

WHAT YOUR BANK WON'T TELL YOU ABOUT CREDIT

35 Important Facts
They Hope You Never Find Out

Brought to you by the author of

7 STEPS TO A
720[®]
CREDIT SCORE

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important CREDIT FACT 1

You probably already know that people with bad credit likely have high interest rates on their credit cards, mortgages, and car loans. But you probably didn't know that **BAD CREDIT MEANS THAT YOUR AUTO INSURANCE PREMIUMS MAY BE HIGHER**, yet another reason those three little numbers can have a six-digit impact on your life!

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important CREDIT FACT 2

Of all the credit myths, perhaps the most damaging is the following: **“I HAVE TO KEEP A BALANCE ON MY CREDIT CARD TO KEEP A GOOD CREDIT SCORE.”**

This mistaken belief causes some consumers to make unnecessary interest payments. The truth of the matter is that credit bureaus have no way of knowing whether you pay your balance in full or make monthly payments. If you have the financial resources to do so, pay your balance each month. It can't hurt your credit score; in fact, it might help your score by lowering your utilization rate (the debt you carry in proportion to your limit).

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important CREDIT FACT 3

You might be surprised to hear that I'm in favor of adding your high school and college-aged children to your credit card accounts. Before you start thinking I'm crazy, let me explain:

If you have good credit and you add your children as authorized users to your credit card account, you will help them build their credit scores so that they enter adulthood with strong credit. Of course, this could backfire. If your child is irresponsible with the account, your score will suffer. To guard against this, refrain from giving your child the credit card. Instead, simply add his or her name to your account.

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important CREDIT FACT 4

According to a U.S. Public Interest Research Group survey, **ALMOST 80 PERCENT OF PEOPLE HAVE ERRORS ON THEIR CREDIT REPORTS**, 25 percent of which are serious enough to cause a person to be turned down for a job or loan.

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important CREDIT FACT 5

You probably didn't know that **INCREASING YOUR CREDIT SCORE MIGHT MAKE YOU MORE EMPLOYABLE**. Some companies consider your credit score to be more than your financial reputation. In fact, employers consider it to be a sign of your character, and some companies (especially those hiring employees responsible for money) won't hire a person with poor credit.

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important CREDIT FACT 6

ON A \$300,000, 30-YEAR FIXED RATE MORTGAGE, A PERSON WITH POOR CREDIT (BELOW 620) WOULD PAY \$589 MORE A MONTH THAN A BORROWER WITH A 720 CREDIT SCORE.

\$589 a month! Imagine what you could do with an extra \$7,068 a year. You could buy a new car, save for your child's college tuition or, with wise investments, double, triple, or even quadruple the money!

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important CREDIT FACT 7

PERHAPS THE MOST COMMON (AND AMONG THE MOST DAMAGING) ERROR ON A CREDIT REPORT IS AN ACTIVE DUPLICATE COLLECTION NOTICE.

If you notice more than one collection agency reporting your account to the credit bureaus as active, you should work quickly to have this removed. Accounts that have been turned over for collection are often sold by one collection company to another. As a result, your outstanding debt could be listed as active multiple times. A collection company should list the account as “transferred,” “sold,” or “closed” once it is no longer pursuing the debt.

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important CREDIT FACT 8

COLLECTION ACCOUNTS ONLY MINIMALLY HURT YOUR CREDIT AFTER TWO YEARS, AND AFTER FOUR YEARS, THE DAMAGE IS ALL BUT ERASED.

After seven years, a collection account is wiped from your report.

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important CREDIT FACT 9

IF YOU HAVE POOR CREDIT, YOU MIGHT NOT QUALIFY FOR TRADITIONAL CREDIT CARD ACCOUNTS. INSTEAD, OPEN A SECURED CREDIT CARD. A secured credit card requires you to pay a deposit equal to or greater than the balance. Obviously secured credit cards do not come with the same privileges as regular credit cards, which allow you to buy now, pay later. With secured credit cards, you basically pay now, buy later, and then pay again. It might not sound like a great deal, but it will help you rebuild your credit so long as the credit card company reports to all three major credit bureaus—be sure to ask! After six to 12 months of timely payments, ask the company if it will refund your deposit and transform your secured credit card into a regular credit card.

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important CREDIT FACT 10

DID YOU KNOW THAT YOU SHOULD ALWAYS APPLY FOR CREDIT USING THE SAME FIRST, MIDDLE, AND LAST NAME? For instance, if your name is Robert Michael Jones, Jr., you shouldn't apply as Bob M. Jones, Jr., or any of the other variations of your name. Pick one name and stick with it, or risk having your credit information divided among the various names. Worse yet, it could be merged with another person's information. (For instance, if you are Robert Michael Jones, Jr., and your father is Robert Michael Jones, the credit bureaus might combine your files if you do not use "Jr." when applying for credit.)

