Mastering Your Credit:
12 Steps to Improved Credit

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Why should you care about credit?

As you can tell from my company name and slogan: You Can Be Debt Free you would think that I am anti-credit. To be specific, I am anti-UNMANAGED credit. Managing credit takes discipline. A lot of discipline. It is all too easy to see something you want and just grab one of those little plastic cards and get it. Its much more difficult to actually say 'no', and just walk on by.

Although you should not buy on credit, you must have a good credit score in our society. After all, we live in a credit society where we are nameless and faceless numbers in a lot of databases. We don't even get to know our neighbors very well these days, let alone expect the credit manager at a bank to know us personally. In fact, you can't even open a checking account without the bank first running a credit check on you. I was shocked. "I am going to give you my money to hold for me, and you want to know if my credit is good enough for you to let me let you hold my money?". Amazing, but true. These days it should be

YOU who are asking to see the BANK’s credit score! Good luck trying to buy a house for cash! Trying to rent an apartment? If you don’t have decent credit, forget it. They’ll make you pay first, last, plus a security deposit and your first born child.

Another point of frustration is that when you have no debt and are using no credit, your credit score GOES DOWN! So, the more responsible you are in managing your debt (by having none), the riskier the credit companies think you are! You will need to find a balance between reducing your debt and managing your credit in such a way as to maximize your credit score.

In my younger days, I was the King of Stupid when it came to Money Managment. I even bought a condo with a negative amortization interest just before the condo market crashed and I owned a $30,000 condo with a $75,000 mortgage. While there are definitely bad money decisions that I can definitely own, there were some things that I had no control over. Yep, 9/11.

After the Y2K Tech Boom, tech jobs were slim and none, and after 9/11, slim left town. My business shut down due to lack of clients, my debts increased, and I started putting everything on my credit cards (hoping for a turnaround in the economy). Before I knew it my credit cards were maxed out, my retirement fund was empty, I had a bankruptcy, and a foreclosure on the horizon. Things were not looking good and my credit report was looking even worse. I wasn’t back to ‘square one’, I was at square minus one when it came to reestablishing my credit and getting out of debt. Something had to change.

I then spent years learning what I needed to know and do to reestablish my credit and getting completely out of debt. I made a plan, set my goals, and then I did it and you can too! While doing it I kept a journal of what I did that worked (and what didn't), and documented all of it. I then took all of this documentation and wrote a little eBook about how others can learn from my experiences, get themselves out of debt, and restore their own credit score. I turned this into my

12 Steps to Improved Credit.

1. Pay Your Bills On Time
2. Reduce Your Spending and Pay Down Debt
3. Make A Deal With Your Creditors
4. Review and Update your Credit Report with Each Agency

5. Don't Apply for Credit Too Frequently
6. Keep Your Debts Low
7. Increase Your Available Credit
8. Balance Your Credit
9. The Longer the Better
10. Pay More Than The Minimum
11. Distribute Your Credit
12. Build and Borrow Credit

1. Pay Your Bills On Time

The single biggest part of your credit score is your payment history. You must pay your bills on time. If you have a low credit score due to a poor payment history, you need to IMMEDIATELY start paying things on time. Even if you just pay the minimum, they must be paid ON TIME. Credit reports 'age'. The longer your history of on time payments, the better your score. Its never to late to start. Start now! If you cannot pay your bills on time, you need to eliminate expenses so that you can pay your bills on time. The first thing to go should be the 'extras'. Bye bye cable tv. Bye bye high speed internet. Bye bye eating out for lunch and dinner. Bye bye daily expensive cubt of coffee. Hello rice & beans for lunch & dinner (and not the pre-packaged meals, the raw stuff that you cook from scratch). Hello Mr. Coffee and making your own coffee for pennies instead of dollars.

The first thing you MUST DO is reduce your expenses so you can pay ALL of your bills ON TIME.

2. Reduce Your Spending And Pay Down Debt

The second biggest part of your credit score is the amount that you owe. You need to start paying down your debt. Unless you get a new higher paying job, win the lottery, get a raise, or start a side-hustle, you can only do this by spending less. Not only spending less than you earn, but spending less than you are spending right now. The less you spend, the more you can pay to reduce your debt and the faster the debt will go away. There are many techniques and strategies for paying off your debt, and the best way I have found to reduce debt is to follow the Dave Ramsey '[Debt Snowball](#).

