

# HOW TO IMPROVE YOUR CREDIT SCORE

## What Everyone Needs to Know

Revised 2010

By: John R. Lee



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What everyone needs to know.



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The information contained in this publication is as up to date as possible at the time of printing. You should seek the advice of a professional in their field of expertise whenever you are considering anything that has to do with your financial life. It may very well affect your well-being and should be taken seriously.

# HOW TO IMPROVE YOUR CREDIT SCORE



By:



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# Acknowledgment and Dedication



*Sue Panetti-Lee*

President MO BPW 2005-2006

*July 11, 1960 to June 27, 2007*

Without reservation everything that went into these pages is dedicated to my Wonderful wife, Sue. She is the most intelligent, logical, strongest, caring and level-headed person I know (and good looking, too!). Without her love and support none of this would have been possible. Besides Sue's full-time Counseling practice and serving as the current president of BPW (Business and Professional Women) for the state of Missouri, she still finds time to contribute to my needs. I am eternally indebted and grateful to Sue. Thank you.

*\*Sue was diagnosed with colon cancer on March 1, 2007 and passed away on June 27, 2007. She is eternally missed.\**

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## INTRODUCTION

Most of the information contained in this text has come from experience, i.e. blood, sweat, tears, trials and errors. What started off as a necessity from my own circumstances, turned into a lifetime quest to help others obtain financial intelligence in regards to their credit. There seems to be a lack of good information when it comes to your financial and credit well-being. It is my intent to provide you with good information that you will be able to apply to your own situation and betterment. Just by opening these pages you are taking a very important and giant step towards upgrading your life. Regardless of where you are currently there is always room for improvement. Our hope is that our experiences will be beneficial for you. Thank you for taking the time to increase your education and understanding of *Improving Your Credit Score*.

## HOW TO IMPROVE YOUR CREDIT SCORE

### ***Credit Score Ranges***

Credit scores range between about 300 and 900 for mortgages. They are a little different for the auto industry and a little different still for other industries. They can all be improved upon.

### ***Where do we start?***

The first step in determining how to improve your credit score is to start where you are at right now. How do you do this? Let's begin by going over some basic facts as to how the credit bureaus come up with the scores in the first place.

How do the credit bureaus determine the scores? Chances are that a lot of you reading this have been turned down for credit at one time or another due to the fact that you were told your credit score was too low. You may have even been told that your *FICO* score was not high enough for the type of credit you were applying for.

### ***What are FICO scores?***

What is your *FICO* score anyway? Actually your *FICO* score is only one of three credit scores you have. There are three credit bureaus and they each have a separate score. One of the three bureaus is *Experian*, which gives you the *FICO* score. There is *TransUnion* which assign you an *Empirica* score and *CSC Credit Services* (formally known as *Equifax*) that gives you a *Beacon* score. Why they each have a different name and

where it came from is beyond the scope of how to improve your score. Let's just say they are similar in the way that they rate your credit.

The scores can be dramatically different at each bureau due to the fact of different information being reported to different agencies and also at different times to the agencies. Some creditors report to all three bureaus while other creditors may report to only one or two of the reporting bureaus. That is why the scores can range so much between the bureaus.

It is important to know what all three of the bureaus are reporting about you. Your scores can be as much as one hundred points different, or more between the three agencies.

### ***How do they come up with the scores?***

In order to improve your credit score you need to know how they are derived. It is very unfortunate that a good portion of the people in the credit business and financial industry (so-called experts) do not even know how the bureaus come up with the scores. They will say something like, "It is devised of very complicated formulas to determine if you are a good borrower or not". Or, "It is your ability to pay back a loan." Or, "It tells us if you are a good or bad credit risk". What is your credit score really designed to do?

***Actually*** – Credit scores are designed to show the likelihood that the borrower will become 90 days late or delinquent on an account within the next 24 months. Next time you're having a conversation with someone that thinks they know what credit scores are for ask them to see if they really know, now that you do.

Scores divide borrowers up into ten different cards or models. We are not going to get into what the different models are or the categories as it is not necessary for our purposes. What we do want to know is how the scores are put together and what is important in their calculations. So what we are going to do is take a look at what is important to the credit scores and how much impact each aspect has in determining the scores.

First and foremost is **Payment History**. How you make your payments in relation to the due dates on your accounts is the basis for 35% of your credit score. When looking at late payments they look at the recency, frequency and severity of the payment history. The importance of each is broken down even further.

**Recency** of late payments is divided into three categories. First and most important is how many late payments have you had in the last six months? The next category being how many late payments you've had between seven and twenty-three months ago. It is also next in importance. The third category is how many late payments you've had more than 24 months ago. This last category doesn't have near the effect the first two categories have but it is still on your report.

**Frequency** of late payments is the number of times you have been late on each account and on how many of your accounts. Obviously if you have one late account you will be in better shape than if all of your accounts have been paid late.

**Severity** of your late payments, are just that. How late were you – 30 days, 60 days, 90 days or 120 + days? The further behind you are the lower your credit score will be.

The next greatest factor of importance in figuring out credit scores, are the **Balances** of your accounts. 30% of your overall score is due directly to the amount and proportion of your

balances. Ideal balances are between 30% – 40% or less of your total credit limit on your accounts for revolving accounts (credit cards in particular). If your balance gets over 50% of your credit limit your scores are hit pretty hard. Any amounts over 75% are hit really hard as far as your score is concerned. High balances are a very good indicator of the potential for becoming 90 days late.

The overall combined credit limits and balances are considered. *Example:* If you have five - \$5000 limit credit cards (a total of \$25,000 of available credit) and have a balance on one of them of \$5000 then you are at 20% of your total available limit. On the other hand if you have one \$5000 limit card and you have a \$4000 balance you are at 80%. Now your score will be taking a beating.

Keep in mind that the proportion is more important than the total amount. If you have a \$100 revolving credit limit and your balance is \$90 you are at 90%. The dollar amount does not really matter.

*Note:* Installment loans (auto, mortgages, etc.) are not considered with proportion of balance to limits. They are factored differently – mainly by payment history, age and type of account.

**HELOC's** (Home Equity Line of Credit) are looked at like an installment loan even though many of them give you a line of credit that you may draw from like a revolving account. Again, payment history and age will carry more weight with these types of accounts.

**AMEX** cards (American Express) are looked at in regards to proportion of balance from last month as compared to this month. If you had a \$100 balance last month and a \$1000

balance this month it is looked upon as a 1000% balance in proportion to limit. On the other hand if you had a \$1000 balance last month and a \$100 balance this month you are at a 10% balance in proportion to limit. These don't make a lot of sense, especially considering the fact that these are usually due and payable in full each month.

**Credit History** accounts for 15% of your total score. The age of the oldest trade lines and the number of new trade lines are the two most important factors considered. You will score considerably lower if you have a lot of new trade lines than if you have some that are many years old.

How many accounts should you have? Experts disagree on the ideal number of accounts. Many say 3 to 5 revolving accounts are good. It appears that the quality of the account means more than the actual number. That is: how it's been paid, the age and type of the account and the proportion of balance in regard to limit.

10% of your score is related to the **Type of Credit Accounts** you carry. There are *positive* trade lines and *negative* trade lines. Positive accounts include mortgages, auto loans, certain installment loans and credit cards (if they're bank issued). Negative accounts are Finance Company loans, Store issued credit cards (usually caused by the high proportion of balance to limits), payday loans, car title loans, as well as many others. These are all good indicators that a consumer has a very good probability of becoming ninety days late within the next twenty-four months.

