

INTERPRETING THE INFORMATION ON YOUR CREDIT REPORT

Not too long ago, a typical credit report appeared to the layman as a maze of secret numbers and codes that only veteran loan officers could decipher.

Fortunately, this is no longer the case. Two of the three major credit-reporting agencies have adopted formats that make their reports very easy to read. The third still prints its reports in a table format using codes, but provides simple and informative instructions with each report. If you have a little time and patience, you should have no trouble deciphering a modern credit report from Experian, Trans-Union or Equifax.

What is in a credit report?

Identifying information

Credit reports contain a certain amount of personal information. This is called identifying information and, among other things, allows the credit-reporting agency to distinguish between one Robert Smith from California and another Robert Smith from California. Typically, identifying information includes your name, address, Social Security number, previous addresses, employers (past and present), phone number, spouse and date of birth. This information usually appears at the very beginning or the very end of your report. If any of it is wrong, it should be corrected.

Tip: Under the Fair and Accurate Credit Transactions Act of 2003 (FACTA), you can request the credit bureaus to truncate your Social Security number on disclosures they send to you, including your credit reports. This step may help prevent identity theft.

Account information

Account information usually composes the largest part of a credit report. The lender's name, the account number, a description of the account, when it was opened, what the high balance was, what the outstanding balance is, the loan terms, your payment history and the current status of the account are typically included.

Tip: Under FACTA, when reporting information furnished by a medical provider, the

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credit bureaus can only include financial information on your credit report—they are prohibited from disclosing the identity of the medical provider or the nature of the services.

Experian provides the most user-friendly presentation, using plain English and full sentences. Trans-Union also uses plain English, but not full sentences.

Equifax presents information in columns and rows. Each column is identified at the top. The information that appears in each column is largely self-explanatory, except the column labeled “Status.” Typically, in this column, you will see a letter and a number for each account. The numbers are the first thing a creditor looks at when evaluating your report. The letters merely describe the account.

Example(s): Consider the following:

O=Open account with balance due in full each month (like a travel card account)

R=Revolving account with monthly payment (like a credit card account or a home equity line of credit)

I=Installment account with fixed monthly payments (like a student loan, auto loan, or mortgage payment)

Example(s): The numbers describe your payment history, such as:

0=New account, not used yet

1=Paid as agreed

2=30+ days late

3=60+ days late

4=90+ days late

5=120+ days late

6=180+ days late

7=Making regular payments under wage earner plan or similar arrangement

8=Repossession

9=Charged off to bad debt

These numbers were formerly used by all the major credit bureaus. It used to be common to hear a loan officer say that a person was all ones, which meant that the person’s credit report had nothing but 1’s in the “Status” column. Both the rating system and the numbers are slowly fading away, however. Most find that the easy-to-read format serves everyone better and takes the mystique out of credit reporting.

Tip: If you have trouble reading any part of your Equifax credit report, an instruction sheet entitled “How to Read Your Credit File” is included with each mailing. It is easy to use and very helpful.

Public record information

Credit bureaus collect information from courthouse records and registries. Thus, you may find bankruptcies, tax liens, judgments and even criminal proceedings listed in your credit file.

Credit report inquiries

Whenever someone requests a copy of your credit history, it is recorded as an inquiry in your report. Typically, these appear at the end of the report. They remain on your report for 24 months. Among other things, these entries allow you to see who has been checking up on you and whether any unauthorized persons have obtained your credit file.

Tip: Occasionally, you will see an inquiry identified as being made pursuant to a prescreen program. Typically, this is a credit card company that has contacted the credit reporting agency and asked for a list of consumers who meet certain credit criteria. The credit card company hasn't actually seen your credit report, but they have received a list of names and addresses from the credit bureau with your name on it. Don't be alarmed. This only means that you are likely to receive an offer in the mail for a preapproved credit card. You can ask to be taken off the solicitation list.

Tip: Under the Fair Credit Reporting Act (FCRA) and FACTA, you have the right to opt out of prescreen programs and block unwanted solicitations for a period of five years.

Consumer statement

If you have requested that a consumer statement be included in your credit file, then an abbreviated version of your statement will appear on your report.

What does this information mean?

Each creditor uses its own credit evaluation standards

If you are looking at your credit report now, you may be trying to determine why you just got turned down for that loan for which you recently applied. Alternatively, you may intend to apply for a loan and want to see how your credit looks. In either case, you have the report and you can read the information, but you probably want to know what it means. You want to know whether you are creditworthy or not.

Each creditor has its own system. Some use credit scoring, and some don't. Some have severe credit standards, whereas others are more flexible. Some even make loans to consumers who have recently filed for bankruptcy. It is difficult to know what any one creditor looks for or what they see when they look at your credit report. Your credit-reporting agency doesn't even know. However, there are some general rules of thumb.

A history of late payments and bad debts means you are a high-risk borrower

The three major credit-reporting agencies provide information about payment performance over the last 12 to 24 months. Charge-offs and judgments up to seven years old may appear on your credit report. Generally, this is bad.

If you have a history of late payments and/or bad debts, it means you are a high credit risk. The lender figures that it will have to wait for its money, work hard to get its money, or not get its money at all. Therefore, the lender is unlikely to give you the benefit of the doubt or the loan.

Alternatively, the lender may offer you credit, but at terms less favorable than those offered to most of the consumers it serves.

Tip: Under FACTA, if you are extended credit, but because of your credit report you were offered less favorable terms, you must be notified of that fact.

Too many inquiries mean you are shopping around too much

When you apply for credit, the lender will request a copy of your credit history. The lender's request appears as an inquiry on your report. Too many inquiries in a short period of time make loan officers nervous. They assume that you are shopping around for one of two reasons:

- You were turned down everywhere you went but keep trying, or
- You are up to something

In the first case, you appear desperate, but the loan officer doesn't want to take a risk if none of the other banks in town will. In the second case, the loan officer sees someone who is on a credit spree, shopping for all the credit he or she can get. He or she may be financing a bad habit, borrowing to pay off another debt or just foolish about the amount of credit he or she needs. In any case, the loan officer is unlikely to take the risk by giving you a loan.

Tip: Under FACTA, the credit bureaus must notify you if too many inquiries are having a negative impact on your credit report.

A brief credit file means you have insufficient experience with credit

You may have good credit but not enough. Suppose you have five local department store charge cards with a credit limit of \$500 on each. You have always paid as agreed, but the highest balance you have ever carried on any particular card is \$100. You have had no other credit accounts. Now you are applying for a \$16,000 loan to buy a car with only \$1,000 down, but there is nothing on your credit report that indicates you have the experience or ability to handle a \$450 per month car payment for four years. Your lender knows that everyone must start somewhere, but it doesn't want to be at risk if you make mistakes. You need to build up more credit credentials before you will be creditworthy enough to take on this kind of debt.

Tip: In these situations, the bank may lend you less money for a less expensive car, agree to lend you a lesser amount if you agree to put more money down, or make you the loan if someone cosigns the loan with you.

Errors mean that the lender really cannot evaluate your credit history

Errors on your credit report are bad, even if they are not particularly derogatory when viewed in isolation. Loan officers often compare your loan application to your credit report. If inconsistencies exist, they may become suspicious. They may wonder if you are hiding something. Alternatively, they may become skeptical, operating on the assumption that if there is one error, then there are likely to be more. If there are more errors, then there is no way to really evaluate your application. Rather than take the time to call you up and sort it all out, a typical loan officer may simply reject the application and avoid the risk. If the errors indicate that you have bad credit, you are in even more of a pickle. If you see them, you should take action to correct errors on your credit report.

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