

## SPECIAL REPORT – SPECIAL REPORT – SPECIAL REPORT



### ***Save Your Credit, Save Your Life*** **10 Steps to Protect Your Financial Future in a Hostile Credit Environment**

By Linda Ferrari, National Credit Score Expert and author of [\*The Big Score: Getting it and Keeping It, Buying Power for Life\*](#)

The 2008 Credit Crisis has sparked widespread chaos in the financial markets and a government bailout that rivals intervention not seen since The Great Depression.

A whopping \$700 billion in new debt to takeover the mortgages gone sour has dealt a hideous blow to American taxpayers and businesses. Even worse American consumers face a crippling stranglehold on existing credit arrangements and opportunities for new credit. In a nutshell, taxes are going up and access to credit just got a lot more expensive for many to keep and nearly impossible to get. This proverbial double whammy finds us in an era of economic Darwinism in which American consumers face the necessity to adapt or perish.

Make no mistake, those who will prevail in the new economic paradigm will share a single common thread—excellent credit scores.

In an economy riddled with increased expenses and stringent credit standards, the businesses and households that will successfully navigate through the economic hailstorm will do so because their credit scores will get them access to credit and cash, empowering them to forge ahead and capture opportunity while those around them fold.

Great fortunes are made in times of great peril. Like no other time in the last 80 years, those with great credit will have the opportunity to capitalize on opportunity for long-term success.

How Can You Be One of the Winners?

The information provided in this special report will help you or your business improve your credit scores — regardless of where you are right now.

If you have excellent credit, this report will help you ensure that it stays that way.

If you have good credit, this report will help you improve it.

If you have fair to poor credit, this report will help you improve your credit scores and ensure that you avoid the extremely painful adjustments that await those who take no action.

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## **A 10-Step Credit Improvement Take Action Plan (TAP)**

My signature Take Action Plan is a 10-Step process that you can put into action right now. Here are the steps, plain and simple:

1. Set Your Score Goal
2. Get Your Credit Reports
3. Read Your Credit Reports
4. Make Your TAP Checklist
5. Decide & Act: Dispute, Negotiate or Wait
6. Get Your Mix In Check
7. Manage Your Debt Strategically
8. Don't Fall Through The Cracks
9. What If You Don't Have Credit
10. Commit to a Maintenance Plan

### **Step 1: Set Your Score Goal**

The first step toward the success of any plan is to define your goals. Goals can be both short-term and long-term. Here are some examples of why consumers may want to start taking action on improving their credit scores NOW:

1. To make the most of your current credit rating;
2. To purchase a new home, auto, or send your kids to college;
3. To refinance your existing home or auto loan;
4. To lower interest rates on all of your accounts so that you can save more money for retirement; and
5. To be in a position of financial freedom at all times—being able to walk into a mortgage lender, auto lender, or bank and not ever having to worry about being denied credit. I call this *Credit Ability*.

These are great reasons, but they all have one thing in common; they all require strong credit scores. So although these reasons create a good start, in my experience—coaching and motivating thousands of individuals to commit to a take action credit score improvement plan—I have found that setting the ultimate score goal is the best way to succeed. I make sure that my clients have all of the information they need to be realistic in setting their goal score, and once they plant that number in their minds, there is little that can stand in the way of their success. My book, [The Big Score](#), provides access to the tools required to set your score goal right now. For the purpose of this report, it should be nothing less than a 750.

Once you know your score goal, write it down and put it in a place where you will see it every day—the bathroom mirror, the refrigerator, or your computer monitor. This positive reinforcement will keep you motivated.

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Be realistic about the amount of time it will take to reach your goals. If you have credit challenges such as collections, charge-offs and public records, then allow at least 6-12 months to start seeing substantial improvement in your credit scores. However, if your credit challenges are basic, which includes general clean-up, credit card balance issues, or not enough credit, then you need at least 3-6 months.

Either way, remember that every feat, small or large, deserves appreciation. One point can save you thousands of dollars; and one point can make the difference of whether or not you have access to funds to send your kids to college. Set your goal score TODAY!

## **Step 2: Get Your Credit Reports**

Today, you have access to your credit information all day and every day. This is wonderful news. Consumers now have the opportunity to quickly correct and maintain credit reports. It is mission-critical for consumers to seize that advantage by assuming responsibility. Lenders, employers, and vendors judge us based on our credit reports, and they know that we are capable of doing so. The days of excuses are in the rearview mirror.

You can get started by acquiring a copy of your credit reports from each of the three major bureaus. It's important to get reports from each of the three—not just one. The bureaus do not share data, so you need to get a full accounting of everything that is being reported.

Your options are as follows:

1. **Reports from the credit bureaus.** The reports that you receive directly from the three credit bureaus are easy to read. More importantly, going straight to the source of the data will ensure that your action plan begins with the most complete information being reported about you. This includes your credit accounts, your credit history, and your personal and demographic information. My advice is to cut to the chase, and go direct.