The last 10% of your credit score has to do with the number of **Credit Inquiries** you have on your credit report. What is looked at is the number of inquiries you have had in the last 12 months. Inquiries actually stay on your credit report for 24

months although they are not much of a factor after twelve months. They count a maximum of about five to seven inquiries each, representing between 5 and 15 points each off of your score. Mortgage and Auto inquiries do not count against you if they are in a thirty-day period. They do give you a “*window*” for shopping. But if you’re out shopping for cars every month of the year it will count against you. You do not want to have a lot of *unnecessary* credit inquiries on your credit report. You can appear to be desperate for credit. It is looked at as very unfavorable.

### ***Where are you in regards to everyone else?***

How do you rank in credit scores with the rest of Americans? In April 2003 the average credit score across the country was 720. Which means half the people had a score greater than 720 and half of the people had a score below 720. In July of 2004 Experian reported an average score of 678. In March 2009 the overall average score was 720.

What if you have no credit score or a credit score of “Zero”? In order to even get a credit score you need these three things:

- 1) You must have a trade line at least six months old.
- 2) You must have at least one trade line updated at the bureau within the last six months.
- 3) The Social Security number you are using cannot be associated with the terrorist list or a dead person.

### ***What about Bankruptcies?***

How does a bankruptcy affect your credit score? The main factor is how recent it is. How long has it been? What

percentage of your trade lines were thrown into the bankruptcy? Also considered is the number of credit inquiries after your bankruptcy. And the post performance of your account payment history after your bankruptcy is taken into consideration. They look at the accounts you have reaffirmed (accounts kept out of the bankruptcy and continued to pay on as usual) as well as any new accounts you have opened.

There are two types of bankruptcies. One is the chapter 13, which is the repayment plan. The other is the chapter 7, which is the debt elimination plan. We will not get into too much detail here, as our main focus is how they affect your credit score. Bankruptcies can actually have a very positive influence on your credit score. If you've had some problems with late payments or missed payments and you enter into a bankruptcy and then make your payments on time, your score can go up quite a bit in just a few months. On the other hand if you have a lousy payment history after filing a bankruptcy this can have some devastating results on your score (I am not recommending filing a bankruptcy or not. You need to seek expert legal advice with this matter).

### ***How about collections and judgments?***

Collections and judgments can also add some heavy weight in regards to your score. Older paid collections and judgments will have very little affect on your score. However, recent paid collections will have devastating effects on your score. Getting collections removed will help your score. If you're required to pay a collection in order to get a loan it's best to pay it at closing in order to not get an update on that collection.

### ***Are you a co-signer?***

What about co-signers? You may be someone who has signed for someone who could not get a loan on his or her own. Since then they have not made their payments on time and it has shown up on your credit report. You are pretty much stuck with this. Just remember that a co-signer equals seven years of bad luck if the account is not paid as agreed. It's best to collect the payment from the individual each month and make the payment to the creditor yourself if you are the co-signer, insuring the account is being paid on time.

About every eighteen to twenty-four months the credit bureaus add about one and a half million new files to its credit models and update the scoring system.

### ***How long will the information remain on your report?***

How long does the information stay on your credit report? Generally speaking, accounts whether good or bad, stay on your report for period of seven years. Bankruptcies stay for a ten-year period. This is poorly governed and sometimes the information does remain longer. There are some things that can be done which will be discussed later.

Since almost all of our credit lives revolve around scores these days it is more important now than ever to have as high as score as possible. Why should we care how high our scores are? There are many reasons. One very important reason is the interest rates we will be offered.

***Everything can cost less with a better credit score.***

According to myFICO.com as you improve your scores, you will pay less when you buy on credit – whether you’re purchasing a home, cell phone, automobile or signing up for credit cards. Here they use the example of a \$150,000 30-year, fixed-rate mortgage:

Your FICO® Score	Your Interest Rate	Your Monthly Payment
720-850	5.69%	\$869
700-719	5.81%	\$881
675-699	6.35%	\$933
620-674	7.50%	\$1,049
560-619	8.53%	\$1,157
500-559	9.29%	\$1,238

As you can see there’s a tremendous amount of difference in how much you’ll pay based upon your credit score. Other credit accounts are similar in respect to the interest they charge in regard to your score.

***Insurance premiums are also affected.***

What about insurance rates? In the last couple of years many insurance companies have started using credit scores to determine the rates you will pay on your insurance premiums. They say that a person with a lower credit score is more likely to file a claim than a person with a higher score. Sound absurd? They’re doing it. Could it be that they just lost a lot of money in the late 90’s in the stock market like everyone else? This could be a good way to recoup some of those losses.

It used to be that an insurance company would run credit checks and investigations only if you were applying for a large amount of life insurance and for certain property and casualty insurance. But nowadays most companies are pulling credit

reports for regular homeowners and car insurance. The difference in the premiums can be staggering.

I've recently seen similar homeowner coverage range from someone with a 700+ credit score and a premium of \$600 per year to another person with a 540 credit score and a premium of over \$1200. Doesn't seem right but that is what they're doing. (In all fairness there are many other factors that can influence insurance premiums such as zip codes, contents coverage, liability, etc.) Credit scores are just one more way your premiums can be adjusted, higher or lower.

***You will pay less for other loans as well.***

What about automobile loans and credit cards? You guessed it. Credit scores also affect these interest rates. Today just about anyone can get an auto loan and some type of credit card no matter how low your credit score is and regardless of your history. The difference in the rates can be overwhelming. The financial industry calls these higher rate programs "alternative" credit. With a lower credit score you are looked at as a higher risk to loan money to and you will pay a much higher rate accordingly.

***How can you get a copy of your credit report and get started?***

So what can you do to increase your credit score? The first step is to find out where you are right now. You need to get a copy of your credit report from all three of the credit reporting bureaus *with the scores*.

Where do you get copies of your credit reports? There are many sources these days. It is a lot easier than it used to be. Are there places to get them that are better than others? Yes. Recently the advertisements have sprung up all over the place.

Places such as television, magazines, newspapers and the Internet to mention a few.

How much can they charge for a report? According to FCRA (the federal “*Fair Credit Reporting Act*”) they can charge up to \$8 for a credit report. How much do they charge? I’ve seen everything up to \$49.95 for three reports with the scores. How do they get away with this? Good question. I was on a well-known credit company’s website recently and noticed that they offered three different ways of buying your reports from them.

They offered the *Standard* for \$14.95 which included 1 FICO score (their words) and credit report from either Equifax, Experian or TransUnion. Next was the *Deluxe* for \$44.85, which came with all 3 FICO scores and credit reports from Equifax, Experian and TransUnion and also a FICO Score Simulator. Then they sold the *Platinum* for \$49.95 that was all 3 FICO scores and credit reports from Equifax, Experian and TransUnion, a FICO score simulator, an EZ error correct, a personalized score improvement recommendations and Online coaching with a well-known financial guru. Sounds impressive, doesn’t it? Do you need all this? I don’t know. Maybe you do and maybe you don’t.

What if you just want a copy of your reports and not all of these other warm fuzzies? According to FCRA you are entitled to a free copy of your credit report if you are denied credit and you make a request for it within thirty days of the denial. The only problem with this *free* report is you will only receive the report from the bureau the creditor used and it usually does not have a score with it. It can be useful for you to see what’s on the report and who has been looking at your credit report, but that’s about it.

You may also buy a report directly from the three credit reporting bureaus themselves. Make sure you request a copy *with* the scores and also an explanation of how they determined the scores. This is very helpful in figuring out where your weaknesses are. Make sure you order one from each of the three agencies. I will give you the phone numbers and addresses later.

