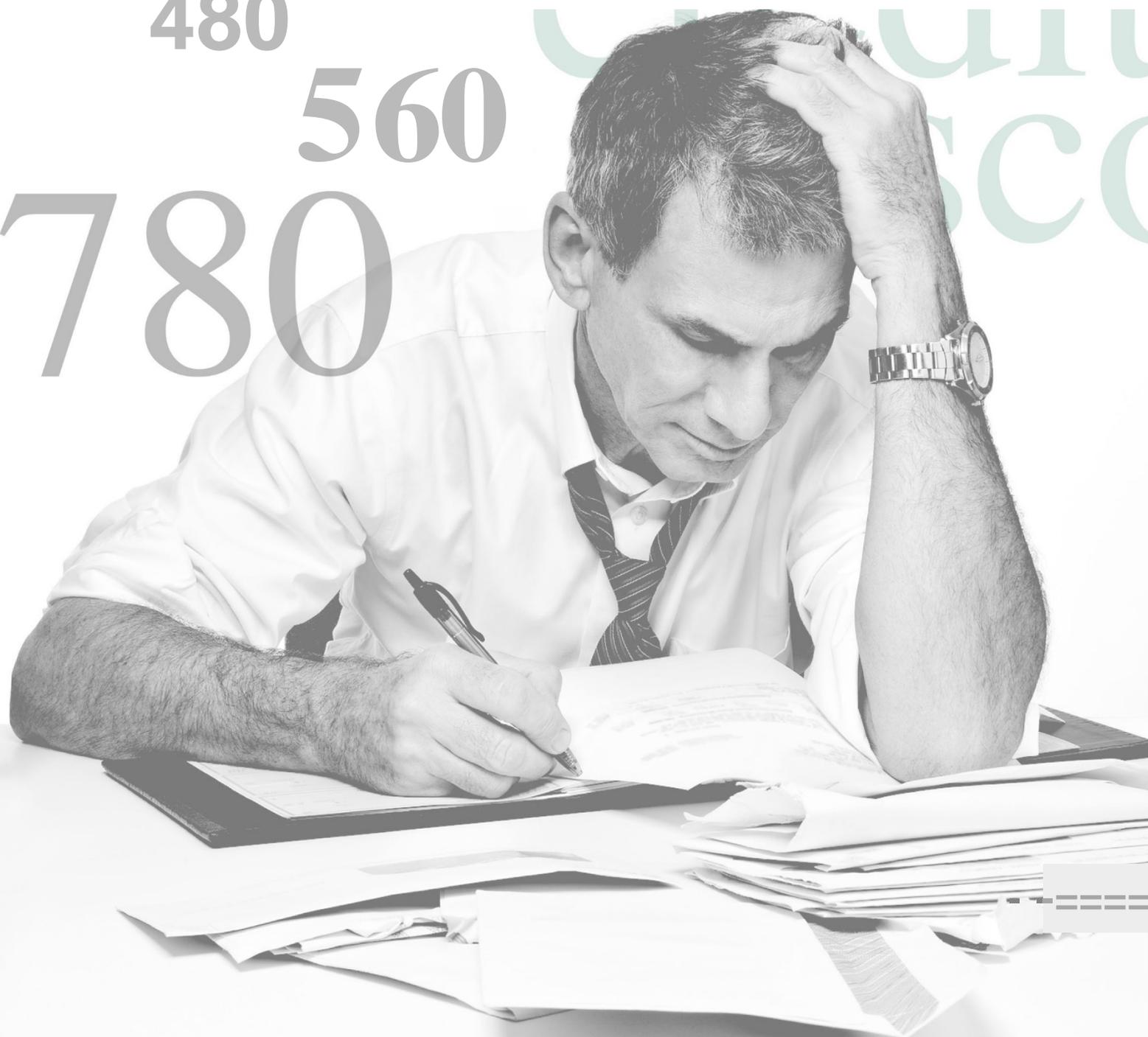


# How To IMPROVE YOUR PERSONAL CREDIT

480  
560  
780



# THE AMERICAN DREAM



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tarting your own business is an integral part of the American dream. We all want to be our own boss, see our ideas turn into profits and take control of our destinies. You may have a wonderful idea for a new business but bad credit and minimal savings can hinder you.

## What is on my Credit Report?

Personal information, such as your name, current and previous addresses, employers, date of birth and social security number are listed on your credit report. There is another section detailing your credit history, which includes the dates you opened your accounts, credit limits, balances and your monthly payment history.

How long will those blemishes remain on my credit report? Positive information that makes you look responsible remains on your report indefinitely, but negative information, including closed accounts, is removed seven years after the last activity. Other information that stays indefinitely includes credit transactions of \$150,000 or more, a job with a salary over \$75,000, and an application for credit or life insurance valued at more than \$150,000.

