

How To Check Your Credit Report

With home buying and refinancing at high levels, checking credit reports should be on everyone's list of financial obligations. Good credit can lead to a magical world of cheap rates and good terms, while erroneous credit reports can unfairly raise the cost of borrowing.

What does your credit report say?

Lenders typically look at three credit reports when reviewing mortgage applications, the argument being that three reports may identify credit issues that a single report would miss. Alternatively, there is a movement toward a single report, which [Fannie Mae](#) will try later this year.

So what's in your credit report and what steps can you take to make it stronger?

If you expect to be in the market for a mortgage in the near future, say the next two or three months, it makes sense to obtain a copy of your credit report from the three major credit reporting services -- [Equifax](#), [Experian](#) and [TransUnion](#). The cost per report is minimal, and in some cases they may be available without cost.

You want to check your report for several items:

- Are there entries which are factually incorrect? If yes, contact the credit reporting agency by certified mail, with a return receipt requested. Lenders have 30 days from receipt to correct or confirm a challenged entry.
- Does the report include information regarding someone else? If you are "Fred Smith" and not "Fred Smith, Jr." or some other individual, then the report needs to be corrected.
- Do you have old credit accounts which remain open? The fact that an old credit card is "inactive" does not mean it's "closed." If an account is inactive, if it hasn't been used, is unnecessary and likely won't be used, then contact the credit issuer and have the account shut. Closing inactive accounts can raise credit scores.
- Do you have late payments? By "late" credit issuers mean 30, 60 or 90 days after payment is due. Late payments are a huge no-no to lenders and can quickly knock down credit scores.
- What are your debts? Lenders look at real estate, installment debt such as a car payment, revolving accounts such as credit cards, collection claims, and other obligations. Check the numbers to assure they are right.
- Is address information accurate? The wrong address may also mean incorrect credit references.
- Is your Social Security number correct? A single wrong digit and the whole credit report is likely to be rife with errors.
- How many credit inquires have you made in the past 90 days? In this case, lenders want to know if you have recently extended your credit obligations or opened new accounts. The concern is that maybe the high cash balances that appear on the credit report are really just evidence of increased debts rather than savings and good cash management.
- Do you have any delinquent credit accounts?

Each credit report will also provide credit scores, a short-hand way to evaluate your overall financial performance. [Scores](#) can range from 200 to above 800, but you can guess that anything below 620 will not thrill lenders while 720 or better will likely guarantee the best possible rates and terms.

What to do if you have bad credit? Start paying bills on time, reduce debts, and build savings. None of this will happen quickly or automatically, but over time -- perhaps in a year or two -- your credit report will shape up.

What to avoid? Do NOT engage in "credit substitution" schemes, efforts to create a new credit identity. Such schemes are [illegal](#) despite promoters' claims to the contrary, and they are obvious to lenders.