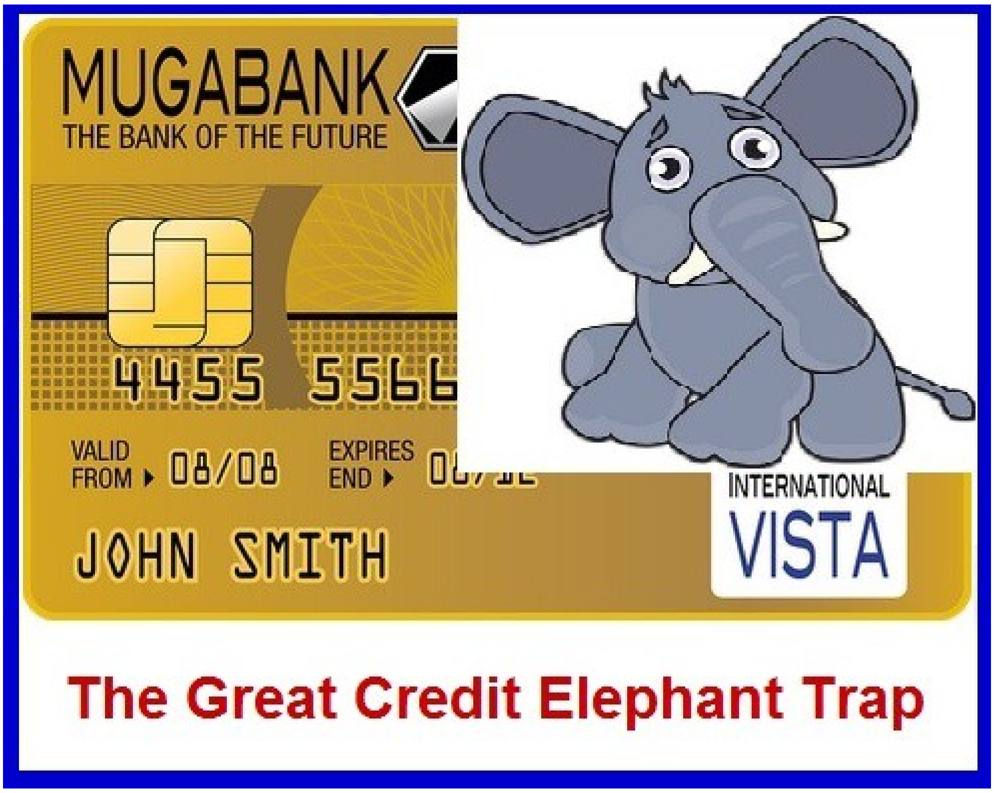
The Great Credit Elephant Trap



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One Quick Way to Boost Your Credit Score

There are many different factors that go into your credit score, also known as FICO score. Your FICO score is calculated based on your credit report by a formula created by the Fair Isaac Corporation. However, FICO does not actually disclose its exact formula.

Though nobody knows exactly how important each factor is in calculating the credit score, one known factor that plays a large role is your utilization rate.

Your utilization rate is basically "how much of your available credit are you using?"

The theory is that if someone has credit lines of $10,000 and they're using $9,500 of that credit, they're a much bigger credit risk than someone who's only using $1,000. Therefore, their credit score would be lower.

However, there are a few things about the way FICO calculates your utilization rate that are a bit strange. One small loophole in particular can result in you being able to quickly boost your credit score without actually having to reduce your credit balances.

The Odd Thing about Credit Utilization;

Rather than measuring your average utilization rate, FICO chooses to measure your score based on your highest utilization rate.

For example, let's say you have two credit cards. Both of them have a $5,000 limit. One card is maxed out, while another card has a balance of zero.

In this case, your maximum utilization rate would be 100%. In this case, your credit score will be severely negatively impacted.

On the other hand, if you had distributed your credit balance half and half over the cards, your maximum utilization would be only 50% each.

Another example would be if you had one card with a $1,000 limit and another card with a $5,000 limit. If you had to charge $800, it's a much better idea to charge it to the $5,000 card.

A Few More Things to Know about Utilization Rate;

The ideal utilization rate is 35% or under on all your cards. Having even one card above 35% will drag your max utilization up.

In an independent study of 70,000 different credit scores, researchers found that people with 720 or higher credit scores tended to have utilization rates of 20% or less.

However, people who had a zero percent utilization rate often had very low credit scores. That's because their credit scores were so low, they couldn't even get a credit card.

The ideal is not to have a zero percent utilization rate. If you're not using your credit cards at all, you're not demonstrating creditworthiness. Remember - creditors want to know that you'll pay off loans you take out, not that you don't take out loans.

