TEN COMMON CREDIT MISTAKES AND HOW TO AVOID THEM

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Credit scores are used in every aspect of life.

Creditors will look at your credit report whether dealing with home loans, vehicle purchases, renting apartment, getting insurance, applying for credit cards or utilities including electric or cell phone service.

Most of the time, employers will look at your credit report when deciding whether they should hire you.

There are any number of mistakes that can be made that will damage your credit – sometimes a little, other times much more. Your credit can be a fragile thing, but knowing what mistakes not to make can save you years of frustration and thousands of dollars. Some of the mistakes on this list are common sense, but others may surprise you. The more you know about your credit, the better you'll be able to protect and build it.

1. CLOSING CREDIT CARD ADDOUNTS

Although it may not seem so at first, closing your credit card accounts is probably the single worst thing you can do to damage your credit, with missing payments very close behind. One of the most important parts of your credit history is based on available credit. Another one is the length of your credit history. Even if you no longer use a particular card, there are several good reasons NOT to close it.

They will eventually fall off your report anyway, and in general, you don't want this to happen. Under federal law, most items can be reported for years after the date of last activity. Positive items will stay on your report for ten years, while negative items are allowed to stay for seven years.

Use your cards every few months for small amounts – lunch at the deli, filling your gas tank, etc. Then, make sure to pay them off immediately.

Keeping the cards active also helps your credit score. Part of your credit score is determined by your utilization measurements – in simple terms, how much you use the credit that you have. By using older credit cards, even if it's infrequently, you'll actually be bettering your score.

Keep in mind that the percentage of utilization on those cards will have a huge effect on your credit scores. A good rule to follow is to keep your balances below 30% of the credit limit on a revolving account.

2. MISSING PAYMENTS

Missing payments is a little more obvious than not closing credit cards, but many people overlook this one. The creditors are keeping a record of your credit history. A missed payment – even after the account has been paid, can damage your score for up to seven years.

Also remember that other factors contribute to how much a missed or late payment will affect your credit score. For example, the frequency of missed payments, how recently the payments were missed, and the severity, or how late the payment is. Payments that are missed by a week or two may not affect your score as much as a payment that is 90 days late or more.

3. SETTLING PAST-DUE OR COLLECTION ACCOUNTS

Settling refers to the practice of a lender accepting a smaller amount than what is owed in order to close the account. For example, if you owe $1,000 on a credit card that is severely past due, the credit card company may accept $500 in payment, and close the file Although this may seem like a good idea and certainly lowers the overall debt, the lenders usually report the deficiency, which is the difference between the original amount owed and the settlement amount, as a negative item.

4. INQUIRIES

Every time you fill out a credit application and a lender runs your credit, your report is marked with an inquiry, meaning that someone has requested a copy of your credit report. In and of themselves, inquiries aren't a bad thing. Too many of them can damage your score. You see, the credit bureaus know from statistical studies that people with large numbers of inquiries, on average, are greater credit risks. Keeping the number of inquiries down by applying for credit only when it's necessary will help to maintain your score.

5. BELIEVING THAT ALL CREDIT SCORES ARE THE SAME

There are hundreds of credit bureaus out there, and consequently, just as many or more different types of credit scores. Without going into huge detail, the important thing to know is that the most common score is a determiner of how risky it is to extend credit to someone. The higher the score, the lower the risk. The Fair Isaac Corporation (FICO) provides one of the most common of these credit risk scores. There are any number of websites where you can find your credit score, just make sure what you're getting (especially if you're paying for it) is the genuine article.

6. BELIEVING THAT ALL CREDIT SCORES TELL THE SAME STORY

As mentioned in number 6, above, there are different types of credit scores, or scoring models, and not every credit score tells the story of you as a credit risk. Some of the other scoring models are listed below:

• Insurance risk

Yes, insurance companies use credit scoring to determine how likely you are to file a claim, and lower scores mean higher premiums.

