



## 5 WAYS YOU COULD BE DAMAGING YOUR CREDIT (AND NOT EVEN KNOW IT)

*By Stephanie R. Skaggs*  
Founder, **[www.Top10Financing.com](http://www.Top10Financing.com)**

## Contents

---

Contents	2
Introduction	2
Credit Bureaus	2
Credit Scores	3
Credit Inquiries	4
5 Ways You Could Be Damaging Your Credit	4
Building Good Credit	5
Credit Repair	5
Action Steps	6

## Introduction

Your credit report is like a constantly updating report card reflecting your credit history, so before you apply for a loan or seek financing, you should know what appears on your credit report and what your credit scores are. Rightly or wrongly, credit scores are the litmus test to determine if a person will make good on their debts. Also, people with higher credit scores generally pay lower interest rates and have more options available to them.

Let me give you an example of what having good credit can mean for someone. Let's say that you were applying for a mortgage in Richland County, ND. Your house was valued at \$175,000 and you needed a 75% loan to value or \$131,000 loan. The interest rate for a 30-year fixed interest rate loan (as of the week of September 15, 2011) would be 3.875% if your credit scores were excellent between 740 – 850 compared to 4.375% if your credit scores were fair between 620 – 659, so 0.5% lower. This means your payment would be about \$50 less a month just because you have excellent credit. In addition, there were 3 lenders available to do the loan if your credit is excellent versus just one if your credit scores were fair.

## Credit Bureaus

There are three credit reporting agencies or credit bureaus: Experian, Equifax, and TransUnion. You are allowed to check your own credit report yearly for free without negatively impacting your credit scores, so contact the Annual Credit Report service at [www.annualcreditreport.com](http://www.annualcreditreport.com) and request a copy of your credit report. You need to look at all three reports because

some lenders or creditors only submit ratings to one or two credit bureaus, so the reports may contain different information.

When you look at your credit report, verify that all the information is correct and accurate - your names and aliases, social security number, your current address, previous addresses and your account numbers. If errors exist on your credit report, correct them before you apply for a loan. Do this right away because often it can take four to six weeks for corrections to occur.

### **Credit Scores**

Credit scores are also known as “FICO scores” because most credit scores in the US and Canada are calculated using software developed by Fair Isaac Corporation (FICO). Credit scores generally range from 300 to 850, where the higher the number reflects a better credit rating. Table 1 shows a relative ranking of credit scores. Although the exact scoring method used by the credit reporting agency is proprietary, generally speaking, the following things can affect your credit scores:

- Thirty-five percent of your score is impacted by your payment history on accounts that you have.
- Thirty percent to the amount you owe to all your creditors.
- Fifteen percent to the length of time that you’ve had credit.
- Ten percent to the amount of new credit you have.
- Ten percent to the type of credits you use.

Liens, judgments, and bankruptcy, of course, can impact negatively your credit scores. The number of inquiries that have been made to your credit report can also have

a detrimental effect on your credit scores. Once on your credit report, information will stay there for seven to ten years – unless you actively do something to remove it. Unfortunately bad things can have almost immediate negative effects on your credit report, whereas improving your credit scores takes time and effort.

**Table 1. Credit Score Ranking**

<b>Credit Scores</b>	<b>Ranking</b>
850-720	Excellent
680-720	Good
620-680	Average
580-620	Poor
Below 580	dismal

There are different types of debts. I’ll classify those into good debts and bad debts. The kinds of debts that are considered good are things like mortgages and auto loans, which can have a positive affects your credit scores when you pay them on time. Also, accounts that have been open for a long time and show a good payment history have a positive effect on your credit scores. If you have revolving accounts like credit cards or lines of credit that have low balances relative to their limits that can be considered good debt. Any accounts paid on time and as agreed will, of course, positively impact on your credit scores.

Bad debts are considered to be credit cards or revolving accounts with balances that are very high relative to their limits. Also, new accounts can have a detrimental effect on credit scores. Poor payment history or delinquent accounts of any kind have a poor affect on credit scores and things like

foreclosures, short sales, deeds in lieu of foreclosure, liens, tax liens, judgments, and consumer credit counseling all have a negative impact on your credit scores.

### **Credit Inquiries**

You have the right to obtain a copy of your own credit report at anytime without it impacting your credit scores. You can do this for free once a year by contacting Annual Credit Report Request Service in Atlanta, GA at their website [www.annualcreditreport.com](http://www.annualcreditreport.com) or by calling 877-322-8228. Where people get into trouble is when they have limited credit or a short credit history and they apply for a multitude of new credit in a short time period, like lots of credit cards. However, the FICO credit scoring program does realize that consumers might want to rate shop for car loans or mortgages, so a couple of inquiries for these types of loans in a short time period probably will not decrease your scores. However, if you plan to apply to multiple lenders, I suggest that you provide them with copies of your recent credit report before you authorize them to check your credit, because multiple “inquiries” can influence your credit scores in a negative way.

### **5 Ways You Could Be Damaging Your Credit**

Next to negative payment history, high credit card balances relative to the credit limit will hammer your credit scores. For example, if you have a credit card and the credit limit or the maximum amount you can charge on the card is \$5000, and you have charged \$4990, this will lower your scores. So, know your limits on any credit cards you have and try to keep the balance at or below 50% of the credit limit.

