

Credit Score Tips for Success

We all want high credit scores so that when we want a home loan or other credit, we are offered the best rates and terms. Here are some keys to success I have learned from classes, a credit attorney, credit repair specialists, and years of experience. I hope these help you. Please feel free to call me if you have any questions.

3 Different Scoring Models

When you get a FICO score from your credit card company, or most other websites, it is a **consumer score not a mortgage score.**

There are 3 different credit scores and I have never seen them be the same.

1. The consumer score – this is the score credit card companies use, and some other companies (e.g., if you are financing furniture)
2. The mortgage score – all real estate lenders use this score
3. The auto score – when you lease a car or get a loan, they will get this score

In my experience, the consumer and auto scores are usually higher than mortgage scores. This is why it is important to get mortgage scores before being pre-approved for a home loan.

Soft-pull and Hard-pull

A “soft-pull” means the company gets your scores and credit detail, but it does not register as an inquiry on your credit report. A “hard-pull” shows as an inquiry.

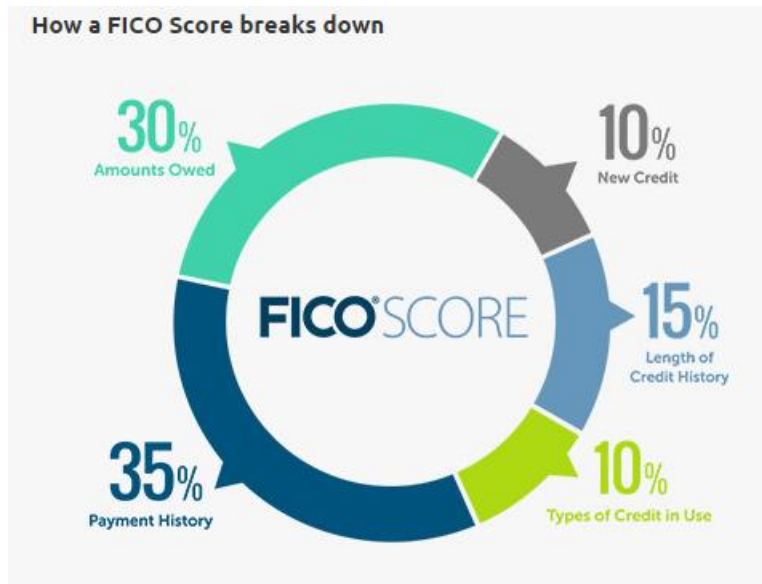
When I pre-approve people, I run a soft-pull report for two reasons. It costs less than a hard-pull and there is no inquiry on the report.

When it comes time to get the home loan, a hard-pull report is necessary because it integrates with the automated underwriting that is required to get any home loan.

The beauty of the credit service I use is that they provide tools that help us know how to improve your credit scores.

FICO Score Criteria Basics

This graphic is from www.MyFICO.com. It is the breakdown of importance of the criteria used to determine a credit score.



Notice that “Inquiries” is not one of the main criteria. It is a minor criteria. If you apply for several credit cards, your score will go down because they perceive you may be desperate, and no one wants to get on a “sinking ship”.

However, multiple auto or mortgage inquiries within a 45-day period count as only one inquiry for credit scoring purposes. Multiple inquiries in these areas don’t signal desperation, that is simply shopping for a good car or home loan.

Amount Owed

The amount owed divided by your limit equals the percent credit usage, (i.e., if your limit is \$10,000, it is best to owe \$1,000 or less when they report. They care about individual credit cards and your overall usage.

There are four important levels. If you are paying off debt to increase your score, try to pay them down to the lowest of these levels possible.

- 10% or less = A+
- 30% or less = B+
- 50% or less = B- to C+
- 70% = D
- 100% or over your limit = an F

Your score can vary within a brief period depending upon your balances at the time they are reported. If you must have a high credit score to buy a home, it is best to keep the balances low the entire time, because it can be difficult to know when the credit card companies report your balances.

The “golden zone”

It is helpful to know when your credit card reports to the bureaus, so you can pay down balances before that date to improve your score. A “credit guru” I know told me that the “golden zone” is between the 11th and 15th of each month, because most credit card companies report in that timeframe. They often report just before your due date. AMEX usually reports after the due date, but we can’t count on this.

If you are paying down debt to improve your scores, call them and try to find out when your credit card companies report. I’m told that you can get this information if you have a Credit Karma account. But I don’t have an account, so I can’t confirm this.

The Damage of Collections, and How to mitigate it

If you have unpaid collections, I advise paying them only if the collector will agree to **delete them from the credit**. If they only show it as “paid in full”, it may lower your FICO score. This is a flaw in the system, in my opinion. The system sees any recent activity in that sector as bad, even if the activity is paying off the collection. This is very important. So, I advise my clients to call the creditor tell them you won’t pay it unless they agree in advance and in **writing** to delete the record if it is paid.

I also help my clients understand the position of the collection agent, and how to improve your possibility of success when calling them. This is too involved for this venue, so please call me if you want that advice.

Medical Collections

Medical billing offices are notorious for sending people to collections for small amounts owed and being lazy about trying to collect themselves. Many of my clients who have collections on their credit didn’t even know they owed the money.

