

# Your Credit Sucks



A Simple, Five Step Plan to Improve Your Credit Score in 30 Days



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# Introduction

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**Getting and maintaining great credit is more important than ever.**

Today's financial climate is chilly, and a not-so-hot credit score typically means the dreaded "walk of shame" out of a dealership or mortgage office. Now is the time to get savvy about your finances and credit standing – being clueless about any aspect of your credit health can really cost you.

This guide, pulled from some of the best articles on RateNerd.com, is designed to give you a simple, actionable plan to improve your credit score and clean up inaccuracies on your credit report. Follow these steps and you will put yourself on the road to financial health. Follow this plan and you should begin to see improvement in 30-60 days.

Share this guide freely with friends, family members, co-workers and especially young people so they can build good credit habits early in life.

## About RateNerd



[RateNerd](#) finds the best CD rates, mortgage rates and unadvertised bank deals every day. Get our "Daily Deal" delivered to you every day via [email](#), [RSS](#), or [Twitter](#). You'll get Rate Nerd's latest find on money market rates, high yield savings, certificates of deposit, mortgage refinance and other bank rate offers. Our Credit section explains how credit reports, credit scores, credit repair and charge off's work. Get geeked about interest rates with RateNerd.

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# Step One – Understanding How Credit Reports and Credit Scores Work

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**Yes there is a “secret sauce” formula used to calculate your credit score, and each reporting credit bureau has its own recipe. If you want to get the lowest rates and largest credit lines for your loan or credit card, you need to have a great score – somewhere above 720 in most cases. Check out the five key ingredients used in determining your credit score, and start taking the right steps now to make sure your number is high.**

You have the right to know what's in your report, but you have to ask for the information. The consumer reporting company must tell you everything in your report, and give you a list of everyone who has requested your report within the past year — or the past two years if the requests were related to employment.

## **Consumer reporting companies collect and sell four basic types of information:**

- **Identification and employment information:** Your name, birth date, Social Security number, employer, and spouse's name are noted routinely. The consumer reporting company also may provide information about your employment history, home ownership, income, and previous address, if a creditor asks.
- **Payment history:** Your accounts with different creditors are listed, showing how much credit has been extended and whether you've paid on time. Related events, such as the referral of an overdue account to a collection agency, also may be noted.
- **Inquiries:** Consumer reporting companies must maintain a record of all creditors who have asked for your credit history within the past year, and a record of individuals or businesses that have asked for your credit history for employment purposes for the past two years.
- **Public record information:** Events that are a matter of public record, such as bankruptcies, foreclosures, or tax liens, may appear in your report.

## Kind Of Like Going to the Principal's office

Nothing sends fear through the heart of a child more than report card day. Prepare yourself for a sense of déjà vu when applying for a loan... many say the situation ignites that same type of blast-from-the-past feeling as they sit on the edge of their seat awaiting their financial fate. And what to do if, ultimately, that application is stamped "denied"? Figure that your credit score had a lot to do with it, and start making big changes.

Today's financial climate is chilly, and according to Ken Clark, a debt/credit expert and certified financial planner, a not-so-hot credit score typically means the dreaded "walk of shame" out of a dealership or mortgage office. Now is the time to get savvy about your finances and credit standing – being clueless about any aspect of your credit health can really cost you.

### Slam-dunking your credit score smarts

Quite simply, your [credit score](#) summarizes your credit risk based on a snapshot of your credit standing at a particular point in time. It isn't so much a grade, it's more like a grade point average, explains Clark, author of *The Complete Idiot's Guide to Getting Out of Debt*. It's an overall assessment of your financial responsibility and influences the amount of credit that's available to you as well as the conditions you may have to agree to in order to get that credit.

One major misconception, Clark says, is that people often confuse "[credit report](#)" with "[credit score](#)." While the terms may sound similar, one is actually built upon the other. "A credit report is an objective history of who you've been as a borrower – it passes no judgment," says Clark. "The credit score is a subjective evaluation of that history." Whether it's a credit card, car loan, or mortgage, lenders want to know your level of risk, and how likely it is they'll get paid on time.

### Learning the Credit Score lingo

The terms "credit score," "credit rating," and "FICO score" are often used interchangeably, explains financial expert Ethan Ewing, president of Bills.com in San Mateo, Calif. "This is basically correct. FICO simply refers to Fair Isaac Corporation, the company that originally developed a 'score' method of rating consumers' credit histories."

Today, the three major reporting agencies (Experian, Equifax, and TransUnion) each report their own credit scores. For instance, there's the Plus Score, calculated by Experian; the Empirica Score, offered through TransUnion; and Equifax's Beacon Score. And what are lenders really looking at? "Different creditors use different factors to rate overall credit worthiness," says Ewing. "It basically comes down to whether you pay – and pay on time – and whether creditors have reason to believe you might be overextending yourself." The more responsible you are with credit, the higher your score will be. If you're included in the estimated 45 percent of consumers who don't know their credit score or 32 percent who've never checked their credit report, it's time to do some homework. Use this link to get a [free copy of your credit report and credit score](#).

