



## CREDIT BUREAU REPORT

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The purpose of this technical assistance piece is to provide you with guidance regarding the use of credit bureau reports in your Ways to Work loan program.

Each Ways to Work program must determine if and how it will use credit bureau reports. Can information obtained from the credit bureau report be used to determine if a loan application is approved or denied? Will the credit bureau report be used solely to help the applicant develop a plan to restore his or her credit? These are questions that the local program needs to ask, answer and act upon.

### **Obtaining a Credit Bureau Report**

One option with respect to obtaining a credit bureau report is to have the bank that the local program partners with obtain the credit bureau report and provide it to the loan coordinator. Considering the mission of the loan program, the bank may consider providing the report gratis.

A second option is to contact a local credit bureau reporting agency and seek their assistance with creating a process that enables the loan coordinator to pull the credit bureau report at the local agency. A representative from the local credit bureau can install the credit bureau report software and also instruct the loan coordinator on how to access the reports. This is a good time for the loan coordinator to meet with the credit bureau representative to learn how to read that specific credit bureau's report format.

### **Authorization and Limitations**

The loan coordinator can obtain and review the report at any juncture in the process after an authorization to release information is signed by the applicant. This authorization can be a separate document or included in the application. It is recommended that the release of information be a separate release form as opposed to implied consent by the client. The release of information does not have to be notarized.

The loan program is not a credit-reporting agency and therefore is prohibited from providing a copy of the credit bureau report to the loan applicant. However, the loan coordinator can reveal to the loan applicant what public, collection, trade, and inquiry information is reported on the applicant's report.

### **Credit Bureau Score**

The credit score is a tool that lenders use to predict the probability of payment. The higher the score, the probability increases that a consumer will pay as agreed. The credit scores generally run from three hundred (300) to over eight hundred (800). The scores of loan applicants generally run from four hundred fifty (450) to five hundred fifty (550). The credit bureau report score has various names and credit bureaus use different rating systems. Three of the most common credit bureau report score names are BIN, BEACON, and FICO.

If a client obtains a copy of his or her own report, the credit bureau score is not provided to the individual on his or her own report. The rationale is that there are various types of scoring models and each model has a different scale. Each lender establishes their own rating system for scoring purposes. The interpretation of a score is specific and particular to each lender. Therefore, the score itself has no meaning to the client, individual, applicant. With respect to Ways to Work, the credit bureau score is used solely for the purpose of outcome measures.

With respect to Ways to Work outcome measures, consistency with the credit bureau report is crucial. For example, if the Beacon score is used in outcome measures at the beginning of the process, then a Beacon score is needed when the final credit bureau score is input into the software system. The possibility exists that a FICO score is used in the loan software system and a BIN score is all that is available when the final credit score is to be input into the loan software. In such cases, please contact Kevin Stewart so that he may be able to assist you to make the correct credit bureau reporting score adjustment.

### **Credit Bureau Report Information**

There are five main sections of interest reflected on the report which are Identification, Public Information, Collection items, Trade Items, and Inquiries.

The Identification section provides the client's name, address and some former addresses. It also shows a date of birth, social security number, any former names, current employer and some former employers, and name of spouse.

The Public Information section lists any legal action taken against the client, which includes any suits filed, liens, judgments obtained, and garnishments. Chapter 7, a complete discharge of debt, and Chapter 13, a wage-earner

payment plan, are located in the public information section. Divorce information also is included in the public information.

The Collection section identifies original, direct creditors and the collection agencies that act on behalf of the creditor. The account number amount originally owed, current balance and date of last activity, date listed with the bureau and date last reported are reflected in this section.

The Trade section shows information such as all credit card obligations, student loans, mortgages and automobile loans. In short, the trade section identifies the installment, open, and revolving account information. By reviewing this information, the loan coordinator can communicate to the client if an account is joint or individual, when the account was last reported and when the account was opened. The balance can be identified and also a credit limit and credit term. There is also a twenty-four month payment history for each trade item to be reviewed with the client.

The credit bureau report also provides a corresponding “grade” to each trade item. The “grading scale” is ranges from one (1) to nine (9). One (1) is the high grade and a one (1) is translated by a reviewer that the client pays as agreed to the terms and conditions of the agreement. Nine (9) is the lowest “grade” and the number nine (9) is translated by the reviewer that the client has a bad debt, charged-off account. In other words, one (1) is an “A” grade and nine (9) is an “F” grade.

Inquiries are found at the bottom of the report and provide the name of the entity that pulled the report and the date of inquiry. Inquiries generally remain on a credit bureau report for a two-year period. Often lenders frown upon too many inquiries because it is interpreted as a sign that an applicant can’t demonstrate any credit restraint and discipline. In other words, an applicant obtains as much credit as possible and then is unable to pay the lender because of being credit over-extended.

### **Presentation of Credit Bureau Report for Educational Purposes**

The credit bureau report is an excellent tool for the loan coordinator to use for the educational benefit of clients. There are two fundamental reasons for reviewing a credit bureau report with Ways to Work loan applicants. The first reason is to make applicants alert to what information is actually listed on their reports. The second reason is to help clients develop a plan to restore their credit ratings. Depending on the experience, comfort level and job definition of the loan coordinator, follow-up appointment(s) may be offered to the client for more involved discussion and planning. Another option to consider is to refer clients to a local Consumer Credit Counseling agency or a local credit bureau. Some Consumer Credit Counseling services and some credit bureau companies provide credit bureau report interpretive services. Note: please advise the client

to call the Consumer Credit Counseling agency or local credit bureau in advance to see if interpretive services are available. Though not required, ideally the information about the credit bureau report is revealed to the client by the loan coordinator during a face to face interview setting.

