 Does the business engage in e-Commerce (Internet sales) If yes, complete lines 61a and 61b ☐ Yes ☐ No

PAYMENT PROCESSEDOR (e.g., PayPal, Authorize.net, Google Checkout, etc.) Name & Address (Street, City, State, ZIP code)

Payment Processor Account Number

61a

61b

CREDIT CARDS ACCEPTED BY THE BUSINESS

Credit Card	Merchant Account Number	Issuing Bank Name & Address (Street, City, State, ZIP code)
62a		
62b		
62c		

63 BUSINESS CASH ON HAND Include cash that is not in a bank. Total Cash on Hand \$

BUSINESS BANK ACCOUNTS Include checking accounts, online and mobile (e.g., PayPal) accounts, money market accounts, savings accounts, and stored value cards (e.g., payroll cards, government benefit cards, etc.). Report Personal Accounts in Section 4.

Type of Account	Full name & Address (Street, City, State, ZIP code) of Bank, Savings & Loan, Credit Union or Financial Institution.	Account Number	Account Balance As of mmddyyyy	
64a			\$	
64b			\$	
64c Total Cash in Banks (Add lines 64a, 64b and amounts from any attachments)			\$	
ACCOUNTS/NOTES RECEIVABLE Include e-payment accounts receivable and factoring companies, and any bartering or online auction accounts. (List all contracts separately, including contracts awarded, but not started.) Include Federal, state and local government grants and contracts.				
Accounts/Notes Receivable & Address (Street, City, State, ZIP code)	Status (e.g., age, factored, other)	Date Due (mmddyyyy)	Invoice Number or Government Grant Contract Number	Amount Due
65a				\$
65b				\$
65c				\$
65d				\$
65e				\$
65f Total Outstanding Balance (Add lines 65a through 65e and amounts from any attachments)				\$

**BUSINESS ASSETS** Include all tools, books, machinery, equipment, inventory or other assets used in trade or business. Include a list and show the value of all intangible assets such as licenses, patents, domain names, copyrights, trademarks, mining claims, etc.

	Purchase/ Lease Date (mmddyyyy)	Current Fair Market Value (FMV)	Current Loan Balance	Amount of Monthly Payment	Date of Final Payment (mmddyyyy)	Equity FMV Minus Loan
66a	Property Description		\$	\$	\$	\$
Location (Street, City, State, ZIP code) and Country		Lender/Lessor/Landlord Name, Address (Street, City, State, ZIP code), and Phone				
		Phone				
66b	Property Description		\$	\$	\$	\$
Location (Street, City, State, ZIP code) and Country		Lender/Lessor/Landlord Name, Address (Street, City, State, ZIP code), and Phone				
		Phone				
66c Total Equity (Add lines 66a, 66b and amounts from any attachments)						\$

Section 7 should be completed only if you are SELF-EMPLOYED

Section 7: Sole Proprietorship Information (lines 67 through 87 should reconcile with business Profit and Loss Statement)

Accounting Method Used: ☐ Cash ☐ Accrual

Use the prior 3, 6, 9 or 12 month period to determine your typical business income and expenses.

Income and Expenses during the period (mmddyyyy) to (mmddyyyy)

Provide a breakdown below of your average monthly income and expenses, based on the period of time used above.

Total Monthly Business Income		Total Monthly Business Expenses (Use attachments as needed)	
Source	Gross Monthly	Expense Items	Actual Monthly
67 Gross Receipts	\$	77 Materials Purchased <sup>1</sup>	\$
68 Gross Rental Income	\$	78 Inventory Purchased <sup>2</sup>	\$
69 Interest	\$	79 Gross Wages & Salaries	\$
70 Dividends	\$	80 Rent	\$
71 Cash Receipts not included in lines 67-70	\$	81 Supplies <sup>3</sup>	\$
Other Income (Specify below)		82 Utilities/Telephone <sup>4</sup>	\$
72	\$	83 Vehicle Gasoline/Oil	\$
73	\$	84 Repairs & Maintenance	\$
74	\$	85 Insurance	\$
75	\$	86 Current Taxes <sup>5</sup>	\$
76 Total Income (Add lines 67 through 75)	\$	87 Other Expenses, including installment payments (Specify)	\$
		88 Total Expenses (Add lines 77 through 87)	\$
		89 Net Business Income (Line 76 minus 88) <sup>6</sup>	\$

Enter the monthly net income amount from line 89 on line 23, section 5. If line 89 is a loss, enter "0" on line 23, section 5. Self-employed taxpayers must return to page 4 to sign the certification.

1 Materials Purchased: Materials are items directly related to the production of a product or service.

2 Inventory Purchased: Goods bought for resale.

3 Supplies: Supplies are items used in the business that are consumed or used up within one year. This could be the cost of books, office supplies, professional equipment, etc.

4 Utilities/Telephone: Utilities include gas, electricity, water, oil, other fuels, trash collection, telephone, cell phone and business internet.

5 Current Taxes: Real estate, excise, franchise, occupational, personal property, sales and employer's portion of employment taxes.

6 Net Business Income: Net profit from Form 1040, Schedule C may be used if duplicated deductions are eliminated (e.g., expenses for business use of home already included in housing and utility expenses on page 4). Deductions for depreciation and depletion on Schedule C are not cash expenses and must be added back to the net income figure. In addition, interest cannot be deducted if it is already included in any other installment payments allowed.

IRS USE ONLY (Notes)

Form 433-A (Rev. 12-2012)

FORM 28

Form 656 (Rev. May 2012)	Department of the Treasury — Internal Revenue Service		
Offer in Compromise		IRS Received Date	
Attach Application Fee and Payment (check or money order) here.			
Section 1 Your Contact Information			
Your First Name, Middle Initial, Last Name			
If a Joint Offer, Spouse's First Name, Middle Initial, Last Name			
Your Physical Home Address (Street, City, State, ZIP Code)			
Mailing Address (if different from above or Post Office Box number)			
Business Name			
Your Business Address (Street, City, State, ZIP Code)			
Social Security Number (SSN) (Primary)		Employer Identification Number (EIN)	
- -		- -	
Section 2 Tax Periods			
To: Commissioner of Internal Revenue Service			
In the following agreement, the pronoun "we" may be assumed in place of "I" when there are joint liabilities and both parties are signing this agreement.			
I submit this offer to compromise the tax liabilities plus any interest, penalties, additions to tax, and additional amounts required by law for the tax type and period(s) marked below:			
<input type="checkbox"/> 1040 Income Tax-Year(s)			
<input type="checkbox"/> 1120 Income Tax-Year(s)			
<input type="checkbox"/> 941 Employer's Quarterly Federal Tax Return - Quarterly period(s)			
<input type="checkbox"/> 940 Employer's Annual Federal Unemployment (FUTA) Tax Return - Year(s)			
<input type="checkbox"/> Trust Fund Recovery Penalty as a responsible person of (enter corporation name)			
for failure to pay withholding and Federal Insurance Contributions Act taxes (Social Security taxes), for period(s) ending			
<input type="checkbox"/> Other Federal Tax(es) [specify type(s) and period(s)]			
Note: If you need more space, use attachment and title it "Attachment to Form 656 dated _____." Make sure to sign and date the attachment.			

Section 3 Reason for Offer

☐ Doubt as to Collectibility - I have insufficient assets and income to pay the full amount.

☐ Exceptional Circumstances (Effective Tax Administration) - I owe this amount and have sufficient assets to pay the full amount, but due to my exceptional circumstances, requiring full payment would cause an economic hardship or would be unfair and inequitable. I am submitting a written narrative explaining my circumstances.

Section 3 (Continued) Reason for Offer

Explanation of Circumstances (Add additional pages, if needed)

The IRS understands that there are unplanned events or special circumstances, such as serious illness, where paying the full amount or the minimum offer amount might impair your ability to provide for yourself and your family. If this is the case and you can provide documentation to prove your situation, then your offer may be accepted despite your financial profile. Describe your situation below and attach appropriate documents to this offer application.

Section 4 Low Income Certification (Individuals Only)

Do you qualify for Low-Income Certification? You qualify if your gross monthly household income is less than or equal to the amount shown in the chart below based on your family size and where you live. If you qualify, you are not required to submit any payments during the consideration of your offer.

☐ Check here if you qualify for Low-Income Certification based on the monthly income guidelines below.

Size of family unit	48 contiguous states and D.C.	Hawaii	Alaska
1	\$2,327	\$2,679	\$2,910
2	\$3,152	\$3,627	\$3,942
3	\$3,997	\$4,575	\$4,973
4	\$4,802	\$5,523	\$6,004
5	\$5,627	\$6,471	\$7,035
6	\$6,452	\$7,419	\$8,067
7	\$7,277	\$8,367	\$9,098
8	\$8,102	\$9,315	\$10,129
For each additional person, add	\$825	\$948	\$1,031

Section 5 Payment Terms

⬇ Check one of the payment options below to indicate how long it will take you to pay your offer in full ⬇

Lump Sum Cash

Enter the amount of your offer \$ \_\_\_\_\_

☐ Check here if you will pay your offer in five or fewer payments:

Enclose a check for 20% of the offer amount (waived if you are an individual and met the requirements for Low-Income certification) and fill in the amount(s) and date(s) of your future payment(s). Your offer must be fully paid 24 months from the date your offer is accepted.

Total Offer Amount	-	20% Initial Payment	=	Remaining Balance
\$ _____	-	\$ _____	=	\$ _____

You may pay the remaining balance in one payment after acceptance of the offer or up to five payments.

1) \$ \_\_\_\_\_ paid on the \_\_\_\_\_ (day), \_\_\_\_\_ month(s) after acceptance.

2) \$ \_\_\_\_\_ paid on the \_\_\_\_\_ (day), \_\_\_\_\_ month(s) after acceptance.

3) \$ \_\_\_\_\_ paid on the \_\_\_\_\_ (day), \_\_\_\_\_ month(s) after acceptance.

4) \$ \_\_\_\_\_ paid on the \_\_\_\_\_ (day), \_\_\_\_\_ month(s) after acceptance.

5) \$ \_\_\_\_\_ paid on the \_\_\_\_\_ (day), \_\_\_\_\_ month(s) after acceptance.

Periodic Payment

Enter the amount of your offer \$ \_\_\_\_\_

☐ Check here if you will pay your offer in full in more than five monthly installments.

Enclose a check for one month's installment (waived if you are an individual and met the requirements for Low-Income certification)

\$ \_\_\_\_\_ is being submitted with the Form 656 and then \$ \_\_\_\_\_ on the \_\_\_\_\_ (day) of each month thereafter for a total of \_\_\_\_\_ months (may not exceed 23). Total payments must equal the total Offer Amount.

You must continue to make these monthly payments while the IRS is considering the offer. Failure to make regular monthly payments will cause your offer to be returned.

Section 6 Designation of Down Payment and Deposit (Optional)

If you want your payment to be applied to a specific tax year and a specific tax debt, please tell us the tax form \_\_\_\_\_ and Tax Year/Quarter \_\_\_\_\_. If you do not designate a preference, we will apply any money you send in to the governments best interest.

If you are paying more than the required payment when you submit your offer and want any part of that payment treated as a deposit, check the box below and insert the amount.

☐ I am making a deposit of \$ \_\_\_\_\_ with this offer.

Section 7 Source of Funds and Making Your Payment

Tell us where you will obtain the funds to pay your offer. You may consider borrowing from friends and/or family, taking out a loan, or selling assets.

Include separate checks for the payment and application fee.

Make checks payable to the "United States Treasury" and attach to the front of your Form 656, Offer in Compromise. All payments must be in U.S. dollars. Do not send cash. Send a separate application fee with each offer; do not combine it with any other tax payments, as this may delay processing of your offer. Your offer will be returned to you if the application fee and the required payments are not properly remitted, or if your check is returned for insufficient funds.

