

# How to Protect Your Credit



## Credit advice for difficult times

For the last 16 years, we've advised lenders and borrowers on credit scores and how the system works – to help people increase their credit scores to get the best mortgage possible.

Now, we hope to use our knowledge to help those facing financial stress to help them weather this crisis and protect their family's financial future.

If this applies to you, we know money is very tight, but with the same amount of money, you can make decisions that hurt your credit score or ones that keep your score.

Paying all your bills on time is always the best for your credit score, but this may not be possible during this crisis.

This guide is to help you keep from lowering your credit score if at all possible.

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**Most people don't know how the system works, and that's a big reason scores go down when difficult decisions are made in difficult times.**

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However, it may be unavoidable for some. At the least, we want to help you make the right choices to give you the ability to rebuild your credit quickly after this is over.

Having the right information is necessary to make good choices - particularly under stress.

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### **Who this guide is not for:**

*If you are planning or in the process of major credit purchase – like a new home mortgage or refinance – check with your lender or us first.*

## 1 / Gather Information

Get all the information you need and keep it together in one place.

## 2 / Learn How the System Works

Understand how different events affect your score and what's most important.

## 3 / Prioritize and Negotiate

Use this knowledge to prioritize payment and negotiate with creditors.

### 1) Gather Information



#### Credit Report: Who reports and who doesn't

You need a recent copy of your credit report (see sidebar) to know which accounts are on it. In general these are:

- Current loan accounts for mortgage, vehicles and student loans.
- Revolving accounts like credit cards and store accounts.

- Accounts that go into collection.

Utilities and phone/internet are usually not on your credit report.

#### Bank statement(s)

Know what your other recurring bills are. (Look for any that you can cancel or pause for now to save money better used elsewhere.)

#### Notices from creditors

Many creditors are sending out notices related to this crisis.

Many are offering deferred payments, payment plans and other arrangements.

#### All other bills

If you aren't already, now is a good time to keep all bills and statements in one place and keep track of where you are in payments.

### Getting Your Report

To know what is determining your credit score you need your credit report.

Federal law requires Equifax, Experian and

TransUnion to give you a free credit report every 12 months



The easiest way to get these is at [AnnualCreditReport.com](http://AnnualCreditReport.com). You'll get your credit file from each bureau, so you can also check each bureau's file for accuracy. You'll see which bureaus are – and are not – using which credit accounts to calculate your credit scores.

There is no credit score provided; but, it's free and will tell you which accounts are affecting your credit score.

If you get a free report from another source, it will do, but know it's only from one bureau.

### 2) How the System Works

#### Accounts on your report determine your score

Creditors and accounts on your credit report are affecting your score. Those not on your credit report are not affecting your credit score.

#### Revolving accounts matter most

Credit cards and store cards help and hurt your score the most.

#### You have positive and negative accounts

Accounts that are paid as agreed, no late payments, increase your score. The longer with no negatives, the more they help.

Negative accounts such as collections and those with late payments hurt your score.



#### Dollar amounts don't matter

If you are late on a \$10 monthly payment, it hurts your score as much as being late on a \$1000 monthly payment. This applies to credit cards, but in another and different way also:

#### How credit card balances are scored

Again it's not the dollar amount, but the ratio of balance to limit. For example: \$500 balance with \$1,000 limit = 50% = \$5,000 balance/\$10,000 limit.

#### Severity/Time matters

For your score, being late 90 days is much worse than being late 60 days, which is much worse than being 30 days late. This becomes important when we look at what to do if you have to be late in the next section.

#### Credit inquiries lower your score

When you apply for new credit, your score is lowered temporarily. Recent inquiries are listed on your report.

### 3) Use this Information and Knowledge to Protect Your Credit



#### Negotiate with creditors

Take advantage of all special offers of deferments from creditors. Negotiate with your landlord, mortgage holder and other creditors to lower or defer payments. Avoid late payments and collections if at all possible. Take action first.

#### Apply for credit card limit increases

Since it is the ratio of balance to limit that determines your score, increasing your limit has the same effect as lowering your balance.

If you bank online, you probably can easily request this on their website. Try it with the cards you have the highest balance and highest ratio first. You may be declined, especially if you have bad history or a very high balance with the card issuer, but it's worth a try.

