Results Advisors Present – What the Credit Repair Companies Don't Want You to Know!

Let's say you have become convinced by your local realtor that home prices are as low as they are going to be, and it's time to buy, and heck, even better interest rates are really low! That means that you can finally stop renting and buy your own little piece of the American dream[1].

You pick out a cute little bungalow in a neighborhood you like, and fill out the required five inches of paperwork. The realtor then realizes that you are not paying cash (you meant only the down payment would be cash) and you need to get a home loan!

So realtor runs your credit. This isn't the good old days where you got a loan just for (1) having a pulse and (2) being physically present in the United States; today the pesky banks and the even peskier government require you to really qualify for a loan! The rats expect their money back! The nerve! And after we ponied up trillions in bailouts![2]

That's when things come to a blazing STOP. Your credit score is 550. It's 2011. Added together, this means – NO HOME LOAN. Heartbroken, realtor tells you that you need to improve your credit score before you can be helped. Then, like the good businessperson the realtor is, they make sure you leave with a pile of their business cards (the ones with the 10 year old picture on them) to "give to your friends if they are interested in buying" and bounce you out of the office so fast you don't hit the pavement until you are about halfway into the street.

What do you do now? How will you get that home loan? You start looking around for credit repair companies to help you. You quickly find that most credit repair companies either (1) are staffed by a crew that makes lawyers seem upright, moral and ethical or (2) were hand selected from the worst of the smiley faced DMV clerk rejects that can't find work at a carnival. Nobody tells you the same story, nobody quotes you a price, and nobody tells you how long it will take (although you are now thinking you're funding a few college educations).

Well, fear not. You downloaded this e-book because here at **Results Advisors** you get the straight scoop! In order to prove that, we are supplying this free e-book that walks you through the process on how to improve your score on your own! Just by doing what we suggest; you, all by your lonesome, will improve your FICO score, and then can return to the realtor and get that cute bungalow.

Now, you are going to discover that certain things don't come off your credit score without a fight, and that's where a professional comes in, but that's down the road. Let's get started!

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[1] For Results Advisors' Free e-book "Buying in Today's Market – What You Need to Know" log onto results advisors.com

[2] About $62 trillion, per the St. Louis Federal Reserve Bank; Let that number sink in and vote your rascal congressman out at the next election.

1. Start with the Right Papers

There are all kinds of credit reports available on the internet and all kinds of people giving, selling or it's not quite sure what they're doing, with credit reports nowadays. For our purposes here, you want the straight scoop, and you can get that only from one place – a realtor or home loan office so that's where you go first.

See, if you go somewhere else – a car lot, apply for a credit card (good luck!) or buy your credit report online from pleasestealmyidentity.com, you are not getting the plain, unvarnished truth. You are getting a filtered report tailored to fit a specific need. Only a credit report run by a real estate office is "unfiltered" and for our purposes, you need an unfiltered report.

Now, do the realtor a favor and DO NOT USE this report to dispute credit mistakes it may contain. The credit bureaus have the nasty habit of retaliating against people who supply credit reports for this purpose; they do things like lock the realtor out of the credit reporting system. If you are going to dispute items (not covered in this book) you need your own fresh and sterile credit report.

From here, you need to see what your credit score actually is. As this book is written, the minimum score needed to qualify for a home loan is 640[3]. The difference between what your score is and 640 is what we are writing about here.

2. This Takes Time

Don't believe the credit repair agencies who claim to able to "restore your credit overnight" using "an insider". Nobody has an insider willing to do this; who they are talking about is their former wholesale loan representative when the home loan money was easy. This person is no longer an inside source, indeed she is no longer in the industry. She is a waitress at Hooter's.

Rebuilding your credit score the right way is not a simple, fast process. Following the methods in this book will take a year minimum. The good news is that if followed diligently, these methods actually work and more importantly, it imposes a fundamental requirement of home ownership – self discipline. We know that's not what you want to hear; and we're not your moms. At **Results Advisors**, we just have seen the horror stories and don't want *you* to become a tag line in our seminars. Discipline produces lasting results.