You can order your credit report and score from each credit bureau on line, through the mail, or via telephone. Here is the information you need:

- Equifax: (800) 685-1111 - <http://www.equifax.com> Cost: \$15.95
- Experian: (888) 397-3742 - <http://www.experian.com> Cost: \$15.00
- TransUnion: (800) 916-8800 - <http://www.transunion.com> Cost: \$14.95

As strange as it seems, I have found that the bureaus change their addresses without warning. So when you are ready to contact the bureaus by mail, be sure to call for their current mailing information. You can also use these numbers to order your reports by phone.

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**WORD OF CAUTION**

When you log onto each site, they will try to up sell you with many different products, including credit watch programs or 3-in-1 credit reports and scores for three times the price. Make sure that you only purchase the credit report and score from that bureau.

If you have been denied credit or insurance within the last 60 days, if you are disabled, unemployed, or on welfare, you may be entitled to a free copy of your credit report. If this is the case, send a written request to each credit bureau. In your letter, be sure to order your credit score. The cost for the score is approximately \$7.95 per bureau, but I always recommend calling the bureau directly to confirm the fees.

2. Free credit reports. By law, each of the nationwide consumer reporting agencies, Equifax, Experian, and TransUnion, must provide a free copy of your credit report, at your request, once every 12 months. To read more about this, a good source is the Federal Trade Commission's Consumer Alert site. You can download it at <http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt156.pdf>.

You can access this program in one of three ways:

- a) Go to <http://www.annualcreditreport.com>;
- b) Call 1-877-322-8228; or
- c) Complete the Annual Credit Report Request Form and mail it to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. You can download the form with instructions at <http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt156.pdf>.

**WORD OF CAUTION**

I understand that during financial hardship, free credit reports are very tempting; however, I must warn you that these reports are very difficult to read.

This program does not offer free credit scores. I highly recommend that if you decide to take advantage of this program that you order your scores at the same time. Again the fee is usually around \$7.95 per bureau.

**A Warning About “Imposter” Websites**

Only <http://www.annualcreditreport.com> is authorized to provide the free annual credit report mandated by law. Other websites make claims for “free credit reports,” “free credit scores,” or “free credit monitoring,” but they are not affiliated with this program, and they are likely trying to sell you something—*that you don't need*.

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3. **Credit reports from an online vendor.** Not for this part of the plan! To assemble your take action plan, I advise that you begin right away with one of the two options above. Online reports are great for maintenance, but they do not give you the full picture of ALL data that each credit bureau is storing in your file.

### **Step 3: Read Your Credit Reports**

Laws have made it easier for you to access your reports, but they haven't made those reports easier to understand. I have to tell you, though, credit reports have come a long way since I saw my first credit report which struck me as looking more like NASA code than my credit history. I can promise you that today's credit reports are NOT rocket science. I have personally witnessed thousands of individuals grasp an understanding of their credit reports after only one consultation with me.

There are hundreds of different credit report formats in use today. An explanation of each would not only make for a very boring read, but it would also be impossible for me to teach you in this report how to read each format. The good news is that you don't have to know how to read every format to manage your credit. Once you learn the basics, you will be able to apply your knowledge to any credit report you lay your eyes on. Hopefully, you'll take my advice and start your take action plan using the reports directly from the three credit bureaus. Here are some helpful hints on what to look for as it relates to the format of each:

- **Equifax** mixes positive and negative trade lines. This makes Equifax's report the most difficult to read. As a general rule, Equifax will list public records first, and most collections separately. However, sometimes collections are intermingled with other trade lines, so review every trade line carefully and thoroughly. Late pays are listed at the very bottom of each trade line under the section title "Account History with Status Codes." Personal identification and demographic information is on the first page, and inquiries are listed in the back of the report.
- **Experian** separates positive from negative all the time. As a general rule, Experian will list public records first, then all "Potentially Negative Items or Items For Further Review," followed by "Accounts In Good Standing." Inquiries, and personal identification and demographic information are located in the back of the report.
- **TransUnion** follows suit with Experian, by separating positive from negative accounts. As a general rule, TransUnion will list public records first, then all "Adverse Accounts," followed by all "Satisfactory Accounts." Personal identification and demographic information are on the first page, and inquiries are listed in the back of the report.

#### **WORD OF CAUTION**

When you dispute with a credit bureau, they will respond with a copy of your updated credit report. So if your action plan begins with an online version of your credit report, the version that you receive in response to your dispute will be different. Don't be thrown off. The mailed version contains the same information, just laid out differently.

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## **Step 4: Create Your TAP Checklist**

In my business, I use “The Home Inspection Analogy.” When you want to sell your home, you hire an inspector. They make a detailed “fix it list” of the items in need of repair. The theory is that the more items completed on this list, the more you will maximize the value of your home. It’s the same with credit. Your goal is to go through your credit reports with a fine-tooth comb, make a list of the items that are negatively impacting your scores, and know that the more items you check off your list the better chance you have of maximizing your credit scores in the shortest period of time.

When most people look at their credit reports, they focus on repairing the negative items. It is critically important for you to remember that negative payment history only makes up 35% of your scores. There is another 65% of your scores that has nothing to do with negative payment history but still brings down the scores. It is essential that you make sure that all of your good credit is being reported and being reported accurately.