#### Pay special attention to credit cards and balance your balances

Since these accounts affect your score the most, try to keep them current, and spread your credit purchases out according to their limits, trying to keep the *ratio* low across them all. It should go without saying, if money's tight pay the minimums for now.

#### Do not close credit cards

Some think closing cards will improve their credit. Remember you have positive credit also. If you cancel a card, you're removing open credit that will help you more each month as it ages. And if you close it with a balance, you'll have to pay it all anyway.

#### Focus on accounts on your credit report

Prioritize your outlays to those accounts that are on your report.

Bear in mind even a non-reporting account will likely hit your credit report if it goes into collection.

#### If you must be late, remember the rules of the severity and time

Late payments - payments **over 30 days past the due date** - hurt your score and stay on your report for seven years. Even if you catch up soon, it doesn't change the fact that you paid late. Anything other than 'paid as agreed' on accounts on your credit report hurts your score. That's why you want to avoid late payments to creditors on your credit report.

But if you cannot avoid it, you can limit the damage by remembering: Dollar amounts don't matter. It is the number of late payments and their severity: 90 days versus 60 days versus 30 days late. Here's how you apply this knowledge:

Say you have four monthly payments: \$800, \$120, \$100 and \$75 and you only have \$850 to use. If you pay the \$800 and not the rest, you incur three late payments on your report.

Your credit will be much better if you pay the other three and have only one late. Better still, pay those three and negotiate a deferred payment with the other. Most auto loans will agree to this.

The severity rule also applies when you have to make a choice between incurring a new 60 day late on an account or a new 30 day late on a different account. One 60 day late is worse than two 30 day lates. And one 90 day late is worse than two 60 day lates.

We hope you don't have to make these choices, but if you do, balance your late payments with this severity rule in mind.





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## Dealing with Collections

Collections can be as damaging as a 90 day late or worse. Keep your eyes out for a collection notice on late accounts. Try to pay it with the agreement that it won't be reported. If you act quickly this should stop it.

Or, negotiate a payment plan *with the agreement that if you make payments as agreed they will not report a*

*collection to the bureaus.* You don't want to pay and hurt your credit both. If you act soon enough, you can very often avoid the collection hitting your report.

Doing nothing or ignoring the collection notice is the worst reaction. Be aware, communicate, offer to work something out. Bill collectors rarely refuse honest effort.

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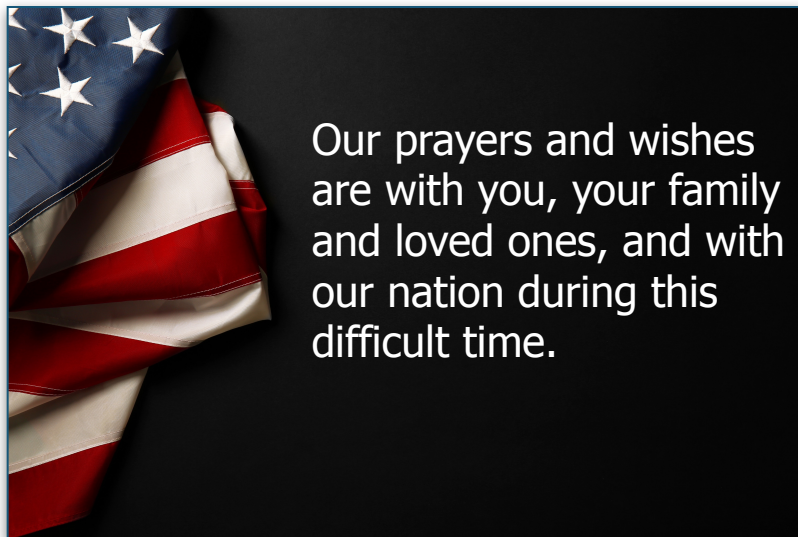
## Other Articles on Credit

[What You Need to Know About Credit](#)

[How to Establish Credit for a High Credit Score](#)

[Debt Consolidation and Debt Settlement: What You Need to Know](#)

[Frequently Asked Questions About Credit Scores for Home Loans](#)



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