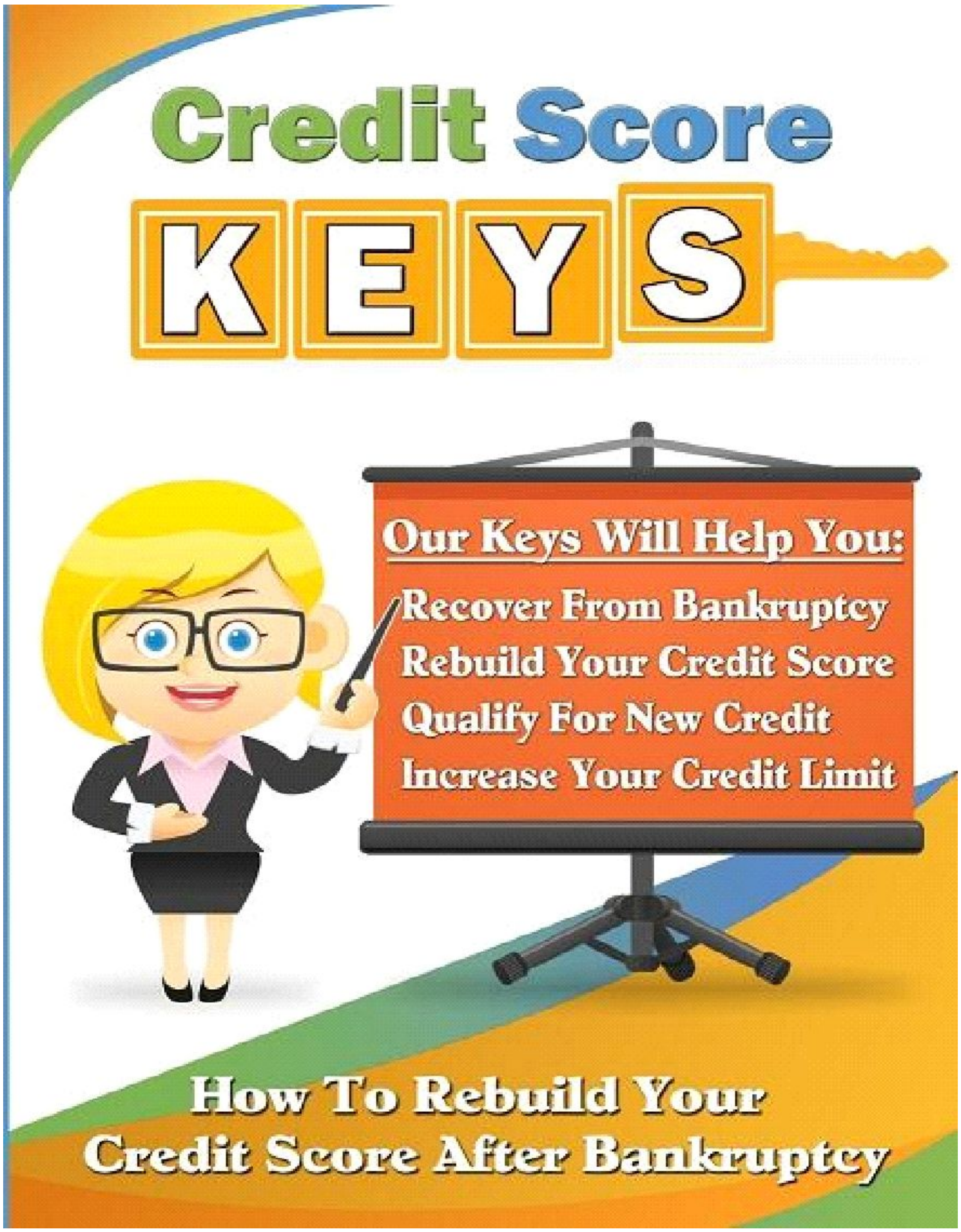

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Introduction

Woah, don't skip this intro, it's worth the couple of minutes. You have already taken the first step in rebuilding your credit score. You have filed and completed your bankruptcy case, or are close to it. Now, it is time to take the next step. Knowledge is power. If you do nothing more than read through this, you will know more about credit and credit scores than probably 99% of the population, knowledge that will pay dividends for the rest of your life. Action brings results. If you take it a step farther, do the simple things we suggest, and actually "play the credit game". Your credit score will, over time, improve dramatically. Do all the things we suggest and likely, in about 24 months, in our experience, your credit score will be as high as 700, and on its way to 750.

Why?

You are reading this because you recognize how vital credit scores are. Your credit score can open or close doors to things you want. Nowadays it doesn't matter how honorable of a person you are because if your credit score isn't XYZ number then you aren't getting that mortgage. It is an injustice, but it is also something that can be solved.

How?

Credit can be confusing, so we want to help break it down, and thus we provide week-by-week instructions in the form of bite-sized chapters to show you the way. For those who prefer to watch and listen we also created a DVD. The DVD is about 3 ½ hours long if you are someone who wants to consume as much as possible and arm yourself with every tool available. The Core Weekly chapters/videos are the essentials for what you need. Both here and there are the Bonus chapters/videos to go above and beyond. The DVDs are like regular movie DVDs and can play on your TV or computer.

Who?

Who am I to talk about this? I am currently a licensed attorney who primarily does consumer debtor bankruptcy law. I found it unacceptable to not be able to answer when a client asked, "How does this affect my credit?" I set out on a quest to find answers. There was often good information about credit or bankruptcy, but not both. A book was merely informational but didn't say, "Do this, then this, and next month do this…oh and don't do this." That was the purpose of this book for you. You will also notice numerous personal financial planning tactics mixed in there as well, because well…that is what I did before law school. The mandatory credit counselling and financial management courses required for bankruptcy are a start, but there is other priceless information for your road ahead. (Bonus Chapter 2 is especially filled with it.)

This book provides educational materials that are meant to provide you with information about finances. It does not guarantee any particular result, and that the results achieved will depend on your efforts and the facts and circumstances of your own particular situation. The information provided is not legal advice, but for general informational purposes only. Nothing here establishes an attorney-client relationship, which is only created through mutual agreement. If you have a legal problem or matter, then you should consult a licensed attorney in your State. If you have a bankruptcy attorney you may want to start there, or they may recommend someone else who you should consult with, which may be an attorney who does FCRA litigation.

What to expect

The book is mostly chronological in order, served similar to a good meal at a restaurant of appetizers, the main course, and dessert. The first 2 chapters are like appetizers. Those starter chapters give some background on essential terms to know and then set the scene in understanding the Bureaus. They are also available for watching at http://creditscorekeys.com/free-videos. They are also a good reference if you spot a new term.

Chapters 3 through 14 are the stars of the show and they are roughly week-by-week explanation and guidance about what you need to do, definitely the main course of your meal. These chapters are designed to be easily accomplished, and divided up to be even more manageable. Then, at the end, are the 4 Bonus Chapters which are like desserts. Everyone loves dessert.

Chapter 1: Most Important Credit Terms

This chapter provides brief explanations for over 30 credit terms necessary to understand credit reporting in general and to lay the foundation for topics discussed in advanced sections.

Credit bureau terms

Credit Bureau - A Credit Bureau is a company that collects and organizes financial information on millions of consumers to sell to other companies or people.

Consumer Credit File - They maintain Consumer credit files, which is a database file just for you, and 200+ million others in the United States. It has perhaps hundreds of pieces of data about personal information, lines of credit you have, and payment history on each.

Credit Report - All of the information in a consumer credit file can be displayed on a Credit Report in a format that is easier to read and understand.

Credit Score - Instead of reading each person's report, for the sake of speed and uniformity a Credit Score is generated. It is the numeric value associated with your credit risk and calculated using a model or equation use. Why do this do this? It is their method of trying to figure out Credit Risk. This is how likely or unlikely you are to pay your bills on time, specifically to determine the likelihood that you will go 90 days or more past due in the subsequent 24 months.

FICO - You have probably heard of FICO (pronounced "Feye-Coh"). It stands for the Fair Isaac Corporation. They are a company that creates equations. Their credit score equation has been the most widely adopted model for scoring. There are over 48 variations on this base model, such as a slightly different version for mortgages, or one for cars. Myfico.com is their website.

Inquiry - Lastly, how does someone see the report? An inquiry is when someone, person or company, "looks" at your credit report. A soft inquiry is when it is looked at for a purpose other than for the application for credit, such as when you look at your own credit report. A hard inquiry is done when you apply for new credit. Hard inquiries show up on your credit report for that bureau for 2 years and impact your FICO score for 1 year.

Negative item terms

Collections - Something that is "in collections" means that a collections department or separate company is now attempting to collect on a past due debt.

Charge-off - A Charge-off is when a debt is delinquent and deemed to be uncollectible. The company can still collect or sell the debt and you may still be liable. Don't rely on that term as thinking you are off the hook, it is mostly an accounting term.

Repossession - A creditor, sometimes through the use of a third party, including a sheriff, goes to retrieve the collateral on a secured debt [example: a few months behind on the car loan the lender may send a tow truck to get back the car.]

Default - Default is when a payment is past the due date, which could be 12:01 A.M. of the next day, but normally refers to when the payment is a few months past due.

Delinquent - Delinquent is similar to being in default, but on the credit report it would show as 30 day, 60 day, 90 day delinquent or more to show how far past due or the status of the account.

Settle - To settle, a debtor and a creditor reach an agreement for the payment of a debt, often for less than the full amount owed.

Public records

Public Record – A public record refers to a section of your credit report about debts that are not private because they originate from public records.

Foreclosure/Deed-in-lieu of foreclosure/Short Sale - First, a foreclosure is the sale of real property or "real estate", typically a house in an attempt to satisfy the debt linked to the property. It is like repossession, but it is for immovable objects. Deeds-in-lieu happen when the owner/borrower voluntarily transfers the deed to the creditor in an effort to avoid the foreclosure process and/or get the property out of their name sooner. Short sales are the sale of the property by the owner for less than what is owed on the debt.

Bankruptcy - Bankruptcy is a procedure under Title 11 of the United States Code. It is a set of Federal laws provided for people or companies to use to pay, decrease, or completely discharge their debts in exchange for full disclosure of their financial situation.

Judgment - Judgments are the results of court litigation where one party wins a monetary award against the other. The judgment is the court order authorizing its collection.

Deficiency Judgment - Deficiency Judgments occur when collateral is used to secure a loan and the collateral is loan, such as a car at an auction after repossession, and if the sale of the collateral does not satisfy all of the debt for that loan and the borrower is still liable then they might be sued for the remainder.

Liens - Liens are encumbrances on property. It means that a debt is attached to or secured by the property.

Tax Liens - Tax Liens (typically from the IRS) attach to effectively all of the property a person has, including house, car, bank accounts, things in your house, and other financial accounts etc.

Debt

Debt - Debt is a sum of money owed to another.

Line of Credit - Line of Credit is an agreement where the lender agrees to lend a certain amount of money and the borrower agrees to repay.

Secured and Unsecured - We talked about secured loans having collateral, which is often something tangible like a car or house, but it can also be money in the bank. Unsecured means the only thing attached to the debt is the borrower's promise to pay and/or legal obligation.

Revolving Debt - Revolving Debt is when you can use and pay off debt without having to reapply for credit, so it goes up and down and is a line of credit that stays open for that use.

Limit - A Limit is the maximum dollar amount available to you on that line of credit

Balance - The Balance is the amount owed on a line of credit at a point in time.

Installment Loans - Lastly, Installment debt, unlike a revolving debt, it can't go up because a person borrows more, it can only be paid down. Excluding interest, fees, and penalties. Examples of this might be a mortgage, car loan , or student loan.

Credit repair

Credit Repair - Credit Repair refers to the steps a person must go through to correct their credit report.

Dispute - Dispute is when a person sends notice to the credit bureau to correct inaccurate information.

Investigation - Investigation is the process of how the credit bureau responds to the dispute.

Verification - Verification is what must be done during an investigation. The bureau must verify that the information is correct, this may mean they turn to the creditor who supplied the information for them to verify.

FCRA - FCRA stands for the Fair Credit Reporting Act, a set of laws about acceptable procedures for maintaining and reporting credit information.

Identity theft

Identity Theft - Identity Theft is when someone uses someone else's information fraudulently for financial gain.

Credit Freeze - A Credit Freeze can be put on a person's credit file to lock the data so no one else can use it. These are often used to prevent identity theft.

Fraud Alert - Fraud Alerts can be placed on a person's credit file if he or she thinks they may have been a victim of identity theft. It can last from 90 days to 7 years.

Credit Monitoring - Credit Monitoring is a service a person can purchase, often month to month, so they can see activity in their credit file.

Account types

Liability - Liability is the legal obligation to pay. A person could offer to pay someone else's debt, but unless they owe it as well, then they could not be forced to pay.

Authorized Users - Authorized Users have permission to use someone else's line of credit, but they do not have the liability. So, they do not have the legal obligation to pay.

Joint - Joint means more than one person is liable.

Cosigner/Co-maker/Guarantor - Cosigner, Co-Maker, and Guarantor are not exactly the same but all result in the following: It means that another person, who also signs, will be jointly liable with someone else and they would have to pay in the event the original person does not.

Chapter 2: Behind the Scenes with the Credit Bureaus

This chapter is to give you a little insight into who the bureaus actually are and how they affect our lives so it covers the basics about how the credit system works.

The bureaus

First, the bureaus you've heard about are Equifax, Experian, Transunion, and Annovis. Who are they? What do they do? Why do they have my information? How are they going to use it? They are the 4 largest credit bureaus. Typically, only the first 3 are listed and they are the most well-known.

