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## **How To Improve a Bad Credit Rating**

Ok, now we have established the fact that a person's credit score is important (regardless if you have debt, plan on getting it debt, or are debt free). This brings us to the next question. If you have a bad rating, how can you improve it?

In order to raise your score, you will first have to know exactly how your score works. Secondly you can use a lot of different techniques to raise it. So today, I will provide 2 very pertinent articles on Credit that will achieve both tasks.

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### **3 Important Rules You Must Know to Have Perfect Credit**

By Lynnette Khalfani-Cox

When it comes to credit, there are three basic - yet all-important - rules you need to know if you want to achieve the highest possible credit rating. These are rules that banks and creditors, credit reporting agencies, and credit-scoring companies tell you explicitly: in their consumer publications, on their websites, and in a variety of communications with you. In a nutshell, here are the three dominant written rules of the credit world:

1. There is a specific formula that governs your credit score.
2. All debt is not created equally.
3. The fine print counts too.

While virtually every adult in America has access to these three written rules, the majority of people have never taken the time to fully apprise themselves of these rules - let alone fully understand their implications. That's a pity, because knowing these basic written rules is critical to understanding the world of credit and achieving perfect credit.

So let's start with the first written rule. The formula that governs the most widely-used credit score is calculated by Fair Isaac Corp., the company that creates FICO credit scores, which range from 300 to 850 points. The higher your score, the better your credit.

#### **Here is The Formula That Governs Your FICO Score**

- 1. Payment History: 35% of your score**
- 2. Amounts Owed: 30% of your score**
- 3. Length of Credit History: 15% of your score**
- 4. New Credit: 10% of your score**
- 5. Types of Credit in Use: 10% of your score**

Based on this information, as well as other advice FICO freely disseminates on its website and elsewhere, you can draw some good general conclusions about what actions can help your credit - and what could hurt it. For example, to increase your credit scores:

### **Pay Your Bills on Time**

Payment track record is the largest component of your FICO score  
One late payment can drop your FICO score by 50 to 100 points or more

### **Maintain Low Credit Card Balances**

Don't "max out" any cards  
Try to not to use up too much of your available credit limit

### **Keep Your Older, Established Accounts Open**

Longer credit history is scored favorably  
Closing accounts can sometimes lower your FICO credit scores

Let's look now at the second written rule concerning your credit.

## **All Debt is Not Created Equally**

Debt is such a huge problem in America: Mortgage loans. Credit cards. Student loans. Automobile loans. You name it - we've got it. But from a credit standpoint, please understand that the type of debt you're carrying matters tremendously. I know this because the credit industry has told us explicitly that some debt is considered "bad" debt.

What counts as "bad" debt? For the most part it's credit card debt. Yes, if the balances on your Visa, MasterCard, American Express or Discover cards have gotten out of control, you're likely doing some serious damage to your credit. But other types of debt aren't good for your credit rating either - like department store charge card you opened just to get 10% off your purchase, or the retail credit account you got to buy household furniture.

Your FICO score is strongly tied to the credit card debt you have, because, (as you may recall from the FICO formula), 30% of your credit score is based on the amount debt you have. Did you think that 30% pertained to your mortgage debt or student loans? Although those debts are examined in other ways during FICO's calculation, the debt FICO is overwhelmingly concerned with is your credit card debt. Let me explain why.

The FICO scoring system evaluates three forms of debt in your credit files:

- mortgage debt
- installment debt
- revolving debt

Mortgage debt is very straightforward. This is the house note you have on your primary residence, the home equity loan or home equity line of credit you may have, or perhaps the mortgage you pay

if you're lucky enough to have a vacation home or investment property. In short, if you own a piece of real estate, and you have a loan for which the house is collateral, you have some form of mortgage debt. Generally speaking, this is the most highly-rated form of debt in the FICO scoring system.

Next up is installment debt. This refers to one-time loans you took out that you are paying off over time, by making fixed payments at regularly scheduled intervals. For instance, assume you received a \$10,000 student loan five years ago and you are now repaying the loan. You may be making \$125 payments every month, due on the 15th of the month. In this case, your student loan balance does one thing: it declines every month. Part of your \$125 a month payment goes toward knocking down the principle balance and part of it goes toward paying interest on the loan. The same deal applies with car loans. Lenders know that balances on installment loans aren't going to rise. Thus, installment loans are "good" forms of debt, from a credit-scoring standpoint. They are unlikely to hurt your credit ranking, as long as you pay on time.

