



ParentPapers: Protecting Your Credit Rating

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<http://www.secureparents.com>

Welcome to SecureParents, a free website dedicated to you, the busy parent. We are dedicated to helping you at no cost secure you and your family in today's information age. We understand the tremendous pressures and time limits that parents have. Our resources are designed by experts to be simple yet provide the critical information you need. ParentPapers are a series of papers designed by us to give you this information in less than 15 minutes.

PAPER TOPIC:

In this paper we discuss how to understand and protect one of your most important, and yet least understood assets, your credit rating.

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Your Credit Rating

Your credit rating, also known as your credit score, is a number between 300 to 850 that quantifies the financial risk a business takes when doing a transaction or loan with you. It is a number representing your credit risk. See Figure 1 below for an example of a credit score.

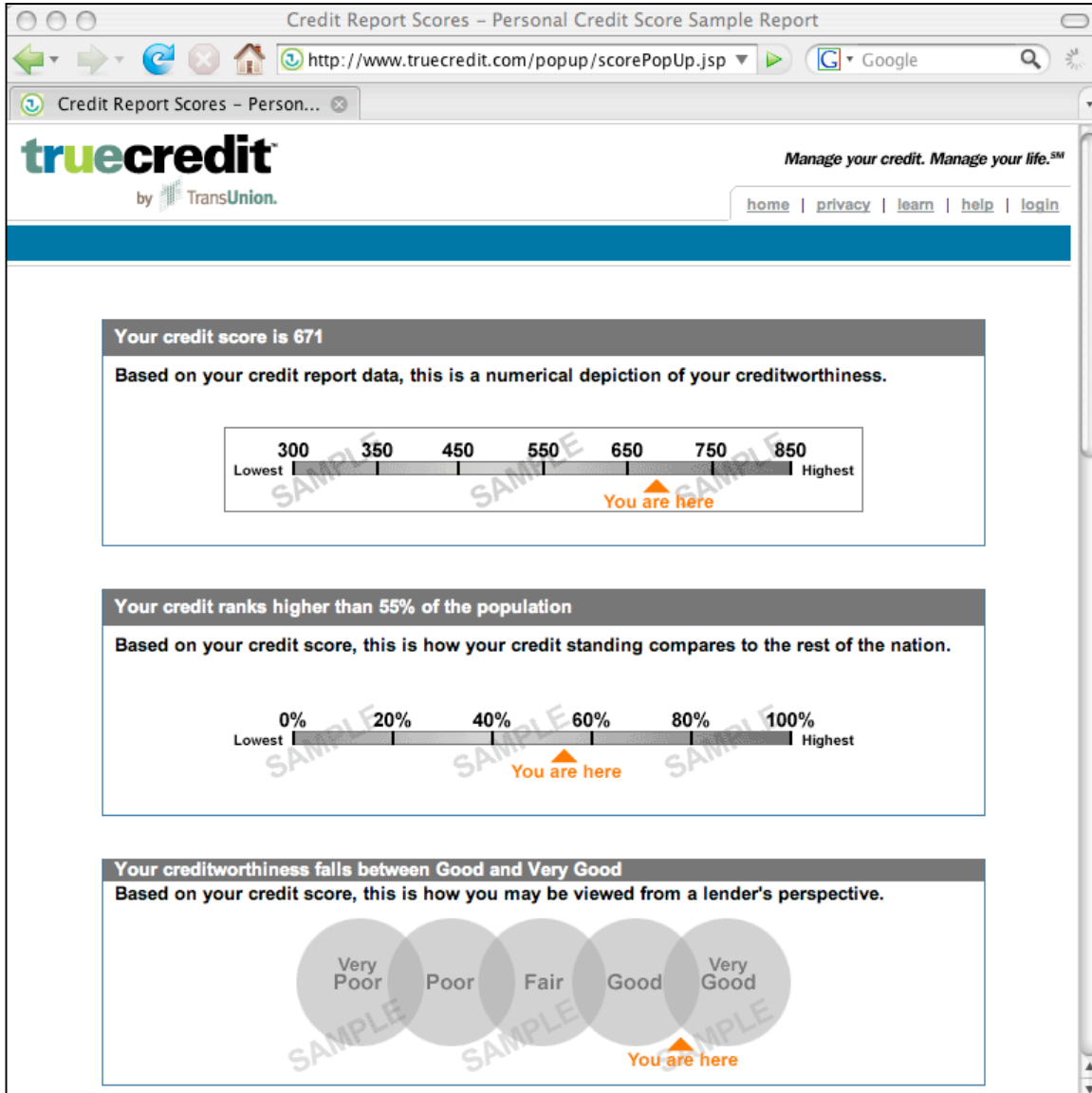


Figure 1: Example of a credit score from the Truecredit website (a subsidiary of TransUnion). <http://www.truecredit.com/popup/scorePopUp.jsp>. This page also has additional information on credit scores.

Maintaining a high credit score (meaning you are financially stable and a low risk) is critical to you and your family. Many of today's activities are based on your credit score. For example, let's say you want to get a home equity loan to refinish your kitchen, refinance your mortgage or buy a new car. One of the first things the merchant or bank will do is check your credit score. If you have a relatively high credit score, say over 700, then the merchant will consider you a relatively low risk and as a result you will most likely get a much better loan at a smaller interest rate. However, if your credit score is bad, say 400, then the merchant will consider you a high risk. You will most likely get loans with very high interest rates, or even worse you may not get the loan at all.

In today's information age your credit rating is becoming even more important as it may be used in background checks, employment reviews, or other events. Having as high credit score as possible is very important to the financial health of you and your family. A key thing to remember is a credit score is assigned to an individual, not a family. So even though you and your spouse may share bank accounts, credit cards, or your names may both be on a loan, each of you has a separate and unique credit score number, just as you each have a unique identity. Also, these scores are relative. While one organization may think a score of 650 is a high score, a more risk adverse organization may consider that a low score.

Determining Your Credit Score