3. In Repairing Credit, BE ON TIME EVERY TIME

Late payments in 2012, with the economic crisis, and the problems on Wall Street[4] and whatnot, being late on your payments is totally destructive. It's as though you are considered a flake and have not matured or learned from the experience – you continue to be a flake.

[3] Yea, we know it is currently 620; we also know the requirement will increase to 640 by the end of 2012.

At Results Advisors, we deal with many real estate professionals. One of our most trusted sources related this story. He has many couples who are seeking a government backed loan two to three years after bankruptcy due to depressing housing prices in his area (the Inland Empire area of Southern California). He actually prefers working with these clients because they have no debt and their household debt-to-income ratios are acceptable to the banks due to the lack of revolving credit. <u>He did state that the first thing the banks do in analyzing the prospective borrower is to see if there have been any late payments</u>. If so, they are not considered any further for a loan. <u>His message is simple – times in the mortgage industry have changed and the mindset has shifted 180 degrees – instead of looking for reasons to give you a loan; the banks are now looking for reasons not to give you a loan. Don't make this an easy decision for them – make sure the bills are paid on time</u>.

In order to be on-time every time, you will need to review the credit card agreement or the installment loan agreement you are paying on. They are written in English (OK lawyerese) but after a few tries, you can understand them. <u>All of the agreements will have the terms and conditions of payments</u>. These need to be reviewed to determine when the payment is due. One common ploy is for the payment to be due on the first of the month, but when you actually read the agreement, the first of the month reads receipt by 12:01 am the first of the month; *not* postmarked on the first of the month.[5]

In order to avoid the bank head games and establish credit, you should do one of two things: mail or online transfer the payment *seven days* before the due date, or if your score is really bad and you want brownie points quickly – <u>make the payment the day the transaction takes place</u>. What does this mean? It works like this. You use your credit card to purchase a new pair of pants for $40.00 over at Target. You go home, get online and make the $40 payment on the card the same day. It shows a successful, timely transaction, which is reported at the end of the month.

The best way to establish this habit is to use the credit card for purchases you know must be made anyway – groceries, gasoline, and the telephone bill. <u>Charge the expense to the card knowing you have cash on hand</u>. That day, take the money from the cash on hand or checking account and make an online payment on the card. This serves the dual purpose of taking the money out of your checking account that would most likely be used for something else (a new Starbucks *Trenta*?[6]) and it eliminates any chance of paying interest on the balance due on the card. Banks don't like the no interest part. They get to buy skyscrapers and you get to buy cute bungalows because they collect interest and *you* pay it.

4. <u>Don't Carry a Balance</u>

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[4] Wall Street paid an average cash bonus of $128,530 in 2010, down 9 percent from the previous year. Poor babies.
[5] A lot of this type of stuff is supposed to be eliminated by the Credit Card Protection Act of 2011; but the banks are left to police themselves for the most part. You know where that ended up last time.
[6] That's 31 oz of coffee and about 500 mg. of caffeine. Try a couple. You will vibrate.

The credit bureaus have no way of knowing if you carry a balance on a card or not. They only report the maximum balance, the payment history and the current balance, if reported to them. The message therefore should be clear: the client is not to carry a balance on a credit card during the credit rebuilding program. The purpose of the program is to create new credit – not new debt.

5. Apply for All Credit Using the Same Name

Going forward, all credit will be applied for with the clients same first name, middle initial and last name. If your name is William, for example, do not apply for credit as both William and Bill. If you are a junior or senior, either decide to use the suffix or don't use it at all. The only exception to this is married spouses. New credit should be applied for with the new last name. This will create multiple errors that can be corrected (see below) but will also serve to establish new credit.

If you have existing credit; look at getting credit cards all reissued in the same name and moniker. Is it a pain? Yes. Does it create consistency? Yes. Does it improve your credit score? Absolutely.

