WEALTH FACTORY

THE ULTIMATE GUIDE TO

IMPROVING YOUR CREDIT SCORE BY UP TO 79 POINTS

Free up cash flow, get lower interest rates, and pay less on insurance while protecting yourself from overpaying on loans...
(or worse, never being able to get one)

Quick Fact: Most Americans – 83% – have an error on their credit reports.

If you're one of them – and chances are good that you are – this can cost you significantly. You will have higher insurance rates. You will have higher interest rates. You can risk losing access to money.

A difference of even one point on your credit score can mean the difference between being approved for or denied a loan, and of gaining or losing hundreds of thousands of dollars in interest.

Most people know that paying bills on time is important to their credit, but we're going to unveil here others that are equally important.

A good payment history makes up only about 33% of your credit score. This guide will help you understand how to effectively increase your credit score – and save you money.

"There is no such thing as too much available credit."

~Ryan O'Shea, *Registered Investment Advisor*

As you go through this valuable guide, we suggest you take notes on anything you notice that you haven't yet done, or that you are doing incorrectly.

Take action on it immediately.

When it comes to improving your credit rating, there is no one big move that fixes everything. It's all about a series of small actions that add up.

Implement each strategy one by one, and as you'll see, the end result can be a game-changer for your cash flow, personal finances, and wealth-building efforts.

Build the life you love,
The Builders at Wealth Factory

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UNDERSTANDING CREDIT REPORTING, SCORES, AND ERRORS

In today's world we’re living with the lowest interest rates I’ve ever seen.

But many people can’t take advantage of these low rates because they don't know how to maximize their credit score. Or, even worse, because there’s an error on their credit report dragging their score down.

So in this guide, I’ll be sharing tips for improving your credit and protecting yourself from errors.

Do You Have An Error On Your Credit Report?

It’s been reported that as many as 83% of people have an error on their credit report. And a quarter of these people get denied a loan they would otherwise be approved for as a result.

That’s just not acceptable when an error--that you didn’t make--can be the difference between being approved or denied for a loan, or getting a high or low interest rate.

A maximized credit score is the key to restructuring loans to free up cash flow, getting lower interest rates, paying less on insurance and more.

So it’s critical to find out your credit score and improve it as much as possible... and now, more than ever.

Not too long ago, if you had a pulse, you could get a loan--and a 680 credit score qualified you for the best rates. Then they went to a higher standard of 720. But now, we're looking at 760 to 780 to ensure you always get the lowest rates possible.

Once you hit 800, you have nothing to worry about, so that's the goal.

Fortunately, it can be fairly simple to improve your credit score.

In fact, once while interviewing a credit score expert on the radio, our Founder Garrett Gunderson texted his wife a few things to try for her credit score. And even though she had good credit, her score still jumped 79 points in 30 days... just because she understood some of these little-known rules of the game.

So let's get started...

How to Get Your Credit Reports and Score

First, know that any business loans or lines of credit may not show up on your personal credit report. That's because any credit reporting is for the business, not the individual.

Next, people are often surprised to discover that your credit report and your credit score are not the same thing. And that your credit score is not always on your credit report.

Plus, your credit report is actually three different reports compiled by three different credit bureaus--Equifax, Experian and Transunion. The reports should be almost identical, but they may not be depending on what's been reported to them.

These credit bureaus are required by law to give you a free look at your credit report once a year at www.annualcreditreport.com.

So what many people do is request one free report from one bureau every four months, that way you can regularly monitor your credit and check for errors for free.

That's a good plan. But if you haven't checked any of your credit reports in years, I'd pay the extra money to check them all for errors now, and go the free route moving forward.

As valuable as the free credit reports are for monitoring and correcting errors, **your free credit report does NOT contain a score.**

The credit score that we are all familiar with is derived from information on your credit report.

There are several companies that provide credit scores, but the industry standard is the FICO score.