So, how is your credit score determined and who determines it? In the United States there are three nationwide consumer credit reporting companies (also known as credit bureau's) responsible for your credit rating; Equifax, Experian, and TransUnion. These three companies collect extensive amounts of information about you, such as when you open bank accounts, credit card payments, take loans, or miss payments on your electric bill. These organizations are defined by and must follow the rules laid down by the government, including the Fair Credit Reporting Act (FCRA, 15 U.S.C. 1681 et seq.) and Fair Debt Collection Practices Act (or FDCPA). These companies then take your information, run it through a variety of advanced algorithms and determine your credit score. The most common statistical models are based on the work from the Fair Isaac Corporation. These are the folks that developed the FICO score. That is why sometimes your credit score may be called a FICO number, this is the most common scoring method used by most lenders. There are other scoring models being developed by the credit agencies, such as VantageScore that use different models and different scales (VantageScore is from 500-990). These models are potentially easier to read and understand, but at this time are not as widely used.

Each of the three companies may have slightly different information on you, so each one will have a slightly different credit score. However, they will most likely all be very close in range (perhaps within 20 points). It's important to realize there are three organizations that maintain your credit score. When you are dealing with a merchant, bank, employer or any other organization that checks your credit score, they will most likely only check with one of the three credit agencies. So, when protecting your credit score it's best to monitor all three credit agencies.

There are many ways you can raise and lower your credit score. Methods of increasing your credit rating including paying all your bills off on time, keeping credit card and bank accounts open over a long period of time and 'living within your means'. Ways to decrease your credit rating include not paying your bills on time, opening many new

credit card accounts, and taking loans way above your means. Keep in mind, you cannot debate nor argue to have your credit score changed. Your credit score is nothing more than a number generated based on the information the credit agencies have on you, called a credit report. What you can argue or debate with the organizations is the accuracy of that information. For more on what actions you take that impact your credit score, refer to

http://www.experian.com/consumer/credit_score_faqs.html

Your Credit Report

A credit report, also called a credit file disclosure, is a document that contains all the information we discussed earlier the consumer credit agency has collected on you. It is this information that is used to determine your credit score. If there is any incorrect information in the credit report, those mistakes could negatively impact your credit score. The federal government, under the Fair and Accurate Credit Transaction Act of 2003 (FACTA), has mandated that every individual can get a free copy of their credit report. Once a year you are entitled to a free copy of your credit report from each of the three consumer credit agencies. You can if you so choose get all three at once, or throughout the year. You can request your free credit report by visiting

<http://www.annualcreditreport.com>.