Section 8 Offer Terms

By submitting this offer, I/we have read, understand and agree to the following terms and conditions:

**Terms, Conditions, and Legal Agreement**

**IRS will keep my payments, fees, and some refunds.**

a) I request that the IRS accept the offer amount listed in this offer application as payment of my outstanding tax debt (including interest, penalties, and any additional amounts required by law) as of the date listed on this form. I authorize the IRS to amend Section 2 on page 1 in the event I failed to list any of my assessed tax debt. I understand that my offer will be accepted, by law, unless IRS notifies me otherwise, in writing, within 24 months of the date my offer was received by IRS.

b) I voluntarily submit the payments made on this offer and understand that they are not refundable even if I withdraw the offer or the IRS rejects or returns the offer. Unless I designated how to apply the required payment (page 3 of this application), the IRS will apply my payment in the best interest of the government, choosing which tax years and tax liabilities to pay off. The IRS will also keep my application fee unless the offer is not accepted for processing.

c) The IRS will keep any refund, including interest, that I might be due for tax periods extending through the calendar year in which the IRS accepts my offer. I cannot designate that the refund be applied to estimated tax payments for the following year or the accepted offer amount. If I receive a refund after I submit this offer for any tax period extending through the calendar year in which the IRS accepts my offer, I will return the refund as soon as possible.

d) The IRS will keep any monies it has collected prior to this offer and any payments that I make relating to this offer that I did not designate as a deposit. Only amounts that exceed the mandatory payments can be treated as a deposit. Such a deposit will be refundable if the offer is rejected or returned by the IRS or is withdrawn. I understand that the IRS will not pay interest on any deposit. The IRS may seize ("levy") my assets up to the time that the IRS official signs and accepts my offer as pending.

**Pending status of an offer and right to appeal**

e) Once an authorized IRS official signs this form, my offer is considered pending as of that signature date and it remains pending until the IRS accepts, rejects, returns, or terminates my offer or I withdraw my offer. An offer is also considered pending for 30 days after any rejection of my offer by the IRS, and during the time that any rejection of my offer is being considered by the Appeals Office. An offer will be considered withdrawn when the IRS receives my written notification of withdrawal by personal delivery or certified mail or when I inform the IRS of my withdrawal by other means and the IRS acknowledges in writing my intent to withdraw the offer.

f) I waive the right to an Appeals hearing if I do not request a hearing within 30 days of the date the IRS notifies me of the decision to reject the offer.

**I must comply with my future tax obligations and understand I remain liable for the full amount of my tax debt until all terms and conditions of this offer have been met.**

g) I will file tax returns and pay required taxes for the five year period beginning with the date of acceptance of this offer. If this is an offer being submitted for joint tax debt, and one of us does not comply with future obligations, only the non-compliant taxpayer will be in default of this agreement.

h) The IRS will not remove the original amount of my tax debt from its records until I have met all the terms and conditions of this offer. Penalty and interest will continue to accrue until all payment terms of the offer have been met. If I file for bankruptcy before the terms are fully met, any claim the IRS files in the bankruptcy proceedings will be a tax claim.

i) Once the IRS accepts my offer in writing, I have no right to contest, in court or otherwise, the amount of the tax debt.

**I understand what will happen if I fail to meet the terms of my offer (e.g., default).**

j) If I fail to meet any of the terms of this offer, the IRS may levy or sue me to collect any amount ranging from the unpaid balance of the offer to the original amount of the tax debt without further notice of any kind. The IRS will continue to add interest, as Section 6601 of the Internal Revenue Code requires, on the amount the IRS determines is due after default. The IRS will add interest from the date I default until I completely satisfy the amount owed.

k) To have my offer considered, I agree to the extension of the time limit provided by law to assess my tax debt (statutory period of assessment). I agree that the date by which the IRS must assess my tax debt will now be the date by which my debt must currently be assessed plus the period of time my offer is pending plus one additional year if the IRS rejects, returns, or terminates my offer or I withdraw it. (Paragraph (e) of this section

**I agree to waive time limits provided by law.**

Section 8 - (Continued)

Offer Terms

defines pending and withdrawal). I understand that I have the right not to waive the statutory period of assessment or to limit the waiver to a certain length or certain periods or issues. I understand, however, that the IRS may not consider my offer if I refuse to waive the statutory period of assessment or if I provide only a limited waiver. I also understand that the statutory period for collecting my tax debt will be suspended during the time my offer is pending with the IRS, for 30 days after any rejection of my offer by the IRS, and during the time that any rejection of my offer is being considered by the Appeals Office.

I understand the IRS may file a Notice of Federal Tax Lien on my property.

I authorize the IRS to contact relevant third parties in order to process my offer

I am submitting an offer as an individual for a joint liability

l) The IRS may file a Notice of Federal Tax Lien during the offer investigation. The IRS may file a Notice of Federal Tax Lien to protect the Government's interest on offers that will be paid over time. This tax lien will be released when the payment terms of the accepted offer have been satisfied.

m) By authorizing the IRS to contact third parties including credit bureaus, I understand that I will not be notified of which third parties the IRS contacts as part of the offer application process, as stated in section 7602(c) of the Internal Revenue Code.

n) I understand if the liability sought to be compromised is the joint and individual liability of myself and my co-obligor(s) and I am submitting this offer to compromise my individual liability only, then if this offer is accepted, it does not release or discharge my co-obligor(s) from liability. The United States still reserves all rights of collection against the co-obligor(s).

Section 9

Signatures

Under penalties of perjury, I declare that I have examined this offer, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Signature of Taxpayer/Corporation Name	Phone Number	Date (mm/dd/yyyy)
Signature of Taxpayer/Authorized Corporate Officer	Phone Number	Date (mm/dd/yyyy)

Section 10

Paid Preparer Use Only

Signature of Preparer	Phone Number	Date (mm/dd/yyyy)
Name of Paid Preparer	Preparer's CAF no. or PTIN	

Firm's Name, Address, and ZIP Code

Include a valid, signed Form 2848 or 8821 with this application, if one is not on file.

Section 11

Third Party Designee

Do you want to allow another person to discuss this offer with the IRS?

☐

Yes

☐

No

If yes, provide designee's name

Telephone Number  
(       )

IRS Use Only

I accept the waiver of the statutory period of limitations on assessment for the Internal Revenue Service, as described in Section 8 (k).

Signature of Authorized Internal Revenue Service Official	Title	Date (mm/dd/yyyy)
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Privacy Act Statement

We ask for the information on this form to carry out the internal revenue laws of the United States. Our authority to request this information is Section 7801 of the Internal Revenue Code.

Our purpose for requesting the information is to determine if it is in the best interests of the IRS to accept an offer. You are not required to make an offer; however, if you choose to do so, you must provide all of the taxpayer information requested. Failure to provide all of the information may prevent us from processing your request.

If you are a paid preparer and you prepared the Form 656 for the taxpayer submitting an offer, we request that you complete and sign Section 10 on Form 656, and provide identifying information. Providing this information is voluntary. This information will be used to administer and enforce the internal revenue laws of the United States and may be used to regulate practice before the Internal Revenue Service for those persons subject to Treasury Department Circular No. 230, Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries, and Appraisers before the Internal Revenue Service. Information on this form may be disclosed to the Department of Justice for civil and criminal litigation.

We may also disclose this information to cities, states and the District of Columbia for use in administering their tax laws and to combat terrorism. Providing false or fraudulent information on this form may subject you to criminal prosecution and penalties.

Form 656-A  
(February 2007)

Department of the Treasury — Internal Revenue Service  
Income Certification for Offer in Compromise  
Application Fee and Payment  
(For Individual Taxpayers Only)

If you are not required to submit the fee or payments based on your income level, you must complete this form and attach both it and the worksheet to the front of your Form 656.

Your Name (Last, First, Middle initial) (Please Print)	Social Security Number (SSN) or Taxpayer Identification Number (TIN)
Spouse's Name (Last, First, Middle initial) (Please Print)	Social Security Number (SSN) or Taxpayer Identification Number (TIN)

Certification: I/We certify under penalty of perjury that I am not required to submit an Offer in Compromise application fee and payment, based on my family unit size and income.

Your Signature	Date
Spouse's Signature (if submitting a joint Offer in Compromise)	Date

Note: If the Internal Revenue Service determines that you were required to pay a fee or payment, your Offer in Compromise will be returned without further consideration.



FORM 29

**LETTER OFFERING TO RETURN SECURED PROPERTY**

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Dear Sir or Madam:

I am the holder of account number \_\_\_\_\_,  
which I used to purchase the following items on a secured basis:

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As you may be aware, I have been experiencing financial difficulties lately. I wish to propose the following settlement offer for this account. I will return the secured property to you in exchange for cancellation of the debt and a neutral/positive rating for this account being reported to credit reporting agencies.

Please respond to this proposal in writing within fourteen days.

Thank you.

Sincerely,

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**LETTER PROPOSING SETTLEMENT**

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 Dear Sir or Madam:

With regard to account number \_\_\_\_\_, which I do not acknowledge to be a debt I owe, I make the following settlement offer in order to conclude this matter as swiftly as possible. This is not a renewed promise to pay and it is not an agreement unless you sign it and return it or we mutually sign a written agreement document. I maintain my right to seek further proof of this debt.

I will pay you \$\_\_\_\_\_ in full satisfaction of this debt. Upon receipt of the payment, your company will report this debt to all three major credit reporting agencies—Equifax, Experian, and TransUnion—as “paid as agreed” and you will remove all references to delinquency on this account. As the company reporting the status of this account, you have full authority to change the way it is listed with credit agencies.

This is a restricted offer. If you agree, sign and return this letter, I will send payment by certified mail. The terms of this offer are confidential. I will make no payment without a written agreement.

Thank you

Sincerely,

\_\_\_\_\_

**AGREEMENT TO SETTLE DEBT**

\_\_\_\_\_  
 \_\_\_\_\_ (Creditor), and  
 \_\_\_\_\_  
 (Debtor), agree to compromise the indebtedness between them. CREDITOR agrees to compromise the indebtedness due CREDITOR according to the following terms and conditions:

The CREDITOR and the DEBTOR agree that the present debt due is \$\_\_\_\_\_. The parties agree that the CREDITOR shall accept the sum of \$\_\_\_\_\_ as full payment on the debt. The acceptance of the payment will serve as a complete discharge of all monies due. The payment shall be made in cash or cash equivalent.

In addition, upon acceptance of the \$\_\_\_\_\_, the CREDITOR will notify all credit reporting agencies that account is “PAID AS AGREED,” and delete any entries showing this account as ever being late.

This compromise is expressly conditioned upon the payment being received by \_\_\_\_\_[date]. If the DEBTOR fails to pay the compromised amount by this date, the original amount owed by the DEBTOR will be reinstated in full, and immediately due.

This Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

\_\_\_\_\_

**LETTER REQUESTING NO PAYMENT**


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Dear Sir or Madam:

I am writing in regard to my account number \_\_\_\_\_. I am behind on my payments and am experiencing some temporary financial difficulties. I fully intend to repay this account in full; however, I am unable to make any payments at this time for a period of \_\_\_\_\_. I am requesting that you allow me to miss

\_\_\_\_\_ payment(s) while I get back on my feet financially.

I would be very appreciative if you could help me in this way. Please let me know in writing if this is possible.

Thank you.

Sincerely,

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**LETTER EXPLAINING JUDGMENT PROOF STATUS**


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Dear Sir or Madam:

I am aware that I am behind on my payments to my account number \_\_\_\_\_. I am unable to make payments because I am experiencing financial difficulties. I would like to notify you that I am without income or assets and have nothing for you to pursue. Since I am judgment proof, please do not waste your time and energy pursuing this matter. I will resume making payments as soon as possible.

Thank you.

Sincerely,

---

**LETTER EXPLAINING PLAN TO GO BANKRUPT**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Dear Sir or Madam:

I am writing in regard to my account number \_\_\_\_\_.  
Please be advised that I am about to file for bankruptcy and that I will be  
including this debt in the proceeding. Please contact my attorney  
\_\_\_\_\_ at \_\_\_\_\_ about this matter in  
the future.