## Factoring the formula

While you won't be quizzed on this later, you can earn some real-life "extra credit" (and lower payments) by studying the factors that drive your credit score. Doug deBruyn, a Seattle-area loan originator and certified mortgage planning specialist with VanDyk Mortgage, teaches a credit-scoring class for realtors and consumers, and shares his smarts to help you pass your next nerve-wracking credit test with flying colors. Sorry, there's no "cramming" come loan-time.

### Brush up on the five key components that factor into your credit score:

#### 1) Payment History – Approximately 35% of your credit score is based on this category.

The first thing any lender wants to know is whether you have paid past credit accounts on time. This is also one of the most important factors in a FICO® score. Late payments hurt, but won't destroy your credit score. An overall good credit picture can outweigh one or two instances of a few late credit card payments. And by the same token, having no late payments in your credit report doesn't mean you will get a "perfect score." Some 60%-65% of credit reports show no late payments at all. Your payment history is just one piece of information used in calculating your FICO® score. Your [FICO® score](#) takes into account:

- Payment information on many types of accounts, including (but not limited to): credit cards, retail accounts (like department store credit cards), installment loans (loans where you make regular payments, such as car loans), finance company accounts and mortgage loans.
- Public record and collection items-reports of events such as bankruptcies, foreclosures, suits, wage attachments, liens and judgments. These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts. Bankruptcies will stay on your credit report for 7-10 years, depending on the type.
- Details on late or missed payments ("delinquencies") and public record and collection items. The FICO® score considers how late they were, how much was owed, how recently they occurred and how many there are. A 60-day late payment is not as significant as a 90-day late payment. But the more recent the offense, the more it counts. A 60-day late payment made just a month ago will affect a score more than a 90-day late payment from five years ago.
- The number of accounts showing no late payments. A good track record on most of your credit accounts will increase your FICO® score.

#### 2) How Much You Owe – Approximately 30% of your credit score is based on this category.

Having credit accounts and owing money on them does not necessarily mean you are a high risk borrower with a low FICO® score. However, when a high percentage of a person's available credit has already been used, this can indicate that a person is overextended, and is more likely to make some payments late or not at all.



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Your [FICO® score](#) takes into account:

- The amount owed on all accounts. Note that even if you pay off your credit cards in full every month, your credit report may show a balance on those cards. The total balance on your last statement is generally the amount that will show in your credit report.
- The amount owed on all accounts, and on different types of accounts. In addition to the overall amount you owe, your FICO® score considers the amount you owe on specific types of accounts, such as credit cards and installment loans.
- Outstanding balance on certain types of accounts. In some cases, having a very small balance without missing a payment shows that you have managed credit responsibly, and may be slightly better than carrying no balance at all. On the other hand, closing unused credit accounts that show zero balances and that are in good standing will not raise your FICO® score.
- Number of accounts with balances. A large number can indicate higher risk of over-extension. How much of the total credit line is being used on credit cards and other “revolving credit” accounts. Someone closer to “maxing out” on many credit cards may have trouble making payments in the future.
- How much of installment loan accounts is still owed, compared with the original loan amounts. For example, if you borrowed \$10,000 to buy a car and you have paid back \$2,000, you owe (with interest) more than 80% of the original loan. Paying down installment loans is a good sign that you are able and willing to manage and repay debt.

### **3) Age of your Credit account history. Approximately 15% of your credit score is based on this category.**

In general, a longer credit history will increase your FICO® score. However, even people who have not been using credit long may get high FICO® scores, depending on how the rest of the credit report looks. Your [FICO® score](#) takes into account:

- How long your credit accounts have been open. Your FICO® score considers the age of your oldest account, the age of your newest account and an average age of all your accounts.
- How long specific credit accounts have been established.
- How long it has been since you used accounts that are “dormant”.

### **4) New Account Activity – Approximately 10% of your credit score is based on this category.**

Research by the credit bureaus shows that opening several credit accounts in a short period of time does represent greater risk, especially for people who do not have a long established credit history. Multiple credit requests also represent greater credit risk. However, FICO® scores do recognize that you may be applying with several lenders at once for a new credit account or are rate shopping for the best

mortgage or auto loan. Multiple inquiries for the same type of credit in a short period of time won't hurt your score over the long haul, but may cost you a few points. Your [FICO® score](#) takes into account:

- How many new accounts you have. Your FICO® score looks at how many new accounts you have by type of account (for example, how many newly opened credit cards you have). It also may look at how many of your accounts are new accounts.
- How long it has been since you opened a new account. Your FICO® score may consider this information for specific types of accounts.
- Number of recent requests for credit you have made. Inquiries remain on your credit report for two years, although FICO® scores only consider inquiries from the last 12 months.
- Length of time since credit report inquiries were made by lenders. Whether you have a good recent credit history, following past payment problems. Re-establishing credit and making payments on time after a period of late payment behavior will help improve your scores over time.

