

CREDIT




What You Should Know About...

# Credit History

- ▶ CREDIT REPORTS
- ▶ CREDIT SCORES
- ▶ BUILDING A STRONG CREDIT REPORT



YourMoneyCounts™



Understanding what your credit history is—what’s in it, what’s not in it and how you can improve your credit profile—can help you reach your financial goals. If you’ve ever been turned down for credit, you’re probably all too familiar with the power that your credit history has over your ability to borrow. But even if you’ve never had a credit problem, the more you know about what your credit report is, how your credit score is calculated, and who uses your credit reports and scores (it isn’t just lenders anymore) can only help you make more informed financial decisions.

It might seem strange—and even a little disturbing—to know that the way you’ve used credit in the past is tracked in careful detail. And you might feel that you have no control over what potential creditors think about your creditworthiness. But nothing could be further from the truth. Your decisions and your actions determine your credit profile—and you can always take steps to make that profile stronger.

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# Your credit history

You're probably clear about why it's smart to use credit wisely in the short run: It keeps your spending in check. But the long-term benefits of careful credit use include an increased ability to borrow at a reasonable cost—which can help you achieve more of your financial goals.

Using credit responsibly helps improve your **credit history**, or the record of how you use the credit you have. Since granting credit is based on trust—specifically a lender's belief that you will pay back the money you borrow—lenders take some risk when they offer you a credit card, a loan or a mortgage. To reduce risk, lenders analyze your past borrowing behavior using a **credit report**, or document that outlines your credit history, and is the basis of your credit score.

### What's in a credit report?

Your credit report contains personal information like your address and employer, a record of your recent requests for credit, and any public records such as



### A better credit history

The information contained in your credit report isn't permanent. It contains information about the past seven years—although **Chapter 7 bankruptcies** stay for up to 10 years—and is continually updated. Even if you've used credit poorly in the past, changing your habits now means that lenders may view you more positively in the future.

## CREDIT HISTORY

bankruptcy or tax liens. It also contains information about every credit account you've opened, the credit limit for a revolving line of credit or total amount of a loan, whether you made monthly payments on time, and whether any portion of what you borrowed wasn't paid back.

Late payments or high outstanding balances relative to your total credit limits are warning signs that you might not be the best credit risk to a lender or other companies that review credit reports. That means you may be denied new credit, or have to pay a higher interest rate for what you borrow, to offset the added risk.

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## Reading a credit report

Whenever you apply for new credit, whether it's a credit card, a loan or the lease agreement that lets you rent an apartment, the potential creditor can check your credit report. But what they see isn't a secret. You can request a copy of your credit report too.

### **The FACT Act**

A new law allows you to receive your credit reports for free every year. The FACT Act allows you to request a free copy of your credit report from each of the three nationwide credit reporting agencies, or CRAs—Equifax, Experian and TransUnion—each year. You can obtain all three reports at once, or you can spread them out over the year. Since the same information

tends to show up on all three, staggering your requests means you may be in a better position to quickly identify any potential issues, such as unauthorized activity, incorrect personal information, or incorrect balances, and begin to resolve them.

### **What the report says**

Each credit report begins with your name, current and previous addresses, Social Security number, year of birth, current and previous employers, and your spouse's name. Any public records concerning you, including bankruptcies, tax liens, monetary judgments or child support you haven't paid, will also be included.

