Week 10 – Improving Your Credit Score

Last week we talked about the importance of checking your credit report. If you didn't get it yet - the first thing to do is get a copy of your credit report from AnnualCreditReport.com. The three major credit reporting bureaus must give you one free copy per year, so plan to order one every four months.

**Check Your Credit Report** – check every line and detail on that report for errors. Your credit report contains the data used to calculate your credit score and it may contain errors. In particular, check to make sure that there are no late payments incorrectly listed for any of your accounts and that the amounts owed for each of your open accounts is correct. Make sure you actually have the accounts listed on the report, especially if you have a common name. With a name like Cindy Brown, I have had several things show up on my credit report over the years that did no belong to me. I also had some items that belonged to my ex-husband on my report long after we were divorced.

When you find **Errors** on your report you can dispute the errors online through Equifax, Experian and TransUnion.

After you've fixed any errors, for the things that a correct but not very positive you can **Negotiate**. You can't deny that you stopped paying a credit card bill when you were unemployed last year. But you *can* ask creditors to "erase" that debt or any account that went to collection. Write a letter offering to pay the remaining balance if the creditor will then report the account as "paid as agreed" or maybe even remove it altogether. But be sure you Get the creditor to agree in writing ***before*** you make the payment.

You might also be able to ask for a “good-will adjustment.” Suppose you were a pretty good Visa customer until that period of unemployment, when you made a late payment or two – which now show up on your credit report. Write a letter to Visa emphasizing your previous good history and ask that the few late payments be removed from the credit report. It could happen.

And as long as you’re reading the report, you need to **Check your limits**. Make sure your reported credit limits are current vs. lower than they actually are. You don’t want it to look as though you’re maxing out the plastic each month. If the card issuer forgot to mention your newly bumped-up credit limit, request that this be done.

Now that we have corrected the errors and pleaded for mercy with any negative items we need some proactive tips to improve that score.

**Setup Payment Reminders** – Making your credit payments on time is one of the biggest contributing factors to your credit scores. Some banks offer payment reminders through their online banking portals that can send you an email or text message reminding you when a payment is due. You could also consider enrolling in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account, but this only makes the minimum payment on your credit cards and does not help instill a sense of money management. You can add reminders in your phone, calendar or in the app you picked to manage your money.

**Reduce the Amount of Debt You Owe** – This is easier said than done, but reducing the amount that you owe is going to be a far more satisfying achievement than improving your credit score. The first thing you need to do is stop using your credit cards. Use your credit report to make a list of all of your accounts and then go online or check recent statements to determine how much you owe on each account and what interest rate they are charging you. Come up with a payment plan that puts most of your available budget for debt payments towards the highest interest cards first, while maintaining minimum payments on your other accounts.

You can go back and listed to the debt reduction episode a couple of weeks ago.

**Pay your bills on time**. Seriously. Your payment history – including the ones you pay late or skip altogether – makes up a whopping 35% of your FICO score. If you're absent-minded or merely overwhelmed (Hi there, parents of young children!), then for heaven's sake, automate your payments.

Delinquent payments, even if only a few days late, and collections can have a major negative impact on your FICO Scores.

**If you have missed payments, get current and stay current.**
The longer you pay your bills on time after being late, the more your FICO Scores should increase. Older credit problems count for less, so poor credit performance won't haunt you forever. The impact of past credit problems on your FICO Scores fades as time passes and as recent good payment patterns show up on your credit report. And good FICO Scores weigh any credit problems against the positive information that says you're managing your credit well.

**Be aware that paying off a collection account will not remove it from your credit report.**
It will stay on your report for seven years. So if you are going to pay off a debt to a collection agency, NEGOTIATE and get them to agree in writing to remove it from your credit report before you pay them off.

**If you are having trouble making ends meet, contact your creditors to discuss your options.**
This won't rebuild your credit score immediately, but if you can begin to manage your credit and pay on time, your score should increase over time.

**EASY TIP** **Pay your bills twice a month**. Using too much of your credit limit at any given moment doesn't look good. Suppose your limit is \$3,000 and a month's worth of havoc (car repair, doctor bills, plane ticket for kid to get to college) means you've charged up \$2,900. Sure, you plan to pay in full by the 18th of the month – but until then it looks like you're maxing out yet another card.

Instead, *make one payment just before the statement closing date* and *second one right before the due date*. The first will likely reduce the balance that the credit bureaus see and the second makes sure you won't pay interest or a late fee.

**Under-use your cards**. Yes, we did just tell you to get credit by any means possible. But don't whip out the plastic to pay for *everything*. The "credit utilization ratio" should be no more than 30% and ideally even less. A 10% credit utilization ratio will "maximize this part of your FICO score."

For example, suppose your Mastercard has a $1,500 limit and you routinely charge a grand a month. It doesn't matter if you pay it all off before it's due. What matters is the credit bureaus think "Cindy is using two-thirds of her credit! What a spendthrift!"

**Raise your credit limit**. Ask your creditors to increase your limit, i.e. making that Mastercard good for up to $3,000. Be careful with this one, though: *It works only if you can trust yourself not to increase your spending habits accordingly.* Otherwise you'll be right back to using 66% of your credit each month and how will that look?

**Don't close any cards**. Canceling a credit card will cause your available credit to drop, which doesn't look good to a bureau. One way to keep a card active is to use it for a recurring charge such as a utility bill. There's room for that in your budget, right?

**Mix it up.** Using a different kind of credit can make for a modest boost to your score. For example, you might take out a small personal loan from the credit union or buy a piece of furniture or appliance on installment (but only if you're 100% sure you can and will meet the payment schedule).

**BUT Don't open a number of new credit cards that you don't need, just to increase your available credit.**
This approach could backfire and actually lower your credit scores.

**If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**
New accounts will lower your average account age, which will have a larger effect on your scores if you don't have a lot of other credit information. Also, rapid account buildup can look risky if you are a new credit user.

**Do your rate shopping for a given loan within a focused period of time.**
FICO Scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.

**Re-establish your credit history if you have had problems.**
Opening new accounts responsibly and paying them off on time will raise your credit score in the long term.

**Note that it's OK to request and check your own credit report.**
This won't affect a score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports to consumers.

**Apply for and open new credit accounts only as needed.**
Don't open accounts just to have a better credit mix – it probably won't raise your credit score.

**Have credit cards – but manage them responsibly.**
In general, having credit cards and installment loans (and paying timely payments) will rebuild your credit scores. Someone with no credit cards, for example, tends to be higher risk than someone who has managed credit cards responsibly.

**Note that closing an account doesn't make it go away.**
A closed account will still show up on your credit report, and may be considered as part of your score.

To summarize, "fixing" a credit score is more about fixing errors in your credit history (if they exist) and then following the guidelines above to maintain consistent, good credit history. Raising your scores after a poor mark on your report or building credit for the first time will take patience and discipline. But I know **you can do it**!

Read Chapter 12 of *Think & Grow Rich*.

Continue on your spending journal – please stay with this!

Use your app daily to track your spending

Commit to listening to this podcast and doing your homework.

Until Next Week - Live Rich!

Cindy