Another way that is creative and very useful in getting a copy of your credit report is by applying for a home loan whether you currently own a home or not. This can easily be done, by spending no money at all. Simply find a mortgage broker or loan officer that is willing to do a *pre-qualification* for you. Make sure you find someone that will *not* charge you an application fee. Many now days charge a fee of several hundred dollars that will pay for a credit check and appraisal fee. You do not want this. You want someone who will take a little time gathering some basic information from you and running a credit check.

The reason for going to a mortgage person as opposed to other types of credit personnel is because they almost always pull a tri-merge credit check or at least will check all three bureaus. Most others will only check one bureau that is local to the types of credit they transact.

If you don't currently own a home tell them you are thinking about buying a home and you would like to see what your possibilities are. If you already own a home tell them you are possibly thinking about refinancing your existing home to a better rate and term or you are thinking of buying an investment or vacation home. Either way it should not be too difficult to find someone to help you out.

When they get your report make an appointment to sit down with them and have them go over it with you. Have them explain to you where you stand as far as your credit score is concerned and what you qualify for in a home loan. Since you will be much more informed about credit by the time you sit down with them, you will be able to tell how knowledgeable they are and have an intelligent conversation with them. When you are through, ask them for a copy of your reports.

This should give you a good indication of where you are starting. Remember to be respectful of their time. This is their livelihood and they are taking their time to help you. Don't go to several people just find one you are comfortable with. And who knows? You may even be offered a great rate for a home loan. After all, getting better rates and improving your situation is what this is all about.

### ***What are you looking for on your credit report and how do you read it?***

What do you want to look for on your credit report? There are several key ingredients to look at. Obviously you will want to look at your scores to begin with. There is usually an explanation right below your scores indicating how they derived at the score you are at. They will tell you by listing the four most important reasons your score is what it is. Understanding your credit report is crucial in taking the necessary steps to improving your score.

The following are the explanations that are used from the various bureaus with respect to the factors used in determining how they arrived at the score.

## *Experian – FICO score*

Factor	Definition
01	Amount owed on accounts is too high
02	Level of delinquency on accounts
03	Too few bank revolving accounts
04	Too many bank or national revolving accounts
05	Too many accounts with balances
06	Too many consumer finance accounts
07	Account payment history is too new to rate
08	Number of recent inquiries
33	Proportion of current loan balance to original loan amount
09	Number of accounts opened within the last twelve months
10	Proportion of balance to high credit on bank revolving or all revolving accounts
11	Current balances on revolving accounts
12	Length of revolving account history
13	Length of time (or unknown time) since account delinquencies
14	Length of time accounts have been established
15	Insufficient or lack of bank revolving account information
16	Insufficient or lack of revolving account information
17	No recent (non-mortgage) account balance information
18	Number of accounts delinquent
19	Too few accounts rated “current”
20	Time since derogatory public record or collection too short
21	Amount past due on accounts
22	Serious delinquencies, derogatory public record or collections filed
23	Number of bank or national revolving accounts with balances
24	No recent revolving balances
27	Too few accounts currently paid as agreed
29	No recent bank card balances
30	Time since most recent account opening is too short
32	No recent installment loan information
38	Serious delinquency and public record or collection filed
39	Serious delinquency
40	Derogatory public record or collection filed
26	Number of revolving accounts
28	Number of accounts established
37	Number of finance company accounts established relative to length of finance history
99	Lack of recent information on finance accounts, or lack of finance accounts

## *TransUnion – Empirica score*

- 00 No adverse factors
- 01 Amount owed on accounts is too high
- 02 Level of delinquency on accounts
- 03 Proportion of loan balances to loan amounts is too high
- 04 Insufficient installment credit history
- 05 Too many accounts with balances
- 06 Too many consumer finance accounts with balances
- 07 Account payment history is too new to rate
- 08 Too many inquiries within the last 12 months
- 09 Too many accounts recently opened
- 10 Proportion of balance to limits too high on revolving accounts
- 11 Excessive amount owed on revolving accounts
- 12 Length of time revolving accounts have been established
- 13 Delinquency date too recent, or unknown
- 14 Length of time accounts have been established
- 15 Lack of recent bank revolving information
- 16 Lack of recent revolving account information
- 17 No recent non-mortgage balance information
- 18 Number of accounts with delinquencies
- 19 Date of last inquiry too recent
- 20 Time since derogatory public record or collection too short
- 21 Amount past due on accounts
- 22 Serious delinquency, derogatory public record or collections filed
- 24 No recent revolving balances
- 27 Too few accounts currently paid as agreed
- 28 Number of established accounts
- 29 No recent bank card balances
- 30 Time since most recent account opening is too short
- 31 Amount owed on delinquent accounts
- 38 Serious delinquency and public record or collection filed
- 39 Serious delinquency
- 40 Derogatory public record or collection filed
- 97 Lack of recent auto loan information
- 98 Length of time consumer finance co. loans have been established

## *CSC Credit Services (Equifax)- Beacon score*

- 01 Amount owed on accounts is too high
- 02 Level of delinquency on accounts
- 04 Too many bank or national revolving/open accounts
- 05 Too many accounts with balances
- 06 Too many consumer finance accounts
- 07 Account payment history is too new to rate
- 08 Too many inquiries within the last twelve months
- 09 Too many accounts recently opened
- 10 Proportion of balance to limits too high on revolving accounts
- 11 Amounts owed on revolving accounts too high
- 12 Length of time revolving/open accounts have been established
- 13 Time since delinquency too recent or unknown
- 14 Length of time accounts have been established
- 15 Lack of recent bank revolving information
- 16 Lack of recent revolving account information
- 17 No recent non-mortgage balance information
- 18 Number of accounts with delinquencies
- 19 Too few accounts currently paid as agreed
- 20 Time since derogatory public record or collection too short
- 21 Amount past due on accounts
- 22 Serious delinquent/derogatory public record or collections filed
- 23 Number of bank or national revolving accounts with balances
- 24 No recent revolving balances
- 28 Number of established accounts
- 30 Time since most recent account opening is too short
- 31 Too few accounts with recent payment information
- 32 Lack of recent installment loan information
- 33 Proportion of loan balances or loan amounts too high
- 34 Amount owed on delinquent accounts
- 38 Serious delinquency and public record or collection filed
- 39 Serious delinquency
- 40 Derogatory public record or collection filed

The way the codes will appear on your credit report will look something like this:

FOR: DOE, JOHN Q. 555-55-5555  
XPN FAIR ISAAC RISK SCORE: 669  
COMMENTS: 40 DEROGATORY PUBLIC RECORD OR COLLECTION  
FILED  
10 PROPORTION OF BALANCE TO HIGH CREDIT  
ON BANK  
REVOLVING OR ALL REVOLVING ACCOUNTS  
14 LENGTH OF TIME ACCOUNTS HAVE BEEN  
ESTABLISHED  
08 NUMBER OF RECENT INQUIRIES

FOR: DOE, JOHN Q. 555-55-5555  
TUC EMPIRICA SCORE: 675  
COMMENTS: 038 SERIOUS DELINQUENCY, AND PUBLIC RECORD OR  
COLLECTION FILED  
020 RECENT DROGATORY PUBLIC RECORD OR  
COLLECTION  
008 TOO MANY RECENT CREDIT CHECKS  
14 INSUFFICIENT LENGTH OF CREDIT HISTORY

FOR: DOE, JOHN Q. 555-55-5555  
EFX FACTA BEACON 5.0 SCORE: 689  
COMMENTS: 00038 SERIOUS DELINQUENCY, AND DEROGATORY  
PUBLIC  
RECORD OR COLLECTION FILED  
00014 LENGTH OF TIME ACCOUNTS HAVE BEEN  
ESTABLISHED  
00008 TOO MANY INQUIRIES WITHIN THE LAST  
TWELVE  
MONTHS  
00020 LENGTH OF TIME SINCE DEROGATORY  
PUBLIC  
RECORD OR COLLECTION IS TOO SHORT

As you can see the credit bureaus will actually tell you why they came up with the score that they did. After this they usually have your accounts listed. Some reporting agencies will list the derogatory and delinquent accounts first and some will list them with accounts that are paid as agreed.