#### **5) Credit Mix – Approximately 10% of your credit score is based on this category.**

The score will consider your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. It is not necessary to have one of each, and it is not a good idea to open credit accounts you don't intend to use. The credit mix usually won't be a key factor in determining your FICO® score-but it will be more important if your credit report does not have a lot of other information on which to base a score. Your [FICO® score](#) takes into account:

- What kinds of credit accounts you have. Do you have experience with both revolving and installment type accounts, or has your credit experience been limited to only one type?
- How many of each. Your FICO score also looks at the total number of accounts you have. For different credit profiles, how many is too many will vary depending on how the rest of your credit history appears.

#### **Facing the Consequences**

When it comes to mortgages, car loans, and credit cards, what you don't know can certainly hurt you. Your credit score is a reflection of your actions: choose the behavior, choose the consequence. According to the Gallant Group, a diversified investment and financing firm:

- 30 days late on a payment can damage your credit score by at least 50 or more points;
- 60 or 90 days late, or a 30-day late payment on multiple accounts can drop your score by 100+ points;
- Balances more than 40 percent of your credit limit affects your score by as much as 100 points;



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- If multiple credit cards are maxed out or approaching maximum balances, your credit score will be diminished by at least 80+ points.

**“It’s important to understand the tapestry of credit that we’re weaving” says Clark. “The choices you’re making even right now can affect your credit score.” If you plan to borrow money in the next six to 12 months, you simply can’t afford to turn a blind eye. If you keep your credit report healthy and cared for, says Clark, you’ll have nothing to worry about come scoring time.**

# Step Two – Get and Review Your Credit Report and Credit Score

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**There are several ways to get your credit report for free. Credit Scores, however, are only available for free with certain trial offers.**

## How to Order Your Free Report

The three nationwide consumer reporting companies have set up one website, toll-free telephone number, and mailing address through which you can order your free annual report. To order, visit [annualcreditreport.com](http://annualcreditreport.com), call 1-877-322-8228, 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 can use the form in this brochure, or you can print it from [ftc.gov/credit](http://ftc.gov/credit). Do not contact the three nationwide consumer reporting companies individually. They are providing free annual credit reports only through [annualcreditreport.com](http://annualcreditreport.com), 1-877-322-8228, and Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

You may order your reports from each of the three nationwide consumer reporting companies at the same time, or you can order from only one or two. The law allows you to order one free copy from each of the nationwide consumer reporting companies every 12 months.

You need to provide your name, address, Social Security number, and date of birth. If you have moved in the last two years, you may have to provide your previous address. To maintain the security of your file, each nationwide consumer reporting company may ask you for some information that only you would know, like the amount of your monthly mortgage payment. Each company may ask you for different information because the information each has in your file may come from different sources.

While it's easy to get a free credit report, there are a few advanced techniques that [RateNerd](#) readers use to stay on top of their [credit report for free](#). These include the "Free Trial" approach and the "Staggered Bureau" approach, both of which can be used together or by themselves.

## **["Free Trial" Approach - Free Credit Reports and Credit Scores from ConsumerInfo.com](#)**



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To get all three [credit reports](#) and credit scores for free, you need to go to [ConsumerInfo.com](#). Unlike the annual credit score service, they provide all three credit bureau reports plus [credit scores](#) (FICO, BEACON and Emperica) for free. The service is free if you take advantage of their trial period offer. When you order your free report here, you will begin your free trial membership in CreditCheck® Total. Because it's a free trial, you have the right to cancel your membership within the first seven days. If you don't cancel your membership within the seven day trial period, you will be billed \$19.95 for each month that you continue your membership.

In addition to the credit reports and scores, this service gives you ongoing credit monitoring alerts which help you to keep your credit reports accurate.

### **[“Staggered Bureau” – Free Credit Reports only \(no credit score\) at Annualcreditreport.com](#)**

[AnnualCreditReport.com](#) is a centralized service for consumers to request free annual credit reports. It was created by the three nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. AnnualCreditReport.com lets you request and obtain a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies in accordance with the [Fair and Accurate Credit Transactions Act](#) (FACT Act).

