

## 10 Steps to raising your credit score.

### 1) Know Your True Credit Scores and Reason Codes.

Surprise! Consumer credit scores are not the same as lender credit scores. Consumer credit scores pulled online are considered educational and are different from those used by lenders. You can go online to [www.myfico.com](http://www.myfico.com) and pull the more accurate credit scores used by the majority of lenders. In most cases, there is a cost for these scores. Be aware that your credit scores are pulled when you apply for a loan! Ask the loan officer for your credit scores and the reason codes that go with them. The reason codes provide valuable information by which you can identify problems affecting your credit score. They are your road map to improving your credit. Mortgage lenders are required to give you a copy of your credit scores and usually the reason codes that go with them. MYFICO only provides generic explanations of problems impacting your credit scores. It is much more informative if you can get your actual reason codes from the lender!

### 2) Generate Golden Accounts.

A Golden Account is any account you have that remains open for many years (ten or more) and can drive credit scores to higher levels. Once such accounts are identified, leave them open and periodically use them. If you can, establish multiple golden accounts in your credit profile. They will add substantial value to your credit scores for months and years to come.

### 3) Work with Quality Lenders

Many consumers fail to realize that credit scores give differing values for different types of lenders. Banks and national credit card companies are on one end while finance companies and payday lenders are on the other end. Most can identify a bank, but many fail to recognize finance companies. Such lenders usually finance many auto loans and merchant purchases for 90 to 180 day "Same-as-Cash" options. Many finance companies are even owned by banks; but, they are considered high-risk lenders and create a drag for credit scores.

### 4) Establish Quality Loans

Some loans are considered more valuable, such as a mortgage. This type of loan shows a person is usually more responsible. The system also requires a minimum amount of activity for revolving and installment loans. Some payment activity from both types of loans is critical to raising credit scores.

### 5) New Accounts.

Once you have an established credit profile, avoid opening new accounts at every opportunity. Opening multiple accounts within a 12-month period can be extremely detrimental to credit scores. We should pay particular attention to the number of loans we have opened in the last year. Any new loan adds risk and lower credit scores. Space them out to avoid sudden declines in your scores.

### 6) Create Depth

Depth is created by how long our accounts have been open. Depth with our accounts determines how high our credit scores can go. Review your credit file and identify how long your accounts have been open. Higher scores will be realized when most of your accounts have been open for at least four years.

7) A Reserve.

Before we take out any loan, we should have a reserve already established. No one knows when there may be an accident, a loss of a job, some health issues or another unfortunate event. We need to establish a cushion so that we can offset any decline in income. If we are taking out a new loan to cover our expenses until the next pay check, we are in serious trouble. Before we incur any debt, set aside a sufficient cushion that can be readily accessed in case trouble arises.

8) Make Timely Payments.

Most consumers think that just making timely payments is the sole reason a credit score increases. The credit scoring system is much more complicated than just making payments on time. However, making timely payments on all loans is the master key to raising your credit score. Without it, the other strategies are less meaningful. If you have a perfect record, great job! If you have had past issues, address them and make every effort to make payments on time going forward.

9) Recognize Critical Ratios

The system measures our reporting balances to high credit limits on lines of credit such as credit cards and merchant accounts. The system also looks how much we paid down our loan balances from the initial loan amounts on installment loans such as auto and mortgage. Lowering these ratios is critical to raising credit scores. If possible, pay extra to lower your balances on credit cards and your installment loans.

10) Reduce Loans with Balances

Less is more in the credit scoring system. To have less means having fewer accounts with a reporting loan balance. When we have an excessive number of loans with balances whether they have a \$10,000 or \$10 balance, they all can count towards a credit score. We should look to consolidate accounts when we can and pay off those accounts with small balances.

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