

HOW TO IMPROVE YOUR PERSONAL CREDIT



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What is a FICO Score?

- An Algorithm that was developed about 25 yrs ago by Fair Issac Co. and specializes in “predictive analytics”
- The most widely used credit score by lenders. Used in over 90% of U.S. Lending decisions.
- FICO Scores are used by lenders to predict and forecast the likelihood of default on credit instruments
- Nobody knows exactly how the algorithm works but many specialists have studied it in detail

What is a GOOD Score?

- The Higher the better, Ranges from 300-850.
Average score in the US is about 695

720 - 850 = Excellent

700 - 719 = Very Good

675 - 699 = Average

620 - 674 = Subprime

560 - 619 = Risky

300 - 559 = Very Risky

Why is it important?

- You need a decent score to buy a house, open a business, buy cars etc.
- It is very hard, and almost impossible, to build wealth without credit
- The interest rate you'll end up paying highly depends on your credit score
- An average \$400K 30 yr. real estate purchase will cost you \$287K in interest if you have a 4% rate, and \$373K in interest if you're at 5% rate.
- An \$85K difference! About \$236/month!

Credit Bureaus

□ Personal

- ▣ Experian (used the most)
- ▣ Equifax
- ▣ Transunion

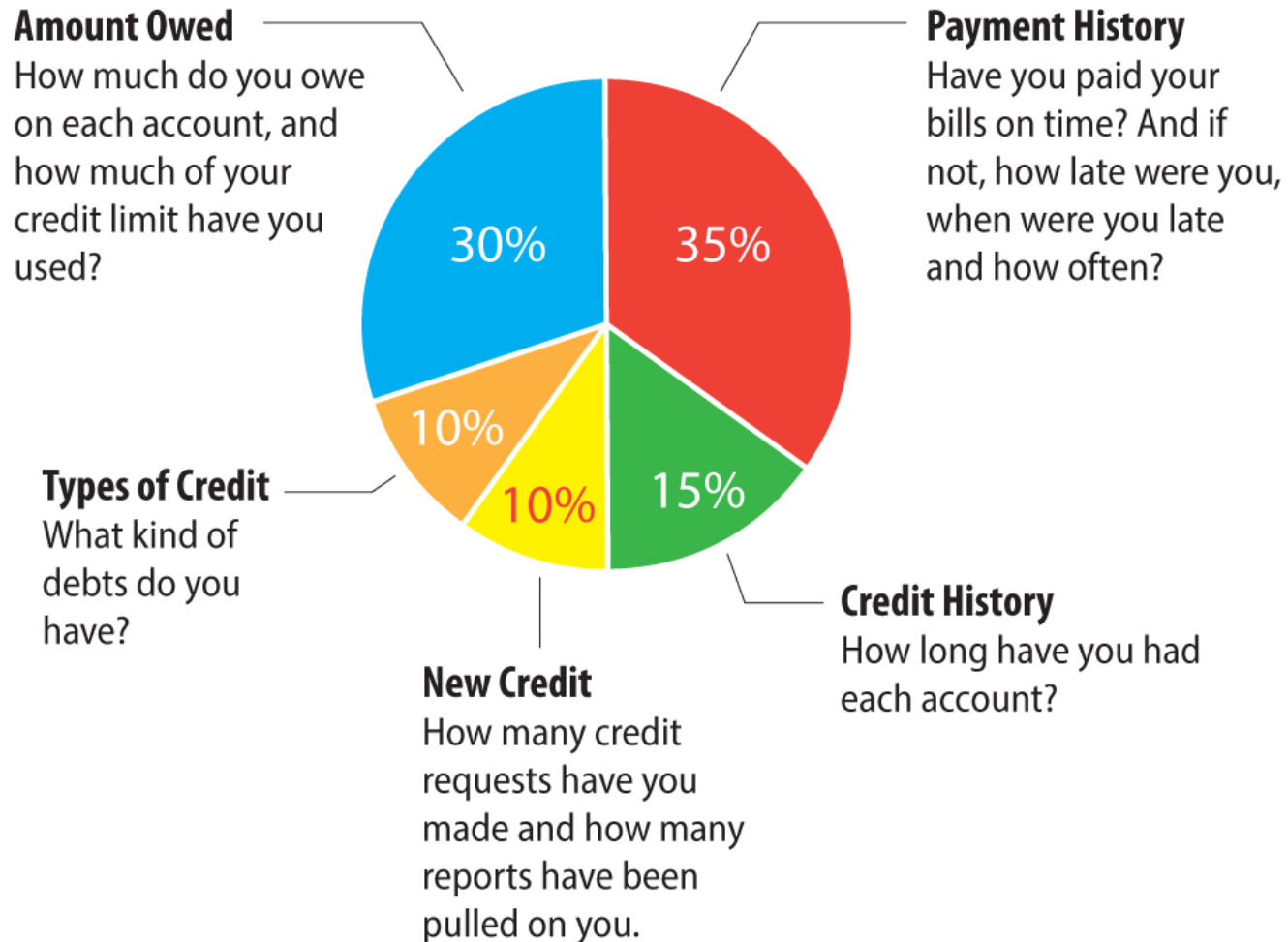
□ Business

- ▣ Dunn & Bradstreet
- ▣ Experian Business
- ▣ Cortera

Different FICO Scores

- Depends on:
 - ▣ What you are applying for (Auto, Home, Business etc.)
 - ▣ What Lenders are using to report data
 - ▣ What FICO Score model are they using
 - FICO SCORE 9, 2
 - FICO AUTO SCORE 8, 2
 - FICO Bankcard Score 9, 8, 2
 - Others
 - ▣ You can have as many as **60 different** FICO Scores

Major Factors



Utilization Ratio

- Target should be below 30% on each account,
NOT cumulative

SCENARIO 1			SCENARIO 2		
Account	Credit Limit	Balance	Account	Credit Limit	Balance
Credit Card 1	5,000	2,500	Credit Card 1	5,000	2,500
Credit Card 2	1,000	500	Credit Card 2	1,000	500
Credit Card 3	4,000	-	Credit Card 3	-	-
