How To Improve Your Credit

Table of Contents

The Results of Bad Credit

If you've ever been turned down for a loan, you may already have some idea as to what the results of bad credit are. However, being turned down for a loan or a mortgage is only half the story. There are many more negative things that can result from bad credit.

Having bad credit can prevent you from getting many jobs. Most people rarely pay attention to the forms that they are signing when they apply for a job. There is a great deal of small print. Often, you are giving this potential employer the right to check your credit.

If the potential employer finds bad credit, this could easily cost you the job. The reasoning behind this is that bad credit is a sign that you are not a responsible person. Many people view this as a bad assessment of your character because most of us realize that bad credit can occur for a multitude of reasons – often beyond our control.

Another bad result of bad credit is being turned down for insurance – or being charged higher premiums for insurance. Nobody really understands the reasoning behind this, and many think it is just a way for an insurance company to justify charging higher rates. Regardless of the reasoning, bad credit definitely has an effect here.

Bad credit also leads to higher interest rates on loans and credit cards – even if you are approved for these things. The better your credit rating is, the lower the interest rate you are offered. Otherwise, you should expect to pay very high interest. These higher interest rates also apply to automobile loans and mortgages, if you are even able to be approved for these types of loans in the first place.

Bad credit can cause you not to be able to rent a house or an apartment. It can also have an effect on leasing commercial space for a business. In almost all cases, landlords and property managers will run a credit check on potential tenants, so as you can see, bad credit could potentially cause you not to be able to rent in a desirable area.

Even if you never have any intention of purchasing anything on credit, your credit rating still has a big impact on your life, in numerous areas. So, even if you pay cash for everything, you may still have several consequences of bad credit that you need to work around – if you currently have bad credit.

Of course, the wisest thing that one can do is avoid bad credit altogether, which in most cases means not ever getting any credit. Most people however are shocked to find that many lenders consider no credit worse than bad credit –

which is very surprising…but very true. What this means is that despite what your financial plans are, you need credit on your credit history – and that credit needs to be good credit.

As mentioned earlier, however, it isn't like we plan to have bad credit. Few people in this world are so dishonest that they buy things on credit with no intention of paying their bills. Most people go into credit purchases with the best of intentions, but then life happens.

You may lose your job, become ill and unable to work, there may be some sort of major change in your life, or you may simply find yourself in a financial bind because you've over extended yourself. Your intentions were good, but to your creditors, that really doesn't matter – they simply want their money.

Another issue that we are all subject to is that the credit rating system is not fail proof. For example, if I knew your name and social security number, I could place a negative item on your credit report today – without any proof to the credit reporting agencies that you actually owe the debt. That negative item would remain on your credit report until you noticed it, and you contacted me to prove that you owe the debt.

You would then have to go through a great deal of trouble to convince the credit reporting agencies that you do not owe that debt, and to have the item removed from your credit report. In fact, it is very easy for the 'collector' to put the item on the report, and very difficult and time consuming for the consumer to have the item removed from the credit report.

It gets worse from there. If you have a dispute with your bank, your credit could be negatively affected. If you have a dispute with a landlord, they can put a negative item on your credit report – even if you were 'in the right.' You will most likely have to go to court to have these types of negative items removed.

Then of course there is the effort that it takes to clean up your credit. Your debts are sold off to a collection agency after a period of time. From that collection agency, it will be sold to another and another and another – until you have no idea who currently holds your debt. There have been numerous instances where the debt is paid, but then resold to yet another collection agency anyway – and you may end up paying the same debt two or three times – usually without realizing it – before you are finally rid of it.

Cleaning up your credit is hard – and keeping your credit clean is also hard. But, until the whole credit reporting industry is cleaned up, and forced to follow fairer, more stringent guidelines, we are all subject to the credit monster.

Are you ready to put forth the time and effort that it takes to clean up bad credit and to keep good credit clean?