While you are entitled to receive one annual free credit report without a credit card every 12 months from each of the nationwide consumer credit reporting companies through AnnualCreditReport.com, it is entirely your choice whether you order all three credit reports at the same time or order one now and others later. The advantage of ordering all three at the same time is that you can compare them. (However, you will not be eligible for another free credit report from the AnnualCreditReport.com for 12 months.) On the other hand, the advantage of ordering one now and others later (for example, one credit report every four months, thus staggering the delivery of reports from each bureau) is that you can keep track of any changes or new information that may appear on your credit report. Remember, you are entitled to receive one free credit report every 12 months from each of the nationwide [consumer credit reporting companies](#) – Equifax, Experian and TransUnion – so if you order from only one company today you can still order from the other two companies at a later date.

You may request your free credit report online, by phone or request your report through the mail. Free credit reports requested online are viewable immediately upon authentication of identity. Free credit reports requested by phone or mail will be processed within 15 days of receiving your request. The downside of this approach is that you do not get to see your score, and you can only see the report once a year for free.

## Step Three – Establishing Credit

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**Without a credit history, it's really hard to get a credit card or any other type of loan. But establishing your initial credit history can be a Catch-22: If you don't have credit, few places are willing to give you credit; yet how can you ever establish credit if nobody is willing to give you any?**

First, you need to understand what lenders are looking for. Since you are looking to establish credit for the first time, lenders can't look to your [credit score](#) to determine if you are a good risk and if they should lend you money, or extend credit. In these situations they have to examine other factors that can help them decide if you are a credit risk or not. Several non-credit based factors they will look at include:

- **Employment history.** Lenders want to see if you are able to hold a job or if there are periods of unemployment. Your ability to hold a steady job can improve the likelihood of getting approved.
- **Residence history.** Lenders will also look to see how often you move and whether you rent or own. As with employment history, it pays to have a stable residence. Owning a home, even if just jointly with a spouse, carries some weight as well.
- **Utilities in your name.** Even without a credit history, it is possible to sign up for many utilities in your own name. Having an electric or gas bill, telephone, cable, or water service in your name also helps. Just having your name on these accounts won't establish a credit score, but it can be helpful for first-time borrowers.

### **Establishing credit in your own name.**

- **Open a checking and savings account.** By themselves, they do not give you credit; however, they will show that you have money and how you manage it. If you are a student, check if your bank offers a free student account, if not check what you can do to get access to a free account. Make sure your bank account always has a positive balance and that you do not overdraw it.

- **Apply for your bank's credit card or a department store card.** Because you do not have an established credit history, the initial interests will be very high. This is why you need to make sure that you use your credit card, but pay it back before the end of the month so you do not have to pay for interest. Only get a credit card if you are sure you can do this, otherwise do not get one. If you feel too tempted to buy things you cannot afford because of a credit card, chances are you will get into debt. Remember to not apply for more than one credit card. If you are refused, wait a year and try again. The more credit cards you apply for, the lower your credit rating gets because the lenders will think you are desperate for credit.
- **Get a co-signer for a car loan or a credit card.** Remember that if you do not pay your bill on time, your co-signer is responsible for paying it. So make sure that you will be extremely responsible with that.
- **Get a secured credit card.** This means that there is an asset linked to the account that your lender can take if payments are not made. Make sure that this credit is reported to the bureaus. One of the few that allow you to do this is [AccountNow](#), which offers the ability to enroll in a free Credit Builder program to demonstrate your credit worthiness to potential creditors like landlords. Just pay your bills through AccountNow Bill Pay and they will automatically report your payment history to PRBC®, a national credit reporting agency.

## Step Four - Disputing Errors on Your Credit Report

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**Under the FCRA, both the consumer reporting company and the information provider (that is, the person, company, or organization that provides information about you to a consumer reporting company) are responsible for correcting inaccurate or incomplete information in your report.**

To take advantage of all your rights under this law, contact the consumer reporting company and the information provider.

**Step One** - Tell the consumer reporting company, in writing, what information you think is inaccurate.

Include copies (NOT originals) of documents that support your position. In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute, state the facts and explain why you dispute the information, and request that it be removed or corrected. You may want to enclose a copy of your report with the items in question circled. Your letter may look something like the one [below](#). Send your letter by certified mail, “return receipt requested,” so you can document what the consumer reporting company received. Keep copies of your dispute letter and enclosures.

Consumer reporting companies must investigate the items in question — usually within 30 days — unless they consider your dispute frivolous. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the consumer reporting company, it must investigate, review the relevant information, and report the results back to the consumer reporting company. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide consumer reporting companies so they can correct the information in your file.

When the investigation is complete, the consumer reporting company must give you the results in writing and a free copy of your report if the dispute results in a change. This free report does not count as your annual free report. If an item is changed or deleted, the consumer reporting company cannot put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The consumer reporting company also must send you written notice that includes the name, address, and phone number of the information provider.



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If you ask, the consumer reporting company must send notices of any corrections to anyone who received your report in the past six months. You can have a corrected copy of your report sent to anyone who received a copy during the past two years for employment purposes.