Thank you.

Sincerely,

\_\_\_\_\_

**LETTER CLOSING ACCOUNT**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

Dear Sir or Madam:

Please close my account number \_\_\_\_\_ with  
you. I will no longer be using this account.

Thank you.

Sincerely,

\_\_\_\_\_



FORM 36

**CREDIT CARD LIST**

Card Name on Card	Account Number	Expiration Date	Phone Number	Credit Limit
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				

FORM 37

**LETTER TO U.S. BANKRUPTCY TRUSTEE**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dear Sir or Madam:

I am the victim of identity fraud. It has recently come to my attention that this fraud has been continued in bankruptcy court. Enclosed please find

\_\_\_\_\_ and a copy of my driver's license. I have not filed or had dealings with the bankruptcy court. Please advise me how you will handle this matter.

Thank you.

Sincerely,

\_\_\_\_\_

## IDENTITY THEFT TRACKING SHEET

Credit Bureaus—Report Fraud

Bureau	Phone Number	Date Contacted	Contact Person	Comments
Equifax	800-525-6285			
Experian	888-397-3742			
Trans Union	800-680-7289			

Banks, Credit Card Issuers, and Other Creditors  
(Contact each creditor promptly to protect your legal rights.)

Creditor	Address and Phone Number	Date Contacted	Contact Person	Comments

Law Enforcement Agencies—Report Identity Theft

Agency	Phone Number	Date Contacted	Contact Person	Report Number	Comments
Federal Trade Commission	877-IDTHEFT				
Local Police Department					

Name \_\_\_\_\_ Phone Number \_\_\_\_\_ Page 1

## ID THEFT AFFIDAVIT

## Victim Information

(1) My full legal name is \_\_\_\_\_  
(First) (Middle) (Last) (Jr., Sr., III)

(2) (If different from above) When the events described in this affidavit took place, I was known as \_\_\_\_\_

(First) (Middle) (Last) (Jr., Sr., III)

(3) My date of birth is \_\_\_\_\_  
(day/month/year)

(4) My social security number is \_\_\_\_\_

(5) My driver's license or identification card, state, and number are \_\_\_\_\_

(6) My current address is \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

(7) I have lived at this address since \_\_\_\_\_  
(month/year)

(8) (If different from above) When the events described in this affidavit took place, my address was \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

(9) I lived at the address in Item 8 from \_\_\_\_\_ until \_\_\_\_\_  
(month/year) (month/year)

(10) My daytime telephone number is (\_\_\_\_) \_\_\_\_\_

My evening telephone number is (\_\_\_\_) \_\_\_\_\_

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

## How the Fraud Occurred

**Check all that apply for items 11 – 17:**

- (11) ☐ I did not authorize anyone to use my name or personal information to seek the money, credit, loans, goods or services described in this report.
- (12) ☐ I did not receive any benefit, money, goods or services as a result of the events described in this report.
- (13) ☐ My identification documents (for example, credit cards; birth certificate; driver's license; Social Security card; etc.) were ☐ stolen ☐ lost on or about \_\_\_\_\_ (day/month/year).
- (14) ☐ To the best of my knowledge and belief, the following person(s) used my information (for example, my name, address, date of birth, existing account numbers, social security number, mother's maiden name, etc.) or identification documents to get money, credit, loans, goods or services without my knowledge or authorization:
- |  |  |
|--|--|
| _____<br>Name (if known)                   | _____<br>Name (if known)                   |
| _____<br>Address (if known)                | _____<br>Address (if known)                |
| _____<br>Phone number(s) (if known)        | _____<br>Phone number(s) (if known)        |
| _____<br>Additional information (if known) | _____<br>Additional information (if known) |
- (15) ☐ I do NOT know who used my information or identification documents to get money, credit, loans, goods or services without my knowledge or authorization.
- (16) ☐ Additional comments: (For example, description of the fraud, which documents or information were used or how the identity thief gained access to your information.)
- \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Attach additional pages as necessary.)

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY**Victim's Law Enforcement Actions**

- (17) (check one) I ☐ am ☐ am not willing to assist in the prosecution of the person(s) who committed this fraud.
- (18) (check one) I ☐ am ☐ am not authorizing the release of this information to law enforcement for the purpose of assisting them in the investigation and prosecution of the person(s) who committed this fraud.
- (19) (check all that apply) I ☐ have ☐ have not reported the events described in this affidavit to the police or other law enforcement agency. The police ☐ did ☐ did not write a report. In the event you have contacted the police or other law enforcement agency, please complete the following:

_____ <b>(Agency # 1)</b>	_____ (Officer/Agency personnel taking report)
_____ (Date of report)	_____ (Report number, if any)
_____ (Phone number)	_____ (email address, if any)
_____ <b>(Agency # 2)</b>	_____ (Officer/Agency personnel taking report)
_____ (Date of report)	_____ (Report number, if any)
_____ (Phone number)	_____ (email address, if any)

**Documentation Checklist**

Please indicate the supporting documentation you are able to provide to the companies you plan to notify. Attach copies (NOT originals) to the affidavit before sending it to the companies.

- (20) ☐ A copy of a valid government-issued photo-identification card (for example, your driver's license, state-issued ID card, or your passport). If you are under 16 and don't have a photo-ID, you may submit a copy of your birth certificate or a copy of your official school records showing your enrollment and place of residence.
- (21) ☐ Proof of residency during the time the disputed bill occurred, the loan was made, or the other event took place (for example, a rental/lease agreement in your name, a copy of a utility bill or a copy of an insurance bill).

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

(22) ☐ A copy of the report you filed with the police or sheriff's department. If you are unable to obtain a report or report number from the police, please indicate that in Item 19. Some companies only need the report number, not a copy of the report. You may want to check with each company

Signature

I certify that, to the best of my knowledge and belief, all the information on and attached to this affidavit is true, correct, and complete and made in good faith. I also understand that this affidavit or the information it contains may be made available to federal, state, and/or local law enforcement agencies for such action within their jurisdiction as they deem appropriate. I understand that knowingly making any false or fraudulent statement or representation to the government may constitute a violation of 18 U.S.C. §1001 or other federal, state, or local criminal statutes, and may result in imposition of a fine or imprisonment or both.

(signature)

(date signed)

(Notary)

*[Check with each company. Creditors sometimes require notarization. If they do not, please have one witness (non-relative) sign below that you completed and signed this affidavit.]*

Witness:

(signature)

(printed name)

(date)

(telephone number)

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

INSTRUCTIONS FOR COMPLETING THE ID THEFT AFFIDAVIT

To make certain that you do not become responsible for any debts incurred by an identity thief, you must prove to each of the companies where accounts were opened or used in your name that you didn't create the debt.

A group of credit grantors, consumer advocates, and attorneys at the Federal Trade Commission (FTC) developed an ID Theft Affidavit to make it easier for fraud victims to report information. While many companies accept this affidavit, others require that you submit more or different forms. Before you send the affidavit, contact each company to find out if they accept it.

It will be necessary to provide the information in this affidavit anywhere a **new** account was opened in your name. The information will enable the companies to investigate the fraud and decide the outcome of your claim. If someone made unauthorized charges to an **existing** account, call the company for instructions.

This affidavit has two parts:

- **Part one**—the ID Theft Affidavit—is where you report general information about yourself and the theft.
- **Part two**—the Fraudulent Account Statement—is where you describe the fraudulent account(s) opened in your name. Use a separate Fraudulent Account Statement for each company you need to write to.

When you send the affidavit to the companies, attach copies (NOT originals) of any supporting documents (for example, driver's license or police report). Before submitting your affidavit, review the disputed account(s) with family members or friends who may have information about the account(s) or access to them.

Complete this affidavit as soon as possible. Many creditors ask that you send it within two weeks. Delays on your part could slow the investigation.

Be as accurate and complete as possible. You may choose not to provide some of the information requested. However, incorrect or incomplete information will slow the process of investigating your claim and absolving the debt. Print clearly.

When you have finished completing the affidavit, mail a copy to each creditor, bank, or company that provided the thief with the unauthorized credit, goods, or services you describe. Attach a copy of the Fraudulent Account Statement with information only on accounts opened at the institution to which you are sending the packet, as well as any other supporting documentation you are able to provide.

Send the appropriate documents to each company by certified mail, return receipt requested, so you can prove that it was received. The companies will review your claim and send you a written response telling you the outcome of their investigation. Keep a copy of everything you submit.

If you are unable to complete the affidavit, a legal guardian or someone with power of attorney may complete it for you. Except as noted, the information you provide will be used only by the company to process your affidavit. Investigate the events you report, and help stop further fraud. If this affidavit is requested in a lawsuit, the company might have to provide it to the requesting party. Completing this affidavit does not guarantee that the identity thief will be prosecuted or that the debt will be cleared.

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

If you haven't already done so, report the fraud to the following organizations:



1. Any one of the nationwide consumer reporting companies to place a fraud alert on your credit report. Fraud alerts can help prevent an identity thief from opening any more accounts in your name. The company you call is required to contact the other two, which will place an alert on their versions of your report, too.

• **Equifax:** 1-800-525-6285;

[www.equifax.com](http://www.equifax.com)

• **Experian:** 1-888-EXPERIAN (397-3742); [www.experian.com](http://www.experian.com)

• **TransUnion:** 1-800-680-7289; [www.transunion.com](http://www.transunion.com)

In addition to placing the fraud alert, the three consumer reporting companies will send you free copies of your credit reports, and, if you ask, they will display only the last four digits of your Social Security number on your credit reports.

2. The security or fraud department of each company where you know, or believe, accounts have been tampered with or opened fraudulently. Close the accounts. Follow up in writing, and include copies (NOT originals) of supporting documents. *It's important to notify credit card companies and banks in writing.* Send your letters by certified mail, return receipt requested, so you can document what the company received and when. Keep a file of your correspondence and enclosures.

When you open new accounts, use new Personal Identification Numbers (PINs) and passwords. Avoid using easily available information like your mother's maiden name, your birth date, the last four digits of your Social Security number or your phone number, or a series of consecutive numbers.

3. Your local police or the police in the community where the identity theft took place to file a report. Get a copy of the police report or, at the very least, the number of the report. It can help you deal with creditors who need proof of the crime. If the police are reluctant to take your report, ask to file a "Miscellaneous Incidents" report, or try another jurisdiction, like your state police. You also can check with your state Attorney General's office to find out if state law requires the police to take reports for identity theft. Check the Blue Pages of your telephone directory for the phone number or check [www.naag.org](http://www.naag.org) for a list of state Attorneys General.

4. The Federal Trade Commission. By sharing your identity theft complaint with the FTC, you will provide important information that can help law enforcement officials across the nation track down identity thieves and stop them. The FTC also can refer victims' complaints to other government agencies and companies for further action, as well as investigate companies for violations of laws that the FTC enforces.

You can file a complaint online at **[www.consumer.gov/idtheft](http://www.consumer.gov/idtheft)**. If you don't have Internet access, call the FTC's Identity Theft Hotline, toll-free: 1-877-IDTHEFT (438-4338); TTY: 1-866-653-4261; or write: Identity Theft Clearinghouse, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

Name \_\_\_\_\_ Phone Number \_\_\_\_\_ Page 5

Name \_\_\_\_\_ Phone Number \_\_\_\_\_ Page 5

## FRAUDULENT ACCOUNT STATEMENT

### Completing this Statement

Make as many copies of this page as you need. **Complete a separate page for each company you're notifying and only send it to that company.** Include a copy of your signed affidavit.

List only the account(s) you're disputing with the company receiving this form. **See the example below.**

If a collection agency sent you a statement, letter or notice about the fraudulent account, attach a copy of that document (**NOT** the original).

