

## Credit Reports: Repair, Disputes, Freezes, and Fraud Alerts

1. **BACKGROUND.** At some point in your life, you are going to want to borrow money, probably to purchase a house or a motor vehicle. Your ability to obtain a loan, and the interest you have to pay to get that loan, are greatly influenced by your credit worthiness; that is, the lender's perception of your ability to make timely payments. In making their determinations, most lenders will rely heavily on your credit report and your FICO score. FICO is an abbreviation for the name of a company (Fair, Isaac, and Company) that applies a formula to available credit information of a consumer to yield a score. The higher the score, the more credit worthy you are considered to be.

2. **CREDIT REPORTING AGENCIES.** There are three major credit reporting bureaus, companies that store credit information about you, such as previous loans you have obtained and payments made, credit card information, and bills that were reported as having been paid late or not at all. These three credit reporting agencies are Equifax, Experian, and Transunion. In general, your credit history and your FICO score are positively affected by a history of paying bills on time, as well as a large amount of available credit on your credit cards. Conversely, your FICO score and lenders are negatively affected by late payments, default, bankruptcy, and carrying high credit card balances. Obviously, lenders may also wish to consider your earnings history, present employment, and current financial assets, especially if you are applying for a large loan, such as a home loan.

3. **IMPORTANCE OF CREDIT HISTORY.** Having a good credit history can mean the difference between getting a loan and being denied for a loan. Even more often, credit history determines the interest rate you will pay for that loan. Additionally, property management companies review credit history of prospective tenants, and employers review credit history in making hiring decisions. Further, officials determining authorization for security clearance review your credit history. In fact, the single most prevalent source of loss of security clearance is financial problems. As mentioned above, credit history dictates interest rate. Differences in the interest rate can mean major costs over the lifetime of the loan. For example if you obtain a 30 year, fixed rate mortgage to borrow \$200,000 at a 3% interest rate, you will pay \$103,554.90 in interest before the loan is paid up. Change the interest rate to 6% on the same loan and you pay a whopping \$231,676.38 in interest. Here's what you pay per month, and over the life of the loan, at various interest rates if you take out a five year loan to borrow \$15,000 to purchase a motor vehicle. Calculations provided by Bankrate on line auto loan calculator.

Interest Rate	Monthly Payment	Total Interest
3	270	1,172
11	326	4,568
17	376	7,367

As you can see, interest rates can make a staggering difference in the total cost of purchasing that motor vehicle.

4. **CREDIT REPORTING ERRORS.** There are many sources of errors in credit reports, and such errors are common. People make mistakes, including those who make the hundreds of thousands of entries in credit reports, as well as the people who report that information to them. One important source of error is identity theft; in which a criminal harms your credit by (a) making purchases or otherwise using your existing credit, such as a credit card or ATM card, or (b) fraudulently taking out additional loans in your name. Usually, you can spot an attack on existing credit by reviewing your monthly account statements; you will find purchases or withdrawals you did not authorize...or you may find that you never received your statement because the thief has diverted it to a new address. However, in order to find out if an identity thief is taking out *new* credit in your name, you need to review your credit report. If you discover an unauthorized transaction on a credit, debit, or automatic teller machine (ATM) card, report the matter immediately to the card issuer. Follow up in writing at the addresses that the card issuer provides for this purpose, referencing the earlier call. Generally, under the Electronic Funds Transfer Act (15 USC 1693) covering ATM and debit cards, and the Fair Credit Billing Act (15 USC 1666), covering credit cards, you can eliminate or at drastically least minimize your loss by making a timely report of the unauthorized transaction. However, the details of EFTA and FCBA are beyond the scope of this article.