They are "for profit" companies. Most people assume they are either a government entity or at least a nonprofit company. Nope. They get paid several different ways. They are paid by creditors to report to them, paid for reports by creditors and people, they collect for credit monitoring services, and charge for their educational scores etcetera. This will be described more ahead.

If you are over 18 years old and used anything besides cash then there is a good chance that you, like millions of other Americans, have a file with one or all of the bureaus.

Your file starts with personally identifiable information such as name, aliases, social security number, birthday, address. Then any lines of credit you have and their payment history could be in there, plus any public records related to collections such as foreclosures. It is your financial résumé or report card.

Your score

The information in your file is used to generate a report or used to calculate a new score upon every request. So, a score generated in the afternoon could be different than the one in the morning if something updated in your report during the day.

Also, there is no single credit scoring method. There are several models to calculate scores. FICO is the leading model used by lenders, but other models have been trying to compete against FICO, which still has a virtual monopoly.

Under federal law you have the right to a copy of each of your credit reports from the major bureaus each year. Since scores are not part of your report you do not receive a score with that request. There is NO requirement for the credit bureaus to provide consumers with free credit scores, least of all a FICO score because that model is the proprietary, secret calculation owned by the Fair Isaac Corporation. It is guarded as much as Coke's formula or Google's search algorithm.

Your report

Your credit report is a snapshot at a specific point in time. You don't have a "report file" in the credit bureau database. Each time someone asks for your credit score, a score is generated based on the information in their database that is linked to you at that moment in time.

When you open a credit card then the company sends the information to the credit bureaus…such as credit limit, balance each month, and then the status of the payments

The normal length of time that financial information stays on your report is 7 years. There are exceptions though, such as a judgment staying on there for 10 years.

Accuracy is everything. The bureaus have a duty to verify what is on your report if you start a dispute. Remember, it is YOUR information in there. They are making money off of you by selling your information. You are more of the product than the customer. They have no obligation to make sure the information being reported is accurate, but they DO have to investigate if you tell them something isn't accurate.

FICO

At the time of this writing there were 49 Commercially Available FICO® Credit Bureau Based Risk Models. These are scaled differently but will fall within 150-950 range. Each of the classic FICO risk scores is able to be semi-customized with industry specific adjustors which are commonly referred to as FICO "Industry Option" scores. These scores use the generic FICO score as the base and then adjust that score, up or down, based on the consumer's risk for a specific loan type. There are five industry option scoring models; FICO Mortgage, FICO Auto, FICO Bankcard, FICO Installment Loan, and FICO Personal Finance.

Calculations

After this chapter, take some time to explore myfico.com which was launched in 2001. There you will see information such as what goes into a credit score. Some parts of your report have more weight than others on your score. The basic score value percentages are that 35% relates to payment history, 30% relates to credit utilization, 15% relates to length of credit history, 10%

relates to new credit or inquiries, and 10% relates to credit mix or types of credit on your report. Later, there are chapters dedicated to each factor.

What is “good” credit? Generally, 700+ is considered good. Then there are the 720 or 750 breakpoints where you may be considered to be in the best credit group. This group tends to get the best pre-approved letters for credit cards with 0% rates for an extended period of time, lower payments on cars, and mortgages near the current industry low.

Chapter 3: Debt Relief: Set yourself up for success

You may be wondering why “Debt Relief” is at the start of the core chapters. It is because it is the most important thing for your credit. Everything else builds on this foundation and it is necessary for your long-term success.

Life happens

Bad things beyond our control will happen and cause financial hardship. Someone got sick, hours were cut, lost job, moving, separation, divorce, problems with the car or house, home values, rising food and gas prices taking more and more of the budget. There are many more reasons than I can list and normally it is the combination of several that makes the situation become intolerable. It has been a hard road for you.

How bankruptcy can help your credit score

With the instability your score was probably suffering each month. Your score WILL SUFFER unless you can put yourself in a position to pay your bills on time. Bankruptcy is one of the most powerful ways to achieve this. It is built to give good, hard working people a chance at a fresh start and to help them get out from under all of the pressure of the creditors. This puts you in control again, so you move forward in a way to rebuild your score.

How does it do it? Bankruptcy helps get rid of debts you can’t afford, so you can get back to focusing on the bills you can afford.

First, it allows you to discharge unsecured debt and you have the option of surrendering secured debt such as a high car or house payment that you can’t afford now.

Certainly, there can be debts that are not discharged, most commonly, recent income taxes or student loans, but hopefully you can get rid of enough of the other payments for it to be manageable. If you are in a Chapter 13 plan payment right now then the monthly payment is based on your income, necessary expenses, secured debt you are keeping, and the other debts you have to pay.

What affects a positive credit score?

There are very few things that have an immediate, substantial effect on your score. Don't worry we will cover these as well, but the primary thing for the long-term is those monthly payments on time.

So, here's the plan. No more late payments. With no more late payments, you have no more negative information showing up as 30 days, 60 days, or 90 days late. Without being late then nothing should be going to collections, no judgments, no liens. Those negative items will set you back. So we are going to figure out a way to put you in a position to avoid them from here forward.

Remember, a credit score is simply a calculation of the risk to use past behavior to predict whether or not you are going to be late on a debt. The goal is to start seeding in that positive information every month.

Using what you have

I am going to try to keep this simple, but it is really specific to each person. If you did a chapter 7 and reaffirmed a car or house then you will need to stay current and be able to stay current on those items before doing anything more advanced. The good news is that they should continue to report to the credit bureaus like they have been if the Chapter 7 is over and done. Also, they count toward you having an installment loan in place, which is vital to your credit mix, which we will cover later.

If you are in a Chapter 13 plan then you will want to make your plan payments to the Trustee so they can make timely payments to your creditors. This part varies wildly across the United States because jurisdictions differ on what must be inside a plan and what can be kept outside. If you have something being paid on the outside then it will need to remain current as well.

It could be a cosigned debt that the cosigner is making payment on instead of you. Either that person needs to have paid on time each month or you need to start working on a plan to help them get it refinanced and out of your name.

Non-filers

Sometimes a husband or wife will not file bankruptcy together. Finances in the household may be separate and the other did not have significant debt or other circumstances to justify it. If you both filed then things are probably pretty simple because everything got included and handled all at once.

If your spouse did not file, then you might be able to use that to your advantage as well. Do they have a line of credit with a long history of no late payments? If so, then you may be able to leverage that account and have it added to your credit report. This isn't something to do immediately.

There is more benefit in waiting, researching, finding the right line of credit and doing it correctly. Also, within a couple weeks, specifically chapter 8 "Until Debt Do We Part", we will cover additional options so you can choose the best for you.

Early release

If you already filed, then you have this debt problem solved and you can skip ahead to the next chapter. If you currently have no debt then you can move on too. In later chapters we will cover strategies to safeguard yourself and make sure you stay debt free.

Non-bankruptcy alternatives

For these solutions, we cannot advise you what will be best for your situation. The purpose here is to educate and point out danger to your credit and your wallet. You have every right and don't need a company to settle debts for you. You can negotiate these yourself. The problems with doing it yourself are the following: 1) it can be very time consuming, 2) you have to talk with all those creditors on at least a weekly basis and it can be unpleasant to put it mildly, 3) you need the money to do it. You need enough cash to settle the debt, but not tell them how much you really have because let's be honest, they will want every cent of it. 4) what if you settle three debts out of the five? Will those last two still sue you, garnish your wages, or otherwise force you to eventually still have to file bankruptcy. The biggest risk here is all the good money you sent to the other three creditors to settle with has been spent. Those debts may have been dischargeable as well and so the money wasted. 5) don't give them access to your bank accounts. 6) get it in writing and make sure your credit report updates according to the agreement. 7) I can't even cover everything that might come up. If you want to do it yourself then check out Nolo.com for their print and eBooks or free articles to avoid the traps. Lastly, please do not raid your retirement. You need that money later still, right? Get some financial counsel on this option. There are grave tax consequences. Again, there is the risk and regret of using money that is protected in a bankruptcy to throw at dischargeable debt.

Using a third party

If you are looking into debt settlement companies, then you want to make 100% sure it is legitimate. The plan with them was to have you send payments to them every month for a while until they build up a treasure chest that would be used to settle your debts. Things to avoid would be upfront fees and them taking a percentage based on the amount of debt instead of number of accounts.

A problem for your credit is that during those months no creditors are being paid. Maybe it is true that the creditors will not negotiate with you until you are “X” number of months behind, but they are still reporting to your credit. So, doesn’t that mean you can expect 30, 60, 90 or more days late flags on those accounts?

If you want to pay down your debt and you can afford it, then great. Normally, the strategy to save you the most money is to attack the debt with the highest interest rate first with extra money every month while paying minimums on others. When that debt is gone, then go after the next highest interest rate. Rinse and repeat.

The strategy varies for credit score through. As we will cover in more detail in chapter 9 about utilization, you need to pay down debts that are closest to their limits. I am primarily referring to revolving debt though. Paying most of a large student loan, car, or much less a mortgage in a short period of time is infeasible for most. Also, the effect on your credit of paying them down is minor. Sad, but true. So, for example, if the limit on a credit card is $3000 and the balance is $2500 then that is your priority until you get the balance down to at least half or better 30%. The goal is to get down under 10% or paid off on everything. You don’t need to carry a balance on your revolving debt each month to improve your credit.

Chapter 4: Embrace Your Credit

If you have had recent financial hardship, then the idea of using a credit again can be scary. We are going to cover how to use it without creating debt. Using credit as a Tool changes your relationship with credit.

Credit, not debt

You may have a very real fear of getting into debt again, so let's address it. It is kind of like the fear of getting behind the wheel again after a bad car accident, but this is going to be like mastering defensive driving to prevent future accidents. The following is not about creating debt, but instead coming up with a strategy to use credit to your advantage as a way to avoid debt.

Negative and neutral

Let's imagine what your credit report would look like 2 years from now if you did nothing. When you apply for credit and they see the following: There is no activity for two years, it is just blank. You haven't shown any positive use of credit for quite some time. No credit is actually worse than a "neutral" mark on your credit because you are an unknown. It would be as if you had to hire an assistant for your job and they turned in a résumé that just had their name and address on it with no work history on it at all. You would have no idea what to expect from them.

Your credit score, using the primary lending one from FICO, grabs information from your credit file. So, 7+ years of information is in there for it to use. It is an equation to calculate your score and puts the most weight on the past 2 years . It makes sense. Recent behavior is the most predictive of future behavior. For example, are you the same person you were 7 years ago? Probably not. What about 2 years ago? Getting closer. What about last month? So, FICO puts a lot of emphasis on those past 2 years and if they are blank, it will not merely treat it as neutral. Remember, unknowns are potential risks.

Stack the deck

You have to use your credit to rebuild it. There must be new, good lines of credit to lay the foundation over the next couple of years. Let's use the previous example again, but this time you apply for credit and your credit report has 3 lines of revolving credit. Every month was paid current. Seventy two + paid on time entries filling up the most heavily scored section of your credit report. Again, scoring models are making sense. If you saw a student's report card and it was C's & D's way back when but the past 2 years were just straight A's, you would say, "this is a straight A person now."

How are we going to do this? We are going to change how you use credit. Credit is a tool. You pick it up. You use it for a specific job. You put it down. It is not going to be an open-ended ticket for whatever purchase. We are going to assign it to a specific purpose.

Locate your budget

We need to find an expense that occurs every month. It doesn't need to be large. The amount should not vary wildly. If your expenses have changed within the past few months, then doing up a new budget is a good idea. Otherwise, if you have a copy of your bankruptcy petition, then go just over half way through it to find Schedule J. It should have all of your expenses from the day you filed your case. Update it as needed.

Look at your budget…find a few categories that are right for you. Here are a few examples that might suit you [gas for car, a utility that allows payment by credit card without extra fee, groceries.] I'll use gas as an example. I drive to work 5 days a week. It isn't too far so I fill up my car about every 2 weeks. With current gas prices it ends up being about $120 per month. I used a secured credit card from my bank with a limit of $500. So, every month a $120 went on the card. I marked my google calendar for a week before the bill was due. I would also get an email from my bank with my e-statement.

When I got the bill I would log in to my bank account, transfer money from my checking account to pay it off. Done. It was just like what I had done for years with my debit card, except I had the extra step of logging in to pay it off, but the rewards were HUGE. All of 2 payments later, I get an offer for an unsecured card from that same lending company.

There are lots of ways to make it work, you just have to sit down with the budget to find an expense to meet the criteria. Small items are better to start with. We'll cover it in more detail but whatever line of credit you use, then you really want to stay under 30% of the limit. So, for a $300 card would mean less than $90 each month on it. We'll talk in much more detail about this later in Chapter 9 about Utilization.

For the wary

If you are not comfortable with having a credit card back in your wallet or purse yet, then that is certainly ok. When you look at your budget try to find an expense that can be paid from home.

I'm not talking about online shopping, fun as it is, but a bill you get each month that allows online or over-the-phone payment with a credit card that does not have an extra fee for doing so. I started looking at the back of some of my utility bills and I was pleasantly surprised to see a few that accepted online credit card payments without extra fee. So, find a cable, power, water, or gas bill and check.

Ideally, and to keep yourself free from temptation, find a bill you can pay…that you have to pay each month like a cell phone. Make the first payment online with that credit card. Have the website save the information for later, if possible. Then put that card away. Put it with your important documents, safe, or even in a plastic bag with some water and freeze it…whatever it takes to make you feel comfortable. Then, next month you get the cell phone bill you login and pay it with the card that is saved in the system. So, the card doesn't get used for anything else.