3. Make A Deal With Your Creditors

I am of the belief that everything's negotiable. That includes debt and payments. You hear a lot on the radio and TV about 'debt professionals' and 'secret plans', etc. One word: BS. There is nothing so secret that you can't do it yourself. If you come into some cash (IRS refund, bonus, etc.), don't go and buy a new toy! Contact a creditor and ask them about making a deal. To do this, you must talk to a supervisor or manager. The person who answers the phone is useless in this regard, and will even try to tell you that there are no deals. Get a manager. Get a second level manager. Keep going up the chain until you find someone who says that they can make a deal. Offer to pay off the entire balance, right away, in full (or some high percentage) if they would be willing to give you a clean credit score. Sure they'll argue about it, but see what you can do. They know your score, and they know who your other creditors are and they know that if they don't make a deal, someone else will. So go ahead and tell them that you would like to make a deal with them first, but if they won't deal, then you have other creditors that probably will. They will all make a deal.

If you are so far behind in your payments that you are dealing with a collection agency, the likelihood of making a deal is even better. This is because collection agencies are usually paid by commission, and will do whatever they can to get something. Fifty cents on the dollar is better than zero cents on the dollar, and that is what they'll get if you declare bankruptcy.

Negotiation is an art, not a science. There are no exact rules to follow and there are no guarantees. First, be courteous and polite. Collectors work in a tension filled environment and constantly deal in conflict. Be extra kind and polite and appeal to their human decency. They may look favorable on you and remove items without need for negotiation. When negotiating to remove derogatory information off your credit report, get them to make the first offer. Ask what it will take and what can be done. Then, make a counter offer. Sometimes the lender will offer a solution that you haven't thought of.

Finally, don't forget to get it in writing. If you don't get it in writing first, then it will never happen. They will take your money and leave you with your bad credit rating and there is nothing you can do without a signed agreement.

4. Review and Update your Credit Report with Each Agency

You want your credit report to be as favorable to you as possible. There are 3 primary credit reporting agencies; Equifax, Experian, and TransUnion. By law, each agency is required to provide you with one free credit report per year. What I have done is setup a reminder every

4 months to get my free report from one of these agencies. For example, every April I get a free Equifax report, every August I get a free Experian report, and every December I get a free TransUnion report. Each report is similar, but there are differences since different creditors report to different agencies. This way, I get 3 free reports per year. NOTE: Do not 'fall' for the FreeCreditReport.com gimmick. They offer you a free report, but in actuality they are setting you up for a bunch of not for free services. Be careful. They know they owe you a freebie each year, and they will have a lot of stuff on their web site carefully designed to extract money from you.

Not all incorrect information on your credit report is bad. In general, if it shows a zero balance, paid in full and no derogatory comments, then you may want to leave it on your report as it shows that you have unused credit and your debt v/s credit ratio looks better. However, there is rarely incorrect information that is beneficial to you. If there is incorrect information that negatively affects your credit score, contact the credit reporting agency and have it removed. All 3 of these agencies have the ability to dispute items online, by phone and by mail. Online is easiest, but I have found that if you get a good, knowledgeable operator on the phone, they know a lot more about what you can and cannot do, and how to go about doing it than the web site allows you to do. I recommend going to the web site to get the report, and then calling them on the phone and going through every item on the report.

It doesn't hurt to dispute everything that is derogatory. You never know.

5. Don't Apply for Credit (Too Frequently)

Several credit inquiries in a short period of time will lower your credit score. Receiving multiple increases in credit in a short period of time will lower your credit score. Be careful, especially around the holidays as most stores are offering discounts if you apply for their store credit card. They even tell you that you can get the discount just by applying and you don't even have to be approved. However, is that 5% off or free towel worth the reduction in your credit score? The rule of thumb that I have followed is to keep your new credit inquires to 3 or 4 per year.

Be aware that there are multiple types of credit inquiries. One type is done by those companies that send you the 'pre-approved' credit cards. What they have done is submitted a credit inquiry about you to determine if you are likely to qualify for the card. You have not actually initiated the credit inquiry, and you have not actually been approved for the card. If you call the number they provide, they will then perform a credit inquiry as you are now actually applying for the card. Now your credit score gets affected as you have now applied for credit. “But I thought I was pre-approved!”. Apparently my dictionary and theirs do not agree as to the definition of pre-approved. When I asked the representative, they said that I was not approved, I was pre-approved, the ‘pre-‘ meaning ‘not yet’. Go figure.

6. Keep Your Debts Low

One thing that the credit score takes into account is your ratio of debt v/s available credit. This is to say, if your credit limit is $1000, and your debt is $1000, then you are maxed out. You have no available credit. One of the WORST THINGS you can do is go OVER your limit. Not only will you get charged ‘over limit’ fees, but it will negatively affect your credit score. The rule of thumb is to have a debt ratio of less than half of your available credit. In this example, you should owe no more than $499. Keeping your debt below the 25% threshold will improve your credit score even more. Remember, your goal it to **Be Debt Free**.

