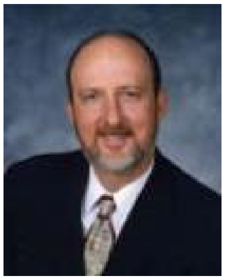

credit management
MONTHLY NEWSLETTER

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Why is your credit important?
The question really is, "Why is "Good" Credit Imperative?"
Brought to you by Don Parsons

Good credit is imperative because it is your golden ticket to financial freedom for right NOW and it prepares the foundation for financial security LATER. Isn't that what we all seek?

In planning for tomorrow by improving your situation today, you can eliminate the risk of limited financial security for your retirement years. You don't want to work forever, and you shouldn't have to. You can take immediate action that will enable you to set yourself up for a more secure future by simply being wiser about how you manage your credit, your debts and your finances.

So what is the single first step we can take toward planning for a more secure future and retirement? It begins with ensuring that we put ourselves in a position in which we derive the very best value from every financial commitment we make. The best value means NOT spending hundreds or thousands of dollars on high interest rates for credit cards, auto loans and mortgages. You can literally save hundreds of dollars each and every month, from this day forward, by simply achieving and maintaining a credit score in the 700's. Take for instance a $300,000 30-year fixed home loan. Today, if your credit scores are below 700, you could be paying an additional $659 a month in nothing but interest. That is what the price of less than great credit costs you-an extra $7,908 a year, and a whopping $237,138 over the life of the loan. Wouldn't you rather put that money into your retirement nest egg?

So, now we know that less than perfect credit costs us huge sums of money, let's look at how we can position ourselves to get the best value from our financial commitments? Simple. We make sure that our Credit Scores are in the 700's at all times.

A quick education on the credit score.

Here's a little primer on how credit scores evolved. Developed in the 1950's by Fair Isaac & Co., credit scores hit mainstream use in the 1980's when three major credit bureaus, Experian, Equifax and TransUnion negotiated an agreement to create an objective and fair scoring system that would analyze all of your data, compare it with the way thousands of people pay their bills, and come up with a three digit number between 350 and 850 that indicates whether or not you are a good credit risk. As you probably guessed, the higher the number, the better your chances are of getting the loan at the best interest rate.

Today, credit scores are the No. 1 piece of data on which people are judged to determine whether or not they get approved for loans and how much interest they will pay for those loans. The good news is loan approval now only takes a few minutes. The bad news is that the credit score is now becoming widely used by not only the lending industry, but also by employers, utility companies, insurance companies and cell phone companies, and the list is growing every day.

A good score opens doors that will lead to abundant opportunities both for now and for a more secure future, and by having a complete understanding of what makes up a good score, you can start right now on the path to a higher credit score and a better financial life.

Some facts you should know.

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

Why do the scores from the three credit bureaus vary? The three major credit bureaus, Experian, Equifax and

TransUnion are for profit businesses, not government agencies. Their main business is collecting data about YOU from creditors and then reselling that data to lenders, employers, insurance companies, utility companies, and most recently to YOU, the consumer. Since these three companies are competitors, and DO NOT share data with one another, 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.

How many scores do I really have? When you go to apply for a loan, the scores the lender will pull will not be the same scores that you would receive from the bureaus. The reason for this is that 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 <u>same data</u> from the three bureaus, but all lenders DO NOT use the <u>same software</u> 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.

Do lenders use all three scores? Mortgage lenders use the middle of the three scores. All other creditors can use any one of the three. That is why it is important to keep all three scores maintained.

How fast can your credit score change? Your credit score can change whenever your credit report changes. And the good news is that once it changes, there is no memory of yesterday's score in the system. You don't have to worry about looking back as you move forward with improving your credit. Just remember, negative items will lower your score fast, but improving your score takes time. That is why it is important to check your scores all the time so that you will be prepared for the next opportunity.

What Goes Into Your Score? There are five factors that make up your credit score, and each factor weighs differently on your score. Here's the breakdown:

- **<u>35% of your score is based on Payment History:</u>** 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. It is very important to not incur late payments on Mortgage Accounts. One 30-day late can cost you 50-75 points.

- **<u>30% of the score is based on Amounts Owed:</u>** 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. Keep credit card balances under 50% of the available limit at all times, and when preparing to make a large purchase, bring those balances down to under 30% at least 3 months before applying for the loan.