That said, if you changed your last name upon marrying, start applying for credit under your new name. It might increase the likelihood of errors, but the damage will be temporary; the new last name is forever.

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important CREDIT FACT 11

Do you think the following statement is true or false?
“A person cannot qualify for a home loan or credit card if s/he has a bankruptcy, a foreclosure, a tax lien, or a bill turned over for collections.”

If you think this statement is false, you are right!
WHILE IT IS TRUE THAT A PERSON WITH A BLEMISHED CREDIT HISTORY WILL LIKELY PAY HIGHER INTEREST RATES, CERTAIN LENDERS MARKET TO PEOPLE WITH PROBLEM CREDIT. If you fall into this category, you can and should apply for a credit card immediately so that you can start rebuilding your history. However, be aware that the interest rates will be high, so you should use credit cards responsibly and pay the bills in full each month to avoid paying the interest.

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important CREDIT FACT 12

You may think that a poor financial record is a sign of poor character. **I BET YOU DIDN'T KNOW THAT WALT DISNEY AND MARK TWAIN BOTH CLAIMED BANKRUPTCY!** Bad credit happens to all types of people. The true test of character is how a person deals with bad credit. Do you ignore it, hope that it goes away, and bury your head in the sand? Or do you jump in, learn how to fix your mistakes, and move forward?

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important CREDIT FACT 13

Are you surprised to learn that **YOU HAVE SEVERAL DIFFERENT CREDIT SCORES**? Before assigning one score, most lenders consider your scores from the three major credit bureaus (TransUnion, Equifax, and Experian). The lender will consider the middle score when determining your interest rate for any given loan or credit card. For instance, if Experian gives you a 721 credit rating, TransUnion gives you a 719, and Equifax a 601, lenders will consider 719 to be your credit score. Because of this, you should monitor your report from each of the three bureaus.

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important CREDIT FACT 14

Though your payment history accounts for about 35 percent of your credit score, **LATE PAYMENTS WITHIN SIX MONTHS HAVE THE GREATEST IMPACT ON YOUR SCORE WHILE LATE PAYMENTS MORE THAN 24 MONTHS OLD HAVE LITTLE IMPACT ON YOUR SCORE.** The credit-scoring models assume that your current behavior is a far more important indicator of your creditworthiness than your past behavior. Your current behavior, after all, can better forecast whether you are experiencing a downward financial turn. For this reason, if you have one late payment on an otherwise spotless credit report, you will likely see a sharp decrease. This is because a negative change in otherwise positive behavior is considered a warning sign of a shift in your financial situation.

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important CREDIT FACT 15

You might be surprised to hear that collection companies are notorious for keeping poor records. If you have an account in collection, you might want to send a letter to the collection company asking it to provide verification that the debt in question is yours. If a collection company is unable to verify your debt, it must remove the item from your credit report.

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important CREDIT FACT 16

Some savvy consumers think they will save money by transferring their credit card debt to the card with the lowest interest rate. You are probably surprised to hear that transferring balances might cost you more money than you save.

How?

If you transfer all your debt to the one credit card with the lowest interest rate, you are increasing your utilization rate (the debt you carry in proportion to the limit) on that card, which will cause your credit score to drop. A lower score translates into a higher interest rate on future loans or credit scores.

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important CREDIT FACT 17

Did you know that statistics show you will likely be a victim of identity theft at least one in the next 10 years? On average, victims spend 60 hours resolving the problems caused by identity theft, one of which is a damaged credit score.

To protect yourself and your credit score from identity theft, consider the following:

- **Never respond to emails that ask you to verify account or credit card numbers. Simply push delete, even if the e-mail address of the sender looks genuine. Legitimate businesses know to never send sensitive information through e-mail.**
- **Don't make online purchases unless the site is secured. If you are unsure, call the business and make a purchase over the phone.**
- **Speaking of phones, never give out account numbers or Social Security numbers over the phone unless you initiated the call.**
- **Review your bank and credit card statement each month, and check your credit report quarterly. If you have good financial records, you will recognize signs of identity fraud more quickly on your credit card statement or credit report.**

important CREDIT FACT 18

When you co-sign on an account, credit bureaus consider you equally responsible for the loan as the actual borrower. For this reason, I caution against being a co-signer unless you are willing to assume financial responsibility for the debt. If you do co-sign on a loan, take the following precautions:

- **Insist that bills be sent to your address, or track the account online to make sure the borrower is paying on time. If not, you will need to make the payments on the borrower's behalf to protect your credit.**
- **More effectively, decide to pay the bill directly from the get-go, and ask the borrower to reimburse you. This way, you will always be in control of the payment, and of your credit score.**
- **Contact the creditor and see if the loan can be refinanced in the borrower's name after a year of timely payments.**

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important CREDIT FACT 19

Did you know that some credit card companies refuse to report your proper credit card limits? Indeed, credit card companies often either fail to report the limit, or they report a lower limit than you have. This causes your utilization rate to be reported as higher than it is, which hurts your credit score.