This website is maintained by all three credit agencies. From there you can apply for your report online, mail in a form, or call over the phone. If you are applying online for your free credit report, be absolutely sure the computer you are doing it from is secure as you will be typing in very personal information. For more on securing your home computer, see our ParentsPaper [Ten Steps to Securing Your Home Computers](#). If you have any concerns about the security of the computer you are using, apply for your free credit report through the mail or by phone. Do not go to a website you find by searching for words like “free credit reports,” or “free credit scores”, these could be bogus websites setup by criminals. Currently there is no method to get your credit score for free, for that you will have to pay the credit agencies. For more information on credit reports, check out

http://www.experian.com/consumer/credit_report_faqs.html

Threats to Your Credit Rating

To protect our credit rating we have to first understand what is threat, who can damage our credit rating. In general there are two threats, identity theft and yourself. Lets cover each of these two briefly.

First, identity theft. The problem everyone faces today is we are not in control of our own information. Retail stores, hospitals, your phone company, restaurants, credit card companies, even your local library have information stored about you. If they are compromised, so to is your information. When your information is compromised, it can be used for such things as opening new credit cards, applying for loans, opening phone accounts, or even buying a home, all in your name. Anything where criminals can benefit but you pay the price. When this happens, and if you don't catch the fraud in time, your credit rating will take a hit. To learn more about identity theft and how to protect against it, read our ParentsPaper [Protecting Your Identity](#).

The second threat to your credit rating is yourself. We are all human, and humans make mistakes, we have to protect against that. For example, you forget to send in the check to your credit card company resulting in a missed a payment. You change mailing addresses but you forget to tell the telephone company, who is sending your bills to the wrong address. You sign up for online payments with your utility company, only to learn six months later the bills were never paid due to a technical glitch. The hospital reported you as overdue for payments even though they incorrectly billed you. There are so many variables in life today, you have to be prepared for them all.

Protection Through Monitoring

The best way to protect your credit rating is to monitor your credit score and credit report. By quickly finding any indications of identity theft or mistakes, such as new credit cards on your credit report or a new loan you did not make, you can quickly react to any incidents or mistakes.

Each of the three credit bureaus offer monitoring services for your credit reports and scores. These reports and services vary from getting just one copy of your credit report or your credit score to continuous monitoring of both. It ultimately comes down to how much you want to pay, with the cheapest monitoring services costing about \$5 a month, the more expensive costing up to \$30 a month (per person). Some services have family packages. Monitoring has two main advantages. First, you normally get unlimited access to either your credit report or score or both (it depends on the service you pay for). Second, most monitoring services also have an alert function, they send you an email alert if an event has happened. An example would be a new credit card application, a credit inquiry, or some other event defined by you. The advantage here is you don't have to be constantly reviewing your credit reports or credit scores. Instead, you get an alert whenever something happens that you need to know about.

At SecureParents we signed up for three such services to get a better understanding of our options. Each of the three credit agencies has their own services, and there are several 3rd party options also. Most of the services involve monitoring only your credit report, not your credit score. If possible, we recommend both. Unfortunately, we found in most cases the monitoring services initially confusing, it could be difficult to determine which service did what. There are many options to choose from, such as receiving a single credit report or score, or monthly monitoring of just a credit report or both reports and scores. Also, we found it can be difficult to ask questions about a service as there was no phone number to call or a human to talk to or ask questions. Most of the services simply require you to register online. Be very careful when doing this, be sure you are signing up online with a legitimate site! Criminals are creating bogus sites to harvest people's information. We list the legitimate websites at the end of this paper. Also, be absolutely sure the computer you are doing it from is secure as you will be viewing extremely personal information. For more on securing your home computer, see our ParentsPaper [Ten Steps to Securing Your Home Computers](#).