The last category, however, revolving debt, represents a potential minefield for lenders - and you - in many ways. Revolving debt, such as credit cards, is the riskiest form of debt from a lender's standpoint, because the lender has far less control over this debt, and you call the shots on it in many ways. Assume, for a moment, that you have a MasterCard with a \$5,000 credit limit. Your balance this month might be \$1,900. But last month the balance was \$1,255, and the month before that it was \$1,640. As it stands, neither the lender nor FICO has any way of knowing how much you're going to charge in any given month. They can try to predict it - and they do try. But for the most part, they can't know with certainty whether you will charge \$30, \$300 or even \$3,000 on your card in the following month.

There is another reason why revolving debt isn't scored favorably in the FICO scoring model: No one knows exactly how much you will pay on your credit card debt. You might decide to make minimum payments, you may opt to pay \$500 toward the overall balance, or you may feel flush with cash and decide to pay off the entire balance.

Lastly, consider that installment loans, such as auto loans, are secured loans. If you don't pay what you owe, the lender can come to your house and repossess the vehicle. A credit card, in contrast to a car loan, is an unsecured form of debt. If you charge \$800 on your Visa card for that flat-screen TV you just had to have, what is the bank going to do if you don't pay your credit card bill? They can't come in your house and snatch that 40-inch TV off the wall. So they're mainly stuck with reporting you to the credit bureaus if your payment is 30 days or more late. Of course, your account could go into collections, or they could get a judgment against you if they felt it was worth the time and money to go those routes. But the concept you need to understand is that secured loans - whether it's on real estate or automobiles or something else - are always less risky to lenders than are unsecured debt, like credit cards. As a result, that unsecured debt filling your credit report, courtesy of those credit cards in your wallet, will always get judged more severely in the credit scoring world.

### **The Fine Print Counts Too**

The last written rule concerning credit that is of utmost importance is the one where you're told, in no uncertain terms: The fine print counts too. In fact, it often counts more than the "headlines" or

promised benefits of any deal you encounter. How do banks, credit card companies, retail creditors and others tell you that the fine print counts? It's when they make statements like these:

- Terms and conditions
- Certain restrictions apply
- Consult rules for further information
- Complete details listed below
- Full terms, rates, fees, and other costs on back
- Limitations and exclusions
- Please see application for all details
- Pricing and terms

So now you've been warned: If you ever see language like the statements listed above, that's your cue that you need to read the fine print for any product, service, or any deal you're thinking about taking. In many cases, if you took the time to read the fine print, all sorts of red flags would pop up, telling you to slow down and fully understand what you're about to do.

Oh, if I had a dollar for every time I've heard people complain (myself included) about some aspect of their credit and debt that was tied to fine print. I'd be a very wealthy woman indeed. Here's what happens in many of these cases. We get wowed by a marketing message or so vested in getting a certain deal that before we know it we're caught up in a transaction where we don't understand the fine print. Or worse, we don't bother to even read it. Or perhaps we ignore the fine print thinking that only the bold-faced message counts, especially when it seems to work in our favor. Like the balance transfer feature promotion for a new credit card that says "0% for balance transfers." But after you read the fine print of this seemingly attractive offer, you find out that the balance transfer fees are exorbitant, or that the interest rate on standard purchases is sky high.

It's been said that "The big print giveth, and the little print taketh away." In many ways, that's true. Here's why the fine print counts too - often more than the bold-faced advertising or marketing message you may have seen in an offer.

The fine print is where you'll learn what you must do to qualify for something.

The fine print is where you'll find out when the benefits promised apply, when they don't, and when they can change, expire, or be revoked.

The fine print is where you will discover all the restrictions, exclusions and other rules that impact a deal.

Therefore, you must always think about any loan, credit offer, agreement or special deal as having two parts: the hook and the fine print. The hook is designed to do just that - "hook" you into saying "Yes." The hook is the bold-faced advertisement, or the marketing message that grabs your attention. It will be something enticing, like "No Money Down," "Low 4.9% APR," "Only \$9.95" "Cash Back Bonus" or "Free." The fine print invariably has less-appealing language. It covers the nitty-gritty details of the offer, including its limitations, critical information about pricing, fees, terms and conditions. The hook is always prominently displayed. But the fine print is most often

displayed in small type, or perhaps is simply not as pronounced, and is usually located far at the end of, or in back of, an offer or agreement. In the case of online offers, the fine print is typically one or more click away from the hook. While the fine print may be more difficult to read, harder to find, and sometimes complex to understand, it is there nonetheless, and it's your responsibility to read it. If not, you could put your credit standing and your finances at serious risk.