So try to get your utilization rate between 1% and 35%. If you have a low balance on one card and a high balance on the other, try balancing your cards out to get your maximum utilization rate down. This one technique can very quickly give you a credit boost, literally in just a few days.

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What to Look for in a Contract with a Credit Repair Agency:

Your most important tool against bad credit repair deals is your credit repair contract. Before you sign any kind of contract with a credit repair agency, you need to make sure you're protected.

Most contracts are written by the credit repair agency and are naturally written more for their benefit than yours. That said, if you know what to look for, you can make sure that everything you need is covered in the contract.

Here are the most important clauses to look for in any credit repair contract.

What They're Agreeing to Do;

The contract should explicitly state exactly what the credit repair agency will do for you.

For example, they might commit to sending X letters to X agencies to help you remove items from your report. They might agree to follow up with those companies, as well as to advise you on lawsuit opportunities.

If you're having them also take on a debt consolidation role, make sure you also cover all your bases there. The agreement should spell out explicitly how the consolidation process is handled and what kind of support you'll have during the process.

The Cost Structure;

The contract should contain details on how the program is priced. Any implied verbal guarantees should be written into the paperwork. There should be no additional costs that you don't understand, no fine print with extra fees.

Different credit repair agencies charge differently. Some require an upfront fee, others don't. Some charge a percentage of debt, others charge a flat fee.

If you're just having the repair agency remove items from your credit report for you, usually the payment will be made in the form of a "per item" fee. For example, an agency might charge $250 for each item they can remove from a credit report.

Make sure you understand the cost structure and any additional costs before signing the paperwork.

How Long before You Can Expect Results;

The contract should have a set duration. Six months to one year is a good period of time for an extensive credit repair project.

If a contract doesn't have a set duration, make sure you have a crystal clear cancellation period. After all, if you've seen no results for six months, you want to make sure you can back out and find someone else to help you.

These are some of the most important things you should look for in a credit repair contract. Before you sign anything, make sure you read over every line and fully comprehend everything you're signing. If the contract accurately represents everything that you talked about verbally and you believe it's a good deal for you, then sign the paperwork.

How to Get Debt Collectors to Stop Harassing You:

Are those annoying debt collection calls getting to you? If a company believes you owe them a debt, they do legally have the right to contact you to retrieve that debt. However, in just 30 minutes of work, you can get them to never contact you again.

Here's how to get debt collectors of all non-business debt to stop harassing you.

Before Getting Started;

Before you request them to stop contacting you, it may be a good idea to actually talk to the collectors just once.

That way, you can get a good idea for what's going on. The debt could be a lot less than you expected. Or you might be able to negotiate a much better deal than you'd expect.

Often paying a fraction of your debt may be better for you and your credit than if you just defaulted on the debt.

That said, if you do choose to ignore your creditors, here's how to get them to stop contacting you.

Cite the Fair Debt Collections Practices Act;

The Fair Debt Collections Practices Act (FDCPA) is the act that prevents debt collectors from acting out of line. It's also your main leverage when it comes to getting debt collectors off your back.

If you want debt collectors to stop contacting you, all you need to do is send them a letter citing the FDCPA. Ask them to cease all contact with you as required by law.

Make sure you send the letter with a return receipt, so you know when they've received the letter.

Once they've received this letter, they cannot try to contact you to collect a debt any longer. The only two reasons they can contact you for are to either let you know that they've added you to their "do not contact" list or to inform you of further action, such as a lawsuit.

There are many different templates you can find online for cease contact request letters. It's very easy to just print one of these out, replace the address and mail it.

What Happens If They Still Contact You?

If they continue to contact you after you've sent them the letter, you're eligible for a lawsuit.

You can get paid $1,000 plus legal fees if a debt collector still continues to contact you after you've requested them to stop. You don't have to prove damages.

Using this simple method, you can get a creditor off your back in as little as 30 minutes. All you need to do is buy an envelope and stamps, print out the letter and put on their address. After that, you should either have no more contact or be eligible for a lawsuit if they keep pestering you.

How Long Does It Take for Each Item to Disappear?

If you have negative items on your credit report, how long does it really take for them to disappear? Knowing how long certain items stay can make a big difference on how you plan to improve your credit in the long run.

Here's everything you need to know about when items disappear from your credit report.

The 24-Month Rule;

The first thing to realize is that 70% of your credit score is calculated from your last 24 months of credit history.

In other words, even if credit card defaults are reported for seven years, if you start building up your credit now you'll still have a good chance of getting a credit card in two years.

You don't have to wait for an item to completely fall off your credit report before its level of damage can be minimized.