5. **FREE ANNUAL CREDIT REPORT.** You have the right to a free copy of your credit report every year from each of the credit reporting agencies. Since there are three credit reporting agencies, you can stagger these requests and get one every four months. By reviewing your credit report, you have an idea what security officials and prospective lenders and employers are looking at. More importantly, monitoring your credit report can help you find out if there are any inaccurate, adverse entries; for example, listing a loan you never made or late payments on goods or services you never purchased. You can obtain a free annual credit report on line (visit [annualcreditreport.com](http://annualcreditreport.com)) or by phone (call 1-877-322-8228) or by filling out the Annual Credit Report Request Form and mailing it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. Additional information is on the FTC website. Forms and ordering instructions at [www.annualcreditreport.com](http://www.annualcreditreport.com)

6. **BEWARE OF IMPOPSTER SITES.** The IP address above is the official website, the one site authorized to comply with the law that requires credit reporting agencies to give you a free annual report. Other sites or companies may offer free credit reports, but are not part of the legally required program. These other sites sometimes offer free reports to lure consumers in and to purchase some kind of credit monitoring service. Sometimes the supposedly free service converts to fee for service after an initial trial period, or if you fail to cancel within a specified period of time. Some imposter sites try to deceive you into believing that they are the official site, suggesting government endorsement or using a web site name similar to that of the official site. The official site, [Annualcreditreport.com](http://Annualcreditreport.com), will not send you an email asking for your personal information. If you get an email, see a pop-up ad, or get a phone call from someone claiming to be from [annualcreditreport.com](http://annualcreditreport.com) do not reply or click on any link in the message. Forward any such email to the FTC at [spam@uce.gov](mailto:spam@uce.gov).

7. **REMOVING ADVERSE INFORMATION FROM YOUR CREDIT REPORT.** The Federal Fair Credit Reporting Act (15 USC 1681) provides a method to dispute and remove *erroneous* entries from your credit report. Entries that are *accurate* cannot be removed by the consumer or any sort of “credit doctor.” The only medicine that heals that wound is time (See paragraph 8 concerning stale information). Section 1681(i) of the FCRA provides that when consumers dispute the accuracy of information in the credit report, the credit reporting agency must conduct a reasonable investigation to determine whether the information is accurate and within thirty days delete information that is inaccurate or cannot be verified. The deadline increases to 45 days if the consumer provides information relevant to the investigation. While the law says that the credit reporting agency must prove that the information is accurate or else remove it, don’t count on credit reporting agencies actually following the law and conducting much of an investigation. As a practical matter, despite the law, it is often up to the consumer to provide evidence to the credit reporting agency that the information is false. The consumer reporting agency is required to provide the consumer with the results of its investigation, including (a) any revisions to the credit report, (b) if requested, a description of the procedure used to conduct the investigation, (c) notice of the consumer’s right to dispute the accuracy of the information, and (d) the consumer’s right to request that notice of deleted information be sent to any person who received a credit report within the last two years for employment purposes, or within the last six months for any other purpose. If the credit reporting agency claims that it has investigated the matter and has determined that the disputed information is accurate, the consumer can demand that the credit report reflect that the matter is disputed. Additionally the consumer can demand that the credit reporting agency post the consumer’s stated reasons for the dispute, which the credit reporting agency can limit to 100 words. Additional recourse for the consumer includes suing the credit reporting agency and making an on line complaint to the Consumer Finance Protection Bureau. Willful, knowing, or negligent noncompliance with the FCRA exposes the credit reporting agency to liability for compensatory damages (up to \$1,000), punitive damages, and attorney’s fees [15 USC 1681n / 1681o].

8. **STALE INFORMATION.** With three notable exceptions, the credit reporting agency can not disclose adverse information that is considered to be too old. This old, stale information includes bankruptcies over ten years old, civil judgements that are over seven years old (or until the applicable statute of limitations has passed, whichever is longer), paid tax liens that were paid over seven years ago, and all accounts placed in collection and all other adverse information over seven years old. Generally, all of this stale information may not be reported when you apply for a loan, but may be reported in the following circumstances: you apply for a loan or credit in an amount of \$150,000 or more, (b) you apply for life insurance in the amount of \$150,000 or more, and (c) you apply for employment at an annual salary that may reasonably be expected to be \$75,000 or more [15 USC 1681(c)].

