AMERICAN
LEASING & FINANCIAL

Understanding Your Credit Score

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Foreword

The rules of financing in the business world have changed, even for large corporations. Just five or ten years ago, for example, companies with a couple of years in business and decent income could borrow money with no PG (Personal Guarantee.) After the recent economic downtown, however, many banks and finance companies began to require that someone with a bona fide stake in the business sign on the note.

With PG requirements came a renewed emphasis on personal credit score, where previously lenders in the business finance world might have relied exclusively on a business credit score—like Dun & Bradstreet's 'Paydex' or the Experian Business 'Intelliscore.' As you read the contents of this E-Book, we caution you to remember that in the business finance world credit score still isn't everything. A combination of industry, collateral, comparative credit experience, a good business plan, and time in business all help to inform the decision of most business lenders. On the other hand, being able to leverage knowledge about credit scoring can be exceptionally helpful in preparing your personal credit in anticipation for any type of borrowing—even and especially for commercial purposes.

As a company, we have been through many sweeping changes in the finance market. As fluctuations take place that impact the availability of capital, ultimately, it leads to changes in the cost of doing business and affects the rules of borrowing. We've noticed that many of the business owners we work with have been caught off guard by these changes. Realizing that a need exists, we decided to take matters into our own hands to inform the people we do business with. This E-Book is one means through which we've attempted to do that.

DISCLAIMER: We do not represent any of the material herein to be legal or financial advice of any sort, it is merely for information purposes. Moreover, our specific credit criteria might involve the evaluation of factors not disclosed in this publication.

Chapter One: What are FICO Scores?

Despite the increased prevalence of alternative scoring models, FICO scores are still the single most popular ones utilized by present-day lenders. FICO, short for Fair Issac Corporation—the company that developed the formula, is a risk evaluation model designed to predict a consumer applicant's ability to repay an obligation. Conversely, one could say it is an estimation of one's risk of default. To fully understand what exactly a credit score is, it helps to have an overview of Fair Issac's company history.

Fair Issac started out by processing and scoring financial information. Their initial systems, developed in the late 1950's, were mostly related to banking and income. It was discovered, however, that those with high incomes and good banking history were more likely to overextend themselves in some cases, and that this information alone wasn't a sufficient basis to ascertain credit risk. In the 1970's, then, Fair Issac expanded their information base and began to process credit card payment data for individual credit card companies, leading to some of the first 'credit scores.' While these scores were formatted very differently than modern ones, they were similar in one key respect: they heavily weighed payment history in calculating propensity to repay. The idea that how one has paid in the past would determine how they might pay in the future was a novel development, but by the 1980's Fair Issac's statisticians and economists began to see patterns in other categories. Their overwhelming success in developing scoring models that took into account overall debt, payment history, amount of new credit, age of accounts, and various other data led them to earn exclusivity among the nation's three largest credit bureaus of the day: Equifax, Experian, and TransUnion.

Over time, through credit bureaus building relationships with banks and finance companies, FICO scores made their way into the mainstream in three forms: The FACTA Beacon (through Equifax), the Fair Issac Risk Model (through Experian), and the FICO Classic (through TransUnion.) Most people hold the misconception that Equifax, Experian, and TransUnion utilize proprietary formulas to calculate FICO scores, but, in truth, they simply supply data reported to them and use FICO's formulas to calculate the score. In recent years, the bureaus have begun to utilize some of their own scoring models, many of which they provide to consumers seeking their 'credit score' through the web. These scores are still not used in the mainstream and can be very misleading to the average credit-interested consumer.

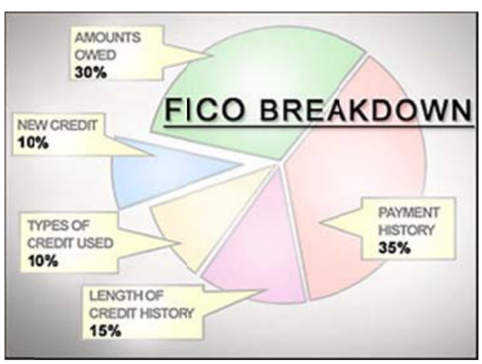
The three FICO formulas are similar with only minor differences that are more related to accommodating the way each bureau collects and outputs data, as opposed to weighing various data differently. FICO Scores range from 300-850. Theoretically, it is impossible to score a perfect 850 or a lowly 300—just like on achievement tests where one ends up scoring somewhere in the range of the 1st percentile and the 99th percentile—because the data is measured based on varying score cards that assess your score relative to other people in your score card group. Without getting overly technical, it means your score should fall within the

301-849 range. Here's a breakdown of what different score levels mean in terms of creditworthiness.

