

10 Tips How To Maintain Your Credit

A good credit history with high FICO scores (>680) is crucial to obtain any type of credit. If your middle FICO score is lower than 740, most likely that for each 10-20 points lower you will have credit score adjustment to your interest rate. The higher credit score, the lower payment. Let's say you purchase a house and obtain a \$200,000 30 year fixed mortgage at 8% interest rate instead of 6% (because of your credit score); that 2% is going to end up costing you an approximately \$100,000 over a 30-year term. Now, think about how many extra years you'll have to work to pay off \$100,000 because of an extra 2% in interest?

You should know how to maintain your credit:

1) It is important to see a copy of your credit report from each credit bureau (Equifax, Experian, Trans Union) and FICO credit scores at least 2-3 months before you apply for a mortgage. You'll have plenty of time to correct any error and improve your score. Errors in credit reports are not uncommon. According to the Public Research Interest Group (PIRG) as many as 79% all credit reports contain errors, 25% of which are serious enough to cause the denial of credit (according to a 2014 report). If you find any error, notify the credit-reporting company immediately. Make a dispute online, by phone, or by mail. It's free and takes about 15 min.

2) If you have multiple errors, how many disputes should you send at one time? I would have sent one dispute at a time to each bureau and wait for the results. You will typically get a response in 30 to 45 days. Sending multiple disputes at one time may trigger the credit bureau to "red flag" your account that you're using of a credit repair company.

3) Protect your identity. Don't be a victim of ID theft. You can

spend many hours cleaning up your credit. We advise you to check your credit report regularly.

4) Don't be late on your payments, especially on your mortgage. If you have late credit card payments, lenders can disregard them after 1 year. If you have late payment on your mortgage, it can be a big problem. Many lenders will not accept your application if you have just 1 late mortgage payment during the last 12 months. If you are in a situation when you are not able to make a payment on time, don't hesitate to call your creditors and try to negotiate with them before they report your late payment to the credit bureau. So target your new late-pays by telling them you are making an immediate payment, and you'll be surprised how many will drop the late-pay fee as a matter of good business.

5) Maintain a credit card balance no more than 30% of credit limit. If you have credit card balance more than 50% of high credit, it can decrease your score by 20-30 points. For example, the credit card limit is \$8,000. Advisable to have the balance no more than \$2,400 (30%) without hurting your score. Don't consolidate your cards if the combined balance is more than 30%-50%. Another example, you have one credit card with \$5,000 balance and \$6,000 credit limit and the other credit cards with low balances and high limits. Try to spread the over-balance \$3,200 among them. It can help to increase your score. Also, increase your line of credit, but don't open credit cards you don't need. Your line of credit is the sum of all the credit limits on your accounts. A high credit limit helps raise your FICO score. If you have a good track record with a credit card company, you can call them, and ask for a higher credit limit. But don't open a lot of new credit cards just to raise your credit limit. New accounts will lower your "average account age", which will actually lower your FICO score.

6) What if a creditor doesn't report a credit limit but reports a high balance? This is not sufficient for the account to be scored correctly because the company does not report the high credit limit, just the high balance. The only thing you can do is to contact the creditor and ask them to report your credit limit.

7) Don't close your paid credit card accounts. It can lower your score. Even if you have any paid charge-offs, why remove them? Any type of paid account shows some level of responsibility. Removing any type of paid account can have a net score lowering affect. For example, let's say leaving the paid charge-offs on your report might only be hurting your score by 5 points. However, getting the account deleted might lower your score by 25 points.

8) You should have minimum 4-6 open and active trade lines. Active! A perfect credit report is not always the highest scoring. Some people have many open trade lines but not active. You should use credit cards (responsibly) or have other active trade lines such as mortgage, car loan, student loan... Inactivity of your trade lines might give you a lower credit score. Keep low balances on credit cards, but don't pay them off. Credit card companies want you to run a balance on your account; after all they make their money on your interest payments. So, don't pay off the entire balance each month. Leave a relatively low balance to demonstrate to new potential lenders that you can handle credit in a responsible way. Your FICO score will thank you for it.

9) Multiple inquiries for credit can lower your score substantially (inquiries older than 12 months old has no effect). If you have tons of credit and you don't want any more pre-approved credit offers, you can opt-out by calling the credit bureaus. If you are building your credit, you want to receive pre-approved offers, so opting-in is to your advantage.

10) What's the best way to get credit reports and scores? Be

aware that not all credit scores you can buy on the internet are FICO. Lenders use middle FICO score. You can get a free copy of your reports once a year by calling the Annual Credit Report Service at 877-322-8228 or you can order both your credit reports and scores from each credit bureau. You will get each bureau's "standardized" report. You can have instant access to your 3-in-1 credit reports and scores online. I would order them from www.myfico.com or www.equifax.com.