

Credit Reports and Credit Scores

Revised by Bryce Jorgensen and Michelle Stizza¹

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WHAT IS THE DIFFERENCE BETWEEN A CREDIT REPORT AND A CREDIT SCORE?

If you have borrowed money to buy a home, purchased items using credit cards, or bought insurance for your auto, home, or life, you probably have a “credit rating,” often laid out in a credit report and represented by a credit score. In short, a good credit score indicates a higher reliability to repay loans or credit. Lenders, such as credit card companies, banks or credit unions, and other lenders use the information in a credit report and your credit score to determine how much money to loan you and the interest rate of the loan.

CREDIT REPORTS

A credit report is information provided by a reporting agency (often called a credit bureau) that gives a consumer’s bill-paying history or habits based on the information in their file. The information reported to the credit bureaus indicates the amount of the loan(s), the amount of the payment(s), and your payment history. A credit report also includes your existing and previous address(es), social security number, marital status, past and present length of employment, income, and includes information from public records such as bankruptcy, lawsuits, arrests, and judicial decisions. Consumer rights on credit information are protected under the Fair Credit Reporting Act (FCRA) and Fair and Accurate Credit Transactions (FACT) Act.

How do I order my FREE credit report?

You should order your credit report to ensure that your credit-related information is accurate. Look for errors and unusual activities in your credit report. These include a credit card account that you have never opened and months of unpaid balance when you have fully paid the balance.

¹Respectively, Associate Professor and Bernalillo County Extension Family and Consumer Sciences Agent; and Assistant Professor and Family and Consumer Science Agent at Santa Fe Cooperative Extension. New Mexico State University.

The Fair Credit Reporting Act (FCRA) mandates that each of the three consumer credit reporting agencies (Experian, Equifax, and Transunion) provide a free copy of credit reports to consumers once every 12 months.

Reports can also be ordered by:

- Ordering from a central website (<https://www.annualcreditreport.com/index.action>)
- Calling a toll-free telephone number (1-877-322-8228), or
- Mailing the Annual Credit Report Request Form (<https://www.annualcreditreport.com/manualRequestForm.action>) to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

The central website will refer to the three credit bureau companies: TransUnion, Experian, and Equifax. If you decide to order a credit report from each of these companies, the central website will take you to the selected website for ordering and then take you back to the central website for you to order a report with another company or to obtain other information. Because consumers are only entitled to one free report per year from each of the three companies, it may be a good idea to order one credit report from a different one of the three companies every four months (as opposed to a report from each company once a year at the same time). This enables you to check your credit report more frequently than once a year while taking advantage of getting a free report annually from each of the three companies. To make it easy to remember, many pull their credit report (from one credit company each date) on 2/2, 6/6, and 10/10. In addition, you are entitled to free credit reports in the event of a credit-related action by a company, if you are unemployed and looking for a job within 60 days, if you are on welfare, or in case of identity theft issues. There is no charge if you have been denied credit in the past 30 days or have received a notice from a collection department affiliated with the credit bureau. Free credit report orders do not involve any credit card payment. Note that the free credit reports do not include your credit score. If you are just curious or would like to obtain your credit score, there may be a charge of up to \$10.50 per report or you can obtain your credit score for free from one of the many websites, banks, or credit card companies offering this service.

What if there is an error on my credit report?

It is important that you know what is in your credit report and that the information reported is accurate. Otherwise, if there are accounts that were not opened by you, your identity has most likely been stolen and you need to file a dispute with the credit bureaus and inform them of the errors. You can dispute the error(s) here: (<https://www.consumerfinance.gov/ask-cfpb/how-do-i-dispute-an-error-on-my-credit-report-en-314/>).

What if they say it is not a mistake?

If there is a dispute, you may file a brief statement reporting your side of the issue. Your statement must be included in any future reports concerning the item in question.