Start with Financial Organization

Before you can start cleaning up your credit, or even improving your credit score, the first thing you must do is understand where you stand financially – and where you want to go financially. If you're credit is currently bad, you have no choice other than to determine that where you want to go financially is towards clean credit – as opposed to outstandingly good credit, which would obviously have to come much later.

The first thing to do is to determine your total monthly income and your total monthly expenses. You have to create a budget – and of course you have to be realistic and determined to stay within the confines of that budget.

Within that budget, there must be available money to clear up old debts, but there must also be money to put aside for emergencies – otherwise, you will likely find that you fall behind on your bills again – which of course leads to bad credit in many cases.

Set aside at least six months of your current income and don't touch it except to pay bills when you're income has been reduced and you are unable to pay bills from income that is still currently coming in. When you do spend this money make sure that you work to replace that which you have spent.

Now, you should know how much it takes for you to live, how much you have coming in, how much you need to save, and how much you have to clear up old debts. So, let's take a closer look at the debt that you have, and see where you can consolidate or reduce interest rates.

First, look at your credit cards. Realistically, everyone needs one credit card. You really don't need more than one, although you may also have a gas card that you use. Department store cards should be avoided at all costs. Determine which credit card has the lowest interest rate, and use it to pay off all other cards – and then destroy those cards. You will be surprised at how much money this saves you in the long run, and how much it improves your credit rating.

Next, make it a point to make just one small purchase each month with your card in order to keep it active. The idea is to pay the balance off, which will pretty much be impossible if you are continually raising the balance higher and higher each month.

When you pay the bill, make sure that you are not only paying off the new monthly charge that you made, but that you are also paying as much as you possibly can towards the overall balance on the card. If you continue to do this, you will find that the balance is steadily – quickly – shrinking.

Take a look at your other debts. Realistically, it's hard to clean up your credit when you are in debt, so the obvious choice is to pay off current debt before you start bothering too much with older debt. See if you can refinance your home for a lower interest rate.

Do the same with automobile loans. Get all of your payments down as low as you possibly can, so that you have the extra money that you need to not only get out of debt, but to clean up old debt.

Gather all of your financial papers in one place – including your budget. If you are having trouble making a budget, or having trouble sticking to your budget, you may need a financial advisor, or some financial counseling. This is covered in greater detail later on.

The idea is to get your finances in order. You need a clear picture of what you have in terms of money, what you owe, and how your money is spent. You need to ensure that your income is more than covering your current expenses, because again, until there is extra money, it will be impossible to clean up your credit, or even to improve your credit score.

Take another look at your budget. Where can you cut back to create extra money? Here is a short list of things that you can do to increase the amount of money that you have each month to clean up your debt and your credit, without having to take on a second or third job:

- Cook at home – don't eat out at all.
- Stop magazine subscriptions.
- Rent movies instead of going out to movies.
- Buy clothing and other items at second hand stores.
- Stop all drinking, smoking, and gambling.
- Look for cheaper forms of entertainment – free is always good.
- Make changes to reduce utility bills.
- Choose a cell phone or a home phone – you don't need both.
- Sell your car and get one with lower payments.
- Get a car that drinks less gasoline.
- Shop for better insurance rates.
- Cancel memberships that you seldom use.
- Look at every expense to see what you can do to make that expense either smaller or non-existent.

Everybody's budget is different, and only you can decide what you can and cannot live without. However, when you are looking at your budget, you really have to think about what is most important to you – those expenses or good credit.

Take Care of Your Bank Accounts

Your bank can be your best friend or your worst enemy when it comes to your credit and your financial health. If you don’t have a checking account and a savings account, you should open both immediately. Creditors are very leery of people who don’t have simple bank accounts.

Make sure that you keep your bank book balanced, and although most banks now offer overdraft protection – this protection is very costly, and should be avoided.

If possible, avoid paper checks. Instead, use a check card, which is available from most banks. Paper checks cost money, and it’s easier to overdraw your account if you are using paper checks.

There is a lot to be said for online banking and automatic bill pay, but banks charge money for these services. Really think about whether you need these services or not. Yes, they are convenient, but convenience almost always costs money – so use caution, and really think about how you might better use those fees.