However, once you are signed up we found the reports to be helpful and easy to understand. Each service should have its own documentation explaining what the reports mean. In addition, we found the members phone service to helpful. Based on our research we highly recommend you find a monitoring services that covers both your credit score and your credit report for all three credit agencies, allows unlimited access

to these, and has robust alerting features.

Responding to an Incident

So, you are monitoring your credit report or credit score, what do you do when there has been an incident? What do you do if all of the sudden credit cards have been added to your credit report but you never applied for a new credit card? If you have a monitoring service, one of the first steps may be to call your monitoring company to determine exactly what is going on. Most monitoring services have a hotline for you to call. Sometimes what you thought was an incident was nothing more than your spouse applying for a credit card but you did not know it, or a loan application you forgot about. However, if after verifying the incident you feel you are the victim of identity theft, refer to our identity theft paper for more information on responding, ParentPapers [Protecting Your Identity](#).

To protect your credit rating, you most likely will want to place a fraud alert. A fraud alert notifies all three credit agencies that you believe you may be an identity theft victim. Whenever a merchant or organization does a credit inquiry on your credit score, the credit agency notifies the inquirer that you have a fraud alert. This forces them to contact you before giving credit in your name. For example, lets say you have a credit fraud alert and you apply for a home equity loan from you bank. Normally your bank would simply do a credit check, find out what your score is, and determine your home equity loan based on the information. However, if you have a fraud alert on your credit score the bank will have to take additional steps. For example, they most likely will contact you at a later time (such as the next day over the phone) confirming that it was you who wanted the home equity loan and if they can proceed with the credit check. In addition, a fraud alert can make it easier in the future to clear up any credit rating issues that are the result of identity theft.

There are two types of fraud alerts, *initial fraud alert* and *extended fraud alert*. An initial fraud alert is very simple to apply for, you simply call one of the three credit agencies and ask to apply the alert. However, the initial fraud alert only applies for 90 days. The extended fraud alert is when you have a more serious situation and have actually applied for an Identity Theft Report with law enforcement. An extended fraud alert last for seven years. You can learn more about fraud alerts and how to apply for one at

<https://www.annualcreditreport.com/cra/helpfaq#fraudalert>

Summary

Protecting your credit rating is a difficult challenge. First, you are not in control of most of your information, making you a target for identity theft. Second, as a human its easy for you and others to make mistakes. To protect yourself, one of the key steps you can take is to monitor your credit activities and if you see something suspicious to respond immediately.

Websites

In this paper we mentioned several websites to protect your credit rating. Here you can find them all listed. Whenever you are in doubt about the validity of a website, start first with the FTC's website which ends in '.gov'.

Federal Trade Commission	http://www.ftc.gov/bcp/edu/microsites/idtheft/
AnnualCreditReport	http://www.annualcreditreport.com
Experian (credit agency)	http://www.experian.com
TransUnion (credit agency)	http://www.transunion.com
Equifax (credit agency)	http://www.equifax.com
Fair Isaac Corporation / FICO	http://www.myfico.com
VantageScore	http://www.vantagescore.experian.com/
ParentPapers:	
Protecting Your Identity	www.secureparents.com/papers
Ten Steps to Securing Your Home Computers	www.secureparents.com/papers

About Us

Concerned about protecting your online finances and your credit rating? Wondering who is collecting information on your children? Confused on how to best secure your computers at home? SecureParents is designed for you - the busy, working parent. It's your one stop for all the steps you need to take to secure yourself and your family in today's rapidly changing information age. The website is free, supported by and for parents. If you have any comments or suggestions about this paper, our website, or you have a story you would like to share with us we would love to hear from you! Please send all feedback or questions to info@secureparents.com.