

SPECIAL REPORT

SECRETS REVEALED ABOUT YOUR CREDIT SCORE

15 things you need to know
about your credit scores

THE APPROVAL COACHTM
OPENING DOORS & CLOSING LOANS

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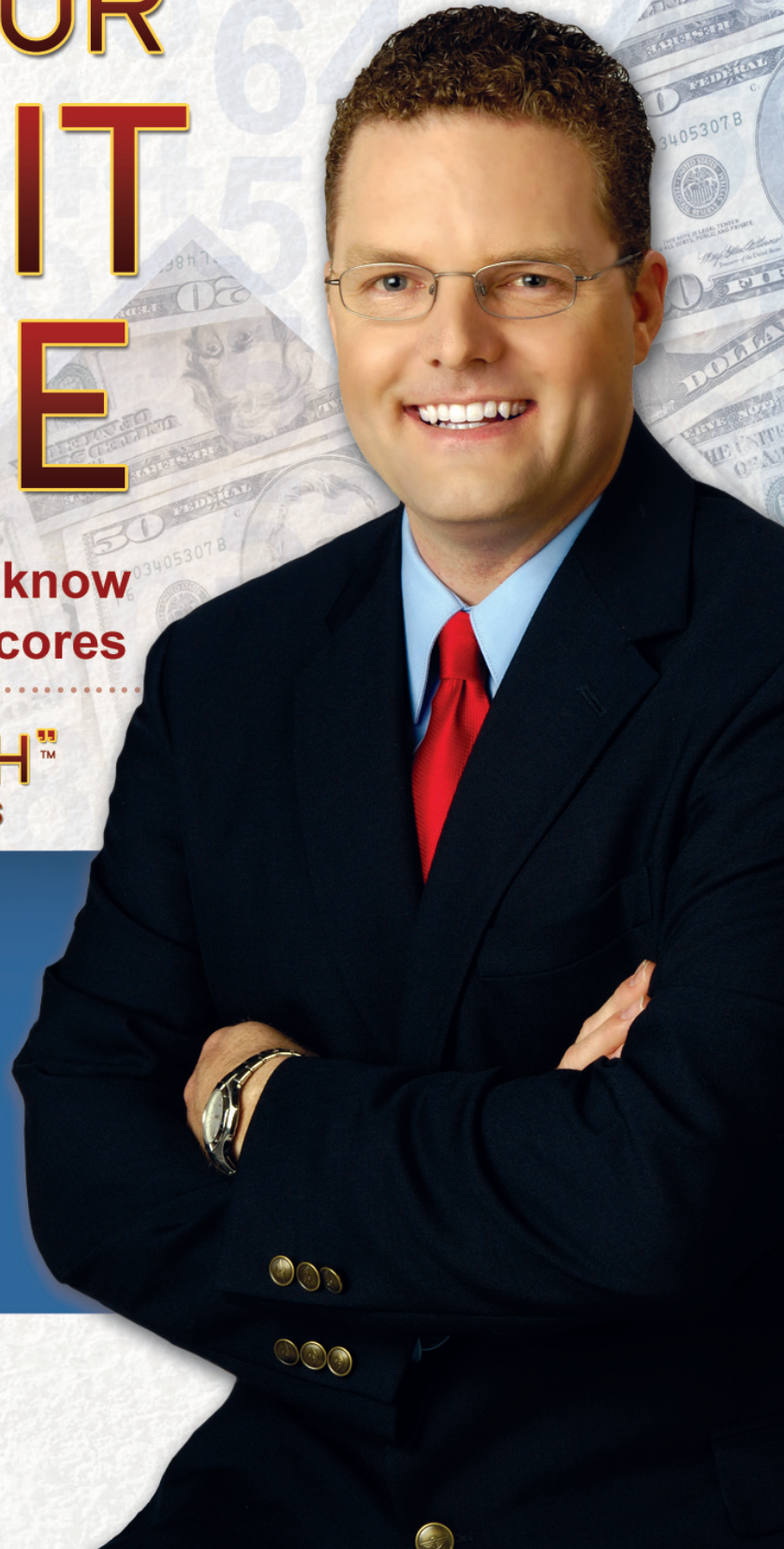
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Dear Friend:

Your CREDIT SCORE is an important asset just like your home, car, or retirement savings and just like any valuable asset you own you need to actively protect that asset.

