

# Credit Basics Ahead of a FSA Loan Application

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# Credit Basics

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WHAT IS CREDIT AND HOW DO I MAINTAIN GOOD CREDIT?

# Credit Basics

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- Credit is: a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.
  - Car loans, student loans, home loans, credit cards, farm loans, store credit, etc
- Today we'll be discussing:
  - Credit scores
  - Credit bureaus
  - Credit history and credit reports
  - Credit repair options
  - Credit monitoring techniques, tools, and services

# Credit Scores

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What is a credit score, and where does it come from?

- It depends. There are at least six different “credit score scales” and they ALL have different ranges. Most lenders still look at FICO for personal credit, though, and generally speaking, this list is a good representation of scoring:

Excellent Credit: 750+

Good Credit: 700-749

Fair Credit: 650-699

Poor Credit: 600-649

Bad Credit: below 600

Fun fact, a FICO credit score stands for: Fair Isaac & Company.

Every credit reporting agency uses a **different** mathematical formula to calculate your score. They base them on similar factors— age of accounts, on time payments, total available credit line, etc— but they’re usually a few points different.

**But remember:** FSA will NOT be using your credit score to make a lending decision. Your credit **history** is more important to that determination.

# Where do I see my credit score?

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## So how do I get my score?

- There are quite a few free services that can help you, like Credit Karma or Credit.com. They can help you continually monitor your credit history and even give you a breakdown of what factors are affecting your credit.
- However, their free price tag comes with a hidden cost: **these services cannot tell you your actual credit score**. It may be lower or higher than what they list.
- An account with MyFICO, on the other hand, will give you 100% accurate credit score information— but at \$29.95/month, the cost for that knowledge can add up fast.
- <http://www.myfico.com/>.

Native community development financial institutions (CDFI's) can also lend a hand in this space.

# Credit history & reports

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When looking at a first-time borrower, FSA is going to be more concerned with your credit history. That means we need to talk about your credit report, which is where you can see your credit history.

**Remember! Your credit report is not the same thing as your credit score.** A **credit report** is a detailed **report** of your **credit** history. **Credit** bureaus collect information and create **credit reports** based on that information, and lenders use the **reports** along with other details to determine loan applicants' **creditworthiness**.

There are **three** major credit bureaus: Experian, Equifax, and Transunion.

# How do I access my credit report?

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To get started, go to: [www.annualcreditreport.com](http://www.annualcreditreport.com).

Federal law allows every consumer to access one free credit report per calendar year. This website makes that process quick. Your credit score will NOT be affected by getting your free report each year.

If you don't have reliable internet access, however, you can still request your free reports through the mail. Call Annual Credit Report toll free at 877-322-8228 for questions on this process.

**Be sure to request your report from ALL THREE major credit agencies: Experian, Equifax, and TransUnion.** Not all credit accounts report to all 3 bureaus— or any bureaus! So your reports can look different depending on what has been reported. This is especially important if there is an error on one of your reports, but not on all three. The only way to know is to get all of them.

# Reading your credit report

**Experian**  
A world of insight

**Online Personal Credit Report from Experian for**

Experian credit report prepared for  
**JOHN Q CONSUMER**  
Your report number is  
**1562064065** **1**  
Report date:  
**04/24/2012**

**Index:**

- [Potentially negative items](#)
- [Accounts in good standing](#)
- [Requests for your credit history](#)
- [Personal information](#)
- [Important message from Experian](#)
- [Contact us](#)

**Report number:**  
You will need your report number to contact Experian online, by phone or by mail.

**Index:**  
Navigate through the sections of your credit report using these links.

**Potentially negative items:**  
Items that creditors may view less favorably. It includes the creditor's name and address, your account number (shortened for

Experian collects and organizes information about you and your credit history from public records, your creditors and other reliable sources. Experian makes your credit history available to your current and prospective creditors, employers and others as allowed by law, which can expedite your ability to obtain credit and can make offers of credit available to you. We do not grant or deny credit; each credit grantor makes that decision based on its own guidelines.

To return to your report in the near future, log on to [www.experian.com/consumer](http://www.experian.com/consumer) and select "View your report again" or "Dispute" and then enter your report number.

If you disagree with information in this report, return to the Report Summary page and follow the instructions for disputing.

**Potentially Negative Items** **3**

Public Records

This is a sample Experian credit report. Make note of your report number. Your report will always highlight any negative items, but don't forget: Read EVERYTHING to make sure it's accurate.



# Reading your credit report

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Get a pencil and paper and start reading each report from each credit bureau. If something looks weird, make a note to yourself.

Make sure you recognize every account listed. If you don't, make a note!

- Student loan debt can be hard to recognize, because they are sold frequently.