Before making your TAP Checklist, you will want to create a workable spreadsheet that will organize the data and action plan in a way that will give you instant indication of what action needs to be taken. At minimum, your spreadsheet should include the following columns:

- Item Type (i.e. collection, late pay, wrong name, tax lien)
- Dispute Reason
- Account Status (open or closed)
- Original Creditor Name & Account #
- Collection Agency/Court Name and Account or Case #
- Open Date
- Date of Last Delinquency or Date Paid
- A column to list the Statute of Limitations
- A column to list the 7-Year Reporting Date
- Amount Due
- Limit
- Balance
- Action (Dispute, Negotiate, Wait)
- First Dispute/VOD Letter Date
- Reinvestigation Letter Date
- Formal No Response Complaint Date
- Letter of Intent to Sue Date

One of the columns in your spreadsheet will be the dispute reason. To help you get started, here’s a list of 30 of the most common dispute reasons. If any of these apply to the information being reported on your credit reports, you should consider the item negative and add that item to your TAP checklist:

1. This account does not belong to me.
2. I was not 30, 60, 90 or 120 days late on this account.
3. This is a duplicate account.
4. I never authorized this account.
5. The balance on this account is incorrect.
6. There is no past due balance on this account.
7. You are not reporting a positive account on my credit report.
8. This account is closed with a \$0 balance and has a positive history.
9. This account was closed by me, not the creditor.
10. You are not reporting the correct limit on my account.
11. This account was included in a bankruptcy and should have a \$0 balance.

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12. This account was paid.
13. The open date on this account is incorrect.
14. This account is still open.
15. I am only an authorized user on this account. Please remove it.
16. You are reporting my home equity line of credit as a revolving account.
17. I never authorized this inquiry.
18. This public record has been satisfied/released/dissmissed/vacated.
19. You are listing the wrong file/released/satisfied date on this public record.
20. This account was charged off in (date). No late pays should be reported after that date.
21. The date of last activity on this account is incorrect.
22. This account never went into foreclosure/repossession.
23. The 7-year reporting period has expired on this account.
24. The statute of limitations on this account expired. You cannot report it or re-insert it.
25. You are reporting someone else's information on my credit report that has the same name that I do.
26. You are reporting the wrong social security number, birth date, spouse's name, phone number on my credit report.
27. You are reporting wrong/expired/misspelled addresses on my credit report.
28. You are reporting misspelled/wrong names on my credit report.
29. You are reporting outdated/wrong employment information on my credit report.
30. This student loan account has been deferred.

The key is to make three separate TAP spreadsheets, one for each credit bureau, and to write down *EVERYTHING* that needs attention. Then, you can decide which action should be taken—Dispute, Negotiate, or Wait.

### **Step 5: Decide & Act: Dispute, Negotiate, or Wait**

Now it's time to take action. This means taking the steps to get the items on your list updated, corrected, or removed. Throughout my book, [The Big Score](#), I have given my readers access to tools, tips, information and even legal references that will help them successfully dispute and negotiate with the credit bureaus and creditors; however, for the purposes of this report, I will outline the basics. You have three choices, as follows:

#### **Dispute**

If your decision is to dispute an item, you must be ready to commit and follow through. Here are some basic tips to get you started:

- Send a letter to the credit bureaus giving them a detailed explanation of what you are requesting. Attach copies of any supporting documentation that you have (i.e. statements proving your correct credit card limits and proof of payments). Send letters certified, and, to avoid delay in their replies, always attach proof of social security and proof of address right from the beginning.

- Wait 35 days (allowing 5 days for mail time.) If the bureaus do not respond within 35 days, send a formal complaint letter reminding them that per Section 611 of the Fair Credit Reporting Act they are required to respond within 30 days from the date they received your initial dispute. Also remind them that per Section 616 & 617 of the same Act they are liable for damages, including punitive, and that if necessary you will seek legal representation. Attach your original dispute letter and proof of delivery to the complaint.
- Just because the credit bureau has determined an item “investigated” does not mean the results are accurate. If you are 100% sure that your claim is true and accurate, and the bureau responds stating that the creditor has verified the information and the item will not be removed or updated, you must request a reinvestigation under Section 611 of the Fair Credit Reporting Act. I highly recommend that you do so within 5 days of receiving the results of their investigation. You can repeat this process as many times as you want, however, after three to four attempts, I would consider moving onto the next step.