Realize that most banks have several options for both checking and savings accounts. Really look closely at those options, and determine which account you need. The more features the account has, the higher the fees will be. Choose the accounts that have the least number of features that you need.

Put money into your savings account weekly – even if this isn’t your main form of savings. Obviously, there are vehicles for savings that offer more interest than a regular pass book savings account at your bank, but that account should exist regardless – for numerous reasons.

The first reason is that if for some reason you need an emergency signature loan from your bank, and your bank sees that you’ve been steadily increasing your savings account at their bank, and that you are in good standing with your checking account, the chances are good that they will extend that signature loan, although they may use your savings account as a guarantee for a short term loan as well.

The second reason to continue to contribute to that savings account is that you will be covered in the event that you need to write a check for which you don’t have the funds. Instead of bouncing the check, which can be costly, the bank will transfer the funds from your savings account to your checking account.

You can think of it as an additional financial safety net. The key is to not do this if you can avoid doing it…just let that little savings account slowly build, even if it only builds at a rate of ten or fifteen dollars per week.

When you receive your bank statement, open it up and actually look at it. You would be surprised at the number of people who may save their bank statements, but never actually open them up and look at them.

Look for any mistakes, look at the fees that you are being charged, and of course, if you see any discrepancies, or anything that you aren't clear about, give your bank a call for an explanation. After you have opened and examined your statements, file them in an orderly fashion, where you can easily lay your hands on them if you need them.

If you have loans through your bank, make sure that you make those payments on time. If there is ever a point when you know you are going to be late on the payment, make sure that you call your banker as soon as you realize this.

In most cases, your bank will work with you to resolve any issues – and if you are in good standing with them, you can even have a note or two moved to the end of the note – which will give you a little temporary relief in the event that you need it.

Once you've established yourself with your bank, you will often find that your bank offers you the lowest possible interest rate for your credit card, depending on your credit. Therefore, you might want to consider exchanging your current credit card for a card from your bank.

Realize that when you are in good standing with your bank, they really want your business – badly. They have a lot of competition, and if they know that you are getting a better deal for a loan or a credit card at a different financial institution, they are likely to try to work out a better arrangement with you in an effort to keep your business.

Having a good relationship with your banker is essential when it comes to building good credit. Again, this will allow you to get small loans that you can quickly pay off, to get financed for autos or a home, or to get a bank card – possibly even if your credit is less than perfect.

Also consider a credit union, as opposed to a bank. If you are eligible to join any credit union in your area, you should absolutely do so. Credit unions are unique in that they only consider your standing with them and not your general credit rating when you apply for a loan or credit card with them. This is an excellent option for someone who is working towards repairing bad credit.

Get a Credit Card

Credit cards can be a danger if you don't use them with common sense. Most credit counselors would advise you to completely get rid of all of your credit cards, but if you are trying to raise your credit score, that isn't necessarily the wisest thing to do.

If you are in deep debt, however, you may want to go ahead and get rid of all of your cards temporarily. At some point, you need at least one credit card. One card is sufficient to help build credit – but if you use common sense, it isn't enough to drive you into deep debt.

These days, anybody can get a credit card, regardless of what their credit rating is. The thing is, of course that the poorer your credit is, the higher the interest rate you will have for your credit card.

The first and most preferable option for a credit card is to get an unsecured credit card. In most cases, you should choose Visa or MasterCard. If you already have decent credit, you might want to go with American Express or Discover. Check different rates at different banks, including your own bank, and get a card with the lowest interest rate possible. The credit available on the card really doesn't matter at this point – find a major unsecured credit card with the lowest possible interest rate.

If you cannot get approved for an unsecured card, the next option is a secured credit card. Again, you want to find the secured credit card with the lowest interest rate, and your choice will be either MasterCard or Visa. Prepaid cards are nice, but not an option because they do nothing to improve your credit rating.