Score Range	Status
301-599	*(Very Poor Credit)*
600-639	*(Poor Credit)*
640-669	*(Fair Credit)*
670-719	*(Good Credit)*
720-759	*(Very Good Credit)*
760-849	*(Excellent Credit)*

Each of these categories also represents some very typical thresholds for disbursement of better or worse interest rates and for approval. For example, a person with a 400 credit score would probably not be approved for any kind of loan, whereas a person with a 775 would not only be approved for most any loans, but would also get the best market interest rates available. Some lenders will vary the above categories, but the concept is almost universal: the higher your score, the better your interest rates and the increased likelihood you will be approved—because your score represents a numerical indication of how likely it is that you will repay a credit obligation.

So, what goes into a score? Obviously if you've ever seen a credit report, the bureaus have lots of information about your finances and credit history, as well as personal information. Still, many people are unfamiliar with how each of these items weighs in with respect to credit scoring, and for a very long time consumers were left COMPLETELY in the dark about how FICO scores are calculated. Then, due to many FTC complaints by customers, FICO released a little bit of information. While this information is vague, there is a great deal of research that has expanded upon this knowledge base. A basic breakdown of how FICO Scores are calculated is as follows:



-Payment History: 35%
-Capacity/Utilization/Amounts Owed: 30%
-Length of Credit History: 15%
-New Credit: 10%
-Types of Credit in Use: 10%

These categories will be outlined in detail in individual chapters to follow, but hopefully this provides you with a decent understanding of how FICO scores work, and at least gives you a focal point to work with in terms of crafting your very own credit improvement plan.

It is important to point out that these figures provided by Fair Issac are supposedly for the “General Population,” and because there are different score cards, as mentioned above, the relative importance of each category can be different depending on where the FICO system categorizes you. Another important point to make on this subject is that score cards can change. For example, if someone right out of bankruptcy pays their bills on time for two full years, they may see their score as high as 720+, but a few months after that their score could significantly drop as they are placed back among people who pay their bills on time always, since now they will seem relatively worse than the others in their score card. Over time as one's financial circumstances remain static and their payment behaviors remain the same, the likelihood of score card 'jumping' is significantly reduced.

Because of the different impact of each category, and because different score card profiles will often result in varying credit scores, the cleanest credit report is not always the highest scoring one. Advanced Credit Profiling is the answer to this dilemma. Advanced Credit Profiling is the process of maximizing each score factor to ensure the highest possible credit score. This is done using the techniques described in this free book.

Since, hypothetically, credit scores range from 300 to 850; there are a total of 550 possible points in your entire credit score. This piece of information combined with the above chart helps pinpoint the relative magnitude each category could have; consider:

<u>Payment History = 35% x 550 = 192.5 total points.</u>
(For most of the population between **175-225 points**)
The Biggest Point Losses From This Category Come to:
-Individuals With Excellent Credit (720+) Who Are Late For the First Time
-Individuals Who Have Previously Filed Bankruptcy and Are Late Again
-Individuals With Only One Negative Marking and Are Late a Second Time

<u>Capacity/Utilization/Amounts Owed = 30% x 550 = 165 total points.</u>
(For most of the population between **150-175 points**)
The Biggest Point Losses From This Category Come to:
-Individuals With Limited Credit Experience and Low Credit Limits Who Max Out All Credit
-Individuals With More Than 4 Accounts Carrying a Balance And Close to Credit Limits
-Individuals With More Than $50,000 of Non-Mortgage Debt And High Ratios on All Accounts

<u>Length of Credit History = 15% x 550 = 82.5 total points.</u>
(For most of the population between **70-95 points**)
Linear score factor, only improves with time from first established credit.
The Biggest Point Losses From This Category Come to:
-The New-to-Credit Demographic

<u>New Credit = 10% x 550 = 55 total points.</u>
(For most of the population between **40-65 points**)
The Biggest Point Losses From This Category Come to:
-Individuals With Limited or Young Credit Histories Who Open New Accounts
-Individuals Applying for More Than 6 Accounts In 12 Months
-Individuals Applying for Several Accounts in a 90-day period

Types of Credit = 10% x 550 = 55 total points.
(For most of the population between **40-65 points**)
The Biggest Point Losses From This Category Come to:
-Non Home-Owners
-Individuals With Only Revolving or Only Installment Accounts
-Individuals With More Than 2 Installment Accounts

As you can see, each category is weighed differently, but each is important in shaping a high scoring credit file. At this point, it's not uncommon for many readers to ask, “What can I do to change any of this, and what all goes into each category?” Almost all of the categories can be manipulated so that you achieve the maximum FICO score possible, and these details will follow. First, however, let's take a look at what most individuals' files with an 760 or higher credit score (Called **FICO High Achievers** by the Fair Issac Corporation) actually look like—based on averages supplied by FICO.