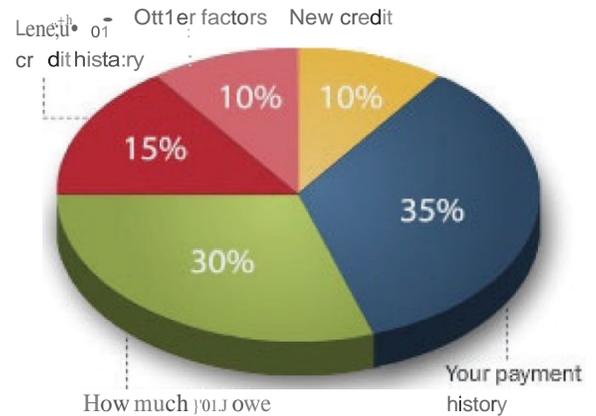
Public records also appear on the report for a period of time. For example, bankruptcies can remain for up to 10 years, unpaid tax liens for up to 15 years and delinquent child support payments for up to seven years. Inquiries, which occur every time a party requests a copy of your credit report, also show up on the report.

Meanwhile, you can expect on-time credit card payments to appear, but payment information from other businesses, such as utility companies, isn't necessarily listed on credit reports or included in your FICO score.

If you're an authorized user on someone's credit card, things can get tricky, too. While the payment history for a shared account can impact an authorized user's FICO score, one of the bureaus (Experian) only includes positive information on the authorized user's credit report, while the other two bureaus include both positive and negative data. Authorized users can even remove part of their histories if things go wrong with the authorized account -- all they have to do is ask to remove from the card account, and over time, that card's history will vanish from their payment history. Account holders, and even co-signers, don't have that luxury.

Finally, a statement of dispute might be included if you 1. challenge part of your credit report. It will remain until the 2. problem is resolved (usually within 30 days).

## FICO breakdown in Five parts to your FICO credit scores



## Anatomy of a Credit Score

Your credit score also known as your FICO score is the key piece of personal financial information that impacts whether or not you can get a loan, credit card, home or job. It makes sense to pay close attention to your score. The letters FICO are derived from the company that invented the scoring system Fair Isaac Corporation. The company invented the credit-risk scoring system in the 1960s, and 90 percent of the largest U.S. banks use it to decide whether you are a good credit risk (likely to pay back what you borrow).

The national average credit score is 723, but individual scores can range from 300 to 850 and the higher number, the better. A score in the 700s or higher is excellent. Around 650 is a midrange score, and anything lower than 600 falls in the "needs improvement" category. Most people score in the 600s or 700s. FICO scores are based on five factors, each weighted by specific percentage points, adding to 100 percent. (Refer to the chart above).

1. 35% Payment History
2. 30% Amounts Owed
3. 15% Length of Credit
4. 10% New Credit
5. 10% Types of Credit Used

## *Keep your Credit Score at 720 or above and you can qualify for most Credit.*

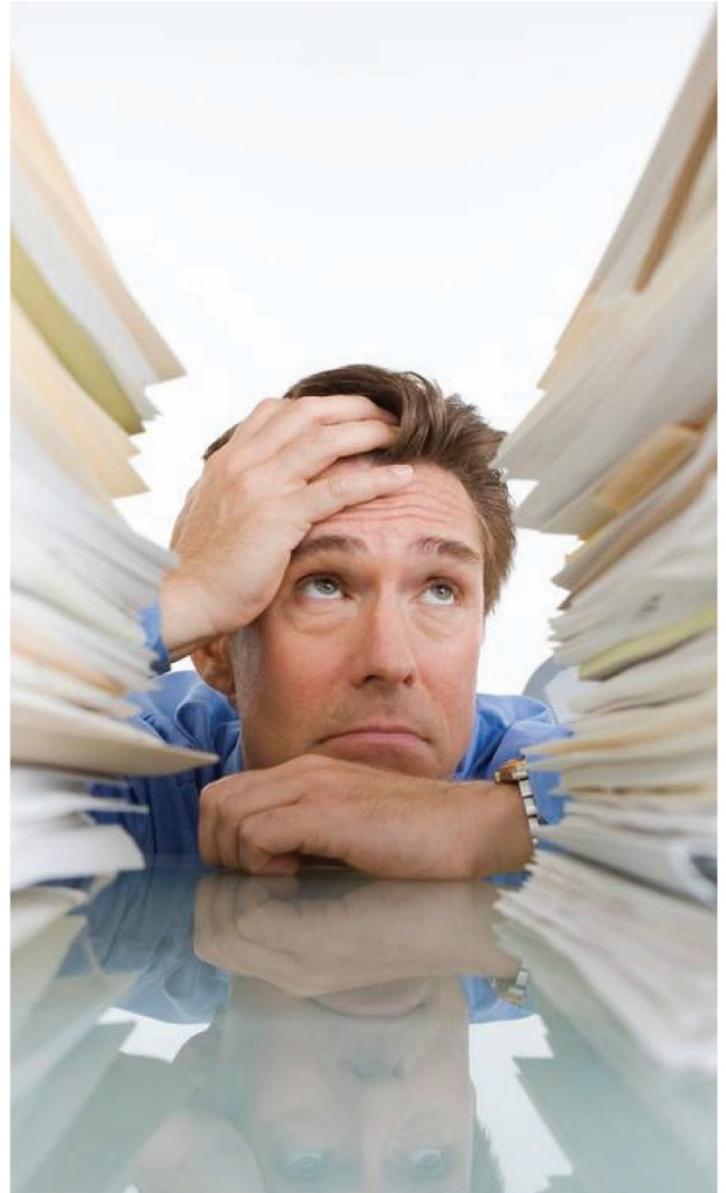
### *What can I do IMMEDIATELY to fix my Credit?*