Not all banks offer secured credit cards, but you can find secured credit cards from numerous sources on the Internet. You will need to have the funds to open a savings account with the issuing bank, and the amount that you put into that savings account is what your available credit will be on the card.

As stated earlier, make at least one small purchase with your card each and every month, and when the bill comes, pay it in full. This will help to negate any interest charges, which saves you loads of money – all while building up your credit. If you want to ensure that you are not spending money unnecessarily with your credit card, make sure that the purchase that you make with it each month is a necessary purchase.

It takes a little while, but eventually, as you continue to make one purchase and pay the bill in full, the issuing bank will first offer you a higher credit limit – and will eventually offer you a lower interest rate. If the issuing bank doesn't offer you a lower interest rate after one year, contact them to inquire about a lower interest rate. If they don’t offer it at that time, start shopping for a new card.

If your credit card is secured, make sure that you are continually adding money to the savings account that is used to secure the card. This money should be drawing interest. If you are paying the bill each month in full, you are effectively earning money with your secured card by adding money to your savings account, and allowing those funds to draw interest.

After a year of having a secured credit card, apply for an unsecured credit card. If you still aren’t eligible, the chances are good that there are other issues with your credit report that are preventing this – because you will indeed be building credit with the secured card. In many cases, however, you should be eligible at this point for an unsecured credit card.

As stated, it is very easy to get into a bind with credit cards if you aren’t careful. If you already have credit cards, get rid of all but one, transferring the balances of all cards to just one card if possible. If this isn’t possible, transfer as many balances as you can to lower interest cards, and then start paying them off.

Start with the card that has the highest interest and make sure that you are paying more than the minimum payments each month. Avoid making more than the needed monthly purchase on your credit cards that keeps the cards active.

The overall goal is to have one major credit card, with the lowest possible interest rate, and with no balance being carried on the card. When you reach that point – and you will if you work at it – make sure that you keep the card active by making one small purchase each month, and paying the bill in full immediately when you receive it.

Always be on the lookout for a lower interest rate, and don’t be afraid to transfer balances from higher interest cards to lower interest cards. Not only will you be building your credit, but you will also be systematically lowering your debt.

When you cancel one card, make sure that you cut it up and return it to the issuing bank. Make sure that the final bill is paid as well. In many cases, the issuing bank will start sending you advertisements offering a lower interest rate – so be on the lookout for that as well.

Remember that credit cards are not the source of all evil. It all depends on limiting the number of cards that you have, getting the best deal on the card, using the card as little as possible, and paying the balance in full when the bill arrives.

Get a Loan

Even if you have no need for a loan, it is a good idea to get a small loan every couple of years. This helps to build credit, and you must remember that just as bad credit remains on your report for seven to ten years; good credit only remains for seven to ten years as well. Therefore, a loan that you paid off as agreed fifteen years ago won't have any impact on your credit report today – good or bad.

Go into getting a loan just as you go into getting and keeping a credit card. Use common sense. Make the loan small, and if possible, get a signature loan from your bank – where you don't have to put up any collateral. Again, do this even if you don't need the loan.

You will be asked what the purpose of the loan is, but you can always say that it is a personal loan and will be used to pay off some bills, for a minor remodel on your home, or even for a vacation. Just make the loan small – less than $2000 – so that it can easily be repaid.

Make your payments as scheduled for at least three months, and then if possible, pay off the loan. Inquire about early payoff penalties before you do this to be sure that you won't be penalized for paying off the loan early. You may need to make six months of payments, or get a higher loan amount, but this is something that you need to discuss with your banker.

You can, of course, also let your banker know that you are trying to boost your credit rating with a small personal loan. This generally impresses the loan officer, and in many cases, the loan will be approved. Depending on your current credit rating, however, collateral may be required for the loan, and of course if your credit is really bad, you will need to make some headway towards cleaning up your credit before obtaining a loan is even possible.

Avoid getting a loan from a finance company. These small loan companies will always report bad credit, but seldom report good credit. Obtain your loan from a bank or credit union instead, where you can be certain that the good credit will be reported.