This article excerpted from Perfect Credit: 7 Steps to a Great Credit Rating, by Lynnette Khalfani-Cox. All rights reserved. For more tips on managing credit and debt, visit Lynnette's website at: <http://www.TheMoneyCoach.net>

Lynnette Khalfani-Cox, The Money Coach®, is a Personal Finance Expert, television and radio personality, and the author of numerous books, including the New York Times bestseller Zero Debt: The Ultimate Guide to Financial Freedom.

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## **Insider Techniques To Raise Your Credit Score Fast**

by Jay Peters

If there is one question I'm asked by consumers more than any other about credit, it's this "What's the fastest way to raise my credit score?". My response is always the same "How much do you want to raise it?"

If you wish to increase your score from 580 to 650 then your strategy will be very different from someone wanting to go from 670 to 725. Why? Because your starting point is different which requires a different approach. Also, while the removal of negative items from a report will almost always lead to an increase in score, it's a basic concept at best. Therefore, within this article, we'll discuss somewhat inside techniques known by very few (since this is what our company specializes in publishing).

In relation to just removing negative items, these are techniques which you can use even if you have NO derogatory information on your credit report. We'll start with the most overlooked strategy first and that's your...

**DEBT to CREDIT RATIO:** The most fraudulent belief I've been hearing for over 15 years is "I have excellent credit, I pay all my bills off in full every month!" This is a false belief for one to buy into and understanding your debt to credit ratio holds the key to getting your "credit mindset" right.

Your debt to credit ratio is your ratio of debt to total available credit you have been extended (revolving accounts only). For example. If you have \$10,000 in total unsecured revolving credit accounts and you're currently in debt \$2500, then your debt to credit ratio is 25%. Since the main way lenders make money is by charging interest, one of the elements of the credit scoring model is driven by your ability to maintain balances and pay over time. This shows your true (long term)

credit worthiness which is most profitable to lenders since they make money primarily via interest and not annual fees.

Over the years we've discovered without question that carrying the proper debt to credit ratio will boost your score faster than paying off your bills in full each month. I have argued with the Better Business Bureau on this topic and they still disagree (despite my sending them proof from Fair Isaacs own website [www.MyFico.com](http://www.MyFico.com) the organization which invented the credit scoring software used by credit bureaus).

Of course, what do you do if you're like most Americans and your debt to credit ratio is too high? For example. You have \$10,000 in unsecured revolving accounts but you owe \$8500, thereby giving you an 85% debt to credit ratio. How can you bring it down without selling everything you own? The answer is simple and takes us to the next technique which is...

**SUB-PRIME MERCHANDISE CARDS:** The single most cost effective (and powerful) tool for consumers to increase their high credit limit and decrease their debt to credit ratio is the use of Sub-Prime Merchandise Cards which report to one of more of the major credit bureaus.

Unfortunately, despite their immense benefits, these are the most misunderstood cards in the credit industry. A large portion of the misunderstanding is due to marketers misrepresenting the cards and the growing number of companies promoting them. When you learn how they work one quickly understands why they have been the subject of much misrepresentation.

A Sub-Prime Merchandise Card is nothing more than a card attached to a line of credit which allows you to buy merchandise from a specific vendor (usually the company that sold you the card). The merchandise (in most cases) will be purchased through a catalog or online mall.

Where the problem arises is that the cards are marketed almost exclusively to the sub prime market via email, telemarketing and direct mail etc. The reason for this is they can advertise almost irresistible offers like "\$5,000 Credit Card... GUARANTEED! No Credit Check! NO Cosigner! You cannot be turned down!" or "Unsecured \$10,000 Credit Line! Everyone Approved!". I'm sure you get the idea...

While there are many companies which do this and are a "shady at best", there are a few which do it legitimately and it's the best kept secret to build your credit and build it fast.