9. **BEWARE OF THE CREDIT “DOCTOR”.** As noted above, consumers have various rights to dispute erroneous information in a credit report and to have it removed. Advertisements that state or suggest that, for a fee, accurate information can be removed from your credit report are fraudulent.

10. **IDENTITY THEFT PROTECTION.** Most creditors will not lend you money without access to your credit report. Therefore, preventing thieves from accessing your credit report goes a long

way towards preventing them from taking out loans in your name. There are two programs designed to address identity theft, the fraud alert and the security freeze. Additional information concerning fraud alerts is provided below. Additionally, the web site of the Federal Trade Commission provides information and instructions on how to initiate an alert.

a. *Initial Fraud Alert.* A consumer with a good faith reason to believe that he is or soon will be a victim of identity theft may request credit reporting agencies initiate a fraud alert. Upon the receipt of such a request, the credit reporting agency is obligated begin an initial, 90 day security alert. During this initial period, when the credit reporting agency furnishes a credit report, it will also provide an alert. The law [15 USC 1681(c)] provides that, during this initial alert period, lenders shall not extend credit to the applicant without first using “reasonable policies and procedures” to determine the identity of the applicant. A credit reporting agency that has received a request for a security alert is supposed to advise the other credit reporting agencies of the request as well. During the initial alert period, the consumer retains the right to a copy of his own credit report. The consumer may also ask that the alert period be discontinued prior to the expiration of 90 days. Consumers can request an initial alert by contacting any of the credit reporting agencies be phone:

TransUnion	1-800-680-7289
Experian	1-888-397-3742
Equifax	1-800-525-6285

The Federal Trade Commission has also posted links to the credit reporting agencies that allow for on line requests for an initial fraud alert. <https://www.consumer.ftc.gov/articles/0275-place-fraud-alert>

b. *Extended Fraud Alert.* Victims who submit an identity theft report to the credit reporting agency may obtain an extended security alert. Thereafter, for a period of seven years, the credit reporting agency will report the fraud alert to anyone requesting a copy of the credit report. During the extended alert period, the consumer retains the right to a copy of his own credit report. The consumer may also ask that the alert period be discontinued prior to the expiration of alert period.

c. *Active Duty Alert.* An active duty service member (SMs) can initiate a fraud alert that lasts not less than twelve months, regardless of whether the SM is or expects to be a victim of identity theft. SMs can initiate such an alert by contacting a credit reporting agency:

TransUnion	1-800-680-7289
Experian	1-888-397-3742
Equifax	1-800-525-6285

The Federal Trade Commission has also posted links to initiating on line active duty alert. <https://www.consumer.ftc.gov/articles/0273-active-duty-alerts#credit> The active duty alert is designed to help prevent identity thieves from stealing from you or obtaining credit or services in your name while you are deployed.

d. *Security Freeze*. The security freeze, sometimes called a credit freeze, blocks unauthorized access to your credit report. When you sign up for a security freeze, you receive a password from the credit reporting agency that must be submitted for the issuance of a credit report. In North Carolina, the security freeze is free if (a) you sign up on line, or (b) you are over the age of 62 and you request a security freeze on line, by mail, or over the phone. Parents and guardians can also obtain security freezes for minor children or incapacitated adults. You continue to have the right to a free annual credit report from each of the three credit reporting agencies even if you elect security freeze. The North Carolina Department of Justice provides additional information and instructions / contact information for initiating a security freeze. <http://www.ncdoj.gov/getdoc/e265b0c0-6a9c-4fef-a0a9-dce26b74277e/Free-Security-Freeze.aspx> South Carolina residents may initiate a security freeze for free. The South Carolina Attorney General has posted contact information for initiating the freeze, temporarily or permanently lifting the freeze, and for requesting a new password. See: “How to Place, Lift, or Thaw a Security Freeze.”

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