CHAPTER 2

Understanding And Improving Your Credit Rating

"No man's credit is as good as his money." E.W. Howe, American Journalist, novelist 1853-1937

The American economy is based on credit. If you don't have at least an average credit rating, you will find that getting approved for any type of loan, or credit card, will be very difficult - if not impossible. As the nation's economy worsens, the money supply becomes tighter. A major factor looming on the horizon is the growth in the national debt. At this moment, the country's deficit is approaching a staggering four trillion dollars! That means something like twenty cents out of every dollar spent by the Federal Government goes toward paying off interest on money borrowed!

This is a short, but important report. It contains valuable information. Read it carefully, and you will have a better understanding of how applicants are rated, and what you can do to improve your credit rating. The "Credit Scoring System" is a nothing more than a numbers game. Most creditors use something like it to rate applicants. Like most games, the more "points" you score, the better you do. So get out a pencil and paper and we will take a closer look at a typical system:

The first factor you can't do anything about: Your Age. Yes, you could lie, but don't. With all the interlocking computer systems in use today, somebody, somewhere, probably has the true story. While it's only one element, if a creditor catches you in a lie, even if it's just about your age, they aren't going to trust the rest of the information you provide either, and you will probably not get the loan.

- Under 21? Score zero points. 24 to 64 years of age give yourself one point. Over 65? Zero points.

The next question is your marital status. Unmarried, sorry pal most creditors think you're a higher risk, no points for you. What's that? You are married? Give yourself one point. Most creditors don't care if you divorced. If you are, and not remarried give yourself zero points.

Next question: How many dependents: Unlike Uncle Sam who gives you bigger deductions as your family grow in size, creditors think differently. No dependents? Score zero. One to three dependents? Score one point. More than three dependents? Score zero. The thinking is, if you don't have any dependents you have no attachments, you could skip town, not pay off that loan. You have up to three mouths to feed, chances are good you can't pull up stakes and run away. More then three, you could get in debt over your head so you become a poorer risk again, but for a different reason.

Where do you live? In a trailer park, motor home, with parents, relatives, friends? Wrong answer. Same reasons as previous question. You could run, and not pay off the loan. You got to put down some roots. Score yourself zero points. Rent an apartment? Give yourself one point. Own a home with a big fat mortgage? Good for you. Score three big ones! Why? Somebody already checked you out pretty good for you to get that mortgage, so you're probably a pretty good risk. Own your home, free and clear? Even better. Give yourself four points. You already established you can take on a sizable debt and pay it off, so you get a bonus point.

Previous Residence? Zero to five years, some creditors only go to three years. Then score zero points. You move around too much! Over five years? Good. Score one point.

What kind of Job? Unskilled? You still get one point. At least you have a job! Skilled? Two points. Professional? Three points. The creditor decides the classification. Use common sense, when scoring yourself.

Monthly Income? Should be obvious, the more the better! Under $800 a month earns you one point. Up to $1,000 gives you two points. Pull down $1,500 gives you three points. Over $1,800 gets four points. This score can vary quite a bit with different creditors. Depends on part of the country you live in, type of job, many other factors.

How deep are you presently in debt? Nothing to $300 per month earns you two points. $301 to $500 gives you one point. Anything over $500 in most cases earns you no points.

Previous Credit History: Very important to all creditors. It's your track record and is a good indicator of how you should pay off debt in the future. All creditors belong to at least one credit-reporting agency. Information is shared. If you have a good credit history with the company you're seeking the loan from, all the better. Of course they believe their own information more then somebody else's. So if you paid off a loan with them with no problems, most give you four to five points. Good record with other creditors should earn you two to three points.

Other Information: Having a saving and or checking account with a balance over $500 helps, if it's not something you just opened a few weeks ago. Should have been at least a couple years to do you any good. Most creditors give you a couple points. Phone in your name? Gets you another two points.

OK, now ad up your score. Remember the more points you score the better credit risk you are. Most creditors have a cut-off around eighteen points. Some will go as low as fifteen points, others higher then twenty. Again, it depends on availability of funds and built-in bias of the creditor that you applied to. If turned down try somebody else!

A few points away from the cut off? Well, you may be able to cheat a little. Not recommended, but if you're only a couple points away you may get your employer to say you worked longer then you have, or that you earn a little more then you do. If you don't rent or have a mortgage try an improve this situation to earn more points. Also consider building up your credit record by getting a secured loan. You will be usually issued a credit card as well. Not every bank provides this service, but a surprising number do. The only catch is of course you can't touch the money in the account, and if you don't pay off your credit card balance in full each month you will rack up quite a bit of interest charges on top of whatever you charge with the credit card. Secured loans are not based on credit history because you put up funds equal to the loan. It's a safe deal for the bank and can help improve your credit rating. The catch is it takes time to build up your credit rating.

Another method is to open a regular savings account and deposit $200-$500. Leave it there for 30 to 60 days, then get a loan on the account. Pay the loan off before the due date. Withdraw part or all of the money. Open another account at some other bank. Repeat the process over and over. Your local credit bureau will get good reports on you, and before you know it, your mail box will be stuffed with offers for free credit cards - no more secured accounts, and you should have an easier time of obtaining credit. If all else fails, try to get a smaller loan, or see if someone is willing to co-sign.