A FICO credit score uses "predictive analytics," which means they take information and analyze it to predict what's likely to happen.

In the case of credit scores, FICO looks at a range of credit information and uses that to create scores that help lenders predict consumer behavior.

A FICO score is viewed by the lending industry as accurately predicting how likely someone is to pay their bills on time (or not), or whether they are able to handle a larger credit line.

You will have 3 credit separate scores--one for each credit report.

You can get your FICO credit scores at www.myFICO.com. You have to pay for these, but it is regarded as the best place to get an accurate FICO score that creditors actually use.

There are other sites that will give you a Vantage credit score, but that's not the same as FICO. Most lenders use FICO when considering you for a loan, and your Vantage credit score is typically much higher, which can cause confusion.

Some credit card companies like Discover will give you a free credit score update on your monthly statement, so that can be a free way to monitor your score.

Check EACH of Your Credit Reports For Errors

We have a documented case where one credit bureau's report gave a member a score of 701, while the other two gave her a 762. Why the discrepancy? Because one of her credit reports had an error.

That's why it's important to look at all three credit reports and scores up front to see what's really happening.

Most people will have an error of some sort. Maybe it's just a misspelled name or an incorrect address.

For example, lenders often want to know how long you've been at your current address, so you want to make sure that information is correct.

More serious errors will hurt your credit score, and these are common as well.

Sometimes it’s because the same account is showing up twice, which is especially harmful if that account has missed payments or a bad utilization rate (we’ll cover utilization rate in the next section).

Other times a closed account may be shown as open or vice versa.

If this is the case, you’ll want to contact the credit bureau directly: Experian, Equifax, or Transunion. They have directions for how to dispute errors on their website.

However — if the error is for an account more than two years old, and that account has any negative marks, it may be better just to leave it alone. Any changes made to an account with negative marks will make those negative marks seem more recent, and that can hurt your score.

It’s best to let sleeping dogs lie in that case.

Another common error is when a credit card doesn’t report your credit limit, which is the same as reporting a limit of zero.

Here's why this hurts your score: the computer algorithm doesn't know what your limit is, so it assumes that your card is maxed out without spending a dollar. And the minute you charge anything to your card, you’re considered over your limit.

If this is the case, you’ll want to call your credit card company and ask them to report the limit on your card. If they won’t, it’s time to contact the credit bureau.

However, make sure you do not dispute more than three errors at a time with any single credit bureau. Otherwise they may mark the disputes as frivolous.

Instead, file three disputes and wait until you get a resolution. Then they have thirty days to investigate the dispute. Once it's resolved, you can dispute three more.

Many times people don't think about their credit until they need a loan. But at that point, if their score is too low or there are errors, it's too late. You'll either be denied or pay more in interest than you should.

So it's best to always be in-the-know when it comes to your credit--it can save you lots of money and headaches in the long run.

Finally, did you know that credit cards can damage your credit score even if you pay them off in full every month?

It's true, and I'll tell you all about it in the next section where we cover...

MAXIMIZING YOUR CREDIT CARDS

Many people think that if you pay your bills on time, you'll have a good credit score.

But that's absolutely false. There are multiple scenarios that can leave you with damaged credit, even if you've paid every single bill on time. And many of those scenarios revolve around credit cards.

First Off, How Many Credit Cards Should You Have?

It’s a common question. How many credit cards is best to have? Should you get another credit card? Should you cancel any credit cards?

Or should you even have any credit cards at all?

Personal finance guru Dave Ramsey answers that last question with a no. He doesn’t believe you should have any credit cards. But he also doesn’t believe in building your credit history or improving your credit score.

So if you want a high credit score, you should have credit cards.

And if you want to maximize your credit score, 3 to 5 cards is the sweet spot.

If you just have 1 or 2, it only takes one error to make it look like you’re not responsible with credit cards.

And by error, I don’t mean something you did wrong, like missing a payment. Instead, I mean the credit card company misreporting your history like we talked about in the last section. That happens surprisingly often, and you don’t want to be at risk.

