Rebuilding Credit:
A Guide to Increasing Your Credit Scores

Increase your credit score in as little as 45 days.

MSI
CREDIT SOLUTIONS

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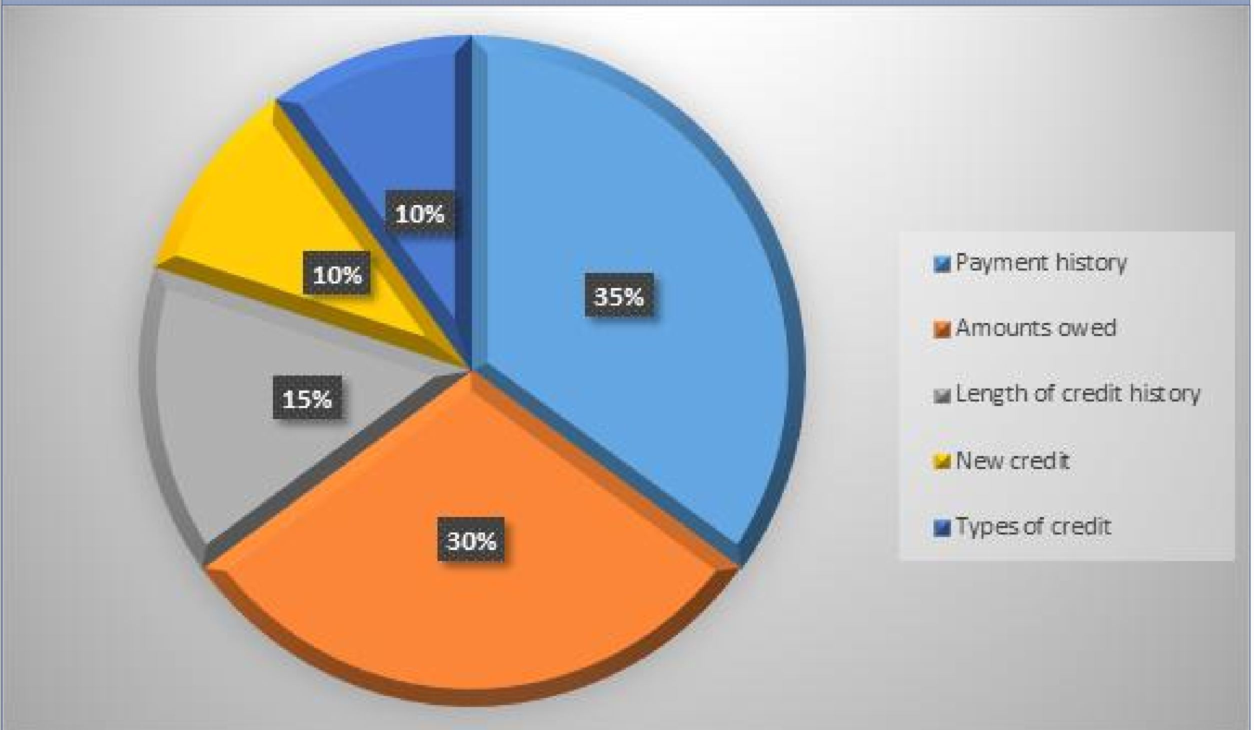
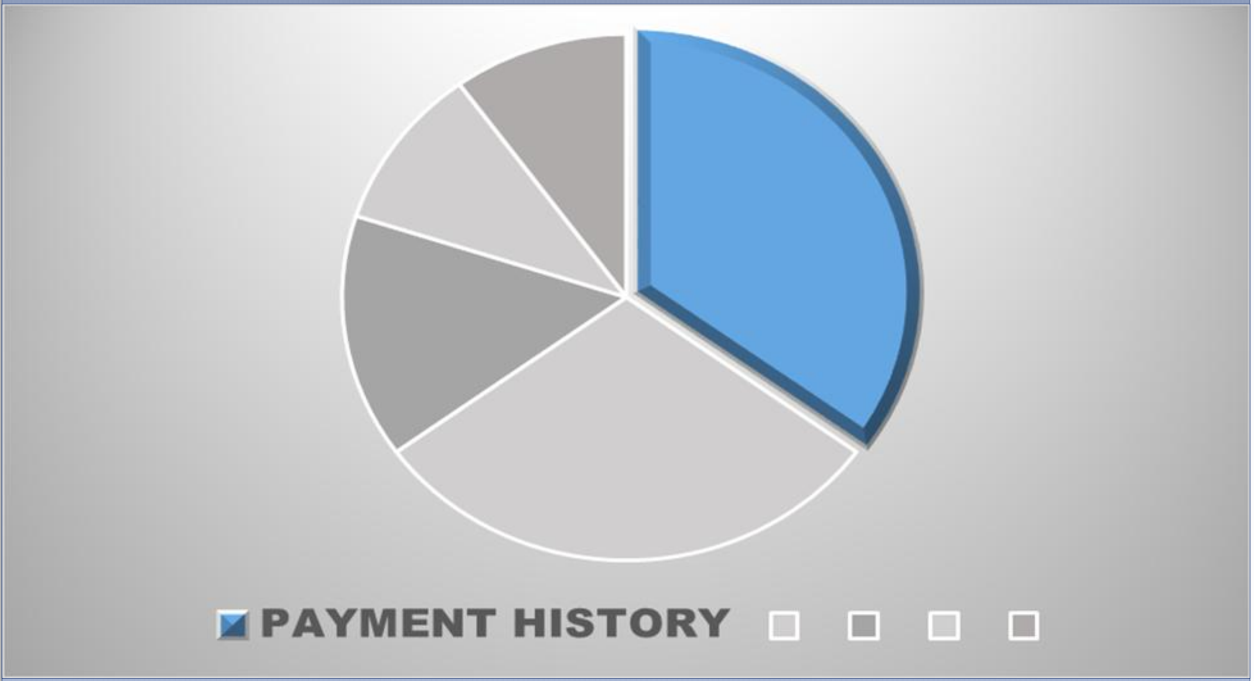
How are credit scores calculated?