Fair Debt Collection

If you use credit cards, owe money on a personal loan, or are paying on a home mortgage, you are a "debtor." If you fall behind in repaying your creditors, or an error is made on your accounts, you may be contacted by a "debt collector."

You should know that in either situation the Fair Debt Collection Practices Act requires that debt collectors treat you fairly by prohibiting certain methods of debt collection. Of course, the law does not forgive any legitimate debt you owe.

This chapter provides answers to commonly asked questions to help you understand your rights under the Fair Debt Collection Practices Act.

What debts are covered?

Personal, family, and household debts are covered under the Act. This includes money owed for the purchase of an automobile, for medical care, or for charge accounts.

Who is a debt collector?

A debt collector is any person, other than the creditor, who regularly collects debts owed to others. Under a 1986 amendment to the Fair Debt Collection Practices Act, this includes attorneys who collect debts on a regular basis.

How may a debt collector contact you?

A collector may contact you in person, by mail, telephone, telegram, or FAX. However, a debt collector may not contact you at unreasonable times or places, such as before 8 a.m. or after 9 p.m., unless you agree. A debt collector also may not contact you at work if the collector knows that your employer disapproves.

Can you stop a debt collector from contacting you?

You may stop a collector from contacting you by writing a letter to the collection agency telling them to stop. Once the agency receives your letter, they may not contact you again except to say there will be no further contact. Another exception is that the agency may notify you if the debt collector or the creditor intends to take some specific action.

May a debt collector contact any person other than you concerning your debt?

If you have an attorney, the debt collector may not contact anyone other than your attorney. If you do not have an attorney, a collector may contact other people, but only to find out where you live and work. Collectors usually are prohibited from contacting such permissible third parties more than once. In most cases, the collector is not permitted to tell anyone other than you and your attorney that you owe money.

What is the debt collector required to tell you about the debt?

Within five days after you are first contacted, the collector must send you a written notice telling you the amount of money you owe; the name of the creditor to whom you owe the money; and what action to take if you believe you do not owe the money.

May a debt collector continue to contact you, if you believe you do not owe money?

A collector may not contact you if, within 30 days after you are first contacted, you send the collection agency a letter stating you do not owe money. However, a collector can renew collection activities if you are sent proof of the debt, such as a copy of a bill for the amount owed.

What types of debt collection practices are prohibited?

Harassment. Debt collectors may not harass, oppress, or abuse any person. For example, debt collectors may not:

- Use threats of violence or harm against the person, property, or reputation;
- Publish a list of consumers who refuse to pay their debts, except to a credit bureau;
- Use obscene or profane language;
- Repeatedly use the telephone to annoy someone;
- Telephone people without identifying themselves;

- Advertise your debt.

False statements. Debt collectors may not use any false statements when collecting a debt. For example, debt collectors may not:

- falsely imply that they are attorneys or government representatives;
- falsely imply that you have committed a crime;
- falsely represent that they operate or work for a credit bureau;
- misrepresent the amount of your debt;
- misrepresent the involvement of an attorney in collecting a debt;
- indicate that papers being sent to you are legal forms when they are not;
- indicate that papers being sent to you are not legal forms when they are.

Debt collectors also may not state that:

- you will be arrested if you do not pay your debt;
- they will seize, garnish, attach, or sell your property or wages, unless the collection agency or creditor intends to do so, and it is legal to do so;
- actions, such as a lawsuit, will be taken against you, which legally may not be taken, or which they do not intend to take.

Debt collectors may not:

- give false credit information about you to anyone;
- send you anything that looks like an official document from a court or government agency when it is not;
- use a false name.

Unfair practices. Debt collectors may not engage in unfair practices in attempting to collect a debt. For example, collectors may not:

- collect any amount greater than your debt, unless allowed by law;
- deposit a post-dated check prematurely;
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- contact you by postcard.

What control do you have over payment of debts?

If you owe more than one debt, any payment you make must be applied to the debt you indicate. A debt collector may not apply a payment to any debt you believe you do not owe.

What can you do if you believe a debt collector violated the law?

You have the right to sue a collector in a state or federal court within one year from the date you believe the law was violated. If you win, you may recover money for the damages you suffered. Court costs and attorney's fees also can be recovered. A group of people also may sue a debt collector and recover money for damages up to $500,000, or one percent of the collector's net worth, whichever is less.

Where can you report a debt collector for an alleged violation of the law?

Report any problems you have with a debt collector to your state Attorney General's office and the Federal Trade Commission. Many states also have their own debt collection laws and your Attorney General's office can help you determine your rights.

If you have questions about the Fair Debt Collection Practices Act, or your rights under the Act, write: Correspondence Branch, Federal Trade Commission, Washington, D.C. 20580. Although the FTC generally cannot intervene in individual disputes, the information you provide may indicate a pattern of possible law violations requiring action by the Commission.