If an investigation doesn't resolve your dispute with the consumer reporting company, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the consumer reporting company to provide your statement to anyone who received a copy of your report in the recent past. You can expect to pay a fee for this service.

**Step Two** Tell the creditor or other information provider, in writing, that you dispute an item.

Be sure to include copies (NOT originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a consumer reporting company, it must include a notice of your dispute. And if you are correct — that is, if the information is found to be inaccurate — the information provider may not report it again.

### Sample Credit Report Dispute Letter

Date

Your Name

Your Address, City, State, Zip Code

Complaint Department

Name of Company

Address

City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be removed (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please reinvestigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,

Your name

Enclosures: (List what you are enclosing.)

### **Adding Accounts to Your File**

Your credit file may not reflect all your credit accounts. Although most national department store and all-purpose bank credit card accounts will be included in your file, not all creditors supply information to consumer reporting companies: some local retailers, credit unions, travel, entertainment, and gasoline card companies are among the creditors that don't.

If you've been told that you were denied credit because of an "insufficient credit file" or "no credit file" and you have accounts with creditors that don't appear in your credit file, ask the consumer reporting companies to add this information to future reports. Although they are not required to do so, many consumer reporting companies will add verifiable accounts for a fee. However, understand that if these creditors do not report to the consumer reporting company on a regular basis, the added items will not be updated in your file.

When negative information in your report is accurate, only the passage of time can assure its removal. A consumer reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting: information about criminal convictions; information reported in response to your application for a job that pays more than \$75,000 a year; and information reported because you've applied for more than \$150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the event took place.

## Step Five – Maintaining Good Credit

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**As interest rates rise and credit availability tightens, an increasing number of Americans are struggling to hang on to their current credit card terms. Even folks with good credit and long histories with their card issuers are finding the rules of the game are changing, and not in their favor.**

Charles Brown – the 22 year-old owner of a small entertainment business in Richmond, VA – was well on his way to building his business. Armed with a brand new college diploma, a burgeoning company, and a \$20,000 credit limit on his business card he was ready to take control of his destiny. That is, until his credit limit dropped. "I went to make a business purchase this past November and my card was declined," recounts Brown. "American Express dropped my credit limit from \$20,000 to \$800 overnight."

Brown isn't the only one coming up short on credit. You need to be proactive to keep the terms and conditions of your current cards. **Here are eight ways to safeguard your credit card limits:**

### **1 – Balance your credit balance**

After calling his card issuer, Brown was informed that he lost his credit limit, in part, due to the fact that he had held a revolving balance of \$5,000 to \$6,000 every month for the past three years. While holding a credit card balance under 30 percent of your credit limit shouldn't identify you as a risk, young card holders and those with poor credit history have a higher chance of hanging on to their current credit terms if they keep their debt below the 20 percent mark. If you're not sure how credit bureaus calculate these risks, read our article on [how the credit bureaus calculate your credit score](#).

### **2 – Spread the debt**

Those at risk of going over the 30 percent mark may want to consider splitting the debt onto two cards says Becky Palmer, education director for the Consumer Credit Counseling Services of New Hampshire and Vermont.

"Consumers are better off spreading their [debt] balance over different cards than accumulating all the debt on one, but it all depends on your credit history" says Palmer. "Seeking too much credit will create inquiries in your credit history, which in return will hinder your score."



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Palmer recommends dividing debt up between two cards only as long as the consumer pays off both cards each payment period. If debt looks like it's beginning to spiral out of control, she advises consumers to consolidate debt back down to one card and focus fiscal resources on paying it off fast.

### **3 – Raise your credit score**

The easiest way to avoid changing credit card terms is to prevent a disaster before one strikes. By taking active steps to raise your credit score, consumers can help prevent card issuers from raising interest rates and lower credit limits.

“There are a number of simple things people can do to help their credit score,” says Candy Wright, Immediate Counseling Group manager for the Farmington Hills, Michigan-based nonprofit, GreenPath Debt Solutions. “Check your credit report to make sure it’s accurate. Don’t overextend yourself financially. If you have a lot of open credit that you don’t use anymore, close that... The higher your credit score is, the less credit card companies will regard you as a risk.” [Get Your Free Credit Report and Score here.](#)

### **4 – Seek credit counseling**

One of the easiest (and fiscally beneficial) ways to hang on to your current credit terms while simultaneously improving your credit score is to enter a debt elimination plan through an accredited credit counseling agency, says John Keller, spokesman for the American Credit Foundation, a nonprofit credit counseling service based in Midvale, Utah.

“Those enrolled in a debt consolidation program get concessions from creditors and won’t have their credit terms changed,” says Keller. “When clients are in a [credit counseling] program, they’re protected from sudden changes credit issuers might make.”

Keller advises those in need of credit counseling to seek an agency that’s nationally accredited and certified by the National Institute for Financial Counseling Education.