## CREDIT HISTORY

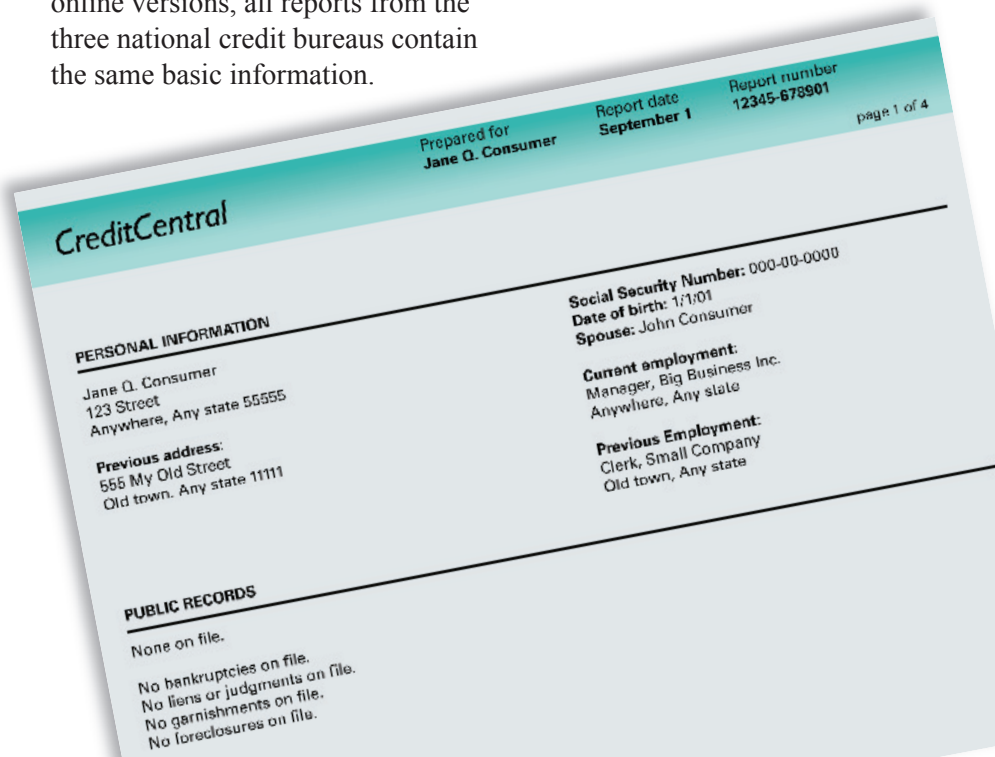
### TIP

To request your free report, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) (877-322-8228). While your credit report is free, you'll have to pay a nominal fee to also obtain your credit score. If you contact the credit bureaus directly, you'll probably be charged for the report unless you've recently been turned down for credit, a job, or an apartment. Credit reports and other monitoring services are available from many financial services companies and have other features and price points. Carefully research companies that claim to offer free credit reports or credit monitoring services and know exactly what you are purchasing.



**FREE  
REPORT**

While not all credit reports look alike, and those that are printed and sent by mail look different from the online versions, all reports from the three national credit bureaus contain the same basic information.



**CreditCentral**

Prepared for **Jane Q. Consumer** Report date **September 1** Report number **12345-678901** page 1 of 4

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**PERSONAL INFORMATION**

Jane Q. Consumer  
123 Street  
Anywhere, Any state 55555

**Previous address:**  
555 My Old Street  
Old town, Any state 11111

**Social Security Number:** 000-00-0000  
**Date of birth:** 1/1/01  
**Spouse:** John Consumer

**Current employment:**  
Manager, Big Business Inc.  
Anywhere, Any state

**Previous Employment:**  
Clerk, Small Company  
Old town, Any state

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**PUBLIC RECORDS**

None on file.

No bankruptcies on file.  
No liens or judgments on file.  
No garnishments on file.  
No foreclosures on file.

## CREDIT HISTORY

**Accounts** Your current and past credit accounts will be listed, along with the date they were opened

**Type and terms** A revolving line of credit might be a credit card, while installment credit might be a car loan

**Credit limit/highest balance** The credit limit is the maximum amount you're allowed to charge, while the highest balance is the largest amount you've ever charged

**Recent balance** The amount that you owe as of your last account statement

Prepared for **Jane Q. Consumer** Report date **September 1**

**CreditCentral**

**CREDIT INFORMATION ABOUT YOU**

Source/ Account number (except last few digits)	Date opened/ Reported since	Date of status/ Last reported	Type/ Terms/ Monthly payment	Responsibility	Credit limit or original amount/ High balance	Rec Bal
1- UCS/UNIVERSAL CRD SERVIC PO BOX 44167 JACKSONVILLE FL 32231 4784709000000...	1-1996 / 7-1999	7-2004 / 7-2004	Revolving/ NA/ \$0	Joint with John Q. Consumer	\$11,500 / \$5,895	N

2 SAKS FIFTH AVENUE  
466709000000...

3 UCS/UNIVERSAL CRD SE  
PO BOX 44167  
JACKSONVILLE FL 32231  
539609000000...

**YOUR USE OF CREDIT**

The information listed below provides **additional** detail about your accounts, showing up balance history and your credit limit, high balance or original loan amount. Not all balance history is reported to CreditCentral, so some of your accounts may not appear. Also, some credit grantors may report more than once in the same month.

