

## Discover What to do When Your Credit Worthiness is Damaged Due to Circumstances out of Your Control

First of all, let's examine exactly what credit worth means and how it affects your financial life.

Your credit worth, as defined by the financial industry, is the overall picture of your financial health that is used by lenders to determine your ability to repay debt. By looking at a combination of factors, lenders, such as banks, credit card companies, and utility companies, estimate how worthy you are of receiving a line of credit or regular services based on a payment schedule.

The most common factor used by lenders to determine credit worthiness is your credit score. Your credit score is a number generated by a mathematical formula that estimates how likely you are to pay your bills. Based on the information in your credit reports from the three credit bureaus, Equifax, Experian, and TransUnion, your credit score is a factor affecting your ability to get loans and good interest rates. Lenders compare your credit report with millions of others to determine your score.

But your credit score is not the only thing that lenders look at to decide whether or not to give you a loan or a good interest rate. They also evaluate the individual entries on your credit report and the information you provide on your loan application. Some creditors consider your occupation, length of employment, and whether or not you own a home.

Each creditor creates a credit scoring system based on factors important to that institution, so you may receive different results with different lenders. For this reason, it is also important to talk to the credit manager about why you received the credit limit and interest rates that you did. You may have mitigating circumstances that affect how your credit history is viewed, or you may be on the margin between two score categories. Negotiation may be possible if you are open with the creditor about your ability to pay.

If you are turned down for credit, law states that you are entitled to a free credit report if you request it within 60 days. A few steps you can take to improve your credit worthiness include paying your bills on time, paying down your existing debt, and refrain from taking on new debt. But the points awarded by creditors for each factor varies, and an increase in your credit score depends on how one factor relates to another factor in their particular scoring model.

Collections, bankruptcies, and late payments have the greatest negative effect on your credit score, and, therefore, on your credit worthiness. Paying your bills on time may seem like a small thing when you're writing that monthly check, but an accumulation of timely payments says a lot to a potential lender looking for a reliable client. Prompt payments in recent months can actually make a big difference in your credit score.

Your debt is a factor as well. Keeping your account balances between 25% and 50% of

your available credit signals a responsible borrower. For example, if you have a credit card with a \$2000 limit, keep your debt below \$1000. For this reason, consolidating your credit card debt can actually lower your credit score, as it raises your debt to available credit ratio. The best solution is to simply pay off your existing cards as quickly as possible.

The length of your credit history is another determining factor in a good score. Lenders want to know that you are able to maintain prompt payments and good standing for a reasonable period of time. Most credit scoring models consider the length of your credit history, but low points in this area can be outweighed by good payment history and low debt balances.

Some creditors consider the type of accounts you have as a determining factor in your credit worthiness. While it's a good idea to have established credit accounts, some companies consider loans from finance companies or too many accounts to be negative factors.

Checking your credit report regularly (at least once each quarter) helps you in numerous ways:

1. You need to know who is checking on your credit at any given time. Inquiries factor into your overall credit score and it is illegal to run your report unless you have given written permission.
2. Makes you aware of accounts reported incorrectly, which is extremely important in situations such as a company reporting a late payment incorrectly.
3. You may discover big surprises like a collection account filed against you that you weren't even aware of. It happens!
4. And the really big one - someone has *stolen your identity* and is using your credit!

With the number of identity theft cases increasing steadily, you can't afford to ignore your credit - especially if you are considering borrowing.

In a recent court case number 02CC13327, a 4<sup>th</sup> District Court of Appeals upheld the first \$1 million judgment against a large retail company by a victim of identity theft. One of the interesting facts of this case is that the court recognized a recently developed procedure for measuring credit damage.

Up until recently, lawyers for victims of credit damage had little chance of collecting damages beyond medical treatment, lost wages and property loss. With the development of credit damage measurement, that has all changed.

You can learn more about your credit report and how to contact the three major bureaus at <http://www.apscreen.com>