7. Increase Your Available Credit

In the previous section I wrote that you can improve your credit score by reducing your debt to credit ratio. One way to do it is to make payments and pay down your debt. This is the best way as it gets you closer to your goal of being debt free. Another way to improve your credit score is to increase your available credit. Using the same example, suppose you owed $1000 on your $1000 available credit. If the creditor were to raise your credit limit to $2000, you would automatically fall into the 50% threshold. However, BE CAREFUL. The one thing you DO NOT want to do is spend that additional credit. You need to manage your credit responsibly!

To do this you would contact each creditor and see if they will increase your credit without having to get a credit report. I found that some of my credit card companies will do exactly this based on the number of months that I have paid on time, my balance, my payment history, etc. Its like a bonus for being responsible with your credit. So, before I applied for additional credit, I just asked all of my creditors if they would increase my limits. Some did and some did not. Those that did, helped my credit. Those that did not were the ones I worked hardest to pay down below the 50% threshold.

8. Balance Your Credit

In general, it is better to have 2 credit cards just under the 50% threshold than it is to have one card maxed and the other at zero. You may have a very low interest rate on the card on which you keep the high balance, and a high interest rate on the card on which you keep the low balance. The credit score doesn't care about such things, so do what you can to keep your balances under the thresholds for all your cards and then pay them all off as soon as possible. Again, your goal is to Be Debt Free.

9. The Longer the Better

One of the smaller factors in your credit score is how long you have had each of your credit accounts. Credit cards are very competitive for new customers, so they offer very low introductory rates for only the first few months. While it may seem to make sense to transfer to a card with a lower rate, from a financial point of view, it can actually result in a lower credit score. The longer your accounts have been open with the same creditor, the better your credit score. Multiple new accounts will lower your score, whereas a stable number of long-term credit accounts will raise your credit score.

While you might not want to continue to pay an annual fee on a credit card that you opened when you were in college, the annual fee might be worth the resulting benefits to your credit score from having a credit account that you have had for a long time. The older an account is, the more it will boost your credit score (provided, of course, that the account has a good payment history). In fact, as a long term account in good standing, the creditor may offer to eliminate such fees to encourage you to use their card more. Call and ask.

10. Pay More Than The Minimum

In general, the credit score formula was designed to measure the likelihood of a borrower to pay back a loan. If you are simply making the minimum payments on your credit accounts, you are not very likely to be able to pay them off, let alone be able to increase your debt and manage additional credit. Remember, your goal is to eliminate your debt, which means zero balances on everything. The best way I have found to reduce debt is to follow the Dave Ramsey 'Debt Snowball from step 2.

11. Distribute Your Credit

This is a very minor factor in your credit score, but every little bit helps. It is better to have several different types of credit such as a home mortgage, an auto loan, department store cards and a VISA and MasterCard. You would score higher with a balanced mix of credit types than if all of your accounts were department store credit accounts. Also, having several consumer finance company credit accounts will negatively affect your credit score.

12. Build and Borrow Credit

The easiest way to build credit is by taking out a small, secured bank loan. If your credit is really bad, you may have to put up a lot of collateral to get the secured loan. For example, if your car is worth $10000 and is paid off, you could use it as collateral for a $1000 1-year loan. You then use the loan money to pay back the loan. Of course you are paying extra in interest, but that is a very low cost for improving your credit. Since you want to establish a payment history, don't pay it back to quickly. Paying back a 1 year loan in 6 months should be sufficient. Another way to do this is to use money you may already have in a savings account. Instead of using your car as collateral, you use your savings as the collateral. When I did this I found that after 6 months my credit had improved to the point where I was able to get a credit card and it was no problem after that.

You can also 'borrow' credit. This is easy to do and is especially useful for young adults who have no credit. If you have a relative or close friend with excellent credit history, have them add you to one of their credit card accounts, or cosign for your loan.

BE CAREFUL especially if you are the person extending your relative or friend your credit rating in this manner. There is probably a reason that they have a poor credit rating, and you don't want to become a victim of their irresponsible behavior. It is just as easy for them to ruin your credit. If their name is on the account, and they charge up a lot of debt, YOU are responsible.

Conclusion

Reestablishing good credit is time consuming and takes discipline, but it can be done. Following the 12 steps that I described above will not only improve your credit rating, but will bring you peace of mind as you experience financial freedom, from debt.

If you would like assistance improving your credit, you may want the help of a Financial Coach.

Be Debt Free - Financial Coaching

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