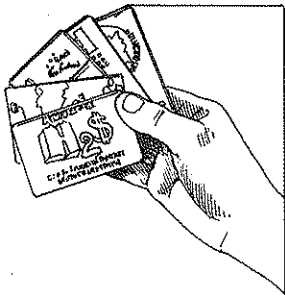

Improving Your Credit Score

Background: Gone are the days when lenders leaned over backwards to qualify borrowers for mortgages. After all the subprime lending problems, it has become increasingly more difficult for many potential homebuyers to qualify for desired financing. This section of the newsletter will discuss things a borrower can do to improve their credit score. The article is based upon a paper used by Keri Shepherd (808-223-4118) a local loan officer with Prospect Mortgage who is often used by clients of The Stott Team. At the end of the article is information concerning how to obtain free credit reports. I recently did this and obtained a free copy of one of my reports.

Check Your Credit Limit(s): Credit scoring software obviously prefers to see that you pay off the balance on all your credit cards each month. If it is impractical for you to do this, the guidance herein should assist you in being able to improve your score. Make sure your creditors report your credit limits to the credit bureaus. When no limit is reported, credit score software scores the amount as though your current balance is "maxed out." For example, if you know you have a \$10,000 limit on your credit card, make sure that the \$10,000 limit appears on the credit report. Otherwise, your score will be damaged as severely as if you were actually carrying a balance of the entire available credit.

Evenly Distribute the Balances You are Carrying: A balance of over 70% of your total credit limit on any card damages your credit score the most. The next level is over 50% of your balance, then over 30%. In order to maximize your score without having to pay down your balances, evenly distribute your credit card balances among all your credit cards, rather than carrying a large balance on one credit card. For example, if you are carrying a \$9,000 balance on a credit card with a \$10,000 limit and have two other credit cards with a \$3,000 and \$5,000 limit, transfer your balances so that you have a \$1,500 balance on the \$3,000 limit card, a \$2,500 balance on the \$5,000 limit card and a \$5,000 balance on the \$10,000 limit card. Evenly distributing your balances will enable you to improve your score.



Do Not Close Your Credit Cards: Closing a credit card can hurt your credit score, since doing so effects your debt to available credit ratio. For example, if you owe a total credit card debt of \$10,000 and your total available credit is \$20,000, you are using 50% of your total credit. If you close a credit card with a \$5,000 credit limit, you will reduce your available credit to \$15,000 and change your ratio to 67%. There are two caveats to this rule . . . If an account was opened within the past two years or if you have over six credit cards, an account can usually be safely cancelled. The preferred number of credit cards accounts to maximize your score is three to five, although having more should not significantly damage your score. If a card was opened within the past two years and you have over six cards, you should be able to safely close that account.

Keep Older Credit Cards Active: 15% of your credit score is determined by the age of the credit file. The credit scoring software assumes people who have had credit for a longer time are less at risk of defaulting on payments. Therefore, even if your old credit cards have high interest rates, closing those cards will decrease the average length of time you have had credit. Continue to use the old card at least once every six months to avoid the account being changed to "inactive status."

Get Rid of Your Past Due Accounts: Within the delinquent accounts on your credit report, is a column called "Past Due." Credit scoring software penalizes you for keeping accounts past due, so any "Past Dues" destroy a credit score. If you see an amount in this column, pay the creditor the past due amount reported.

Get Rid of Your Collection Accounts: Paying a collection account can actually reduce your score? Here's why: Credit scoring software reviews credit reports for each account's "date of last activity" to determine the impact it will have on the overall credit score. When a payment is made on a collection account, collection agencies update credit bureaus to reflect the account status as "Paid Collection." When this occurs, the date of the last activity becomes more recent. Since the guideline for credit scoring software is the date of last activity, recent payment on a collection account damages your credit score. If you are purchasing a property or refinance an existing one and you have a collection account, wait to pay off the collection until you are closing on the loan and pay it through escrow.

Obviously, the best way to resolve this dilemma is to completely pay-off the collection account. If that is not practical, then see if the collection agency will remove all reporting to the credit bureaus. Request a letter from the collector that explicitly states their agreement to delete the account on receipt/clearance of your payment. Not all collection agencies will delete such reporting; however, it is worth the effort to try, as if there is no reference to a collection account in your report, your score will improve.



Get Rid of Your Charge-Offs and Liens: Charge-offs and liens do not affect your credit score when older than 24 months. Therefore, paying an older charge-off or a lien will neither help nor damage your credit score. Charge-offs and liens within the past 24 months severely damage your credit score. Paying the past due balances, in this case, is very important. If you have both charged-off accounts and collection accounts, but limited funds available, pay the past due balances first, then pay the collection agencies that agree to remove all references to credit bureaus second.

Get Rid of Your Late Payments: Contact all creditors that report late payments on your credit report and request a good faith adjustment that removes the late payments reported on your account. Be persistent if they refuse to remove the late penalties and remind them that you have been a good customer that would deeply appreciate their help. Since most creditors receive incoming calls in a call center, if the representative refuses to make a courtesy adjustment on your account, call back and try again with someone else. Persistence and politeness pays off in this scenario. If you are frustrated, rude and unclear with your request, you will make it very difficult for them to help you.

Obtaining Free Credit Reports

There are advertisements that advertise a "FREE" credit report and then charge you for various services. If you have to provide your credit card number to obtain your credit report, it is probably not going to end up being free. My understanding is that the only place where you can actually get a free credit report is through AnnualCreditReport.com. The site is supported by the three credit reporting bureaus: Experian, Equifax and TransUnion. You are entitled to get one free credit report from each of the three credit reporting bureaus each year.

You can request a report by phone by calling 1-877-322-8228 and going through a simple verification process over the phone. Or, you can request that it be mailed to you by completing a request form that you can download from the website and then mailing it to:

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Or, you can do what I recently did and download your report online. Without providing a credit card number, I got my 19-page Experian report within a few minutes.