If the credit bureau continues to stand its ground on not updating or correcting inaccurate items on your credit report, here are some additional tips:

- a) Attaching copies of lawsuit verdicts that show how consumers have prevailed against the bureaus can help you convince the credit bureaus to make the necessary changes to your reports. It lets them know that you are well aware of your consumer rights. My book, [The Big Score](#) gives several references to successful lawsuits won by consumers against credit bureaus and creditors with punitive damages awarded in amounts of hundreds of thousands of dollars and even millions.
- b) Look for other consumer stories on the web. There are many credit repair blogs in which consumers share their strategies. Be careful not to take advice as blind trust, but instead, look for helpful hints that pertain to your situation.
- c) File a complaint with the Federal Trade Commission Consumer Response Center. You may be able to have your case added to a class action lawsuit against the bureau that is reporting the inaccurate information. You can access the FTC Complaint Wizard at <http://www.ftc.gov/bcp/index.shtml>, or you can mail a complaint letter to the following address:

Federal Trade Commission  
Consumer Response Center  
600 Pennsylvania Avenue, NW  
Washington, DC 20580

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## Negotiate

If your decision is to negotiate on an item, the most important advice I can give you about negotiating is to do your research. In my book, [The Big Score](#), I cover consumer debt relief options in depth, including negotiating collection debt for pennies on the dollar, Statute of Limitations, and how to deal with collection agencies. All very important information that every consumer must have before entering into negotiations with a creditor or collection agency.

Here are some other great resources to help you get to know the ins and outs of the credit counseling and debt negotiation industry:

- National Foundation for Credit Counseling: <http://www.nfcc.org>
- Association of Independent Consumer Credit Counseling Agencies: <http://www.aiccca.org>
- The Federal Trade Commission: <http://www.ftc.gov/credit>
- National Consumer Law Center: <http://www.consumerlaw.org>
- Consumer Federation of America's Report: Credit Counseling in Crisis [http://www.consumerfed.org/pdfs/credit\\_counseling\\_report.pdf](http://www.consumerfed.org/pdfs/credit_counseling_report.pdf)
- National Consumer Law Centers Report: The ABC's of Credit Counseling [http://www.consumerlaw.org/issues/credit\\_counseling/content/creditcounsconsumerconcernsAUG8.pdf](http://www.consumerlaw.org/issues/credit_counseling/content/creditcounsconsumerconcernsAUG8.pdf)

Here are the basics to debt negotiation:

- ✓ Lay your debts out on paper.
- ✓ Validate collection and charge-off debt with the creditor or collection agency.
- ✓ Verify the Statute of Limitations and 7-year reporting period.
- ✓ Figure out how much you can realistically afford to pay.
- ✓ Call the creditors to discuss your options or negotiate.
- ✓ Get the agreement in writing, and then follow through with the payment plan as agreed.

The key to successful debt relief negotiation is to establish clear goals before you start, and be persistent. Many times you may have to contact the creditors or collection agencies several times before reaching an agreement. Be professional even when they are not. Do not let your emotions get the best of you. Be polite, calm, and cool.

I am a true believer in trying to do it on your own if you have the time because no one will have your back like you will. It does not take a specific degree to get the job done. However, there is a clear precedent set years ago by the credit counseling and debt negotiation industry that makes creditors very reluctant to deal directly with consumers. But a precedent is not a law, and if you do your research, and work hard enough, you can definitely do it on your own. Two important things to remember:

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- Negotiate with confidence that you will win. By doing your research, you will gain the knowledge you must have to successfully negotiate derogatory debts. Knowledge is power, and once the collection agency or creditor realizes that you have done your research, not only will you limit their response options, but they will realize immediately that you are not a pushover. The tactics that they would normally use on a consumer who doesn't know their rights, will now be useless to them, and they will be more apt to agree to your terms.
- Get everything in writing. Words mean NOTHING when it comes to agreements with collection agencies or creditors and the terms they agree to on the telephone.

On the other hand, if you don't have the time or emotional energy to face creditors and collection agencies head-on, you do have options. My best advice is to do as much research and cost comparison as you can before you hire a company to help. Make sure you do the math on the plans they propose. In other words, make sure that at the end of the day, the payment plans, or fees make sense.

Here's a real life success story from [my book](#) to help motivate you to take on your creditors.

### **Real Life Success Story: David**

Debt Negotiation can create real life miracles. In fact, just a few months ago, I received a call from a client I'll call David. David was in a situation in which he found himself a heartbeat away from throwing his hands up and walking away from everything. He had a failing business that had been in the red for more than two years, a home for which he now owed more than its value, four credit card accounts that were maxed out to the tune of \$210,000, and a collapsed emotional and physical threshold.

We sat down and took a look at his debt, to see what we could do to salvage his credit and his life. The first question I asked David is how much cash he could gather to help settle his debts. He estimated that he could raise about \$100,000 to settle \$210,000 in credit card debt, and bring his mortgage current.

David had always been on top of the game. He usually had a lot of money, and he was strong. Because I knew this, I worked with David teaching him how to debt negotiate. At first he was reluctant, because the accounts were still open and in good standing. "There is no way that these banks are going to accept this offer from me, especially when I am still current on the accounts," David argued. "I have no idea what to say, or what to ask for. I want you to handle this for me."

I explained to David that original creditors *do not* like dealing with third parties. More so, to have a third-party call on behalf of his open accounts that were in good standing would immediately create a defensive situation. If anyone other than David made that first call, the chances of reaching a settlement amount on his accounts before they charged off would be very slim. So we wrote his hardship letter and mailed it to the creditors, and I coached David through the do's and don'ts of negotiating on the telephone. Within one week, he had successfully negotiated three of the accounts for 40%. He told me that he was honest and

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professional. I had advised him to not threaten bankruptcy straight out, but to make it clear that he did not foresee being able to pull himself out of his financial situation. I also suggested that he offer to send them proof of his hardship. Proof that his company had been in the red and that he was not pulling enough income to cover his debts, and proof that his mortgage was in default. Once David finished negotiating with the first creditor successfully, the remaining creditors were much easier to face. He now knew it was possible to do something that he had believed could not be done. He saved many thousands of dollars in commission fees to a debt negotiation company and he immediately reduced his debt by more than \$60,000.