If you recognize all the accounts, make sure they are listed **accurately**: for example, if you paid in full and a loan was discharged, but your credit report says the account is delinquent, make a note. You'll need to dispute this in the next step.

Is something missing from your report that you would like to see there, like an account in good standing? Make a note! Some lenders don't report your accounts with them to credit bureaus, but they will often write a letter of reference to put in your credit file if you request one. John Deere Financial, for example, has this practice.

Make sure your reports from each bureau match as much as possible. Sometimes, information can be misreported to only 1 of the 3 bureaus.

# Reading your credit report

**EQUIFAX** Print This Page Close Window

**Equifax Credit Report™** for [REDACTED]  
As of: 04/19/2011  
Available until: 05/19/2011  
Confirmation #: [REDACTED] Report Does Not Update

**Important.** Please print this report as it will only be available for you to view during this session with Equifax. If you would like to view this credit report online free for 30 days, [click here](#).

Section Title	Section Description
<a href="#">1. Credit Summary</a>	Summary of account activity
<a href="#">2. Account Information</a>	Detailed account information
<a href="#">3. Inquiries</a>	Companies that have requested or viewed your credit information
<a href="#">4. Negative Information</a>	Bankruptcies, liens, garnishments and other judgments
<a href="#">5. Personal Information</a>	Personal data, addresses, employment history
<a href="#">6. Dispute File Information</a>	How to dispute information found on this credit report
<a href="#">7. Summary of Your Rights Under the FCRA</a>	Summary of Your Rights Under the FCRA
<a href="#">8. Remedying the Effects of Identity Theft</a>	Remedying the Effects of Identity Theft
<a href="#">9. Your Rights Under State Law</a>	Your Rights Under State Law

**Credit Summary**  
Your Equifax Credit Summary highlights the information in your credit file that is most important in determining your credit standing by distilling key credit information into one easy-to-read summary.

**Accounts**  
Lenders usually take a positive view of individuals with a range of credit accounts - car loan, credit cards, mortgage, etc. - that have a record of timely payments. However, a high debt to credit ratio on certain types of revolving (credit card) accounts and installment loans will typically have a negative impact.

Open Accounts	Total Number	Balance	Available	Credit Limit	Debt to Credit Ratio	Monthly Payment Amount	Accounts with a Balance
<a href="#">Mortgage</a>	1	[REDACTED]	\$0	[REDACTED]	91%	[REDACTED]	[REDACTED]
<a href="#">Installment</a>	0	\$0	N/A	N/A	N/A	\$0	0
<a href="#">Revolving</a>	7	[REDACTED]	[REDACTED]	[REDACTED]	7%	[REDACTED]	[REDACTED]
<a href="#">Other</a>	0	\$0	N/A	N/A	N/A	\$0	0
<b>Total</b>	<b>8</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Debt by Account Type      Debt to Credit Ratio by Account Type

This is another sample report, this time from a different Credit bureau, Equifax. You can see the same types Of categories here that we saw on the Experian report. Remember: each report can be different, so read all 3 To make sure everything is accurate.

If things aren't accurate, make a note! We'll talk about How to address those problems in our next section.

# Reading your credit report

Your credit report will have a section for “inquiries.” These come in 2 flavors: those that impact your credit score (a “hard” inquiry) and those that don’t (a “soft” inquiry).

A hard inquiry isn’t necessarily bad. It will appear when you apply for credit. Always read these to make sure you recognize the institutions listed as making an inquiry— mistakes and identity theft do happen!

A request for your credit history is called an inquiry. Inquiries remain on your credit report for two years. There are two types of inquiries - those that may impact your credit rating and those that do not.

#### **Inquiries that may impact your credit rating**

These inquiries are made by companies with whom you have applied for a loan or credit.

Name of Company	Date of Inquiry
123 UTILITY <a href="#">Show Details</a>	03/05/07
ABC LENDING CO <a href="#">Show Details</a>	02/06/07
XYZ CREDIT <a href="#">Show Details</a>	01/29/07

#### **Inquiries that do not impact your credit rating**

These inquiries include requests from employers, companies making promotional offers and your own requests to check your credit. These inquiries are only viewable by you.

Company Information	Date of Inquiry
ND-Promotional Inquiry	07/11/06
EFX-Equifax Consumer Services	01/17/07
PRM-ECAS	12/03/06, 12/15/06

# Credit repair: filing disputes

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Look at your notes from reading your reports. This is your list of disputes to file/people to call.

Start by filing disputes with the credit bureaus (Equifax, Transunion, Experian) themselves. You can do this online at each bureau's website, call their toll-free numbers and request that they mail you a dispute form, or write a letter sent certified mail, return receipt requested.

- If you suspect identity theft, report it **immediately** to the Federal Trade Commission online using [www.identitytheft.gov](http://www.identitytheft.gov).

