



YOUR CREDIT WORTHINESS: WHAT MAKES YOU A GOOD CREDIT RISK

Governor Kempthorne has declared April as Financial Literacy Month. As part of an ongoing effort to promote financial literacy in Idaho – the Department of Finance offers Idahoans these valuable tips on a consumer's credit worthiness, credit reports, and scores.

One of the most important facts for a consumer to understand is the means by which he or she is evaluated by a potential lender, landlord, insurance agent, or employer. When consumers better understand the methods used to measure their credit worthiness, they will have the capacity to improve their scores and credit reports, thus obtaining better and lower cost products.

EVALUATING YOUR CREDIT WORTHINESS

There are standard tools used by industry for evaluation of a consumer's credit worthiness. These tools include a consumer's credit report, credit score, and their measure of credit worthiness. The Fair Issac Corporation (FICO) has calculated credit scores in the United States and Canada for about 50 years using their own FICO software. FICO reports that a "consumer's credit score is calculated by a mathematical equation that evaluates many types of information from your credit report at that agency." Consumers should realize that, not only does industry benefit from quick and inexpensive credit information, but consumers do as well. Models used for credit scoring help make applicant evaluation objective and less discriminatory as credit scores do not consider your race, marital status, or gender.

On March 14, 2006, the three main credit-reporting agencies, Transunion, Experian and Equifax, unveiled a "new" scoring system called 'VantageScore'. These credit reporting agencies believe that the new system will make it easier for the industry to check on a consumer's financial health. The new scores range from 990 to 501 and are based on an academic grade: A=901-990 B=801-900 and so on with the lowest score at 501-600, an F. Consumers should be aware of these two different methods of credit score calculation -- but bottom line, a good credit score is obtained by paying bills on time.

The Federal Reserve Board reports "information gathered by the consumer reporting agencies is obtained from banks, savings associations, credit unions, finance companies, retailers, other creditors, and collection agencies, as well as from public records." Consumers should be aware that although a credit score helps a lender in deciding a borrower's credit worthiness, industries also incorporate their own 'tool of evaluation' when deciding whether the borrower is a good credit risk.

When analyzing credit information – credit reports and scores - on potential applicants, industries may also use variations of the standard measure called the "five C's of credit". These include: character, capacity, capital, conditions, and collateral. A borrower's character relates to responsibility and fulfillment of obligations, capacity relates to his/her borrowing history and track record of repayment on loans, capital refers to a borrower's personal resources available to him/her, conditions reflects on a borrower's current economic state, and collateral is the borrower's alternative source of repayment. While some of these measures are similar in meaning, each of these areas are not used equally, but based on the circumstances at hand and that industry's own strategy of calculation.

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WHAT PROTECTS CONSUMERS' PRIVACY?

FAIR CREDIT REPORTING ACT OF 1970

*Federal Reserve Board (FRB) report

Congress adopted the Fair Credit Reporting Act (FCRA) in 1970 to regulate credit-reporting systems in the United States, and passed significant amendments in 1996. The primary purposes of the FCRA are to ensure fair and accurate credit reporting and to protect consumers' privacy. Among other things, the FCRA imposes certain obligations on consumer reporting agencies, on users of consumer reports, and, since 1996, on furnishers of information. The Federal Trade Commission regulates the three main credit-reporting agencies.

TIPS TO IMPROVE YOUR CREDIT

Consumer education and financial literacy are the most powerful tools with which to enable consumers to better understand the credit reporting system that affects their daily lives. By understanding what factors affect their credit score and determines their credit worthiness, consumer have the means to make better credit choices, manage their credit wisely, and in the end - obtain better and lower cost products. The FRB reported in 2003 that "each of the consumer reporting agencies receives more than 2 billion items of information per month and issues roughly 2 million credit reports each day." This massive amount of information sharing requires that consumers police their credit reports to make certain these reports are accurate.

Below are tips that will help consumers improve their credit:

- Find out your credit rating and obtain, once a year, your free credit report. Go online at annualcreditreport.com or call 1-877-322-8228.
- If you see errors on your credit report – alert the credit reporting bureaus "in writing". The Federal Trade Commission publishes a brochure entitled "How To Dispute A Credit Report" and other excellent information for consumers on its website www.ftc.gov.
- Pay your bills on time.
- If you experience financial difficulty, consult a "reputable" non-profit debt/credit counselor, before your bills become delinquent. (A listing of licensed credit/debt counselors can be found on the Department of Finance's website.)

For more information on credit reports and scores call the Department or visit the Idaho Department of Finance's website. Callers may contact the Idaho Department of Finance at 208-332-8002 or toll-free in Idaho 888-346-3378. The Department's website at finance.idaho.gov provides a listing of debt/credit counselors, as well as valuable links to the Federal Trade Commission's website which contains information on choosing credit, credit reporting, how to dispute a credit reporting error, identity theft, and more.