- **<u>10% of the score is based on New Credit:</u>** 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. It is best when applying for a mortgage that you do not open or apply for new credit accounts. When shopping for a new mortgage or auto loan, it pays to plan ahead so that you do all of your shopping within a focused period of time. You can have your credit report pulled as many times as you want within a 14-day period when shopping for a mortgage or auto loan and it will only count as ONE hard inquiry.

- **<u>15% of the score is based on Length of Credit History:</u>** 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. While applying for a mortgage, consumers will want to leave open accounts they have had for a long time as it will help boost this portion of the score.

- **<u>10% of the score is based on Types of Credit Used:</u>** 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. However, there is one exception to this rule, and that is that the scoring system considers Sears credit cards as a positive.

What Is Not In Your Score? Your race, color, religion, national origin, sex and marital status, age, salary, occupation, title, employment history, where you live, interest rates, child/family support obligations, rental agreements, soft inquiries, whether or not you are involved in a credit counseling program.

Can I Improve My Score?

Yes, there are specific and strategic steps you can take right now to start repairing your credit problems.

- **Start with the basics.** Order all three of your credit reports and all three of your credit scores. You are entitled under the law to a free copy of your credit report-from all three credit bureaus-each year when you order it from Annual Credit Report Request Service. To order, visit www.annualcreditreport.com, call toll-free 877-322-8228, or complete the Annual Credit Report Request Form and mail it to: Annual Credit Report Request Service, P. O. Box 105281, Atlanta, GA 30348-5281. You will have to pay an additional fee for the credit score from each bureau. Scan your report for any errors. Is there an account on there that you didn't apply for? Is there a company reporting a debt that is inaccurate? Are all of your credit card limits reporting? Are your balances up-to-date? Are your name, birth date and Social Security Number correct? If there are any errors on your report, no matter how small, they can lead to big problems and inhibit you from obtaining credit and even keep you from getting the interest rate you deserve on your mortgage or refinance.
- **Start improving what you can immediately.** Late payments and delinquent accounts will affect your score negatively, so take care of them-the sooner, the better. If you have a good relationship with your creditor, call them to see if they'll work with you on removing a late payment. They do it all the time. If you have past due accounts, call your creditors to see if you can negotiate a better interest rate, lower payments or make other arrangements to pay off your debt sooner. Also, don't carry high balances on your credit cards. If you carry more than 30% of your limit every month, this reflects negatively in your score. Don't charge what you can't pay off within 90 days, and don't max out your cards.
- **Disputing errors on your report.** Errors can appear on your credit report. These can be human error in reporting information from a creditor or one of the credit bureaus. They could even be unauthorized accounts set up in your name by an identity thief. Before you apply for a loan, you should verify the information in your credit report. If you find errors, you should correct them immediately. Here are the rules in sending dispute letters to the credit bureaus:

    Rule 1: Make sure that you only send the letter to the bureau(s) that is reporting the derogatory information. Not all creditors report to all bureaus. If you send a dispute letter to one of the three bureaus that is NOT reporting the information, you take the risk of having the derogatory information added to that bureau, and your score will go down.

    Rule 2: Make sure that you send everything certified so that you can prove delivery.

    Rule 3: Include copies of any supporting documentation you may have to support your claim.

    Rule 4: Keeping a log of activities is very important for successful credit repair. **Click Here** for an example of a log you can use.

    Rule 5: Mail disputes to bureaus at their different addresses. Each bureau has several addresses. If your first dispute comes back without change, send it to another address for that bureau. **Click Here** to print a list of credit bureau addresses.

- **If the credit challenges are too much.** If you feel that the credit challenges you are facing are too much, or if you don't have the time or stamina to do the homework necessary to get the ball rolling, then it's time to consider using a professional service to help you reach your 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. If you decide this is the path you would like to take, give me a call and I will set up a free credit consultation for you. Feel free to visit their website at www.creditresourcecorp.com for some great tips on how to maintain and manage a good credit score.

In Conclusion

Your credit score is so important to your current financial well-being and the stability of your financial future. In fact, your credit score is really the key that can either open doors for you or lock them shut for several years. I am very committed to my effort to help you learn more about both the importance of the score as well as repairing, improving and maintaining your credit score. I am dedicating the next five monthly newsletters to in-depth descriptions of the 5 factors that affect your credit and to show you how you can take charge of those factors to get a better credit score and keep it. Until then.

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