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The 5 Biggest Credit Mistakes & How You Can Avoid Them
Brought to you by Don Parsons

Imagine spending a third of a million dollars more than someone else just because your credit score wasn't as high as theirs. Unfortunately, it happens all the time. Consumers feel like they get backed into a corner to pay more because their credit score falls within a range that is not high enough to qualify for the best loans.

If your credit scores are below 720, you could be paying anywhere from $400 to $1400 more per month on your mortgage payment. Wouldn't you rather have that money available for retirement, or improving your overall situation in the way of lifestyle, education or investing? It's a lot of money. It's enough money to really change your life for the better, and it's worth fighting for. Even if your scores are low right now, you don't have to give up on your dream of homeownership. There are many options that will allow you to get into a loan now, spend the next 6-12 months working to improve your scores, and refinance for a better rate. Your mortgage professional can assist you in this important process. Then, you can take proactive steps to improve your credit scores to get the best loan possible. This newsletter is aimed at showing you how you can do just that.

Some background facts you should know:

(The following credit background information is a recap of very detailed information we covered in our last 6 newsletters. If you did not receive any, or part of the series, please email or call me and I will be happy to send it to you in its entirety.)

Here are some quick facts to get you started on your credit awareness and improvement campaign:

A "Good" Credit Score: Scores generally range between 350 and 850. A score of 720 or better is considered "Very Good" credit.

Scores from the three credit bureaus are all a little different: The three major credit bureaus, Experian, Equifax and TransUnion are businesses that make money by collecting data about YOU from creditors and then reselling the data to lenders, employers, insurance companies, and utility companies. It is very common that the data they house in your file will differ because not all creditors report to all three bureaus. That explains the variance in the scores as each line item affects the score either up or down.

Many Different Scores: Because different lenders analyze the data with an eye toward their own unique interest, emphasizing different aspects of the score and the history, your credit score can be very different to different lenders. For example, if you are applying for a car loan, the lender will analyze the data with an eye toward car payment history. A mortgage lender would heavily weight your history of mortgage payment, or even rent payment. Lenders DO NOT buy their scores directly from the bureaus, but instead take the DATA ONLY from each bureau, enter it into their own scoring software and calculate their own scores based on the criteria they feel better evaluates whether or not you will be a good credit risk for their program. So all lenders calculate your scores using the same data from the three bureaus, but all lenders DO NOT use the same software to evaluate that data.

The potential for varying scores is great. You want to properly manage your credit to ensure that your scores are favorable under all scoring software models.

Credit Scoring Factors: There are five factors that make up your credit score, and each factor weighs differently on your score. Here's the breakdown:

- 35% of your score is based on Payment History: The biggest chunk of your credit score, payment history, tells lenders how you have been paying your bills. Late payments, collections, past due accounts, and public records such as bankruptcies can seriously hurt your score.

- 30% of the score is based on Amounts Owed: The second biggest factor affecting your credit score, this factor takes into account how much is owed on all your accounts, how many accounts you have that carry a balance, and what percentage of your available credit are you using.

- 10% of the score is based on New Credit: This factor includes the number of recently opened accounts, the number of credit inquiries, and the time since each account was opened. This portion of the score also looks at how often you apply for credit.

- 15% of the score is based on Length of Credit History: This factor scores you on how long you have had credit, the time since you opened an account and the time since recent account activity.

- 10% of the score is based on Types of Credit Used: A mix of credit is the best way to develop a good score. The most important consideration is to be picky about the type of credit you apply for because that will really help your score. For instance, to the scoring system, third party financed credit cards (i.e. department store credit cards) are considered to be particularly low quality credit as the holder of such cards can appear desperate for credit.