They will usually tell you the type of account and the account number, which bureau it is being reported at, the date the account was opened, the date last reported to the bureau and how the account is being paid. It will also usually say when the account was paid off if it is closed and any actions taken such as collections and write offs. It will also have the current balance of the account, what the high credit limit is or what the original loan amount was and the monthly payment. Any past due amounts will be shown here, too.

If any accounts are currently with collection agencies they should have the original creditor listed as well.

The bureaus use a lot of coded information or shortcuts such as M-1 or I-5 or R-1. Don't let these confuse or intimidate you. Just about all of the industries in today's society use some kind of abbreviations and acronyms and the credit people are no different. They can be easily learned.

The *M* represents a mortgage account. The *I* is an installment account. And the *R* stands for a revolving account. The number following the letter is reporting how the account has been or is being paid. The 1's are showing the account as being paid as agreed and the 9's meaning the accounts are very derogatory.

Public records will normally be listed either before your credit accounts or after them. Public records will consist of any kind of judgments against you with the latest status. Bankruptcies will be shown here including the type, when filed, the docket number and the disposition (that is if it is dismissed or in progress). Any tax liens and judgments you may have as well as child support owed will also usually be in this section.

The next section will be the inquiries. It is required that anyone who looks at your credit report for any reason to be on record. It shows the bureau they inquired with, the date of the inquiry, their file number and who they are. This information stays on your credit report for a period of two years.

Additional information that is on your credit report will be the credit bureaus contact information, which includes the name, address and phone numbers.

Also the creditor contact information must be posted on your credit report. Anyone who puts any information on your credit report is required by law to list his or her name, address and phone number.

There is usually a section on the report for variations in your name and a social security number check. Most often they will have your current address and maybe some of your previous addresses where you have lived. In addition your employer may also be listed. This information is not always current and up to date.

At the end of the credit report there will be a section that shows totals. It will list the number of public records and inquiries, how many accounts are paid as agreed and how many are delinquent. Also shown are the kinds of accounts listed on the report, whether they are installment, revolving, real estate or other accounts. It will also state the balances, the amount of the payments and any amounts that are past due. It's basically a summary of your credit report in a nutshell.

Not all credit reports are in this exact format. All the information needs to be listed but some are shown in different formats. The reason for this is there are many different reporting agencies. There are only three credit bureaus but

there are many agencies that report the information and they all have their own style of reporting.

### ***Who reports the information to the credit bureaus?***

This may seem a bit confusing, but it works something like this. The three main credit bureaus are given information, usually on a monthly basis, from the credit reporting agencies (CRAs). This information includes your account information such as balances, payment history, etc. They also report information such as collection activities on overdue bills. The bureaus also receive information from public records.

The CRAs in turn get their information from the three credit bureaus and put it in an organized format that should be somewhat decipherable to you.

How long does the information stay on your credit report? As already stated credit inquiries stay on your credit report for two years even though they only count against your score for the previous twelve months.

Information on your credit accounts stay on your report for seven years regardless if the information is positive or negative. Collections that are reported will remain for seven years from the date the account was last brought current or updated. I have seen many accounts that have been put into collections, updated just before the seven years are up thus starting another seven-year period. They are not supposed to do this but since it is poorly governed it does happen.

There are many companies today that buy and sell collection accounts. Apparently there's big money involved as often as

some accounts change hands. One account can show up several times on your report looking like separate ones.

For example: You have an account with XYZ Company for \$1000 that you default on. After several months of attempting to get you to pay the obligation they give up. At this point the balance on the account may be \$1300 with late fees and legal fees. Then they write this off as a profit and loss write off. Along comes ABC Company and they *buy* the account from XYZ at a *discount*. ABC attempts to collect the \$1300 from you and they are unsuccessful. They tack on their late fees and legal fees and the total after several more months is now \$1700.

QRX Company comes around next and again buys your account at a *discount* from ABC. QRX after several more months of unsuccessful collection attempts add their fees and you are now up to \$2300. This can go on and on. Each company in turn adds their derogatory collection attempts to your credit report. They *do not remove* the old account they have purchased. In this case you could easily have three collection accounts showing up for the same account. They are supposed to report who the original creditor was.

This can become a nightmare when trying to clean up your credit. With the above scenario you have three collection companies for only one account. These are normally not very friendly people to deal with. Many times when you get in touch with them and try to negotiate a settlement they add even more fees. Situations like this can become very complicated and downright nasty. You can easily have seven years of un-pleasantries from three companies.

**Foreclosures** stay on your reports for seven years. The longer the time period from the time the foreclosure is posted on your

credit report the less effect it will have on your score. Many lenders will still not extend credit to you from the simple fact it is on there.

There are creditors that will make exceptions to this, but you'll normally be socked with higher interest rates. I've seen people with mid to upper 600 scores shortly after a foreclosure. These scores were arrived from re-established credit accounts, since the foreclosure, and they were still not able to buy another house because it was less than three years since the foreclosure was put on their credit report. These can be difficult and frustrating situations.

What about **Repossessions**? They will also stay on your credit report for seven years. Depending on the credit grantor and/or collector these can sometimes be devastating. Some companies will simply put the derogatory information on your report and that's the end of it. Others will come after you for the money even though they got the item back (almost always being an automobile). Many times they will add in their *fees* like some of the other collection agencies do.

You need be aware of the fact that even **voluntary repossessions** can be as bad as *involuntary* ones. There are a lot of companies out there that will tell you to just give the car back and they will give you credit for the amount of money they will get for the car. What they end up doing is selling your car for a ridiculously low amount. I've seen several instances where they said they received something like \$200 or \$300 for your car.

The balance you actually owe to the finance companies was maybe \$2500 or \$3000 – you just couldn't afford the high monthly payment they stuck you with in the first place. Then they will say you owe them the difference. There are many of

these same companies that will also tack on collection fees, legal fees, auction fees and a whole slew of other fees they can think of. Many of these people are not very nice to deal with either.

***Bankruptcies*** will stay on your credit report for 10 years from the *discharge* date. This is regardless of which type of bankruptcy you have filed, the chapter 13 (repayment plan) or the chapter 7 (debt elimination). As mentioned previously it is possible to have a negative or positive effect on your score depending upon some other factors.

Just about all other accounts will remain on your credit report for seven years no matter if they are *good* or *bad* accounts. There are ways to deal with some of the negative accounts, which we will discuss shortly.

What about the accounts that don't show up on your credit report? Yes there are many creditors that don't report to the bureaus. This can be good or this can be bad. Obviously if you have an account that has not been paid as agreed it is good if they do not report this information. On the other hand if you have an account with a good payment history you might want them to report your payment record.

Some of the creditors that do not report account information to the bureaus are *The Buy-Here – Pay-Here* auto companies. *Alternative* finance companies are another one. Payday loan and Car Title loan companies are some others that don't always report. Although there are many that do report and this does not always help you.

Whether it is to your advantage or not is what the information actually is. Of course your payment history is important. Have you made your payments on time on this account or not?

Another big factor is your *proportion of balance to credit limit ratio*. Some accounts such as payday loans will report an ongoing \$100 payment and also a \$100 credit limit. This puts you at 100% of your balance in proportion of your credit limit. Remember that ideally you would like to be at 30% – 40% or less.

