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## FINANCIAL LITERACY TIP OF THE WEEK

FOR IMMEDIATE RELEASE

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### **APRIL IS FINANCIAL LITERACY MONTH**

#### **YOUR CREDIT WORTHINESS WHAT MAKES YOU A GOOD CREDIT RISK**

Boise, Idaho .... Governor Otter 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 valuable tips on consumer credit worthiness, credit reports, and credit scores.

One of the most important tips for a consumer to understand is how you are evaluated by a potential lender, landlord, insurance agent, or employer. When you understand the methods used to measure your credit worthiness, you are better equipped to improve your scores and credit reports, thus obtaining better and lower-cost financial products.

#### **EVALUATING YOUR CREDIT WORTHINESS**

Standard tools used by industry to evaluate credit worthiness include consumers' credit reports and credit scores. There are several companies that issue credit reports and scores. Fair Issac Corporation (FICO), a company that began calculating credit scores in the United States and Canada in the 1960s, explains that a consumer's credit score is calculated using a mathematical equation that evaluates many types of information from the consumer's credit report. Consumers should realize that not only does industry benefit from quick and inexpensive credit information, but consumers do as well.

Additionally, to calculate credit worthiness, lenders look at information such as the amount of debt a borrower can reasonably handle given their income, a borrower's employment and credit history. Based on the lender's determination of this information, as well as *their specific underwriting policies*, lenders may extend credit to a consumer even though the consumer's credit score is low, or decline a request for an extension of credit even though the consumer's credit score is high.

The types of businesses that have traditionally accessed a person's credit information have expanded over the years beyond banks, credit card companies, lenders, landlords, etc. Entities such as utility companies, cell phone providers, insurers, cable companies and internet service providers also commonly access credit reports for permissible business purposes. Companies use credit reporting and scoring information, along with other factors, to help decide if a consumer is a good risk and at what price the consumer may be offered services.

When analyzing an individual's credit information, industries also may use variations of the standard measure called the "five C's of credit," which are: "character," "capacity," "capital," "condition," and "collateral." A borrower's "character" relates to responsibility and fulfillment of obligations, "capacity" relates to his/her borrowing history and track record of payment on loans, "capital" refers to a borrower's available personal resources, "condition" reflects on a borrower's current economic status, and "collateral" is the borrower's alternative source of payment.

While some of these terms have similar meanings, they are not applied equally. Rather, they are generally applied to determine credit worthiness based on circumstances and a creditor's strategy of calculation.

## **WHAT PROTECTS THE CONSUMER'S CREDIT REPORT INFORMATION?**

**The federal Fair Credit Reporting Act (FCRA)** is designed to help ensure that credit bureaus not only furnish correct and complete information to businesses to use when evaluating credit worthiness, but it also regulates how credit reporting agencies use credit information.

The **Consumer Financial Protection Bureau (CFPB)** is the first federal agency responsible for supervising consumer reporting agencies as well as businesses that provide consumer reporting agencies with consumers' personal credit information, such as large financial institutions and creditors. The CFPB reports that **Equifax, Experian, and TransUnion** each have more than 200 million files on consumers. In a typical month, these major consumer reporting agencies receive updates from approximately 10,000 information "furnishers" (the entities that supply data on consumers). This massive amount of information sharing requires that consumers police their credit reports to make certain they are accurate.

## **TIPS TO MANAGE YOUR CREDIT**

Financial education is the most powerful tool with which to enable consumers to better understand the credit reporting system that affects their daily lives. By understanding what affects their credit scores and credit worthiness, consumers can make better credit choices, manage their credit wisely, and obtain better and lower cost products. Reports by the CFPB indicate that fewer than one in five people obtain copies of their credit reports each year.

Below are tips that will help consumers improve their credit reports and scores:

- Review your credit report once a year *free* from each of the three credit reporting agencies. Go online at [annualcreditreport.com](http://annualcreditreport.com) or call **1-877-322-8228**.

**BEWARE:** Annualcreditreport.com and the nationwide credit reporting companies will not send you an email asking for your personal information. If you get an email, see a pop-up ad, or get a phone call from someone claiming to be from annualcreditreport.com or any of the three nationwide credit reporting companies, do not reply or click on any link in the message.

- If you see errors on your credit report – file a dispute with the credit reporting bureaus either online at each of the bureau's websites or in writing. The Federal Trade Commission publishes a brochure entitled **"Disputing Errors on Credit Reports"** available at <http://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>
- Pay your bills on time
- If you experience financial difficulty, consult a licensed debt/credit counselor, before your bills become delinquent. Warning! Do not fall victim to fraudulent advance fee credit repair companies who 'guarantee' an improved credit score. Check to make certain the company is licensed; a listing of licensed credit/debt counselors can be found on the Department of Finance's website.

**REMEMBER:** Check your credit report *at least* two months before buying a big ticket item. Credit reporting errors take time to dispute.

- Consumers usually must purchase their credit scores. However, under federal law, consumers may have the right to a copy of their credit score under certain circumstances if they were denied credit.

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*Department of Finance Press Releases and other information can be found on the Department's website at <http://finance.idaho.gov> and may also be obtained by contacting the Department at (208) 332-8000, or toll-free in Idaho at 1-888-346-3378.*