There are many factors that go into calculating your credit scores. Understanding each part and how it affects your credit scores will help you to build and maintain your credit scores.

What is your track record?



The first step to rebuilding your credit and obtaining a good credit score is being current. This is the biggest score factorization when it comes to calculating your credit score. Payment history determines 35% of your credit score calculation.

Your payment history is what displays your track record. Are you a responsible or risky borrower? Lenders will look at this area to determine the possible risk of you defaulting on their loan or line of credit.

Ensure that all your active bills are current. Bills such as utilities do not reflect on your credit report as positive lines of credit. Although, if you default on these, it will cause negative payment history to reflect within your report. With that being said, you also want to ensure you have an open positive line of credit that is reporting to all three bureaus to allow your credit scores to build.

Be sure to at least have one credit card opened at all times to continuously build your credit in this factor. Installments, such as auto or home loans, will reflect in your payment history, but will eventually have end terms. Once you satisfy an installment account you will no longer benefit from it in relation to credit score building.

If you are only a few days late the good news is this will not impact your score, but your pocket may be affected by additional late fees. Late payments are reported to the bureaus once they have reached a mark of 30, 60, 90, 120 or 150 days of nonpayment. Expect to see late payments reflect on your credit report once they are 30 plus days late.

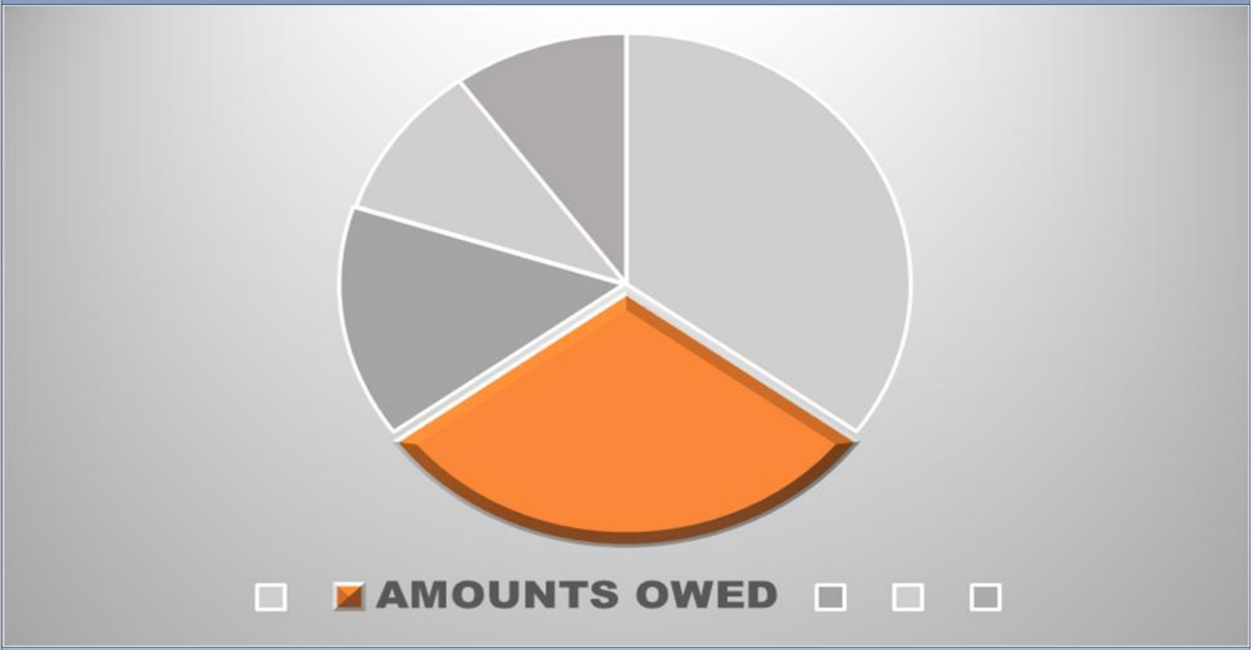
Any late payment is bad, but the more recent and frequent the late payments are, the more damage they will likely have on your credit scores. Late payments past 120 days are usually turned to collections, and collections affect your credit score more. Collections are much more damaging and can remain on your credit report for up to seven years.

Just as positive payment history affects 35% of your score positively, collections and late payments are also considered in this aspect, but affect your score negatively. If you are current on all your bills but still have blemishes that are affecting your credit scores we recommend you review your credit report and dispute any inaccuracies or unverifiable information.