### I declare (check all that applies):

☐ As a result of the event(s) described in the ID Theft Affidavit, the following account(s) was/were opened at your company in my name without my knowledge, permission or authorization using my personal information or identifying documents:

Creditor Name/ Address (the company that opened the account or provided the goods and services)	Account Number	Type of unauthorized credit/goods/ services provided by the creditor (if known)	Date issued or opened	Amount/ Value Provided
Example Example National Park 22 Main Street Columbus, Ohio 22722	0123456-89	Auto loan	01/6/2011	\$ 25,000.00

☐ During the time of the accounts described above, I had the following account open with your company:

Billing name \_\_\_\_\_

Billing address \_\_\_\_\_

Account number \_\_\_\_\_

DO NOT SEND AFFIDAVIT TO THE FTC OR ANY OTHER  
GOVERNMENT AGENCY

**FORM 40**

**STATEMENT OF CIRCUMSTANCES**

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Dear Sir or Madam:

I am writing in reference to my application to you for credit. I have seen my credit report and realize that there may be items on it that concern you. Please allow me to explain. I have experienced the following circumstances: \_\_\_\_\_

\_\_\_\_\_,  
which caused the problems you see on the credit report. My current circumstances are:

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and I would ask you to understand that my situation has improved. I will be able to make all payments to you without any problem and hope that you will give my application consideration.

Thank you.

Sincerely,

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**FORM 41**

**REQUEST TO OPT-OUT**

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Dear Sir or Madam:

I do not wish to have any information released about me to companies seeking to send me promotional materials. Please do not release any such information about me. I do not wish to receive mailings or phone calls from companies soliciting their services.

Thank you.

Sincerely,

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**BUDGET**

For the month of \_\_\_\_\_

Enter your estimated monthly expenses on this form. You should include everything you spend money on. Be sure you include expenses and incomes for your entire household.

**HOUSEHOLD EXPENSES**

Rent/Mortgage \_\_\_\_\_

Home equity loan payment \_\_\_\_\_

Real estate taxes (if not included in mortgage) \_\_\_\_\_

Renter's/Homeowner's insurance \_\_\_\_\_

Electric \_\_\_\_\_

Gas \_\_\_\_\_

Water \_\_\_\_\_

Telephone (local and long distance) \_\_\_\_\_

Cell phone \_\_\_\_\_

Cable \_\_\_\_\_

Internet access \_\_\_\_\_

Home repairs \_\_\_\_\_

Food \_\_\_\_\_

Alcohol \_\_\_\_\_

Bank fees \_\_\_\_\_

Household supplies \_\_\_\_\_

Household items \_\_\_\_\_

Furniture purchases and maintenance \_\_\_\_\_

Lawn/Yard expenses \_\_\_\_\_

Other \_\_\_\_\_

**TOTAL HOUSEHOLD EXPENSES:** \_\_\_\_\_**PERSONAL EXPENSES**

Clothing \_\_\_\_\_

Laundry/Dry Cleaning \_\_\_\_\_

Haircuts and styling \_\_\_\_\_

Other personal care (nails, salons) \_\_\_\_\_

Gym membership \_\_\_\_\_

Other clubs or memberships \_\_\_\_\_

Life insurance \_\_\_\_\_

Health insurance \_\_\_\_\_

Prescription plan \_\_\_\_\_

Co-pays \_\_\_\_\_

Optical \_\_\_\_\_

Dental \_\_\_\_\_

Other medical \_\_\_\_\_

Grooming/Personal care items \_\_\_\_\_

Charity \_\_\_\_\_

Babysitter \_\_\_\_\_

Household help \_\_\_\_\_

Hobbies \_\_\_\_\_

Cigarettes \_\_\_\_\_

Income taxes \_\_\_\_\_

Children's allowances \_\_\_\_\_

Pet expenses \_\_\_\_\_

Other \_\_\_\_\_

**TOTAL PERSONAL EXPENSES:** \_\_\_\_\_**AUTOMOTIVE EXPENSES**

Car loan or lease payment \_\_\_\_\_

Bus/Train/Taxi/Plane \_\_\_\_\_

Gas \_\_\_\_\_

Car wash \_\_\_\_\_

Parking/Tolls \_\_\_\_\_

Other \_\_\_\_\_

**TOTAL AUTOMOTIVE EXPENSES:** \_\_\_\_\_**ENTERTAINMENT EXPENSES**

Restaurants/Take out \_\_\_\_\_  
Movies, theater, etc. \_\_\_\_\_  
Books, newspapers, magazines \_\_\_\_\_  
Video/DVD rentals \_\_\_\_\_  
Other \_\_\_\_\_  
**TOTAL ENTERTAINMENT EXPENSES:** \_\_\_\_\_

**FRIENDS AND FAMILY**

Party supplies \_\_\_\_\_  
Birthday, anniversary, wedding gifts \_\_\_\_\_  
Cards and wrapping paper \_\_\_\_\_  
Payment on personal loan \_\_\_\_\_  
Other \_\_\_\_\_

**TOTAL FRIENDS AND FAMILY:** \_\_\_\_\_

**CREDIT CARDS AND LOANS**

(list each separately with monthly payment)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**TOTAL CREDIT CARDS AND LOANS:** \_\_\_\_\_

**SAVINGS**

Investment \_\_\_\_\_  
Savings account \_\_\_\_\_  
College savings plan \_\_\_\_\_  
Retirement plan \_\_\_\_\_

**TOTAL SAVINGS:** \_\_\_\_\_

**EDUCATION (for all household members)**

Tuition \_\_\_\_\_  
Student loan payment \_\_\_\_\_  
School supplies and materials \_\_\_\_\_

Other \_\_\_\_\_

**TOTAL EDUCATION COSTS:** \_\_\_\_\_

**YEARLY EXPENSES (divided by 12)**

Car repairs/maintenance \_\_\_\_\_  
Driver's license \_\_\_\_\_  
Car registration \_\_\_\_\_  
Car insurance \_\_\_\_\_  
Car inspection \_\_\_\_\_  
Vacation \_\_\_\_\_  
Holiday gifts \_\_\_\_\_

**TOTAL YEARLY EXPENSES:** \_\_\_\_\_

**OTHER**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**TOTAL OTHER EXPENSES:** \_\_\_\_\_

Add together all your

**TOTAL MONTHLY EXPENSES:** \_\_\_\_\_

**MONTHLY INCOME**

Salary \_\_\_\_\_  
Child support/alimony \_\_\_\_\_  
Other income (nonreported, interest, etc.) \_\_\_\_\_  
**TOTAL INCOME:** \_\_\_\_\_



**FORM 43**

## SPENDING LOG

For

[illegible]

## FORM 44

**LETTER TO COLLECTION AGENCY OR COMPANY  
STATING NOT TO CALL YOU**

Your name and address with telephone number

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Name of the collection company &amp; telephone number

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Dear Sir or Madam:

For the past few months I am continually receiving telephone calls from your office and have also received letters for a collection, the date of original creditor's last activity mentioned is \_\_\_\_\_ and this is in regards of original creditor \_\_\_\_\_ store/bank/credit card company/hospital. This debt is not an adequate debt and your office or the creditor has not provided any adequate documentation of this debt.

According to the statute of {name of your state and look for the statute and section and code} this debt is old and out of the statute of limitation, but you are still reporting this on my credit report. You are conducting collection activities on a zombie debt.

I am sure that you are aware of provisions in the Fair Debt Collection Practices Act (FDCPA), however, I would like to point out that your firm has violated provisions of the FDCPA by implying that the legal status of this debt is collectible by reporting alleged debt to the Credit Bureaus. The exact Statute is 15 U.S.C. §1692e, which states that

(2) That the false representation of:-

(A) The legal status of the alleged debt

And

(B) Any services rendered or compensation which may be lawfully received by any debt of the collection of a debt

I am also giving you a chance to provide me all the documentation showing that this is an adequate debt and conduct a full investigation of this debt. Under any condition, if you can't provide any adequate documentation within the next 30 days, I am requesting the following:

Through this letter, consider this as a legal notice under 15 U. S. C. §1692c, I am asking your office to cease all further communications with me except for the reasons specifically set forth in the law according to the state and federal laws, which permit you to do so or otherwise any communication will be reported to the state and federal authorities and legal actions will be taken.

I would also like to state that this letter is not meant in any way to be an acknowledgment that I owe this debt or I am liable for this debt.

Yours very truly,

\_\_\_\_\_  
Your name and address



**FEDERAL TRADE COMMISSION**  
FOR THE CONSUMER

## **THE FAIR DEBT COLLECTION PRACTICES ACT**

*As amended by Public Law 104-208, 110 Stat. 3009 (Sept. 30, 1996)*

To amend the Consumer Credit Protection Act to prohibit abusive practices by debt collectors. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Consumer Credit Protection Act (15 U.S.C. 1601 et seq.) is amended by adding at the end thereof the following new title:

TITLE VIII - DEBT COLLECTION PRACTICES [Fair Debt Collection Practices Act]

Sec.

801. Short Title

802. Congressional findings and declaration of purpose

803. Definitions

804. Acquisition of location information

805. Communication in connection with debt collection

806. Harassment or abuse

807. False or misleading representations

808. Unfair practice

809. Validation of debts

810. Multiple debts

811. Legal actions by debt collectors

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**§ 801. Short Title [15 USC 1601 note]**

This title may be cited as the "Fair Debt Collection Practices Act."

**§ 802. Congressional findings and declarations of purpose [15 USC 1692]**

(a) There is abundant evidence of the use of abusive, deceptive, and unfair debt collection practices by many debt collectors. Abusive debt collection practices contribute to the number of personal bankruptcies, to marital instability, to the loss of jobs, and to invasions of individual privacy.

(b) Existing laws and procedures for redressing these injuries are inadequate to protect consumers.

(c) Means other than misrepresentation or other abusive debt collection practices are available for the effective collection of debts.

(d) Abusive debt collection practices are carried on to a substantial extent in interstate commerce and through means and instrumentalities of such commerce. Even where abusive debt collection practices are purely intrastate in character, they nevertheless directly affect interstate commerce.

(e) It is the purpose of this title to eliminate abusive debt collection practices by debt collectors, to insure that those debt collectors who refrain from using abusive debt collection practices are not competitively disadvantaged, and to promote consistent State action to protect consumers against debt collection abuses.

### **§ 803. Definitions [15 USC 1692a]**

As used in this title –

(1) The term "Commission" means the Federal Trade Commission.

(2) The term "communication" means the conveying of information regarding a debt directly or indirectly to any person through any medium.

(3) The term "consumer" means any natural person obligated or allegedly obligated to pay any debt.

(4) The term "creditor" means any person who offers or extends credit creating a debt or to whom a debt is owed, but such term does not include any person to the extent that he receives an assignment or transfer of a debt in default solely for the purpose of facilitating collection of such debt for another.

(5) The term "debt" means any obligation or alleged obligation of a consumer to pay money arising out of a transaction in which the money, property, insurance or services which are the subject of the transaction are primarily for personal, family, or household purposes, whether or not such obligation has been reduced to judgment.

(6) The term "debt collector" means any person who uses any instrumentality of interstate commerce or the mails in any business the principal purpose of which is the collection of any debts, or who regularly collects or attempts to collect, directly or indirectly, debts owed or due or asserted to be owed or due another. Notwithstanding the exclusion provided by clause (F) of the last sentence of this paragraph, the term includes any creditor who, in the process of collecting his own debts, uses any name other than his own which would indicate that a third person is collecting or attempting to collect such debts. For the purpose of section 808(6), such term also includes any person who uses any instrumentality of interstate commerce or the mails in any business the principal purpose of which is the enforcement of security interests. The term does not include –

(A) any officer or employee of a creditor while, in the name of the creditor, collecting debts for such creditor;

(B) any person while acting as a debt collector for another person, both of whom are related by common ownership or affiliated by corporate control, if the person acting as a debt collector does so only for persons to whom it is so related or affiliated and if the principal business of such person is not the collection of debts;

(C) any officer or employee of the United States or any State to the extent that collecting or attempting to collect any debt is in the performance of his official duties;

(D) any person while serving or attempting to serve legal process on any other person in connection with the judicial enforcement of any debt;

(E) any nonprofit organization which, at the request of consumers, performs bona fide consumer credit counseling and assists consumers in the liquidation of their debts by receiving payments from such consumers and distributing such amounts to creditors; and

(F) any person collecting or attempting to collect any debt owed or due or asserted to be owed or due another to the extent such activity (i) is incidental to a bona fide fiduciary obligation or a bona fide escrow arrangement; (ii) concerns a debt which was originated by such person; (iii) concerns a debt which was not in default at the time it was obtained by such person; or (iv) concerns a debt obtained by such person as a secured party in a commercial credit transaction involving the creditor.