Owner financed real estate and other properties are generally not reported to the credit bureaus. The exception to this is if you were to default on the loan. The creditor will usually subpoena you to court in order to collect their money. If you do not show up for court or cannot come up with a good reason for not paying him or her, the Judge will issue a judgment against you. This will normally be filed with the credit bureaus. This can be a very effective tool as a way for them to get paid.

Many lenders will require you to pay off judgments in order for you to get future loans. This can apply to conforming as well as FHA and VA home mortgage financing. Even if they do not use credit scores (such as with FHA and VA) they will require you to pay off any derogatory outstanding debts you may have. Note: Some home mortgage lenders do not require you to pay off judgments depending on their age and/or amounts. These are known as sub-prime lenders.

The rates and terms will not always be as favorable as their conforming counterparts, but it can be an excellent way for you to get the loan. Some of these programs are not all that bad in these days of lower interest rates. And if you improve your credit score you may be able to refinance to a better rate and term down the road. It's not always the cost of the money that is most important. Sometimes the availability of the money is what matters.

### ***What information is on your credit report?***

What information can be put into your credit report? As mentioned earlier some of things they can actually put in your credit file are:

***Payment history*** - how you've paid your accounts.

***Outstanding debt*** – balances and credit limits.

***Credit history*** – age of your trade lines.

***Inquiries and new accounts opened*** – who has been looking at your credit report. How many inquiries you have had in the last two years. What accounts have you opened in the last year?

***Types of credit accounts in use*** – number of trade lines reported for each type of account, i.e. bankcards, department store cards, finance company accounts, installment loans, auto loans, home mortgages, etc.

***What is not reported to the credit bureaus and also cannot be used in determining your credit score?*** Scores do not use *race, color, religion, national origin, sex, marital status, or age as predictive characteristics*. Occupation and length of time at present residence are also not used in the scorecards. Any other information that is not present in a credit file is not used in creating a credit bureau score.

What about your rights with regard to the federal *Fair Credit Reporting Act* (FCRA)?

## ***A Summary of Your Rights Under the Fair Credit Reporting Act***

The federal *Fair Credit Reporting Act* (FCRA) is designed to promote accuracy, fairness, and privacy of information in the files of every “consumer reporting agency” (CRA). Most CRA’s are credit bureaus that gather and sell information about you – such as if you pay your bills on time or have filed bankruptcy – to creditors, employers, landlords, and other businesses. You can find the complete text of the FCRA, 15 U.S.C. 1681 – 1681u, at the Federal Trade commission’s web site (<http://www.ftc.gov>). The FCRA gives you specific rights, as outlined below. You may have additional rights under state law. You may contact a state or local consumer protection agency or state attorney general to learn those rights.

- You must be told if information in your file has been used against you. Anyone who uses information from a CRA to take action against you – such as denying an application for credit, insurance, or employment – must tell you, and give you the name, address, and phone number of the CRA that provided the consumer report.
- You can find out what is in your file. At your request, a CRA must give you the information in your file, and a list of everyone who has requested it recently. There is no charge for the report if a person has taken action against you because of information supplied by the CRA, if you request the information within sixty days of receiving notice of the action. You are also entitled to one free report every twelve months upon request if you certify that (1) you are unemployed and plan to seek employment within 60 days, (2) you are on

welfare, or (3) your report is inaccurate due to fraud. Otherwise, a CRA may charge you eight dollars.

- You can dispute inaccurate information with the CRA. If you tell a CRA that your file contains inaccurate information, the CRA must investigate the terms (usually within 30 days) by presenting to its information source all relevant evidence you submit, unless your dispute is frivolous. The source must review your evidence and report its findings to the CRA. (The source must also advise national CRAs – to which it has provided the data – of any error.) The CRA must give you a written report of the investigation and a copy of your report if the investigation results in any change. If the CRA’s investigation does not resolve the dispute, you may add a brief statement to your file. The CRA must normally include a summary of your statement in future reports. If an item is deleted or a dispute statement is filed, you may ask that anyone who has recently received your report be notified of the change.
- Inaccurate information must be corrected or deleted. A CRA must remove or correct inaccurate or unverified information from its files, usually within 30 days after you dispute it. However, the CRA is not required to remove accurate data from your file unless it is outdated (as described below) or cannot be verified. If your dispute results in any change to your report, the CRA cannot reinsert into your file a disputed item unless the information source verifies its accuracy and completeness. In addition, the CRA must give you a written notice telling you it has reinserted the item. The notice must include the name, address and phone number of the information source.

- You can dispute inaccurate items with the source of the information. If you tell anyone – such as a creditor who reports to a CRA – that you dispute an item, they may not then report the information to a CRA without including a notice of your dispute. In addition, once you've notified the source of the error in writing, it may not continue to report the information if it is, in fact, an error.
- Outdated information may not be reported. In most cases, a CRA may not report negative information that is more than seven years old; ten years for bankruptcies.
- Access to your file is limited. A CRA may provide information about you only to people with a need recognized by the FCRA – usually to consider an application with a creditor, insurer, employer, landlord, or other business.
- Your consent is required for reports that are provided to employers, or reports that contain medical information. A CRA may not give out information about you to your employer, or prospective employer without your written consent. A CRA may not report medical information about you to creditors, insurers, or employers without your permission.
- You may choose to exclude your name from CRA list for unsolicited credit and insurance offers. Creditors and insurers may use file information as the basis for sending you unsolicited offers of credit or insurance. Such offers must include a toll-free phone number for you to call if you want your name and address

removed from future lists. If you call, you must be kept off the list for two years. If you request, complete, and return the CRA form provided for this purpose, you must be taken off the list indefinitely.

- You may seek damages from violators. If a CRA, a user or (in some cases) a provider of CRA data, violates the FCRA, you may sue them in state or federal court.

The FCRA gives several different federal agencies authority to enforce the FCRA:

For questions or concerns regarding: CRAs, creditors and others not listed below

Please contact: Federal Trade Commission – Consumer Response Center – FCRA Washington, DC 20580 \* 202-326-3761

Regarding: National banks, federal branches/agencies of foreign banks (word “National” or initials “N.A.” appear in or after bank’s name)

Contact: Office of the Comptroller of the Currency Compliance Management, Mail Stop 6-6 Washington, DC 20219 \* 800-613-6743

Regarding: Federal Reserve System member banks (except national banks, and federal branches/agencies of foreign banks)

Contact: Federal Reserve Board Division of Consumer & Community Affairs Washington, DC 20551 \* 202-452-3693

Regarding: Savings associations and federally chartered savings banks (word “Federal” or initials “F.S.B.” appear in federal institution’s name)

Contact: Office of Thrift Supervision Consumer Programs, Washington, DC 20552 \* 800-842-6929

Regarding: Federal Credit Unions (word “Federal Credit Union” appear in institution’s name)

Contact: National Credit Union Administration 1775 Duke Street Alexandria, VA 22314 \* 703-518-6360

Regarding: State-chartered banks that are not members of the Federal Reserve System

Contact: Federal Deposit Insurance Corporation Division of Compliance & Consumer Affairs Washington, DC 20429 \* 800-934-FDIC

Regarding: Air, surface, or rail common carriers regulated by former Civil Aeronautics Board or Interstate Commerce Commission

Contact: Department of Transportation Office of Financial Management Washington, DC 20590 \* 202-366-1306

Regarding: Activities subject to the Packers and Stockyards Act, 1921

Contact: Department of Agriculture Office of Deputy Administrator – GIPSA Washington, DC 20250 \* 202-720-7051

***So now that you have a basic understanding of credit scores what do you do next?***

One of the most important things you can do for your credit score is to ***pay your bills on time***. Even if you've had some late payments in the recent past you can start paying things by the due date. The more time you have since your last payment was late the less impact it will have on your credit score.

