

## 5 Steps to Better Credit



By

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## Introduction

Hello and thank you for picking up this book!

My name is Charles Pitts aka CP. I'm a martial artist and personal finance coach. You could say that I specialize in personal and financial self defense. Before I learned what I'm about to share with you, I was in a situation similar to yours and couldn't see a way out.

Like so many others, I was never shown the proper way to manage credit and, as a result, I ended up buried in debt. I had to deal with the embarrassment of getting calls from debt collectors, being turned down for loans, missing a job opportunity and a credit score that was in the toilet.

After learning a set of principles and understanding how credit works, I was able to quickly pay off my debt and watch my credit score soar! Now the phone calls I get are from people who want to GIVE me money, and the peace of mind I have from having my finances in order is SO AMAZING!

Now my passion is to help others who are facing the same challenges. I want you to know that if I can get out of that miserable situation, so can you. The right information can change your situation, but you have to do the work!

Are you ready to TAKE CHARGE of your finances and your life?

Then, let's get started!

## **What is Credit?**

By definition, credit is the ability of a customer to borrow money or obtain goods or services BEFORE payment, based on the TRUST that payment will be made in the future.

Credit is typically used to make a purchase when you don't have all the cash on hand, or sometimes, you have the money, but you'd rather use your credit to finance the purchase instead of handing over a lump sum of your own money at once.

Lenders, merchants and service providers (referred to as creditors) grant credit based on their confidence you can be trusted to pay back what you borrowed, along with any finance charges that may apply.

American consumers use credit to buy almost everything, including food, clothing, housing and transportation. Unfortunately, many people struggle to control their use of credit and get overwhelmed by piles of bills.

If you need help battling your credit problems (and that's probably why you're here) this book will help you manage your credit problems and take control of your finances.

## Types of Credit

Credit generally falls into one of three categories.

**Revolving Credit:** Most credit cards count as revolving credit. Here, you are given a maximum borrowing limit. You can make charges up to that limit and you have to make a minimum payment each month. If you make only the minimum payment, you will carry the balance (or revolve the debt) over to the next month. Typically, interest is calculated on that balance.

**Installment Credit:** Installment credit is a loan for a specific sum of money you agree to repay, plus interest and fees, in a series of equal monthly payments (installments) over a set period of time. Student loans, car loans and mortgages are all examples of installment credit.

**Service Credit:** Your contracts with service providers such as gas and electric utilities, cable and internet providers, cell phone companies and gyms are all credit agreements. These companies provide their services to you each month with the understanding that you will pay for them after the fact.

## What is a Credit Report?

A credit report is a statement that is compiled of information about your credit activity and current credit situation such as loan paying history and the status of your credit accounts. These are compiled and reported by companies often referred to as bureaus or consumer reporting agencies. The three main credit bureaus are Equifax, Experian and TransUnion.

Banks, credit unions, credit card issuers and other creditors voluntarily report your borrowing and repayment information to these credit bureaus and it is this information that generates your credit score. Your credit report and score are then sold to anyone you have given permission to run your credit because you want to do business with them.

Credit reports often contain:

**Personal Information** - Your name, current and previous addresses, birthdate, social security number.

**Credit Accounts** - Current and past accounts, including type of account (mortgage, car loan, credit card, etc.), credit limit, balance, payment history and status of the account, including collections and charge offs.

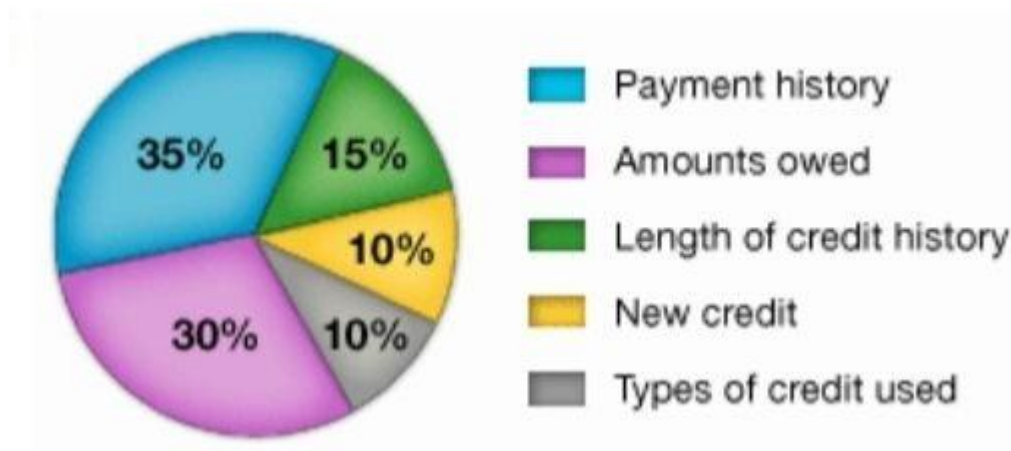
**Public Records** - Liens, foreclosures, bankruptcies, judgments and civil suits, overdue child support.