Why do credit card companies do this?

They don't want to lose their client base. If other credit card companies see that you have a high balance and a strong credit score, they might solicit your business. By failing to report the correct credit limit, credit card companies keep your name off mailing lists targeted to consumers with specific credit limits. This helps ensure that your credit card company doesn't lose your business to a competitor offering better terms.

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important CREDIT FACT 20

Tucking your credit cards away in your underwear drawer and refusing to use them is silly. If your cards become inactive, your credit will suffer, so make sure you use your credit cards at least once a month. If you dislike having debt, consider paying a regular bill (e.g., cable) using your credit card. Then pay it off in full each month. This will preserve your credit and allow you to live without debt (and without paying interest).

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important CREDIT FACT 21

You probably didn't know that closing your credit cards could hurt your score, and it will never help your score. Because the length of time you have had credit affects about 15 percent of your credit score, closing a credit account will lower the average age of your accounts, as does allowing a credit card to become inactive by using it less than once a month.

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important CREDIT FACT 22

Did you know that consumer credit counseling will not directly hurt your credit score? Though credit scoring models no longer consider this a factor when assigning a credit rating, your credit score might be indirectly harmed by hiring a consumer credit counseling company. A consumer credit counseling company will handle all matters regarding your debt. This means that creditors will not call you when a bill is late, they will call the consumer credit counseling company. If the company fails to pay your bill on time, you will not know because the creditor has stopped communicating with you. And if a consumer credit counseling company fails to pay your bills on time, guess what? Your credit score suffers.

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important CREDIT FACT **23**

You might be surprised to hear that **YOUR SCORE WILL NOT BE HARMED BY INQUIRIES INTO YOUR OWN CREDIT REPORT.** If you request your own credit score, the inquiry will show up on your credit report as a “soft” inquiry. Unlike “hard” inquiries (those pulled by potential lenders as a way of determining whether they want to approve a loan or credit application), soft inquiries do not affect your credit score.

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important CREDIT FACT **24**

Did you know that **YOUR SALARY DOES NOT AFFECT YOUR CREDIT SCORE**? You could have an income that falls below the federal poverty level and still have spotless credit. Or, you could be a millionaire with awful credit. Your credit score is a reflection of how responsible you are with your money, not how much money you have.

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important CREDIT FACT 25

Are you surprised to hear that “late” payments that occur less than 30 days past the due date do not hurt your credit score? It’s true that paying a bill late is perhaps the most common way to damage your credit score. What you may not know is that the bureaus do not consider a payment late until it is 30 days or more past the due date. (Note that the credit card companies will still charge you a hefty late payment fee if you pay your bill even one day past the due date.)

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important CREDIT FACT 26

If you rent a home, you might be surprised to learn that **YOUR CREDIT SCORE MOST LIKELY DOES NOT CONSIDER YOUR RENT PAYMENT HISTORY**, unless you are evicted. However, you would be wise to pay your rent on time every month regardless. Some lenders might consider your rent payment history in addition to your credit when determining whether they want to approve your loan or credit application. As well, a new credit scoring system, the FICO Expansion System, will consider your rent payment history. This system is relatively new and unused, so don't count on timely rent payments to boost your credit score.

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important CREDIT FACT **27**

One of my clients was relieved to learn that her credit report did not list the late notices she regularly received from Blockbuster® for failing to pay the fines when she returned her video rentals a week too late. You might also be surprised to learn that **FICO, THE STANDARD CREDIT-SCORING SYSTEM, DOES NOT CONSIDER YOUR PAYMENT HISTORY ON UTILITY BILLS** (such as gas, electric, phone, cable, or cell phone bills). However, if you fail to pay these bills and they are turned over for collection, your credit will be damaged.

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important CREDIT FACT 28

SOME BANKS WILL INSIST YOU PAY YOUR ACCOUNTS IN COLLECTION BEFORE GIVING YOU A HOME LOAN. If this is the case, try negotiating for a letter of deletion. However, negotiating for a letter of deletion often takes time you don't have. In this case, pay the collection item and be done with it.

Remember that paying your collection accounts will damage your credit, the last thing you want to do before making a large purchase. What if the lender pulls your credit report again and sees that your credit score has dropped? To avoid this, pay your collection at the close of escrow. This way, you will preserve your credit score until the last possible minute, and you will satisfy the bank's request.