Over time, and as your comfort level and credit limits increase, roughly at the 6 month or 1 year mark, then you may be able to use larger, fixed monthly expenses. Because remember, 3 active cards will be the goal.

Post-petition debt

I can't emphasize enough that these need to be normal, regular, and necessary expenses that you can afford. The reason is, while bankruptcy included much of the existing debt, it was all pre-petition (from before the day you filed). You are responsible for any post-petition debt. It cannot be included in that bankruptcy.

So, dates are important. Here is a bonus tip on this. Debt is based on when it was created, not when the bill arrived. If you filed for bankruptcy in June and it was discharged in September, but you then get a bill from your doctor for labs or something else that always seems to take months…then you need to look at when that happened. Because if that doctor visit was from May, then maybe it was Pre-petition and dischargeable. Call your attorney before you pay it.

Chapter 5: Drive Your Score

There is an overwhelming number of credit cards out there, but which one is right for you in building your credit? This chapter will show you how to spot the winners and get your building process running. To use credit as a tool, we need the right tools. This chapter will focus on what to look for in credit cards from now on, which ones to avoid, and how to start the process. The goal is to get up-and-running quickly so we can begin to show activity, because having activity on your credit report is a **must** to driving to a better credit score.

Review and goals

A credit score roughly measures how likely you are to go 90 days late on an account in the next 24 months. Your credit report is made up of items that are either neutral or negative. Once you have your payments back on track, it's important to offset some of that older negative history with some additional neutrals. Increasing your neutral items at the same time the negative information gets older can really speed up the time it takes for your credit score to recover.

Big names and credit mix

When calculating your credit score, FICO likes to see some diversity. So, having a good blend of several types of credit shows that you are credit savvy and can effectively manage your credit. This means that after a couple of years the entire picture should look like the following: Having 3 to 5 revolving accounts, 1 or 2 installment accounts (which could be a vehicle loan or student loan), 1 or 2 real estate accounts, and NO personal loans, NO collections, and NO judgments or public records. That is what the credit report should look like for someone in the 800's. We are going to use them as a model to follow.

Minimum Card Requirements

We are going to have specific minimum requirements for credit cards from here forward. Some things are just nice to have, but some are a must.

First, the credit card must report to all 3 of the main credit bureaus. When your payment is received each month, the credit card company needs to report it as being paid at Equifax, Experian, and Transunion. The balance at the time of billing needs to be shown and correct.

Also, the credit limit should be correct. If you have a $500 limit, then that is at least what it shows. If it shows a lower limit then that is not ok.

Second, no annual fee is best unless you would rather pay an extra $39 or so each year. Some credit cards will waive this fee, but you must ask to have it waived. If you must have a card with an annual fee, then mark the date when it will be due next year. Call a month before it is due and threaten to cancel the card. They should counter with the usual, "What can we do to make you stay?" You should tell them to stop the annual fee going forward, because you have been a good customer all year and paid on time and the annual fee going forward is keeping you from wanting their card. Also, be wary, when you have an annual fee they charge to the card. So, if you had an available credit of $300 and a $40 annual fee hits, then the available credit is reduced to $260 and that $40 balance will be on the next bill.

Other Features

Grace period used to be very important, but legislation has required a 20-day minimum, which is fair enough, so anything greater is just a bonus. For you, from now on, the interest rate should not matter as much. Why? Because you aren't going to pay it because you are going to pay off the statement balance (not necessarily the current balance, just the statement balance). No balance carried from the last statement means no interest. Getting something low'ish is still nice. 15% is still better than 25% just in case. So, same for offers with 0% for x number of months. It shouldn't be necessary, and it can make carrying that balance too tempting.

We don't have the plan of putting a bunch of money on the card each month to really see a big benefit from these, but every bit can help I guess. So, cash-back of 3% on gas is still like 3% free.

Lastly, one fairly important one for the long-run is that the credit card should allow for future credit limit increases. I had to learn this the hard way so I want to save you the frustration. Credit limit increase is something you would request from every revolving credit card every 6 months or year going forward, it depends on the company. And, "No," having higher limits does not lower your score...it should help your score. We'll cover this more in chapter 9 about Utilization. This, like the annual fee, is one of those things that only a human on the other end of a phone call at the company can answer for you.

Retail Cards: Ambushed at the check-out register

Adding the store card is not as ideal as a regular Visa or MasterCard simply because the credit limits are usually not very high. However, if the credit limit is high enough, then your overall utilization can be improved. Regardless of the limit, remember NOT to max out your cards. You are working to show FICO that you're fiscally responsible. (Using all your available credit and not being able to pay most of it off before it is due, is not the way to show that you've turned over a new leaf.)

Retail or store cards are not the best option to start with because of the following reasons. While the 10% off that purchase is nice, for that day, but you have to walk before you can run. Remember, you are using credit as a tool so the store cards needs to have all of the following: 1) reports to all 3 bureaus, 2) be a store you use frequently - at least once a month/quarter, 3) not have an annual fee if possible or request it be waived (this is generally not possible when standing in the checkout line but you could call later and threaten to cancel it, but it is still better to request it from the start and if they say no then go on to the next. These cards typically have low limits if you can get approved AND they result in a hard inquiry.

Store cards may not fit your "As a tool category well" unless it is a store that has a wide variety of goods (e.g. Target, Walmart, BJ's, Costco, Sam's Club). There is a good chance of getting a rejection if you try to start with those, especially if it is American Express.

Charge Cards

For now, it is probably better to avoid cards like American Express and other "Charge Cards". The reason is because they have no reported credit limit, and it's unlikely you will be approved until your credit profile is stronger. Certainly, there is a limit in there somewhere and it will stop working during the month with enough money charged to it. It is not a blank check.

The problem with charge cards is that FICO uses your credit limits when it calculates your score. If you have a card with no limit, then it is forced to use your highest balance. This is not good for your score. There is a work-around but it is complicated and better left until months later when you can coordinate it. We'll cover how to do it later, but for now let's focus on the better options for building.

Pre-approved

Odds are, if you had a certain credit card debt discharged with your bankruptcy , let's call it "Card X", then one of the first offers for new credit (even before your bankruptcy is done) may be from Card X.

Why? They know you can't file bankruptcy again for years. They know you liked credit and want credit again. If you were to create new debt, then you would be responsible and have to pay it. And like an ex-boyfriend or girlfriend, they want to get back together, because they know that at some point in the past you liked them.

If you get pre-approved offers, then take the best one, apply, see if you get it before trying for the next. Of course, the pre-approved card offer needs to meet the criteria discussed earlier above.

Remember, they cannot collect on the old debt if it was discharged. If they are telling you otherwise then do two things, 1) don't deal with them yet until this shady business is resolved, 2) get in touch with your attorney to confirm because if it was discharged then they should be under a discharge injunction, which is a permanent restraining order from a judge that they can never even ATTEMPT to collect. If they are in violation, then you can explore remedies with your attorney. For example, your case could be reopened to sue THEM for money. Judges dislike when their orders are willfully ignored by creditors.

Inquiries

When you find the regular credit card to apply for, then do it in moderation. Don't apply for 3 or more cards in a month, because you risk getting flagged and denied for all of them. So, set up a plan of attack. Sit down when you have some quiet time and complete the applications. For many, you will get immediate approval or denial.

If you want to apply for more than one, then you need to decide whether to try for the harder one first or go for the "sure thing." Most pre-approvals fall under the "sure thing" category, because the company gets a list of thousands of people with credit scores in your score range. They have already made the decision to accept you for "something." Your interest rate and credit limit may not be certain until after application. They don't lock the rate and don't absolutely guarantee approval, because it's possible your score may have dropped below the acceptable range. Remember that credit scores are fluid and can change day-by-day.

The Secured Option

In the previous chapter I mentioned using a secured credit card as a way to rebuild credit. This is another easy option you can try by going to your local bank branch.

First, as a reminder, a secured credit card is created when the bank sets aside or freezes a specific amount of money. You choose, $100, $300, $500 or more money to be set aside as a requirement in case you default. You can still have other money in there, for example $1000 in your savings account with $500 frozen to "secure" the card. When you get a credit card with a $500 or more line of credit the line of credit should match or exceed the amount of the frozen funds.

Each month you use the secured card just like a regular credit card. You then get a bill. You log into your bank account. You transfer money from your checking account to pay off the credit card and voila, you are done. You could still pay using the mail, but why risk the chance of being late and having to pay for stamps?

Like we have already covered, the banker should be able to tell you about annual fees, and the card needs to report to all 3 bureaus. Also, and this will depend on your bank's policy, there really should not be a credit check. If the bank is secured dollar-for-dollar by frozen funds then where is the credit risk? If you risk default, then they take your frozen funds.

Two things can happen later, first you can also ask if the secured card ever becomes an unsecured card. It may be the lender's policy to unfreeze the money in the savings account and disconnect the card from those funds. It transforms into an unsecured credit card. 6 months or a year are common. Also, after a few payments on time you may also receive an offer for a low limit unsecured card from that lender like I did.

Head Start

We have options for you to get a head start on this process. Revolving credit is critical to rebuilding your credit score. It impacts almost every category of the credit score calculation. Most of all, it impacts your credit utilization which is about 30% of your credit score. With NO revolving credit, you can't earn most of the points from this category. Just remember that the key to revolving credit is showing that you can manage it! Keep your balance below 30% of the credit limit.

Applying for these cards is simple. You can apply right online, and you will be approved if your budget ratio is sufficient and it shows you can make the payment. Do not worry about being turned down, even if you have just filed bankruptcy, and even if your credit score is extremely low.

These cards generally do not result in a hard inquiry on your credit report. First Progress reports to all 3 bureaus, and Hutton Chase only reports to Equifax. There is no income verification, and almost everyone will be approved. Just remember that you must have more income than expenses when you complete the online application. With First Progress, you can increase your credit limit over time; however, you cannot add an additional deposit during the first 6 months, so it's important to put as much as possible with the initial deposit.

Both Hutton Chase and First Progress are designed to help you rebuild your score. If you apply for one or both of these, you can still apply for others that do hard inquiries. Ideally, you want to have 3-5 open lines of revolving credit. We recommend waiting until you have begun the credit repair process before trying to apply for additional accounts. Underwriting guidelines, even for secured cards, have become quite rigid. Approvals are more difficult to come by than they used to be, and we don’t want you to lower your score with a hard inquiry before you are in a position to be approved.

Chapter 6: Don't ignore letters from creditors

This chapter walks you through how to handle bills after your bankruptcy, what to say to creditors who call about debt you no longer owe, and how to protect the biggest chunk of your credit score.

Preventing negative payment history

Payment History is 35% of your FICO score. The last couple of chapters talked about adding positive information each month to your payment history by paying new credit on time. The other side of the coin is to keep negative information from showing up in the future. Negative information in payment history is of course late payments and collections. You will be paying your new lines of credit on time, so they are not the issue we need to cover. We need to keep other debts from going to collections.

Example of how a bill can end up on your credit

When you go to get a cell phone they may pull your credit to see if they are going to let you have a new phone and get it through a monthly plan with them as part of your minutes bill. So, for this example, it is not a prepaid phone or something like that but the very common 1 or 2 year contract for service.

What happens if you don't pay for a couple months? The phone gets disconnected. Month after month they send you bills and try to collect the balance. This is probably not on your credit though. The same goes for many utilities companies. They pull your credit but never report to your credit to help it. After months of not paying there are no 30, 60, or 90 days late which, if it had been a credit card, would smack your credit score for a substantial loss of points.

Back to our phone example. The cell phone bill now goes 180 days late. The company charges it off. It is not forgiven, charge-offs are an accounting procedure where they move your account to the "bad debt" pile. The bad debts may be sold to a debt collector for pennies on the dollar. Now your credit score is at serious risk. The debt collector may report the debt to the credit bureaus and your score will drop.

Decrease

This example shows that if you have a budget crisis, then for your credit score it would be better to let something that does not report to the credit bureau be late instead of getting a 30 day late on a credit card, car, personal loan, or house. Late, but not to let it get to the point where it goes to collections. Please refer to Bonus Chapter 2 about Financial Planning for Emergencies for detailed tips on how to set yourself up for success to overcome unexpected money problems.

So, bankruptcy may have eliminated a majority of your debt, but you need to pay special attention to the bills that are left. After the filing of a bankruptcy case the calls and letters should decrease significantly. All attempts to collect the debts that were included in your bankruptcy are forbidden by the automatic stay (the judge's restraining order). After a case completes with a discharge then it becomes a permanent restraining order against attempts to collect discharged debt.

So, your phone should be ringing a lot less. No more dreading when you hear it ring because it is THAT certain creditor. You can also enjoy going to the mailbox to get mail again. You should not have any more FINAL NOTICE and other nasty collection letters.

Getting the Mail

Going forward, make it a habit to open every single piece of mail and respond immediately with a call to resolve any issues. Ignorance is not bliss here, the letters must be opened. If you have new medical bills after your bankruptcy or new accounts have been turned over to collections, you want to resolve those issues before a collection reports on your credit.

Sometimes things fall through the cracks, such as a doctor's office might forget to send you a bill for a missed payment and then later turn it over to collection. It happened to me. If you are proactive and open every letter, then you could catch the collection early before it impacts your credit score.

Remember that the collection companies must give you 30 days to respond before they can report a new negative item on your report. This 30 days is worthless if you never open the letter that gives you the notice!