**Inquiries** - Companies that have accessed your credit report.

## What is a Credit Score?

In simple terms, your credit score is your credit history expressed as a three-digit number. This generally ranges between 300 and 850 and the higher the number, the more financially trustworthy a person is considered to be. Lenders use this number to decide whether you qualify for a loan, the interest rate, and the amount they are willing to let you borrow.

### The 5 Factors that determine your score



Let's break it down...

**Payment History** - Payment history is the most important part of any credit score. Late payments hurt the worst. Have you been making your payments on time? Any charge offs, collections, judgements against you? Since your credit score is a reflection of your financial responsibility, it makes sense that you would be penalized for failing to make payments as agreed.

**Amounts Owed/Credit Utilization** - How much do you still owe of the amount you borrowed? How many accounts do you carry a balance on? Are any of your credit cards maxed out? This part of your score is an indicator of whether your spending habits are sustainable and if you're likely to face serious financial problems in the future.

**Length of Credit History** - How long have you been managing your accounts whether good or bad? The length of time you've been using loans and lines of credit is important to the predictiveness of a credit score. For example, a good credit score based on years of information has a better chance of accurately forecasting a borrower's risk than a good score based on only a month or two of information.

**New Credit** - Have you been opening new lines of credit or loans recently? Too many inquiries on your credit report makes you look desperate and raises red flags to potential lenders.

**Types of Credit/Credit Mix** - Lenders want to see that you can handle a variety of credit accounts. Common types are credit cards, auto loans, mortgages, or personal loans. The types of credit you've used show how well rounded of a borrower you are.



## Credit Score Ranges: Where Do You Stand?

<b>Excellent</b> (30% of People)	750 - 850
<b>Good</b> (13% of People)	700 - 749
<b>Fair</b> (18% of People)	650 - 699
<b>Poor</b> (34% of People)	550 - 649
<b>BAD</b> (16% of People)	350 - 549

While this isn't the "Be All End All" scale, (because there are a number of different scales used by lenders), it should give you an idea of how you measure up. Typically, people who fall between 700 and 850 qualify for the lowest interest rates and best credit cards. Note that the bottom two lines make up for ONE HALF of the entire group. I WAS ONCE ON THAT BOTTOM LINE! That means you're not alone and therefore should not feel embarrassed about your situation.

Don't get too caught up in worrying about whether it's FICO or Vantage 8, or whatever. The goal is to get your scores up across the board. At the end of the day, higher scores are better than lower ones, regardless of which scale is being used. The point of the scale for the purposes of THIS book is to help you see where YOU need to go to work.

## What Causes Your Score to Drop?

Credit scores are pretty fluid and can change whenever new information gets added to your credit report. Here are some of the typical reasons you may see a drop in your score.

**Late Payments** - Since payment history makes up the largest portion of your credit score, taking a hit here can cause your score to drop dramatically.

**High Usage** - How much of your available credit are you using? Are you maxing out your credit cards? Not a good look.

**Closing Old Accounts** - The length of your credit history accounts for 15% of your score. The longer you have established credit, the better. So closing an old account shortens your history.

**Hard Inquiries** - Have you applied for new credit recently? Taking on a new account reduces your disposable income as well as your ability to handle more debt. Credit card inquiries can affect your score and stay on your report for 2 years.

**Derogatory Marks** - Collections, judgements, bankruptcies, civil suits, charge offs, repossessions, foreclosures. All these boil down to the fact that you didn't pay as you agreed and the creditor had to take other measures. These can haunt you for up to 10 years.

**Errors** - Things like incorrect balance, late payment, duplicated accounts, a name similar to yours, or an account that isn't yours can really drag down your score.

## How Does Bad Credit Affect You?

Having a poor credit history or a low credit score can have more negative consequences than you may think. A low score tells lenders that you're a high risk borrower and they may not be willing to lend you money. It can also make other areas of life extremely difficult, from getting a job to finding a place to live. Here are a few of the most common side effects of having bad credit.

**Trouble Getting Approved** - Lenders may be unwilling to loan you money because they just don't have the trust or confidence that you'll pay them back.