The accounts were reported to the credit bureaus as “Paid For Less Than Full Balance,” which is negative, but less negative than a Charge Off or Collection with a balance that is open to lawsuit. Plus when the balances went down to zero, his score went up in the Amounts Owed factor because his debt to limit ratio on those accounts was at \$0.

## **Wait**

Two of the most misunderstood aspects of credit reporting are: Statute of Limitations and the 7-Year Reporting Period. It is important to understand both when deciding whether you should wait for the derogatory information to fall off of your report, or not. Most consumers don't realize that there are two expiration dates when it comes to negative credit accounts. In most instances, charged off debt expires sometimes 3-4 years before the 7-year reporting period is up. What you need to take into consideration:

- If the statute of limitations has expired on a debt, then you are no longer legally liable to pay that debt. You cannot be sued and your wages cannot be garnished. However, the item can still remain on your credit report for the 7-Year Reporting Period and you may be denied credit due to an open derogatory balance on your credit reports. Statutes vary by type of debt and by state. I provide a complete listing in [The Big Score](#).
- Once the 7-Year Reporting Period runs, you can have that item removed from your credit report altogether. There are exceptions to the 7-Year Reporting Period for some public records, which I have outlined in [The Big Score](#), but in most instances, when that 7-Year Reporting Period expires, you are free and clear.

It's a personal decision. If you are a year from the 7-Year Reporting Period and you cannot afford to pay the debt, then wait it out. However, if you are able to pay the derogatory AND negotiate a deletion, you can arrange to have the item removed earlier and get on with your financial goals. Remember, knowledge is key to successful negotiations.

## **Step 6: Get Your Mix In Check**

Just like the perfect pot of minestrone, a little bit of something can add depth and interest, while too much can really detract from the overall mix. It's the same with credit. The reason why it is so important to be picky about the lines of credit you establish is because once you open a line of credit, it is on your record for a very long time.

The mix of your credit accounts for 10% of your credit score. What does this mean? The credit scoring system is programmed to analyze different types of consumer credit accounts. Consumers need to prove that they can manage multiple types of credit, each which has different rules and agreements.

There really is no standard perfect mix of credit, however, the key is to have as much high-quality credit as possible, with a good blend of revolving and installment debt. Here are some great guidelines based on where you are with your credit history.

**Tips on making sure your Mix Of Credit Is In Check:**

1. In order to prove to the scoring system that you know how to manage revolving debt, ***you MUST have active credit card accounts.***

I agree with most financial experts who say that *not* using credit cards is better for your budget. Especially for those who do not have discipline when it comes to spending. And my opinion of the credit card industry today is that it is out of control and under-regulated. However, Fair Isaac & Co., the creator of our credit scoring system ensures that without revolving accounts, consumers cannot maximize their credit scores. *There is no getting around it.*

The advice I give to my clients is to look at their credit cards *as tools*, not luxuries. Unless they must have access to a credit card for business, they should use the card for gas and groceries – THAT'S ALL. In addition, the dollar amount of the limit does not influence the credit score one way or the other—it is the balance-to-limit ratio that matters. Point: When adding a new credit card account, apply for a low limit—one that doesn't leave room for overspending.

If you do not have a credit card, here are some tips on how to get one:

- **Go To Your Bank or Credit Union First.** I always have my clients go to their bank first. Whether you have an established relationship with a representative or not, it is wise to go into the bank directly. Do not try to inquire or apply over the telephone. In most instances, bank and lender customer service representatives are located in different states and sometimes different countries. It's very likely they don't have a clue about the products offered by individual branches.

Ask what type of accounts they offer for clients who are trying to build or re-establish credit. Be direct. Tell them what your credit scores are so they can tell you if you qualify before they pull your report. You do not want to incur a hard inquiry if you can avoid it.

If your bank does offer a credit card program, make sure they report to all three credit bureaus every 30 days. This is very important. You'll find that most major banks and credit unions do.

- **A Secured Credit Card Is A Great Option!** If your bank does not have such a program, or does not report to all three credit bureaus every 30 days, then it is time for you to apply for secured credit card. For new credit users, or consumers who have filed for bankruptcy, or have closed all of their credit card accounts, a secured credit card is a very good option.

A secured credit card means that you put up your own money as collateral. It looks and works just like a regular credit card, and is considered a major credit card by the scoring system.

#### **FACT**

The amount of the limit does not matter to the scoring system. A \$500 limit is rated the same as a \$5,000 limit. It's the ratio between the balance and limit that is considered. Point: It is not necessary to deposit more than the minimum amount required—usually \$300.