Source/Account number	Date/Balance
1- UCS/UNIVERSAL CRD SERVIC 4784709000000...	5-2004/\$125 4-2004/\$99 10-2003/\$0 9-2003/\$0 3-2003/\$3,111 2-2003/\$2

Between 10-2002 and 5-2004, your credit limit/high balance was \$11,500

**INQUIRIES**

03/06/04 Acme credit card  
09/22/04 XYZ Mobiles, Inc.  
12/13/04 Designful Credit  
01/01/05 Credit Capital  
05/31/05 Old Army Bank Credit

## CREDIT HISTORY

**Comments** Any information about the account, such as being past due, when it was closed or other details

**Inquiries** Anyone who has viewed your credit report will be listed

### What the FTC says

To learn how to avoid being scammed when you order your credit report, check out this article from the Federal Trade Commission.

[www.ftc.gov/bcp/online/pubs/alerts/fakealrt.htm](http://www.ftc.gov/bcp/online/pubs/alerts/fakealrt.htm)

**Your use of credit** Additional detail about your accounts, including the amount you charged in different months, may be listed here

Report number  
**12345-678901**

page 2 of 4

Account balance/ Account payment	Comments
V	Status: paid/past due 30 days. Account history: 30 days as of 6-2004 This account is scheduled to continue on record until 6-2011. Your Comment: "Account closed at consumer's request"

o 24 months of  
story is reported to  
pdate the information

3-2004/\$0	2-2004/\$0	1-2004/\$0	12-2003/\$0	11-2003/\$0
8-2003/\$0	7-2003/\$0	6-2003/\$251	5-2003/\$788	4-2003/\$1,276
1-2003/\$782	12-2002/\$597	11-2002/\$331	10-2002/\$763	

There are three national credit reporting companies, which you can reach online or by telephone. If you have questions, you'll probably have to handle them by mail.

### Experian

[www.experian.com](http://www.experian.com)  
888-397-3742

### Equifax

[www.equifax.com](http://www.equifax.com)  
800-685-1111

### TransUnion

[www.transunion.com](http://www.transunion.com)  
800-888-4213



## Credit score calculations

Your credit report is both unique, and in some cases, quite lengthy. While it's a helpful tool for a potential lender, credit reports can take a long time to analyze. That can postpone a lending decision, which usually isn't good either for you or the lender. Credit scores were developed to help speed up the lending-decision process, as well as to help ensure credit reports were being analyzed consistently.

A credit score assigns a number to your creditworthiness—based on your credit history. The calculations are complex and take into account a number of related factors. Typically, credit scores range from 300 to 850, though different companies use different scoring models and the ranges vary slightly. The better your credit history, the higher your credit score, and the more likely you are to be approved for credit or offered a favorable interest rate.



The term FICO® is an acronym that stands for Fair Isaac Corporation. They're the company that first developed the complex calculation that assigns a numerical value to a potential borrower's credit risk. The three major credit bureaus may have their own name for this score, including Beacon® or EMPIRICA®. Be sure you understand what score you are receiving, and how that compares to the FICO score.





## CREDIT HISTORY

### What the FTC says

To learn how to dispute errors on your credit report, check out this article from the Federal Trade Commission.

[www.ftc.gov/bcp/online/pubs/credit/crtdtdis.htm](http://www.ftc.gov/bcp/online/pubs/credit/crtdtdis.htm)

Your credit score is typically based on:

- Whether you made payments on time—if you've been late with payments, your score will be lower

- The total balance you owe compared to your available credit—the larger the balance, the lower your credit score
- How long you've had a credit history—the longer your history, the better your score
- How much new credit you have—a lot of new credit lines or even requests for credit, known as inquiries, can lower your score
- The kinds of credit you have—lenders like to see experience with both revolving credit, such as credit cards, and installment debt such as auto loans or mortgages

Your payment history, or whether you make payments on time, weighs most heavily when your credit score is calculated. That's why it's so important to avoid making late payments. Even one or two slip-ups can lower your score.