<u>MSI Credit Solutions' Tip</u>

If you are behind catch up, avoid future late payments and collections by setting up auto draft payments. This will ensure your payments are made on time. Also don't forget to update your payment information should you change banks or be issued a new credit/debit card.

How much is too much?



If you have ensured all your payments are being made on time, the next step we urge you to take is to lower your amounts owed. This can impact score fluctuation from month to month if not maintained. Amounts owed determine 30% of your credit score calculation.

The main lines of credit that impact this factor are major credit cards, bank issued credit cards, and retail store cards. Since these are revolving lines of credit, and not installments, they have a bigger impact to your credit score. Revolving lines of credit can have a negative impact if they are not handled correctly, or positive impact if they are used correctly. Installments are also considered within this score calculation but are weighed differently.

We highly advise before applying for a new line of credit, to check your balances on your credit cards, pay balances off as close to zero as possible, and refrain from making any other big purchases. Consumers often find themselves in a difficult situation when they have applied for a big purchase, like an auto, right before applying for another big purchase such as a home. Big purchases such as these can alter your debt to income ratio, and consequently effect your ability to qualify.

Just as positively maintaining your balances helps your credit score, not taking care of balances, and defaulting accounts also impacts you negatively in this factor. Collections and past due balances will also be a considered factor in your amounts owed.

Unsure of items reporting to your credit such as owing balances, or what the account is referencing to? Dispute any inaccurate or unverifiable items! Remember errors can be reporting on your credit report.

You want to be careful when it comes to paying off collection accounts. Making a payment on a debt that is inaccurate or not yours will validate the account, meaning you are accepting fault to the debt. Additionally, paying off the debt does not get rid of the collection. The account will still show on your credit report as a collection, but it would show a zero balance.