Answering the Phone

You should not need to screen your calls or let them go to voicemail. You want to catch calls and resolve issues as soon as possible. You will get calls about ongoing bills such as utilities or for debt that survived your bankruptcy like student loans, a home, or car you are paying on.

If you get a call from a creditor you don't think you owe because your bankruptcy got rid of the debt then do the following: 1) Verify who you are for their records, 2) tell them you filed Chapter 7 or Chapter 13 bankruptcy, when you filed, which State, give them your bankruptcy case number, 3) then give them your attorney's contact information. 4) keep the conversation short, don't keep talking to them, end the call. If you are polite then say you don't think you owe this debt, but you are going to check it out and get back to them. 5) check your bankruptcy petition to see if they were listed in your case and/or call your attorney for clarification, especially if the debt may have been nondischargeable like student loans.

Your attorney may have a procedure to handle this situation to deal with that creditor. If you really don't owe it then the creditor cannot attempt to collect, needs to leave you alone, and puts himself at risk of your attorney reopening your case to sue them for trying to collect. Use the last steps to check the debt or confirm with your attorney if the collection is a letter instead of a phone call. Wouldn't you hate to pay a discharged bill by accident? For a lot more information on the subject of unenforceable debt read the Bonus Chapter 4 about Zombie Debt.

Assignment

Open every piece of mail. Attack small issues before they become big problems. Follow the steps in correctly handling creditor calls or letters for debt you do not owe. Read Bonus Chapter 2 about Emergency Funds and Bonus Chapter 4 about Zombie Debt for more information related to this subject.

I hope this chapter about why you should open every piece of mail helps. So you can be on notice of issues and in a position to take care of them so your road forward will be smooth. You will be able to get the most of that 35% of your score first by paying as agreed on new lines of credit but protecting the rest of the points by preventing new debts from sneaking by and going to collections.

Chapter 7: Timeliness

The previous chapter went over how important it is to be proactive in checking your mail and solving problems early. This chapter is a follow-up on that but will cover options and strategies, you can choose from and implement, to ensure that you never have a late payment again. Also, we will cover a couple things you should not do and how to recover from a mistake.

Why

Remember, payment history is the biggest chunk of your FICO score with a whopping 35%. The previous chapter discussed the benefits of being diligent in reacting to letters from creditors. The focus now is about coming up with a system so that no bill slips through the cracks and ends up being late. I hate paying bills. It is annoying, and something no one looks forward to. I found a few options to put some of it on automatic and overall take less time.

Pay early

Certainly, we have really emphasized how crucial it is to make the payment on time, but don't overdo it. Do not pay credit cards too early. What is too early? It means you pay it before a bill has been posted. So, you must wait for the bill. I knew someone who would use their card for gas and then pay it off that night. You could still benefit from miles or cash back, but you lose the benefit of the 20 day grace period before you have to pay. The biggest risk for you paying too soon is you need some balance on there for when it gets reported from the credit card company to the credit bureau. If there is no balance then what is there to report? This does not mean to carry a balance over to the next month though. That would result in paying interest on that amount.

Your schedule

The problems with bills, other than the fact you have to pay them, is that they arrive spread out through the month. It increases the chance of something being missed, it is overwhelming at times, and it takes more of your time.

When a bill arrives, we look at when it is due, then put it aside and hope to remember to pick it up and pay it days before it is due. This doesn't always work. One strategy is to pay each bill the day you get it. That way it is done, and basically no chance it will be late.

Most of us get home from work, grab the mail, and drop it on the counter. You are tired. You are hungry. The last thing you want to do is deal with bills. Maybe it does fit your schedule if you have 15 minutes in the morning or later at night that you can set aside to knock them out.

Attacking a group of bills together

An alternate strategy is to make a spot in your house for those bills to go. As you get the mail during the week you can sort it and then place any bills into a "Saturday" or "Sunday" stack. I have found that 10am on Saturday works best for me. I have the right amount of time to wake up, make coffee, feed the kids, lumber over to the room with my stack of bills and just knock it out. 30 minutes later or less and everything is done. All of those bills go over to the "paid" pile. Also, even if a bill came in on Monday then I still have plenty of time before it is late since anything from that stack to be mailed goes out with the Saturday mail. Certainly, you don't want to go 2 weeks, so if you have plans on your set day then you need to mark your calendar for a couple days before or after. Also, over the past few years I have gravitated completely toward paying things online by logging into their website to pay there. My last two bills I could only pay by check I actually solved using my credit union's BillPay.

Keeping track

The last option, which should only be reserved for those who need to stretch their money to certain times of the month due to when you get paid, requires you to be very good with a calendar. When the bill comes in, you need to put it somewhere you can find it, like the designated spot we just mentioned. You need to do something else, look at when it is due and how long do you have before it is due. Are you sending it in the mail or paying it online? Paying it online should show the next business day or so, whereas mail can take a week to make it there and be processed.

For example, a secured credit card is due the 28th and you will be paying it online. Then when the bill arrives you mark the 25th to log into your bank account to transfer the money to pay the bill. You really need to be one of those people that looks at and uses their day planner calendar every day no matter what.

If you are more tech savvy then there are some other options to keep track of it all. I prefer Google Calendar. When I get a bill, let's say Wednesday, then I mark that I got it on today, and then add a line to my Saturday 10am spot to pay this bill as well. Several of my bills don't come in the mail, but in email as reminders. So, Saturday could come and I only have 3 bills in the "needs to be paid" stack, but some others are due, so my calendar shows the other 2 bills I need to pay online.

More Methods

The best thing I ever did with my horrible student loan was put it on autodraft. It is set up to be paid after my work paydays. It gets drafted automatically. I don't need to deal with the hassle of it and I am happy.

Historically, I have not used auto draft or autopay since 1998 when my Sprint bill was wrong and my account got drafted for a few hundred dollars. With that in mind, I and you, should be a little selective about which bills to put on auto draft.

It may be better to limit it to things that do not fluctuate month to month, are important to not miss, and that will be correct and consistent. Examples, mortgage, student loans, vehicle loans, and maybe certain utilities. I am fine paying my cable bills with autopay, but power and gas I still prefer to see the bill in my hand so I can check it.

I said autodraft and autopay (BillPay), but they are different, sorry about that. Let me clear it up. Drafts are initiated by the creditor. Autopay may be initiated by you. You can have your bank set up to send payment on a certain date for a certain amount. Remember, sometimes the automatic payment could be via a credit card that you are keeping active.

Oops. I missed a payment.

For the last topic on this subject, an important one to discuss briefly. What do you do if you miss a payment? If you are a couple days late on something like a mortgage or credit card then you may get smacked with a late fee to the tune of 29 dollars or more. Sometimes you can get that waived, it is worth a try, and 29 dollars. But if you are only a few days late then it should not show poorly on your credit. They can't report it as 30 days late until it is 30 days late.

If that does happen though it is time to give them a call and fall on your sword. Be humble, explain. First, see if they will waive it just because you love them and they love you. I say this a little tongue-in-cheek, but it is worth a shot and sometimes it works. Hey, you catch more flies with honey than vinegar.

Ok, if that doesn't work then ask them what you can do to get the late payment waived. Example, some credit card companies have had the policy of waiving a late payment after 6 months of on time payments afterwards. Ask. If they agree then mark your calendar 6 months out. In those 6 months your score will be down quite a bit, but getting the late payment then removed it will be back where it should be.

If the first person says they can't do anything, then politely as you can be, ask them what they would do if they were you or who you can talk to, perhaps the next person up the chain like their manager or another department to see if there are options available. It is a little awkward, but your score is worth it.

Assignment

Do not pay a credit card debt all the way off before you get a bill. Choose which method works best for you, 1) paying each bill the day it arrives, 2) lumping a group together to pay Saturday or Sunday, or 3) using a detailed calendar to pay bills later. Consider auto draft and autopay for certain bills to make sure the important ones are taken care of. If you missed a payment by a little try to get the late fee waived, if you went 30 days late then call them and do everything you can to get the late payment on your credit removed.

Chapter 8: Until Debt Do We Part

Let's discuss how to speed up your credit rebuilding, plan ahead, and avoid future pain. This chapter is going to cover some details about joint debt, when it is good, when it is not, how to use it during marriage or divorce, the truth about cosigning, and then how to accelerate your score with being an authorized user.

Joint Debt

What is joint debt? It is when two or more persons are responsible for a debt. All persons are liable for all of the debt, it is not divided into parts. Each person has the obligation to pay the entire debt. When that balance is paid by someone then no one is liable. So, if the co-debtor pays off all of the debt then you don't owe.

Normally, for a second person to be liable on a credit card they need to have signed the agreement as well. For the married folks, you only owe the debts of your spouse under limited conditions, some examples include community property debt, medical bills and other necessities in some States, or a debt you later negotiate to be liable for during separation.

The following States are community property States, most in the southwest part of America, which are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin. You can find more detailed explanations online or consult your family law attorney. The subject is too big even for a whole chapter by itself. Basically, remember that vow at your wedding, "for better or for worse." That is how to remember community property. Anything gained or lost during marriage affects both spouses. Income, new property, new debt…it is all shared.

Sorry for that depressing subject, on a lighter note the plural for spouse is actually "spouses." Based on the rest of the english language it should probably be "spice." The plural of "mouse" is not "mouses" it is "mice." Moving on.

There are positives to having joint debt.

There are benefits of having joint accounts such as convenience and less accounts to manage. It is easier to keep track of one account instead of two. Sometimes when you can't qualify for a loan or lease the creditor will ask if you can get a cosigner or guarantor. The cosigner would also be liable on the debt in case you do not pay. We'll talk some more about cosigners in a minute.

A cosigner often only gets asked to pay after the primary person defaults. Let's say a married couple wants to get a credit card together. Having two people sign a credit application doesn't necessarily improve your chances of being approved. If banks were logical, then they really should use the higher person's score because if the less creditworthy person doesn't pay then the one with the higher credit score would pay anyway. This isn't always the case, and maybe it just comes down to money. They might use the lower score to stick you with a higher interest rate. Either way, you probably are not going to get a higher limit. If you applied separately then you might get that limit on each card, but maybe one of the cards has a better interest rate.

Married doesn't always mean joint

And just because you are married does not mean credit has to be applied for jointly. I'll use my State of North Carolina as an example. Only one of you has to be on the mortgage loan, also known as the "note." The deed, which shows ownership, can be in both of your names or just one. Your spouse will need to be at the signing though so he or she can sign the Deed of Trust, which your State may not have. It ties the loan to the property.

Leaving someone off the mortgage means they are not liable. Not liable is normally a good thing. The only possible drawback is the lack of the mortgage reporting positively on their credit as it is paid each month. Also, remember the community property State exception.

Separation and divorce

Other issues with joint credit accounts include the following. I may be preaching to the choir, sorry if you already know this, but it is important. During a separation and divorce there could be a realistic fear of the other spouse running up a bill you may be responsible for. They could do it on purpose to try to stick you with the bill, or they could do it out of necessity. Necessity is the more frequent reason. Here is why. When a couple separates, you still have the same amount of income, but expenses go up for a couple reasons. First, are one of both of you paying attorneys? Second, expenses may not double, but they can go up significantly as one household splits and now has to support two roofs. There is a second rent to pay, and all the utilities, cost of moving, etcetera.

The moral of the story

The moral of the story is that you should consider keeping debts separate from the beginning or if things are starting to really go downhill then you need to get off those joint debts. The problem with doing it in a hurry is you can't just ask to be removed and voila it happens. You may have to pay off that debt to get your name off it or close it.

Wait, what if you had been paying it on time? It is helping your score. Don't you need that line of credit? So, your score could take a hit as you close accounts. On a positive note, it is much less of a hit to your credit than a bunch of maxed out cards though.

It is better to plan ahead. You should be hopeful, but fortune favors the prepared. A prenuptial agreement might protect you the most, but it often offends the other party. So, perhaps just being subtler and keeping things separate will get the job done. Again, if you have a lot to lose, like inherited family wealth then consult a family law attorney who knows your situation.

No more cosigning for people, unless...

From now on, you should only cosign for someone else if you are willing to pay the entire debt, because someday you might have to. It would be ideal if you never needed someone to cosign for you again, but nothing is perfect. Like you, another cosigner should be hesitant to sign their name on your behalf, but there are a couple of things you can do to put them at ease.

First, limit their exposure. Ask the creditor about the possibility of making 12 on-time payments over the year and then if the cosigner can be removed. For a lease, if you pay on-time each month for the year if you could renew the lease, but just in your name without the cosigner. If you fulfill your whole lease without issue, haven't you proved yourself?

Second, address their concerns about timely payment. They don't want late payments on their credit report or for a debt to go to collections. So, an option can be to have the bill sent to the cosigner and you send the cosigner money ahead of time for each bill. Each month the cosigner has money in hand to pay that bill before it is due. Credit protected.

The credit score express lane.

Over the years lots of tricks have worked and then stopped working. The following strategy still works for some situations. It doesn't take a lot of time and the benefits can be tremendous.

Authorized users are when someone has permission to use a line of credit, but generally is not liable on that line of credit. For credit cards, it is the equivalent to lending someone your car. You would be cautious. If you add them as an authorized user then they can get a physical card and use it like they were you, but they don't get the bill.

It doesn't sound appealing at first, but wait, it is about to get good. If someone adds you as an authorized user something else happens. That complete line of credit and all of its history is copied from their credit report to yours. This is huge! Imagine how much your score could rocket up if you had a credit card that was several years old with on-time payments, and it has a limit of a few thousand dollars or more.