For more detailed information on how to deal with inaccuracies in your report, refer to the Federal Trade Commission webpage on “Credit Repair: How to Help Yourself” (<https://consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0034-credit-repair.pdf>). It includes steps on how to rectify your mistake issues, a dispute letter example, and other ways to file complaints. In New Mexico, you may discuss your issues with the Office of the New Mexico Attorney General (Santa Fe: 505-490-4060, Albuquerque: 505-717-3500, Las Cruces: 575-339-1120, toll-free: 1-844-255-9210, <https://nmdoj.gov/get-help/submit-a-complaint/>).

The Consumer Financial Protection Bureau (CFPB) Consumer Complaint Database since 2011 has published more than 11,600 complaints from New Mexicans including credit reporting (<https://www.consumerfinance.gov/data-research/consumer-complaints/>).

It is against federal law for anyone to obtain another person’s credit report without that person’s permission. For security reasons, you can place a PIN number on your credit report; that way you will be the only one to have access to your report and the PIN will add another barrier of protection against identity theft. If your credit has been compromised or your identity stolen, consider setting a fraud alert. This requires creditors to verify your identity before issuing a credit card, opening a new account or increasing a credit limit on an existing account. A fraud alert will not prevent a lender from opening credit in your name the same way a freeze does—which restricts creditors from opening new credit accounts in your name—but it does require lenders to take additional steps to verify your identity first (<https://www.consumer.ftc.gov/articles/0275-place-fraud-alert>).

Who can obtain information from my file?

The FCRA specifies who can access your credit report. Creditors, insurers, employers, and other businesses that use the information in your report to evaluate your applications for credit, insurance, employment, or renting a home are among those who have a legal right to access your report. A credit report can only be furnished to someone with a legitimate business need for the information. This includes businesses that are:

- Extending credit, collecting debts, or reviewing an account.
- Considering you for employment; or
- Considering you for insurance.
- Others who have a legitimate business need involving a business transaction with you may access your report (e.g., potential partnership, investment, or lease).
- Credit reports can be ordered by a court.
- Your report can be issued if you request a report in writing.

What is a hard inquiry and a soft inquiry?

A hard inquiry is when a business requests to see your credit report to verify if you're credit worthy, but the lender that pulled your report, such as an auto loan or mortgage company, will harm your credit score. A soft inquiry is similar, except that a different person who pulls out the report won't harm your score, such as yourself when you want to do your credit check.

How will I know if I have been refused credit because of a credit report?

The store or company (credit grantor) who refuses to extend credit to you because of information in a credit report must tell you so. There is no charge to request your credit report if you have been denied credit in the past 30 days. The credit grantor must also give you the name of the credit bureau that supplied the report.

How long does adverse information remain on my credit report?

Chapter 7 bankruptcies typically stay on a credit report for ten years and Chapter 13 bankruptcies typically stay on a credit report for seven years. Suits and judgments can be reported for seven years. Tax liens, collection accounts, accounts charged to bad debts, records of arrests and convictions, or other adverse information may be reported for seven years.

CREDIT SCORE

A credit score is a statistical number that depicts a person's creditworthiness. There are several factors that determine whether a lender offers credit, however, in general the higher the score the more financially trustworthy a person is considered. Lenders use a credit score to evaluate the probability that a person will repay their debts, determine if a person will qualify for a loan, credit card, mortgage or other types of credit, the credit amount, and the interest rate. The most popular credit score is the Fair Isaac Corporation (FICO) score. A FICO score is like a financial GPA, ranging from 300 to 850.

What does your credit score consist of?

Payment History: Paying on time is the best way to improve your credit.

- Number of overdue payments.
- Recency of late payments.
- Severity of late payments (30-, 60-, or 90-day late).

Amount Owed: you want to owe less than 30% of your available limit.

- Number of accounts open.
- Number of accounts with a balance.
- Ratio of balance to credit limit.

Length of Credit History: the longer your credit history the better.

- Average age of revolving and installment accounts.
 - The higher the average the higher your score.
 - Keep the credit cards you have had for awhile.