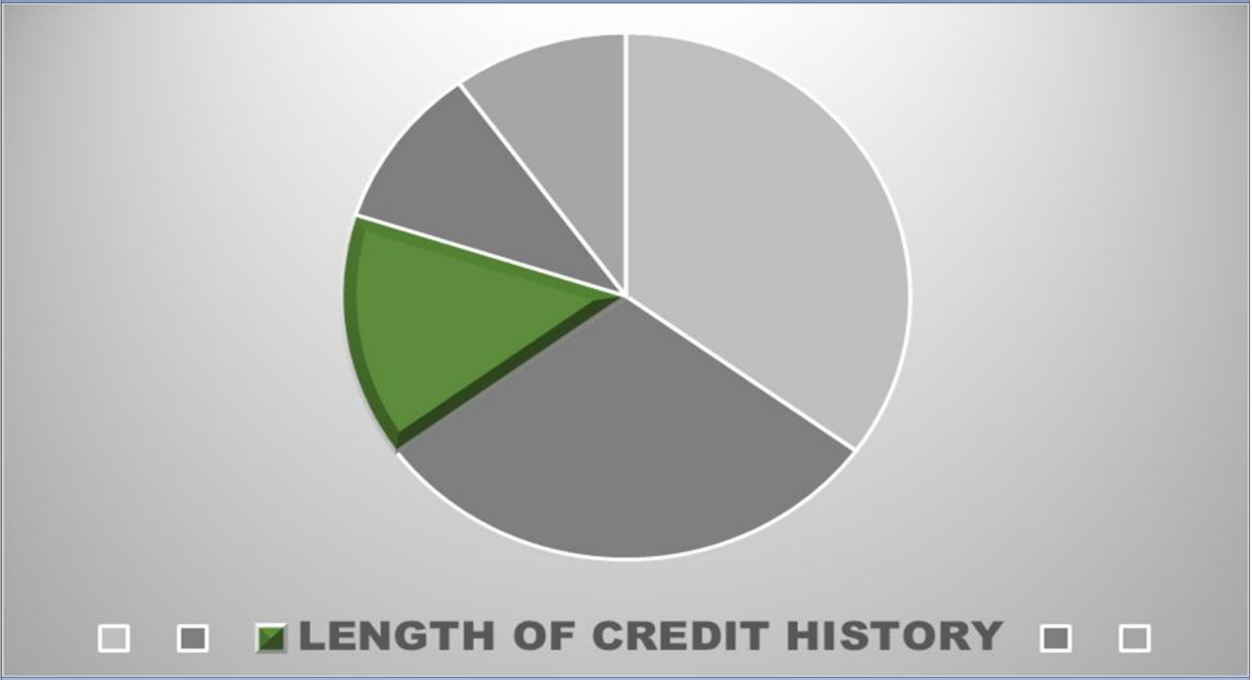
Life situations will arise where you may need to use your credit cards but always try to pay the balance to zero or closest to zero each month., as amounts owed is a major factor to your credit score.

MSI Credit Solutions' Tip

Only charge balances you can manage to pay off to zero by the end of the billing cycle. This will assure that:

1. *Your balance does not go over your limit.*
2. *You do not incur over the limit fees.*
3. *You save money from interest fees.*
4. *You avoid the risk of your credit score being lowered.*
5. *Also be sure NOT to close your credit card once you have paid off the balance.*
    - *This is the #1 mistake consumers make when they are trying to lower their debts. You still need the active line of credit to continuously build your credit scores!*

How established is your credit?



Your credit score benefits more as your accounts age. This ultimately shows financial responsibility as it proves that you are able to *maintain* accounts. Age of accounts, or length of credit history, determines 15% of your credit score.

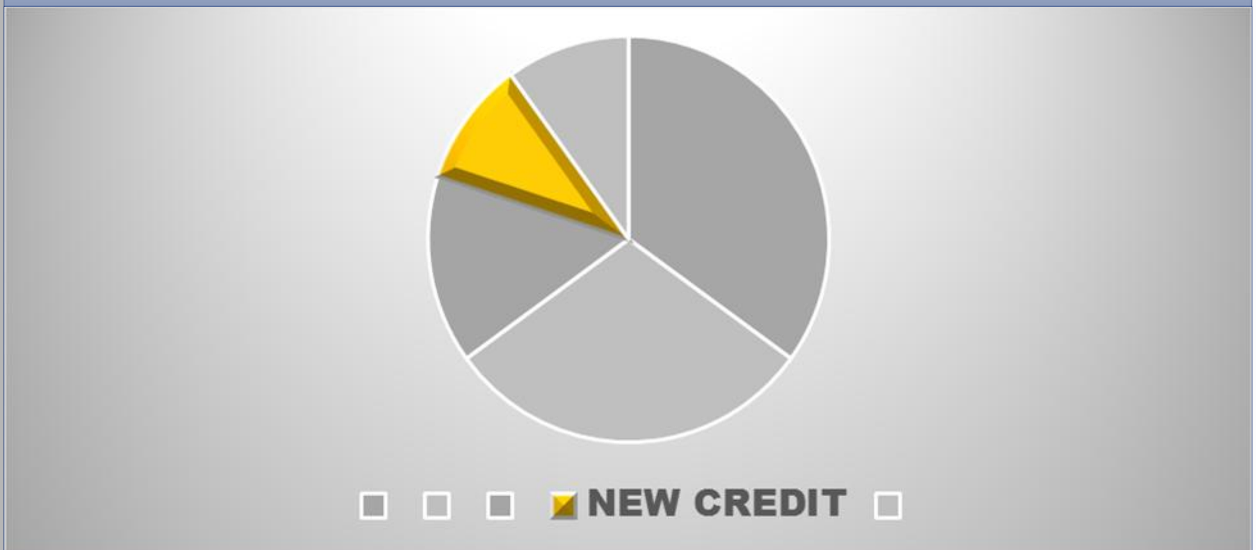
It is for this factor why we stress the importance of maintaining at least one active credit card. Since credit cards are revolving accounts, these accounts can be opened for an indefinite amount of time. In comparison, loans are installment accounts and have terms that will eventually end once the payment is satisfied in full.

