When life happens...

Maximizing Purchasing Power: Make the Most of Your Credit Score

How to increase your credit score to save money and reach your credit goals

The Most Important Number in Your Financial Portfolio

Your credit score is really one of the most important numbers in your financial inventory. When your credit score is high, you can minimize the amount you "pay to play" when it comes to using credit and the interest charges you'll face. You can easily qualify for loans and new lines of credit that will help you reach your goals.

Of course, maintaining a high credit score isn't always easy. Any mistake you make in your payment schedule, any medical bill that gets sent to collections because you're fighting with your insurance agent, any time you max out a credit card - all of these kinds of issues will cause a drop in your credit score.

You need to take steps to build a high score while avoiding actions that would damage you well into the future. However, even if you've made mistakes in the past, you can take steps to maximize your score as much as possible. You just have to understand how the game works, so you can play it to your best advantage.

When Life Happens...

This guide is designed to help you understand how credit scoring really works, so you can take steps to maximize your own credit score as much as possible. If you'd like professional help or advice in how to make the most of your credit score, please visit www.Debt.com or call 800-810-0989 to find the help you need.

What Does My Credit Score Really Say About Me?

Consumer credit scores are designed to help creditors and lenders assess risk. It's essentially a number that clearly shows a creditor how much of a risk you represent as a borrower. If you've used credit effectively in the past, you represent a lower risk as a borrower so you have a high credit score. If you never pay your bills on time and regularly allow your accounts to go to collections, then you're a high risk borrower so you'll have a low score.

It's important to note that every consumer has several different credit scores at any given time. Every credit bureau maintains their own version of your credit file and has their own specific way of calculating your score. Even a specific lender may use their own specialized formula to calculate your risk to their company.

Luckily, all credit scores are based on the same formula from FICO - the company that developed the credit scoring system originally. So steps you take to improve one credit score will almost always improve the others as well. At the very least, you never have to worry about an action that you take boosting one score while hurting another.

Here is what FICO says about their credit score ranges:

• Excellent	=	800-850
• Very Good	=	740-799
• Good	=	670-739
• Fair/Average	=	580-669
• Poor	=	300-579

How is My Credit Score Calculated?

Your credit score calculation is based on five factors, all of which involve evaluating the information contained in your credit report. Each factor is given a different "weight" as to how much it affects your credit score.

1. Payment history (35%)
This factor looks at how consistent you've been with your monthly payments. Have you paid late or missed payment or have you always kept current with your accounts?

2. Debt utilization ratio (30%)
This compares the amount of unsecured debt that you are currently holding with your maximum available credit - i.e. how much debt are you holding relative to the total amount of credit card debt you could have if all of your cards were maxed out.

3. Length of credit use (15%)
This evaluates how long you have used credit in your lifetime. A seasoned credit user is less of a risk than someone who is applying for their first credit card, because the seasoned user is more experienced in paying back debt.

4. New credit applications (10%)
This looks at the number of credit checks run on your credit profile in the past year. This helps creditors see how much debt you've taken on in the recent past, since anyone who takes on a large amount of debt at once would be considered a high-risk borrower.

5. Types of credit in use (10%)
This looks at the variety of debt that you hold. Traditional debts like a mortgage and car loan make you look better to creditors, while high-interest speciality store cards can make you look worse. You need to have diverse mix of traditional debts.

How Long Does Negative Information Hurt Me?

By law, positive or neutral information can remain in your credit report indefinitely. By contrast, negative information has to be removed after a set amount of time, depending on what the information is. Most negative information - late or missed payments, collection accounts, bad debt write-offs - remains in your credit report for seven years. Even a Chapter 13 bankruptcy or a foreclosure will only affect your credit for seven years.

However, there are a few things that you can do that will affect your credit for longer.

- A Chapter 7 bankruptcy remains on your credit for 10 years.
- Unpaid tax liens can remain on your credit for up to 15 years, although a paid tax lien will be removed after seven.

Time Heals All Credit Wounds

It's important to note that our credit system is pretty forgiving when it comes to making mistakes. Even damage from the worst debt problems you can have will only impact your credit for a limited period of time. So if nothing else, you can wait it out and eventually your score will improve.

What's even better is that steps you take to build better credit now will be taken into account more closely than mistakes you made years ago. The negative impact of any credit mistake you make decreases over time. So a bankruptcy filed six years ago won't have nearly the negative impact of one filed this year.

What's the Real Cost of Bad Credit?

You know that with bad credit, you're not going to qualify for those attractive low interest rates you see advertised by banks, lenders, car dealerships and credit card companies. You can typically only qualify for advertised rates if you have an excellent credit score. Still, is not getting the exact advertised rate really that bad?

Let's say you take out a 48-month (4-year) auto loan for $20,000...

FICO Credit Rating	APR*	Monthly Payment	Total Interest Paid
Excellent credit (800-850)	3.5%	$447.12	$1,462
Very good credit (740-799)	4.5%	$456.07	$1,891
Good credit (670-739)	9.32%	$497.70	$3,890
Fair credit (580-669)	14%	$546.53	$6,233
Poor credit (300-579)	17%	$577.10	$7,701

***APR values shown are for example only; these do not reflect current rates.**

Building a Better Credit Score

Unless you have absolutely perfect credit, there is always something you can do to improve your credit score and you want to do that to make sure you're in the best possible position when it comes to using credit.

The following tips can help you make sure your credit score is as high as possible:

- **Build a positive payment history.** The best thing you can do for your credit is make sure to stick to the payment schedules for all of your debts. Consistent payments now can go a long way in offsetting damage caused by late payments in the past.

- **Keep your credit card debt minimized.** Ideally your debt utilization ratio should be around 10-20%, so if your maximum combined credit limit is $10,000 then you should never have more than $2,000 in outstanding credit card debt.

- **If you have bad credit, secured credit cards are the way to go.** A secured credit card lets you build credit just like a traditional credit card, but you can qualify to use it even if you have a really bad credit score. Use the card for six months to one year, making consistent payments and then you should have enough credit to apply for a traditional unsecured credit card.

- **Apply for a personal loan to diversify your debt.** Traditional loans look good to creditors, so you can apply for a small personal loan to diversify your portfolio easily. You can use the money to renovate, make a down payment on a new asset or even to make an investment. Then use the repaying of the loan to build better credit.

- **Don't apply for too many new lines of credit in a six-month time period.** Too many credit checks decrease your credit score, so you want to apply for new credit sparingly.

- **Repair your credit regularly.** Review your credit reports once per year to check for mistakes or errors that would decrease your credit score. Studies have shown one in five credit reports contains a credit-damaging error, while one in twenty have an error that would decrease a consumer's credit score by 25 points or more.

- **Don't remove old credit accounts from your credit report.** The one error you never want to correct on your credit report is to have an old account that was closed removed from your report. This can decrease your credit score, because these old accounts may be supporting a long length of credit use for you.

Notes

When life happens...

About Debt.com

At Debt.com we're dedicated to helping you handle whatever life brings your way when it comes to money. We understand that being 100% debt-free isn't realistic for most people, so we have develop strategies to help manage debt. With the right plan, debt can be an effective part of your financial outlook and help you reach your goals - whatever those goals might be.

If you're struggling with debt and don't know where to turn, we can help. We have solutions to address most debt and credit issues. That's why we say, **"When Life Happens...Debt.com."**

Visit **www.Debt.com** to find solutions or call **800-810-0989** to find the help you need.

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