When the "Fall Off" Clock Starts Ticking;

There's often a bit of confusion that surrounds when exactly the clock starts ticking for something to leave your credit report.

There are two things creditors look at for gauging recency of credit report items: Date of Last Activity (DOLA) and Date of Last Delinquency (DOLD).

The clock for when something should leave your credit report starts at the DOLD. In other words, the date when you're first delinquent on a payment is when the clock should start ticking.

Making a payment on that account will increase your DOLA, bringing it up to the current date. However, your DOLD will remain as the old date. In other words, making a payment to a delinquent account will not "reset" the time it takes to fall off your credit report.

How Long Different Items Stay on Your Credit Report;

In general, items on your credit report will fall off after seven years. That applies to both instalment loans (e.g. car loans) and revolving credit (e.g. credit cards).

There are a few exceptions, however.

Tax liens will stay on your credit report for seven years after the debt is paid.

Bankruptcy will stay on your credit report for ten years.

Any application for a credit account of $50,000 or more can stay on your credit report for an indefinite amount of time.

It's also important to note that government-backed student loans and lawsuit judgements have different rules. The statute of limitations can increase the length of time a lawsuit judgement stays on your record. Student loans can also be reported for longer periods of time, depending on guarantor actions.

As a good rule of thumb, however, most items will stay on your credit report for seven years after the date you were first delinquent. If you find an item on your credit report that has passed that date and not been removed, contact the credit agency.

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How to Use a Secured Credit Card to Build Credit:

If you have poor credit history, the only way to start establishing a stronger history is to open a credit account and start making on-time payments regularly. Unfortunately, people with poor credit will have a hard time opening a new credit account to start building their credit.

That's where the secured credit card comes in. A secured credit card can be opened by anybody, even if you've just gone through foreclosure and bankruptcy.

With a secured credit card, you can start re-establishing your credit history and improving your credit score.

What Is a Secured Credit Card?

A secured credit card is essentially a pre-paid credit card. You have to put down a deposit first, which the bank will hold as collateral.

Once you have the deposit, you can then lend up to that amount.

For example, if you put down a $500 deposit, you can then lend up to $500. The $500 will earn you interest, just as it would if you had put it in a savings account.

This takes the risk away for the bank, because if you don't make your payments they can just take your deposit. It allows you to start building your credit and showing that you're creditworthy without someone having to take a financial risk.

How Much Do Secured Cards Cost?

Unlike credit cards which make money on interest, secured cards usually make their money in fees. They'll still charge an interest on the balance, but their money is primarily made in annual fees.

Different banks charge different fees. Make sure you fully understand the fees before you sign the agreement.

Where Can You Get a Secured Credit Card?

Many banks and credit unions offer secured credit cards. Some traditional banks are moving away from secured cards, but many of them still offer this service.

Try first asking your banker if your bank offers a secured credit card. If they don't, then ask a few credit unions in your area.

If you can't find one in person, you can always apply for a secured card online. If you do, make sure to carefully research any company you work with first.

Do a search on them on the BBB and RipOffReport. There are many unscrupulous financial websites out there.

Final Tips

Make sure you ask your lending company whether or not they report the card as a secured card. Some companies do, while others don't.

Having your card appear as an unsecured card on your credit report will look better than if you had a secured card.

Make sure you keep a balance on the card and that you make on-time payments every month, even if your balance is just $20. The goal is to build a history of on-time payments and stable accounts.

Learn to Recognize Bad Credit Loan Scams:

If you have below average credit, there are people out to get you. Unscrupulous scammers know that people with bad credit often need loans and use the opportunity to extract both money and personal information.

How do these kinds of scams work and how can you avoid them? Let's take a look.

How a Bad Credit Loan Scam Works;

The scammer first comes into contact with you via email, phone or through a website.

Usually they have some sort of promise where they guarantee that you'll be approved for a loan, no matter what your credit looks like. (That should be your first red flag - no real lender guarantees loans without seeing your credit.)

They'll then ask for your personal information, including social security, address, birth dates and account numbers, in order to process your loan.

Finally, they'll usually ask for an "advance fee" which needs to be paid in order to process your loan.

Of course, once the fee is paid, no real money is ever wired to your account. The fee is forfeit, but the scam doesn't end there.

Your personal information is often then sold to third parties, who in turn use your information to write bad checks, open unauthorized credit card accounts or commit all kinds of other fraudulent activities.

In other words, falling for one of these scams will not only cost you money, but possibly result in a stolen identity.

How to Recognize and Avoid These Scams;

The first step to recognizing a scammer is to always, always, always research the lender before giving any personal information.