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important CREDIT FACT 29

IF YOU BUY YOUR CREDIT REPORT, YOU MIGHT BE SURPRISED TO LEARN THAT YOUR CREDIT SCORE ISN'T ALWAYS INCLUDED. Your credit report lists the details of all your credit accounts for the last seven years. Your credit score is the three-digit number that indicates your creditworthiness, as determined by the items on your credit report. When purchasing a credit report, you might also have to pay an additional fee to view your credit score.

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important CREDIT FACT 30

Do you know what lenders consider when deciding whether to approve your home loan? While your credit score is the single most important factor, it is not the only factor. Lenders determine your credit worthiness by looking at your credit, your income, your savings (both before and after closing a loan), and your down payment.

Still others will ask your landlord to provide “verification of rent,” detailing the date of your rent checks. If you have multiple late rent payments, the lender will consider you a high-risk borrower. (For this reason, always write your rent checks no later than the due date of your rent, even if you do not plan on delivering the check for a few days).

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important CREDIT FACT 31

You might be surprised to learn that the following statement is a myth: *“The less credit I have, the better my score will be.”* This simply isn't true, regardless of what your grandfather says. Credit bureaus want to see that you can handle credit responsibly. Consumers who declare bankruptcy often wipe their hands clean of debt, saying they never want another credit card again. But what they may not realize is that **NO CREDIT IS JUST AS BAD AS POOR CREDIT**. The best way to have a solid credit score is to have a healthy mix of credit and a solid payment history. You have to prove to the bureaus that you have the discipline to handle credit responsibly, and the only way to do this is to have a proven track record.

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important CREDIT FACT **32**

Though approximately 80 percent of people have errors on their credit reports, **ERRORS OLDER THAN TWO YEARS ARE NOT LIKELY HURTING YOUR CREDIT SCORE** that much. As well, many errors are low-priority errors that are not worth correcting.

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important CREDIT FACT 33

You might be surprised to learn that **YOUR CREDIT SCORE WILL DROP IF YOU QUALIFY FOR A NEW HOME OR AUTO LOAN**. If you have a new home or auto loan, credit bureaus see you as more of a risk than someone with an older loan, which presumably has more equity.

But don't worry! After a month or two of on-time payments, your credit score will start to climb again.

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important CREDIT FACT 34

Did you know that you can use technology to help raise your credit score? If you struggle to pay your bills on time because you are too busy, or because you do not manage your money well, try this:

Sit down with a calendar and a copy of all your regular bills. Then create automatic payments on all your credit cards, mortgages, installment loans, and finance accounts. If you are a compulsive spender, this might help curb unnecessary expenditures by forcing you to pay the required bills each month.

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important CREDIT FACT 35

Did you know that **YOU CAN BOOST YOUR CREDIT SCORE AND LOWER YOUR PERSONAL DEBT IF YOU ESTABLISH SEPARATE CREDIT FROM YOUR SPOUSE?** Entrepreneurs in particular can benefit from this tip, which allows you to use your spouse's credit when applying for a loan or line of credit. It works like this: When applying for credit, transfer high credit card balances to your spouse's credit cards. As your outstanding debt is lowered, your credit score will increase, which makes you look like a more favorable candidate for a loan. Of course, you will have to return the favor if your spouse ever needs a quick credit score increase!

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about the AUTHOR

RECOGNIZED AS A THOUGHT LEADER

in the credit industry, Philip Tirone speaks nationwide on the problems with our credit scoring system and how it erroneously burdens America.



After closing \$500 million in residential home financing, Philip became attentive to the thousands of dollars in extra interest payments being wasted by Americans because of their credit scores. His mission is clear: educate Americans on how to increase their monthly disposable income *without* changing their lifestyle, simply by understanding the credit scoring process.

Realizing the strain this lack of credit transparency has on the American financial system, **Philip has made a personal commitment to show consumers how to navigate our credit system until our credit laws are changed and are fair to consumers.**

Philip's book *7 STEPS TO A 720[®] CREDIT SCORE*, dispels the misconceptions around our credit-scoring system and guides consumers who are struggling with bankruptcy, foreclosure, short sale, divorce, and many other experiences that impact a person's credit score.

Philip and his programs have been featured in the *Los Angeles Times*, *Wall Street Journal*, *Woman's World Magazine*, *San Francisco Chronicle*, *Bottom Line Magazine*, and the *New York Times* bestseller "*Secrets of the Young & Successful*." Additionally, Philip has been a frequent guest lecturer at UCLA Anderson School of Business and Management.

Philip currently resides in the Los Angeles area with his wife and three children.