Another really bad idea is to close a bunch of accounts that you have had for a long time. People tend to do this when they are rolling credit card balances from one card to another instead of paying the balances down. For example, if you have several credit card accounts that you have had for a number of years, you might think it's good to consolidate all the balances on one credit card and just close the ones you move balances from and get them off your record. Don't do it. Closing accounts shrinks your overall credit limits and increases your debt-to-limit ratio, which is really bad. You want a low ratio (total Balance ÷ Total Limit = Debt-to-limit ratio).

Opening lots of credit accounts in a short period of time can lower your credit scores. FICO sees this as an increased credit risk especially for people who do not have a long credit history. So if you are accepting a lot of solicitations for credit cards in a short period of time, you may be hurting your credit score.

Consumer credit counseling agencies may be able to help negotiate with creditors to reduce the amount you owe, but keep in mind that many lenders view this as one step up from a bankruptcy. So, people think they are doing the right thing by using a credit counseling service but this can actually reduce your credit scores. If you use a counseling service check with them first to see how the credit bureaus will take this into account.

Too many inquiries for new credit over a period of time can also have a negative impact on your credit scores. Credit bureaus see a search for new credit as a greater credit risk, which is why the credit scores take into account inquiries. Inquiries have a big impact on credit scores

especially, if you have just a few accounts and a short credit history. People with 6 inquiries or more are 8 times more likely to file bankruptcy compared to people with no inquiries. If you are rate shopping for a mortgage or auto loan do so within a short period, say within 14 days, because this won't drop your credit scores.

**Not realizing other entities can also report to the credit bureaus.** Some libraries and municipalities report to the credit bureaus so if you have lots of library fines or parking tickets you might see these as delinquent accounts on your credit report.

### **Building Good Credit**

**Pay everything** on time, before the due dates. Since payment history accounts for 35% of your score this is the biggest factor. Even if you can only make minimum payments on your bills, it is important to pay everything on time.

**Ask for higher limits** from your credit card companies. Higher limits equal better debt-to-limit ratios. But be careful because they might pull your credit report which will create an inquiry and lower your score a bit.

**Pay down any credit card that is over its credit limit.** Start paying credit cards completely off one-at-a-time, but don't close them. If you can't pay any off completely, try to get as many as possible down below 50% of the debt to limit ratio.

**Settle unpaid delinquent accounts** (collections, judgments, liens, charge offs, repossessions, foreclosures) on the condition that the company deletes the listing from your credit report (not just show it as "paid"). Be sure to get the "Delete" agreement in writing before you pay the debt. You will

probably have to deal with a supervisor at the creditor or collection company, but it is definitely worth asking for this.

**Get added as a joint account holder or authorized user** to a friend or family member's no-late-pay, zero balance, high-limit, long-credit-history credit card. If you are added as a joint account holder or authorized user, then all of that account's good credit history is applied to your credit profile. You don't have to use or even have the card to get the good credit history.

### **Credit Repair**

Once you've received copies of your credit report, determine if there are any problems that need fixing. If there are problems, it's time to decide what to do about it. If there are simple errors on your credit report, maybe your aliases are wrong or your addresses are inaccurate, a call to the credit bureaus is an easy fix. If there are errors in one or two of your accounts and you have proof of an error in the reported payment history, perhaps a do-it-yourself credit repair is the way to go. You can contact the creditor directly, prove your proof, and ask them to correct the reporting. The key here is that you must follow up to make sure the correction was made. Do-it-yourself credit repair typically works if it's not just a poor payment history on your part and you have proof of the mistake. However, if your credit scores are low and there are other reasons, for example, poor payment history or late payments, it might behoove you to pay for credit repair.

Credit repair services use little known loopholes in the credit reporting laws. In a nutshell, federal law allows you to dispute any listing on your credit report that you believe is wrong or improvable. By

submitting a dispute to the credit bureau, this puts the burden of proof on them to prove what they have reported and in a timely manner. In many cases, they are not able to prove what they have reported, so they must remove it from the report (even if it actually is true!). They must then update the credit report and the credit scores. Credit repair companies know all the tricks of the trade to successfully perform credit repair. If you don't have time and patience to go through the laborious process, then find a reputable credit repair company. Always check the Better Business Bureau ([www.bbb.org](http://www.bbb.org)) before you select a credit repair company and pay them any money. You can also visit my website to find out more about do-it-yourself credit repair or for recommendations on credit repair companies: [www.top10financing.com/creditrepair](http://www.top10financing.com/creditrepair).

I have had several clients who have used credit repair companies with great success. One client, in particular, was able to completely turn his credit report around with the help of a credit repair company in only about 8 weeks time. Andy was a hotel owner and had several properties that he owned in the Midwest, so he travelled frequently between the locations. As a result, he often paid his bills late, so his credit scores were in the high 400s, which is dismal. The time factor was the driving force in me suggesting Andy hire a credit repair company to help increase his credit scores because he wanted to buy another hotel in Ohio, and time was of the essence. The credit repair company did their magic and in 8 weeks Andy's score had increased to 701.

### **Action Steps**

1. Get copies of your credit report from the three credit bureaus.

2. Analyze your report for errors and problems.
3. Contact credit bureaus and creditors to fix simple mistakes.
4. Dispute erroneous information or hire a credit repair company to help raise your credit scores.