If you have low credit scores, you will most likely pay more for:

- **Mortgages**
- **Private Mortgage Insurance (PMI)**
- **Credit Cards**
- **Automobile Insurance**
- **Homeowners Insurance**
- **Health Insurance**

CBS Market Watch reported on November 17, 2004 that 35 percent of employers used credit checks in pre-employment screening. 41 percent of retailers said they used credit checks in pre-employment screening, according to the 2003 National Retail Security Survey, conducted by the University of Florida.

This FREE report was written in an attempt by an experienced mortgage professional to give my clients immediate real world suggestions related to their credit scores and how they can take steps to improve them. IT IS NOT A DOCUMENT DEDICATED TO CREDIT REPAIR. There is no guaranteed method for repairing your credit or removing accurate information from a credit report. Promising to do so and charging money in advance to repair credit is a violation of federal law, according to the Federal Trade Commission. You should be very careful dealing with anyone that promises to repair your credit for a fee.

I have on hundreds of occasions spoken to clients that have been given confusing advice that may or may not have actually helped their credit scores. For the last 10 years I have actively used credit scores in my lending profession and can say with confidence that the suggestions that have been assimilated within this report will, in most cases, positively impact your overall credit scores.

The credit scoring process and credit score models are complicated and are very closely held secrets of the 3 major repositories. (Trans Union, Experian, and Equifax) There are also variations of credit score models that are used by private companies to make decisions related to all kinds of credit: auto; bank card, personal finance and installment loans. The suggestions that follow specifically apply to the 3 major repository scores that are commonly used in the mortgage lending industry and are the ones that I am most familiar.

A credit score is a number that reflects your credit worthiness at a given point in time. Your credit score can change drastically, up or down, depending upon the number of suggestions that you implement, correctly or incorrectly, after reading this report.

For this reason, if you would like to discuss your specific situation before taking any action that might effect your credit scores, please do not hesitate to call me direct at (928) 247-9089. I will gladly answer any questions you may have and attempt to dispel any misinformation that you may be facing.

I hope you enjoy my FREE report and I look forward to hearing from you soon.

Sincerely,

Derek R. Egeberg

CMPS

www.TheApprovalCoach.com

PS: If you have a friend or relative who would like to have a copy of this FREE report, please call me at (928) 247-9089 or email me their address to Derek@TheApprovalCoach.com

PPS: If after reading this report you wish to research more information related to the subject of credit scores and credit reports, I recommend that you visit the following websites:

1. Annual Credit Report.com – Get copies of your credit report here for FREE - <https://www.annualcreditreport.com/cra/index.jsp>
2. Federal Trade Commission – Fair Credit Reporting Act - <http://www.ftc.gov/os/statutes/fcra.htm>
3. Experian – National Credit Score statistics - <http://www.nationalscore.com/usscore.aspx>
4. Federal Consumer Action website – <http://www.consumeraction.gov/index.shtml>
5. “Credit Scores & Credit Reports” by Evan Hendricks, 2nd Edition, Published 2005 – This is a must read and this author is an authority on this subject. – <http://www.creditscoresandcreditreports.com/auth.html>
6. “Credit Savvy” by Edward Jamison – This is also a must read. <http://www.getcreditsavvy.com/>

1

Will paying off collection accounts, charge-offs, or liens help my credit scores?

Paying a past due balance on a charged-off / collection account typically will not, in most cases, increase your credit score. I do not suggest paying these types of accounts when you are planning on applying for a loan in the next six months since they can hurt your score by paying them. Please let me clarify that I am not suggesting that you not pay a collection account, but that you consider waiting until the loan closing or shortly after to pay them since it can reduce your score and hurt your chances of getting loan approval. I suggest that you either pay or settle these accounts either concurrent with the loan closing or directly after since not paying it can lead to either a lawsuit being filed or the debt being sold to several collection agencies in the future, which will damage your credit even more in the long run.

If you are determined to pay them off – I recommend you contact them direct, ask them to provide you with written proof that you owe the debt. Once you are satisfied that this is your debt you would want to ask them to send you a statement in writing showing (a) the total amount due and (b) verbiage that states that they will delete the account from credit report once the balance is paid. If the account is updated as paid but not deleted from your credit report – chances are that your credit scores will go down. That is why I strongly suggest the verbiage stating that they will remove it from your credit report.

If you do not agree with the information reported on these accounts I suggest that you dispute them in writing with the credit bureau and the source of the negative reporting.