So it’s best not to get a new department store credit card every time they offer you a discount. That will lower your average credit card age and hurt your score.

It will also hit you with a large number of inquiries. If you're applying for credit cards more than three or four times a year, you're going to have a 5, 10, or 15 point decrease in your score.

The ideal amount of inquiries in a period of two years is two.

Garrett and his wife made that mistake when they were first married. They'd go out shopping and apply for different department store cards, and their score took a hit.

By the way, if you're married, do not open joint credit card accounts, as both spouses need to have three to five cards.

A couple more quick rules with credit cards...

Don't cancel old cards. The older they are, the more credit history and the more they boost your score.

And you also want to make sure that you use each of your credit cards at least once every few months to keep them active, otherwise they'll stop counting towards your score.

An easy, hands-off way to do this is to arrange for a recurring bill to charge to the card each month, while simultaneously setting up your checking account to automatically pay off the card balance each month. The card stays active, and you get to forget about it.

How to Use Credit Cards Responsibly

Unless you have a good reason, it's best to pay off your credit cards in full every month so that you don't pay interest. There's no easier way to get a guaranteed 15-25% return on your money than simply paying down those high interest credit cards.

But if it makes sense to keep a balance, try to keep your balance below at least 30% of your debt limit.

The credit bureaus refer to this as your utilization rate. Another way to describe it is your loan-to-value ratio. The lower it is, the better.

As a general rule of thumb, keeping your ratio below 30% shows that you're not "maxed-out" and in control of your finances. (But again, the lower your loan-to-value ratio, the higher your score will be. It's a sliding scale.)

This is very important. It has been reported that your loan-to-value ratio accounts for as much as 30% of your credit score.

So even if you've paid every bill on time, if your cards are maxed out, then your credit score is taking a major hit.

Another Way Being Responsible Can Hurt Your Credit

Here's a shocking fact that you'd never guess unless you knew these rules of the credit score game.

The loan-to-value ratio can get you in trouble even if you pay your balance in full every single month.

Yes, even if you start each billing cycle with a balance of zero, it can still be reported that your debt-to-limit ratio is higher than 30%--or worse, maxed out.

How? Because you don't get to choose when your credit card company reports to the bureaus, and it's not always after you pay your bill.

For example, they may report on the 17th when you're at the peak of what you charged, and never know that you paid off the balance on the 18th.

If at any time, your debt-to-limit ratio is higher than 30%, you're taking a risk that it will be reported to the credit bureaus.

A simple solution is to contact your credit card issuers every 6 months and ask if they'll increase your limit. That way, you can keep the same spending habits, but it will become a lower and lower percentage of your total debt limit.

So in summary, to maximize your credit score, get 3 to 5 credit cards and keep them active by charging a purchase with each card at least every few months.

Try to keep your loan-to-value ratio as low as possible, even if you pay the balance off in full every month. And a smart way to do that is to request the highest limit possible for each credit card.

Lastly, did you know that there's one type of loan that you must have on your credit report to maximize your score, but many people don't? It's true, and that's what we're covering next.

Could You Lower Your Credit Card Interest Rate?

Most people don't know this, but it is possible to negotiate a lower interest rate on your credit cards.

The first step is to take a look at all your cards, and identify the ones with the highest interest rates.

Then check out their website or give them a call, and find out whether they'll add a hard or soft inquiry to your credit report when considering a lower rate.

For those that will add hard inquiries, which will impact your credit score, decide an order to try to negotiate lower interest rates. You may want to start with the card with the highest interest rate, highest balance, or best chance of being approved.

Now that you have a strategy for which card to negotiate first, put together a few bullets for why they should lower your rate. *(For example, years of on-time payments, your low balance, or a recent increase in your credit score.)*

Then hop on the phone, and see what they can do. If you're denied, don't be afraid to ask why, and try again in a few months.

