

Credit Crusher:

How to Better Manage Your Credit Score & Maintain Peace of Mind



Let's face it. We live in a credit crazed society. The times have certainly changed, and more and more business is now being conducted with the simple swipe of a card. In fact, a high percentage of the purchases we make on a daily basis are completed by using either credit or debit. These cards are very convenient, easy to carry and are usually safer than walking around with a wad of cash in our wallets or purses.

On the other hand, credit is a strong indicator of your spending habits, and can even make or break you when applying for loans or larger purchases. Just like fire, if credit is not contained and channeled properly, it can easily consume your financial status and engulf everything in its path. Therefore, we need to know what is healthy, how the bureaus evaluate our information, and what we can do to employ better habits in our own lives.

According to Creditcards.com, the average credit card debt per household with credit is \$14,750. This statistic is staggering evidence that we have allowed things to get out of control; thus, we must take action to improve our own situation.

Although this brief report is not intended to teach you how to pay off your outstanding debts, we will reveal the very behaviors you must begin to practice in order to maintain healthy credit and to keep your financial house in order.

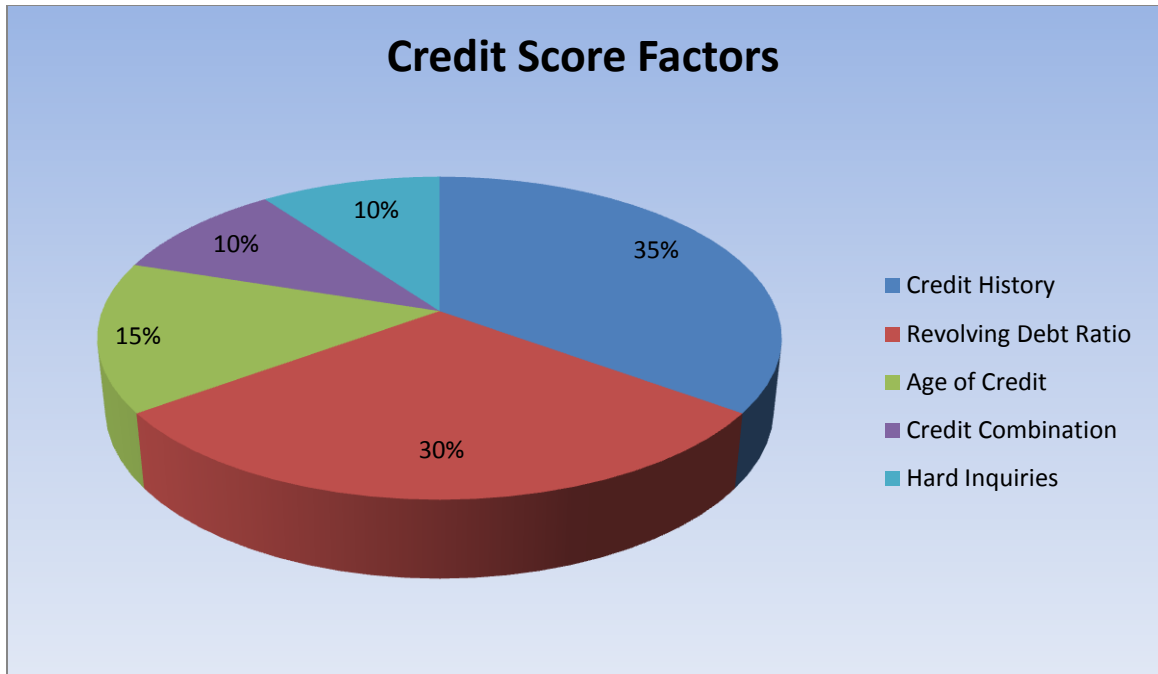
What Exactly is a Credit Score?

A credit score is simply the statistical likelihood of a person falling 90 days behind on a particular loan obligation within a 2 year period. In fact, there is nearly a 99% higher chance of a person with a 620 or lower credit score to end up 90 days behind than for those who have an 800. So your score is a very strong predictor of future outcomes.

Now each credit bureau will use their own unique scoring system when evaluating your information, so that is why your score will fluctuate somewhat on every report. These numbers will also differ depending on the type of debt you take on, such as mortgages, car loans and consumer debt. The obvious reason for this is that each carries its own unique risk factors that must be considered.