How to get it done

For the line of credit to be copied onto your report a couple of things need to be correct. You can no longer pay some random third party to add you as an authorized user. The bureaus have tightened it up, but some forms are still possible. First, the new authorized card may need to get used once. Second, the bureaus look for an association between the two of you. It may look to see if your area codes are near each other, similar addresses in the past on your report, same place of employment, the same last name or something else showing a relationship. Because they are trying to see if it is real. Only people who know and trust each other would add someone else as an authorized user.

For example, this shouldn't need to be a problem if the other person is your spouse. Did you file for bankruptcy but your spouse did not? Do they have a mature line of credit with good payment history and high limit they can add you to? Their credit could slingshot yours forward.

Assignment

Don’t open joint lines of credit unless it is to your benefit. Have a plan for joint accounts with a significant other or spouse. Have a backup plan if you need to separate out accounts later. Don’t cosign unless you are willing to pay the whole debt.

Most importantly, figure out who is the best person to add you as an authorized user to jumpstart your score. Rehearse how you are going to present the idea, explain the benefit to you, and focus on minimizing their risk because they will be thinking about it.

Chapter 9: Utilization

This chapter will explain what credit utilization is, why it is so important, how yours is calculated, and how to get the most out of your 30% chunk of FICO. Util-what? We've mentioned this subject a few times before. It really is just that important and it is why this whole chapter is dedicated to the subject. Utilization is the percentage of credit you have used. So, it is how big your balance is compared to the total amount available on that card. A smaller balance means you have "utilized" or "used" less of that card. A smaller utilization of credit means more points in your score. The people at FICO say it is 30% of your total score. That is huge. Even making all your payments on time could be spoiled by having a credit card maxed out because 30% is a giant chunk.

"I was told there would be no math."

Your score is based on each card's utilization and then all of them together. Each line of credit on your report has its utilization calculated into your score. FICO then adds up all your credit cards together and calculates a percentage based on the group. The reason for doing this is because someone may have low total debt across their cards, which gives you points on your score, but you could lose some points if a single card had a high balance.

FICO has not released what they consider to be the best utilization rate. Certainly, the lower the better. 90% would hurt your score, 50% is better, and 30% is getting into the good range. People with scores in the 800's seem to only use about 7% of their card's limit. So, we are going to copy what those people have done right. This means that if you had a credit card with a $1,000 limit you should not use more than $70 per month and pay it off.

This plan focuses on credit building. You won't be racking up airline miles or cash-back checks like this, but you won't be paying interest and most importantly you won't create debt.

Example

Dave has two credit cards with $1000 limits on each. Let's say his Visa has a balance of $100 and his MasterCard has a balance of $500. His credit score should benefit from the Visa with the 10% utilization but be hurt by MasterCard with the 50% use reported. His total debt is $600 of the $2,000 credit he had available which is 30% utilization. For his score, this is OK, but not great.

Rolling balances are not welcome.

You do not need to carry a balance to improve your score. You do not need to leave a balance on there when you pay a bill from the previous month's statement. Leaving a balance also puts you at risk of having a higher utilization next month. Remember, interest is only paid when you carry a balance, and odds are your first couple of credit cards at this point will have rates in the 20%'s. When you pay interest you are paying more for the same item. We all like to buy stuff on sale, so shouldn't you hate the idea of spending 10 or 20% more than someone else?

Push the credit limit ceiling

Having higher limits (not balances) is better. This is counterintuitive for most people because it just feels wrong. They think that having a credit card with a big $10,000 limit would harm their score because all of that available credit could run up a giant bill. So, their score should be lower because of the risk the card issuer has. Nope. That high limit helps your score. It shows FICO and other banks that this credit card company thinks you are great. It is like having a glowing personal reference on your résumé.

Asking for credit limit increases

Limit increases were once sometimes automatic. Due to legislation such as the CARD Act, it is very unlikely you will find a credit card that increases automatically after a certain number of months of on time payments. Here is the plan for how to ask. Ask for a limit increase after at least 6 months of on time payments. When you make that first payment go forward 6 months on your calendar and mark the day with a note about asking for a credit limit increase with that credit card.

Some companies may allow an increase after 3 months, others 9 or 12 months. As we mentioned earlier, it is a good question when you are shopping for cards, I had to learn the hard way that some don't have limit increases. It is terrible. I had an assumption which turned out to be wrong and I wanted to pass on the valuable information, so you could avoid the pain of my mistake.

Why They Should Be Happy to Increase Your Limit

You are a good and valuable customer. You have had 6 months of payments made on time or maybe a little earlier. It shows good behavior and you are reliable. You are not a risk.

Again, legislation has changed the game a bit. Expect to have to disclose your gross income from all sources. you don't have to say exactly which job, just the amount. Also, they will want information about expenses, such as a mortgage payment, rent, and/or car payment. They have to ask because the law makes them look at whether or not you can afford a minimum monthly payment if the balance was maxed. You will remember this income and expense question from the application with that company.

They are going to check your credit again. This should be good for you though because of 6 months of timely payments with this card, and hopefully other lines of credit, your credit should have improved.

When you go to ask for a limit increase the current balance must be low. First, as we said earlier, your score is better with low utilization and second, a low balance shows you don't need a higher limit just so you can run the debt up. Remember, they like to give credit to people who look like they don't need it.

Before you request a credit limit increase, make sure you have fixed any late payment issues first like we discussed.

Online versus over-the-phone.

How do you ask? You can go Online or over-the-phone. Online has its benefits, when it companies offer that option, because it can be done late at night. Thanks to you having paid your bill each month online, you should be familiar with their customer portal. The link should be in the portal somewhere, perhaps Customer Service.

Choosing is still a matter of comfort and preference. Talking to a person can just be easier as long as the wait times are fairly short. The best thing about talking to a person is you get to plead your case and you can also get information from them. Ask them about what you should do after another 6 months of "on time payments", or can you get another increase after 3 months? Ask them what they would do if they were you!

At some companies you merely request a limit increase. You type in your income and expenses. They run your credit, they do the math, and then you get a letter saying what your new limit is. Other companies allow you to request a certain amount. If your limit was $1000 do you request a new limit of $1250, $1500, $2000 or more? Your options may really depend on your income and expenses.

The benefit of aiming high is that you might just get it. You risk having them say no and then either you try again lower, they don't completely say no but give you a lower amount, or you must wait and try again after a few months. Credit card companies vary so much it may be best to talk to a person if you see a blank line asking what credit limit you want to request. Because with a person they might give you the right answer. They do this all day. They can't say for sure what it will be, but I bet they can ballpark it. If you are risk averse, and many people are, then you may be shy and only request a small increase. Small isn't $50, but more like $500 to be worth the hard inquiry. You are more likely to get it, but you risk losing out on a higher credit limit to help your score more.

Assignment

Stick to the plan and do a little math to make sure you are not using too much of your cards. Make sure you are keeping the monthly balance under 30% and closer to 10% if possible. Mark your calendar 6 months out from your first payment unless you know that you can ask for a credit limit increase sooner.

When the 6 months have passed you need to figure out if you are going to use online or over-the-phone. Also, spend a few minutes to write down the information you might need such as gross income, mortgage payment, rent or car payment. Figure out how much of a limit increase you are going to ask for if you have the option.

Chapter 10: Combination is Critical

The credit mix is like having new wheels under you, or a new roof over your head . This chapter talks about the credit mix, which is 10% of your FICO score, and the ways to maximize your points from this category. We'll cover using secured debt you still have or weird ways to accomplish your goals. Lastly, we'll talk about everyone's favorite things, new cars and homes.

Types of credit used

Ten percent of your FICO score is based on your "Types of Credit Used." We'll call it "credit mix" because that 10% of your credit score is looking to see what else you pay besides credit cards. It is a positive thing if they see that you can manage other loans. The reason is because it shows responsibility, experience, and that you are well-rounded in the ways of credit.

Installment loans

Installment loans typically have equal payments and generally with added interest. A balance is paid down but each month interest is recalculated and added to the balance. Examples include car payments, mortgages, home equity loans, 401k loans, personal loans and student loans.

The opposite are lines of credit, known as revolving debt, where the payment could vary and the balance could vary month to month, like a credit card or home equity line of credit. Revolving debt = credit card, home equity line of credit.

So, FICO wants to see that you have been making timely payments on an installment loan. They would only see this if your loan reports to the credit bureaus. So, our criteria for credit cards is the same for any installment loans you get…they must report to the credit bureaus so they can help your score. Odds are that high interest "payday loans" does not report.

Using what you got

If you filed a bankruptcy then what property with secured debt did you keep? After your discharge did you keep your house or car and you are still making payments on those items? Or do you have nondischargeable debt that has payments like a student loan? If you did then you have most of this credit building step done for now.

I mentioned personal loans earlier, but for most people their personal loan would have been discharged in bankruptcy. If you want the highest possible score or a house 2 years after your bankruptcy then maximizing this 10% of your score will help. If you don't have an installment loan, then the goal will be to get one in the next year or two.

It is unlikely that most people will get new student loans in the near future and we are not saying to incur debt just because, but think about your situation. For example, do you or your spouse need to replace your car in the coming future to get something more reliable and better gas mileage? Do you need a second car or a bigger car? If so then we'll talk about that more in just a minute. But if you don't need a car and don't already have an installment loan payment left over from your bankruptcy then this next part is for you.

Passbook, CD loans, credit builder loan

Remember secured credit cards? They had frozen funds in your savings account as collateral. Some banks have a personal loan version of that. We'll just call it CD Loan. You get a loan from a bank or credit union and those funds are turned into a certificate of deposit or ("CD") and deposited. You make monthly payments on the loan and when it is paid then you own the CD, which should have gained some interest to offset some of the interest you were paying. For example, the loan and CD are $1,200. You make monthly payments of $100 for a year.

A paid off and closed installment loan helps your score, so you don't have to pay this one off and start another. A secondary benefit is that you just saved up some more funds that could be added into your emergency fund or future car or house funds. That $1,200 from the example could assist with a down payment.

Is a new vehicle in your future?

If you need another car or a replacement car, then OK. Remember, if nothing is wrong with your current vehicle it should be cheaper to get a few more years out of the car you already have. Are the cost of maintenance and repair less than a car payment? Well, if you do need a new car then let's plan this out. First, when I say "new" I mean a car that is a year or two old, aka used, or pre-owned. I just can't do a blanket recommendation for people to buy something brand new. The depreciation is massive as soon as you drive it off the lot.

Remember we talked about emergency funds? After a while, if you keep putting money into it, you will meet and exceed your goal and have an overflow. You probably don't want to dip into your emergency fund for a down payment unless your old car just died and this is an emergency. More about emergency funds on Bonus Chapter 2.

The weird trick

Here is a weird trick to prepare for a future car. What kind of car payment do you think you will end up with? Let's say it is $300. And let's say you have been putting $100 per month into your emergency fund. Well, for 6 months...what about doing $300 or $400 into your emergency fund each month? This will simulate what it will feel like to make that car payment each month. After a few months you will get a good feel for whether or not you can afford a car payment of $300. If you can afford the bigger savings payment then you can probably afford the car.

The other benefits will be all that extra money in your emergency fund that you could use for a down payment to get a smaller monthly payment or leave it in your emergency fund so you would have months worth of money to make the car payment in case something bad happens like you are unemployed for a few months.

Credit, before and after a car purchase

One more thing about your budget. Remember, a new car or even a newer car may also affect your insurance costs. Older cars may not have collision coverage. Perhaps try to offset some of this cost with something better on gas. Let's assume that gas at $2+ is here to stay. Also, if you have to buy insurance for the first time, hopefully you can get your score up to help because odds are, that insurance company will pull your credit.

You might be concerned about who will actually sell you a car. First, you have a few things on your side. You are improving your credit, keep it up. Second, plan ahead. Find financing before you go shopping for the car so you are not caught on the spot. Third, keep your eyes open. Watch for commercials etcetera between now and later about which dealerships may be good choices that you want to deal with. If you see a good ad, write it down now. If you are in a rural area then keep watching the dealerships in the bigger cities near you where there is more competition. Lastly, choose good months too, like August when they are getting in the new models and December when they are trying to make their year end bonuses and really get rid of remaining cars for that year.

Like brand new cards, I can't recommend leases. It is your call but educate yourself on the subject first. Ask friends. Beware of the hidden costs and hassles of a lease like for mileage, maintenance, or higher insurance requirements.

Home sweet home

The recommendation here is the same as for the future purchase of a car. Does it fit in the budget? Home ownership has so many extra expenses that renters are not exposed to. If you already own a home, then you know what I mean.

Will the payment for the house be bigger than your current rent? If so, then like the car payment, make the payment of the difference between current rent and future mortgage into your emergency fund. Example, rent is $800 and the house will be $1100. Try putting that extra $300 into your emergency fund each month for a year.

Everything else gets paid besides principal and interest. Add in county real estate taxes, insurance, and FHA mortgage insurance of just over 1% per year. Those three items could be several hundred dollars each month paid into escrow and making your mortgage payment too much.

If you get it all added up and then start making the payment into your emergency fund then It too can be used for down payment or closing costs. It is also vital for increasing your chance of getting the loan because you look like less of a risk if you have several months' worth of potential mortgage payments saved up after you close and pay the down payment and closing costs.

If things stay the same in the housing market, then your best chance for a home would be 2 years from the discharge of your bankruptcy. FHA lending guidelines currently allow for a mortgage through manual underwriting after that time period. Your rate should be competitive, but you will have the PMI which can be a couple hundred a month depending on the value of the house and that now lasts for the life of an FHA loan. But your down payment can be lower, with options as low as 3.5% of the home.