	10,000	3,000		6,000	3,000
Credit Utilization Ratio	30%		Credit Utilization Ratio	50%	

$$\text{Credit Utilization Ratio} = \frac{\text{Credit Balance}}{\text{Available Credit Limit}}$$

How long does it stay on your credit?

Type	Years
Judgment	10 Years from Date Filed
Tax Lien	10 Years, but can be renewed
Bankruptcy	Chapter 7: 10 Years Chapter 11: 7 Years
Charge offs/Collection Accounts / Foreclosures	7 Years
Inquiries	2 Years on Credit File, 1 Year affecting credit
Short Sale	2-5 Years from the date it was completed (up to 80% Loan to Value - LTV) or 4-7 Years if LTV is 90%

Points to consider

- The information being reported in the last 2 years is the most important
- Recent collection accounts, late payments etc. can affect your score significantly
- One 30 day late payment can drop your score between 60-110 pts.
- Bankruptcy can drop your score by 130-240 pts.

Points to consider

- ❑ Always pay your bills when you receive them, not close to when they are due. Look for the statement date
- ❑ Always pay more than the minimum
- ❑ Credit karma does not use FICO but it's very similar
- ❑ Credit moves every 30 days
- ❑ Don't close old accounts
- ❑ Don't close more than 2 accounts in a month

Points to consider

- ❑ If you're late on a payment, you can sometimes call the Bank/Credit Card Company and request a one time accommodation to delete it from your Credit
- ❑ What is worse, a \$10 dollar late payment or a \$750 late payment?
- ❑ Hard inquiry vs. Soft inquiry
- ❑ Beware of attractive credit card transfer offers
- ❑ Add you spouse to your cards if she/he has bad credit
- ❑ Beware of Loan Modifications b/c they will sometimes use a "Pay less than agreed code"

Rate Shopping

- ❑ FICO Scores ignore mortgage, auto, and student loan inquiries made on average in the 30 days prior to scoring.
- ❑ So, if you find a loan within 30 days, the inquiries won't affect your scores while you're rate shopping.
- ❑ Depending on the model the Lender is using, this period can be as low as 14 days or as long as 45 days.