Use the Better Business Bureau's website to look up any business you're considering. If you see any scam reports, avoid it. Also look them up on RipoffReport.

Never pay upfront for a loan of any sort. That applies for personal loans, bad credit loans and payday loans. In the USA and in Canada, it's illegal for lenders to ask for a fee upfront, so if they do you know you're dealing with a scammer.

Finally, only work with websites you trust and know. Never do business with a company you've never heard of, especially if they reached out to you first via email. Real lenders will never, ever send out unsolicited emails.

With just a bit of background information and a careful mentality, you can avoid getting scammed. It's unfortunate that there are people out there preying on people just when they can least afford the financial hit, but such scams all too common.

You now know how these scammers work, as well as a few tell-tale signs that'll allow you to spot these scams a mile away.

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How to Minimize the Damage of a Foreclosure on Your Credit Report:

Foreclosure is one of the most harmful things you could have on your credit report. It's a big commitment that you essentially forfeit out of. As a result, potential lenders who see a foreclosure on your credit report often aren't willing to lend to you.

How can you prevent a foreclosure from decimating your credit?

Consider Doing a Short Sale;

Try not to let your house go to foreclosure. Often times a bank will be willing to take less than the full amount of your home by accepting a short sale instead.

A short sale involves first finding someone who wants to buy your property, then arranging with the bank to use the proceeds from the sale to pay off your existing debt.

Often times the sale amount will be for less than what the buyer would get on the open market, making it a good deal for them. It's a good deal for you because you get to preserve your credit and it's good for the bank because they get an easy sale.

It's important to realize that a bank often loses more money if they foreclose on your property than if they accept a short sale.

If they foreclose on you, they need to pay for lawyers, possibly pay for an eviction, need to pay to fix the house up, risk tenants damaging the house when leaving and often have to sit on the house for months before it's sold.

A short sale saves them all those costs. You find them a buyer, you handle the most difficult aspects of the deal and they just accept the money and sign over the deed.

Though a short sale does show up on your credit report, it's much better than if you just defaulted on your mortgage.

What If You Can't Do a Short Sale?

If you have no option other than letting your home go to foreclosure, immediately start rebuilding your credit afterwards.

In all likelihood, you won't be able to get any kind of credit apart from a secured credit card. So start with that.

Open one or more secured credit card accounts and start using and paying them off every month.

You'll still have to work with a highly damaged credit report for a few years. But the damage can be minimized if you immediately start to work on your credit rating.

If in four or five years creditors can see that you have several credit accounts open, none of them delinquent, that can do a lot to offset your foreclosures.

If you're facing foreclosure, your first option should be to do everything you can to keep the home from going all the way to foreclosure. If there's no other choice, then immediately start using credit building techniques to offset the damage.

Is It Possible to Repair Bad Credit on Your Own?

Often time's people feel as if they have no choice but to either wait for their credit to improve on its own, or seek professional help. But is it possible to do it yourself?

The answer is a resounding "yes!" Not only can you do it yourself, it's often better for your credit to do it yourself than to get professional help.

A professional might charge you $200 an item to get it off your credit report. From all three reporting agencies, that's $600. If you applied that $600 to paying down a high balance account instead, that's often a much better use of your money than hiring a professional.

What does the process of repairing your credit report on your own look like?

Start by Figuring Out Exactly What Needs to Be Done;

Start by going through your credit report and writing down all the different items that you need to dispute.

Disputing incorrect entries is easier than you might expect. Credit rating agencies are legally bound to research each and every single claim of inaccuracy.

Go through the credit report from each reporting agency and note each inaccurate account.

Contact the Agencies;

The best way to contact an agency is through the mail. Letters of dispute can be tracked using certified mail. Make sure you keep records of every letter you send in case you have to take further action in the future.

Mail the agency with a listing of all inaccuracies and request that they either be removed or they provide proof that the item is correct.

You should receive a response within about 30 days.

Note that sometimes reporting agencies will remove your item in 30 days and put it back in the report if they receive the proof later. If that's the case, they'll need to send you the proof and a letter informing you that the item was placed back on your report.

If you don't get a written notice, you're legally eligible for $1,000 from the reporting agency.

Cost versus Benefits of Doing It Yourself;

As discussed earlier, it's much cheaper to do it yourself than to hire a professional. The money saved can be used to pay down debts, further improving your credit.

However, there are a few things that you have to take into account when you're disputing credit report items on your own.

First of all are the time requirements. You need to carefully research every disputed item to ensure that it truly is incorrect. Then you need to provide any documentation you can and keep tabs on everything.

