



A WORD FROM RON CAHALAN

Five Fatal Mistakes You Must Avoid That Drive Down Your Credit Scores (And We All Do These!)

[By Ron Cahalan]

There are many things we do as consumers that affect our credit ratings or credit scores. You may have a perfect history of never being even 30 days late on an account and yet drive your scores down simply by engaging in the activities outlined here in this special report. The following summary will keep you from making some of these mistakes:

1. Never pay off old collections, judgments, tax liens, etc., until the closing of your mortgage loan. (It can most often be done as part of the closing, so ask your mortgage lender.)

If you make any attempt to pay one of these off prior to applying for a mortgage, it brings that delinquency or derogatory account from being reported as an "old account" (even if it is only a few months old) to being "new activity" on your credit report. Yes, it is no longer an *old* account but now a *current* and *new* account, due only to the recent activity. These old collections, judgments, tax liens, etc., are now treated and scored as new and recent accounts with delinquent activity. *This will drive your scores down!*

2. Contrary to what some so-called experts may tell you, closing accounts, inactive or not, with zero balances or not, will not raise your scores (initially). In fact, closing those accounts can lower your scores! Again, this is due to your actions appearing as new and recent credit activity. *Any new and recent activity of any sort will affect your scores initially.*

That said, after you close inactive accounts or accounts that you don't really need, the scores will eventually come up as a result of having less credit risk or potential credit risk versus having too many accounts and too much credit available.

The problem is most people do this right ahead of applying for a loan thinking it will improve their scores. It can actually take months for the scores to be adjusted upward.

As long-term planning, definitely take a look at all your open credit accounts. Do you really need them all? Unless you are planning to apply for a mortgage immediately after you start closing accounts, you can benefit from cleaning them all up. Just remember that, initially, your scores will drop due to the new activity. Plan well in advance.

3. Keep balances low on credit cards and all revolving debt. Maintaining balances under 30% of the available credit on each card can improve your scores (i.e., if your available credit on a card is \$1,000, keep the balance under \$300). Pay off debt rather than moving it around to other revolving accounts. In fact, moving it around (for instance, moving balances to zero- or low-interest credit cards) can actually lower your scores.

With all the offers for low initial rates, many consumers are moving their credit-card balances over and over again, trying to keep their accounts at the lower rates. Yet again, this is new open accounts and new activity on your credit report. Unfortunately, the result will be lower credit scores. Also, don't open new accounts you don't need trying to increase your available credit. It can backfire. One needs only four open

and active "trade lines" (open accounts) to establish great credit scores!

4. Apply for credit only as you truly need it. This is a common mistake made with department-store promotions, for instance. The offer to get 10% or 20% off if you open an account may look like a great deal, but the activity can be detrimental to your credit scores.

Don't open accounts thinking it will raise your score, as it may not help at all. Have credit cards, but use them wisely. It is actually viewed that someone who has a good history of responsible credit use is a lower risk than someone with no credit cards at all. There also needs to be a mix of installment credit (cars, furniture, etc.) along with credit cards and mortgages. This "mix" of different types of credit will also help your scores.

5. If you have ever had a collection account, judgment, or tax lien, assuming the creditor, collection agency, or taxing body will report the resolution to all three bureaus is a big mistake! That goes for erroneous reporting you find on your report, too.

Don't assume that just because you paid off a collection, judgment, or lien it has immediately been reported to the bureaus. Even when you close an account, it is often not efficiently reported as such to all bureaus. It is not uncommon to see



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such activity reported to just one bureau, even when the adverse account was being reported on your credit report by two or all three bureaus.

Unfortunately, agencies and creditors are quick to report you when you owe them money or have made a recent mistake, but they can be very slow to report the final resolution to an account when you have paid them off. Collection agencies and the creditors that have sold your account to the collectors are both extremely poor at taking the final step and reporting that the account is paid in full.

This problem is magnified when there has been a bankruptcy. Oftentimes, accounts that have been involved in a bankruptcy have been bantered about between the creditors and various collection agencies long before the filing for bankruptcy protection. The creditor is reporting the account as delinquent and has likely reported it as a "charge-off."

At the same time, the creditor has sold the "bad account" (sold the paper) to a collection agency in hopes of getting just a small percentage of its loss back if the agency is at all successful in the collection of a bad debt.

This goes for credit cards, department-store accounts, and even installment loans like auto loans. The "paper" (account) is sold back and forth between creditors and agencies as they go from having a delinquent pay history to a history of no payments being made at all.

The problem is that after one files for bankruptcy protection and during the time it takes to successfully bankrupt the debt(s), the accounts may be sold multiple times. In addition, it is not uncommon to see an account go to collection *after* it has been discharged in a bankruptcy. You are thinking that you have a fresh start for rebuilding your credit after the bankruptcy, yet there may be new collection accounts dated after the discharge, which has a huge impact on your already-damaged credit scores.

In addition, just because you may have been successful at having certain debts discharged in a bankruptcy, don't assume the discharge of that debt is reported as such on your credit report. In fact, less than 50% of the accounts, collections, and/or judgments discharged in a bankruptcy will show as such after the completion of the bankruptcy. You have to, again, follow up with each individual bureau and supply to them copies of your

discharge and list of creditors to ensure that it is reflected accurately on your overall credit report. It can take years rather than months to see a rise in your credit scores if you don't follow the strategy outlined above.

It is your responsibility to follow through regarding any such activity and make sure that all three bureaus have the most recent and accurate information possible. You can write and/or file online disputes with each individual bureau and supply copies of paid receipts and any correspondence you may have to ensure that your record is recent and correct.

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On The Net

The Loan Crusader
www.theloaner.com

Lenders Are Liars
www.lendersareliars.com

The Mortgage Manifesto
www.mortgagemanifestoblog.com