Oldest Account: 19 years
Average Age of Accounts: 6-12 years each
Oldest Revolving Account: 19 years
Average Revolving Age: 8 years
Age of Newest Accounts: 27 months old
Number of Open Accounts Paid as Agreed: 6-10
Total Number of Accounts: No More Than 20
Number of Accounts Carrying a Balance: 4 or Fewer
Revolving Utilization: 7%
Installment Utilization: 35%
Inquiries: 72% did not apply for credit in last 12 months, 5.6% applied just once.
Open Credit Cards: 4-5
Recent CC Usage On All Accounts (Last 6 Months)
Consumer Finance Account: Only 12% have one.
Remaining Balance: Between $1200-$5000 on all Non-Mortgage Accounts
Late Payments: 93% have none, The other 7% had one 4 years ago, on average
60-days late or more: About 1% have a 60-day late payment or worse.
Public Records: Virtually no bankruptcies, liens or judgments appear.

Chapter Two: Payment History

Now that you have a better idea of how you stack up to the best-of-the-best and the general population, let's talk about the Payment History factor of the FICO Score. As stated before, this factor makes up roughly 35% of the total 550 possible points (remember, it ranges from 300-850.) This 192.5 or so points does not start at 0 for someone brand new to credit. FICO doesn't even assign a score until you have had at least one account open for a full six months. At this time, most experts agree that your score in this category begins somewhere in between 100-110 (assuming you haven't been late yet). For this section, time is your best friend. The longer you make your payments on time up to a full seven years, the better your score will be.

Because of laws surrounding fair credit reporting, the statute of limitations on most negative entries is seven years, with the exception of Chapter 7 or 12 Bankruptcy—which will stay on for a full ten years. Still, data suggests only information from the last seven is a factor. The real secret to this category isn't really a quick-fix necessarily, but it is a 'light at the end of the tunnel' so to speak: Only information from the last two years is prioritized in computing this portion of your score!

What this means is that any negative entries (including collections, late payments, public records, and charge-offs) which were first reported over two years ago, only add up to 10.5% of your FICO score TOTAL. That means even if you have 400 late payments, if they are all over two years old, they are each only worth a measly .026% of your score (or .144 points each) out of a total of 550 points. Thus, the maximum damage a slew of negative entries older than two years could do is probably close to only 55 points for ALL of them combined!

This piece of information is invaluable. It means that if you are diligent and pay your bills on time for two full years with no new delinquencies or derogatory accounts, that you will see the impact of all of your past derogatories slowly wane and eventually disappear at a full seven years (when they can no longer report.) This secret has helped people who file Bankruptcy to quickly bounce back after two years.

The rest of the negative entries, anything newer than 2 years, affect approximately 24.5% of your total score (or about 134.75 points). The weight is still on the newer items, however. After 6 months, items damage your score less, and after 12 months, then 18 months, and so on. FICO scoring system experts usually cite that one brand new 90 day late payment equates to a brand new Bankruptcy filing. One can also max out the number of points they can lose. The typical end point is anything over 90 days delinquent or a single Bankruptcy and its included accounts. Once this point is reached, your other past negatives will have a minimal effect. The exception is that any payment history following a Bankruptcy must be spotless due to score card provisions that take into account a Bankruptcy.

With that in mind, do not give up if you have several late payments and collections, just make sure you have a few positive accounts that you are paying on, and that you always pay on time—and in two short years you could be on the way to a credit score that is as much as 200 points better. Also, don't mistakenly believe that just adding positive accounts (using Authorized User tradelines or Primary Account tradelines from a credit enhancement firm) will resolve this issue. The problem is that once you max out on delinquencies in the last two years, no amount of added positive credit can completely offset those delinquencies. In all likelihood, you will see the best results by adding positive credit *while* removing negative credit using credit repair, or as negative credit begins to age.