I have seen credit scores increase by as much as 50-60 points in the first two months of my clients using a secured account. And after managing your credit card account and paying it on time, you can ask for your initial deposit back, at which time that account becomes a regular unsecured account.

#### **WORD OF CAUTION**

Stay away from department store cards and pre-approved offers that you receive in the mail. When trying to rebuild or establish credit, you should apply for a major credit card **ONLY**.

- **Become An Authorized User On A Family Member's or Spouse's Account.** With the new guidelines from FICO as outlined in the new Fair and Accurate Credit Transaction Act, there is a lot of controversy about whether or not authorized user accounts still help establish credit, and my experience proves that they do if you carry the same last name as the credit card owner.

As a true consumer advocate, I strongly advise you to build your own credit, if possible. Doing so will give you power and control, but as a last resort, the authorized user option will help. To maximize the benefit of this option, make sure that the account you are being added to belongs to someone you trust, has **NO** negative history reporting at all, has and keeps a balance under 30% of the limit and is at least 2-3 years old.

#### **WORD OF CAUTION**

Piggy-backing on a stranger's credit history is a mistake and it's fraud. It doesn't work anymore, and it will put you at risk.

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2. If you are in a position of needing to open a couple of credit card accounts, you should either open them within a few days of each other, or at least 60-90 days apart. The credit scoring system is easily manipulated, and if it sees that you are opening multiple credit accounts in a short period of time you will appear to be in financial trouble, and you will be red flagged.
3. Opt out of receiving promotional credit offers. Quality credit is essential to maintaining high credit scores. Opting out of receiving misleading pre-approved offers will not only protect you from receiving unauthorized hard inquiries, but it will also prevent you from applying for low quality, high costing credit desperately or unnecessarily. You can opt out by calling 1(888)5-OPTOUT, 1(888)567-8688.
4. If you have a HELOC showing as a revolving account, write to the credit bureaus and ask them to change it to "Installment" or "Other." If they don't make the change the first time, try again. You will eventually prevail and your credit scores will show the reward immediately.
5. Because most American Express cards are considered open accounts, it's best not to rely on this type of card to establish new credit or to fulfill the requirements of mix of credit as outlined above.
6. Auto financing is a great way to prove your credit worthiness and will help your mix of credit. So, avoid paying cash for a car. If you do not have an auto loan on your profile, and cannot get an auto loan at this time, a co-signed loan is always a good option.
7. Don't close credit card accounts, with the following exceptions: closing a joint account after a divorce; removing your name from an authorized user account that has incurred negative history or has high balance-to-limit ratios; or in the case of identity theft.

### **Step 7: Manage Your Debt Strategically**

*How you manage your credit card balances is one of the best-kept secrets for improving your scores.* There are specific rules that the scoring system uses to rate revolving balances and they are:

- a) If you want your scores to improve, consistently keep your balances on all credit cards under 30% of the available limit on statement date.
- b) If you want to maintain your scores, it's okay to keep the balances on all cards between 30%-49% of the available limit on statement date.
- c) Once your balance goes over 50% of your available limit, you start losing points. According to Fair Isaac & Co., a maxed-out credit card can cost up to 80 points, even if there is a good history on that account.

Logic: Statistics show that individuals who carry a balance of over 50% on revolving accounts month to month, appear to be living off of their credit cards and are more likely to default on their payments. While this rationale does not make sense on low limit credit cards, all accounts are treated the same.

**Statement date** means the date your actual statement is printed or emailed to you. It is not the due date. What most consumers don't realize is that in most instances the balance printed on the statement is the balance that gets reported to the credit bureaus and it is the balance to limit ratio that shows in your score. So make sure that you find out from each of your revolving account creditors what date they print your statement, and make your payment before that date.

With creditors lowering limits on even the most credit-worthy individuals today, managing your credit card balances strategically is more important than ever. Here are some tips to make sure that you manage your limits wisely.

- If you have to charge more than the 30% or 50% of your available limit as defined above, then make sure that you go home and pay that balance down immediately. Don't take any chances.
- If you cannot pay down your credit card balances to 30% or 50% of your available limit as defined above, even though credit card companies are tightening limits, call your credit card companies to **ask for a limit increase** without pulling your credit. You'd be surprised at how many creditors will oblige if you have maintained a good payment history on the account.
- Pay credit card balances across the board. In other words, it will not help your credit scores if you pay down one card at a time. So if you have 3 cards at 80% of their limit, and you cannot pay them down to 30% or 50% of your available limit as defined above all at once, pay them down in equal increments so the balances all decrease at the same rate.
- **DO NOT consolidate your credit card debt** onto one low-interest card UNLESS if after the debt transfer the balance on the new credit card is under 30% or 50% of your available limit as defined above.
- **Don't go over your credit card limits**, even if by just one dollar--doing so could cause you to lose 100 or more points, the result of a double penalty. The system interprets that you cannot hold to a creditor's agreement, and also that you are overextended. Both carry very negative impacts to your scores.
- **Be careful with American Express cards** because they have no available credit limits. As a result, the scoring system will use last month's statement total as your available credit limit. This means that if you spent \$5,000 last month, and then \$6,500 this month, it appears to the system that you are over your limit. The best way to handle AMEX is to make sure that you pay your bill before the statement date, without exception.

