Credit Repair

There are three main credit bureaus -- Transunion, Experian, and Equifax -- and they give you a grade on your credit-worthiness according to what your creditors report to them.

While each of these three bureaus may have some small variables that differentiate their scoring, the **FICO scoring model** is still the heart. FICO stands for Fair, Isaac and Company, the group that designed the model. Here is how they say the score breaks down:

- **35%** - payment history
- **30%** - amounts owed
- **15%** - length of credit history
- **10%** - types of credit
- **10%** - new credit

We'll discuss each of these in detail, and how to get the most benefit from each part of the credit model. First, though, how do you get your hands on your own credit report?

Getting a credit report is quite simple, but getting your credit *score* can be much trickier. Make sure any company you pay to send you your credit report is also sending you the credit score, so you know the exact number that lenders are receiving. (Most companies will charge extra to show you the scores.)

Credit.com is one place that will send you a credit report *and* your credit score for free -- but you have to remember to cancel your membership within their 30-day period, and you only receive one of the three bureau's reports.

Credit Resource Corp. refers their clients to an Annual Credit Watch Program that will give you 24/7 access to your updated credit reports and credit scores from all three bureaus without causing a HARD INQUIRY. Click here to learn more about this program.

Payment history is the most important part of a credit score.

According to myFico.com, "payment history" includes:

- Account payment information on specific types of accounts (credit cards, retail accounts, installment loans, finance company accounts, mortgage, etc.)
- Presence of adverse public records (bankruptcy, judgments, suits, liens, wage attachments, etc.), collection items, and/or delinquency (past due items)
- Severity of delinquency (how long past due)
- Amount past due on delinquent accounts or collection items
- Time since (recency of) past due items (delinquency), adverse public records (if any), or collection items (if any)
- Number of past due items on file
- Number of accounts paid as agreed

Most delinquencies aren't reported to the credit bureaus until *after* they are 30 days late. This allows for a small grace period - which is supremely helpful to folks who aren't adept at organization.

What's valuable to know is that delinquencies which occurred within the past 2 years are of greater weight than older items. That means that if you see an item sent to collections, it might actually *hurt* you to pay it off during the loan process if it's more than two years old.

Why? Because paying collections will decrease the credit score due to the date of last activity becoming recent. But if you do decide to pay off a collection, MAKE SURE that the creditor gives you a letter of deletion first.

If, however, you have any recent accounts with past-due amounts, paying them off immediately will help your credit score. Again, if you do decide to pay off a collection, MAKE SURE that the creditor gives you a letter of deletion first.

According to myFico.com, "amount owed" includes:

- Amount owing on accounts
- Amount owing on specific types of accounts
- Lack of a specific type of balance, in some cases
- Number of accounts with balances
- Proportion of credit lines used (proportion of balances to total credit limits on certain types of revolving accounts)
- Proportion of installment loan amounts still owing (proportion of balance to original loan amount on certain types of installment loans)

If you have a $30,000 credit limit, and you are "maxed out" with $30k in debt, it can have a negative impact on your credit score. If you have *no* balance, however, the FICO model says you know how to manage credit, and your score goes up.

The ideal amount to owe on your credit cards is ZERO! But we know that's often not possible to attain. What is possible, however, is to share balances across multiple cards.

For example, if you have two cards with a $10,000 credit limit, and one is maxed out, and one has no balance, it would be in your favor to transfer half the balance to the empty card.

There are point-breaks at 50%, 30%, and then around 0%. The best move by far is to have *all* debt paid off, but if that's not possible, the next best thing is to spread the debt around so your proportions of amount-owed to credit-limit is as low as possible for every card.

Often, the reason balances aren't shared is because one card has a much better interest rate than the other. "What about losing those low-rates?" you ask. "Doesn't do much good to bring my credit score up X number of points if I'm now paying double the interest on my credit debt as I was previously."

Partially true, but it all depends. The difference between a score of 650 and 655 probably won't help you get a lower mortgage interest rate anywhere. But if your score is around 698, and you can get it up to 703, then you may be saving yourself **thousands of dollars** over the course of the loan, because of the improvement in your home's interest rate.

Consider carefully the benefits of an improved credit score when deciding whether or not to transfer balances. And remember, although the best amount to owe on credit cards is ZERO, it is important to use your cards at least once every 2-3 months to keep the rating status active. If a card becomes inactive, the account will not be considered in the formula that calculates the score. Tip: Use your cards for gas or groceries, and be sure to pay the balance due before the statement date. This way it will show activity, and also reflect a ZERO balance. Both are great for the credit score.

The length of credit history is worth 15% of your overall credit score.