6. Used Secured Credit Cards

Secured Credit Cards are what their name implies; you prepay them and work against a preset balance. The advantage to these is the card stops working when the money runs out; over overage charges; no penalty fees. There are several types of these cards, and debating their value and use is beyond the scope of this book, but there are secured credit cards which do report to the credit bureaus.

Some examples of these cards are credit cards issued by

- Public Savings Bank, www.publiccard.com
- Applied Bank, www.appliedbank.com

7. For Unsecured Cards, carry a low debt ratio

Debt ratios are important; if you carry a high debt ratio, you credit score will be penalized. Once an unsecured credit card is obtained, the amount borrowed on it should never exceed 30% of the available balance. This keeps the ratio low enough that it should not really impact the developing credit score. The amount borrowed should never exceed 40%.

8. Make sure the credit limit is reported accurately

Once a credit card is obtained and reported, the line item should be checked to make sure the credit limit is reported accurately. Many cards underreport the credit limit available. For unsecured cards, this will wreck the utilization ratio; which is why credit card utilization ratios should be kept below 40%. This underreporting is done for entirely self-serving reasons; client retention by the credit card company. By underreporting, they are gambling that you will not be contacted or solicited by other credit card companies and will retain you as a client.

9. Once You Obtain a Card, Use it

The objective in getting the credit card post-bankruptcy is to rebuild credit; not create new debt. So use each card at least monthly. Even if it is for a single transaction, the use of the card and the prompt payment will be reported; this will improve the credit score over time.

10. If you are going to be late, be late on Utility Bills

The utility companies, cable TV companies and the like don't appreciate us saying this; but every time our wonderful Time Warner cable goes kaput in the middle of the third period of a Kings Hockey game WITH THE SCORE TIED we shout this advice.

Utility bills, telephone bills, cell phone bills, your video rental account are not reported to the credit bureaus. If you are going to be late with a bill because there is more month than money left over, this is where to start. These bills should be paid promptly when the money becomes available, since collection activity under any circumstances is the kiss of death in rebuilding credit. Even pony up for the late fees they charge; they gave you a float, give them back their money.

11. Correct Glaring Errors on Your Credit Report

While undertaking this process, you like 80% of the general public, will learn that there are errors on the credit report; about 25% of the errors are serious enough to warrant a denial of credit.

Before proceeding, a determination needs to be made on the significance of the error. If the error is minor in nature – transposed numbers on an address; a former address listed as current, and the error is more than two years old, the error may be safely ignored.

Attention should be paid to three critical problems: errors in your name, errors in your social security number, and credit accounts which appear on the credit report that you don't recognize.

12. That Isn't Mine! Accounts

Check the credit report for any entries that you know nothing about. Go through the credit report with your spouse and significant other. Free tip for the men reading this report: It's OK her to have a Victoria's Secret credit card you don't know anything about. It's not OK for you to have a Victoria's Secret credit card she doesn't know about. That's a sure way to get a frying pan upside the head.

As the credit rebuilding continues, the report should be checked for new credit lines which suddenly appear without your approval. This may be a sign of identity theft and should be verified as quickly as possible. The rebuilding of credit in getting ready to buy a home is often the first time the client has paid close attention to their credit score for a prolonged period in their lives, so this is an excellent opportunity to clear out accounts listed by mistake.

The contact procedure used in all contacts with credit bureaus is the same – certified mail, return receipt requested, in old fashioned snail mail. "Not mine" accounts may be responded to differently. The most common response is that the debt is reported as verified by the credit provider. At that point, the credit provider must be contacted directly. The most common response from them is a "verification of debt" form in which the client simply signs a statement that the debt belongs to you

DO NOT SIGN THESE. You <u>are not</u> required to provide data, information, documents or anything else to the credit bureau or the credit provider as they attempt to "verify the debt". It's on them.

The FCRA[7] Rules are very clear on this – <u>it is incumbent on the credit bureau and supplier, not the consumer, to validate the debt, and affirmative steps must be taken to do this</u>. One of the affirmative steps they will take is to attempt to get you to validate the debt by signing something that says it is yours. Don't fall for this trap.