The 5 Biggest Credit Mistakes and How You Can Avoid Them

Now that you have a working knowledge of how the credit system works, let’s look at the most common mistakes consumers make regarding their credit scores and how you can avoid them:

Mistake Number 1: Neglecting Your Credit Scores

You know what they say, “Life happens.” We all get very busy with our daily routines. Work, managing a household, family, recreation, etc., they all seem to take up more time than we think they will, and none of us seems to have enough time in the day to get everything done. As a result, most consumers do not actively monitor their credit, so when it comes time to apply for a loan, they are not credit ready, and that's a shame because as you can see above, a low credit score can be financially devastating, not to mention, may cause denial altogether.

Here are some facts that will help you understand why it is so important to monitor your credit.

- 80% of all consumer credit reports contain errors that could be affecting your credit scores from 5-100 points.

- 25% of all credit reports contain errors serious enough to cause consumers to be denied for credit completely.

- 10 million Americans are victims of Identity Theft every year. 25% are children.

- The average amount of time that it takes the credit bureaus to fix their own mistakes in response to consumer complaints is 23 weeks, nearly six months! This means that in order to be “credit ready” for a loan, you must check your credit at least 6-months before you apply.

Making sure that your credit reports are accurate and reflective of your activity will help you maintain a good credit score and will help you avoid attempts of identity theft. And the first step is to have a complete picture of your current credit situation by ordering your credit reports and scores from all three national credit bureaus, TransUnion, Equifax and Experian. You should get your score from all three bureaus for two reasons. First, each bureau may have slightly different information about you depending on which companies have reported to them on your accounts. Second, many lenders, especially mortgage lenders, look at all three of your FICO scores to determine whether to grant credit – for everything from a car loan to a home loan to a credit card to a cell phone. Do not have a creditor pull your reports because you will lose points for a hard inquiry. However, you can receive one free copy of your report each year from every bureau by requesting it at www.annualcreditreport.com. This request gives you access to your report, but not your score. You will have to pay a fee for each score. Because we strongly advise you to access you reports and scores on a quarterly basis, we recommend that you go to www.privacyguard.com where you can pull all three credit reports & scores for only $1.00. Privacy Guard's credit watch program allows consumers to pull their updated reports and scores every 30 days, which is crucial to your credit maintenance. (Please be sure to read terms and conditions of the Privacy Guard Agreement.)

Mistake Number 2: Late Payments

Making a payment late is a big "no-no" if you want to achieve and maintain the best credit score.

Most consumers have no idea of how much a 30 day late payment can affect their credit score. According to Fair Isaac & Co., the creator of the credit scoring system, one 30-day late can cost you 50-75 points immediately, even if you have a 720 score, and it takes months, sometimes years, to gain back those 75 points. The credit scoring system doesn't care why you are late with your payments. It could be due to a job loss, a medical crisis, you were out of town; it doesn't matter. It will be assumed that you are a high risk borrower and your credit score will reflect the penalty immediately.

Regardless of whether or not you have lots of money in the bank and plenty of unused credit, your payment history indicates how much control you seize to properly manage your situation and the level of care and responsibility you exercise to maintain your existing accounts. And since your payment history is the largest consideration in your credit report and score, you want to make sure that you pay your bills on time.

Mistake Number 3: Going Over 50% of Your Credit Limit

Consumers tend to use credit cards for all of their needs, running up big balances. It is crucial to keep credit card balances below 50% of the available limit at all times to maintain your score. And the rules are even tighter if you are looking to get a loan. For the 3-6 months prior to applying for a loan, keep those balances below 30% or less of your limit so you can increase the score as much as possible--the lower the balance, the better.

Never max out or go over the limit! Fair Isaac & Co. says that you can lose up to 80 points by maxing out on a credit card, even when you pay the balance down, you only get 40 of those points back immediately. It will be months before you get the other 40 points back. If you have to max out a credit card to make a purchase, make sure to pay the balance down BEFORE the statement date so that the maxed out balance does not get reported to the bureaus.

If you cannot pay down your credit card balances to 30% of the available limit prior to applying for a loan, try calling your credit card companies to ask for a temporary limit increase without pulling your credit. Tell them you are in the process of wanting to purchase a home and that your balances are affecting your score. Some creditors will oblige if you have maintained a good payment history on the account.