When you get a loan - for the purpose of building good credit - use the money wisely. Put it in an interest bearing savings account, and use as much of the money as possible to pay the monthly note, and eventually to pay the loan off. In other words, unless you really needed the loan, don't use the money at all.

Just put it in a financial vehicle where it earns more money, and pay the money back using the money that you borrowed. The interest that the money is earning most likely won't be enough to cover the interest that you are charged on the amount that you financed, but if you use all of the money, plus the interest that this money earns towards paying back the loan, you won't be paying very much out of your own pocket using this method to improve your credit rating.

If you do need the loan, you must use a different approach. Obviously, you want to be sure that you can afford to pay the monthly note on the loan. If possible, pay more than the monthly note.

When you go in to make the additional payment, you can specify that you want that extra money applied to the principle of the loan. This allows you to pay off the loan faster, and to pay less interest in the long run.

You may have heard an old quip about borrowing money. It has been said that you will only get approved for a loan if you can prove that you don't need one. Don't pay any attention to that. The quip that you need to pay attention to is that getting the loan is the easy part – paying it back is the hard part. Make absolutely sure that you can make those payments – on time – because if you can't, you are defeating the purpose of getting the loan.

The key is that you want this loan to appear on your credit report. This is why you need to pay the note for a specified period of time, instead of just paying it back immediately. Talk with your banker and find out how long you need to pay on the loan, before paying it off, in order for it to appear as a positive item on your credit report.

Also note that while good credit does help your credit report, if there are still negative items on your credit report, the good credit doesn't do much for your overall credit. In this case, use the money that you borrow to pay off some of those negative items on your credit report – if not all of them.

This is the only true way to ensure that the loan is doing what you need it to do in terms of building good credit. Again, however, make absolutely sure that you can pay the note each month, on time, before you acquire the loan. Otherwise, it's a pointless exercise.

Once you've paid off the loan, wait six months to a year, and then get another one. Be careful with credit. There is such a thing as having too much open credit. Banks tend to determine your debt to income ratio, and if that ratio is too high, you will be denied credit.

Also avoid having your credit checked too often. Each time you apply for any type of credit, your credit report is pulled. When the credit report is pulled, it is noted on the report how many inquiries have been made within a certain period of time. If that number is too high, you can be denied credit despite how great your credit is – it simply counts against you, and the only way to avoid it is to apply for credit sparingly.

Clear Up Debts and Judgments

You need to see what is on your credit report. You can get a free copy of your credit report from all three reporting agencies from www.annualcreditreport.com each year, and this is a good time to do so if you haven't already done this.

Pull your credit report, and let's see where you stand. Pay special attention to the date that reports were made on your credit report. Often, if a debt is five years old or older, you can call the debt holder and ask them to remove the debt from your credit file – and many of them will.

Look at small amounts on the credit report. Pay these off first, and then we can start dealing with the larger negative items on your credit report. Many people have small debts that can be easily wiped out with one paycheck on their credit report. These may be forgotten bills that were left unpaid when you moved, or small medical bills that were simply overlooked. Go ahead and get those off your credit report.

Read every word of your credit report, and make notes on anything that is absolutely not correct, as well as notes on items that you are unsure about. The next step is to find out about those items.

This is done by contacting the creditors. These debts may have been sold off to collection agencies, and it may take several phone calls to talk to the company that now owns the debt. Once you find that company, the first thing that you need is their mailing address and the name of your 'account manager.'

That is all of the information that you need to acquire by telephone, because all of your future communication with these collection agencies needs to be in writing, for your own protection. Furthermore, everything that you send to these collection agencies needs to be copied, and sent by certified mail, where a signature must be obtained for the mail to be delivered.

It may sound like you are being overly cautious, but you aren't. These collection agencies are not typically known for their outstanding business practices. They are known for harassment, for lying, and for not taking paid debts off of your credit report – and continuing to try to collect a paid debt, or even selling a paid debt off to another collection agency.