(7) The term "location information" means a consumer's place of abode and his telephone number at such place, or his place of employment.

(8) The term "State" means any State, territory, or possession of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any political subdivision of any of the foregoing.

### **§ 804. Acquisition of location information [15 USC 1692b]**

Any debt collector communicating with any person other than the consumer for the purpose of acquiring location information about the consumer shall –

(1) identify himself, state that he is confirming or correcting location information concerning the consumer, and, only if expressly requested, identify his employer;

(2) not state that such consumer owes any debt;

(3) not communicate with any such person more than once unless requested to do so by such person or unless the debt collector reasonably believes that the earlier response of such person is erroneous or incomplete and that such person now has correct or complete location information;

(4) not communicate by post card;

(5) not use any language or symbol on any envelope or in the contents of any communication effected by the mails or telegram that indicates that the debt collector is in the debt collection business or that the communication relates to the collection of a debt; and

(6) after the debt collector knows the consumer is represented by an attorney with regard to the subject debt and has knowledge of, or can readily ascertain, such attorney's name and address, not communicate with any person other than that attorney, unless the attorney fails to respond within a reasonable period of time to the communication from the debt collector.

### **§ 805. Communication in connection with debt collection [15 USC 1692c]**

(a) COMMUNICATION WITH THE CONSUMER GENERALLY. Without the prior

consent of the consumer given directly to the debt collector or the express permission of a court of competent jurisdiction, a debt collector may not communicate with a consumer in connection with the collection of any debt --

- (1) at any unusual time or place or a time or place known or which should be known to be inconvenient to the consumer. In the absence of knowledge of circumstances to the contrary, a debt collector shall assume that the convenient time for communicating with a consumer is after 8 o'clock antimeridian and before 9 o'clock postmeridian, local time at the consumer's location;
- (2) if the debt collector knows the consumer is represented by an attorney with respect to such debt and has knowledge of, or can readily ascertain, such attorney's name and address, unless the attorney fails to respond within a reasonable period of time to a communication from the debt collector or unless the attorney consents to direct communication with the consumer; or
- (3) at the consumer's place of employment if the debt collector knows or has reason to know that the consumer's employer prohibits the consumer from receiving such communication.

(b) COMMUNICATION WITH THIRD PARTIES. Except as provided in section 804, without the prior consent of the consumer given directly to the debt collector, or the express permission of a court of competent jurisdiction, or as reasonably necessary to effectuate a postjudgment judicial remedy, a debt collector may not communicate, in connection with the collection of any debt, with any person other than a consumer, his attorney, a consumer reporting agency if otherwise permitted by law, the creditor, the attorney of the creditor, or the attorney of the debt collector.

(c) CEASING COMMUNICATION. If a consumer notifies a debt collector in writing that the consumer refuses to pay a debt or that the consumer wishes the debt collector to cease further communication with the consumer, the debt collector shall not communicate further with the consumer with respect to such debt, except --

- (1) to advise the consumer that the debt collector's further efforts are being terminated;
- (2) to notify the consumer that the debt collector or creditor may invoke specified remedies which are ordinarily invoked by such debt collector or creditor; or
- (3) where applicable, to notify the consumer that the debt collector or creditor intends to invoke a specified remedy.

If such notice from the consumer is made by mail, notification shall be complete upon receipt.

(d) For the purpose of this section, the term "consumer" includes the consumer's spouse, parent (if the consumer is a minor), guardian, executor, or administrator.

#### **§ 806. Harassment or abuse [15 USC 1692d]**

A debt collector may not engage in any conduct the natural consequence of which is to harass, oppress, or abuse any person in connection with the collection of a debt. Without limiting the general application of the foregoing, the following conduct is a violation of this section:

- (1) The use or threat of use of violence or other criminal means to harm the

physical person, reputation, or property of any person.

- (2) The use of obscene or profane language or language the natural consequence of which is to abuse the hearer or reader.
- (3) The publication of a list of consumers who allegedly refuse to pay debts, except to a consumer reporting agency or to persons meeting the requirements of section 603(f) or 604(3)1 of this Act.
- (4) The advertisement for sale of any debt to coerce payment of the debt.
- (5) Causing a telephone to ring or engaging any person in telephone conversation repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number.
- (6) Except as provided in section 804, the placement of telephone calls without meaningful disclosure of the caller's identity.

#### **§ 807. False or misleading representations [15 USC 1692e]**

A debt collector may not use any false, deceptive, or misleading representation or means in connection with the collection of any debt. Without limiting the general application of the foregoing, the following conduct is a violation of this section:

- (1) The false representation or implication that the debt collector is vouched for, bonded by, or affiliated with the United States or any State, including the use of any badge, uniform, or facsimile thereof.
- (2) The false representation of--
  - (A) the character, amount, or legal status of any debt; or
  - (B) any services rendered or compensation which may be lawfully received by any debt collector for the collection of a debt.
- (3) The false representation or implication that any individual is an attorney or that any communication is from an attorney.
- (4) The representation or implication that nonpayment of any debt will result in the arrest or imprisonment of any person or the seizure, garnishment, attachment, or sale of any property or wages of any person unless such action is lawful and the debt collector or creditor intends to take such action.
- (5) The threat to take any action that cannot legally be taken or that is not intended to be taken.
- (6) The false representation or implication that a sale, referral, or other transfer of any interest in a debt shall cause the consumer to --
  - (A) lose any claim or defense to payment of the debt; or
  - (B) become subject to any practice prohibited by this title.
- (7) The false representation or implication that the consumer committed any crime or other conduct in order to disgrace the consumer.
- (8) Communicating or threatening to communicate to any person credit information which is known or which should be known to be false, including the failure to communicate that a disputed debt is disputed.
- (9) The use or distribution of any written communication which simulates or is falsely represented to be a document authorized, issued, or approved by any court, official,



or agency of the United States or any State, or which creates a false impression as to its source, authorization, or approval.

- (10) The use of any false representation or deceptive means to collect or attempt to collect any debt or to obtain information concerning a consumer.
- (11) The failure to disclose in the initial written communication with the consumer and, in addition, if the initial communication with the consumer is oral, in that initial oral communication, that the debt collector is attempting to collect a debt and that any information obtained will be used for that purpose, and the failure to disclose in subsequent communications that the communication is from a debt collector, except that this paragraph shall not apply to a formal pleading made in connection with a legal action.
- (12) The false representation or implication that accounts have been turned over to innocent purchasers for value.
- (13) The false representation or implication that documents are legal process.
- (14) The use of any business, company, or organization name other than the true name of the debt collector's business, company, or organization.
- (15) The false representation or implication that documents are not legal process forms or do not require action by the consumer.
- (16) The false representation or implication that a debt collector operates or is employed by a consumer reporting agency as defined by section 603(f) of this Act.

#### **§ 808. Unfair practices [15 USC 1692f]**

A debt collector may not use unfair or unconscionable means to collect or attempt to collect any debt. Without limiting the general application of the foregoing, the following conduct is a violation of this section:

- (1) The collection of any amount (including any interest, fee, charge, or expense incidental to the principal obligation) unless such amount is expressly authorized by the agreement creating the debt or permitted by law.
- (2) The acceptance by a debt collector from any person of a check or other payment instrument postdated by more than five days unless such person is notified in writing of the debt collector's intent to deposit such check or instrument not more than ten nor less than three business days prior to such deposit.
- (3) The solicitation by a debt collector of any postdated check or other postdated payment instrument for the purpose of threatening or instituting criminal prosecution.
- (4) Depositing or threatening to deposit any postdated check or other postdated payment instrument prior to the date on such check or instrument.
- (5) Causing charges to be made to any person for communications by concealment of the true purpose of the communication. Such charges include, but are not limited to, collect telephone calls and telegram fees.
- (6) Taking or threatening to take any nonjudicial action to effect dispossession or disablement of property if—
  - (A) There is no present right to possession of the property claimed as collateral through an enforceable security interest;

- (B) There is no present intention to take possession of the property; or
- (C) The property is exempt by law from such dispossession or disablement.

- (7) Communicating with a consumer regarding a debt by post card.
- (8) Using any language or symbol, other than the debt collector's address, on any envelope when communicating with a consumer by use of the mails or by telegram, except that a debt collector may use his business name if such name does not indicate that he is in the debt collection business.

#### **§ 809. Validation of debts [15 USC 1692g]**

(a) Within five days after the initial communication with a consumer in connection with the collection of any debt, a debt collector shall, unless the following information is contained in the initial communication or the consumer has paid the debt, send the consumer a written notice containing --

- (1) the amount of the debt;
- (2) the name of the creditor to whom the debt is owed;
- (3) a statement that unless the consumer, within thirty days after receipt of the notice, disputes the validity of the debt, or any portion thereof, the debt will be assumed to be valid by the debt collector;
- (4) a statement that if the consumer notifies the debt collector in writing within the thirty-day period that the debt, or any portion thereof, is disputed, the debt collector will obtain verification of the debt or a copy of a judgment against the consumer and a copy of such verification or judgment will be mailed to the consumer by the debt collector; and
- (5) a statement that, upon the consumer's written request within the thirty-day period, the debt collector will provide the consumer with the name and address of the original creditor, if different from the current creditor

(b) If the consumer notifies the debt collector in writing within the thirty-day period described in subsection (a) that the debt, or any portion thereof, is disputed, or that the consumer requests the name and address of the original creditor, the debt collector shall cease collection of the debt, or any disputed portion thereof, until the debt collector obtains verification of the debt or any copy of a judgment, or the name and address of the original creditor, and a copy of such verification or judgment, or name and address of the original creditor, is mailed to the consumer by the debt collector.

(c) The failure of a consumer to dispute the validity of a debt under this section may not be construed by any court as an admission of liability by the consumer.

#### **§ 810. Multiple debts [15 USC 1692h]**

If any consumer owes multiple debts and makes any single payment to any debt collector with respect to such debts, such debt collector may not apply such payment to any debt which is disputed by the consumer and, where applicable, shall apply such payment in accordance with the consumer's directions.

#### **§ 811. Legal actions by debt collectors [15 USC 1692i]**

(a) Any debt collector who brings any legal action on a debt against any consumer shall --

- (1) in the case of an action to enforce an interest in real property securing the consumer's obligation, bring such action only in a judicial district or similar legal

- entity in which such real property is located; or
- (2) in the case of an action not described in paragraph (1), bring such action only in the judicial district or similar legal entity –
- (A) in which such consumer signed the contract sued upon; or
- (B) in which such consumer resides at the commencement of the action.
- (b) Nothing in this title shall be construed to authorize the bringing of legal actions by debt collectors.

**§ 812. Furnishing certain deceptive forms [15 USC 1692j]**

- (a) It is unlawful to design, compile, and furnish any form knowing that such form would be used to create the false belief in a consumer that a person other than the creditor of such consumer is participating in the collection of or in an attempt to collect a debt such consumer allegedly owes such creditor, when in fact such person is not so participating.
- (b) Any person who violates this section shall be liable to the same extent and in the same manner as a debt collector is liable under section 813 for failure to comply with a provision of this title.