For a $150,000 home, that would be a down payment of $5250 as a start and then closing costs after that. For a comfortable goal of $8,000 at the 2 year mark would mean saving $333 each month until then into your emergency fund.

Assignment

If you already have an installment loan that you are paying on and it is reporting then you should be set to capture more of this 10% of your FICO score. If you need an installment loan and want to maximize then talk to your bank about Passbook or CD loans. If you need a car over the next year or two then follow the steps to plan ahead for that purchase. Lastly, if buying a home is your goal. Then figure out your bankruptcy discharge date and add 2 years. That is your day.

Chapter 11: Check Your Report For Errors

Checking your credit reports is one of the most important steps you can take. This chapter and the next one will walk you through what you need to do and then show you your options for correcting your reports so no errors hold you back.

Negative errors

We have placed a lot of attention on adding positives to your credit reports. There are negatives on there too, but over time they have less and less effect on your score.

This is assuming the negative items on your report are correct, or even yours. Yes, there is a very real possibility of mistakes.

Errors are not supposed to happen, but they do. A creditor could forget to update your information or could send the wrong information. Personal data could be incorrect. A hard inquiry could be on there that you did not authorize, or worse, your report could be merged with someone else's.

Your federal law

The Fair Credit Reporting Act ("FCRA") sometimes called "fick-rah" is a federal law that requires your credit information to be accurate. FCRA was put in place because inaccurate, negative information harms peoples' credit scores. It costs consumers money because of higher interest rates or being denied credit they should have otherwise qualified for. According to a study by the FTC, the Federal Trade Commission, as many as 40 million Americans have errors on their report which could hurt their chances of getting credit.

It is time to look inside

Does your report have errors? You must pull all 3 bureau reports to check. If it is a few months after a Discharge then it should have been more than enough time for your creditors and the bureaus to update your information so it is correct. For example, those unsecured debts like credit cards should have a zero balance. The bankruptcy discharge is when the debt is knocked out.

The real, free credit reports

Normally, you could expect to pay $10 per credit bureau report. But, thanks to FCRA you have the right to get a copy of each bureau's report once per year per person. The website to do this is annualcreditreport.com.

You will have to prove your identity with information such as name, current address, previous address if you have not lived in your current residence for 2 years, social security number, birthdate, and then a couple multiple choice questions about specific debts. For example, it may ask you, "Which of the following banks did you have a mortgage with? A) Wells Fargo, B) Bank of America, C) Chase, or D) None of the above.

Once you successfully login then you can go to your Equifax, Experian, and Transunion reports one at a time. You may have more multiple choice questions but then you have access to your full report. You can save a copy to your computer as a .pdf (which every computer can open and use) or print a copy, but remember this could be a dozen of pages per report.

Flag the errors

If you printed your reports, then grab a highlighter so you can mark errors. If you saved them as .pdf files then grab a piece of paper and a pen. Write Equifax, Experian, or Transunion at the top and then start with that report.

Let's start with the easy things. The balances, if you are discharged from bankruptcy then make sure every debt that should be gone has a zero balance. The line of text under each debt should say something like "Included in a Bankruptcy" or "Discharged in a Bankruptcy."

100% accurate

Each page of your credit report could have a hundred pieces of data. Every monthly payment is entered separately. Each one needs to be correct. Is there a late payment from a few years back but you paid on time? Mark it to be corrected.

Was that your high balance? Is the limit right? Was it charged-off? Was that the date you opened it? Does it say included or discharged in a bankruptcy or not? Did you live at all of those addresses? Is that other name listed a real alias you used? Is that account yours or someone else's?

FCRA provides a solution

It would be a shame if your score was being held back by an error after all the work you put into building your credit. Thankfully there is a process for correcting errors. It is called disputing.

The dispute process is another right given to you through FCRA. The rules are well defined, but it can still be a bumpy road and time consuming. It is worth it though.

When you dispute it means you give notice to the credit bureau of a problem they need to investigate and correct. They carry the burden of proving the information is correct or it must be removed. The good news is that when something is corrected on your report your score would show an immediate effect if that item was altering your score.

Assignment

This week your assignment is to pull all three of your reports, not scores, from annualcreditreport.com if you have it available to you this year or go to a bureau to purchase all three, it is worth it. Then check your debts discharged in your bankruptcy. The balances on each report should be zero and it should say "Included in a Bankruptcy" or "Discharged in a Bankruptcy" under each debt. After that, then go through the rest of each report to spot and make a note of every error. Next chapter we will discuss your options for correcting your reports and we will discuss your options for correcting your reports.

Chapter 12: Expert Credit Repair

You have your credit reports in hand, you have found the errors, now what? This chapter will walk you through your options for getting those errors taken care of so there is no risk of them hurting your score.

The legal process of disputing information on your credit report is often called "credit repair." You have the ability to do it all yourself, but lots of people do not want to or hit such a large roadblock they resort to outside help. Help comes in the form of a credit repair company or attorney that litigates using the Fair Credit Reporting Act. You may know yourself well enough to have already made up your mind on what you will do, but we'll cover what to expect with each route.

Mountain or a mole hill

Some errors on reports are SIGNIFICANTLY harder to remove than others. Last week you highlighted or wrote down the errors on your reports. Overall, the more recent and larger errors are harder to get fixed. Also, of course, the more errors then the harder it will be.

Easy disputes are: personal information, not yours, accounts over 7 years old from last activity, late payment but it happened 3 or more years ago on a closed account, late but now paid accounts. Medium difficulty disputes are: errors that are about 2 years old instead of 3 years, and charge-offs. Hard disputes are: errors in a current account, an active collection, bankruptcy, foreclosure, recent late payments, unpaid tax lien. If the tax lien has been paid then you can talk to your attorney or the IRS about releasing it.

Finding your expert

We will come back to the basics of doing-it-yourself in a minute, but let's talk about using an expert for repair. If you do have lots of errors, recent errors, or large errors then it may require much more time and effort. It can be frustrating. Because of that many people seek out an expert. Credit Score Keys, LLC does not do credit repair but we can tell you what to look for with a company that does.

Like any company you do business with you want experienced, professional, and trustworthy. Referrals are useful. Does your realtor, mortgage broker, or the car dealership you like know someone? If you want to use the internet then start with someone local if you want to have some face-to-face interaction.

The big rule is "no money paid before work is done." Some credit repair companies fall into 2 categories: 1) those that charge at the end of each month, or 2) those that charge per deletion, where you owe money only after they have accomplished something. One is not better than another, just different. Also, there may be money due at the end of an initial appointment if work was done during that meeting, like a detailed analysis of your situation.

Lastly, The growing National Association of Credit Services Organizations (nacso.org) and you can also visit http://nacso.org/ for a list of companies near you. The list will keep growing as the organization does, but it does promote the proper running of a credit services company.

When do I need an attorney?

As I said, you are supposed to have all of the tools you need to correct your credit on your own. So, why would you need to hire an attorney? If you try to get something corrected and it is incorrectly validated by the creditor then you might try to dispute again. The credit bureau may investigate again or they may throw out your dispute if it is determined to be "frivolous." You may be asking, "Can they do that?" Yes, if they think a dispute is frivolous...using whatever criteria they have...then your dispute just goes in the trash.

The only solution at that point could be for an attorney to sue the credit bureau and/or creditor under FCRA to force them to address the issue and correct it. Attorneys may also be able to get compensation for you for damage. Damage could have been extra money you had to pay because of a higher interest rate or denied credit because of an error, which caused monetary damage.

How to dispute

Assuming you are doing this yourself then disputes can be done two ways, by phone is not one of them. The first way is to do it online through each credit bureau's website. This is an easier, quicker way to do it, but there can be problems.

You waive important rights. They get 45 days to respond instead of 30. Your dispute is dumbed-down to a few categories. You may also be losing some litigation rights because of an arbitration clause. So, for many people this is not the best way to go. Online may still be fine if it is just one or two simple, easy, obvious errors that are a slam-dunk for you to win and get resolved.

To start writing letters you need to get a little organized. You need supplies. Get a folder per credit bureau or per creditor, whichever makes the most sense to you. You will need paper to write on because all letters should be handwritten. You will be mailing letters through certified mail return receipt from the post office. If you get the receipt when the bureau receives the letter, then they have 30 days to investigate and respond that the error was validated or corrected.

The First Wave

You can have no more than 3 disputes per letter, unless several errors are all related to the same thing. That means for this first wave you will be sending out three letters. If you have a ton of errors then you may not be able to tackle all of them in a single letter. Try to limit it to 3 errors per letter unless all of the errors are related to the same thing, such as bankruptcy discharge and 4 accounts have balances. Most people think it would be best to go for the easiest items, but it may be better to attack the harder items. Your first couple of letters have the best chance of getting the issue solved.

After a couple of letters you may get flagged as attempting to engage in credit repair or that your disputes are frivolous. but with the easy items saved for the end then you are not asking much of them and you have something closer to a sure win.

Drafting Letters

Each credit bureau requires things a little bit differently. If you go to google and type “Experian credit dispute” then you should find the correct address and the list of items you need to include, besides your evidence of the error, to show who you are. Example: Name as it would appear in your credit file, social security number, address(es) within the past 2 years, and perhaps a utility bill.

If you need help with the basics of the letter, then google “FTC sample letter for disputing errors.” You should make each letter your own though. As we said, handwritten, but legible. You mail the letters then mark your calendar for about 40 days out or for 35 days from when you received the return receipt. Remember, your letter has to go back through the mail. After that, they have 30 days to respond and send it back to you through the mail.

Did You Win?

If the errors get resolved, great. If the error comes back verified then you need to take it up a level. To avoid your next dispute being thrown out as frivolous you may have to present new, additional evidence. If your tone in the first level was pleasant, then you may wish to be more assertive. Use stronger, more forceful language. Emphasize why this must be fixed or demand it. Don’t swear or be hateful, but turn up the heat as necessary.

It can be a frustrating process. Most people find it quite unpleasant. It is because of that why there are companies available for hire to do this mess for you. Maybe your situation will be done quickly, but maybe it will take 6 months.

If you are curious about a company doing it, then before you start out on your own, find one that has a free consultation, take your credit reports and talk with them. They may give you a better idea about how easy or difficult it will be for your credit file. Remember, you don't have to hire them.

Assignment

Decide which option you are going to pursue. You can use a company or an attorney to see if you need them, or you can start or search around for a professional. If you are doing it yourself, then get organized and get the supplies you need for the months ahead. Plan your letters and include proof of ID as required for each bureau and send the handwritten letters certified mail return receipt.

Chapter 13: Managing Inquiries

This chapter will explain what a credit inquiry is, the difference between a hard and a soft inquiry, how your FICO credit score is affected, and how to get the most of that 10% of your score while building credit in a controlled manner.

What is an Inquiry? It is when your credit report is requested, generated, and delivered for someone to see. Remember, you do not have a report sitting somewhere. All of the information linked to you is scattered in the credit bureau databases. When the inquiry request for your report is made a fresh copy is generated from all of the data on file at that exact moment. A "receipt" of the inquiry is added to your report that can stay on there for up to 24 months.

Hard versus Soft inquiries.

A hard inquiry is made when you apply for credit for things like a mortgage, car, personal loan, or a credit card. Another group of hard inquiries come from when your credit is pulled by a potential employer, or by insurance or utility companies.

Soft Inquiries

A soft inquiry is when any of the following happen. If you pull your own credit report, or a company you have an ongoing relationship with does so for a reason such as credit monitoring.

Everyone should have seen this last reason at some point in your life, and over the next year or so you will see them again. Pre-approved credit offers. The credit card company sends a giant request to one of the credit bureaus. For example: the credit card company requests a list of 5000 people from your State with credit scores between 670 and 700 that don't already have an account with them. The company has decided to send out 5000 offers with the hopes that maybe 5% of them or more will open a credit card. This means 5000 people had a soft inquiry added to their report and will soon have an offer to apply for credit arrive in their mailbox.

Visibility

Soft inquiries are visible only to you. If you apply for credit with a company and they pull a copy of your credit report then they would not see the soft inquiries on their copy. Hard inquiries will be visible to them though in a section on your report. So, if it mattered to a bank, then they could see when and where you have applied for credit over the past 2 years.

What inquiries mean to your score

According to myfico.com, 10% of your credit score is based on "new credit." Soft inquiries have no effect on your credit score, but hard inquiries do. It is a balance. To build credit, inquiries are absolutely necessary. So, it comes down to the management of them. The more hard inquiries then the less of the 10% of the possible FICO points you earn. So, way too many applications for credit will hurt your score. There is no fixed amount of effect on your score per inquiry known to the public. The trend seems to be the higher the score the more a hard inquiry hurts it. The good news is that while hard inquiries show on the report for 2 years they only affect your FICO score for the first year.

Managing Groups of Applications

Newer versions of FICO also allows certain similar inquiries to only count as one inquiry for your score if they are done within a 45 day window. Older versions had smaller windows, like 30 days. The specific types that are combined would be for applications for credit for things such as a mortgage, car loan, or student loan.

Beware, each application for a credit card is counted separately. Rate shopping is a normal thing so they have adjusted their scoring formula to account for it. FICO gives you this inquiry lumping benefit because you are not looking to buy 6 cars. You go to a dealership looking for one car.

The financing department may try their own financing and then try 6 third parties to get you the best loan. So your credit will get pulled over and over within a short time. Even if you then do not buy a car but go to another dealer the next week then those inquiries from car loan applications would be lumped into the previous batch since it is within the 45 day window.

Hard inquiry credit checks require your permission

Hard inquiries have to be approved by you. Generally, you will sign a page that gives the other person or company express permission to view your credit report. This is how it should be because it affects your score. You wouldn’t want a bunch of people you don’t do business with hurting your score.