## CREDIT HISTORY

### Not just about money

Potential employers evaluating you for a position that requires a high degree of responsibility and organizational skills, or employers that require their employees to be bonded can also view your credit history. This means that a negative history might affect your chances of getting a job. Insurance companies, landlords and cell phone companies may also view your credit report, and might deny you services if your history isn't favorable.

### What the FTC says

To get more details about how credit scoring works, check out this article from the Federal Trade Commission.

[www.ftc.gov/bcp/online/pubs/credit/scoring.htm](http://www.ftc.gov/bcp/online/pubs/credit/scoring.htm)

## Establishing good credit

If you don't have a credit history because you've never had a credit card or loan in your own name, you might find it hard to arrange for credit. While that can be frustrating, there are simple ways you can begin to establish your credit history.

A retail store card or gasoline card might be easier to obtain than



## CREDIT HISTORY

a typical bank credit card. You're limited in where you can use these cards to make purchases, but if you pay your bills on time, you'll begin to build a positive credit history. Be sure to ask if the card company reports to the credit bureaus, as not all of them do.

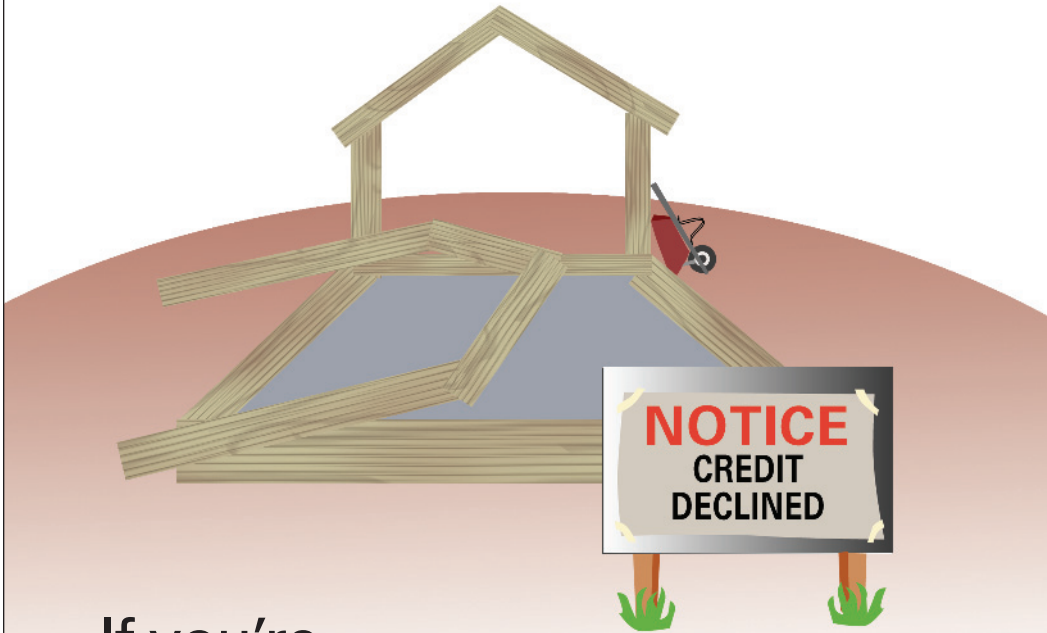
### A secured card

A secured credit card is one that's attached to a savings account. You deposit a certain amount into that account, which is then pledged to the bank that is issuing your secured credit card. You can't access the cash, but you can spend up to that amount using your secured card. If you pay your bills responsibly and on time, you should eventually qualify for a regular credit card. The deposit account is in your name, but if you don't pay your bills, the credit card issuer

can claim the money in the account to cover what you owe.

