

Cleaning Up Your Credit



*Credit***target** 



WHAT'S ON YOUR CREDIT REPORT?

Your credit report is an essential part of your day to day life, even if you may not realize it at first. Your credit report is used by credit lenders, home mortgage lenders, insurance companies and even employers when each of them determine if they should, or should not, work with you.

Do you know what is on your credit report? If not, there has never been a better time than right now to find out.

WHAT IS IT?

The first question that must be answered is the most important. What is your credit report? A credit report is a collection of information about you. This information is centered around your specific ability and experience with credit use. Credit, a form of money that is given to individuals to spend and repay over time, is given by lenders only if they believe you are a good risk to them. Every lender must define what level of risk is acceptable to them, but they base their decisions on the past usage of credit by you.

Let's explain. Over time, creditors lend to hundreds and thousands of people. They develop specific algorithms that help them define who is a credit risk by looking at the patterns in the way that individuals spend using credit. They determine how much risk they are willing to take to work with people. Risk is a calculated tool for lenders. The more risk you are, the more they can charge in the form of interest rates and fees. On the other hand, if there is too much risk from an individual, that individual is unlikely to repay their debts and the lender stands to lose money instead of making it.

What does this mean for you, though? As a borrower, you need creditors to see you in the best light possible. The lenders to the credit reporting agencies directly report the decisions you make regarding credit.

- You obtain a credit card. You use it to make a \$100 purchase. The credit card company reports this action to the credit bureaus, which keep track of all of your activity.
- You make a payment on time to the lender. The lender lets the credit bureaus know. This looks good to them. Over time, regular payments increase your credit score.
- You make a late payment on the credit card. The lender reports this to the credit bureaus. This looks bad. Just one late payment will remain on your credit report for up to two years, and can drop your credit score.

This record is kept ongoing from the time you first get some form of credit. The more good notches you get from your creditors the better your credit score is. You may be wondering what a credit score is, too.



WHAT IS A CREDIT SCORE

A credit score is a numerological representation of the credit report. The credit bureaus take all of the information on you and put it into that complex algorithm to get a number that represents your credit usage. Credit scores can be under 350 up to 800, depending on the credit bureau. The higher the score is, the better. This shows the company that you are a good credit risk.

HIGH CREDIT SCORES MEAN:

- More lenders willing to give you credit
- Lower interest rates on new lines of credit
- More ability to borrow at a higher credit limit
- Lower interest rates possible on credit you already have



The key here is taking your credit score, no matter where it is right now, and improving it. You can do this by understanding your credit report thoroughly and by making smart financial decisions going forward.

There is no instant credit eraser or improvement tool that works to move a 350 credit score up to 700. In fact, the credit bureaus will not tell you what percentage of improvement you will have if you make specific credit decisions. The fact is, the mathematical formula they use is highly guarded.

Instead, you will need several things to see improvement with your credit:

- Time
- Dedication to good credit usage
- Removal of any inaccurate information on your credit report

Also note that when creditors consider you for a credit card or loan, they most often use just your credit score, with a brief look at your credit report.

Therefore, it is very important to do whatever it takes to get this number up.

HOW TO GET YOUR CREDIT REPORT

To obtain your credit report, you have several options. If you have never obtained a credit report in the past, or have not done so in the last 12 months, your first stop should be a visit to each of the three credit reporting companies:

- TransUnion: <http://www.transunion.com/>
- Equifax: <http://www.equifax.com/home/>
- Experian: <http://www.experian.com/>

Visit each company's website. There, you can request a free credit report. Recently, laws in the United States changed to require that each of the credit reporting agencies to provide consumers with one free company of their credit report each year. The reason for this is that it is an estimate that more than 80 percent of credit reports have errors or missing information on them.

Think about what that means: 80 percent of people may be paying too much in interest, may not qualify for loans they deserve or may even be turned down for a job because they have a poor credit score, through no fault of their own.

Once you get your credit report cleaned up, it is highly recommended that you invest the time in getting a free credit report at least one time per year from each of these companies to ensure that no errors are present. If you would like to avoid paying for additional credit reports, obtain a credit report from one of the credit bureaus every four months. This way, you do not have to pay for the credit report but get the latest information reported there.



Already Done So?

Perhaps you have already obtained your credit report in the recent past. To get another one, you may need to pay for it. Most often, copies of your credit report are available for under \$20, though it may be slightly more if you would like to see your actual credit score.

You can purchase the credit report from each of the credit bureaus directly. There are other companies selling these, but monitor the security and the overall cost. You may be able to get a credit report for much less, if you go directly to the credit bureau for it.

The first time you obtain your credit report for the goal of cleaning it up, it is important to obtain a copy of the report from each of the three credit bureaus. As mentioned earlier, later on, you may not need to do this since most information will be the same from each of the lenders. Right now, you need to clean up the credit information on all three reports to ensure that your best foot is forward when it comes to credit usage.

WHAT'S ON YOUR REPORT?

Once you get to the credit bureaus, you will need to work through the questions they ask. This is important since it is verifying that you are the person you say you are. Once this process is complete, you will be taken to an online version of your credit report. You cannot change information here directly but rather have to go through a specific reporting process.

Before you get excited to see your information, you will want to look for specific information.

- Notice the number of accounts you have: The higher this number is, the more desperate you look to creditors. You do not want a high number.
- Notice any delinquent notices or collections notices on your report. These are one of the most damaging pieces of information listed on the report.
- Locate the credit card accounts listed. You may notice some that are very old, perhaps even your oldest credit cards. If they are good reports, for example, they are not reporting anything is in collections or overdue, leave them there! The longer you have had credit the more experience you have. It is a good thing to have older cards especially with good histories on your account. Do not remove these.
- Locate the inquiries listed. Inquiries are reported whenever someone requests to see your credit report. There are two types. Some come directly from credit card companies and lenders who you have requested credit from. These are the most important to notice since these work against your credit score. If you have too many inquiries listed, this could mean that you are again desperate for credit. It also drops your credit score. The second type is pre inquiries where lenders are considering offering you a line of credit. Since you have not requested credit from them, these types of inquiries do not count against you.

The credit report contains a wealth of information. Read through it and take notice of the individual accounts. You should notice each account listed, with information including the credit limit, the age of the account, the lender's name and information and a few green (or other colored) boxes. Each month you have the credit account, this box will change in color or mentions. For example, you may notice a streak of green boxes. This means that you have made your payment on time those months, with one box representing one month. These boxes trail back for two years before they disappear.

Take some time to look through the credit report. Most of these reports are very easy to navigate and they only take a few minutes to browse through. Each of the three credit agencies has also provided you with as much information as you need on the credit report. You may also find a section where the bureau is telling you why you have the marks you have or the credit score you have.

They may give you specific information on how to improve the credit score such as:

- Too many delinquent accounts: making payments on time helps to improve your credit score
- There are too many inquiries on your account
- There are too few credit card accounts open

This is specific information directed at you. Definitely use this as a springboard telling you exactly what you need to do to see improvement in your credit score.

ITS ONLY AS GOOD AS

It is important to note that your credit report is only as good as what your creditors have reported. There are going to be errors on your credit report. Some will matter, some may not. The key here is to notice them and to take action to remove them. When you do this, you will find yourself with an improved report and potentially a higher credit score.



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