Getting out of credit card debt is an arduous task. If you are concerned about a low credit score, keep in mind that it will not change instantly since it is based on your borrowing and repayment behavior over time. However, here are some immediate steps to take:

1. Get a free credit report once per year. You'll have a better chance of improving your credit score if you know what is on the credit report, both positive and negative. The easiest way to access a free credit report is to log on to [www.annualcreditreport.com](http://www.annualcreditreport.com). Additionally, you can obtain a copy of your report by calling the toll-free numbers of the respective big three credit companies -- Equifax, Experian and TransUnion. They will provide your credit report free of charge, but you will have to pay a nominal fee should you want to know your actual credit score. You are also entitled to receive a free credit report if you are denied credit. Transunion is the most important one for business owners.

2. Start paying your bills on time and pay close attention to your payment history. Building a strong payment history is not only about what you do right, but also about what you do wrong. To get a great score, you'll need to make consistent, on-time payments while simultaneously avoiding mistakes that cost you FICO points. What happens if you mess up your credit? Expect a 30-day late mortgage payment, for example, to drop your FICO score by as much as 110 points. So if you must cut corners, NEVER make a 30-day late mortgage payment. After a mortgage delinquency occurs, expect to wait three years before your credit score fully recovers. Relative to all other types of credit report information being evaluated by the FICO scoring formula, payment history can always be expected to have the most impact.

3. Simplify your life. Fewer cards will help you more easily and efficiently monitor your spending, and can also help you avoid deceiving yourself about how much you owe. In the long run, having fewer cards will minimize the interest you're likely to pay. Do not close the accounts but start bringing the majority of your credit card balances down to less than 30% of available credit and use only in emergencies.



## How can I Improve my Credit Score?

redit card debt can carry with it a certain feeling of shame. We all feel we should be further along in our careers, and a lot of debt hanging over our heads is a constant reminder that we're not.

But in truth, most of us have at some point accumulated some debt-and that's really okay. There are plenty of positives about carrying plastic instead of cash. Convenience, frequent flier miles and boosting your credit rating are a few. However, as so many Americans have learned, credit cards are only advantageous if used correctly and if you have the self-discipline to follow a few simple rules:

1. Sign up for Credit Monitoring services [www.myfico.com](http://www.myfico.com), [www.truecredit.com](http://www.truecredit.com) (this one will provide you with the dates vendors report to the credit bureaus), [www.checkmy3scores.com](http://www.checkmy3scores.com) (this one the banks use for credit information). This service will allow you to immediately address any negative impact and help protect your good credit rating.
2. Establish good credit card spending habits. How you think about, and use, your credit cards are primary factors that will determine whether or not you end up in credit card debt. A credit card should be a convenient means of spending money that you have readily available. It is convenient because you don't have to carry cash around. It is not a free pass to spend money that you don't have or will be borrowing. Work on paying off your debt rather than just moving it around. Owing the same amount but having fewer open accounts can lower your score if those accounts are maxed out. Remember, a good rule of thumb is to not owe more than 30% of your available credit on each account.
3. Keep a budget and know what you have available to cover expenditures. Forget the spending limit the card gives you and establish your own based on your budget. Then use the card for major purchases or in emergencies. Rule of thumb: If you do not have money available in liquid assets to cover the purchase, don't use the card.
4. Pay in full at the end of each month. This should be easy to do if you follow the rule above. If you find that you cannot pay the full amount, put the plastic away and use cash until the following month when you have the opportunity to get caught up.

5. Keep good records. Keep all credit card receipts and reconcile them with your statement each month. Read statements carefully to see if there are charges that you do not recognize. If there are errors, report them to the credit card company immediately. Also make sure you have the numbers of all credit cards in a handy place in case you lose one or have one stolen.