One important detail to point out here is that paying off old collections is almost never a good idea! If a collection account is paid, the agency might update the DOLA (Date of Last Activity) on that account, which could cause the account to appear newer, forcing it to factor into that 24.5% rather than the 10.5% it was previously a part of. Old collections will eventually fall off at 7 years, but if you must repay them to get approved for a home or auto loan—you should always get the collection agent to agree in writing to REMOVE the entry (not just report it paid) as a condition for you paying them. Believe it or not, most will actually agree to this as accounts become older and the propensity to actually collect on them lessens. There is a large volume of literature online that addresses debt settlement techniques.

Another avenue you may decide to pursue is the hiring of a licensed, insured/bonded credit restoration company. Be careful to make sure they are legitimately licensed with State and Local authorities before doing business with them and be wary of agencies that charge monthly fees as a means of dragging the process on for months. Also be wary of companies that charge upfront before any services are completed; and always look for consumer comments or pending/completed lawsuits against the company you are dealing with to make sure you have a reputable agency on your hands.

Be sure and research each agency carefully and ask as many questions as possible to make sure they are a Score-Oriented Credit Repair company and are not just going to dispute everything using a template you find online for free and utilize yourself. If you so choose, dispute errors and unverifiable entries on your own—just be sure to read up on relevant FCRA (Fair Credit Reporting Act) laws that pertain to the accounts you are disputing and the furnisher of information in question.

The bottom line with Payment History is, pay all your bills on time, all the time. This section makes no distinction between paying the minimum required payment or paying the entire balance—simply that a payment was made. Also, late payments are calculated the same regardless of the type of account. For example, a $100 department store card that was 30 days late would score the same as a $600,000 mortgage payment that was 30 days late—and all late points are accumulated in terms of score impact. So pay everything prudently, and do so for seven straight years to maximize this scoring factor. If seven years seems really far away, doing so for two full years will get you 70% of this factor (or 24.5% of your total FICO score), which isn't the full 192.5ish points, but it's a nice consolation prize.

As a last point of importance, remember that the start of damage to your credit is the 30-day mark. If you're 20 days late every month for the next ten years, it doesn't impact your credit. While being a 'slow-payer' might result in an unfavorable result with the particular creditor (i.e. denying a credit limit increase, etc.), it does not have any measurable impact on one's score itself.

Quick Reference Chart:

Credit Situation	Score Outcome
No Credit History:	Will Score 100-110 points/192.5
3 ½ Years Perfect History:	Will Score 146.25 points/192.5
7 Years Perfect History:	Will Score 192.5 points/192.5 points
One 30-Day Late Payment (Immediate):	25-50 point penalty
One 60-Day Late Payment (Immediate):	50-75 point penalty
One 90-Day Late Payment (Immediate):	100+ point penalty
One 120-Day+ Late Payment (Immediate):	Loss of all points in this category
One Public Record (Immediate):	Loss of all points in this category

Chapter Three: Capacity/Utilization

In order to fully appreciate this section, and to completely understand this scoring factor, one must first understand what each of the terms relevant to this factor mean. 'Capacity' is the same thing as credit limit, it is the total amount of credit on a single account or on a group of accounts (not credit available, but total credit limit.) It should be easy to comprehend, after all your credit limits really are just that, your 'capacity' to take on new debt. 'Utilization' is the amount of credit currently being used out of your capacity, which is basically the same thing as your current balance on a given account, or on a group of accounts versus the total capacity.

An example typically helps here. If you have a credit card with a $1000 limit—your capacity is $1000. If you charge $500 on that card, your balance is $500, but your utilization is $500/$1000, or 50%. Expressing utilization in terms of a percentage will help you understand how different thresholds impact one's scoring in this category.

This section is worth about 30% of your total score and emphasizes that lower utilization and higher credit limits with lower amounts of outstanding debt cause you to score better, but there is a remarkable secret to this section. There is no timeframe for calculation except the most recent statement cycle! In other words, if you had all of your accounts at 100% utilization (or maxed out) you could pay them all off and be down to 0% the next month and FICO wouldn't know that you were maxed out the month before!