The number one mistake consumers make in this area is closing accounts. Consumers are usually set with a goal of minimizing or eliminating debts, and once they have done so will close their credit card as a final mark of their accomplishment. Little do they know, by closing the accounts they have just eliminated a big factor that is actually helping their credit scores continue to build.

MSI Credit Solutions' Tip

Time is on your side in this factor! Keep your oldest accounts opened, even if they are dormant accounts you occasionally use. As long as the credit card balance is zero, as the account continues to age on your report, you will continue to benefit from its history. Although we do advise to also check with your creditor if there are any terms in regards to accounts being closed due to inactivity. If there are inactivity terms, occasionally make a small purchase and pay it off in full to keep it opened.

Are you taking on new debt?



New credit determines 10% of your credit score. This section of your credit report keeps record of credit pulls that have been initiated over the past two years. These credit pulls are referred to as inquiries and will show who has pulled your credit and when the credit pull was conducted. Not all credit inquiries have a negative effect on your credit. There are two types of inquiries; hard inquiries and soft inquiries.

Soft inquiries come from companies that want to send out promotional information to a pre-qualified group, current creditors who are monitoring your credit, or credit monitoring companies. A soft inquiry does not hurt your credit, but some credit reports may show a list of companies that have requested information for promotional purposes. Don't want to receive these promotional offers in the mail? You can visit optoutprescreen.com to opt out of these promotional offers and stop the junk mail.

Hard inquiries are initiated by filing out a credit application like a mortgage loan, credit card or auto loan application. A hard inquiry will be considered within the calculation of your score and can hurt your credit.

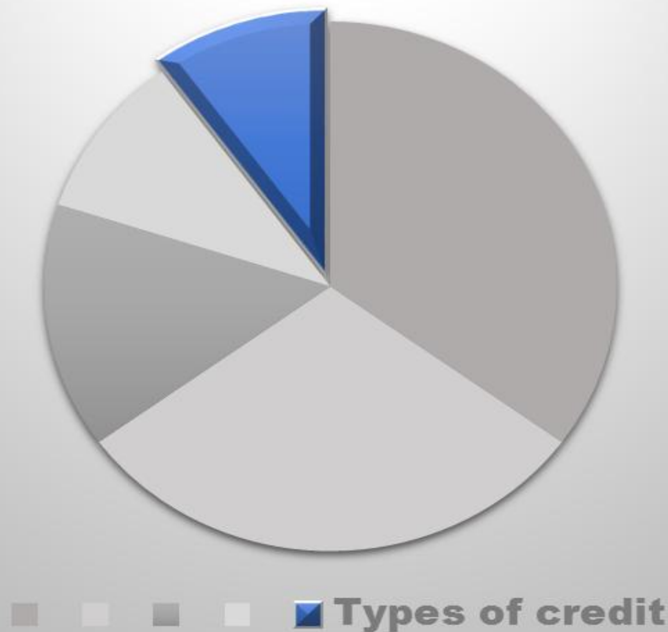
Your hard inquiries will affect 10% of your score depending on the number of inquiries initiated, how recent the inquiries are, and how many new accounts have been opened resulting in newly acquired debt. Opening too many accounts in too short of a time can be seen as a potential risk factor and will consequently lower your score.

