

Get Ready Series #3

Understanding your credit report

If you're getting ready to buy a home – and even if you're not – the importance of good credit can't be stressed enough. Lenders review your credit history to determine your creditworthiness, or your ability and willingness to repay debt. They will carefully examine your past behavior to determine whether lending money to you is a good risk.

What is a credit report?

If you've ever applied for a credit card, car loan, home loan or even for insurance, you have a credit report. Lenders are interested in what your report says about your ability to manage your finances over time. This information is purchased by creditors, employers, landlords and insurers to evaluate and predict how likely you are to repay your debts and make payments on time.

Who creates a credit report?

Credit reporting agencies, or credit bureaus, are for-profit companies that gather information from creditors and public records and then consolidate it into a credit report. The 3 major agencies that dominate the industry are Experian, Equifax and TransUnion.

Your credit report simply provides information; it's up to each creditor to determine whether you're a good or bad credit risk. Creditors analyze information differently when deciding whether to extend you credit.

What's on a credit report?

Each credit reporting agency uses a different format and design for its credit report, but the information is basically the same and organized into 4 sections:

Identifying information

Includes your name, nicknames, current and previous addresses, Social Security number, year of birth, current and previous employers, and your spouse's name (if applicable). This information is used to verify your identity and make sure the information you've reported is correct.

Public record information

Includes state and county court records related to bankruptcies, tax liens or monetary judgments. In some states, credit reports list overdue child support payments.

Credit information

Includes credit accounts you have with banks, retailers, credit card issuers and other lenders. For each account, your credit report will list the type of loan (revolving credit, student loan, mortgage, etc.), the date you opened the account, your credit limit or loan amount, the account balance, and your payment pattern over the past 2 years.

Trended credit data may be included. It reflects whether you tend to pay off revolving credit lines (like credit cards) each month or carry a balance from month to month while making minimum payments.

The report also shows whether anyone else (spouse or co-signer) is responsible for paying the account. Closed or inactive accounts may be included as well.

Inquiries

Lists everyone who has accessed your credit report within the last 2 years. There are 2 types of inquiries:

Soft inquiries include your own requests for credit along with requests from potential employers or existing creditors and lenders who want to offer you a pre-approved credit card. Soft inquiries do not affect your credit score.

Hard inquiries occur when you actively apply for credit from a lender or a service provider (like a cable or phone company) that wants to know your track record of paying bills on time. Hard inquiries can impact your credit score.

What ISN'T on a credit report?

The report includes NO information pertaining to race, religious preference, medical history, personal lifestyle, personal background, political preference, or your checking or savings account balances.

How long does negative information remain on a credit report?

Missed payments and public record items remain on the credit report for 7 years, while bankruptcies remain for 10 years. The more recent the negative item, the more impact it may have on your credit score. For example, a collection that's 6 weeks old will have a greater impact than one that's 6 years old.

What's the difference between a credit report and a credit score?

Information on your credit report goes into a mathematical algorithm that then assigns you a 3-digit number known as a credit score. Your credit score helps lenders evaluate your credit at a glance. Credit scores don't show up on credit reports; it's just a tool lenders use to evaluate your credit risk.

What lenders look for on your credit report

When evaluating your credit report, lenders typically look at the last 24 months of your payment history on revolving accounts (like MasterCard® or VISA); installment loans (student, auto or home equity loans); and housing payments (rent or current mortgage payments).

In general, an acceptable 12-month payment history includes:

- Revolving credit – No payments 60 or more days late; 2 or fewer payments 30 days late
- Installment credit – No payments 60 or more days late; 1 or fewer payments 30 days late
- Housing – No late payments

Healthy credit report habits

Check your credit reports annually. Your credit reports change often, so it's important to review them on a regular basis. You're entitled to free copies of your credit reports once a year. Order them at AnnualCreditReport.com, then:

- Verify personal information is correct on all 3 reports
- Thoroughly compare account types, status, dates and limits
- Check inquiries listed to see who's requested your credit history

Correct mistakes if you find them. There are 2 ways to address errors:

- Contact the credit provider (their contact information should be on the report). Explain the error. If the creditor agrees an error has occurred, the credit provider must report and correct the error to the credit reporting agency.
- Fill out an online dispute form on each of the credit reporting agencies' websites: experian.com, transunion.com and equifax.com. After you complete the form, the agency investigates your claim and contacts the creditor. If the creditor agrees an error has occurred, the credit reporting agency will fix the report. By law, the credit reporting agency has 30 days to investigate and reply to your letter.

Review your credit report at the beginning of the homebuying process. You'll know whether there are areas you need to question, improve or update. You'll know your lender is getting the most current information and you'll be prepared to answer questions about items on your report.

Talk to a lender

If you're interested in buying a home and want to know how your credit will affect your ability to get a mortgage, a lender can help you understand your individual situation.



Find helpful tools, information and stories about the homebuying process, including more on credit, at readynest.com by MGIC.