The first bit of correspondence that you need to craft is a letter that simply asks for proof of the debt. You want a copy of the original loan documents to prove that the debt is actually legitimate, and that it is actually yours. Include any account numbers that you see on your credit report in relation to that debt, as well as the name of the original creditor – and again, send this letter by certified mail, and make a copy of it.

In that letter, you should also request that all communication with you be made by postal mail. State clearly that you are requesting that they not call your home or work, and make it clear that you will not discuss the debt by phone.

In this letter, there is no need for threats of any kind. Just make sure that you are direct and to the point. If and when you get a response, it most likely will not contain proof of the debt. In many cases, what you will receive is a letter demanding payment.

In response to this, write another letter asking them to prove the debt, explain that this is what you requested, and that if they cannot provide this within thirty days, that you expect the negative item to be removed from your credit report.

If in thirty days you haven't received proof of the debt, and the item is still on your credit report, send a third certified letter to the collection agency, and let them know that you are sending copies of the correspondence from you and from them to all three collection agencies to have the debt removed, and you might also state that if this appears on your credit report again, without them sending you proof of the debt first, that you will be forced to take legal action against them.

If the collection agency still doesn't respond with proof of the debt, or by removing the item from your credit report, hire a lawyer. You would be amazed at how inexpensive it is to hire a lawyer to help you get items removed from your credit report when the collection agency won't remove those items and fail to send you proof of the debt.

If a collection agency actually sends you proof of the debt, your next move should be to contact the collection agency to work out a payment schedule with them. When you mail those payments, make sure that they are sent by certified mail, and that you have proof that you've made the payments (copies of the checks are good). Once the debt is paid, make sure that it is removed from your credit report.

Judgments are a bit different. Those debts don't have to be proven…they must be paid, and they must be paid in full before they will be removed from your credit report. If you have any judgments against you, find out whom you need to pay, and save up the money to pay the debt in full as quickly as possible.

Cleaning up old debts and judgments can take some work, but it can be done if you are really committed to getting it done. Remember that most collection agencies will not or cannot provide proof of the debt, and when that doesn't happy, with a little work, you can have those items removed from your credit report without paying a dime.

Show Stability

A show of stability is essential when it comes to a good credit rating. Many people don't realize that their credit report shows all of their past addresses, and many of their past employers. If there are a lot of past addresses and employers, this makes potential creditors a little nervous, because it shows a lack of stability.

When creditors look at your credit report, they like to see that you've lived in your current or last residence for at least five years. They also like to see that you've held the same job – or your last job – for two to five years. This makes them more comfortable with extending credit. Having the same phone number for three to five years is also a good thing.

When you can show stability in this manner, your FICO score goes up. We will be discussing the FICO score in more detail later on, but everything that we've covered thus far has a great impact on the FICO score, and showing stability is no different.

Check over the addresses and employers listed on your credit report. If any of those addresses are places that you have not lived, or if any of those employers were never your employers, you need to contact the credit reporting agency and let them know this. This is a sign that somebody else has been using your identity. Take a closer look at the other items on your credit report as well if this is the case, to ensure that all of those items actually belong to you.

If there are questions, start dialing the phone and asking for original loan documents, and if the items are not yours, start following procedures to report that your identity has indeed been stolen.

As mentioned, in terms of showing stability on your credit report, three years is good, but five years is always better. Therefore, when you move or take a new job, make sure that you intend to stay (if possible) for at least three years, and for five years if you can.

Most people never take their credit report into consideration when they decide to move to a new apartment or to take a new job, but if you want to raise your credit score, you absolutely must learn to do this.

Of course, there is more to showing stability than being in the same place or having the same job for a period of time. Stability also means that your bills are paid on time each and every month – especially those bills that are reported on your credit report. This is where having a budget and learning to stick to that budget will come in extremely handy. Pay your bills, and pay them on time.

Get Professional Help

When it comes to cleaning up your credit and building your credit, you will benefit greatly from professional help – from several different professional areas. Below you will learn more about these various professionals and what they can do for you.