Thankfully, there is a new law that helps!

- Now, they can’t send your account to collections until you are 12-months delinquent
- They must remove the collection from your credit report once it is paid
- Soon, they will not be allowed to report any amount less than \$500

Rapid Rescore and What-if Simulator©

Our credit service company, Premium Credit Bureau, offers services to help you with your credit scores, a Rapid Rescore service and a “What-if” Simulator©. If you need to make changes to your credit profile to improve your score, and don’t have time to wait for the changes to report organically (30 to 45 days), then we can order a rapid rescore and the bureaus will update it for you for a small fee, usually \$45 per issue, per bureau.

The simulator tells us what your score will become if you take certain actions (i.e., pay down debt, get a collection removed, open a new credit card, get late payments removed, etc.) I have found it to be accurate.

TransUnion and Equifax

In my experience, these two bureaus are very consumer friendly. Each has a toll-free number you can call and ask the balances that are currently reporting. TransUnion is 800-916-8800; Equifax is 800-203-7843. If they tell you over the phone that the current balances are reporting, then we are home free. We can run your credit and get the updated balances and scores

Experian

To get this information from Experian, go to www.AnnualCreditReport.com and run your credit (this does not cause an inquiry, because you are running it yourself). On that report, there will be a phone number and ID number, (the phone number rotates, so there is no way I can predict what it will be). You call that number, give them the report number, and they will tell you the balances currently reporting.

Payment History

30-, 60- and 90-day late payments hurt credit scores, often up to 100 points. A late mortgage payment is devastating to your credit score. Damage done by credit card and other late payments depends upon the time since the last late payment, the scoring model used for you (explained below), and many other criteria. Late payments become less damaging each year that passes. Late payments 2 or 3 years old will put you in a different scoring model than if you had no late payments at all but will be less damaging than recent late payments.

Scoring Models

The credit bureaus each have about a dozen different “scoring models”. If you have a judgement or collection on your credit, even if it is paid, you are in a higher risk model if that is on your credit. Bankruptcies, short sales, and foreclosures also put you in a high-risk model. In my experience, people in a high-risk model typically cannot get a FICO score over 719, even if all credit since the event is perfect.

Therefore, I advise clients to avoid any litigation that will result in a report of a judgment against them if they lose. It stays on your credit, even if you pay it immediately.

Late Mortgage Payments on your Credit

If there are one or more late mortgage payments on your credit that are unjustified, you can file a complaint at <https://www.consumerfinance.gov/complaint/> There is a 75% chance it will be removed from your credit. If that doesn't work, call me to discuss options.

If you move and put in a change of address with the USPS, credit card companies may not update their records in a timely manner. This can result in missed payments. I recommend being proactive. Call them and make sure they change the address before you move. Put a reminder on your calendar to pay the credit card bill even if you don't receive a statement.

Even better, most credit cards allow you to set up autopay. All my cards are set up to autopay the minimum payment on the due date, so I won't incur late fees if I'm too busy to pay attention to credit cards.

Length of Credit History

Please do not close old credit cards! This is a big mistake people make when they are trying to recover from a history of too much debt. Length of credit history is important. That is one reason older people typically have much higher FICO scores than younger people.

I recommend keeping the cards and using them every 4 to 6 months. If you don't use them for a while, they no longer impact your score. Companies often cancel credit cards that aren't used for a while. If you use the card and pay it off every few months, it stays active and improves your score.

Authorized User

If you are trying to build or improve your credit, a friend or relative can add you to their cards and it can help you. Here are criteria:

1. They have never been 30-days or more late on the card (or at least in the last 6 or 7 years)
2. They maintain a low balance compared to the credit limit
3. They have had the card a long time, the longer the better
4. Authorized users are only reported to the bureaus if:
 - a. It is a major credit card (store and gas cards don't help)
 - b. Your friend or relative gets a card for you mailed to their house. They don't need to give it to you to use, but having a card in your name is important.

Why your credit score can vary widely within a short time frame

A credit score is a snapshot in time. For example: if a consumer's credit card balance is high at the time the credit is pulled, that is what the score will reflect.

My clients sometimes think that they have no credit card balances because they pay them off every month. However, they report the balance that is reported the day the credit card company reports to the bureaus.

Delinquent Student Loans

My "credit guru" told me something I needed to know to help a relative that no one else has ever mentioned. My relative went through a disastrous period in his life and he didn't pay

attention to the student loans, he didn't even request deferral. So, they reported several years of late payments and sent him to collections. I thought it was hopeless.

She told me that if the loans are Federal loans, there is a Rehabilitation program. If you sign up for the Rehabilitation program, and make the required number of payments on time (typically 6 to 9 payments), they consolidate the loans into new accounts and delete the old accounts from the credit report. That removes the old late payment reports, and your scores will increase substantially.

The payment is income based, so it is affordable. But you only get one chance. If you are delinquent after enrolling in the Rehabilitation program, you won't get this opportunity again. So, I recommend putting the payment on autopay and set a reminder on your calendar to make sure your checking account has the funds to cover it.

Conclusion

I hope this has been helpful. If you have any questions or would like personalized advice, here is my contact information:

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