HOW LOANS AFFECT YOUR CREDIT SCORE

The rules of the credit score game can be a bit mysterious. Instead of being obvious or intuitive, they're finicky and elusive.

In the last section, we covered why paying your bills on time is not enough to have a good credit score.

And in this part, I'll show how someone who has seemingly done everything right can still get hit with a 30-point ding on their credit score... just because they didn't know all of the rules of the game.

Here's the scenario...

Let’s say someone has the right number of credit cards (three to five), always pays them on time and keeps the balances low. They have a mortgage that they’ve never paid late on. They’ve never been in collections, and there are no errors on their report bringing them down.

This seemingly would get you a perfect credit score, but it doesn’t. In fact, you could get docked up to 30 points because you’re missing one critical piece on your credit report.

An installment loan.

What Is An Installment Loan?

An installment loan is a loan for a fixed period of time with a fixed minimum payment. So if you make the minimum payment, and not a dollar more, the loan will be paid off at the end of the loan term.

It’s usually possible to pay off the loan early by paying more than the minimum payment, but doing so will not lower your minimum payment. That’s fixed.

The perfect example of an installment loan is a car loan.

At today’s rates, if you get a $20,000 5-year loan for a car, you’ll be paying about $360/month for the next 60 months--or sooner if you pay more than the minimum.

For whatever reason, the credit bureaus want to know that you can handle this type of loan, so it’s a separate loan category than credit card loans or mortgage loans.

And if you don't have a recent installment loan, then your credit report shows a big question mark for this credit category.

Creative Ways to Get an Installment Loan On Your Credit Report

If you'd rather lease than buy a car, that still counts as an installment loan as far as your credit is concerned.

But if you're not in the market for a car, there are still other ways to get an installment loan on your credit report.

A jewelry loan will do the trick.

And so will a signature loan, which is a personal loan backed only by your signature and your promise to pay it back.

A signature loan can be for most anything. I have a friend who helped a client get a signature loan from a bank, just so he could get an installment loan on his credit report. In fact, he told the bank he wouldn't even leave with the money. If they'd just lend him the cash, he'd put it in his account and they could make monthly withdrawals until the debt was repaid.

That's one creative option.

Another creative option is to take out a loan on a car that you already own.

Our Cash Flow Specialist and rocket scientist, Dale Clarke, did exactly that. After checking his credit score, he discovered he was well below 800 because he didn't have a recent installment loan.

Dale didn't need a new car, so he simply refinanced the car he did own. This put an installment loan on his credit report, which he was able to pay off quickly, and his score jumped 30 points.

How it Affects Your Credit Score

Dale's credit score was able to jump 30 points because your "Credit Mix" makes up 10% of your score.

By improving his credit mix and showing he was responsible in the 3 main categories of credit--installment loans, credit cards and mortgages--Dale's score got a boost.

It was also significant that Dale's installment loan was recent. To get the best results, you want to have an installment loan within the last 2 years of your credit history--either one you're paying down now, or one you paid off.

In Conclusion...

Now let's summarize what we've learned about credit in this ultimate guide.

It's been reported that 83% of consumers have errors on their credit report, so it's important to check yours regularly for misreported limits, duplicate accounts and anything else that's incorrect.

You can get a free report once a year at AnnualCreditReport.com. To get your credit reports and an accurate credit score like the one lenders will see, go to MyFico.com.

If you do find errors, don’t dispute more than 3 errors at a time with the same bureau.

Next, it’s best to have 3 to 5 credit cards with the maximum limit that you can qualify for. Try to keep your balance low at all times--no higher than 30% of your limit, but the lower the better. And don’t cancel old cards. The length of the card’s credit history helps your score.

Finally, make sure to have an installment loan within the last 2 years of your credit history. That can be a car loan, a jewelry loan, a signature loan or even leasing a car.

If you just follow these steps, it will go along way towards maximizing your credit score.