## Traps to avoid

he highest interest rate you'll ever pay is on your credit cards, so in the pecking order of debt repayment, this should be at the top. If you've chosen a card because it has a low introductory or transfer rate, that's great: it will lower your payments significantly. Nevertheless, there are a couple of traps to watch out for:

1. Frequent flier miles or cash back on purchases - choose wisely. Find out the Annual Percentage Rate (APR), the interest rate that will be added monthly to any outstanding balance. Also see if the rates are fixed or variable. Next, find out what the grace period is and review all fees, especially transaction fees. Then look for any other charges such as special delinquency rates, which can be very high. Read the fine print carefully and, remember, credit card companies make a lot of money under the assumption that you won't pay your bills in full and on time every month. Cards that offer airline miles or "cash back" only work in the end if you're able to pay the balance in full every month; these cards, I should add never offer the lowest interest rates and the "added value" will probably be eaten up by the higher rate you'll pay. Shop around and compare cards. [www.CreditCards.com](http://www.CreditCards.com) is one of several places to make comparisons.
2. Stay tuned for when the low rate ends, because at that point your interest rate will balloon up. If you have a consistent on-time payment history, don't be afraid to ask your card issuer if it will give you a lower rate when the introductory period is over. The issuer won't let you keep the original low rate, but it may be willing to work with you. If it won't, then move the balance over to a lower-interest card (if you have one). If you make even one late payment on one of those low introductory (or transfer) rate cards, the issuer will instantly cancel that fabulous low rate and unceremoniously bump you up to a much higher rate for the life of the balance. Remember low transfer rates come with a fee for making the transfer-equivalent to a percentage of the balance you're transferring (this fee varies from card to card)-so carefully compare cards to find the lowest transfer fee. Doing this can save you hundreds of dollars.

3. Most of us get several new credit card offers a month, but that doesn't mean they're the best offers. You'll do better with a side-by-side comparison of interest rates and perks (such as airline miles) at Bankrate.com and CardWeb.com. Also check Consumer Reports - [www.consumerreports.org](http://www.consumerreports.org) for the "10 most consumer-friendly credit cards." Skip the cards that charge annual fees-credit cards are a very competitive market and you'll always find one with the same low interest rate but without the fee. When considering new credit, ask creditors do they lower interest rates and increase credit line WITHOUT a hard pull/inquiry.

4. Forgetting to check the interest rates. Even a few interest rate points will make a huge difference in paying off your balance. How much? Check [www.Bankrate.com's](http://www.Bankrate.com's) "What will it take to pay off my credit card?" calculator at [www.bankrate.com/brm/calc/creditcardpay.asp](http://www.bankrate.com/brm/calc/creditcardpay.asp). It lets you enter your credit card balance and an interest rate, and then shows you how long it will take to pay off the debt. Play with different interest rates and you'll see in sobering black and white what a difference a few points make.

5. Mismanaging payments on multiple cards. Closely monitor when each payment is due, as billing cycles vary from card to card. Miss a due date and you'll not only pay a fortune in late fees-which average over \$30 a month-but the late payment will be reflected on your credit report, which will in turn affect your ability to get lower interest rates on other credit cards, car loans, and mortgages.



## Some common myths

• **D**o not cancel or close old cards you no longer use that indicate responsible credit. This can effectively shorten your credit history, and accounts with zero balances can help your score.

Opening new accounts is often seen as a quick fix to lowering your debt to credit ratio, but this can lead to numerous inquiries on your report and actually lower your score.

Contrary to popular thinking, shopping around for a loan will not negatively affect your score. The inquiries will be made for a specific type of credit during a short time period, and several inquiries about the same type of credit within 14 days will only count as one inquiry. However, keep in mind this only applies to loans, not credit card inquiries. Do not apply for several new credit cards at once. Many inquiries will appear on your report.

Your credit report is not merged with that of your spouse, so marrying someone with poor credit will not affect your personal credit score, provided you do not add your name to an account with poor history. But remember, this goes the other way, too. Should you get a divorce, close all joint accounts or remove your spouse's name. Your credit score will be affected by any late payments your ex makes.

Don't be afraid to look into your credit for fear of adding another inquiry, because checking your own credit report does not affect your score. Simply make sure you check via one of the bureaus or a legitimate score seller like Myfico.com, not through, say, a car dealership.

Your age, income and sex have no bearing on your score. Getting a raise will not help your score -- you need to pay off your debts.

Don't worry that those daily credit card offers you get in the mail are negatively affecting your score. They have no impact.

Do not sign up for new, unnecessary credit cards with emphasis on unnecessary. It is better to have additional cards than spend beyond the 30% available credit guideline. Although additional cards provide you with greater availability of credit, most likely they will not raise your score.

Many people think they have just one credit score. The truth is you have three -- one from each of the big credit reporting agencies. It is a good idea to check all three.