**Higher Interest Rates** - Assuming you even get approved for a loan with bad credit, you'll be charged with a much higher interest rate which can cost thousands in the long run. So, whether it's a car loan, a credit card, or a mortgage, the more you borrow, the more you will pay over time.

**Renting an Apartment** - Landlords tend to check credit before approving a rental application. If you do find a landlord willing to rent to you, with a low score, you will likely have to put down a higher security deposit.

**It Could Cost You a Job** - Employers are more interested in your credit history than your score. They tend to look for negative items like high debt, bankruptcy or outstanding bills and can deny you for not being financially responsible. If you're not good with your own money, how can they trust you with theirs?

**Higher Insurance** - Insurance companies check credit too. In their eyes, bad credit equals higher risk. Therefore, you can be charged a higher car insurance premium, EVEN IF YOU HAVE A PERFECT DRIVING RECORD!

## Repairing Your Credit - Let's Get to Work

Now that you understand the importance of credit, how it is calculated, what causes a low score, and how it affects your life, it's time to get busy! There are a few guidelines that you can follow to quickly improve your credit. Others take a little more time, effort and diligence. You probably didn't get into your situation overnight, so you shouldn't expect to have an 800 credit score tomorrow. That being said, here are the 5 steps that you can take RIGHT NOW towards better credit.

1. **Order Your Credit Reports.** In order to reach a desired destination, it's best to know where you are. In fact, routinely checking your report and knowing EXACTLY what's on it should be at the top of your list of priorities. You can get a free report each year from all three bureaus by [clicking here](#). In most cases, if you can verify your info, it'll be available for immediate download so you can review it right away. If not, you'll need to submit your request in writing along with a copy of your photo i.d. and social security card. If the free option is not available, you may need to pay for a copy. Ten dollars for this information is minimal considering the fact that bad credit is costing you THOUSANDS!
2. **Become an Authorized User.** Ask a friend or family member with a history of good credit to add you as an authorized user on their credit account. You won't need to have a physical card to use, but their good history will be added to your report which will boost your score. Your negative history will NOT affect theirs.
3. **Dispute Inaccurate Information.** 40 million people in the U.S. have errors on their credit reports. These errors can hurt your credit score. Once you have your credit report in front of you, review it and dispute any inaccurate information you may find. There are letters you can write to the reporting agencies to have negative items removed. Templates for these letters can be found [here](#). The reporting agency has 30 days from receipt of your request

to verify the information in question or it must be deleted. The companies may offer an online dispute option, but I HIGHLY RECOMMEND doing this via certified mail. This way, you'll have a paper trail that can help you build your case and hold them responsible.

4. **Consider a Secured Credit Account.** Here you can put cash into an account the issuer will allow you to borrow up to a certain percentage of the money. Use this card to pay for things you'd normally buy (such as utility bills or groceries) and pay off the balance right away. This will help you build credit over time because the issuer would be reporting your activity to the major credit bureaus. There are tons of secured cards out there, but you can go [here](#) to check out the top 10.
5. **Make Your Payments On Time!** Decide TODAY that you will never be late on another payment. This step may sound simple, but it's the one thing that people struggle with the most. Since payment history accounts for the greatest portion of your credit score, late payments do the most damage. Consider autopay, setting reminders or paying your bills early. This could easily have been step number 1, but it will take more than a few months before you notice any significant effect on your score.
6. **(\*BONUS\*) Pay Down Your Balances Early.** Use what's known as the snowball method to eliminate your debts faster. Not only will this boost your credit score, but it will also increase your cash flow. Start by listing your current debts from smallest balance to largest. Find extra money (by getting a second job or cutting expenses) and add it to the minimum payment for the first debt. This will shorten the payoff time considerably as well as save you a ton of interest in the long run. Once gone, take that new found money, along with the minimum payment from the first debt and apply it to the minimum payment for the second debt. Watching those debts disappear fast will motivate you. Simply repeat the process until you achieve debt freedom!

## Conclusion

Because credit impacts so much of our lives, a low credit score can be extremely harmful to our financial goals and lifestyle. That's why it's important that the information on your credit report is accurate and positive. Improving and maintaining your credit score will be an ongoing process. Understand that it will take work, patience and a little bit of faith.

Once you have put in the work to rebuild your credit, your objective will be to maintain it. Do this by continuing to make your payments on time, disputing errors, staying under 20% of your credit limits, and keeping inquiries low.

Be sure to visit [my website](#) and subscribe for more finance tips and strategies!

Lastly, I would like to again say thank you for picking up this guide. I'm confident that it will serve you well. Be sure to refer to it often, because knowing how to address or even prevent credit problems in the future will save you a ton of time, money and stress.

Yours in success,  
Charles