Here's how it works: the company approves anyone with a pulse (literally) and gives them a card for \$2,500 to \$12,500 with NO credit check and NO cosigner. However, the card is only good for merchandise through their website or catalogs and the consumer is required to put down a deposit on whatever they purchase. After the deposit is paid, the remaining balance is financed on the card.

For example. A person buys \$1,000 worth of merchandise. Their deposit is \$300 so they then finance \$700 on their merchandise card and make payments. Sound like a scam? If you say "Yes" like most people then you're missing the point... big time.

With a legitimate Sub-Prime Merchandise Card your credit line WILL be reported to at least one major credit bureau (or more). This means if you get a \$5,000 card and you finance \$500, on your credit report it will look like any other credit card and will do three extremely important things for you.

- 1.) It will increase your current “High Credit Limit” by \$5,000 almost overnight as the account “looks” like any other unsecured revolving account.**
- 2.) By carrying a small outstanding balance it will positively impact your credit report by building and showing potential lenders your credit worthiness.**
- 3.) With a good payment history you are virtually guaranteed to receive “legitimate” pre-approved credit offers in the future due to other lenders renting your name from the credit bureaus.**

This technique is hard to beat for both cost and effectiveness. Of course, the whole key is knowing exactly which cards report to the credit bureau and offer the best rates. However, it is such a loophole, I am sad to say it could be gone at anytime. In fact, we have set up a free 24hr teleseminar to discuss this here:

20 Minute Teleseminar:

1-801-350-3999 (Call 24hrs)

Or read the whole report on how to add \$10,000 in unsecured credit to your credit profile in less than 45 days!

<http://www.CSBCards.com>

**ADVANCED CREDIT PROFILING:** This is a strategy while not complex, can be taken to very complex levels. Even in its’ most basic form, it’s taken advantage of by very, very few. It involves intentionally building your credit report in a way which creates a “profile” that closely fits the criteria of most lenders (as well as the overall credit scoring system). Again, this is a technique which can be used in a myriad of complex ways, but for simplicity I will explain it in its’ most basic form.

While many consumers will boast when they have 10, 20, 30 or even 50 thousand dollars worth of credit cards on their report, many of these same people do NOT have even one mortgage, automotive loan or lease, equipment loan or a even a line of credit with a local bank or credit union. These other forms of credit create a much more well rounded credit profile for the consumer. This is achieved by showing greater credit account diversity and experience with multiple types of credit due to the various lines held.

For example. A person with \$50K in credit cards does not represent near the credit experience as a person with the same \$50K along with a mortgage, an automotive loan and an equipment lease. We have clients who have financed vehicles not because they had to (or even wanted to) but because

they “needed to” in order to create a credit profile that would position them in the future to secure the lowest possible rate on a mortgage when they applied and needed it.

More complex forms of Advance Credit Profiling involve one subscribing to affluent or semi-affluent business and professional publications and organizations. These would include magazines, newsletters, trade journals and national associations. The goal is to get ones name into the databases of these publications and organizations. Why? To get on highly targeted lists in order to receive select credit offers.

Marketers of credit offers have found that simply renting names of consumers from the credit bureaus does not provide enough information about the person as a credit risk anymore. Therefore, it is speculated that many will rent a list from the credit bureau and then cross-reference this list against another list they have secured from a consumer source such as an affluent business or professional publication, trade journal or organization.

By crossing the two lists together the marketers find the names contained on both lists. This in turn provides them with one highly refined and targeted list to mail their offer to. This results in shortening the process of securing a new quality account holder thus lower the overall account acquisition cost of new accounts.

When a consumer learns how to intentionally put themselves into these databases to wind up on these refined lists, the credit building process is sped up exponentially. Of course, many would call this “highly speculative” but we have undeniable experience that it works.

In the end, all of us need to remember that today our credit score is more important than it has ever been in the history of the credit reporting system. While credit miracles don’t happen overnight, you can create your own credit miracles by applying simple insider strategies consistently over time. Before you know it, you’re a proud member of the 700 Club. The “700 Plus Credit Score” club that is!

Jay Peters is the founder of Consumer Publishing Group which publishes the Credit Secrets Bible (in print since 1994). For more information, visit their website at <http://www.creditsecretsbible.com>

I hope this has helped.

So Until Next Time,

Free Your Mind... Online

Matt Mason

For more resources, visit the Resource Center  
<http://freeyourmindonline.net/resources.html>