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### **Step 8: Don't Fall Through The Cracks!**

If you have an account with a lender or bank that is under the threat of, or has already been sold, merged, closed, make sure that you pay your payments on time and keep records to prove your case.

When large financial institutions go through change, bad things can happen:

- ✓ Statements don't go out.
- ✓ Data gets lost, leading to Identity Theft.
- ✓ If you are in the middle of a refinance, short sale, loan modification, or any transaction that makes escrow responsible for making payment on the prior loan, or if they are in the middle of a corporate change, don't rely on them to pay that last payment on time. Go ahead and make the final payment yourself. The risk you run is a double payment—which will be credited back to you. This outcome is far superior to a default because the company you relied on didn't follow through.

Steps to make sure your credit rating doesn't fall through the cracks:

- Don't wait for your statement. Pay your bills—on time! When you sign the creditor agreement, you agree to pay regardless of whether or not your receive bill in the mail. One 30-day credit card late pay can drop credit scores by 80 points overnight, which can immediately lead to Universal Default on all of your credit card accounts.
- Check your credit reports every quarter for the first year after your bank or creditor has been sold, merged or gone through major change. Per Privacy Rights Clearinghouse (PRC), a non-profit consumer rights organization, roughly 230,441,730 data records containing information such as social security numbers, credit card account numbers, loan account information and other personal information have been compromised in the United States since January of 2005 <sup>(1)</sup>. You want to make sure that you monitor your credit for Identity Theft.
- Pay your mortgage on time, even if you are in escrow, because not only will a mortgage late cost you 80-100 points from your credit scores, but it is almost impossible to have a mortgage late removed. These late pays are the most difficult to recover from. The biggest drawback of mortgage lates is that they can keep you from getting approved for another home loan—in some instances—for up to 24 months.

### **Step 9: What If You Don't Have Credit**

If you do not have a credit history, then it's time to start building one. But the question is, how do you get credit if you don't have credit? Here are some great tips:

- **Start Small.** If you do not have credit, lenders and banks will look to other factors that can help them decide if you are a credit risk or not. Here are the areas that can help you get their attention:
  - a) **Open a checking and savings account at a major bank.** When you have active bank accounts in good standing, you are creating a history of being able to manage money. I advise starting with a major bank for two reasons: 1) After establishing a relationship with the bank, you will want to apply for a credit card or small installment loan. Major banks are more apt to offer special programs for consumers who are trying to establish or rebuild credit; and 2) Major banks report to all three credit bureaus usually every 30 days, which is what you will need to establish credit quickly.
  - b) **Pay your rent and utilities on time.** If you do not have established credit, you are not completely out of luck. Some lenders will pull a report that will show them whether or not consumers pay their rent and utility bills on time. If they like what they see, they may approve you for credit. That is why it is extremely important to pay these day-to-day living expenses on time.
- **Open a Credit Card Account.** Two cards are the ideal number to have in order to maximize your credit scores. However, if you are just starting out, I would suggest having at least one major credit card.
- **Talk to your bank.** Banks, especially during and after a nationwide credit crisis, offer many programs to help their clients build and re-establish credit in the form of revolving and small installment accounts. Go into your bank and speak to a representative directly about your options. Make sure that you are very clear on costs, future adjustments and, of course, interest rates—especially the universal default rate.
- **Join a Credit Union.** A credit union is more willing to consider items other than existing credit accounts when reviewing your application for a credit card or loan, such as your personal and financial information. This makes getting the loan much easier. As outlined above, if you demonstrate your stability by making regular deposits to your credit union accounts, paying your rent and utility bills on time, a credit union is a good option.
- **Keep inquiries to a minimum.** Only apply for accounts that you have a chance of getting. This means avoid applying for platinum cards that you know you don't qualify for, and avoid pre-approved credit card offers that you receive in the mail. Too many inquiries will hurt your credit and your credit scores.
- **Become An Authorized User On A Family Member's or Spouse's Account.** As discussed above, the new guidelines outlined in the new Fair and Accurate Credit Transaction Act have caused a lot of controversy about whether or not authorized user accounts still help establish credit, and my experience proves that they do if you carry the same last name as the credit card owner.

Again, to maximize the benefit of this option, make sure that the account you are being added to belongs to someone you trust, has NO negative history reporting at all, has and keeps a balance under 30% of the limit and is at least 2-3 years old.

It will take 4-6 months before you will begin seeing your credit in the form of reports or credit scores, so it's important—in the meantime—that you keep your new accounts current. Just because new accounts don't show up on a credit report for new credit users, it doesn't mean that you will not suffer a severe score penalty if you pay late.

### **Step 10: Commit To A Maintenance Plan**

Everything we do in life revolves around maintenance. We maintain our cars, our homes, and our yards. We maintain our teeth, our appliances, our investment portfolios, and our health. The same diligence should apply to maintaining your credit. To implement strong credit scores for life, you must initiate and adhere to a solid maintenance plan.

The following tips make it easy for you to start strong and stay strong and see your plan through from initial fixes to long-term maintenance that will help you achieve long-term financial health.