### **5 – Pay well with others**

How can you lose your interest rate and credit limit overnight? One way is to default on any loan or card.

“The only way to keep your current credit terms is to remain in good standing, not only with your current card, but with all creditors on your [credit] report,” says Wright. “You can actually lose your terms on one card if you miss a payment on another.”

To ensure that your payments arrive on time every month, try keeping a debt calendar that shows when you have credit card bills coming up or enrolling in an automatic bill pay program.

## **6 – Keep credit accounts active**

If you want to hang on to all of your cards – even the rarely used ones in the back of your wallet – brush the dust off and use them, says Palmer.

“A lot of companies are starting to close accounts if they are not being used, even if you have good credit history,” says Palmer. “To ensure that a long-standing account isn’t closed due to inactivity, charge a small amount and make sure you pay the balance in full.”

The advice especially applies to consumers who keep a special card around for emergency use only. Those who don’t use the card periodically may find that it’s unavailable when emergencies pop up.

## **7 – Take precautionary measures**

Instead of defaulting on a debt, Wright recommends taking proactive steps to preserve your current credit rates.

“If you have, say, an old medical bill that’s about to go to collections, credit card companies have hardship programs that can prevent you from defaulting,” Wright says. “These programs are temporary, but they give consumers the opportunity to repay their debt rather than have it damage their credit score.”

Usually lasting anywhere from six months to one year, hardship programs offer lower interest rates and better repayment terms temporarily for trusted consumers stuck in a financial bind. While the credit issuer usually suspends credit use during the hardship program, those who enroll will have the opportunity to reduce their debt, lower their card payments, and will have a higher likelihood of keeping their current credit terms.

## **8 – Ask for help**

If you do lose your credit card terms, you may be able to get them back simply by asking how. A 2007 survey by Consumer Action, a nonprofit credit education and advocacy group based in San Francisco, shows that if a consumer’s interest rate is raised, 75% of all banks would lower it again if the cardholder maintained a consistent payment record.

“If [the consumer]’s been an outstanding client and their history with that creditor is really high, there’s a chance that they can call in and get their conditions changed,” says Keller. “They should also remember that ultimately that decision is up to the creditor.”

While there’s no guarantee that a phone call will win credit terms back, being honest and communicating directly with your credit card company is perhaps the only way to hang on to the credit you currently have. “I don’t have a bad credit reputation, but with the way the economy is, they said that I’m suddenly a risk,” says Brown. “If it can happen to me, it can happen to anybody.”

## Bonus 1: Eight Ways to Boost Your Credit

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Having strong credit is more important than ever.

In today's environment of reduced credit limits, tighter credit card restrictions, and nervous lenders, you need to be buttoned up and have accurate data in your credit report.

According to Experian, one of the country's largest credit scoring agencies, the national average credit score sits at 692; however, Linda Call, vice president of the Richmond, Virginia-based mortgage brokerage firm, Berkley Mortgage, says that in today's market, those even slightly below average could be in trouble.

"With the economy so down, 620 is the minimum for getting a loan, but people really need credit score around 700, preferably 720, to get something with decent rates," Call says. "It's very scary right now for anyone with a low credit score." **Here are eight ways to give your credit score an extra boost.**

### #1 – Keep the Balances Balanced

In a tough economic climate, keeping your credit balance under the limit isn't enough. According to Scott Scredon, director of public relations for the Consumer Credit Counseling Service of Greater Atlanta, GA, simply maintaining a balance that's close to your limit could weigh down your credit score.

"If you carry a balance on your credit card, you need to make sure the difference between your credit limit and your balance is 50 percent or less, so if your limit is \$1,000, you need to keep your balance at \$500 or less," says Scredon. "Not using all of your credit is a signal to card companies that you're managing your credit properly." Scredon adds that keeping an even lower balance – 30 percent or less – will boost your score even more. Should your balance go over the 50 percent mark on one card, Scredon recommends focusing any available financial resources on cutting the balance down, even if it means sacrificing a few daily luxuries until the credit's in check. Figure out what your [credit utilization ratio](#) is, and make adjustments if you can.

### #2 – Eliminate the Mistakes

One of the fastest ways to up your credit score is to make sure it's yours. According to a 2005 study by the Federal Trade Commission, an estimated 8.3 million Americans are victims of identity theft each year. Of those victims, 1.8 million have new credit cards, loans, or financial accounts opened in their name without their knowledge.



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An easy way to prevent paying off debts you didn't incur is to keep tabs on your credit score through agencies like [FreeCreditReport.com](http://FreeCreditReport.com), which gives consumers one [free credit report](#) from each of the three major credit scoring agencies each year.

### **#3 – Diversify Your Credit**

“People don't realize that 10 percent of your credit score is determined by what types of credit you use,” says Gail Cunningham, marketing director for the National Foundation for Credit Counseling. “That's determined not only by how you manage revolving debt like Visa, MasterCard, and store credit cards, but also how you handle fixed payments like your car payments or your mortgage payments over time.”