Types of Credit: you want credit from reputable companies.

- Revolving lines of credit (credit cards).
- Installment loans (auto, mortgage).
- Type of lender (payday type loans, even if paid on time, will still hurt your credit).

New Credit:

- Number of inquiries or hard pulls (formal requests from lenders) for different purposes (more hurts your credit).
- Number of new loans opened in the last 12 months.

What is an average credit score?

Due to the high economic diversity within the United States, the average credit score varies greatly among different populations, ages, and income levels. The average FICO score is 717, according to the latest data from October 2023. FICO scores of 580 to 669 is fair, 670 to 739 is good, 740 to 799 is very good, and 800 and above is exceptional.

Why is your Credit Score so Important?

Your credit score plays a significant role in your financial picture: it can make a difference when purchasing a home, applying for rent, loan, or even a job! Keep in mind that landlords, utility companies, and potential employers may also take this information into account when deciding to give you credit, open an account, or offer employment. Your credit risk is evaluated any time you apply for a credit card or any type of loan. It can also drastically affect the rate of interest you pay on your loans (car loans, home loans, privately consolidated student loans, credit cards, etc.).

What can I do to improve my credit score?

- Make all payments on time.
- Make more than the minimum payment or pay off credit cards.
- Keep loan balances low.
- Keep old accounts open.
- Do not have too many credit cards.
- Do not open unnecessary revolving credit accounts (especially store cards).

Make All Payments on Time

Delinquent payments, even if only a few days late, can have a major negative impact on your score. If you have missed payments, get current and stay current. The longer you pay your bills on time, the more your score will increase. Older credit problems count for less, so poor credit

performance won't haunt you forever. The impact of past credit problems on your FICO score will fade as time passes. Be aware that paying off a collection account will not remove it from your credit report. It will stay in your report for up to seven years. If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor. This won't rebuild your credit score immediately, but if you can begin to manage your credit properly and pay on time, your score should improve over time. Seeking assistance from an approved credit counseling service will not hurt your FICO Scores, however, be wary of any service encouraging you to not pay your bills so they can negotiate lower rates or amounts for you.

Pay off credit cards

The most effective way to improve your credit score is by paying down your revolving debt. In fact, owing the same amount but having fewer open accounts may lower your scores. Don't close unused credit cards as a short-term strategy to raise your scores. Don't open new credit cards that you don't need just to increase your available credit. This approach could backfire and lower your credit score.

Keep Balances Low

Keep balances low on credit cards and other revolving credit. High outstanding debt can affect a credit score. Pay off debt rather than moving it around. Owing 30% or less of your available credit will help to improve your score.

Keep Old Accounts Open

When you close a credit card you may hurt your score. Unless you scale back your spending, this will negatively affect your credit utilization rate, which is one of the most significant factors used to calculate your score. Therefore, even if you don't want a card anymore, it may be worthwhile keeping the card open just to lower your utilization rate. Note that closing an account doesn't make it go away. A closed account will still show up on your credit report and may be considered in your score.

Do not have too many credit cards

If you have been managing credit for a short period don't open a lot of new accounts too quickly. New accounts will lower your average account age, which will have a larger effect on your scores if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

Don't open unnecessary revolving credit accounts (especially store cards)

Apply for and open new credit accounts only as needed. Don't open accounts just to have a better credit mix, it probably won't raise your credit score. It's alright to have credit cards but manage them responsibly and choose

wisely. In general, having credit cards, installment loans, and paying timely payments will rebuild your credit score. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.

Quick Fixes to Your Credit Report

There is no quick fix for your credit. Ads claiming to remove bankruptcies, judgments, late payments, or other issues are likely scams. "Join *blank* today, and we will be able to remove any late payment history off your credit report in a matter of days! Don't wait!" Those are the kinds of ads you need to stay away from.