As indicated by the graph below, 35% of your score is made up of your history of delinquencies (30 days plus), and another 30% is your revolving debt ratio. Since this makes up 65% of the total pie, it is imperative that you pay your bills on time and keep down the total amount of debt you incur. This will also help you to avoid the temptation of over borrowing when you don't have the means to pay.

It is noted that there should be some type of activity on your card at all times, so try paying the statement balance that is owed for the month while allowing the remaining amount to carry over to your next bill. That way you never have a zero balance and can avoid heavy interest charges. Also make a point of paying the debt before the statement date, so that it always reports the lower amount and boosts your score.



Next, another 15% of your score is based on the age of your credit. Therefore, it is wise to always keep your oldest lines open. The remaining 20% is split up among the combination of credit (i.e. mortgage, car, consumer, etc.) and hard inquiries. Experts report that a healthy credit mix usually contains around 3-5 revolving accounts, 1-2 automobiles, 1-2 mortgages and 3-5 hard inquiries each year.

Now for clarification, there are both “hard” inquiries and “soft” inquiries. Each “hard” inquiry reduces your score by almost 3% for the first 10

each year. After that, the reduction rate goes slightly down. “Soft” pulls would be anything that is considered to be personal or promotional in nature, such as your yearly account review.

Credit Report Resources

If you have not taken the time to review your credit report lately, you can run a free search at <http://www.annualcreditreport.com>. You have the choice of pulling reports from all 3 bureaus at once, or you can choose to do one at a time throughout the year. Each entity (Experian, Equifax, and Transunion) is required to give you one free report each year.

Did you know it is estimated that 70% or more of reports indicate some type of error? Therefore, it is highly likely that you will have something that must be disputed within your lifetime. Be sure to stay on top of this, because it can affect you and your overall score greatly.

A second great resource for reporting is located at <http://www.missingmoney.com>. Want to find out if

your or another relative is entitled to receiving money? It's possible that there are lost assets out there that are rightfully yours but were in fact never paid. This site offers a free and comprehensive search to help track down any lost assets that have accumulated over the years.

Myth Busters

Let's do a brief assessment. Below are five questions that involve common misconceptions about things that affect your credit score. Take the time to answer each below. We have provided the answers for you below, so don't try to peek just yet. Let's see how well you know your stuff!

1. My credit score will improve if I close unused credit cards.
2. FICO credit scores should fluctuate somewhat between all 3 credit bureaus.
3. Once married, my credit report will be merged with my spouse's.
4. Your credit score is negatively affected every time you request a copy of your credit report.
5. Annual household income is not a part of your FICO score.

Answer key: F, T, F, F, T

What Affects My Credit Score?

Now, in order to build up a credit score, you must have an account that is at least 6 months old and has had updates within the last 6 months, with no active disputes. Any negative history can remain on your reports for up to 7 years.

However, if you went through Chapter 7 or 13 bankruptcies, records could remain on your report for as long as 10 years. Also keep in mind that by signing on as an authorized user with another who has strong credit will also boost your score.

Next, “hard” inquiries will only negatively affect your record for 1 year, even though they may show up on your report for 2 years. While this is the maximum amount of time that negative marks can remain on your report, creditors can wipe records clean at any time throughout this timeframe using their own discretion.

For scoring purposes, revolving credit will typically have more of an impact than installment accounts. The only real exception for this are mortgages due to the size of the debt and the amount of time it takes to pay down.

On the other hand, all secured and unsecured credit cards (including department store cards) score the same. If you use any bank issued cards, it is possible that if you pay off the full amount on your card every month, they may choose to lower your maximum available credit over time. Remember from our graph above that a higher credit limit will help lower your debt ratio, but this shouldn't be used as a way to drive yourself into further debt.

American Express (AE) functions as a revolving account, and actually reports the total amount owed on your card as being your credit limit. Therefore, it is wise to have all AE debts paid off before running a credit check as it will be bypassed in the report.

We hope that the information provided in this report was both insightful and encouraging. As always, we are here to help you in any way we can. If you need further assistance or guidance, feel free to contact us at any time. It is our goal to provide you with the best service and contacts available so that you can improve your finances and future!