Instead of putting long-term purchases on cards, Cunningham recommends taking out short-term one to two-year loans in order to build a diversified credit portfolio. In addition to receiving lower interest rates and more flexible payment terms, consumers who use loans over cards also build positive credit and gain better credit terms in the future.

### **#4 – In With the Old, Out With the New**

Another 15 percent of your [credit score](#) is determined by how long you've been managing credit. Those who can manage cards wisely by paying on time and keeping balances lower than limits can improve their credit score by getting plastic early. It's up to you to figure out when the time is right.

“It's to your advantage to get a credit card as early as possible and start building credit early,” says Call, “but you have to do that when you're ready. People who start building credit in their early 20s will have a significant advantage when it comes time to apply for a home mortgage.” Though college students are statistically poor at managing plastic – the average college student graduates with nearly \$2,200 in credit card debt according to Nellie Mae – learning the basics of credit early can benefit in the long run.

### **#5 – Add Some Positives**

Consumers in dire credit straits may be able to boost their score simply by showing credit scoring services what they're doing right. “If the consumer has positive histories in things like rent and utilities, adding those histories can greatly help the credit score,” says Mark Guimond, executive director of the American Association of Debt Management Organizations.

“There are companies designed to get positive information on your credit score and that can have a significant impact,” he says. Organizations like PRBC in Annapolis, Maryland can help consumers add daycare, insurance, rent, and cable credit histories to their score and set up online bill pay services to make sure those debts keep getting paid on time.

### **#6 – Flex Your Negotiation Muscle**

If you see trouble on the horizon, nip it in the bud, says Scredon. “Making a late payment could affect your interest rate, not just on the card you're paying late on, but on all your credit cards,” he explains. “If



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you know you're going to have trouble making payments, get in touch with your lender and have a discussion about it. We are hearing more and more from our counselors that lenders are willing to look at whether you can put together a different payment plan." Since even one late payment could lower your credit score, preventing disaster before it happens can protect your credit for years to come.

### **#7 – Prioritize the Debt**

Those who are already in the plastic trap can begin digging themselves out by creating a debt attack plan. Start by making a list of all of your credit debts, then pick out which is harming you the most.

"If you have a card where you owe more than 30 percent of your credit limit, power pay that one down first to keep your credit score intact," recommends Cunningham. "After that, I tell people to pay off their largest debts first unless it's just too daunting. If so, tackle your smallest bill first while making minimum payments on everything else, and once you've paid it and have that sense of accomplishment, move on to the next one."

By focusing your financial resources on eliminating one problem debt at a time, Cunningham says consumers can eliminate long-term out-of-control debt from impacting their credit score. Online tools like [DebtGoal](#) make it easy to see all your debts in one place.

### **#8 – Research the Bargains**

Credit inquiries are a major obstacle that prevents consumers from comparing loan rates and terms. While inquiries on your credit report can lower your score – as much as five points according to Lendingtree.com – consumers have a 30-day window before choosing their loan when all mortgage and auto loan inquiries only count once.

An easy way to avoid racking up inquiries on your account, says Guimond, is to comparison shop as much as possible before filling out a formal application. "Don't just apply to ten different lenders, talk to lenders, talk to customer service people, get as much information as possible," he says. "It pays to do the research."

## Bonus 2: Eight Ways to Hurt Your Own Credit

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**In an effort to boost your credit score, you may actually do the opposite. The formula for calculating scores is somewhat counter-intuitive, and you may be guilty of hurting yourself just when you thought you were making things better.**

As the ongoing credit crunch forces lenders to tighten their wallets, your [credit score](#) has become more important than ever. In short, you currently need a stellar score to secure the lowest interest rates. “Credit impacts every element of your life,” says Adam Levin, co-founder and chairman of Credit.com, a consumer advocacy website. “The stronger your credit, the easier it is to get the things you want.” See if you’re committing any of these common credit scoring mistakes.

### **1. Close your old credit accounts.**

After whittling your credit card balance down to zero, closing the account may seem like the responsible (and liberating!) next step. “I think anyone with common sense would view that as being financially prudent, especially if that line of credit is a source of temptation for you,” says Curtis Arnold, founder of CardRatings.com, a website that evaluates credit cards. But Arnold warns that shutting down an account will affect two major components of your score – your credit history and your credit utilization ratio, which weighs the amount of credit you have against the amount you’re using. Instead of closing the account, set up the card to auto-pay one small bill (like your cell phone plan) and deduct the balance from your checking account each month. You won’t have to worry about maintaining the account, but you’ll reap the benefits of a low balance and a long-running history.