Soft inquiries can happen without a signature. Remember, credit bureaus sell your information to those credit card companies that then mail you offers. You do have the right to Opt-Out of those offers though and stop the soft inquiries and offers.

Assignment

Look at the copies of the credit reports you got recently. Check to make sure the hard inquiries from the last year have been authorized. If they are close to 12 months old then you could just let them run until the 1 year mark, but if not then you can dispute the unauthorized ones to see a small improvement in your score. The lower the score the smaller the improvement. Remember the soft inquiries do not affect your score and are not visible to anyone but you.

Lastly, when you go to apply for a vehicle, keep all of the applications within a 45 day window to minimize the impact on your score. It is best to get the financing done within that time and THEN go car shopping. It is easier to know exactly what funds you have available so you don’t get into a payment that is over your head.

Chapter 14: Credit History length

Time heals all wounds. Over time, following the steps you have covered thus far, your credit will get better and better. You must also put safeguards in place to protect what you are building or come up with a plan to react to a problem like identity theft.

The 7 year window

Your credit report is a window showing roughly the last 7 years of your life. There is some information factored into your score that is older than 7 years though. On each line of credit there is an entry about the date the account was opened. So, while your payments 8 years ago should not show you do get credit if the account was opened 8 years ago. This matters because the older your accounts are, the better. Age tends to mean experience and wisdom. 15% of your score comes from a calculation averaging the ages of your accounts.

Remember, your (human) age is not on your report. But if you just have 3 accounts and they are only a year old each, then it is reasonable to guess you might just be 19 years old. You would be new to credit and inexperienced. So, there is not age discrimination, but certainly inexperience counts against people.

Average age of accounts

FICO takes the average age of all your accounts. For example, if you only had two lines of credit, one that is 6 years old and the other is 3 years old then the average age is 4 and a half years old. (6 + 3) divided by 2 = 4.5 years. Four and a half years might sound pretty good. If someone had been doing a job for 4 ½ years they should be pretty good at it, right? But, not as good as someone who had been there 12 years. FICO's high score group have the average account age of 6 to 12 years, and their oldest account around 19 years ago.

In previous chapters we talked about the goal of having 3-5 lines of credit and getting those in place within the first couple of years. The reason is because opening new accounts later will lower your average. Using the previous example where the person had a 6 year and 3 year old account. If they opened another, new account today then the average for the 3 accounts is only 3 years instead of 4 and a half.

Old accounts and Closing accounts

We talked about closing old accounts before. If you filed bankruptcy then any account you owed money on, and possibly some you did not, may have been closed. If you do have an old account open then leave it open.

Most people think that closing the account will show they are a smaller credit risk and should improve their score. This is a myth. If the account isn't costing you too much, like a big annual fee, then leave it open. Let it help. Threaten to close the account if the annual fee is not waived. You don't have anything to lose by asking. If there is no activity for a year and a half, then the account may be closed by the lender. You may have to use it, or risk losing it. It may be better to try to resurrect that account than start a new one. Is it possible to increase the limit on the old account?

Closing an account means your score should go down because of decreased credit limits and thus higher utilization. Remember, big limits and low balances were better. A closed account doesn't help you with that big 30% of your score anymore. The good news is, in regard to the average age of your accounts, a closed account is still part of your average. The good people at FICO have never verified this, but they don't really want people to game their system. But it seems fair for us consumers to at least know the rules of the game.

Keeping an eye on your information

Credit building takes time and effort. You are investing in your future. It is normal to have a healthy amount of fear that something could mess up your good work. You are growing a better credit record, let's protect it. There are steps you can take to reduce the chance of bad things happening and procedures to limit damage if something does happen.

Identity theft has been in the news quite a bit over the past ten years. It is often indiscriminate, and anyone can be a target. We'll talk about the different types of identity theft in a minute.

An ounce of prevention is worth a pound of cure

First, to protect yourself, the heavyweight champion of protecting your credit, "The Freeze." Credit freezes don't get much attention in the news and they are not advertised. You are probably wondering, "If they are so great then why haven't I heard more about them?" It is because the credit bureaus make little or NO money on them. Depending on the State you live in, you can get a freeze on your credit reports for between zero to $10 dollars per bureau.

A freeze does not stop you from using credit. It stops new credit from being authorized. If your credit was a nightclub, a freeze would be the bouncer at the door, stopping new people from entering, while the people inside get to keep on partying. So, a freeze and no new lines of credit means no one can open a credit card in your name and run up the bill. Certainly, someone could steal credit cards out of your wallet and use those, but there are other protections in place where you are liable only up to about $50. The same for debit cards if you report the cards stolen to the bank within two days. Of course, it is best to report them immediately.

So, if someone does try to open a new account in your name, they hit a brick wall. Not happening. But what if you want to open a new account or if you want to request a credit limit increase? Then you can either completely remove the freeze, but better yet you can "Thaw" it. A thaw is only needed on the one bureau the credit card company is going to use. It allows that single company to pull your credit and issue you new credit for a limited period of time.

Credit Monitoring

An option you do hear about is credit monitoring. Let's be very clear on this. It does not prevent initial identity theft attempts. A band aid does not prevent you from being cut. Credit monitoring only has the chance alerting you months or years before you might otherwise find out. Each month or less you would receive and update about your credit or perhaps a separate, immediate email/text/call about suspicious activity. But, either way, something has already happened...all you can do is stop it from getting worse and get a jump on solving it.

Without you or a third party regularly checking your report, then most people would have no idea their credit got messed up from a thief until years later after they go to finance a car or a house. Serious damage may have been done and they are looking at a process that can take months and personally they will spend 40 plus unpleasant and frustrating hours working on sorting it out. Trust me, I learned firsthand in 2002.

Why doesn't everyone do this? Because it is often $10-$20 per month for the service. How long do you have to pay this? Forever? Protection after it happens is great, but prevention is better. There are some free alternatives. Check out Credit Sesame (Ses-a-me) and Credit Karma. They are free and you can do both if you want. You can set which events should send you an alert via email. Some credit cards have also begun to offer similar things such as being able to see your score and beyond. Quick notification is the value.

Identity theft details

Here are some of the most common ways identity theft happens. Theft of wallet or purse, someone getting your social security number, stealing your mail, going through your garbage, them tricking you into disclosing something like acting like a company you do business with and getting you to “confirm” certain information via phone or email, or lastly information from companies being hacked.

The normal advice is that you should shred sensitive documents, immediately report lost or stolen wallet or purse, and never give financial or personal information to someone on the phone or email unless you approached them, and it is a company you trust.

For me, my mail was stolen. The letter must have had a preapproved credit card. The person opened the card account and had the mailing address changed. How could this have been prevented? You need either a mailbox that locks, like some housing complexes have or a PO Box, or you need to log into each credit bureau and Opt-Out of receiving those pre-approved offers, or best of all would have been if I had a freeze on each bureau. But if something does happen to you, here is what you do.

You are a victim, what do you do?

The phone calls you should make would be to the bank or credit card company, then the police if a police report is necessary. Police reports are wonderful proof that banks and credit bureaus are hard pressed to ignore. Lastly, you call one of the credit bureaus. It doesn’t matter which one, and you get them to issue a fraud alert and under law they must notify the other two bureaus.

The initial fraud alert lasts for 90 days. It is similar to the credit freeze we already discussed. No new credit can be issued in your name without them contacting you. So, when you place the alert you give them a phone number. If the would-be thief attempts to do anything else then they call your number to confirm that you are doing activity. If it is not you, then the new account creation is stopped.

After the 90 days if this issue is not resolved an extended fraud alert can be put in place for 7 years. It works the same as the other one, but like a freeze it must be undone before you can add lines of credit or ask for increases. This must be done in writing to each bureau and it is a royal pain that takes a couple weeks, so plan ahead. If an account was fraudulently opened and reported on you credit then start working on disputing this when you are putting the Fraud Alerts in place.

Assignment

Do not close old accounts unless the cost outweighs the benefit. Figure out if you want to put a credit freeze in place yet. If so, then use the link here http://www.experian.com/consumer/security_freeze.html or go to one of the bureaus to see how much a credit freeze would be for you. Check out creditkarma.com and creditsesame.com about credit monitoring. They have other freebies as well. Put some procedures in place to prevent Identity Theft and follow the steps in case something did happen.

Summary

Congratulations. That was a lot of information. The Bonus Chapters are after this. Zombie Debt was my favorite to put together. The Chapters you have already covered were the essentials. They are like the “main course” of your meal. These bonus ones are more like the dessert.

I do not think an audiobook version of this eBook will be in the works since we already have the DVDs and they are a 90% match for content, plus even more entertaining with the slides and animations and the best tool for people who are visual learners like myself. If you have a question or concern you wish to relay in private then email me at shawn@creditscorekeys.com. Input is helpful. This is a difficult subject to shed light on because so much of the hard data is hidden and has to be figured out and pieced together.

Bonus Chapter 1: Myths

Here are the Top 7 most common myths. Plenty of bright people fall for these. There is a lot of misinformation out there. Often the myth sounds correct like it should be the truth, but it is not. The reason the myths exist is because the exact credit scoring formulas are secret. It is like the recipe for Coca-Cola or Google's Search Algorithm. Only the basics have been officially revealed. The rest must be pieced together. Here are some of the most common ones. So, in the future if someone brings one up you can start your reply with, "Actually, the way it works is..."

Voluntarily turning over a car is better than an involuntary repossession.

Sadly, this is not true, there is no difference on your credit report between a voluntary repossession (where you nicely deliver the vehicle to the lender) and an involuntary repo (where a tow truck comes and snatches the vehicle from your driveway in the middle of the night). It would be nice for all parties involved (well...except tow truck drivers) if there was an incentive for turning over the vehicle on a voluntary basis.

There is no difference on your score because the financial result is the same, again, except the expense of paying the tow truck driver which can be several hundred dollars added to the deficiency.

Do a short sale to save your credit.

Real estate options for debt include foreclosures, short sales, or a deed in lieu of foreclosure and all have the same effect on your credit. Like the repo issue, a deed in lieu and short sale are more like the voluntary grant of possession back to the lender.

Frequently, I hear of people holding out for that short sale because it would be better for their credit. It isn't. Sorry, but the end result is the same on your credit. There can be one credit benefit, if done correctly, where you have a written promise from the lender that they will not report or come after you for the deficiency. It has to be forgiven. Otherwise, like a foreclosure the deficiency balance will show on your credit and then turned over to collections for insult to injury. There may be 1099 tax consequences though for forgiveness of debt.

The decision between the three methods above should then be based on something else…like extra time in the house "rent free" or getting a house out of your name as soon as possible because of Homeowner's association or tax issues. I recommend receiving advice from someone who is not influenced by a possible commission.

You have too much credit available!

It makes sense to think that having too many credit cards available may be hurting your score. You have thousands of dollars of credit across those cards that could be run-up. What is the first solution that comes to mind? Close some accounts, right? Well, that might hurt your score more. The reason is that 30% of your score is utilization, which means the monthly balance across all cards as a percent of your total revolving credit limit. If you close some cards with high limits then the utilization percentage increases, which is not good for your score.

You can fix your credit overnight.

If it sounds too good to be true then it probably is, and it may be illegal. It is time to stop and think about the solution offered? Does it sound legit? Maybe the hand-written poster at the corner of the intersection is for a legitimate up-and-up company, but I'm not willing to experiment with my credit on that bet.

A couple of examples of bright red flags for credit repair techniques could be using a new social security number instead of yours. Also, using a company EIN, employment identification number, not allowed. Don't do it.

I can say my piece and solve it that way.

First, some background. You have the right to add a 100 word statement on your credit report to possibly explain a negative piece of information. It sounds useful, and you get to show your side of the story. The problem is that no part of your statement gets factored into your credit score. None.

Maybe writing it as an explanation so someone sees your side of things makes you feel better. Be careful though, because anything you say may be used against you should you be in the middle of a dispute process or do one later.

For mortgages you will probably have to provide a written statement about the negative item anyways. At least there you are not limited to a mere 100 words.

It is important how much you make.

It is not even a little factor. $40,000 or $400,000 per year. Doesn't matter. No part of your FICO credit score is based on your income. It is a level playing field. FICO is blind to the issue because the information isn't even on your credit report.

Something that can come up for maximum limits is your Debt/Income Ratio or mortgage payment compared to your gross income. It will certainly come up in your bigger loan applications though, such as a mortgage. Income may qualify or disqualify for certain types of loans. The lender may have a minimum or a ratio of gross income versus the amount of the proposed loan payment.

Bankruptcy will ruin your credit for 10 years.

You wouldn't be here if you had fallen for that one. We are going to prove this one wrong. You can have significant recovery and growth within the first years. Bankruptcy is just one factor among many in score calculation. It is not a death sentence. You are still able to add positive items to your report and you can get credit while "bankruptcy" is listed on there.

Filing bankruptcy should have put you much closer to being able to pay the bills you can afford and discharge the ones you cannot. That allows you to start making your payments on time every month, which is key to raising your score and keeping it up there.

Bonus Chapter 2: Financial Planning for Emergencies

Welcome to our bonus chapter about emergency funds. You may not be familiar with them, but this should give you enough information to get yours up and running so it can be in place for when you need it.

Credit cards - In case of emergency do not break glass.