2

I pay my credit card balances off in full every month. Does that guarantee higher credit scores?

This is a common misconception and if your credit card balance is high on the day of the month that your credit card company reports to the credit bureaus that will be the amount reported. The fact that the balance is paid off with each month's billing statement and returned to "zero" might not be reflected on your credit report. Many self-employed or small business people, or those who make many business- or profession-related purchases on their credit cards and then pay of the balances each month, fit this profile.

Say for instance, that by the end of the month, you make \$7,000 worth of purchase using a credit card with a credit limit of \$8,000. In the middle of the month, at the time of the due date, you pay off the entire balance that appeared on your last statement.

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But from a credit reporting perspective, you aren't paying off the entire balance: by the time your payment arrives at the credit card company, your true balance has changed due to the incoming charges. While you may pay the full amount shown on your statement, the account never reaches a true zero balance, unless you cease charging for a month. Since the credit card companies choose a particular day of each month to report to the bureaus, whatever the balance on that day is the one that goes on your credit report. Your credit score may remain unchanged if your purchases are consistent month to month, or the score may drop if the balance is higher, or rise if the balance is lower.

So, if you know the date that your credit card company reports to the bureaus and you want to raise your credit score at least temporarily, then paying off your balance a few days before that date could achieve that goal. This is a prime example of how someone who in reality handles their credit very responsibly is in fact penalized by the credit scoring system, in part because of the timing or reporting cycles and the current inability of the credit scoring system to accommodate people who regularly payoff high balances, or at least dramatically reduce them.

3

I have one late payment reported on my credit report. How do late payments effect my credit scores?

Payment history makes up 35% of your total credit score. You would think that the first thing a lender would want to know is whether you have paid past credit accounts on time, however; Fair Isaac says that this usually only amounts for 35% of the score on average. Late payments are not an automatic score killer, as an overall good credit picture can outweigh one or two late credit card payments. At the same time, having no late payments in your credit report does not mean you will get a perfect score.

4

I forgot to make a \$10 credit card payment sometime last year but have not missed a payment since. Will that effect my score?

The more recent a delinquency, the more of a negative effect it has on your credit score. Your score will be more affected by a late payment that happened last month than a late payment from a year ago. The good news is that if you keep paying your bills on time, the effect of the late payment that occurred a year ago will diminish.

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5 I am now 30 days late on a credit card account, should I pay the minimum payment due or should pay the entire balance?

If you have a 30-day late on your credit card and you pay the credit card account off when it is 30 days late – a lot of credit card companies will not update your credit report unless you have a balance. If you don't use the card any more you could possibly have a past due balance reported indefinitely or until you use the card again. If you do payoff a past due credit card account, make sure you check your credit report periodically to see if the account was updated. You may have to use the account again to get the past due amount reported as paid.

6 Our budget is tight this month due to a number of unexpected expenses.

I'm going to have to miss a payment with one of my creditors. Which one should it be? When you have to miss a payment it is better to miss a low payment than a high payment when considering the effect it will have on your credit score. Your credit score will drop more by missing a \$1,000 mortgage payment as compared to missing a \$300 car payment.

7 I noticed that my credit limit is not being reported for my American Express, Visa, and MasterCard.

Any credit score issues related to this? You may want to sit down when you read this answer. Balances being carried on revolving accounts determine 30% of your credit score. Someone who is maxed out or close to the limit on a credit card is considered a greater risk than someone who keeps their credit card balances close to zero.

It is important that the credit limit for each of your credit cards is being reported on your credit bureau report. A 2004 Federal Reserve Board review found that 46 percent of consumer credit report files were missing at least one credit limit. No limit being reported gets scored as though the current balance is maxed out. So, if someone has a \$5,000 balance on a credit card and the credit limit doesn't get reported, the scoring software will score the account as having a credit limit of \$5,000. If you know that you have a \$10,000 limit on your credit card, make sure that the limit shows on your credit report.

Although some consumers are shocked to learn of this practice, it is a common practice in the credit card industry. There are a number of major credit card issuers who continue to NOT report credit limits. So goes that phrase: "What's in your wallet"?

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8 Will my credit scores be effected if I carry a balance on my credit cards?

