CREDIT SCORE IMPROVEMENT AND EDUCATION
CRC Credit Resource Corp.
MONTHLY NEWSLETTER

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Why Is Good Credit Important: Part 2
How You Use & Manage Your Credit Card Debt Matters

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In just the last few days it has been widely reported that household debt is skyrocketing as incomes are actually shrinking. A new report just released from the Federal Reserve shows that nearly half of all American households carry credit card balances. And not just token credit card debt, they're carrying BIG balances. The average debt amount carried by American households is a staggering $5,100, while the average household income is just over $43,000 a year. That means that 12% of their annual gross income is nothing but credit card debt. And it gets even worse: last month the savings rate for this country actually turned negative as people are spending more than they're making. Throw into that mix the fact that personal bankruptcies have become next to impossible and the monthly minimum payment on credit cards just doubled and you have a perfect storm for consumer debt to actually consume individuals and families.

It's time to take this bull by the horns and get a handle on consumer debt. Learning how to manage credit wisely and the best ways to pay your debts is really quite easy. The information is not locked away in some secret black box. Although that is what many consumers believe because they just don't get access to professional credit education, and they feel helpless because they don't know where to start. That is why I am here and that is what I intend to help you with, especially over the next 5 months.

LET'S START WITH THE MOST IMPORTANT FACTOR

When managing your credit, you may not realize that some factors matter more than others, or, like most consumers, you may not know that there are factors involved at all. Most of us think that if we pay our bills on time that we have a handle on our credit, but this is not the case. The credit scoring system breaks your credit report down into 5 major factors, and if each factor is not understood or managed properly, you may be throwing away money by not getting the preferred rates that are only available to the most creditworthy individuals-those with the highest credit scores. One of the biggest factors is one that you have the most control over: Amounts Owed. This factor makes up 30% of your credit score, making it one of the most important factors.

AMOUNTS OWED IS 30% OF YOUR CREDIT SCORE

Amounts Owed Defined: It is a record of all of your debt and how you manage that debt. This factor is broken down into two categories:

1. **Revolving Debt**: credit cards, and some home equity lines of credit; and
2. **Installment Debt**: mortgage loans, auto loans and some home equity lines of credit

According to Fair Isaac, the creator of the credit scoring system, having credit accounts and owing money on them does not make you a high-risk borrower or give you a low score. What impacts the score is when a high percentage of a person's available credit has already been tapped. This indicates that a person may very well be overextended, making them more likely to make payments late or not at all. When calculating your score, this factor considers the following elements:

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- The total of all the amounts you owe for all accounts
- The mix of amounts owed (credit cards versus installment loans, for example)
- The number of accounts that have balances
- How much of your total credit available on credit cards and installment loans you're using (the closer you are to maxing out your available credit, the more negative the impact on your score)
- How much of the original balance borrowed you still owe on installment loans, such as your car loan.

Dos and Don'ts of the Amounts Owed Portion of Your Score

Luckily, the Amounts Owed Factor is one the easiest factors to correct and control. Here are some tips on how to manage your credit better in this area, giving you the opportunity to maximizing your potential for a higher score:

1. The very first step towards improving your score in this factor is to ***pull you credit report*** and make sure that the following information is being reported accurately:

    - Make sure that your credit card and installment accounts are reporting to all three bureaus.
    - Make sure that your available credit limits are reporting.
    - Make sure that the balances on your installment accounts are correct. Auto loan companies are famous for being 4-6 months behind on reporting updated balances to credit bureaus.

    If any of the above information is being reported inaccurately on your reports, you could be losing 25-50+ points.

2. In order to prove to the scoring system that you know how to manage revolving debt, ***you MUST have active credit card accounts***. Use your cards every month, for groceries, gas, etc. and pay it off every month. If you do not have a credit card at this time and your scores are under 650, immediately apply for an on-line secured credit card at one of the following banks: www.orchardbank.com or www.firstpremierbankcards.com. If your scores are above 650, you may want to consider going to your bank to apply for a card. Exception: Do not apply for credit of any type when you are about to enter into or have already entered into a loan transaction. New Credit temporarily brings down your score due to the debt and the new account.

3. ***Keep credit card balances below*** 50% of the available limit at all times to maintain your score. 3-6 months prior to applying for a loan, those balances should be kept to 30% or less of your limit to increase the score.

4. If you cannot pay down your credit card balances to 30% of the available limit prior to applying for a loan, try calling your credit card companies to ***ask for a temporary limit increase*** without pulling your credit. Tell them you are in the process of wanting to purchase a home and that your balances are affecting your score. Some creditors will oblige if you have maintained a good payment history on the account.

5. ***Do not consolidate your credit card debt*** onto one low interest card UNLESS if after transferring the debt the balance on the credit card you are transferring to is under 30% of the available limit. But you should still use your other credit cards for small purchases as mentioned in 1 above.

6. ***Don't close credit cards accounts*** at all, if possible. 3-5 major credit card accounts are best. , I say major because the scoring system frowns upon 3rd party financed credit cards (i.e. Department Store Cards, Furniture Store Cards, etc. You will lose points in two factors when you close a credit card account, both in the Amounts Owed factor and in the Length of Credit History Factor which is worth 15% of your credit score. (These 2 factors combine to make up nearly half of your credit score, so pay attention here.) Once you close the account, the history stops counting. A common misconception by consumers is they believe when you close a credit card account, any bad history on that account goes away. This is not the case. That history stays with you.

7. ***Don't open accounts you don't need***. Just because credit is offered to you, does not mean that you should accept it. When you receive one of those pre-approved credit card letters in the mail, your credit report has not been pulled yet, so you are NOT approved for the account. Once you pick up the phone to call the creditor, they will pull your report and you will be penalized immediately for the hard inquiry (10% of your score.) It is best to avoid these types of special offer credit cards (including Department Store offers of "Open an account today to save 15% off of your purchase." The scoring system frowns upon 3rd party finance cards.

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8. ***Installment loans are there for a reason,*** so paying off your car loan early will not improve your score. The scoring system wants to see that you can follow a payment agreement over a certain period of time (i.e. $250.00 per month for a period of 5 years with no late pays.)

9. ***Don't go over your credit card limits,*** even if it's just one dollar. Doing so deals you a double penalty and you could lose 50+ points from your score. Why? Going over your limit the system thinks that you cannot hold to a creditor's agreement and that you are overextended. Something to note: even if you call your credit card company and they approve an additional $200 over the telephone, you still get penalized.

10. During transition of an installment loan, ***don't count on escrow to pay the final mortgage payment*** on the previous loan. Pay it and be safe. One 30-day mortgage late can cost you 50-75 points no matter how high your score is. That 50-75 points takes a minute to lose, but several months to get back and could lose you the new loan program rates that can save you tens, if not hundreds of thousands.

11. ***When it comes to American Express*** cards, which have no available credit limits, the scoring system uses last month's statement total as your available credit limit. This means that if you spent $5,000 last month, and then $6500 this month, it appears to the system that you are over your limit. As a result, the best way to handle AMEX is to always pay your bill before the statement date.

In Conclusion:

By following these simple steps, you can take the first step toward improving your credit score in the short term and you can maintain a better credit score going forward. Your credit score is so important to your financial well-being, and it's so easy to manage wisely when you are empowered with the tools to be able to make a change. That's why I am here. The reality is, most people don't have bad credit because of financial insufficiencies, but rather because they just allow their credit to slip away from them through mismanagement. Learning how to manage your credit is more than half the battle of achieving a credit score that will provide you with the financial opportunities that will make your life easier and more enjoyable.

Start right now by putting those steps into action.

All the Best,
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