You also want to keep in mind how the creditors actually report late payments. A lot of mortgage companies have your due date at the 1<sup>st</sup> of the month. They will give you a *grace period* up until the 15<sup>th</sup> the month (keep in mind that they will still be charging you interest – they are not just being *nice guys*). After the 15<sup>th</sup> they will charge you a late fee (some charge a flat fee while others charge a percentage of your payment). Even if you pay your loan payment after the 15<sup>th</sup> but get it in before it is thirty days past due it will not be considered late and will not be reported to the credit bureau as late either. You will pay the late fee but it will be reported as an on time payment.

Almost all credit accounts that are reported to the credit bureaus work this way. Some do not have a *grace period* and will charge you substantial penalties and fees. But generally if you get your payment to them within the thirty days it will not be reported as a late payment.

### ***Avoid unnecessary credit inquiries.***

As mentioned before, credit inquiries account for ten percent of your overall score. This may not seem like very much to worry about. Think again. The difference between a 610 credit score and a 549 can mean the difference in a zero down payment home loan and having to put twenty percent down to obtain financing. And don't forget about the difference in interest rates you will have to pay.

Obviously we have to have credit inquiries for the creditor to check our credit worthiness. Just be aware that credit checks do make a difference especially when there is very little margin to work with. If you're turned down for credit, ask why and request a copy of the report. Don't start calling all over town to see if you can get credit elsewhere. Chances are that the next creditor will be using the same bureau and get the same results.

### ***Percentages of Balances to Limit Ratios.***

This is one of the biggest factors I have seen in recent years with respect to lower credit score. You may be one of those persons with a low credit score that has a good payment record. Many people who pay only the minimum on the credit cards each month fall into this category. Remember the ideal balance in proportion to limit is at **30% to 40% or less**. Less being preferable.

I had a gentleman trying to apply for a home loan a couple of years ago that was looking for one hundred percent financing. He had a good rental history, a long time on the job and a good payment history on his credit accounts. The new house payment was even going to be substantially less than his

current rent payment. The problem was that his credit scores were too low for the kind of financing he was seeking. His scores were reporting in the lower five hundreds and at the time we needed at least a five hundred eighty or better for a one hundred percent home loan.

We went over his credit report and this is what we found. He had a truck payment that he had had for about a year and a half with one late payment. He also had three credit card accounts with perfect payment histories that he had had for about three years. No judgments, collections or bankruptcies. The problem was all three of his credit cards were *maxed* out. His limits on all three were around fifteen thousand dollars and his balances were also around fifteen thousand dollars. Do you think there was a good chance for him to become ninety days late on one of his accounts in the next twenty-four months? He didn't get his home loan.

***What can you do?*** You can pay down your accounts to get the right proportions. Don't just pay the minimum on your accounts each month. Try to pay as much as possible on each account, without taking food off of the table. We all know that if we are only paying the minimum on our credit cards that most of the money from the payment is going for interest. That also increases the length of time we will be paying on that account which can take up to ***40 years!***

What if you simply cannot pay anymore than you are currently paying? You can call your creditors and ***request to have your limits raised.*** Most creditors will be happy to raise your credit limits (unless you have a delinquent payment history or your account has been closed by the grantor). By raising the limits you should be able to offset the proportion of balance to limits closer to where you need to be.

What if the increase does not show up on your credit report? Many times the creditor will raise your credit limit and it will not be reflected on your credit report. The reason for this is marketing. They do not want to lose your account. Why would this be of concern? The credit bureaus sell list of consumer's information with certain criteria to creditors.

Creditors may buy mailing list with specific requirements (they cannot find out specific account information such as account numbers, who the creditors are and the amounts you actually owe). For example: a creditor may buy a list of everyone with a minimum of a 630 credit score, major credit card holders at a \$5,000 limit that have been open for at least three years. If your creditor raises your limit from \$3,000 to \$5,000 you will be included on this list. If they do not report the increase to the credit bureau you will not be on the list. You will want your creditor to report the increase because it will help your score.

### ***Tax liens, Judgments, Collections and Public Records.***

Obviously the best thing to do is to avoid tax liens, judgments, collections and public records. But sometimes what we would like to happen and what happens are two different things. What we want to do with these is pay them and have them removed from our record. This is an area where we need to exercise extreme caution when attempting to clear these up.

If a lender is requiring you to pay off some sort of collection (such as when applying for a mortgage loan) it is usually best to pay this at the closing table. *Don't rush out and contact the one you owe the money to.* Many times they will update this information with the credit bureau and it will hurt your score severely. Even if you pay the amount in full and they update this information it will be looked at as very negative.

You may be thinking, “If I pay this it has to look good”. Not so. Any type of activity in regards to tax liens, judgments, collections and public records whether or not it is being paid or not being paid is looked at as negative as far as credit scores are concerned. The best scenario is to not have anything updated until after the loan has been closed. The only thing that will cure an updated collection account is time. You have to get some distance between the update and the present before it will not affect your score very much.

If you have to get a collection account paid try negotiating the amount for less than the full amount. If the amount you owe is \$500, tell them you will give them \$331.22. Sometimes offering a specific dollar and cent amount will project to them you are a serious negotiator. Don't get mad and show a temper as this will not help. Always start lower than you will actually settle for. Before you pay anything get your agreement in writing on their letterhead. Many collectors develop amnesia if things are not in writing.

If the collector will only insist on a full payment, get them to agree to completely and immediately remove the collection account from your credit report upon payment. Get this in writing, also on their letterhead.

If you are not comfortable or you are too emotional during negotiations get a third party to negotiate on your behalf. Many mortgage brokers, attorneys and others are happy to negotiate for you. You will need to sign an authorization to release information form.

## ***Bankruptcies.***

If you are just in the process of filing a bankruptcy you may have a choice to reaffirm on one or more of your accounts and keep them out of the bankruptcy. Sometimes when filing a chapter seven (which is debt elimination) you are able to keep your car and continue to make payments to the original creditor. Depending on how little equity you may have in your house you may also be able to reaffirm on these payments and keep it out of your bankruptcy. Generally speaking, in a chapter thirteen (which is the repayment plan) they will put all of your debts together and you will need to make the payments through the court trustee.

If you are able to keep any accounts out of the bankruptcy and continue to make on-time payments your score will usually look pretty good in a few months. If you don't make your payments on time and /or you have a lot of credit inquiries your score will drop significantly. Depending on what you do and how you treat your accounts post bankruptcy will make all the difference on what your score will be.

There are many home mortgage lenders that will offer you credit one day after your bankruptcy is discharged. I've seen several instances' where borrowers were able to obtain 100% financing as soon as their bankruptcy was discharged. \*(This has recently changed with the current housing condition in 2009).

Of course if you haven't paid your bills as agreed and have made new bad debts since your bankruptcy you will have a long hard road uphill. There are many lenders who will flock to you after a bankruptcy with *guaranteed* credit programs with high fees and high interest rates. This can be a way to

give you a fresh start or it can be a way to bury you deeper. It depends on how you treat and deal with your situation.

As mentioned before, we are not condoning nor are we condemning bankruptcies. If you are in a situation in which you are contemplating bankruptcy you need to seek the advice of a professional. And I don't necessarily mean only an attorney. Yes it's true you will need an attorney to file the paper work for you. In fact a good attorney is one of the most important members of your team.

But there are some attorneys that will tell you that you need to file a bankruptcy, whether you need to or not. I've seen people file bankruptcies for such things as two thousand dollars worth of back utilities and nothing else. The laws concerning bankruptcy have recently changed, so make sure you get up to date information. Some bills such as student loans are government guaranteed and cannot be put into a bankruptcy no matter what.