The credit scoring software likes to see your credit card balances as close to zero as possible, but if that is impossible for you to do then you may want to make some changes so that you can maximize your scores. There are certain levels that the scoring software will penalize you even more if you go beyond them with your credit card balances. Being over 70% of your credit limit on any card is the worst thing you can do in terms of credit scoring in this area. The next threshold amount you want to get under is 50% and then 30%, but as close to zero as possible. Remember that it is also important to know that your score will be higher if you evenly spread your credit card balances among all of your credit cards rather than have the entire balance on one credit card. So, if you owe 50% of your credit limit in debt and you have three credit cards with a \$3,000, \$5,000 and \$10,000 limit, it is suggested that you have a \$1,500 balance on the first card, \$2,500 on the second and \$5,000 on the third rather than carry the entire \$9,000 on the one card with a \$10,000 limit.

9 I just paid off a number of credit cards and do not plan on using them again.

If I close the accounts, how will that effect my credit scores? Do not close credit cards except in certain circumstances. If you have too many department store cards, you may want to consider closing the newest ones if you have more than six credit cards, otherwise do not close any at all. Closing a credit card can hurt you because it will increase your debt ratio due to the fact that you will have less credit available after closing the card, but still have the same amount of debt. When you owe \$10,000 in credit card debt and have limits totaling \$20,000 you are at 50% of your total credit, but if you close a \$5,000 card you will only have \$15,000 total in credit card limits and now owe 66% of your limit. Never close a credit card unless it was opened within the past two years and you have over six credit cards. The magic number of credit cards you want to have to maximize your score is 3 to 5, but having more should not significantly effect your score.

Also, the credit-scoring model looks less favorably on department store or specialty cards. So if you feel compelled to close some accounts, close the department store or specialty cards, and the cards with the lowest credit limits.

10 I just applied for a retail store credit card because the retailer gave me an instant discount in their store.

What effect will this have on my credit score? Credit scores can drop when you accept or sign up for a department store charge card and then use the card to take advantage of an instant discount. Such charge cards usually start with very low credit limits, so any purchases likely will result in a high ratio of “credit balance to credit limit.” Next, your score drops because you have opened up a new line of credit and then because of the department store’s inquiry to your credit report. Also, the credit scoring system looks less favorably on store charge cards, which give you limited buying potential, than it does on credit cards from major banks, which give you much broader buying potential. Again, your score can take a hit from three different directions.

11 I personally monitor my credit scores using a credit score watch product that I purchased online directly from one of the major repositories.

(TransUnion, Experian, Equifax) Are the scores that I’m monitoring the same scores that mortgage lenders use to make lending decisions? Probably not. Mortgage industry sources say consumers regularly complain that the FICO score actually used by their lender was lower than the scores they bought at any of the repository web sites. At www.myFico.com, you can buy your FICO score for each of the three bureaus. If you are just trying to get a general idea of where you stand, the Experian and TransUnion knock-offs are probably good enough. But if you are applying for a mortgage, or an auto loan, or to refinance, a few points can make a big difference. Thus, the prudent thing to do is to make sure you get your actual FICO score, keeping in mind that even that might not be identical to the one that determines your interest rate.

12 I just received a notice on a credit card I’ve had for years that they are increasing my rate.

I seldom use the card and have other cards with higher limits. Should I go ahead and close this credit card account? Maybe not. 15% of your credit score is determined by the age of the credit you have in your credit file. The credit scoring models assume that people who have had credit for a long time are less risky. In most cases, it is better to keep old credit cards, even if they have horrible interest rates, because closing those cards will decrease the average length of time you had credit.

Just use the card at least every 6 months to get gas and wait for the bill to come in and then pay it off. If you don't use it at least once every 6 months, the account will be reported as "Inactive" and the credit score models will ignore the account. The one thing that all scores over 800 have in common is a credit card that is twenty years or older.

13 I just applied for a mortgage and the loan officer told me that shopping around and letting other lenders pull credit report may affect my scores and possibly my chances of qualifying for the mortgage. What do you think?

I think you are entitled to more information. 10% of your credit score is determined by the number of times a person asks for credit. The score model frowns upon those who have initiated several requests for credit cards, loans or other debt instruments over a short period. The first ten inquiries count towards the score. The score only counts inquiries made in the past year. Even though your credit report will show inquiries from the past two years, only the inquiries in the past year will affect your score.

Multiple inquiries made in a 14 day period that are related to auto and mortgage loans are only treated as one inquiry for determining your credit score and they will not be counted until 30 days after they are made. The reason for this is to not penalize people for rate shopping when trying to purchase a car or a house.