If you're having trouble getting credit, don't apply for too many credit cards, even if you think you'll eventually find one that approves you. Each time a potential lender views your report is considered an **inquiry**, and the number of inquiries made is listed on your credit report. If you have a lot of inquiries, it can have a negative effect on your credit score. Inquiries initiated by a third party in response to your request for credit or financial services will be counted as inquiries. Your own requests to review your credit report or inquiries for promotional offers, such as a pre-approved credit card, will appear on the report, but these inquiries do not affect your credit score.





## If you're denied credit

If your application for credit is turned down, the potential lender must send you a letter that tells you why or instructs you how to contact them for more information about the reasons. They also have to give the name and contact information for the credit reporting agency that provided them with your report. If your application is turned down because of your credit report, you're entitled to a free copy if you request one. You have 60 days from the time you learn that you were turned down to request a free report.

Being denied credit is frustrating, and you might be embarrassed

as well as inconvenienced. But studies have shown that as many as a third of all credit reports have errors, so it's worth checking yours to make sure all the information is accurate.

### Correcting mistakes

If you do find a mistake, report it to the credit bureau immediately. They're required to investigate all complaints and correct your report if there is an error. If they don't agree that there's an error, you have the right to submit a brief statement that explains your position. The company must

## CREDIT HISTORY



include your comment when it sends out future reports.

If you discover and report an error, follow up to see that it has been corrected. And if you submit a comment, check to be sure it is included.

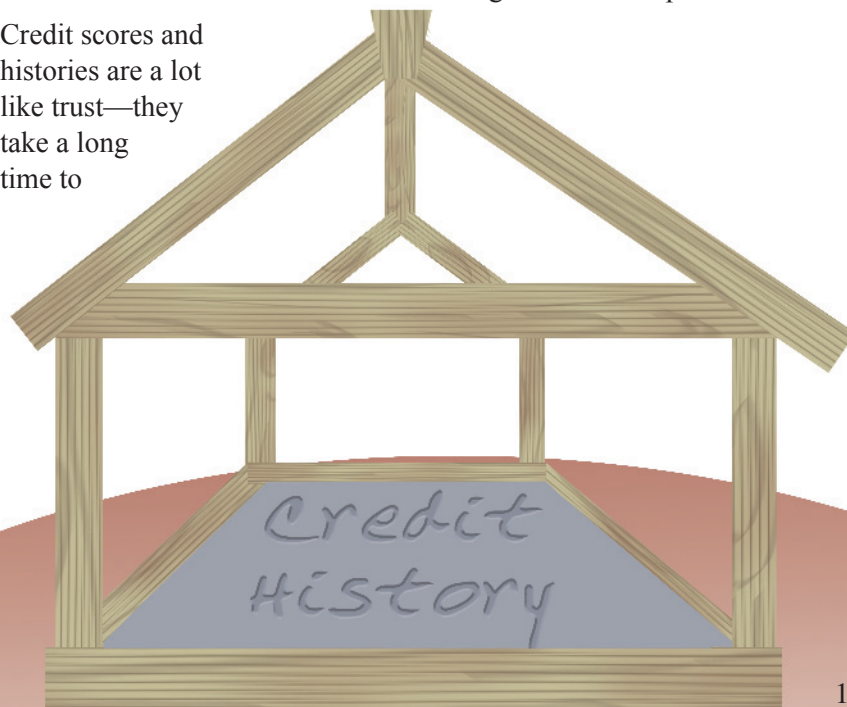
## Improving your credit score

Credit scores and histories are a lot like trust—they take a long time to

build, but can be broken easily. Unless there are mistakes, you can't change the past actions that led to your current credit score. You can improve it for the future, though. The most effective way is to make payments by their due dates and gradually

reduce the amount you owe.

It also helps to limit the number of credit cards you carry, and avoid opening new lines of credit unnecessarily. If you've obtained a lot of credit, or you repeatedly move balances from credit card to credit card, lenders worry that it's a sign of financial problems.



## CREDIT HISTORY

### Credit counseling

Improving your credit history requires time, consistency and patience, and it requires your commitment to taking control of your finances. If you're feeling stressed by the amount of your debt or your monthly payment obligations, you may want to talk to a credit counselor who will help you come up with a financial plan to pay off any debt you have and organize your finances. The key is to understand credit, to value your good credit history and to always use your credit responsibly.