In these days of record numbers of bankruptcies it needs to be treated as a very serious matter and scrutinized closely. Do yourself a favor and get the advice of a financial professional. It doesn't hurt to get more than one opinion also. Most of the time the situation did not occur overnight and you do not need to make hasty decisions in your remedy. Sure you may have creditors calling you and harassing you and maybe even threatening you (although they're not supposed to). But it is worth a little of your time to check out your options and get some good advice.

## *Consumer Credit Counseling Services.*

Be very careful before entering into an agreement with a Consumer Credit Counseling Agency. Regardless of whether they are “nonprofit” or not, be on your guard. There are fees attached to many of these *nonprofit* companies so be sure to check out the fine print in the contract *before* you sign anything. It sounds like it’s a great alternative to bankruptcy. Beware. Most of these programs will ***ruin your credit!*** I repeat most of these programs will ***ruin your credit!***

They’ll say such things as “we’ll contact each of your creditors and negotiate a payment you can afford”, or “we’ll consolidate all of your bills into one monthly payment to us and we’ll pay your creditors”, “we’ll get the interest rates reduced on your credit cards so more of your payment goes toward the principal”. It all sounds good, doesn’t it? Bologna! Don’t listen to such nonsense.

It’s very easy to want to believe such statements when you are having trouble paying your bills: especially credit card bills. You’re thinking they are going to pick up the phone and call each one of your creditors and plead and negotiate on your behalf. Don’t believe this for one second. They usually send a notice to the creditor stating that you are going on a program and that’s the end of it. Most don’t even bother to follow up and see how the creditor is treating your account.

I’ve seen many instances where the balances on the accounts have gone up after making several payments on these programs. Some have gone up significantly when they supposedly went to zero percent interest. They just started charging late fees and these fees were more than the payments being applied.

There is a list that is published periodically, in booklet form that shows what all of the creditors will do and what their policies are if someone is to enter into such a program. Some will reduce their interest rates to maybe half, some will drop to zero percent, some will go down to a certain amount of maybe nine percent, some will stop late fees and over the limit fees and some will not do anything.

These programs almost always pay your bills late or after the due date. I've seen many occasions where people were paying their bills on their own, on time but having a difficult time keeping up with them. They would enroll into one of these programs and all of a sudden they started having a delinquent payment history.

Most people that enter into these programs hand over their affairs to the *counselor* and then forget them. These programs are *hands on* programs. You need to look at your statements from your creditors every month and see what is happening. If you wait several months thinking things are okay you may be in for a very rude awakening.

By the way, one other thing you should know about consumer credit counseling programs. Most creditors will add the phrase "***account handled by consumer credit counseling***" to the account on your credit report. This is like a death sentence to your credit report. Many lenders will not consider you for credit for any reason when this appears.

I've actually seen credit reports with the above negative phrase on the accounts where the person didn't even sign up for the program. All they did was go in and talk to a counselor at the agency. The counselor signed them up and the creditors entered the information. We were able to get the information removed, but it took some time to do so.

If you are already in such a program it may be best to try to get out of the program and start making payments on your own again. If they have already entered the negative phrases on your report you will probably have to let time remedy the problem. Most will not remove this once it has been entered. This information will usually remain on your credit report for seven years. Many creditors will consider you for new credit after two or three years depending on the creditor.

***What if you have No Credit and No One wants to give you any?***

Contrary to popular belief No debt is Not good. Being *debt free* is not always beneficial. There is such a thing called *credit utilization*. You need to show that you can use your credit responsibly. You must have open, positive accounts in today's world.

***How can you start the building or rebuilding of your credit score?***

If you are unable to obtain an *unsecured* credit card you can try to get a *secured* one. That is one that is secured with your own money. Go into your bank or credit union and ask if you will put up a portion of your own money, say \$300 to \$500, as collateral if they will issue a Visa or MasterCard to you. If they do say they will issue you an account make sure they report to all three credit bureaus. If they don't, the account may not do you much good. If they do *not* grant credit to you there are other sources.

There are several companies that will offer secured credit cards to those wanting to establish or re-establish credit. Again make sure they will report to all three bureaus. Many of these

companies will charge very high interest rates and fees. But remember, you are working on improving your credit score. As your score improves so will your choices for better rate and fee credit cards. Sometimes it's worth a little extra money to improve your situation.

***What if no one will even issue you a secured credit card?***

Another alternative is to become an authorized user on someone else's account. A relative or someone close to you may want to help you gain or re-gain credit. One way they can help is to add you as an authorized user on one or more of their accounts. This will allow the history of their credit account to be reported on your credit report also. Do not abuse this opportunity. Not only will you be hurting yourself but you will also be hurting that person's credit.

If you are the relative helping someone by letting them use your credit I would recommend not giving the person you are helping the credit card itself. Keep in mind that this is your credit at risk and you do not want a seven-year mistake.

***What if the credit problems are not all your fault but are caused by an Ex-spouse?***

Even if a judge has ordered your Ex-spouse to pay a bill in your divorce it can still cause you significant hardship if he or she does not pay the account on time or at all. When we enter into joint accounts they are just that, joint accounts. Many times when a divorce or separation occurs the accounts will be split up and each person will be responsible for certain accounts. Many times one of the parties will fail to make the payments on-time or may not pay them at all. This will affect both of you who were on the original account. Just because a

Judge will order one person to pay a specific bill it does not relieve the other person from the obligation.

Be very careful when calling a creditor to tell them you are not responsible for an account because the Judge has ordered your Ex-spouse to pay it. They will usually try to get as much information about you as well as your Ex. A lot of times you may give them information such as current phone numbers and address' thinking it is okay. They will then start the collection process with you because they do not care who pays the bill. They just want their money.

***Is there anything I can do if my identity has been stolen and someone else has used or abused my credit?***

These are very difficult situations to get straightened out. Most creditors do not care if this has happened to you and will not prosecute the perpetrators. The amounts are simply not large enough for them to spend their time and money to try to recover the amount that was stolen. Unfortunately the thieves usually keep each account less than ten thousand dollars knowing that the creditors will not come after them for less than this amount.

Usually by the time you notice your credit has been tarnished it is too late. In just a couple of short months a criminal can open several accounts with your information. They will change the billing address so you will not get the statements. You generally won't realize what is happening until you go to apply for credit and are turned down.

The authorities including law enforcement are not usually much help either. At this time the laws are not very severe and the police simply have more *important* things to tend to. You are basically up the creek without a paddle.

One of your only recourses is to ***Add a Consumer Statement to your credit file.*** The credit bureaus will let you attach a statement to your credit report of up to 100 words. This will not change your score in any way but it will let you tell your side of the story.

Keep in mind that the credit bureaus can edit your statement. Years ago after my divorce we were in the process of trying to buy a house. There were many things on my credit report that were not mine and there were many things connected to my Ex-spouse. Some of the things were eliminated and others were not. I added a one hundred word statement explaining my side of the story. A few months later I got a copy of my credit report and was kind of surprised that they had taken out the part about the *devastating witch*. That's when I found out they can edit your statement.

### ***You can avoid Identity theft altogether.***

The best defense against identity theft is to be pro-active and take steps to eliminate it before you are a victim. Obviously you want to be very careful in giving out your important information such as your social security number and date of birth. Know whom you are giving it to.

Make sure you shred any documents with your name, address, social security number, date of birth, account numbers and anything else with important information on it *before* you throw it out. Many thieves comb through the trash for this information.