The implications of this secret are astronomical. With approximately 165 points possible in this section, simply getting your amounts owed paid down could quickly improve your score in a meaningful way! The specifics of this category get a little complicated, but it's relatively easy to understand the concepts at hand. The most heavily weighed data in this category is your revolving balances (on open accounts). The two subsets are aggregate Utilization/Capacity and individual Utilization/Capacity. It is important to first of all make sure you are below 9% utilization on all of your accounts combined, but secondly, to make sure EACH individual account is below 9% utilization. Not everyone can pay down as low as 9% on all of their credit cards, but another important score break is 30%, and still another is 49%. Strive for whichever threshold you can reach and watch your score skyrocket the next month! It is important to dispute the balances with the credit bureaus to ensure that they are updated to a zero balance promptly. A long-term strategy for maintaining low utilization ratios is to determine the 'closing date' (often different from the due date) of each revolving account and have it paid down to the appropriate level by that date in each cycle—then it will always report favorably.

The number of total accounts carrying a balance is also important here. Any more than 4 or 5 accounts with a balance can spell trouble. So you should rotate between four different accounts, or more likely, two revolving accounts (while keeping a balance on your auto loan and mortgage), to keep the number of accounts with balances down. Alternatively, just don't carry a balance on any credit cards and just make sure to use them and pay them off. Whether a balance shows or not, the creditor will not close your account as inactive if you are still using it regularly, and FICO will not score you differently because of your decision to pay your cards off instead of keeping a carried balance forward.

Credit limits also play a key role. Getting a higher credit limit through an increase from your creditor could fix your utilization problem overnight. For example, if you had a $1000 credit limit (like above) and had a $500 balance you'd be at 50% utilization, but if you got an increase to $2000 and maintained your $500 balance you'd be at 25% utilization. Additionally data suggests that the higher your credit limits are, the more points you are awarded for this category.

Installment balances/amounts owed are slightly more forgiving. FICO likes to see accounts paid down to 35% of the original balance on non-mortgage accounts, and for the amount of total non-mortgage debt to be below $20,000 if possible, offering another threshold to score slightly higher at below $30,000.

One with no debt and at least one open revolving account with a high credit limit would score at around the full 165 points, and this number would continue to drop until 0. The only way to max out your losses on this factor would be to have every account over the limit and thus the aggregate utilization above 100% and to have a substantial amount of non-mortgage debt with high balances. The bottom line is that you should pay down revolving account balances below 9% for the maximum results, and pay down installment accounts below 35%, while striving to have the highest credit limits possible and the least amount of non-mortgage debt that you can. For the most part, however, credit limits, and high balance installment accounts (as long as they are below $20,000) do not impact this category NEARLY as much as revolving utilization does. For that reason just doing a quick pay down is usually good for a solid 150 point increase if you are close to maxed out currently.

To combine this factor with the last one, think about this: If you were to open two brand new credit cards and keep them below 9%, and pay on them for a full two years while having no new delinquencies, you would be capturing 24.5% + 25-30% of your score, which is just over 50% of your total possible 550 points. If you start out at 350 and add 275, you'd already be at 625—not counting any of the other score factors—and there are three others left!

Chapter Four: Length of Credit History

This factor is the least favorite for many because it is not very easy to manipulate favorably. At a full 15%, or close to 82.5 points out of your 550, "Length of Credit History" is very cut and dry. When you are brand new to credit, you have 0 points in this category, and as your accounts age you begin to earn points, until you 'Max Out' after 20 years of payment history.

It is important not to open too many new accounts at once because this category considers both the age of your oldest account and the AVERAGE age of accounts. This is calculated by taking the age of each account divided by the number of total accounts. To demonstrate the impact opening several new accounts could cause, consider this example:

Let's say you have 4 accounts, and each of them is 2 years (24 months) old. On a whim, you decide to open up 4 more accounts. Each of these will probably report within 30-60 days from the time they are opened. At this time they will be roughly 1 month old. You know have 4 accounts X 24 months = 96 months + 4 accounts X 1 month = 4 months = 100 months. 100 months / 8 accounts = 12.5 months. Suddenly, your average age of accounts went from just over 2 years, to just over 1 year.

Two years is a critical time threshold for this category. The average age of your accounts should always be close to this number at a minimum, and new accounts should be opened in a staggered fashion (like, one every three months, for instance) as opposed to opening several simultaneously. As your accounts' average age progresses, the increased point value of more time goes down significantly, so as long as you are conservative about opening new accounts you should never have a huge problem with this.