**§ 813. Civil liability [15 USC 1692k]**

- (a) Except as otherwise provided by this section, any debt collector who fails to comply with any provision of this title with respect to any person is liable to such person in an amount equal to the sum of –
- (1) any actual damage sustained by such person as a result of such failure;
- (2) (A) in the case of any action by an individual, such additional damages as the court may allow, but not exceeding \$1,000; or
- (B) in the case of a class action, (i) such amount for each named plaintiff as could be recovered under subparagraph (A), and (ii) such amount as the court may allow for all other class members, without regard to a minimum individual recovery, not to exceed the lesser of \$500,000 or 1 per centum of the net worth of the debt collector; and
- (3) in the case of any successful action to enforce the foregoing liability, the costs of the action, together with a reasonable attorney's fee as determined by the court. On a finding by the court that an action under this section was brought in bad faith and for the purpose of harassment, the court may award to the defendant attorney's fees reasonable in relation to the work expended and costs.
- (b) In determining the amount of liability in any action under subsection (a), the court shall consider, among other relevant factors –
- (1) in any individual action under subsection (a)(2)(A), the frequency and persistence of noncompliance by the debt collector, the nature of such noncompliance, and the extent to which such noncompliance was intentional; or
- (2) in any class action under subsection (a)(2)(B), the frequency and persistence of noncompliance by the debt collector, the nature of such noncompliance, the resources of the debt collector, the number of persons adversely affected, and the extent to which the debt collector's noncompliance was intentional.
- (c) ) A debt collector may not be held liable in any action brought under this title if the

debt collector shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

- (d) An action to enforce any liability created by this title may be brought in any appropriate United States district court without regard to the amount in controversy, or in any other court of competent jurisdiction, within one year from the date on which the violation occurs.
- (e) No provision of this section imposing any liability shall apply to any act done or omitted in good faith in conformity with any advisory opinion of the Commission, notwithstanding that after such act or omission has occurred, such opinion is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

**§ 814. Administrative enforcement [15 USC 1692l]**

- (a) Compliance with this title shall be enforced by the Commission, except to the extent that enforcement of the requirements imposed under this title is specifically committed to another agency under subsection (b). For purpose of the exercise by the Commission of its functions and powers under the Federal Trade Commission Act, a violation of this title shall be deemed an unfair or deceptive act or practice in violation of that Act. All of the functions and powers of the Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act, including the power to enforce the provisions of this title in the same manner as if the violation had been a violation of a Federal Trade Commission trade regulation rule.
- (b) ) Compliance with any requirements imposed under this title shall be enforced under --
- (1) section 8 of the Federal Deposit Insurance Act, in the case of –
- (A) national banks, by the Comptroller of the Currency;
- (B) member banks of the Federal Reserve System (other than national banks), by the Federal Reserve Board; and
- (C) banks the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation;
- (2) section 5(d) of the Home Owners Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directing or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions;
- (3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union;
- (4) subtitle IV of Title 49, by the Interstate Commerce Commission with respect to any common carrier subject to such subtitle;
- (5) the Federal Aviation Act of 1958, by the Secretary of Transportation with respect to

any air carrier or any foreign air carrier subject to that Act; and

(6) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

- (c) For the purpose of the exercise by any agency referred to in subsection (b) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (b), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title any other authority conferred on it by law, except as provided in subsection (d).
- (d) Neither the Commission nor any other agency referred to in subsection (b) may promulgate trade regulation rules or other regulations with respect to the collection of debts by debt collectors as defined in this title.

**§ 815. Reports to Congress by the Commission [15 USC 1692m]**

- (a) Not later than one year after the effective date of this title and at one-year intervals thereafter, the Commission shall make reports to the Congress concerning the administration of its functions under this title, including such recommendations as the Commission deems necessary or appropriate. In addition, each report of the Commission shall include its assessment of the extent to which compliance with this title is being achieved and a summary of the enforcement actions taken by the Commission under section 814 of this title.
- (b) In the exercise of its functions under this title, the Commission may obtain upon request the views of any other Federal agency which exercises enforcement functions under section 814 of this title.

**§ 816. Relation to State laws [15 USC 1692n]**

This title does not annul, alter, or affect, or exempt any person subject to the provisions of this title from complying with the laws of any State with respect to debt collection practices, except to the extent that those laws are inconsistent with any provision of this title, and then only to the extent of the inconsistency. For purposes of this section, a State law is not inconsistent with this title if the protection such law affords any consumer is greater than the protection provided by this title.

**§ 817. Exemption for State regulation [15 USC 1692o]**

The Commission shall by regulation exempt from the requirements of this title any class of debt collection practices within any State if the Commission determines that under the law of that State that class of debt collection practices is subject to requirements substantially similar to those imposed by this title, and that there is adequate provision for enforcement.

**§ 818. Effective date [15 USC 1692 note]**

This title takes effect upon the expiration of six months after the date of its enactment, but section 809 shall apply only with respect to debts for which the initial attempt to collect occurs after such effective date.

Approved September 20, 1977

**ENDNOTES**

1. So in original; however, should read "604(a)(3)."

**LEGISLATIVE HISTORY:**

Public Law 95-109 [H.R. 5294]

HOUSE REPORT No. 95-131 (Comm. on Banking, Finance, and Urban Affairs).

SENATE REPORT No. 95-382 (Comm. on Banking, Housing, and Urban Affairs).

CONGRESSIONAL RECORD, Vol. 123 (1977):

Apr. 4, considered and passed House.

Aug. 5, considered and passed Senate, amended.

Sept. 8, House agreed to Senate amendment.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 13, No. 39:

Sept. 20, Presidential statement.

**AMENDMENTS:**

SECTION 621, SUBSECTIONS (b)(3), (b)(4) and (b)(5) were amended to transfer certain administrative enforcement responsibilities, pursuant to Pub. L. 95-473, § 3(b), Oct. 17, 1978. 92 Stat. 166; Pub. L. 95-630, Title V, § 501, November 10, 1978, 92 Stat. 3680; Pub. L. 98-443, § 9(h), Oct. 4, 1984, 98 Stat. 708.

SECTION 803, SUBSECTION (6), defining "debt collector," was amended to repeal the attorney at law exemption at former Section (6) (F) and to redesignate Section 803(6)(G) pursuant to Pub. L. 99-361, July 9, 1986, 100 Stat. 768. For legislative history, *see* H.R. 237, HOUSE REPORT No. 99-405 (Comm. on Banking, Finance and Urban Affairs). CONGRESSIONAL RECORD: Vol. 131 (1985): Dec. 2, considered and passed House. Vol. 132 (1986): June 26, considered and passed Senate.

SECTION 807, SUBSECTION (11), was amended to affect when debt collectors must state (a) that they are attempting to collect a debt and (b) that information obtained will be used for that purpose, pursuant to Pub. L. 104-208 § 2305, 110 Stat. 3009 (Sept. 30, 1996)

## How to Handle an Overdue Mortgage and Preserve Your Credit Rating

When your mortgage is late, take immediate action to help preserve your credit, which is always much easier to do than repairing damaged credit. If you're having trouble making your mortgage payments, take the following essential steps:

- **Call your lender or servicer immediately if you're going to be late.** The worst thing you can do is nothing. More programs are available to help today than ever before.
- **Contact a HUD-certified counseling agency for more options.** (Go to the [Housing and Urban Development Web site](#) or call project HOPE at 888-995-HOPE). A HUD-certified counselor can advise you on options and refer you to local resources that you may not know about.
- **Don't allow your mortgage to become 90 days past due.** Partial payments may not be accepted after 90 days. After you're late, your grace period disappears, so a foreclosure action may be two weeks closer than you think.
- **Beware of companies who contact you to offer help.** Some companies will try to take advantage of your problem by charging high fees for themselves.
- **Find out your alternatives to foreclosure at the [Federal Trade Commission's Web site](#).**

If your mortgage is in jeopardy, contact someone for help fast. The earlier you act, the more options you have available.

### Questions to Ask a Credit Counselor

In the process of repairing damaged credit, a good credit counselor can be an invaluable resource. Finding a good counselor is all a matter of knowing which questions to ask. Following is a list of the most important ones:

- **Is your organization not-for-profit?** You definitely don't want an agency that's *not* nonprofit. But that said, some nonprofits are shams.
- **Are your agency and counselors certified? Who provides the certification?** Both the Council on Accreditation (COA) and the International Standards Organization (ISO) accredit nonprofit

credit-counseling agencies. The National Foundation for Credit Counseling (NFCC) and the Institute for Personal Finance (part of the Association for Financial Counseling and Planning Education [AFCPE]) certify credit counselors.

- **What fees will I be charged?** Do not, under any circumstances, work with an agency that charges a large up-front fee. The best agencies will work with you for free. Depending on the agency, if they recommend a debt-management plan, you may pay a monthly fee (no more than \$50 to \$75 per month), and the agency may charge a one-time setup fee (which should not exceed \$75 to \$100).
- **How long will the counseling take?** Anything less than 30 to 45 minutes will just deal with surface issues and won't help you to set new goals, understand how you got into debt in the first place or figure out how to stay out of debt in the future.
- **What lifestyle changes will I need to make to be successful?** To be successful in getting out of debt, you probably have to make changes in your spending habits. The agency should help you learn to budget, set financial goals, and begin a savings program.



## **GLOSSARY:**

### **“A”**

**Account:** A record of transactions between the creditor and the consumer. Account examples include a mortgage, car loan, or credit card loan.

**Account Number:** A number assigned to an account by the creditor to identify the particular account and the person who is financially responsible for the account. Generally this is your Social Security number, TIN Number or EIN Number.

**Account Reviews:** Consumer credit history inquiries made by creditors with whom the consumer has a current relationship. This type of inquiry is the equivalent of just peeking at your file to be sure everything is ship-shape. Because you don't initiate the inquiry, it is not included in credit reports or credit scorings.

**ACH:** ACH stands for “Automated Clearing House”, a secure payment transfer system that connects all U.S. financial institutions. It is the central network where electronic payments are sent to make sure they clear before that money is deposited in another account.

**ACH Withdrawal:** ACH withdrawal is when funds in a checking account are automatically debited without the use of a check.

**Adjustable Rate Mortgage:** A mortgage where the interest rate fluctuates over the life of the loan.

**Adverse Action:** Any negative action, such as the denial of credit, insurance, or employment, taken by a creditor or other person or company. The reasons for an adverse action must be disclosed to the person, who was affected, as required under the Fair Credit Reporting Act, and the person is entitled to a free credit report from the bureau to which the adverse action was reported.

**Adverse Information:** Any information included in your credit report that a creditor or other interested party would view as reason to consider denying a loan or rejecting an applicant, such as past-due accounts.

**Affinity Card:** A credit card that is jointly offered by two organizations. One is a credit card issuer and the other is a professional association, special interest group or other non-bank company. For example, Citibank and American Airlines sponsor the Citibank Advantage Card.

**Adjusted Gross Income (AGI):** line on form 1040 individual.

**Alimony:** Support money paid to an ex-spouse on a regular basis after a divorce; ordered by the Family Court or Court of Law.**Amortization:** The process of fully paying off indebtedness by installments of principal and earned interest over a definite time.

**Annual Fee:** A yearly fee charged by credit grantors for the privilege of using a credit card.

**Annual Percentage Rate (APR):** The cost of credit at a yearly rate. The APR allows you to effectively compare loans, even when they are structured differently such as pay monthly, quarterly, or bi-weekly etc.

**Applicant:** A person applying for credit privileges, employment or some other benefit.

**Application Scoring:** A statistical model used to evaluate and score credit applications and credit-bureau data. The score is used by banks and businesses to determine whether to accept or decline a credit application.

**Appraisal Fee:** The charge for estimating the value of property offered as security.

**Asset:** Anything you own that has value or use.

**Authorized Account User:** The person authorized by the contractually responsible party to use the account.

**Average Daily Balance:** The average daily balance is a method used to calculate finance charges. Adding the outstanding balance on each day in the billing period and dividing that total by the number of days in the billing period calculate it. The calculation includes new purchases and payments.