- **Accountant/Bookkeeper:** Even if you don't run a business, it is wise to have a working relationship with an accountant or at the very least a bookkeeper – even for your personal finances.

  These professionals will be the greatest help to you at tax time, without a doubt. You do not have to employ them year-round if you are capable of keeping up with your spending and income yourself. Some people really aren't good at this type of thing, while others simply don't want to be bothered with the task.

  Of course, you need to note that if you are trying to cut down on your spending, you absolutely must try to do without an accountant or bookkeeper for the majority of the year and learn to take care of your own finances…only using the accountant or bookkeeper at tax time.

  You will be amazed at the amount of money that you save, in terms of taxes owed, when you use an accountant or bookkeeper. They know the tax laws, and they are able to find deductions and credits for you that you don't even know about. While this has little to do with cleaning up bad credit or building good credit, it can help you to have extra money for the budget, which in turn can be an asset to your credit at some point.

- **Credit Counselor:** If your debt is out of control, you seriously need to consider a credit counselor. You may think that credit counselors only help when credit cards are involved, but this isn't necessarily true. Credit counselors can help with all types of debt.

  Some credit counseling services are absolutely free, but most of these do deal mostly with credit card debt. Others do charge a fee. Before you pay any credit counseling service, make sure that you have checked them out with the Better Business Bureau.

  Also note that many of the better credit counseling services deal with more than helping you get your debt under control – they will also help you to set up a budget that will work for you and your family. Make sure that you take full advantage of this.

- **Lawyer:** You may or may not need an attorney, depending on your situation. In most cases, you will only need an attorney if you are having trouble getting negative items removed from your credit report.

  Of course, attorneys are also great for other types of things as well, including helping you draft your last will and testament, helping you draw up living trusts and medical power of attorneys, and of course helping you with any additional legal troubles you may have.

  Lawyers can also instruct you as to your rights and responsibilities in terms of debts that are on your credit report, and this can be a valuable asset when you are trying to build credit or clean up bad credit.

  The good thing about attorneys is that they tend to charge by the hour – which means that you can find out what that rate is, make an appointment, and visit with them for one hour to get their advice and input on your financial matters.

- **Financial Planner:** Again, if your debt is out of control, you need a credit counselor. However, if you've got a handle on your debt, you should definitely consult with a financial planner. Believe it or not, this actually can help to improve your credit score.

  You see, a financial planner will help you to set up investments for your future. Those investments are considered assets by most potential creditors, and this will come in quite handy when you are building or improving your credit with loans and such.

  A financial planner essentially helps you to build a roadmap for your financial present and future, and again, this is something that is not only valuable, it is something that every adult can greatly benefit from in the long run.

  Note that financial planners are not professionals that are hired 'for all time.' Most will develop a financial plan for you, based on your current income, current debt, and future goals – all for a fixed price, depending on how complex the financial plan is. The cost can be as low as $100, and as high as $1000 for this one time service.

As you can see, there really are professionals that can help you. You may find that you need all of these professionals, and depending on how savvy you are in your own right, you may not need any of them at all. The important thing is that you are able to realize when you do need professional help, and that you obtain it when you do need it.

About Your FICO Score

Along with your credit report, you need to get your FICO score annually. Your credit report and your FICO score are two separate things, but they do indeed work together – or against each other depending on the situation.

FICO stands for Fair Isaac & Company. It is simply a number that is used to determine how likely you are to pay your creditors. The higher that number is the better credit risk you become to potential creditors. Credit scoring in this manner began back in the 1950s, and it still haunts consumers today. You can have excellent credit, but have a low FICO rating which will prevent you from getting loans.

FICO and the credit agencies unfortunately do not tell consumers how their FICO score is figured. This makes it harder to actually raise your FICO score, because nobody really knows for sure what is being taken into account to get that number. Unfortunately for consumers, the Federal Trade Commission doesn't seem to have a problem with this at all – but we can always hope that this will someday change.

Although we do not know how the FICO score is calculated, we do know what information is used to help determine that score. We know that each item, listed below, is assigned points, and that those points are included in complex (secret) mathematical formulas to determine the FICO score.