One of the easiest things you can do to protect yourself is to ***Add a Fraud Statement to your credit report.*** You can request that No One is to extend credit to Anyone using your name

and social security number without first obtaining a picture I.D. and a phone call to your personal residence. Put your phone number right on there and tell them to call you at home for verification. It may be a little inconvenient for you to go home and take that call but I'll guarantee it will be a lot less inconvenient than having someone steal and use your identity.

### ***Fraudulent Emails.***

Be extremely cautious of emails that appear to be *warnings* that your account is about to be closed or suspended. There are more and more unscrupulous, Internet thieves that are sending *official* looking warnings. They will say something like “there has been some suspicious activity on your bank account and if you do not go and verify your information your account will be closed or suspended.”

There will be a link for your *convenience* for you to click on and update your information. The links go directly to the thieves' websites. Do Not use these links no matter how real they appear. The only safe way to check this is to open up a new browser and go directly to the company's website. You can check your account from there to see if they require anything from you. Or better yet, call the company.

Unfortunately these crimes are becoming more common. Many of the crooks are from other countries and are extremely hard to trace.

### ***Dispute Incorrect Information that is on your Credit report.***

One of the most effective things you can do to increase your credit score is to dispute information that is on there. Any time you dispute something on your credit report the credit bureau must investigate your claim. It is generally accepted that the

bureau has five days from the time they hear from you to get in touch with that creditor. That creditor has five days to get back with the credit bureau. The credit bureau has a total of thirty days to get back with you with their findings.

In the real world this time frame rarely works. It is not uncommon for you to hear back from them within two to three weeks saying they received your dispute and will let you know their conclusions within thirty days. This puts the process at about forty to sixty days. If it's sooner, great but don't count on it.

Any time you dispute an account you have a good chance of having it removed. There are only a few things that can happen. First the creditor may report back to the credit bureau that the account is valid and the information is correct. This will not change the information and could even make it worse if a collection is updated with a new date.

Second, the creditor may look up your account and see that it's paid. They may update a paid account and things will stay the same. Or not wanting to waste time and resources on an account that is settled they may not do anything. This will cause the information to be deleted from your credit file.

Much information can be deleted using a dispute. Many creditors are overwhelmed with derogatory accounts and do not want to spend the time and money to follow up on old accounts. You are supposed to dispute incorrect information only but I have seen many cases where the information was indeed factual and it was removed anyway. Even such things as paid child support can be removed due to the fact the government enforcement agencies do not have the time and money to follow up on paid accounts. The key here is *paid* accounts.

When disputing information be careful not to wake any *sleeping dogs*. You may have an old collection account that has not been paid and you would like it to be removed. Sometimes when the creditor receives a dispute from the credit bureau they will update the information and start collection proceedings all over again. They will think there is a good chance of them getting paid because you are trying to buy a house or something and the new lender requires an explanation or no open collections. Many times they will also add new *collection fees and attorney fees*. They may also update the account, which will negatively affect your score.

Another word of caution here is to not try to do too much at once. If you try to dispute too many negative things at one time the credit bureau might think that they are fraudulent claims and not investigate them. If you generally just dispute one or two items at a time it will usually not raise any red flags. Keep in mind that if you do raise some red flags you may do more harm than good.

Remember that we are trying to raise our credit score and updated negatives can result in a score loss. If you exercise a little caution and some common sense this should have a positive impact on your credit score, which is our ultimate goal.

When disputing information do not give any more information than you absolutely need to. Include the date, the account being disputed, your name, address and social security number. Do Not give them your phone numbers or place of employment. They will share the dispute with the creditor and anything you give to them can be used against you.

I've tried to put this information in an easy to understand and concise format. There are some sample letters attached after this text to assist with your *credit score improvement journey*. It definitely is a journey.

You must keep in mind there is no magic wand that can be waved and instantly *fix your credit*. Stay away from the so-called Credit Doctors. Do not listen to those who tell you that you can start a new credit file by obtaining an employer identification number and using it instead of your social security number when applying for credit. Many of these people charge several hundreds of dollars for their bad advice. Most of these schemes are illegal. Be real careful unless you are in need of a cell-mate. You can get better results from what you now know from our experiences.

No matter why you are trying to raise your credit score or whatever your motivation is you are making a good decision. The main benefit of having a decent credit score are the options that become available to you. You give yourself many options such as better interest rates, loan programs and which companies may have the privilege of doing business with you.

One of the most rewarding feelings is being able to choose who gets to do business with you and who does not. A good credit score also flaunts your integrity. Many creditors will also treat you differently. It reduces stress, embarrassment and many hassles.

Having a higher credit score will make you feel better. No matter where you are right now you can improve your situation. You owe this to yourself. You have nothing to lose and everything to gain.

Most things on your credit report do not appear there overnight and will not go away overnight. If you follow some simple guidelines and let time be on your side, you can improve your situation dramatically. The time will go by anyway so you might as well get started today. Having a higher credit score will save you a lot of time and a lot of money. After all, they are your Sacagawea's that you are dealing with.

***Dreams Do Come True.  
Raise Your Expectations  
And  
Your Credit Score!***

## Three Major Credit Reporting Bureaus

### Experian

701 Experian Parkway  
P.O. Box 9595  
Allen TX 75013-9595  
1.888.397.3742

### Trans Union

2 Baldwin Place  
P.O. Box 1000  
Chester PA 19022  
1.800.888.4213

### CSC Credit Services (Formally Equifax)

P.O. Box 740241  
Atlanta, GA 30374-0241  
1.800.685.1111

\*These addresses and phone numbers are current as of publication. They do change from time to time. It is recommended you verify the information before corresponding.

## *Sample Dispute Letter to Credit Bureaus*

November 11, 2010

To Whom It May Concern:

There is some incorrect information on my credit report that needs to be verified and corrected.

J.C. Penney account number 345987 is not my account and I do not owe them any money. Please verify this information and delete the account when updated. Let me know when the correction has been made.

Thank you.

John Q. Doe  
SSN 555-55-5555

123 Main Street  
Anytown USA 11111

\*Don't forget to sign it.

*Sample Consumer Statement to Add to Your  
Credit Report*

November 11, 2010

To Whom It May Concern:

The following is a consumer statement that I would like to be added to my credit report:

In regards to the late payments that are reporting on my credit report from July 2003 and December 2003, they were due to an injury I suffered at work. During this time I was delinquent due to my injury. Since then I have returned to work and have caught up on all of my obligations.

Thank you.

John Q. Doe  
SSN 555-55-5555

123 Main Street  
Anytown USA 11111

\*Don't forget to sign it

*Sample Fraud Statement to Add to Your Credit  
Report*

November 11, 2010

To Whom It May Concern:

Due to Identity theft concerns please add the following Fraud Statement to my credit report:

Do Not extend credit to anyone using my name and social security number without first obtaining a picture I.D. and calling me at my personal residence for further verification. You may call me @ 123-555-3245.

Thank you.

John Q. Doe  
SSN 555-55-5555

123 Main Street  
Anytown USA 11111

\*Don't forget to sign it.



## About The Author:

John R Lee has been in the financial service industry for over 25 years. He has been a mortgage broker for over ten years working with nonconforming borrowers and lenders. Through John's innovative debt elimination program and education he has helped many that thought they were credit impaired. He has also worked extensively as an insurance agent in all lines. In recent years he has become a real estate investor buying and selling properties. Also working with many first time homebuyers he is currently involved with owner financing properties. By educating those that have credit issues John has been able to assist many in overcoming what has seemed like credit nightmares and turning those into "dreams come true" situations. This ongoing education continues to add to his tremendous success.

If you have any comments, questions or would like further information on upcoming books, CD's, DVD's and seminars please send your inquiries to: [ams826@yahoo.com](mailto:ams826@yahoo.com)

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