This aspect of your credit score is part of the Amounts Owed factor which accounts for 30% of your credit scores.

Mistake Number 4: Shop 'til Your Score Drops

Shopping for loans can be a fast way to bring down your credit score. Why? Because when you apply for a loan, they pull your credit. This is a hard inquiry that automatically whacks anywhere from 2-30 points off your score. The good news is that Fair Isaac realized that consumer's shouldn't be penalized for something as logical as shopping around for the best interest rates before buying a car or home, so they came up with something called De-Duplication. What it means is this.... Consumers can have their credit pulled by as many mortgage or auto lenders as they want within a 14 day period, and it will only be counted as one hard inquiry against their score. And even better news is that the new scoring model released by FICO has expanded the 14-day period to 45 days. Note: Not all lenders are using the new model yet, so it is best to be safe and do your shopping in a 14-day period.

Mistake Number 5: Opening Accounts You Don't Need

Just say "Thanks, but no thanks" when it comes to new offers for credit, don't open accounts you don't need. Just because credit is offered to you, does not mean that you should accept it. When you receive one of those pre-approved credit card letters in the mail, your credit report has not been pulled yet, so you are NOT approved for the account. Once you pick up the phone to call the creditor, they will pull your report and you will be penalized immediately for the hard inquiry. Remember, one hard inquiry can cost you anywhere from 2-30+ points from your score, depending on other elements in your report. And, the lower your score, the more points you will be penalized. So, it is best to avoid these types of special offer credit cards (including Department Store offers of "Open an account today to save 15% off of your purchase.") The scoring system frowns upon 3rd party finance cards.

4 Steps to Start Improving Your Score

You don't have to just take bad credit lying down. Here are four steps to help you get started today:

1. **Get Educated and Stay Informed:** There is an abundance of information out there on credit education. By learning what to do to proactively monitor and protect your credit, you can get a good score and keep it that way. There are no quick credit fixes, but you can make dramatic improvements over time.

2. **Monitor your credit quarterly:** This way, you will be able to see what's on the report to determine what you can clean up, what doesn't belong there, what isn't there that should be, and make any adjustments to realign your credit reports so that you are credit ready at all times.

3. **Verify that the data affecting your payment history is being reported accurately.** Check all accounts for late pays. Were you late? If yes, is the late being reported in the correct month? If not, by law it should be removed. Check for collections. There are so many nationwide collection scams going on that it is now necessary to check our reports quarterly (at a minimum) to make sure that we are not victims. Per Sec. 1692g. of the Fair Debt Collections Act, the burden of proof is on the collector not you, and if you ask them for it, they have to provide you with the following information:

    - Date they purchased the debt
    - Amount they paid for said debt
    - Date of last payment/activity, if any
    - Original creditors full name and address
    - All records pertaining to actual debt to prove validity

    If they cannot provide you with this information, then the account must be deleted from your credit report.

4. **Hire a professional service to help.** If you feel that the credit challenges you are facing are too much, or you don't have enough time to do the work necessary to remediate your own credit, don't lose hope and give up. Consider using a professional service to help you reach your credit scoring goals. Credit Resource Corp. is a consulting firm that primarily works with consumers who are in the process of purchasing a new home, or refinancing their existing loan. They work directly with mortgage professionals to determine what credit factors are key to loan approval, and they have a proven track record of helping borrowers increase their credit scores on average between 50-110 points within a 3-6 month period. If you are interested in receiving a free credit consultation from a remediation firm that you can trust, please contact me via email or telephone.

In Conclusion:

Your good credit is well worth the effort it takes to both achieve it and preserve it. If you have good credit, keep it that way. In doing so, you will continue to enable yourself to enjoy the best loans for the lowest possible rate of interest. If you are seeking to improve your credit, understand that your efforts will be paid off in spades.

Remember, with your good credit, the brightest financial future awaits you!

All the best.

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