14 Is there a certain type of credit account mix that I should have to insure my credit scores stay high?

As I mentioned earlier, your credit score is a number that reflects your credit worthiness at a given point in time. It can change drastically, up or down, depending a number of factors, some of which are discussed in this report. 10% of your credit score is determined from the mix of credit accounts being reported on the credit report.

Someone with only a secured credit card is generally riskier than someone who has a combination of installment and revolving loans (on installment loans, a person borrows money once and makes fixed payments until the balance is gone, while revolving borrowers make regular payments, each of which frees up more money to access).

The best possible way to increase your score in this area is to have three to five credit cards, a car loan and a mortgage loan. When you have this mix of credit accounts you are helping increase your score as a result. If you never had a mortgage and obtain one in the future, pull your credit report a couple of months after you get the mortgage and your score should be higher than it was before you got the mortgage. This is attributed to this aspect of credit scoring that determines 10% of the score.

15

I understand that most people can't pay off their credit cards and have to carry a balance from time to time. Do you have any suggestions on other ways to increase my credit scores?

Getting added as an authorized user on a credit card can help you increase your credit score and is a great idea for anyone that has less than \$10,000 in total credit card limits or for someone that has debt ratio of 30% or more. This is a great way to decrease your debt ratio and add to the average length of time you have had credit. Both should increase your credit score.

If you know a family member or a friend that has good credit, and you know that they have one or more credit cards that have a very low balance, but a very high limit, then ask them to add you onto their card as an authorized user. They don't even need to give you the credit card when it comes in the mail. The credit score does not typically distinguish between primary cardholders and authorized users, which means you can get a quick score boost by getting added to the right credit card. The older the credit card they add you to, the better.

Try to only get added to the high limit/low balance cards because you want the credit card they add you too decrease your debt ratio, which will happen only if they owe very little on the card. Keep in mind that whatever they owe will reflect on your credit report also. The same goes for late payments. The credit card company they add you too must also request your social security number; otherwise the card will not appear on your credit report.

Choose the person you ask this favor of wisely because even though it can help you increase your score quickly, it can also decrease your score if they max out the credit card or make a payment late since the information being reported on their report will also be reported on yours.

For the credit cards you currently have: Call and ask your credit card company if they will increase your credit limit based on your payment history. Tell them you do NOT want them to pull your credit and cause you to get an inquiry which is why you are asking if they can do it without running your credit. Sometimes they say yes, sometimes they say no. I don't suggest letting them pull your credit if you plan to make a credit purchase in the next six months since the inquiry will decrease your credit score.

Whenever you find yourself carrying credit card balances that you cannot pay down, another thing to consider is asking a family member for a short-term loan to pay down your credit cards. It is not uncommon to see your credit scores increase by more than 50 points just by paying them down or off.

General Information about Credit Scores

Credit scoring can be difficult to understand at times but try to remember that the score is only made up of five factors that are summarized below:

1. 35% of the score is derived from payment history. Pay your bills on time and avoid judgments and tax liens.
2. 30% of the score is derived from balances carried on accounts. The lower the better and remember that revolving credit card debt is the most significant factor in this area. It is always better to pay off credit cards before an auto or mortgage loan to get the biggest score increase.
3. 15% of the score is derived from the average length of time you have had credit. The longer the length the better. Never close a credit card because you will hurt yourself in this area since your average account age will not increase in the future as quickly.
4. 10% of the score is derived from the mixture of credit you have on your credit report. To maximize this area you want to have a mortgage, a car loan and a few credit cards.

The magic number of credit cards to have is three but it is never a good idea to close credit cards to get down to that number because closing the card does more damage than the increase received by having fewer cards.

5. 10% of the score is derived from the number of times you apply for credit. There are several types of inquiries but the only kind that hurts your credit score are the ones where you let someone pull your credit in order for you to get approved for a loan of some sort. Even asking for a credit limit increase is considered applying for a loan of some sort since you are trying to have the credit limit increased. Pulling your own credit report online is considered a personal inquiry and does not hurt your credit score.

Anytime you receive a pre-approved credit offer in the mail it is considered what the industry calls a promotional inquiry and will not effect your score either. Lastly, a current creditor of yours looking at your credit report without you asking them to is considered an account review inquiry and has no effect on your credit score.