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Credit Management

by Rusty Bresse
President of Crednology, Inc.

I have been asked these questions many times, **"What is Credit Management?", "What effects my credit score the most?" and "How do I reach an 800 credit score?"** These are all important questions since our life is being taken over from the current credit score rating module. Your credit history and credit score determines many things today, the rate of financing you will get on a home, and the amount of down payment you will have to come up with is only one example. Auto loan rates, credit card APR, insurance rates, and an even bigger one today, whether or not an employer will hire you for a specific job or even a promotion.

"What is Credit Management?" Let's start by defining the words **"Credit"** and **"Management".**

credit – [kred′it] – (noun)

1. Belief or trust; confidence; faith
2. Rare the quality of being credible or trustworthy
3. A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. When a consumer purchases something using a credit card, they are buying on credit (receiving the item at that time, and paying back the credit card company month by month). Any time when an individual finances something with a loan (such as an automobile or a house), they are using credit in that situation as well.

We can see there are many forms of credit and creditworthiness and there are also many ways to establish or even re-establish credit but like anything else in life, it's better to manage it, stay disciplined so you can control your credit instead of it controlling you.

man•age•ment – [man-ij-muhnt] – (noun)

1. the act or manner of managing; handling, direction, or control.
2. skill in managing; executive ability: great management and tact.
3. the person or persons controlling and directing the affairs of a business, institution, etc.: The store is under new management.

We are all born with management skills; some just apply the skill more than others. Personally, I feel it's easier for me to manage something if I have all the facts, a guideline, things that may have worked well for others, and a better understanding of what I will be managing. Since we are speaking about credit management I will share my thoughts and experience with you on this subject.

The first thing you must know is there are three credit bureaus, Equifax, Experian, and TransUnion. Believe it or not they don't necessarily contain the same credit account information, credit score, or credit scoring module. It is important to check your credit reports at least once a year; you can do this by going to www. annualcreditreport. com. You will be asked if you want to purchase your credit score, this is not necessary and to be honest it's a waste of money. The scoring modules for the so called free credit reports are not the same risk module set for mortgage scoring. The mortgage scoring tends to come in a bit less.

The next problem we run into are the facts, are they really facts or are they myths?

Does credit scoring really help?

Fact: Credit scoring does give a lender a fast objective measurement of your credit risk, in the past when scores were not a factor the credit granting process was slow and determined by someone who really didn't understand risk factors.

Problem: A 2002 study conducted by the National Credit Reporting Association (NCRA) and the U. S. PIRG concluded that 79% of all credit reports contained errors and 25% contained errors enough to result in the denial of credit. No one really mentions where most errors occur on the credit account trade line, and what the cost is point wise so unless you know these factors it will be much harder to take control of your credit and manage it properly.

Solution: Understand that 100% of credit reports contain errors and my experience tells me those errors are found on high credit, balances, and activity. I have helped design a program that identifies where most errors occur and the point deduction, if any, on each credit account.

Myth: Only my positive credit accounts have point value.

Fact: Everything on your credit file has a point value even the negative accounts like unpaid credit cards and installment loans.

Problem: Not every credit account, collection, or public information line item, bankruptcy, judgment, garnishment or lien has a point deduction. Fico scoring only gives us a score based upon risk factors showing on our erroneous reports but doesn't specifically identify the point cost or even the point value per credit account, only a summary of the point value as a whole. This is a serious problem!

I have had the opportunity to speak about credit to banks and mortgage companies all across America who unfortunately has given advice to their customers based upon unknown factors. I ask 2 simple questions to them all, "If you have a customer who is approximately 20 points from getting the necessary score for financing and you see they have only one negative account, a collection account in the amount of $105. 00 that's better than 24 months old would you have them pay it to raise their score?" The percentage who said yes is a staggering 90%. What if I told you, chances are the customer may actually lose 10 to 20 points by paying even a $1. 00 on the account? The second question is, "what if I told you positive credit or lack of positive credit has as much or more impact on a credit score than negative credit, would you believe me?" Remember, credit scoring is a measuring system, it puts weight to each trade line but also looks for certain criteria or let's compare it to a recipe, certain ingredients necessary to give it the right taste. Solution: I have helped develop a **ScoreValidator™/ ScoreSimulator™** product consumers can interact with on both positive and negative credit to not only determine what positive account balances to pay down but also the negative credit accounts that should be left alone. There are so many theories published online, books, and consumer shows trying to give us advice on how to manage our current credit situation, everyone's an expert, to me it can all be a bit confusing when it's really quite simple.

Like anything in life you have to find out personally how important your credit score is for you. Once you decide on the target score you will need a plan to manage the steps it will take for you to accomplish your goal. I compare this to dieting, common sense tells us we are not going to lose weight by just not eating, and there are other steps to go through. Credit Managing is no different; there are major changes we have to make in our lives in order to have a healthier credit score. Keep in mind complete change will not happen overnight but there is hope for everyone regardless of your current credit score.

Managing your credit will take common sense; this was the hardest part for me. I am more analytical than sensible but managing my credit made me understand there was more involved than just paying my bills on time. When it comes to managing your credit common sense will tell you what a perspective new creditor will want to see on your credit file in order to extend you credit. What I am going to share with you can be done without you acquiring your credit report. Write down on paper how many open credit accounts you are currently paying. Separate the revolving accounts from installment accounts. Which accounts do you think are more important to have? Common sense will tell us revolving. Why? Simple, you become in control of your credit usage by keeping your balances low and making your payments on time. Your installment accounts have a fixed amount to be paid each month and once paid in full the account is closed. If you do not have any open revolving credit you will need to establish at least 3 accounts over a period of time. Common sense tells us not to apply for credit cards which are harder to receive at this point. Research banks that offer people credit based on little or no credit and even if you had problems with credit in the past. I strongly recommend you stay away from subprime credit cards because of the high fees and APR. Personally I would rather put my money in a bank that will issue me a credit card and still have the money in a savings account with them than to just throw it away in fees.

The next thing you need to do is establish a budget to control your spending habits. Just like dieting where you are watching your calorie intake, you have to see exactly where your money is going each week. Budget yourself to be able to pay as much or more on what you charge if you currently have high balances on your revolving credit. Control your bad spending habits is the key to managing your credit.

Now that we have determined how much weight we want to lose, what foods affect us the most, and measured how much calorie intake we should have it's time for the fun part, exercise. Yes, in order to lose weight or just become healthier, exercise is essential. Managing a healthier credit profile takes the same discipline; you have to strengthen the weakest part of your credit profile while also keeping the strongest part strong. Like anything good in your life it takes time, patience, understanding, and confidence you will make decisions using common sense.

Rusty M. Bresse is the President of Crednology, Inc.; the nation's largest online Credit Management Company. Rusty, being in his 30th year in the credit industry, has published numerous articles, holds regular credit webinars, and also travels the country teaching others about credit. To contact Rusty, visit www.crednology.com or email rusty@crednology.com.