

WHAT YOU CAN DO TO CORRECT COSTLY INACCURATE CREDIT REPORTS

Is wrong credit information robbing you?

Credit reports reflecting your credit history are wrong more often than you may realize, and those inaccuracies could cost you higher mortgage payments, denial of credit, higher insurance rates or denial of coverage, and even denial of a job. But you can correct and minimize these mistakes, and potentially save yourself a lot of money, say CERTIFIED FINANCIAL PLANNER™ professionals.

Credit reports are compiled by three credit bureaus. The reports include information from your lenders such as the type of account (credit card, mortgage, and so on), the credit limit or loan amount, the current account balance, and your payment history (such as timeliness). The reports also reveal bankruptcies, foreclosures, lawsuits, wage attachments, and liens and judgments. This information makes up your credit history.

Potential lenders are not the only ones examining these reports. Increasingly, insurance companies are using them to determine whether to insure a consumer or to insure at higher premiums. Your credit history also can influence whether you get a job. The Society for Human Resource Management found that 35 percent of employers pulled credit reports on current or potential employees.

How often do credit reports contain errors? Often enough, according to studies over the years. A recent study by the U.S. Public Interest Research Group, for example, found that four out of every five credit reports contained errors, and one in four “contained errors serious enough to result in the denial of credit.” Errors included credit accounts that had been closed but listed as open (30 percent) and inaccurate personal information including data actually belonging to strangers (54 percent).

Beyond the inaccurate reports themselves, consumers are being tagged with inaccurate credit scores. You have three credit scores, each based on the information provided by that particular credit bureau. The score, called a FICO score after the company that calculates the scores, is determined by such factors as payment history, amounts you owe, and types of credit used. The scores range from 300 to 850, with the higher the better.

But a 2002 study by the Consumer Federation of America and the National Credit Reporting Association found that scores for the same person varied among the three bureaus by 50 points or more nearly one-third of the time. In four percent of the cases, scores varied 100 points or more (lenders often check with only a single credit bureau).

Variations were due in part to inaccurate or incomplete information provided by lenders, or errors by the bureaus.

What does this inaccurate information mean to you in dollars and cents? In an example from FairIssac, which calculates the scores, someone borrowing \$150,000 on a 30-year fixed-rate mortgage might pay an interest rate of 5.95 percent for a top score of 720–850. But a score of 620–674 raises the rate to 7.77 percent, and a score of 500–559 will cost you 9.29 percent.

Of course, most of that score is based on your true credit history. If you've got a bad credit history due to bankruptcy or late payments, there's not much to do about it except try to establish a better credit history. On the other hand, errors can lower your score and make you less appealing to lenders, insurance companies, and employers. Fortunately, you can take actions to correct these errors and keep the information correct.

- Get reports from all three credit bureaus before applying for any major credit, such as a mortgage or car loan, and get new reports annually. The three bureaus are: Equifax (800/685-111), Experian (888/397-3742), and TransUnion (800/888-4213). Some states require the bureaus to give an initial report free.
- Review *all three* reports for everything from inaccurate personal information (different spellings of your name, wrong Social Security number, and so on) to wrong account information, including accounts that aren't yours.
- Report errors to agencies and lenders immediately.
- If a lender tells you that you have bad credit, ask for details.
- Use your full legal name when applying for credit. Using different names (Robert one time, Bob another, no middle initial another) creates confusion and errors.

You can further minimize the potential for problems by managing your money wisely, from using a spending (budget) plan and paying bills on time, to paying off credit cards every month or keeping balances low.

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