1. **Join an online credit watch program.** A credit watch program will give you continued access to your credit reports and scores, and will also notify you when there is any activity—normal or unusual—on your credit reports with all three credit bureaus. There are two reasons to sign up for a credit watch program:
  - a) When you set out on a take action plan, you need to commit to seeing it through. This is the most difficult part of the credit improvement process. My experience in working with thousands of clients has been proven over and over again that once they begin their action plan, the *not knowing* and *waiting* part can be very unsettling. Many consumers either pay a fortune to pull their credit reports every 30-45 days or they mistakenly have their credit report pulled several times by lenders because they want to know exactly where they stand. Unfortunately, doing this causes hard inquiries, which can bring a consumer's credit scores down by several points. By signing up for an online credit watch program you keep the cost to a minimum, you don't hurt your scores, and you have access to your information all the time.
  - b) The second reason to sign up for a credit watch program is as follows: Most people are extremely busy, or they simply cannot stick with a plan. Think about it, if gyms actually had to provide services to everyone who signed up for membership, those services would be so delayed that most people would either complain and ask for their money back, or just go to a more elite club that is not oversold. The reality is that most people who sign up for membership, don't go. It's the same with credit. Everyone starts out with the best of intentions, but quickly become lackadaisical after the big points have been regained. However, credit management for life requires a commitment to credit maintenance.

If you are going to make the investment, here's what you should look for in a program:

- Access to updated credit reports and credit scores for ALL three credit bureaus every 30 days.
- DAILY monitoring of your credit notifying you if someone tries to access your credit for any reason.
- Notification of any changes in your credit profile or score.
- Identity theft insurance.

The cost of a credit watch program can vary anywhere from \$80 to \$150 per year. Usually, most offer a trial period for 30 to 60 days for a minimal fee. If you are not happy with the service, be sure to cancel your membership before the trial period ends.

**WORD OF CAUTION**

The scores generated by many online vendors are usually unrealistic when it comes to lending. As a result, they are not a good source for determining how a particular type of lender will view you. For a list of online vendors that I recommend, please visit my corporate site at <http://www.creditresourcecorp.com>.

**2. Order your credit reports from the three major bureaus directly every 6-12 months.**

In addition to joining a credit watch program, I advise my clients to pull their credit reports from the three credit bureaus directly as follows:

- If they are active with their credit, I have them check their data at the bureau level every 6 months.
- If they are not applying for credit and have not received any notifications of unusual activity on their credit watch accounts, then I have them check their data at the bureau level once a year.

This is when you want to look for variations in personal identification and demographic information, accounts that don't belong to you, check credit card limits, and open/close status. This is the time to give your credit a full check up.

**3. Take responsibility for keeping records and proof documents.** In our credit scoring system, consumers are guilty until they can prove themselves innocent. The story doesn't matter, and getting an item updated or removed without proof can take months or even years. This is why keeping records, files, proof of payments and creditor agreements is extremely important to maintaining strong credit. It takes only one inaccurate item to drop scores by up to 100 points. If you stay organized with your paperwork, then you can eliminate months of wasted time and frustration in getting those items corrected. Here are some tips:

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- a) **Keep copies of past credit report.** You should try to keep a copy of your credit report from the three credit bureaus on file (electronically or physically) for the past seven years. Frequently clients tell me that a derogatory account is older than the current credit report shows. New collections are re-dated all the time—which will also re-date the debt. When this occurs, an older copy of the report may indicate 1) when the item was actually charged off, which would help verify the real date of last delinquency on the account, and 2) prove that the account has been re-dated.

This is why retaining a copy of an older credit report is extremely useful in proving your case. It can verify the Statute of Limitations and confirm whether or not the 7-Year Reporting Period has actually expired. I define both of these items in great detail in [The Big Score](#).

- b) **Create a file system for online bill payments.** Online bill payments are very convenient. They also require a good deal of trust. When consumers make their bill payments online, there is no guarantee that the creditor will record the payment on time. For this reason, it's important that you develop a system to keep track of online receipts. I advise my clients to take a screenshot of their payment confirmation pages and email it to themselves. Once they receive those emails, they should create a folder in Outlook, or another email program, dedicated to that one creditor. The subject line of the email should be the Creditor Name and Month of Payment.

**Keep a spreadsheet of your open credit accounts.** One of the most common responses I get from a prospective client who has late pays is that he or she “thought” the bill had been paid on time. Then, when asked to track the payment information, all of a sudden it becomes an overwhelming process to contact the bank, look for the cleared checks, and confirm the date the payment was made and what month it was for. Having your open credit account and creditor contact information in one place makes it much easier to be sure you are on top of your payments so that not even one late pay occurs due to oversight.

### **In Conclusion:**

The current credit crunch is hurting a lot of people. The government's big bailout is welcome news for the financial world, but it will give little comfort to individuals. Especially hard hit are those with relatively low credit scores. It's important that you understand the value of credit improvement, and the significant and positive impact it can have on your financial outlook. The Take Action Steps included in this special report can help you get started right now—for better and for good!

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