According to myFico.com, "length of credit history " means:

- Time since accounts opened
- Time since accounts opened, by specific type of account
- Time since account activity

The *longer* your credit history, the *BETTER.* But note that "time since account activity" also affects you -- if an account is inactive for too long, it tells lenders that you're not going to keep using their credit line, and thus means a lower score.

Think about it. Imagine you're the credit card company. Do you want to take the time and money to promise credit to someone whom you don't believe will actually *use* it? Probably not.

The best move is to make a purchase on each of your credit cards at least once every 2-3 months. If a card goes longer than that without any activity, it may show up as unrated, and you don't get the points you might otherwise have received.

Now, if you consider the previous section on "Amount Owed", you may wonder if it will hurt or help you to get a new credit card just to have a higher credit limit, even though a newer card will shorten your length of credit history.

Well, look at the percentages. "Length of credit history" is only worth 15%, whereas "amount owed" is a full 30%. It's probably advantageous to get the new card to spread out your existing debt. But there's one more factor to consider before grabbing a new card - inquiries.

Credit bureaus like to see a variety of types of credit.

According to myFico.com, inquiries or "types of credit " means:

- Number of (presence, prevalence, and recent information on) various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)

For many people just starting out, credit cards are the only source of credit. (Many people see a boost in their credit score after signing for their first mortgage.)

Does that mean all types of credit boost your score? No! High interest credit cards from finance companies like HFC may hurt your score because the scoring system looks at this type of account as a desperate move. So be wary when considering making a major furniture purchase on credit -- it could hurt your score.

New credit (including inquiries) amounts to 10% of your credit score, but can have a surprisingly large impact.

According to myFico.com, inquiries or "new credit " include:

- Number of recently opened accounts, and proportion of accounts that are recently opened, by type of account
- Number of recent credit inquiries
- Time since recent account opening(s), by type of account
- Time since credit inquiry(s)
- Re-establishment of positive credit history following past payment problems

What most people don't realize is that a hard inquiry can affect your score anywhere from 2 to 50 points depending on other elements in their report. Someone with derogatory or very little credit will be penalized much more than someone who has great credit. Either way, if a borrower needs 5 to 10 points, a hard inquiry could make the difference in immediate loan approval.

According to www.myFICO.com the following exceptions apply for auto and mortgage inquiries:

" Looking for a mortgage or an auto loan may cause multiple lenders to request your credit report, even though you're only looking for one loan. To compensate for this, the score counts multiple auto or mortgage inquiries in any 14-day period as just one inquiry. In addition, the score ignores all mortgage and auto inquiries made in the 30 days prior to scoring. So if you find a loan within 30 days, the inquiries won't affect your score while you're rate shopping."

The following is a brief overview of the services that Credit Resource Corp. provides to LoanToolbox members and their clients.

Over my tenure as a mortgage professional, I have searched time and again for a place to assist my clients in credit remediation. One problem associated with this subject is your credibility. I wanted to avoid aligning myself with someone who could potentially damage my reputation.

Since creating LoanToolbox, I've had the great fortune, through our network of loan professionals, of aligning myself with other entities who are a terrific reflection on me. These individuals provide value-added services and benefits to my clients.

There are more than 1100 credit repair companies in the United States. The majority of them are fly-by-night companies that take a consumer's money and disappear. Beware of the companies who insist they can remove all negative items from a consumer's credit report. This is almost always impossible. In fact, during research for the creation of this section, I was very skeptical when speaking with Credit Resource Corp. for the first time, especially since they were providing us with a money-back guarantee at such a low point of entry for the consumer.

Credit Resource Corp. is a company that specializes in helping a broker's clients increase their credit score through credit improvement and education. Credit Resource Corp. has an average success rate of 75-80% overall in removing negatives from a client's credit report, and averages increasing the client's credit score by up to 20 points in just one month, with a total increase average of up to 100 points over a 4-6 month period. The increase can be even more significant if the borrower participates and follows the consulting advice given by Credit Resource Corp. at the beginning of the program.

When I heard these numbers, I was immediately skeptical. I asked them point-blank if Credit Resource Corp. was for real. However, after hearing about their system and the model upon which their business operates, it was clear to me that their unique approach has created a very successful system.

From there, I did significant research. I called eight different people (five brokers and three consumers) whom Credit Resource Corp. had worked with in the past. They had nothing but glowing reviews. Since then, I have started sending my clients to Credit Resource Corp., with great success.

There are many factors that contribute to a person's credit score. On top of the work that Credit Resource Corp. does, they suggest that the broker tell the client to pay down their credit cards to as close to zero as possible. NEVER tell a client to close an account, because it is actually possible to decrease a credit score by increasing the debt ratio.

This is one of the many things you will learn in the Credit Repair section of LoanToolbox. If used correctly as a unique selling proposition, this service can also have a profound impact on the impression you create when working with referral sources.