### **“B”**

**Bad Credit:** A term used to describe a poor credit rating. Common practices that can damage a credit rating include making late payments, skipping payments, exceeding credit card limits or declaring bankruptcy. “Bad Credit” can result in being denied credit as well.

**Balance:** The amount of money you owe to a particular lender. It includes any unpaid balance from the previous month, new purchases, cash advances, and any charges such as an annual fee, late fee or interest. The balance should not be confused with the monthly payment (the minimum payment allowed each month), which is generally 2% - 5% for revolving credit cards.



**Balance Transfers:** Moving your balance from one credit card to another to take advantage of features the new card offers. This is often done with special checks or forms or may be offered as an option on some credit card applications. The usual reason is to shift an ongoing debt to an account with a lower interest rates and to save some interest by consumers, but lenders make money when you shift balances and it is known as Balance Transfer Fee, to find out Balance Transfer Fee read the fineprint of your transfer offer.

**Balloon Mortgage:** A mortgage where the monthly payments are based on a 30-year schedule, but the entire mortgage becomes due at the end of a set term, normally five to seven years.

**Bank Card:** A general purpose credit card issued through a local, regional or national bank that is accepted by millions of merchants, unlike store or gasoline credit cards, which may be accepted only by a specific merchant or brand. Most common are Visa, MasterCard, and American Express.

**Bankruptcy:** A proceeding in U.S. Federal Court that may legally release a person from repaying debts owed. The law contains several chapters which relate to different methods of reliefs.

**Bankruptcy Discharged:** A court order terminating bankruptcy proceedings on old debts.

**Bankruptcy Dismissed:** A court order that denied a bankruptcy petition making the debtor still liable for all debts payable.

**Billing Cycle:** The number of days between statement dates. This is generally about 25 to 30 days.

**Budget:** A financial plan for saving and spending money or a way to organize expenses and income so that you can control your spending.

**Business-Version Credit Report:** The business version of a credit report is an abbreviated version of a consumer's credit report that creditors see. The business version does not contain account reviews or promotional inquiries.

**Buy Down:** A lump sum payment made to the creditor by the borrower or by a third party to reduce the amount of some or all of the consumer's periodic payments to repay the indebtedness.

## “C”

**Cancellation:** When a loan is forgiven.

**CCCS:** Consumer Credit Counseling Service.

**Chapter 7 Bankruptcy:** Straight bankruptcy (total liquidation of assets) - In a Chapter 7 agreement, the court resolves most debts by selling assets and property so that the filer is given a fresh financial start. The court takes all assets including cars, homes, furnishings, jewelry or anything else of value. The assets are sold to pay off the debt. There are some debts that a person may wish to repay on their own instead of having the court resolve it. This is called reaffirmation. Reaffirmation is a special payment plan with the court. For example, if a car loan is reaffirmed, the person keeps the car and makes payments under new terms. Chapter 7 bankruptcy will not eliminate debts due to taxes, child support, alimony, student loans, court fines or personal injury caused by driving drunk or under the influence of drugs. A Chapter 7 filing will remain on a credit report for 10 years.

**Chapter 11 Bankruptcy:** This refers to a business reorganization type bankruptcy that buys time so that a restructuring can help pay off debt.

**Chapter 12 Bankruptcy:** This is otherwise known as a Farm Debt Bankruptcy where the assets of land and equipment are auctioned off to pay off a debt.

**Chapter 13 Bankruptcy:** Wage Earner Repayment Plan. In a Chapter 13 agreement, the court creates a debt repayment plan that allows the filer to keep their property. In order to file Chapter 13, a person must have a source of income and promise to pay part of their income to creditors. The court allows the filer to keep any assets that have debts against them if they pay them off under terms determined by the court. A Chapter 13 filing will remain on a credit report for 10 years. With Chapter 13, there is a better chance of obtaining future loans and credit.

**Charge Card:** A card that requires payment in full upon receipt of the statement.

**Charge Off:** Accounting term to indicate that the creditor does not expect to collect the balance owed on an account.

**Child Support:** An amount of money paid by one parent to another under court order to assist in financially supporting a child.

**Closed-end Credit:** Generally, any loan or credit sale agreement in which the amounts advanced, plus any finance charges, are expected to be repaid in full over a definite time. Most real estate and automobile

loans are closed-end agreements.

**COA:** *See* Council on Accreditation.

**Collateral:** Property that is offered to secure a loan or other credit and that becomes subject to seizure on default (also called security).

**Collection Account:** An account which has been transferred from a routine debt to a collection department of the creditor's firm or to a separate professional debt collecting firm.

**Collection Agency:** A company that collects debts on behalf of creditors.

**Collateral Property:** This is property that is acceptable as security for a loan or other obligation.

**Community Property:** Applicable in certain U.S. states, property and obligations acquired by a husband or wife or both, during a marriage, is consequently owned by and the responsibility of both.

**Community Reinvestment Act (CRA):** Encourages banks to help meet the credit needs of their communities for housing and other purposes, particularly in neighborhoods with low or moderate incomes while maintaining safe and sound operations.

**Consolidation Loan:** A loan usually obtained for the purpose of reducing the amount of the payments of bills owed by consolidating the bills into one loan payment. The consumer pays off several bills with the proceeds from one loan and is left with one consolidated monthly payment.

**Consumer:** Person who uses and/or buys goods and services for family or personal use.

**Consumer Credit Counseling Service (CCCS):** Organizations which help consumers find a way to repay debts through careful budgeting and management of funds. These are usually nonprofit organizations, funded by creditors. By requesting that creditors accept a longer payoff period, the counseling services can often design a successful repayment plan.

**Consumer-Version Credit Report:** Credit report containing a consumer's credit information. Information may include your name, address, social security number, credit history, inquiries, collection records, and public records such as bankruptcy filings and tax liens. Creditors do not see this version of your credit report.

**Contingency Payments:** A form of payment to an attorney. The attorney agrees to accept a percentage of your winning instead of a fee you pay up front.

**Correspondence:** Any letter of items that you have sent or received through the mail, email, or fax.

**Co-signer:** Person responsible for repaying a debt, if the borrower defaults.

**Council on Accreditation:** The largest accreditor of nonprofit organizations, including credit-counseling agencies in the United States.

**Credit:** The ability to create a debt by having a loan granted to buy now and pay later under designated terms based on a consumer's promise, ability, and track record of repaying.

**Credit Bureau:** A company that accumulates credit data on individuals, provided by creditors, and compiles this data in the form of a credit report.

**Credit Card:** A form of plastic card for credit that enables a consumer to purchase goods and services and pay for them with scheduled monthly payments, and charging interest on balances that are not paid in full at the end of the month. A form of revolving credit.

**Credit Check:** A request to view a consumer's credit report to ascertain whether to extend credit to the consumer.

**Credit Clinic:** *See* credit-repair company.

**Credit Counseling Services:** Organizations that help consumers find a way to repay debts through careful budgeting and fund management. Credit counseling services are usually non-profit organizations funded by lenders. By requesting a longer pay-off period from lenders one-by-one, a credit counseling service can often design a workable repayment plan on behalf of the consumer.

**Credit File:** *See* credit report.

**Credit Fraud:** Unauthorized use of credit by someone using fictitious personal information.

**Credit Grantor:** Person or business furnishing consumer goods and/or services on credit.

**Credit History:** Record of how a consumer has paid credit accounts in

the past, used as a guide to determine whether the consumer is likely to pay accounts on time in the future.

**Credit Limit:** The maximum amount of money which can be charged on a particular credit account.

**Credit Obligation:** A legal agreement between a creditor and an individual that requires the individual to repay a debt.

**Credit Repair Companies:** Individuals or companies that promise to “cleanup” or “erase” a consumer's bad credit and give him/her a fresh start. Also known as credit clinics.

**Credit Report:** A record or file history of an individual to a prospective lender or employer on the credit standing of a prospective borrower, used to help determine credit worthiness.

**Credit Reporting Agency:** A company which gathers, files, and sells information to creditors and/or employers to facilitate their decisions to extend credit or to hire.

**Credit Risk:** A determination by a potential creditor of a consumer's likelihood of repaying a debt as agreed.

**Credit Score:** A mathematical model used to assess a consumer's credit likelihood of default. The risk level is expressed in a three-digit number. A creditor gets your information from a credit-reporting agency and may order a credit score or apply its own credit scoring model to calculate a proprietary credit score.

**Creditor:** A business or person who extends credit or lends money to individuals or businesses.

**Credit Scoring System:** A statistical system used to determine whether or not to grant credit by assigning numerical scores to various characteristics related to creditworthiness.

**Credit Worthiness:** A creditor's measure of a consumer's past and future ability and willingness to repay debts.

## “D”

**Date Closed:** Point in time when an account or credit obligation is terminated.

**Date Opened:** Point in time when an account or credit obligation is established.

**Debit Card:** A form of plastic card used for purchases and purchases are deducted directly from the consumer's personal checking account.

**Debt:** An amount of money owed.

**Debt Collector:** A person whose job it is to collect money owed on debts.

**Debtor:** A person who owes money.

**Debt-to-Income Ratio:** Your income compared to the debt you owe.

**Deductible:** The portion of a loss that the insured party must pay before the insurer payment coverage begins.

**Default:** Failure to fulfill an agreed-upon financial obligation, such as not making a loan payment on time or not paying.

**Deferment:** Putting a loan on hold without payments becoming due. Usually this applies only to student loans.

**Delinquency:** Past-due payment on a loan that is reflected on a credit report and thus harming the overall credit score of an individual.

**Discount:** An amount deducted from the regular price for those who purchase with cash instead of credit.

**Discretionary Income:** The money you have left over when all expenses and other financial obligations are paid.

**Disposable Income:** Money left over after taxes are deducted.

**Dispute:** To request an investigation of the accuracy of information on a credit report.

**Debt-Management Plan (DMP):** A plan for repaying your debts accepted by creditors and administered by a credit-counseling agency.

## “E”

**Employee Identification Number (EIN):** This is a number used by the U.S. Internal Revenue Service to keep track of businesses that is sometimes used in the place of a social insurance number to apply for credit by employers or businesses. This number is also used on payroll accounts by employers.

**Equal Credit Opportunity Act (ECOA):** A federal law that requires lenders and other creditors to make credit equally available to everyone without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs, etc.

**Equifax:** One of the three major credit-reporting agencies headquartered in Atlanta, Georgia.

**Eviction:** A legal process through which a tenant is forced to move out of a rental unit by a landlord using legal remedies.

**Experian:** One of the three major credit-reporting agencies, formerly known as TRW.

## “F”

**Fair and Accurate Credit Transactions Act of 2003 (FACT Act):** A federal law that amended the federal Fair Credit Reporting Act in many areas. The law provided, among other things, additional protections for consumers in connection with the prevention and remediation of identity theft and the accuracy of credit reports. It includes your right to a free copy of your credit report from each of the three major credit reporting agencies every 12 months, which must be requested through the centralized source established under the FACT Act.

**Fair Credit Billing Act (FCBA):** A federal law that offers protection against billing errors (including limiting your liability for unauthorized purchases), and may help you to reverse the purchase of inferior goods or services charged to your credit card.

**Fair Credit Reporting Act (FCRA):** A federal law that protects your right to know what's in your credit report, sets up procedures to ensure that credit reporting agencies follow reasonable procedures to furnish correct information about you, and ensures only entities with permissible purpose have access to your file.

**Fair Debt Collection Practices Act (FDCPA):** A federal law that spells out what practices collection agents may and may not use to collect a debt.

**Federal Trade Commission:** A federal agency whose duty is to investigate unfair methods of competition in business, fraudulent advertising, etc., and to restrain or prosecute those charged with such practices. The Commission's primary purpose is to protect consumers.

**FICO:** Fair Issac Co – where CO stands for Corporation.

**FICO Score:** A three-digit number devised by Fair Isaac, Inc., to measure a consumer's level of credit risk and based on information in the consumer's credit report.

**Finance Charge:** Fees charged for borrowing money, often stated as a

percentage.

