

## **Cleaning Up Your Credit!**

Far too often, the first time an investor finds he or she has a credit issue is when that investor first applies for a mortgage. Credit issues can take several different forms. The investor may be young or new to the country, and have not established credit yet. Perhaps the investor is part of an “old school” and has always purchased cash without establishing a credit history. Or, more commonly, an investor who has missed a few payments over the past few years, seriously impacting their credit worthiness in the eyes of a lender. To improve your credit score, you should follow a 3 step process. First clean your existing credit. Next establish new credit, and last you should maintain clean credit forever!

Also keep in mind that your late payments are just one part of the overall picture of your credit. Having a significant number of open accounts can look to a lender (and the credit reporting agencies) that you could borrow significantly at any point in time from the available or open accounts. If you have too many credit cards, lines of credit or open accounts, you could be denied credit on the basis of having a high “debt-to-income” ratio.

### **Cleaning Your Credit**

Cleaning your current credit report is the first step in maximizing your credit score. Bob Wilfinger of Homestead Funding explains the first rule of credit cleaning, “No matter what you hear or see on late night television, not all bad credit can be removed!” You can dispute each late payment and any derogatory information individually with the credit reporting agencies, like Equifax, Trans Union and TRW. Some creditors will remove negative information, rather than argue the information. Some creditors will fail to respond. Several books and dozens of articles are available to those with the fortitude to fight creditors on their own.

An alternative is to hire a credit restoration or credit repair service. These companies take advantage of the Fair Credit Reporting Act to argue your case with creditors and eliminate many of the negative entries. “Negative entries can stay with you and affect your credit for 10 years.” according to Loren Keim of Century 21 Keim Realtors. “It’s important to eliminate as many as possible.”

### **Establishing New Credit**

Even with some cleaning techniques completed, your score may not be high enough to borrow a significant mortgage on an investment property. Do not go out and start applying for credit cards. This can actually damage your credit again. If you apply for a card, apply for ONLY one card. Multiple inquiries appear to a lender to be in a financial jam, needing to borrow money. Slowly establish credit by applying for an easy credit line or credit card, a secured credit card, “piggy backing” on a relative or using an installment loan.

Even with fair or poor credit, a borrower can often obtain a credit card. Some department stores, gas stations, or other retailers offer consumers credit cards with fair or no credit history. The interest rates on these cards are often very high. You can apply for a card like this to establish a

history of credit payment. Make sure to always pay the car on time.

A Secured Credit Card, unlike a typical credit card, is really a savings account that has a line of credit against it. By placing \$250 or \$500 into a savings account, you will be allowed to “charge” up to that \$250 or \$500 on that card. To obtain a secured credit card, check with your local bank or a bank you do business with. If you can’t find a local bank, several national banks are now offering this service as well.

“Piggybacking” on a relative is the idea of borrowing their credit to improve yours. Parents will often add a card in their child’s name as an authorized user of the card. When the parent, relative or friend adds you to their card, you will receive a card in your mail. File this card away without using it. Don’t ever risk a family member or a friendship by abusing their credit!

Another method of adding good credit to your report is by creating an installment loan. If you purchase a car or appliance on this type of loan, make sure that the creditor reports the loan, and then pay it on time.

### **Maintaining Credit**

After taking the time and significant effort to repair your damaged credit and to start building new credit, you don’t want to make any mistakes. Some of the suggestions to keep your credit good are simple, like “Don’t miss a payment”. Other suggestions include keeping your open accounts open and use them periodically. Still other suggestions include not paying the minimum balance on outstanding loans, and don’t apply for more than one loan or credit card at a time.

Keeping your open accounts open is showing that you have access to some credit. Make sure you have activity in the open accounts. Even a balance of \$50 or \$100 will show that you are making payments on an account and will help to improve your credit score over time. Again, do not apply for more than one loan or credit card at a time. Multiple inquiries can make you appear to need money to a lender, and inquiries can actually drop your credit score.

Pay more than the minimum required on open accounts. Many accounts are set up that if you pay the minimum, you’ll be paying off the debt for 20 or 30 years, and interest will accrue on the outstanding balance every month. A wise person will pay down as much high interest debt as possible as quickly as possible.

Many people think that being debt-free is a positive trait valued by lenders. Nothing could be further from the truth. A borrower with no credit history is in worse shape than one with bad credit. A creditor wants to see a history of how you handle debts. You should know that

correcting; building or re-building a credit report is not a quick- fix situation. It could take up to a year to complete but it can be done and it is well worth the time and the money. Just follow the basic outline presented here.

Building good credit is like building a good reputation. They may not be easy to create. They take time and effort. Be careful in your use or application of credit, and make sure you pay all your bills on time. Good credit is one of your most precious assets and should be respected!