Part of using credit wisely is not having it be used for emergencies. We want to have credit as a tool, but not to have to rely on it when an emergency happens. If something unexpected happens, you know the examples. Repairs for the car, sickness and medical expenses, lots of things kids related, helping out family etc. When life happens, the way to take care of the bill is to use a credit card to absorb the expense to be paid off over the following months. Payday lenders or title loans often get advertised this way as well. But we don't want to carry a balance, and we'd rather not use payday or title loans either because of the interest rates on those either.

An emergency fund as your solution

An emergency fund is the best solution for the unexpected expenses that life throws your way. It is an account that is not used regularly and funds sit there and grow until needed. It is like a financial safety net there to save you in times of need. It is money that is ready to handle that bill so you won't have a disruption. It can get that car fixed so you can get to work. It can pay that medical copay and deductible so you are not stressing about it for months. It is a gap filler. For most people this works best as a savings account with the same bank where you have a checking account and possibly direct deposit.

Self insuring, interest-free

The purpose of insurance is to deal with infrequent, but costly occurrences. So, your emergency fund will be like your insurance policy, but you are not sending payments somewhere else. It is still your money. You control it. You don't have to call someone else and deal with their claims people. Using a credit card is kind of like that, but unless you have 0% then you are going to be paying interest. Also, you risk your credit score with the high balance.

What is better than not paying interest? Receiving interest. Savings accounts, certificates of deposit aka CD's, and money market accounts do this. Interest rates are still low, but it is better than paying. Because remember, with credit cards you are paying someone to borrow their money, better to have the bank paying you to borrow yours.

Protection against larger emergencies

So, we talked about an emergency fund to handle the smaller issues. It can also be set up over time to protect larger issues. What about expenses not covered by worker's comp, short-term disability, or monthly expenses not met by unemployment. Any supplemental income helps.

Ideally, the emergency fund would have enough money to cover the missing income for a 3 month period. Certainly, this amount can be reduced because during unemployment most people tone down their spending on extra items and stick to the basic, necessary expenses.

Your job may feel stable and that you will have it until you retire, but the past few years of high unemployment have taught us that everyone is a little at risk. Example: If unemployment is 8% right now then that means that the average person might experience 3 months of unemployment every 3 years.

3 months may be too much for your credit to absorb as well. It takes a while to save up, but over time you can. Then each month you will increase your chances of being able to have your family sail through those harder events with less disruption and you will be able to focus on getting better or finding the next, right job without worrying about the bills in the meantime.

Which amount is right for you?

It is up to you now to figure out how much you want to have as a cushion after 1 year. This is a practical start with something reasonable and attainable. For example, for an emergency fund of after 1 year of $600 would mean $50 per month going into it.

You may want to double that cushion, and you would get there after 2 years. If you want that amount saved sooner, then you will have to up it to $100 per month to meet the goal with 1 year.

Do you really think about the total you need? Bookmark this page if need be, because it is important for you to spend some time thinking about and visualizing this. What are some likely, costly things that could happen this year or next? Is there anything with your vehicle or house that might have an issue? HVAC's and transmissions…I'm looking at you.

Is that enough money saved? Do you stop there? Maybe, maybe not. If you had to take money out of it then you want to keep money going into it to replace what was lost. When it exceeds your goal you can do something with the extra as well. We'll talk about the grown emergency fund in a minute.

2 tricks to put this into effect

The first method to get money into an emergency fund we'll call "Pay yourself first." If you have a checking and savings account and your paycheck goes into checking, then the next day you have some transfer from checking to savings. Your bank should have a way to automate transfers between accounts on a schedule you set. So, using the previous example of $600 there in a year and you are paid every 2 weeks would mean $23 after each paycheck. $50 if paid monthly or $12 if paid weekly.

The reason it is popular is because it works. Remember the phrase, "Out of sight is out of mind." If you don't see the money in your checking account you aren't going to spend it.

The other way that is even better if your employer can do it is split your direct deposit where the $50 per month goes directly to Savings without going through Checking.

The second method is more manual, but you may find more money per month that you can save. You have to find the budget you used to assign credit cards to monthly expenses. Using that budget or your bankruptcy Schedule J, you add an expense named "Emergency Fund." Find expenses that you can decrease and move that money over to the emergency fund spot.

If this is hard, then narrow the list by putting a star next to the absolutely necessary expenses. By process of removal you should be left with arguably optional expenses. What if you get stuck between two? Which two do you feel most guilty about spending money on? Are you able to eliminate them or at least greatly reduce them and put that money in your safety net which should help you feel better?

Advanced planning for bigger goals

Here is where it can get fun. So, an emergency fund is reactive, only used when the need arises and then replaced. But when you pass your goal and keep having money go in then you could use extra for something else. Like the example above, if after 2 years you had $1200 and still think you only need $600 then the extra $600+ can be put to use to save you money.

Extra money can be used for down payments, such as a car, so you don't have to finance as much. Hopefully, after those 2 years you get one of the best interest rates because your score is over 720 now, but more money down means less interest paid and/or smaller monthly payments.

Remember, these numbers are pretty small. So, if you paid off a car with your bankruptcy or otherwise ended a car payment. Keep making the car payment into your savings account. A couple years of that and you should almost cut your next, future car payment in half.

Expand your list of saving devices

Once you have your basic emergency fund squared away and you have the monthly saving method down pat, then you can graduate to the next level. I've mentioned your regular, no frills savings account and money market accounts. The next level of accounts are those with potential tax savings. Those would be your Roth IRA's or College Saving 529's for your children. These have contribution limits, for 2018 the Roth is currently $5500 per person per year, plus another thousand if you are 50 or older. Google these to find a wealth of information on their uses and tax savings.

The other options can include pre-tax funds instead of after-tax. These include regular IRA's, 401k's, 403b's, Sep's, and Simple IRA's .

Bonus Chapter 3: Master the Mystery

This one should raise your eyebrows. The factors that go into your FICO credit score are closely guarded secrets. This chapter will unravel a little bit of the mystery so you will know more than most people.

No discrimination allowed

Age, race, color, religion, national origin, gender, and marital status are personal information items that will not be part of your credit score. Justice is blind, so is FICO.

FICO score versus other loans

FICO has 48+ different risk based scoring models. So, your score for a mortgage is generally different than your score for buying a car. For a mortgage or other significant loan then your FICO score is usually a major consideration - or a minimum criteria that must be met, but of course, other information will be collected and factored into the decision as well.

But, again, your FICO credit score does not care if you are employed or not. Having a corner office, a fancy sounding title, or your own parking space doesn't matter. Your place of employment may be on your report, but just because it is there, or other certain information is there too, does not mean it is used in your score.

High rollers are ignored

It doesn't matter how much you make you make per year. Well, it might..., just not to FICO. So, there is no advantage for those who grow and pay off large balances each month. It seems like someone should be rewarded for using and paying off a bunch of credit each month, but nope. This may help you raise your credit limits, though, and many times, that will raise your score because it impacts your credit utilization.

And remember, having a higher balance each month is not helpful and will hurt you score as it gets closer to your credit limit. By closer I mean, 90% is worse than 50% is worse than 10%. In a perfect world, all your revolving accounts will be at 7% utilization. Since the world isn't perfect, shoot for 10%. If you're completely at or over your card limits, start by paying those down to

30%. You'll be surprised at how quickly your score improves. Credit Utilization is 30% of your score - and YOU control that!

Signs of stability are important

Credit scoring analysis has found that people who are settled somewhere for a long period of time are more likely to pay their bills on time. Because of that connection, FICO rewards stability. So, your FICO score does not care where you live. This neighborhood versus that neighborhood is not considered, but it does care how long you have lived there, and the longer the better. Along with this is a physical mailing address and not just a Post Office Box. Lastly, a Land line listed on your report may help too. Most people have cell phones now and it can move with you, but a land line shows more intent to remain stable.

Out of sight is out of mind

As I said earlier, not everything in your report gets used in your score. Also, if it is not on your report then it can't be used. FICO gets 100% of its information from the credit bureaus and calculates a score based on this information each time someone "pulls" your credit. It has no other sources to draw from.

This can be great if you have something negative that is not on your report, because then it won't be in your score. But the drawback is that all those other payments you make on time doesn't get reported. Have you faithfully paid your rent on time, every month, for the past year? Sadly, that is no help at all. Yet, if you are applying for a mortgage, most of the time you will have to provide proof that you paid your rent on time. (often for the last 2 years if your scores aren't very strong.)

Other examples of bills that often don't report are insurance, utilities, cell phone, or other leasing companies. It is almost ironic because they all seem to pull your credit to make their decision about you, yet they don't contribute back. It would make more sense for a cell phone provider to see payments on the previous cell phone you had. However, if you fail to pay your cell phone, utilities, insurance, cable, etc., rest assured, you will see a collection on your credit report for non-payment.

If you know a creditor who has not reported to any of the bureaus and you have had a bad month and are going to be late on a bill,   then, it might be the one that won't hurt your score. Don't let it get too far behind because it could go to collections and then really hurt your score. You may also wish to consider late payment fees. It is a lot to consider, but it is worth it. You already know more than your average consumer.

Bonus Chapter 4: Zombie Debt

Zombie debt. It is debt that was killed off, but was brought back to life. You thought it was gone, maybe it should have stayed gone, but it is back for some reason. This chapter will give you the information you need on what to look for and how to deal with a zombie debt that is coming after you.

How does this happen?

Debt buyers often buy debt from another creditor for pennies on the dollar. For example, if you owed XYZ Company a thousand dollars on one of their store cards and it went 180 days late, then they may charge it off and sell the debt.

The debt buyer purchases your debt for one hundred dollars from XYZ. So, that is all XYZ gets and they move on. The debt buyer now has the right to collect on that debt.

Why does this happen?

What does the debt buyer get out of this? They get the chance to collect one thousand dollars from you and profit for up to nine hundred dollars. Some debt is worth less than others.

Perhaps, this debt gets sold again…and again…each buyer paying less and less. Or perhaps the debt is quite old and cannot be collected through the legal system. Lastly, you may not owe it at all anymore.

For example, Bankruptcy may have discharged your personal liability on a debt. If you no longer owe it, or the debt was already paid for and settled, it is considered a false debt and you never owed it.

What to do?

Don't panic. If this issue comes up then you can take a moment to remember this chapter and the next couple of tips. They called you! They hoped to catch you off-guard, but you don't have to talk to them. Take control and turn the tables on them. Write down the name of the person you are speaking to, date, time, the collection company, and who the original debt was with.

If you filed a bankruptcy then tell them the following:

0.0 Your case number, the date you filed, and your attorney's contact information. You don't have to send them anything. They can contact your attorney or look up the bankruptcy information to confirm.

If this collection action came as a letter then get the information and send it to your attorney or send them a copy of the collection letter. I'll explain in more detail in a minute.

Admit Nothing

The most important thing about the phone call is do not keep talking to these people. It does not benefit you and if you say the wrong thing it can hurt you. They called you, they are bugging you, they are invading your day! You don't have to give them your address or anything. And trust me they will try to sneak this into the beginning with a statement like, "can you please confirm your address with us?" "No." It doesn't have to be mean.

You can be courteous. There is a person on the other end of the line, sort of....but don't let them push you around. Lastly, do not admit anything about the debt. Do not acknowledge or even say you recognize that creditor. I am in no way saying lie to them, but don't let them run the show. Get info, get off the phone, figure it out, and call your attorney if you need to.

Do not let them get more than one sentence out about things like "good faith payment" or any payment. They get zero payments and no banking information from you...not even which company you bank with, and no agreement for any future payment.

Why admitting you owe is dangerous

The term Statute of limitations is often used about 2 different things. One is about how long information stays on your credit reports and the other is about whether or not you can be sued.

For negative information on your credit report we hear the "7 years" thing pretty often. To be a little more specific, 7 years from when? It is not from when the account was opened. For negative items, it is from the delinquency. Delinquency is often 180 days past due, and generally the same point as when "charge-offs" often occur. For example, if the payment was due January 1st, then July 1st the 7 year clock starts until it falls off your credit report.

Being sued over the debt that started with that missed payment on January 1st is different. It varies wildly State-by-State. WILDLY. So, depending on which State you lived in on January 1st when you missed the payment could mean being open to being sued for between 3 and 15 years. The statute of limitations also depends on whether it was a contract, written or oral, a promissory note, foreclosure, personal injury, product defects, medical malpractice on and on.

Credit card debt is pretty simple though. For example, if you could only have been sued for 3 years, and 5 have gone by, then they can't even threaten to sue you now.

But if you make a payment, promise to pay it, or possibly even admit you owe it. you risk resetting the clock to being sued again and it can go back on your credit report for 7 more years.

The solution and the reason you can stand firm.

Zombie debt, by definition, is very weak to certain things. If your bankruptcy took care of it then they can't sue you. They can't even put it back on your credit report. If they do, you can actually sue them, counter their claim, knock it out, and then maybe make them pay you for violations of your bankruptcy stay, discharge, FCRA, UDAP, or FDCPA or other causes of action.

If you don't have bankruptcy as a defense and the debt is not yours, then you have rights under the FDCPA ("Fair Debt Collection Practices Act") within the first 30 days to force the debt collector to validate the debt. This means they must prove you owe it. That should stop it, and if it does not, then you can also file a complaint with the CFPB ("The Consumer Financial Protection Bureau"). They can be found online at www.consumerfinance.gov. Their jurisdiction has only recently expanded over debt collection, previously only dealt with by the FTC ("Federal Trade Commission") and State attorney generals.

So, in conclusion. I hope you enjoyed the bonus chapter about Zombie Debt. No actual zombies were hurt in the making of this chapter, but we do hope you learned the steps on how to re-kill that debt. Remember, Don't panic, don't admit anything, contact your attorney.