**Fixed Rate Mortgage:** A mortgage where the interest rate of the loan remains the same over the life of the loan.

**Fixed Rate:** A traditional approach to determining the finance charge payable on an extension of credit. A predetermined and certain rate of interest is applied to the principal.

**Forbearance:** Occurs when the lender allows you to postpone or make temporary reduction in your payments.

**Foreclosure:** Occurs when a person fails to make mortgage payments on a home and the bank takes the property and sells it, forcing the homeowner to move out.

**Fraud Alert:** A warning placed on a credit report by a consumer who believes he may have been the victim of identity theft; a fraud alert requires creditors to exercise caution when taking any action. Such an alert will prevent new credit accounts from being opened without the customer's express permission.

**Fraud Statement:** A notation placed on a credit report by a consumer that lets potential creditors know that the consumer may be a victim of identity theft or other credit fraud.

## “G”

**Garnishment:** Legal process whereby a creditor has obtained judgment on a debt and may obtain full or partial payment by seizure of a portion of a debtor's assets (wages, bank account, etc.).

**Grace Period:** This refers to the period of time allowed to avoid any finance charges by paying off the balance in full before the due date.

**Gross Monthly Income:** Your earnings before taxes are deducted.

**Graduated Payment:** Repayment terms calling for gradual increases in the payments on a closed-end obligation. A graduated payment loan usually involves negative amortization.

## “H”

**HSA (Health Saving Account):** A type of account you can open at a bank, but only if you have a HSA compatible health insurance policy. Your deposits into this account can be deducted off your income at tax time. The money in the account can be used for any legitimate health



care cost. If the money is used for any other purpose, a penalty and the back taxes will be due.

**Home-Equity Line of Credit:** A line of credit using your house as collateral. The amount of money available in the line of credit varies depending on how much you want to have available just in case you need it. You have a set period of time (called a *draw period*) when you can access the line of credit and a set period before which you have to pay it back.

**Home-Equity Loan:** A loan for a specified amount of money using your house as collateral. In a home-equity loan, you have an installment payment due every month usually at a set interest rate for a set amount of time.

**HMO (Health Maintenance Organization):** A form of health insurance combining a range of coverage's in a group basis. A group of doctors and other medical professionals offer care through the HMO for a flat monthly rate with no deductibles. However, only visits to professionals within the HMO network are covered by the policy. All visits, prescriptions and other care must be cleared by the HMO in order to be covered. A primary physician within the HMO handles referrals.

**HSA:** compatible health insurance plans (also known as High Deductible Health Plans or HDHPs) have high deductibles and can offer only preventative services (e.g., checkups and immunizations) before you meet the deductible.

- As of 2009, HSA compatible health insurance policies must have a minimum deductible of: \$1,150 for individual coverage, or \$2,300 for family coverage.
- Maximum HSA deposit limits as of 2009: \$3,000 for individuals and \$5,950 for a family.

## “I”

**Identity:** The unique traits and personal information that identifies a particular consumer, including social security number, date of birth, address, and employer.

**Identity Theft/Identity Fraud:** A crime that involves using another's name, social security number or other personal information to acquire credit, make purchases or commit a crime in the name of the other individual for financial gaming.

**Income:** Money earned from a job or interest on money that is saved or invested.

**Income-Based Payments:** Loan payments that are determined by income, which go up or down as your income fluctuates.

**Inquiry:** When your credit report is made available to another party, such as a lender, landlord or insurer.

**Installment Loan:** A credit account in which the amount of the payment and the number of payments are predetermined or fixed.

**Insurance Bureau Score:** An insurance rating based on data from the major credit bureaus that helps insurers evaluate new and renewal auto and homeowner's insurance policies.

**Interest:** The cost of borrowing or lending money, usually a percentage of the amount borrowed or loaned.

**Interest Rate:** The amount charged by a company for borrowing from a lender.

## “J”

**Joint Account:** An account that is equally owned by two individual people jointly.

**Judgment:** The official court decision of an action or suit. This becomes a public record and may be listed on a credit report in matters of money and debts owed.

**Judgment Proof:** Someone who has little or no assets, so that a judgment against him or her has little effect since there is nothing that can be done.

## “L”

**Late Fee:** A fee attached to a delinquent account.

**Lease:** A written document containing the conditions under which the possession and use of real and/or personal property are given by the owner to another for a stated period and for a stated consideration.

**Liability:** Legal responsibility to pay back debt.

**Lien:** A legal hold or claim of one person on the property of another as security for a debt or charge. The right given by law to satisfy debt (a lien must be paid and released).

**Line of Credit:** A specific amount of credit established by a lender that can be accessed by a consumer in whole or in part.



**Liquidation:** This term is in Chapter 7 bankruptcy latterly it means – to convert {assets} into cash.

#### “M”

**Manner of Payment (MOP):** Codes used on some credit-bureau reports that establish the payment patterns of the consumer — for example, “paid as agreed,” “30 days late,” and so on.

**Minimum Payment:** The lowest amount you can pay to keep an account current.

**Monthly Period Rate:** The annual percentage rate divided by twelve months.

**Mortgage:** A lien or claim against real property given by the buyer to the lender as security for money borrowed.

**1st Mortgage:** Also known as the “primary” mortgage has priority over the claims of subsequent lenders for the same property.

**2nd Mortgage:** Also known as the “secondary” mortgages on a loan secured by a mortgage or trust deed, in which the lien is “junior” to another mortgage or trust.

#### “N”

**Negative Amortization:** Repayment schedule calling for periodic payments that are insufficient to fully amortize the loan. Earned but unpaid interest is added to the principal, increasing the debt. Eventually, payments must be rescheduled to fully pay off the debt.

**Negotiation:** the process of resolving a dispute to a mutually acceptable solution on mutual terms and conditions.

#### “O”

**Open Account:** An account that is still being paid or used for the purposes of obtaining credit.

**Open-Ended Credit:** A line of credit that may be used repeatedly up to a certain limit, also called a charge account or revolving credit account, generally credit cards are the best examples of Open Ended Credit.

**Open-End Lease:** A lease that may involve a balloon payment based on the value of the property, when it is returned (also called finance lease).

**Overdraft Checking Account:** A checking account associated with a line of credit that allows a person to write checks for more than the actual balance available to use in the account with a finance charge on the

overdraft.

#### “P”

**Paid As Agreed:** A term used on credit reports indicating that the account in question is being paid according to the terms of the agreement to the creditor by debtor.

**Permissible Purposes:** As defined in section 604 of the Fair Credit Reporting Act, only the named reasons for requesting a credit report are deemed “permissible”. Requests not meeting these criteria must be denied.

**Personal Line of Credit:** The maximum amount one can owe at any time, based on income, debt and credit history.

**Personal Loan:** A loan based on a consumer's income, debt and credit history.

**Points:** Fees paid to a lender for a loan. They are often linked to the interest rate and are generally used to lower the interest rate of the loan. Usually these are finance charges paid by the borrower at the beginning of a loan in addition to monthly interest; each point equals one percent of the loan amount. Borrowers need to discuss that with the lender and ask calculation of Basis Points and don't hesitate to look into the benefits of buying any points.

**Postdated Check:** A check dated with a future date.

**Prioritizing:** Placing things in order of importance.

**Promotional Inquiry:** A request to view a consumer's credit report for the purposes of consideration for an unsolicited promotional credit offer. Promotional inquiries are recorded only on the consumer copy of the credit report and do not count in credit scoring.

**Principal:** The outstanding balance of a loan, exclusive of interest and other charges.

**Public Record:** Information obtained by the credit reporting agency from court records, such as liens, bankruptcy filings and judgments. Public records are open to any person who requests them.

#### “R”

**Renegotiable Rate:** A type of variable rate involving a renewable short-term “balloon” note. The interest rate on the loan is generally fixed during the term of the note, but when the balloon comes due, the lender

may refinance it at a higher rate. In order for the loan to be fully amortized, periodic refinancing may be necessary.

**Repossession:** Forced or voluntary surrender of merchandise as a result of the customer's failure to pay as promised. There are several types and descriptions of repossession actions.

**Retail Card:** A credit account that is issued by a retail company such as a department store or electronics store.

**Revolving Account:** An account, which requires at least a specified minimum payment each month plus a service charge on the balance. As the balance declines, the amount of the service charge or interest also declines.

**Revolving Balance:** The total amount of balance on all revolving credit card accounts.

**Revolving Credit:** An account that requires at least a specified minimum payment each month plus a service charge on the balance, which can fluctuate up to the credit limit. As the balance declines, the amount of the service charge or interest also declines.

## “S”

**Scoring Model:** Formulas used to determine the likely future credit behavior of prospective borrowers and existing customers. A scoring model calculates credit scores based on data such as the information included in a consumer's credit report.

**Secured Credit Card:** A credit card secured by a savings account that has been established in advance by the borrower. The amount in the account usually determines the limit on the credit card. These accounts present no real risk factor for creditors and are therefore much easier to obtain against the secured money in the account.

**Secured Loan:** A loan in which you borrow money or buy a certain item and give the creditor a security interest or collateral in an item, e.g., a car loan.

**Secured Property:** Items purchased or financed through a loan that gives the creditor a security interest in them.

**Security Interest:** The creditor's right to take property or a portion of property offered as security.

**Seller's Points:** A lump sum paid by the seller to the buyer's creditor to reduce the cost of the loan to the buyer. This payment is either required

by the creditor or volunteered by the seller, usually in a loan to buy real estate. Generally, one point equals one percent of the loan amount.

**Service Charge:** A component of some finance charges, such as the fee for triggering an overdraft checking account into use.

**Settlement:** An agreement that is reached between a debtor and a creditor that solves or eliminates the dispute.

**Smart Card:** An electronic prepaid cash card, usually sold at banks and exchanged at face value.

**State Banking Authority:** An agency that governs the banks and financial institution within a state.

**Statement:** The monthly bill from a credit card issuer that describes and summarizes the activity on an account. A statement includes the outstanding balance, purchases, payments, credits, finance charges and other transactions for the month.

**Statement Date:** The date on which a statement is generated, and the month's finance charges (interest) are added to the balance.

**Student Loan:** An unsecured loan that is usually offered through a bank or loan agency and backed by the government in order to pay for college. Student loans cannot be discharged in bankruptcy and often are a source and cause of credit problems.

**Surcharge:** An extra charge imposed on those who purchase with a credit card instead of cash (currently, surcharges for credit card purchases are prohibited).

## “T”

**Tax Lien:** A charge upon real or personal property for the satisfaction of debts related to taxes.

**Term:** The amount of time in which a loan must be repaid in full.

**Trade Line:** A credit-industry term for an account listed on a credit report including bank loans, credit cards, mortgages, or any number of other credit accounts.

**TransUnion:** One of the three major Credit Reporting Agencies.

## “U”

**Universal Default:** A clause contained in many credit agreements allowing a current account that is paid as agreed to be converted to default status based on the default of another account or signs that the

consumer is overextending and/or presenting a higher risk profile, as evidenced by information contained in the credit report.

**Unsecured Credit:** A loan or line of credit that is backed only by a promise to pay.

**Unsecured Loan:** A loan in which the creditor does not hold a security interest in an item you own. Most credit cards are unsecured.

**Upside Down Loan** - Using a loan to pay much more for something than it is actually worth just so you can have it.

**User Accounts:** A credit card account set up in one person's name that has a card issued to another person so that he or she may charge against the account. The person who holds the account is ultimately responsible for payments.

#### “V”

**Variable Rate:** A variable rate agreement, as distinguished from a fixed rate agreement, calls for an interest rate that may fluctuate over the life of the loan. The rate is often tied to an index that reflects changes in market rates of interest. A fluctuation in the rate causes changes in either the payments or the length of the loan term. Limits are often placed on the degree to which the interest rate or the payments can vary.

#### “W”

**Wage-Earner Bankruptcy:** Chapter 13 bankruptcy, available for wage earners.

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