Those points are also determined and assigned based on how millions of other people compare, and how those other people use credit – although most people do not realize this. Most people don't realize that there are numerous items in your credit report that help the FICO scoring system to predict how you will handle your credit in the future – again based on how millions of others have handled their credit - with many or all things being equal - in the past.

The information that is used to determine the FICO score include:

- How often payments have been late, and how late the payments were.
- The amount of open, revolving credit available to you. The amount of credit that is available to you is compared to the amount of that credit that you have actually used as well.
- The age of open accounts that you have – sometimes old is good, and sometimes it is bad. In the case of credit cards, it's great…but in the case of loans, it could be bad (for instance, if you are continually refinancing

loans, without ever paying them off, or taking too long to pay them off – even if payments are never actually late – this could hurt your FICO score.

- Stability factors – how long you've been at your current residence, how long you've been at your job, how long you've had the same telephone number.

- All negative credit items, including collections, charge-offs, judgments, and bankruptcies.

Note that the FICO score, which can be obtained from www.myfico.com is not the same as the credit score that you can obtain through the credit reporting agencies. The credit reporting agencies use systems that are comparable to the FICO scoring system, and while the numbers from FICO and the numbers from the credit reporting agencies may be close, they are seldom the same.

You want the number at FICO and the credit reporting agencies to both be high, none-the-less, because you never know which number potential creditors are going to look at – some will go with the number that the credit agencies came up with, while others will look at your actual FICO score.

Furthermore, you need to know what your credit score is at all three reporting agencies, which include Equifax, Trans Union, and Experian, as all three numbers are most likely different. In total, you will have four numbers, because you need to know the actual FICO score as well.

It is also important to realize that while not all creditors will check all four scores, many will. When they do this, and all four numbers are different – as they tend to be – most creditors will go with the number that is 'in the middle' or the average of all four numbers.

The best ways to improve your FICO score include paying your bills on time, not applying for credit too often (and not allowing your credit to be checked too often), and avoiding maxing out your credit cards (remember that the amount of credit available is compared to the amount of credit used – if your credit cards are maxed out, you've used all of that available credit, and this lowers your FICO score).

Finally, remember that creditors view bad credit as better credit than absolutely no credit at all. When you have little or no credit, you can be sure that you also have a low FICO score as well. Make sure that you have and use enough credit to keep that FICO score high. A good FICO score is above 700, and most experts recommend a FICO score of at least 720. The total range is between 300 and 850, with 850 being the absolute best.

Check Your Own Credit Annually

As stated earlier, you can get your own credit report, for free, from all three credit agencies once a year at www.annualcreditreport.com. It is vital that you do this, and that you read through that credit report thoroughly.

Make sure that you print the credit report out in full – with all of the information for each item, instead of just the summary. Staple the pages together, and settle down for a nice long read. This is what your creditors see when they pull your credit report.

While the credit report is free annually, the FICO score, or credit score offered by the credit reporting agencies, is not free. This is something that you must pay for, and it is important that you pay for this information – from FICO and all three reporting agencies – at least once a year. For better results, you might want to do this every six months.

Finally, consider signing up for a credit monitoring service. This will allow you to always keep an eye on your credit report – without it showing up as an inquiry (the annual credit report does not show up as an inquiry). It will also alert you if your information is being used for credit purposes – or job applications – without your knowledge.

These services will also notify you when your credit is being checked. This is essential, because often your credit is checked without your knowledge. Often, this is because credit type companies are checking to see if your credit is worthy of them sending you an offer – and usually, this has no negative affect on your credit – but it is interesting to see who can pull your credit report without your permission.

Getting and staying in good financial shape really is essential – even if you never need credit. Of course, as you've seen, building credit actually does require getting credit – but it is important to do so because it affects other areas of your life.

As stated, your credit could prevent you from getting a job, from getting an apartment or rental home, and even from getting good insurance rates and interest rates…it matters more than most people realize.