<u>Not all Disputes are Created Equal</u>

The FCRA is very clear: disputes considered frivolous need not be addressed or corrected by the credit reporting agencies. Photocopying a letter that simply says "not mine" to each entry in a credit report will get you nowhere and may actually further damage your credit report – the agencies *do* talk to each other and *do* compare notes. Worse, by continuing to make frivolous disputes, the credit bureaus may legally refuse to consider future valid disputes in which truly damaging data appears on a report. At that point, your only real remedy is a lawsuit. It will not look particularly helpful to you when the credit reporting agencies document that you lied in your disputes – and believe me, these dispute letters will magically appear, blown up to 3' x 2' trial exhibits for all to see. It is not pretty. And if you bring the claim in federal court, expect to write a hefty check to the credit bureaus and their lawyers.

There is zero advantage in filing frivolous disputes. There are enough real errors in the average credit report to warrant legitimate disputes to make sure accounts are reported properly and accounts which do not belong to the debtor are removed.

13. <u>Leave Closed Accounts Alone</u>

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[7] Fair Credit Reporting Act.

If an account is listed on the credit report as paid in full and closed, that is fine and it should not be disturbed. If such an account is deleted, it is virtually impossible to get the account re-entered onto the credit report. If the account is older and is paid as agreed, the damage done to the history portion of the FICO score outweighs the removal of the account.

14. Remember to Consider only the FICO Score

In considering a mortgage application, only the FICO score is considered. As discussed above, there are competitors to the FICO score. These may be safely disregarded as these scores are not considered for a mortgage application and most other creditors. It simply does not matter what your "consumer scores" mean and your client need not pay for them.

In mortgage applications, the FICO score has become virtually the only real credit consideration that matters. The two biggest sticklers for FICO scores are Freddie Mac and Ginnie Mae. Their mortgages require certain specific criteria – for example a 620 FICO score. If you have a 619 FICO score, the loan is not approved, pretty much regardless of other factors.

Also remember that since each credit reporting agency interprets the FICO algorithm differently, there are different scores. Generally, if your client has two reported FICO scores, the lower score is used; it appears not to matter if one is 0 and the other is 850; if the client has three FICO scores, the middle score is used.

15. Don't Transfer Credit Card Balances

If the client is fortunate to have built up enough unsecured credit cards to consider a balance transfer to a lower rate; they should think twice. What seems to be occurring on a regular basis is that if a balance is transferred, the receiving card's credit limit is often immediately dropped to the borrowed amount. This messes up the debt utilization rate; and that results in a reduced FICO score.

16. Know the Reason for a Low Score

Assuming you have been timely and consistent with your monthly payments, and has taken affirmative steps to establish new credit (not new debt; new credit) there is no reason why their FICO score should not be approximately 620 in about a year. If that is not the case, it is time to find out why. To do that, a new credit report must be ordered, and the reasons for the score determined.

Credit Issues are reported in industry shorthand called Nextgen. Basically, all credit issues are assigned a unique two character reason code. Fair Issac and each of the three credit bureaus use slightly different variations of the code. Normally, a particular score is given 4 or 5 reasons why it is awarded. To determine how to improve the score, you must know what the codes mean. The most common problems and codes are the following:

Code	Reason	Solution
01	Amount owed on accounts too high	Pay down balances to below 30% of limit
02	Too few revolving accounts	Open another revolving trade line, use it and pay it
07	Account payment history too new	Continue on and reapply in 6-12 months
12	Length of revolving history too short	Continue to use cards as above for 6 months, reapply
24	No recent revolving balance	Use some of the cards, pay them off
28	No recent bankcard balances	Use a card and pay it off
47	Number of inquiries	Stop applying for credit
99	Lack of recent information	Ask creditors to update your report
35	Payment due on Account	Pay the account.

There are several others, but these are the most likely to be seen. Once you understand how the system works, you can work the system to your own advantage and rebuild your credit.