Write to the entity listed on your credit report– or, if it's a local lender, sometimes it's still easier just to pick up the phone and give them a call first.

- If you do write a letter, send it certified mail, return receipt requested. This gives you tangible proof that you contacted the creditor.
- Keep a copy of your letter for your own records.
- Federal law gives you the right to make this request– legitimate lenders will understand this.

# Credit repair: filing notes

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Sometimes, information on our credit reports is negative, but still accurate. Deaths in the family, personal or family illness, job loss, identity theft, and many other factors outside our control can result in negative entries on our credit reports. When this happens, we're not without options.

One of the simplest things to do is put a note on your credit report. You can do this with each credit bureau. This isn't an excuse for missing a payment, it's just an explanation to any future lenders who may be reviewing your credit history, so they can take that into account.

# Credit basics, summarized

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Your credit score is a number that some lenders will use to decide whether or not to extend credit to you. FSA will not use this.

Your credit history comes from your credit report.

3 credit bureaus— Experian, Equifax, and Transunion— are the major companies who keep credit reports. You can get one report for free annually from each of these companies by visiting [www.annualcreditreport.com](http://www.annualcreditreport.com).

Different lenders report differently, so your credit reports may look different from each bureau. Read carefully, and dispute any wrong information. If there are negative entries due to factors outside your control, make a note to explain the situation.

# Native CDFI's and credit repair/monitoring

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Native community development financial institutions (CDFI's) can be a great resource in the credit arena, both for financial education and for ongoing credit repair and monitoring.

By partnering with the Credit Builders Alliance, CDFI'S have the ability to report to 2 of the 3 major credit bureaus. Reporting on loans through the CDFI can help you build a credit history. Just six months of on-time payments can create a solid credit history and a great score—even small loans can earn you between 15 and 100 points on your score if they are paid on time for at least six months.

Through their CBA partnership, CDFI's can also help you monitor your credit. With your permission, they can make “Soft” inquiries for your credit report that won't lower your score, but will allow you to do some monitoring more than just once a year.

# FSA and Credit

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CREDIT CONSIDERATIONS BEFORE MAKING AN  
APPLICATION FOR AN FSA LOAN



# FSA loans and credit, Part I

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- You'll remember from our Credit Basics tour that FSA **doesn't** utilize credit scores in making a lending decision. So what do they use?
- Specifically, when it comes to credit, FSA:
  - Wants to see an “acceptable credit history” from an applicant.
    - That includes your credit history with the federal government— previous loan repayments matter!
  - Will not automatically disqualify folks from getting a loan because of:
    - Previous history of slow payments
    - No credit history
    - Recent poor credit when problems were due to temporary conditions outside your control
- If you're worried about your credit history and FSA, remember: a low credit score isn't a barrier to an FSA loan, and a perfect credit history isn't necessary.

# FSA loans and credit, Part I

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General requirements for an FSA loan:

must not have Federal or State conviction(s) for planting, cultivating, growing, producing, harvesting, storing, trafficking, or possession of controlled substances

have the legal ability to accept responsibility for the loan obligation

**have an acceptable credit history**

be a United States citizen, non-citizen national or legal resident alien of the United States, including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Trust Territory

**have no previous debt forgiveness by the Agency, including a guarantee loan loss payment**

**be unable to obtain sufficient credit elsewhere, with or without an FSA loan guarantee**

**not be delinquent on any Federal debt, other than IRS tax debt, at the time of loan closing**

not be ineligible due to disqualification resulting from Federal Crop Insurance violation

be able to show sufficient farm managerial experience through education, on-the-job training and/or general farm experience, to assure reasonable prospect of loan repayment ability

must be the owner-operator of a family farm after loan closing

# FSA loans and credit, Part I

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- FSA does not automatically disqualify folks from getting a loan because of:
  - Previous history of slow payments
  - No credit history
    - This can be especially important for beginning farmers and ranchers, or anyone inside a credit desert.
  - Recent poor credit when problems were due to temporary conditions outside your control
- Potential loans are taken on a case by case basis.
- Remember, leaving notes on your credit file and reading your credit report in detail can be very helpful.
- Your credit **history** matters more than your credit **score** for FSA.

# FSA loans and credit, part II

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- In Part I, we discussed
  - FSA loans are a great place to start when you're looking for financing for your operation.
- FSA can offer lending options when commercial lenders won't, but on a temporary basis.
- FSA's goal is to assist farmers and ranchers with lending until they are financially prepared to transition into the commercial credit system.
- When borrowers graduate to commercial credit, their FSA loans are refinanced with a commercial lender.



School of Law

***Indigenous Food and Agriculture Initiative***

The nation's first law school initiative focusing on Tribal food law and policy supporting food systems, agriculture and community sustainability

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