

# DCC DOLLARS & \$ENSE

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## Improving Credit Scores Takes Time

### *Special points of interest:*

- Ways to improve your credit.
- Accelerated payment schedules.
- Credit Facts.

### Credit Fact

**Fallacy:** Credit scores determine whether or not I'm issued credit.

**Fact:** Lending institutions will take into consideration a number of different aspects as well as a consumer's credit score. A lender may look at your debt to income ratio as well as demographic consistencies, such as your length of employment at your current job or how long you have been at your place of residency. Creditors will look at your previous payment history and other information provided in your credit file. Remember, each creditor has their own policies and guidelines for extending credit. A lender may or may not grant an extension of credit based on a high score, or deny credit solely on the basis of a low score.

For more information visit, [www.myfico.com](http://www.myfico.com)

A credit score is just that, a score placed on the information in your credit report. The better your information is, the better your score will be. Based on this theory, the first step in improving your credit score would be to eliminate the negative things listed in your credit file. This would include paying off collection accounts and anything holding a balance in the public records section of your credit report.

Not all consumers have past due balances and collection accounts so it raises the question what can we do with the accounts that we already have to improve our score? The following information comes from Fair, Isaac & Co (FICO) as some of things a consumer can do to help to maintain or improve their credit score. We'll break it down by the categories of what's in a consumer's credit report.

#### Payment History

- Pay all of your accounts on time. Collection accounts and past due payments have a major impact on your score.
- If you have missed any payments,

bring the accounts current and keep them current. The longer your current payment history, the better your score.

- Remember that paying off an account will not remove it from your credit report. Accurate information will stay on your credit report for seven years from the date of last activity.

#### Amounts Owed

- Try to keep the balances on your revolving accounts low compared with their credit limits. A high outstanding debt can affect a score negatively.
- Pay off the debts rather than moving them around. Maintaining the same amount of debt but having less open accounts may lower your score.
- Don't close any unused credit cards as a "quick-fix" strategy to raise your score.
- Don't open new credit cards that you don't need, to increase your available credit.

#### Length of Credit History

- Opening new accounts will lower the average age of the accounts currently

## A Dollar Can Make A Difference.

Debt resolution is a long term goal of most all people. People accumulate debt in a number of ways and for a number of reasons, may have trouble repaying the debt. For example; The student who recently graduated from college who has student loans and mediocre credit card balances, but is having a hard time putting their degree to work for

them. The entrepreneur who has lines of credit and wholesale accounts from the start up of their company, but business isn't as good as anticipated. And of course the average consumer that has had a financial setback and their once manageable debt load has become too much.

## Improving Credit Scores cont.

open. If you have only been using credit for a short period of time, it is not a good idea to open several new accounts at once. A rapid increase in new accounts on your credit report can increase your credit risk.

### New Credit

- When applying for credit, submit all of your applications in a condensed time frame. Credit scoring distinguishes between multiple applications for the same loan and seeking multiple sources of credit, by the time period in which the applications are submitted.
- If you have had problems with payments, rebuild your credit history. Opening only new accounts that you need and using them responsibly will help to rebuild your credit with time.

### Types of Credit In Use

- Maintain credit card accounts and use them appropriately. Overall having revolving charge accounts and making timely payments will raise your score. A consumer with no credit cards may be a higher risk than a consumer who has managed them responsibly.
- Only apply for credit that is really needed. It is not

advantageous to open accounts to increase the types of credit that you have in use.

As we know from what we looked at last month, no single factor determines your credit score. If your accounts are all current, but have a high balance on them\* then a consumer would want to focus on not using the accounts, and paying down the balances. For a consumer with a large number of accounts, it may be a better idea to start with slowly cutting back to using only the accounts that are necessary or for business purposes. A variety of accounts will have an impact, but usually a small one. Improving a credit score *takes time*, in some instances, as in the case of your overall length of credit history, *it's the only thing* that will help to improve it. Credit is there to help consumers, and all things considered, a credit score is going to judge whether a person is using their credit appropriately and wisely. If a person doesn't need to use credit, then they shouldn't. However consumers should not be afraid to borrow when it's necessary. A home loan averages around \$250,000, that's a lot to be in debt, but how else is a consumer going to purchase a home? Even on a smaller amount, credit is necessary, but needs to be used with discretion.

## A Dollar Can Make A Difference cont.

Regardless of the how and why that a consumer finds themselves in this situation, once they're there, they just want to resolve it.

There are many ways to get out of debt and some are quicker than others. One way is to send as much as possible to pay off the debts, a dollar can make a difference when it's sent repeatedly. A consumer needs to understand that their minimum payment schedule each month from their creditors is a long term repayment plan designed to take as long as possible to repay the debt. In recognizing this, a consumer can weigh their options in an educated manner. If a consumer understands that maintaining a consistent payment each month and not reducing their payment by \$2.00 (like the creditors are requesting) will not have an impact on their present budget but will save them substantially in the future, they can make better financial decisions.

Consumers need to look toward their outcome goals, financial independence and being debt free. Two dollars per month won't help or hurt any budget on a monthly basis, but cumulatively will have a drastic impact on their debt repayment. The average open credit card account carries an average balance of \$5,000 with an average Annual Percentage Rate (APR) of 20%. With the majority of creditors, the minimum payment on this type of account would be around \$100 per month. The APR would break down to

“...send as much as possible to pay of the debts, a dollar can make a difference...”

be \$75 of the monthly payment being applied to finance charges and \$25 going towards the actual balance. On this payment schedule, if a consumer made the minimum payment as reflected on their statement each month it would take them forty-five years and two months to pay the account off, assuming no further debt was acquired. The principle would be repaid along with \$18,890 in interest rates. The amount that the payment would decrease each month, would average around \$1.00. By making the \$100 payment on the account and never paying any less than that amount a consumer could pay the account in full in eight years, eight months. This would save them \$13,500 in finance charges alone. A dollar a month is not a substantial amount of money, but if a consumer cannot look at their budget and see how it can save them in the long run, they'll continue on the same path forever. Not having any discretionary income is why most consumers use credit cards in the first place. If the minimum payments take forty-five years to repay the debt, there never will be any discretionary income so debt continues to grow on the credit cards, taking up all of the monthly payment that was sent. It's undoubtedly a cycle that needs to be interrupted.

The first step in the process is to not allow further debt to accumulate. Next you can budget an amount to send to a creditor and pay it consistently. Budgeting takes a little work. see our next newsletter for more information.