The credit bureaus keep record of your hard inquiries for two years. Hard inquiries are necessary when you're in the market for a home, a car, or credit cards but limit these only when you know you're ready to apply. Most scoring models have a buffer period that ignores inquiries within 45 days of getting a mortgage or a car loan. It also counts two or more of the same type of "hard" inquiries in the same 14-day period as just one inquiry. After checking your credit scores we recommend limiting your rate shopping to a two week period.

MSI Credit Solutions' Tip

You can avoid hard inquires by knowing your credit scores at all times. Credit monitoring companies such as myscoreaccount.com will give you your three scores with out adding a new inquiry on your credit.

Is it a healthy mix?



The last 10% of your credit score comes from building up a healthy mixture of credit. Your credit will include two different types of credit, installment lines of credit and revolving lines of credit. A healthy mixture of credit is three revolving accounts to one installment loan.

An *installment line of credit* is a loan in which the principal and interest are repaid on a fixed number of payments, typically a monthly schedule. The payments are called "installments" and are all for the same amount. Examples of the most common installment lines of credit will be auto loans, home loans, and student loans.

A *revolving line* of credit is an account in which the minimum monthly payment is an amount less than the balance and any remaining balance is carried forward and is subject to applicable finances charges. Examples of the most common revolving lines of credit will be department store credit cards, gas credit cards, and major credit cards such as American Express.

Gradually *work up* to a healthy mixture to show you are financially responsible and able to handle different kinds of revolving and installment accounts. As we discussed in our last chapter, applying for multiple lines of credit too soon can actually hurt your credit. As you go on with life, situations will arise where lines of credit will be needed. These lines will be things such as needing a car or obtaining your dream home.

MSI Credit Solutions' Tip

Keep in mind, that this is such a small part of your credit score calculation. We believe this should be the last step when rebuilding credit. If you have a minimum of one credit card open you will always have that line of credit working for you and building history for you. If you don't have at least one reporting , apply for a secured credit card as soon as possible.

Credit Scores Are Not Perfect

There is a major disadvantage to being judged by a three digit credit score. This disadvantage is due to the fact that it will all rely on what information is reporting within your credit. This can be a draw back as your credit report could be likely to contain errors.

A recent FTC study confirmed that one out of five consumers contained an error within their credit reports. One out of ten consumers contained an error that may negatively impact their credit scores. These errors could result in less than favorable terms on lines of credit, or result in a denial for a line of credit.

- You have the right to know what is in your file.
- You have the right to ask for a credit score (but will have to pay for it).
- You have the right to dispute incomplete or inaccurate information.
- Consumer reporting agencies (CRA's) must correct/delete inaccurate, incomplete or unverifiable information.
- CRA's may not report outdated negative information.

- You may limit prescreened offers.
- You may seek damages from violators.
- Identity theft victims and active duty military personnel have access to additional rights.

Along with the FCRA, the following laws were also established to help consumers fight inaccurate and unverifiable information. These laws also include:

Fair Debt Collection Practices Act (FDCPA):

Helps prevent abusive debt collection practices against consumers such as harassment, abuse, false representation, and requesting validation of debts, to name a few.

Fair and Accurate Credit Transaction Act of 2003 (FACT Act):

The FACT Act is an amendment to the Fair Credit Reporting Act. This act gives consumers the right to access one free credit report through the government site of annualcreditreport.com. The FACT Act also provided extra tools to consumers to help fight identity theft, as identity theft is one of the fastest growing crimes in the US.

If you have reviewed your credit and have found any inaccuracies or unverifiable information you have the right to dispute these items. Further detailed information is available to you online to help you through a dispute process.

MSI Credit Solutions' Tip

If you find this process to be too strenuous or difficult for you, seek professional assistance. Professional companies such as MSI Credit Solutions can assist you with your credit repair needs.

MSI Credit Resources

www.annualcreditreport.com

To get a free annual credit report, but doesn't give you your scores.

www.myscoreaccount.com

Credit monitoring with a monthly three bureau credit report.

www.optoutprescreen.com

Opt out of promotional offers and stop receiving junk mail.

https://www.firstprogress.com/application/step/1

Secured credit card for less than perfect credit.