• Response rates

This model is used by the credit industry to determine how likely you are to respond to a pre-approved offer. You thought it was random?

• Revenue potential
This one is used by credit card companies to determine how likely you are to use their card and generate revenue for them.

• Collectability
As you can probably figure out, this one is used by collection agencies to determine how likely you are to repay your collections.

• Bankruptcy potential
Just what it sounds like. It's a pretty safe bet that if this score is too high, you won't be getting credit any time soon.

7. NOT UNDERSTANDING YOUR CREDIT RIGHTS

The Federal Fair Credit Reporting Act, or FCRA, was enacted to protect you, the consumer. There's a lot to it, and you can read the whole thing at www.ftc.gov, but the important points to start with are as follows:

• Permissible Purpose
Your credit file can only be accessed for eight reasons. The two most notable are if you want a copy of your own report, which you're entitled to once every 12 months, or as part of a legitimate business transaction, meaning you filled out an application and gave a business permission to see your report.

• Right to dispute
There's a wealth of information available on how to dispute items on your credit report, so I won't go into too much detail here, but the FCRA gives you the right to dispute anything in your credit report that you feel is inaccurate, misleading, unverifiable or untimely.

• Your right to a free copy of all three of your credit reports
An amendment to the FCRA, the Fair and Accurate Credit Transactions Act (FACTA) allows you to get a free copy of your credit report from each of the three major credit bureaus for free, once every twelve months. You can get your reports online at www.AnnualCreditReport.com, or you can write to the bureaus and request that they send you a copy.

8. NOT KNOWING THAT YOU HAVE THREE REPORTS AND THREE CREDIT SCORES

Most people don't understand that the three major credit bureaus are each private businesses that are run for profit. The three main bureaus – Equifax, Experian and TransUnion are competitors. Although they each maintain information on around 250,000,000 consumers, they don't share information with each other, and this accounts for the discrepancies between the bureaus that are sometimes found. Knowing that there are three separate major bureaus that all maintain information on you independent of one another is important if you need to repair your credit, as the same negative item may be affecting all three bureaus, or it may only be reflected on one report.

There are additional credit reporting agencies that maintain and furnish data on your credit history, but for the purposes of clearing up your credit issues, the three listed above are the ones you will need to be concerned with, in most cases.

9. NOT HAVING CREDIT (OR A CREDIT SCORE)

Many people make the choice to use only cash and avoid credit altogether. This is generally not a good idea. You see, because the credit system in our country is designed to determine your credit worthiness, it reflects positively on people who have shown the ability to responsibly manage their credit. Any activity that detracts from this (missing payment, settlements, etc.) will bring your score down, and not using your credit at all can be much worse than a little self-discipline and planning.

Other than bankruptcies and tax liens, good items stay on your credit report much longer than negative items. It is important to change negative behavior because over time ALL NEGATIVE ITEMS will be removed from the credit report, and all that will remain on the credit report are good items.

10. NOT REVIEWING YOUR CREDIT REPORTS FREQUENTLY

Many of us would rather not be bothered with understanding what's going on with our credit, until time to make a major purchase. Then any credit issues may cause problems with financing.

It is always better to know what you're up against when applying for a loan. A lender may ask for an explanation of the information on your credit report, or they may deny your application due to an inaccurate report or a low credit score.

In order to change your credit score, the most important thing is to take a proactive approach and, in some cases, to work with a credit improvement specialist to do what they do best!

Credit restoration is an intricate, detail oriented process, and it pays to hire someone who understands the law intimately, and can help you exercise your rights. Although you have the right to tackle your credit issues on your own, you must be careful to avoid the outdated procedures and form letters you will find on the internet and in books that are on the market! Using the wrong processes can result in getting your credit file "flagged" by the credit bureaus, and they can refuse to investigate your information!

IF YOU HAVE CREDIT QUESTIONS, PLEASE CALL US AT

(318) 747-2727

WE'RE HERE TO HELP!

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