If you decide to use a credit counseling agency, do your homework and make sure that the credit counselor is reputable. To find a reputable credit counselor near you, you can check:

#### The National Foundation for Consumer Credit at

[www.nfcc.org](http://www.nfcc.org)

NFCC phone: 800-388-2227

#### The Association of Independent Consumer Credit Counseling at

[www.aiccca.org](http://www.aiccca.org)

AICCCA phone: 800-450-1794

### What the FTC says

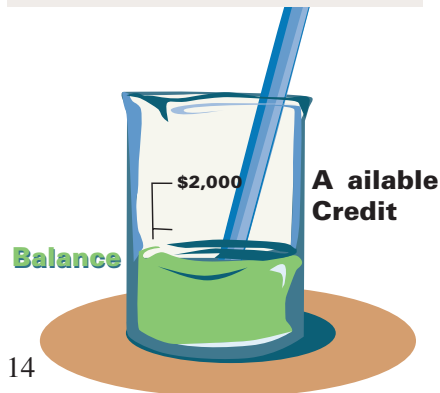
To get more details about how debt collectors can and can't contact you, read this article from the Federal Trade Commission.

[www.ftc.gov/bcp/online/pubs/credit/fiscal.htm](http://www.ftc.gov/bcp/online/pubs/credit/fiscal.htm)

## More ways to improve

While consistently paying your bills on time is the best way to improve your credit score, there are other steps you can take that might surprise you.

- Keep credit card balances low compared to total available credit limits. Very high balances or maxed out credit cards may suggest emerging credit problems, and creditors may worry about your ability to pay it back.
- Apply for new credit sparingly. When a possible lender makes





## CREDIT HISTORY

an inquiry about your credit history it's recorded on your report. A lot of inquiries can lower your credit score.

- Any time you find a mistake or inaccuracy, correct the problem with each of the three credit bureaus as well as the lender.



## Coping with debt

If you're struggling to pay your bills and have fallen into debt, your problems may seem overwhelming. But it's possible to get your finances back in shape. The first step is collecting all of your bills and writing down the total debt you owe. Then figure out how much you need to set aside from each paycheck to pay off your debts, starting with the one that charges the highest interest rate.

If you decide to work with a professional to assist you in managing your debt, a non-profit credit counselor can offer you a

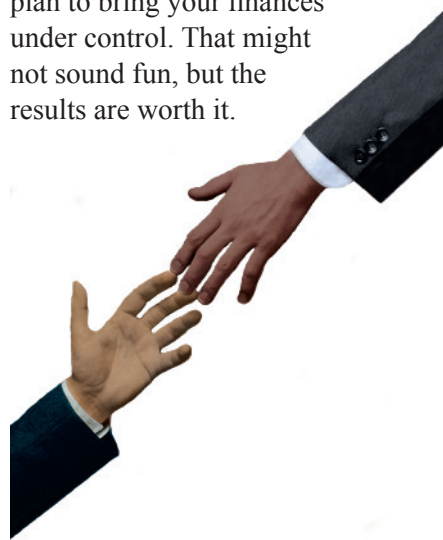
### What the FTC says

To learn the warning signs of fraudulent credit repair agencies, check out this article from the Federal Trade Commission.

[www.ftc.gov/bcp/conline/pubs/credit/repair.htm](http://www.ftc.gov/bcp/conline/pubs/credit/repair.htm)

lot of assistance. A counselor will analyze your overall financial situation, including your income, any assets and the debt you're carrying. He or she may be able to help you work with your creditors to increase the amount of time you have to pay back, or reduce the amount of your monthly payments.

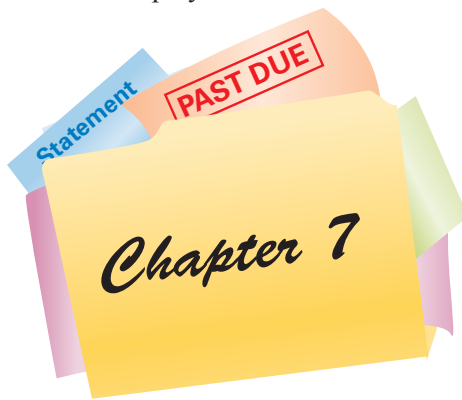
A credit counselor will also help you come up with a new spending plan to bring your finances under control. That might not sound fun, but the results are worth it.