No one can legally remove accurate and timely negative information from a credit report. The only people that are allowed to remove any information from your credit report are the credit bureaus. But they can only remove the information if it is inaccurate, such as having your identity stolen. A helpful site to learn more on how to stay safe while you find ways to improve your score is <https://consumer.ftc.gov/articles/fixing-your-credit-faqs>. A governmental agency may access your report if the agency is required by law to determine your eligibility for a license or to consider your financial status for any other benefit (e.g., military security clearance).

No one can legally remove accurate and timely negative information from a credit report. The only people that are allowed to remove any information from your credit report are the credit bureaus. Watch for scams such as: "Join *blank* today, and we will be able to remove any late payment history inaccurate, such as having your identity stolen. Those are the kinds of ads you need to stay away from. to remove bankruptcies, judgments, late payments, or other issues are likely scams

A helpful site to learn more on how to stay safe while you find ways to improve your score is <https://www.ftc.gov/news-events/topics/consumer-finance/debt-relief-credit-repair-scams>.

THE BOTTOM LINE

Having good credit can save you hundreds of dollars each month! Act and pull your free credit report at AnnualCreditReport.com and do the following things now to improve your credit:

- Make all payments on time.
- Pay down your debts so they are 30% or less of your credit limit.
- Pull your free credit report at AnnualCreditReport.com to make sure nothing is on your credit that should not be there, including any fraudulent activity.
- Check for errors on your credit reports.
- Dispute any errors you find on your credit reports.
- Do not get new loans or credit cards (especially store cards) if not needed.

REFERENCES

1. Annual Credit Report. <http://www.annualcreditreport.com>
2. Consumer Financial Protection Bureau <http://www.consumerfinance.gov/about-us/blog/what-were-hearing-from-consumers-in-new-mexico/>
3. Federal Trade Commission. <https://www.consumer.ftc.gov/>
4. Financial Industry Regulatory Authority. <http://www.finra.org/>
5. My Fico. <http://www.myfico.com/credit-education>
6. New Mexico State University Cooperative Extension Service <https://mymoney.nmsu.edu/links.html>

AVAILABLE RESOURCES

Publications and eBooks

- New Mexico State University Cooperative Extension Service <https://mymoney.nmsu.edu/links.html>

Online resources, and community forums

- Annual Credit Report. <http://www.annualcreditreport.com>
- Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/data-research/consumer-complaints/>

- Federal Trade Commission. <https://www.consumer.ftc.gov/>
- Federal Trade Commission. <https://www.ftc.gov/news-events/topics/consumer-finance/debt-relief-credit-repair-scams>
- Financial Industry Regulatory Authority. <http://www.finra.org/>
- My Fico. <http://www.myfico.com/credit-education>
- New Mexico State University Cooperative Extension Service. <https://mymoney.nmsu.edu/links.html>

Online informational videos/webinars

- New Mexico State University Extension Family and Consumer Science <http://efcs.nmsu.edu/resources/webinars.html>

Workshops/short courses and academic degrees

- New Mexico State University Cooperative Extension Service <https://nmsuondemand.instructure.com/courses/170/pages/home-page>

Original author: Jackie Martin, Extension Family Finance Specialist. Subsequently reviewed/revised by Constance Kratzer, Family Resource Management Specialist; and M. Fahzy Abdul-Rahman, Extension Family Resource Management Specialist.



Bryce Jorgensen is an Associate Professor and Extension Family Resource Management Specialist at NMSU. He earned his Ph.D. at Virginia Tech. As a consultant, trainer, author, and speaker, he focuses on achieving individual, relational, and financial wellness for New Mexicans. An expert in the psychology of change, mindset, and behavioral economics, he provides customized programs leading to life and financial success.



Michelle Stizza is an Assistant Professor and an Extension Family and Consumer Science (FCS) Agent at NMSU. As a FCS Agent, she provides programs on Financial Health and Wellness, Food and Nutrition, and Health and Wellness. She believes in creating programs that can help transform lives and create strong, healthy, and vibrant communities. She is earning her Ph.D. in Curriculum and Instruction at NMSU.

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