### **2. Put your credit cards on ice.**

Freezing your credit card or burying it in the backyard is such age-old advice, it’s practically a cliché. But letting your account go stale isn’t a smart solution. If your account goes dormant, the company may stop reporting it to the credit bureaus – or they could shut it down completely. Not only will your credit history be impacted, but an account that’s been closed by the creditor carries more stigma than an account that’s been closed by the consumer, according to Clarky Davis, the “Debt Diva” at CareOne Counseling, a credit counseling and debt management service in Columbia, MD. Again, the simplest

solution is to set up an automatic monthly payment to keep the account active and maintain your credit history.

### **3. Open a bunch of new credit lines.**

Opening new credit card accounts may seem like a good way to rack up more available credit, but every time a potential lender looks at your credit score, it counts as an inquiry – and stays on your report for two years. Too many inquiries could hint that you’re planning to open up several new lines of credit. “If you appear to be going on a credit binge, that will scare creditors,” Levin says. But what if you’re shopping around for a mortgage or car loan and simply want to find the best rate? No worries – as long as you finish your applications within 30 days, your score won’t be affected.

### **4. Forget to pay the little bills you think “don’t count”.**

If you’re juggling several sources of debt – and these days, who isn’t? – Experts will tell you to chip away at high-interest accounts first. But realize that everything from unpaid parking tickets to library fines can wind up on your credit report. “Look out for smaller bills that you may have overlooked,” Davis cautions. She recommends extra vigilance after a move; a few leftover pennies on your utility bill may haunt your credit report for years. If you’re having trouble keeping up with payments, resist the urge to stash your past-due notices at the bottom of a drawer. Instead, contact your lender and ask for a little lenience. “The truth is, more lenders are willing to be flexible right now,” Levin says. “But you’re never going to know unless you talk to them. The worst thing they can say is no, so don’t be afraid to call and ask.”

### **5. Consolidate your loans.**

Merging your debts with a [debt consolidation loan](#) or with a credit card balance transfer might make it easier to keep track of bills, and it could help you avoid astronomical interest rates. But lumping all of your loans together can also reduce your debt ratio if you’re not careful. Arnold offers this example: Say you have three credit cards, each with a \$3,000 balance; if you transfer those balances to a zero-interest credit card with a \$10,000 credit line, you’re suddenly using a whopping 90 percent of the credit on the new account. “You’ve got great intentions, but it could tank your score potentially,” Arnold says. You may also be hit with hefty interest rates after the card’s introductory period ends, which will increase the amount you owe. But consolidating isn’t always a bad idea – if you do your research and find a good rate, you could save thousands in interest, and that might offset any resultant blip in your credit score. The trick is to keep an eye on your [credit utilization ratio](#) for that particular line of credit.

### **6. Charge everything.**

With credit cards offering attractive rewards programs, it may be tempting to put every purchase on plastic. But even if you pay your balance in full every month, racking up too much debt can wreck your score – you’ll get points for paying on time, but your credit report will show a consistently high balance. “Be mindful of how much you put on your credit cards,” Levin says. “If you have an unusually large balance, it may not be a bad idea to pay it early just to keep that balance as low as possible.”

There's a scary side note to your spending habits. Some credit cards companies are now tracking where customers shop and penalizing them for purchases that could signal financial difficulties. Swipe your card at a red-flagged establishment – such as a discount store, auto repair shop, or even a marriage counselor – and your creditor may lop your credit line or hike up rates. “People are making analyses of everything we do, and we have to act accordingly,” Levin advises. “Whether it's right or wrong, fair or not fair, that's the way it is.”

### **7. Stay debt-free.**

In a topsy-turvy economy, you may be tempted to avoid all debt like the plague. It's a good idea in theory, but if you don't have a dime of debt to your name, lenders have no way to gauge whether you'll be a reliable borrower. “It's a double-edged sword,” Levin explains. “The good news is, you can sleep at night. The bad news is, when you're trying to get something that requires credit and you have a thin file, they really can't find much of a history.” A sizable chunk of your score reflects your ability to handle a few types of credit (such as mortgages or revolving credit). No debt means no track record – and that could cause your score to suffer.

### **8. Wishful thinking about your credit score.**

You don't want to find out about a flaw in your [credit report](#) when you're bidding on a new house or negotiating with a car dealer. So be proactive: Once a year you may request a free copy of your report from [annualcreditreport.com](#), which is sanctioned by the Federal Trade Commission. Should you need access to your credit reports at other times throughout the year (if you're about to make a home purchase, for instance), you can always request them via [FreeCreditReport.com](#) for a small fee. Comb through it to make sure there are no glaring errors, and be extra-vigilant if you have a common family name. “John Smith III could have creditors that show up on John Smith II's credit report,” Davis cautions. If you spot anything fishy, file a dispute form immediately and keep a written record of it. After all, you've worked hard to ensure the best credit score possible – and it's up to you to make sure your prudence is paying off.