Collection Accounts

- Statute of Limitations – 4 years in California for all debt except those made with oral contracts (2 yrs).
- This means that for unsecured debt lenders cannot attempt to collect debts that are more than four years past due
- Re-aging of an account via collection
- Deny anything you don't recognize and ask to see signed loan documents. Send proof of debt letter.

Collection Accounts

- Anytime you take an action the clock starts again (when you make a payment, promise to pay, accept an agreement etc.)
- Paying off collection accounts helps you credit score - they have to be reported as “paid”
- Before paying, negotiate to receive a letter of deletion
- Collection agencies pay cents on the dollar for debt
- Ask Collection agency for Validation of Debt, Estoppel by Silence

Medical Collection Accounts

- ❑ Medical Collections – recent law was passed to have less weight on your credit
- ❑ In 2015, under a major settlement 31 State Attorneys general negotiated with all Credit Bureaus NOT to report medical debt until 180 days after it was incurred
- ❑ FICO 9 and VantageScore 3 ignores paid collection accounts and medical collection accounts.
- ❑ It's very common – According to a 2014 report from the CFPB a whopping 52% of all debt on credit reports was related to medical expenses
- ❑ And almost 43 million Americans had unpaid medical debt on their credit files!

Tax Liens/Judgments

- ❑ Always pay it, it can follow you all your life
- ❑ Stays on your credit for 10 yrs unless renewed
- ❑ If paid, request satisfaction of Lien from County
- ❑ And also request a Withdrawal
- ❑ Divorce – does not relieve you from joint debts
- ❑ CA is a Community Property State
- ❑ Close or separate joint accounts if possible
- ❑ Avoid collection accounts from the government (SBA, Student Loans etc.)

Is there hope? Of course



Consumer Financial Protection Bureau

The CFPB was created to provide a single point of accountability for enforcing federal consumer financial laws and protecting consumers in the financial marketplace. Before, that responsibility was divided among several agencies.

Their work includes:

- ❑ Rooting out unfair, deceptive, or abusive acts or practices by writing rules, supervising companies, and enforcing the law
- ❑ Enforcing laws that outlaw discrimination in consumer finance
- ❑ Taking consumer complaints
- ❑ Enhancing financial education
- ❑ Researching the consumer experience of using financial products
- ❑ Monitoring financial markets for new risks to consumers

Identity Theft

- Place a Fraud Alert – renew every 90 days
 - ▣ Equifax: 1-888-766-0008
 - ▣ Experian: 1-888-397-3742
 - ▣ TransUnion: 1-800-680-7289
- Close Accounts
- File Police Report
- Resources: www.identitytheft.gov
- Be careful how you use your cards in retail stores and online
- Monitor your statements regularly

Manage your Credit

- ❑ Get a FREE annual report at www.annualcreditreport.com
- ❑ You can use Credit Karma but it's not 100% accurate
- ❑ You can also pay a membership fee to any bureau to monitor your credit
- ❑ You can add consumer statements – up to 100 words

Disputes

- ❑ Submit a request for investigation – online.
- ❑ Creditors have 30 days to respond. If you receive a free credit report they have 45 days.
- ❑ Don't dispute more than 3 items at a time if you can
- ❑ If response has been verified as accurate, request the method of verification (15 days)
- ❑ These are the dispute links from all 3 bureaus:
 - ❑ <http://www.experian.com/disputes/main.html>
 - ❑ <https://www.equifax.com/personal/disputes#>
 - ❑ <https://www.transunion.com/credit-disputes/dispute-your-credit>

Know your rights

- Fair Credit Reporting Act – gives you the right to dispute anything that you believe is not accurate or verifiable.
- Fair and Accurate Credit Transactions Act of 2003 (FACTA) – ensures all citizens are treated fairly when they apply for a mortgage or other form of credit.
- The Fair Credit Billing Act – help consumers settle disputes with creditors
- Fair Debt Collection Practices Act – enacted to restrict collections procedures from collection agencies

Resources

- ❑ www.ftc.gov
- ❑ www.cfpb.gov
- ❑ www.myfico.com
- ❑ www.credit.org
- ❑ www.findlaw.com
- ❑ www.annualcreditreport.com

THANK YOU



QUESTIONS?