## Bankruptcy

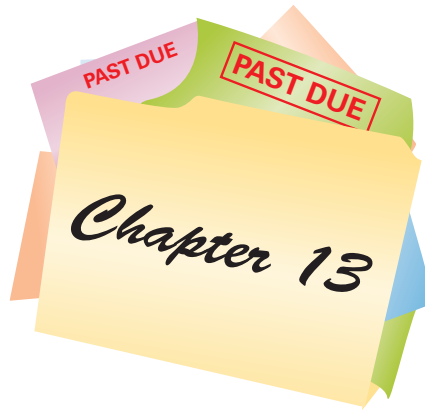
Bankruptcy can seriously impair your ability to obtain credit or employment for years, so think carefully about whether this is the right option for you. Bankruptcy should always be considered only as a last resort, and involves filing a petition in court saying that you have no assets with which to pay your debts. The court oversees settling all outstanding debts. In most cases, your creditors would like to receive at least some of what they're owed, so they may accept a smaller amount than the total bill.

There are two kinds of bankruptcy:



- A Chapter 7 bankruptcy means you sell your assets to pay creditors, and you ask to be released from any debts that you can't cover. A Chapter 7 is considered a "straight" bankruptcy and

will stay on your credit record for ten years. But new legislation makes it more difficult to resolve a bankruptcy this way.



- A Chapter 13 bankruptcy means you must comply with a court-approved plan to use your salary to pay your creditors over the next three to five years. It also means that you must pay back a larger share of what you owe than you would if you qualified to file for Chapter 7. This type of bankruptcy may carry less stigma than Chapter 7, and will stay on your credit report for seven years.

Bankruptcy probably sounds scary, and it is a drastic step. If you're considering bankruptcy, you should consult with an experienced bankruptcy lawyer who can help you understand the specific details.

You can find a credit counselor through:

**The National Foundation for Consumer Credit**

[www.nfcc.org](http://www.nfcc.org)

**The Association of Independent Consumer Credit Counseling**

[www.aiccca.org](http://www.aiccca.org)

someone is trading on your identity and the credit attached to it.



## Avoiding fraud

It's important to protect your good credit history from mistakes and fraudulent use, so that only you enjoy the benefits of your financial discipline. Outlined below are three common types of fraudulent activity you should be alert to.

**Identity theft.** If someone obtains your personal information, he or she may be able to use your credit card or open a new credit account in your name, both of which will damage your credit history. That scam is known as identity theft, since



**Telephone fraud.** Another scam to be aware of is fraudulent telemarketing calls. The majority of telemarketing calls offer legitimate products and services, but some may be scams, simply trying to convince you to give out your Social Security number, credit card number or bank account information over the phone. If you get a call from a telemarketer, ask them to send you information in the mail. Even if it's a legitimate company, it may be a good idea to consider a specific offer only in writing.

## CREDIT HISTORY

**Online fraud.** On the Internet, a common scam known as phishing relies on emails that appear to be from a bank or other reputable company. You'll be asked to confirm your account information by entering it on a website that appears legitimate. Instead of going to the company or bank, though, the scammers intercept your information.

As a general rule, you should never give out personal information to a company or bank you didn't contact. And a reputable bank or company would never request information by email.



## CREDIT HISTORY

**A**s one of the world's leading financial services companies, HSBC is committed to championing financial education and serving as an advocate for consumers. Our goal is to help consumers acquire an understanding of financial concepts, as well as the tools necessary to make sound financial decisions. The Your**Money**Counts™ program, managed by HSBC's Center for Consumer Advocacy, furthers our longstanding commitment to financial education, which dates back to 1929 with the establishment of the Money Management Institute. Recognizing that people choose to learn in different ways, we offer the Your**Money**Counts program through multiple channels—online, in print and through financial education workshops.

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