Also, you should consider the amount of energy it takes to go through this process. Simply trying to hold all the pieces in your mind takes a lot of concentration; and for many people it can be stressful.

Should you do it on your own? It depends on whether you'd rather have the time or have the money. If you can spare the time and would rather do it yourself, it's absolutely a viable method and thousands of people do it every year.

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Post-Bankruptcy Credit Improvement Tips:

You've filed bankruptcy and your credit is likely as low as it's ever been. But it doesn't have to stay that way. The moment you declare bankruptcy, there are actions you can take to immediately start rebuilding your credit.

Here's how to start improving your credit score right after a bankruptcy event.

Do a Careful Credit Report Check;

Look over your credit report. Then look over it again. Carefully check that each and every account is being reported properly.

Old debts that were wiped out should indicate a "BK" status. Debts that aren't reported properly can continue to damage your credit score, so make sure that any cleared debts are indeed being reported properly.

Pay Your Mortgage On Time;

If you managed to keep your house in the bankruptcy process, make sure you do everything in your power to pay your mortgage on time.

Your mortgage has a bigger impact on your credit than anything else. If you can manage to keep it current, that'll really help your credit score. If you go delinquent on your mortgage, the rest of the techniques in this article won't help all that much.

Get a Secured Credit Card;

Get a secured credit card to start building up your post-bankruptcy creditworthiness.

A secured credit card entails you putting down a small deposit, usually between $300 and $1,000, to open a cash-backed account.

Your money will be held as collateral. You can then use your card as a credit card. Pay it off every month, on time, to start rebuilding your credit.

Make sure that your card is being reported to all three credit reporting agencies.

Cutting Your Spending;

Having to file bankruptcy means that at some point in your life, you spent more money than you really had. In order to prevent that from happening again, you need to make sure that you're regularly making more money than you're spending.

Any additional cash you earn can be used to improve your financial situation. It can be used on improving credit, paying off debts that weren't wiped out during bankruptcy, or building savings.

Start by cutting back on auxiliary spending. Move into a smaller house or apartment if you can. Try to save 10% to 20% of your income every month.

Make a Small Instalment Purchase;

An instalment purchase is treated differently on your credit report than revolving credit (e.g. credit cards). They're treated with more weight.

An instalment purchase includes car loans, home mortgages or even furniture purchases that are paid off in instalment form.

Make sure that any instalment purchase you make is reported to all three credit reporting agencies. Getting an instalment loan and paying it off on time regularly can do a lot for rebuilding your credit.

If you apply these techniques, your after-bankruptcy credit can improve to the point where you can open new unsecured accounts within 2 or 3 years.

The Easiest Way to Remove Bad Items from Your Credit Report

Did you know that it's possible to remove bad items from your credit report? Any inaccurate item showing up on your credit report that's damaging your credit can be removed, otherwise you have the right to sue the credit agency.

Here's how to remove bad items from your credit report.

Get a Report from All Three Agencies;

The first step is to get a credit report from all three credit reporting agencies. You can get your report once a year for free from annualcreditreport.com.

Look through each and every one of your accounts carefully. Is there anything you don't recognize? Anything that's overstated or understated?

Highlight any suspicious accounts. Note the account numbers and descriptions.

Some bad items will appear on just one agency's report, while other errors will appear on all your credit reports.

Beginning the Dispute Process;

Look for the dispute address of the credit agency you want to contact. It's usually on their website.

Also look at their expected response times and policies for removing items.

Usually, you can expect a response within 30 days. If you don't get a response within 30 days, you may be eligible for a lawsuit, or the item may have to legally be dropped.

Find a few sample dispute letters online and modify the letters to suit your own purposes. Usually the letter needs to illustrate exactly why you believe the account is erroneous and needs to list the exact account numbers and descriptions.

Be sure to also be clear about what you want them to do. For example, if the account exists but isn't actually delinquent, let them know that you want them to update the status to "Never Delinquent" rather than remove the item.

The Next Steps;

One of three things will happen once you've sent in your dispute letter:

1. They respond and remove the item. In this case, no further action needs to be taken.

2. They respond and say that the item is not an error. They need to also provide documentation stating why this is the case, including the actual credit filing by the creditor.

Look over the filing. Was this account opened by you? If not, you may have an identity theft issue on your hands. If it was, but is being incorrectly reported, you need to contact the creditor directly to work out the issue.

3. They don't respond. In this case, you have certain rights, including at times the right to have the items removed or the right to a lawsuit. Consult a lawyer for specific rights in this case.

The whole process of disputing a report item should take no more than three hours. Those three hours could result in your ability to open credit cards, your ability to buy a home or your ability to buy a car at much better rates.

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