### **Frequently Asked Questions/Comments**

*Why did the credit bureau turn me down for a loan?*

The credit bureau is a repository of information. The information is provided to the bureau by creditors and includes public information. The creditor puts a value on the credit information reflected on a bureau report. The credit bureau does not approve or deny credit. The creditor is the decision-maker as to whether a credit application is approved or denied.

*I have a dispute. How do handle a dispute?*

If the dispute can't be resolved with the assistance of the creditor, the client communicates the dispute in writing to the credit bureau. The credit bureau is then obligated to contact the creditor within a reasonable period of time (about 30 days). The creditor is then mandated to respond to the credit bureau within a reasonable period of time (about 30 days) with information supporting the original information the creditor provided to the credit bureau. The item disputed by the client must be notated accordingly by the credit bureau until the dispute process is concluded.

*I'm divorced and he/she has to pay that bill.*

A divorce agreement/decreed is a two party agreement that does not involve a third party creditor. The following example assumes that both of the parties signed the application for credit with the creditor when they were married to each other. Mr. Smith and Mrs. Smith are now divorced. Mrs. Smith states that the divorce papers clearly show that Mr. Smith is court ordered to pay VISA. Mr. and Mrs. Smith are the individuals who signed the divorce agreement which state Mr. Smith pays VISA. A review of the divorce papers show that VISA did not sign that agreement. They (VISA) were not and are not a party to the divorce action. Since Mr. and Mrs. Smith both signed the application for credit they are both responsible for the obligation. The only recourse Mrs. Smith has is to take action against Mr. Smith in the proper court for default of his responsibility as outlined in the divorce decree. Again, Mrs. Smith is responsible for the monies owed to VISA because she signed the credit application/agreement.

*I want to explain why I was late on payments. I lost income because I was sick and had no income for a period of time. Can I include that information my credit bureau report?*

The answer is yes. The process involves writing the desired information (not to exceed 100 words) and send it to the credit bureau. The information is incorporated into the client's file and should be disclosed every time the credit bureau report is accessed by a potential creditor,

*What identifying information do I put in my letter?*

It is suggested that the client contact the credit bureau directly for this information. The full name of the person requesting the information is needed plus current address, previous address (if not a current residence longer than five (5) years, social security number, date of birth, and identification such as a copy of drivers license or utility bill.

*Where are the credit bureaus?*

There are almost countless local credit bureaus but there are three major credit bureaus.

Equifax Inc.  
P.O. Box 105496  
Atlanta, Georgia 30348  
(800) 997-2493

Trans Union  
P.O. Box 390  
Springfield, Pennsylvania 19064  
(800) 916-8800

Experian  
P.O. Box 2104  
Allen, Texas 75013  
(800) 392-1122

*Can I get a copy of my report for free?*

When an applicant is denied credit, the creditor who denied the credit request must send the applicant notification of denial. This notification states what credit bureau the information was obtained from. The individual who applied for credit has up sixty (60) days to take action upon receipt of the denial letter. The applicant has within sixty days to send a copy of the denial letter to the identified credit bureau with a request for a free copy of the report.

If one has not been denied credit, there is a fee charged by the credit bureau. The fee may vary depending on which credit bureau is involved but generally the fee is about eight dollars (\$8.00).

*I thought charge-off meant I didn't owe the money.*

Charge-offs are accounts that have been determined by a creditor to be unprofitable to pursue collecting. Accordingly, the account is written off as a bad debt. Because an account is charged-off does not mean that the balance is necessarily forgiven. It may mean that the direct creditor will not put any further collection efforts into the matter. It might mean that the creditor may turn the account over to a third party collection agency or attorney for legal action. Charge-offs remain on the credit bureau for seven (7) years from the time of the first missed payment that initiated the account being charged-off.

*How long does the information remain on my report?*

Chapter 7 bankruptcy, a complete discharge of debt, remains on the report ten (10) years from filing date. Chapter 13 bankruptcy, wage earner repayment plan, stays on the report for seven (7) years after it is discharged. The general rule for non-legal accounts is seven (7) years from date of last activity.

### **Credit Bureau Report and Loan Decisions**

Each lender sets their own standards for granting credit and there can be a significant amount of subjectivity to the interpretation of information listed on a credit bureau report. The following list identifies some common denominators that all lenders consider when making credit authorization decisions.

- ✓ Length Of Time At Residence
- ✓ Legal Action
- ✓ Bankruptcy
- ✓ Collection Items
- ✓ Number Of Inquiries
- ✓ Age Of Accounts
- ✓ Credit Limit vs. Available Credit

Ways to Work is primarily a social service that maintains a business discipline. It is recommended that an applicant be offered an opportunity to make any comments and offer explanation about the circumstances surrounding any negative credit information. The best forum for dialogue is the individual session with the loan coordinator that takes place before the presentation by the coordinator to the committee. The chance for the applicant to share his or her side of the story helps the loan coordinator better understand the specific reason(s) for any credit difficulties. This information helps the loan coordinator make a complete presentation to the loan committee. This information also helps the loan coordinator assist the client with credit restoration issues. The dialogue between the applicant and the loan coordinator also helps establish a positive working relationship between the two parties. A positive relationship between a loan coordinator and loan recipient often results in good payment history.

Credit bureau reports are important for the loan coordinator to have access to in order build strong working relationship with applicants and loan recipients. Credit bureau reports are an invaluable tool to use in order to assist clients with credit awareness and credit restoration.

Please contact Ways to Work at (866) 252-7171 or  
[operations@waystowork.org](mailto:operations@waystowork.org) with questions.