Of note is that you should NEVER, EVER, EVER close old accounts that are still open. The older your accounts, the better you score in this category. Closing unused accounts is a surefire way to tank your score because your average age of accounts will suffer or your oldest account will suffer and thus you could lose 50-60 points quickly depending on the age of your remaining accounts. One possible strategy for this section (if you have several 1 month old accounts) is that you could simply close those accounts (assuming you have plenty of seasoned old accounts already on your file.)

This category is where adding positive credit by enlisting the services of a tradelines broker could really come into play. Tradelines brokers conduct transactions which allow you to be added onto the personal credit card of a willing individual as an Authorized User to 'piggyback' their credit history. The FICO formulas take into account Authorized User history as though it is your very own. Many brokers are also facilitating transactions which allow individuals to assume accounts that previously belonged to someone else, which effectively adds a primary account to a consumer's credit file.

Adding tradelines to a relatively young credit file will enhance the average age of accounts and possibly even add a new 'oldest' account to your file. It can also help add in more older accounts to offset recently opened young accounts. Bear in mind, however, that tradelines are meant to be a bridge to building your own credit file, and that if you open new accounts while these tradelines are posting, once they drop off, your scores will likely go down again because the average age of open accounts will have decreased.

The main goal for this factor is to keep old accounts open, and keep your accounts around for a long time. The longer you've been around paying bills on time, the lower the risk you are to lenders so time will reward you well just for existing in the system and keeping accounts open and current.

A word of advice on negative entries and this score factor: Sometimes people will try to get a negative collection account removed from their credit file that is four or more years old. When it is removed, they are surprised to find out that their score has gone down! This is because all credit lines, good and bad are factored into the length of credit history—so sometimes removing a bad entry that is old could be worse than having it on there in the first place. This is especially true of individuals with multiple derogatory or delinquency entries.

Chapter Five: New Credit

This section might as well be called 'inquiries,' because that's basically what it takes into account, how many times you have sought new credit in the last 12 months. That's right, only inquiries in the last 12 months that are considered 'hard' hits actually affect your credit score, and the total affect is typically just 55 out of your full 550 points.

The scoring on this section is very easy to fix: To get your full 55 points, don't apply for credit for a full 12 months. Just like that you get all 55 points back. An inquiry's impact is reduced in time cycles within the 12 months. For example, let's say two inquiries cost you 10 points each, for a total of 20 points immediately out of your 55. Three months after that date, if you haven't applied for credit anymore since those two hits, these two inquiries would only be affecting your score by about 5 points each, for a total of 10 points out of your 55. Six months after that date, they would only be affecting your score 2.5 points each, for a total of 5 points out of your 55. Thus, after a full 12 months, they would no longer affect your score.

The other interesting piece of information is that this section weighs the first and second inquiry more heavily than the others. 3-5 in the same 90-days will likely score exactly the same, and 6 or more would probably max you out and cause you to lose the full 55 for the first 90-days, until half of those points are earned back by not applying for any more credit.

Someone who hasn't applied for any credit at all in the last 12 months would typically have all of their 55 points. For an easy 20-30 point jump, just don't apply for credit for six months or so, and to see that full 55 points wait an entire year. It will definitely be worth it. Some estimates suggest that 85% of individuals with credit scores below 600 have inquiries as one of the negative factors cited in their FICO score. Think about that: it means that for those people in the 580-600 range, if they just waited a full year and didn't apply for credit they could see their score improve to as much as 635-655 (and that's assuming their length of credit history, payment history, and utilization didn't also drastically improve during that timeframe!)

Chapter Six
Types of Credit

"Types of Credit" is what's called a 'basket' or 'portfolio' category. This means that it is scored based on the combination of open accounts you have on your credit report. This section, like the New Credit one, is worth 10% or 55 points out of the full 550.

It is commonly accepted that a good mix of credit should include 1-2 installment accounts, 4-5 revolving accounts (including some department store/charge and bank cards), and one mortgage, or two mortgages and only 1 installment account. Another important detail here is that it is generally accepted that Consumer Finance accounts, that is, accounts that do not require a payment in the first 90 days (like furniture accounts) HURT your score in this category by making it appear that you simply didn't have the financial capacity to take on a payment and had to pursue a subprime form of financing. You would most likely want to avoid these accounts anyway, simply because of their exorbitant interest rates and lengthy terms.

This category, like the "Capacity/Utilization/Amounts Owed" one, does not take into account a timeframe on how long you've had types of credit, simply that they exist. This means that careful opening of diverse accounts can pay off. Just don't open multiple accounts to diversify too quickly; this could backfire and result in your New Credit category being damaged so much that it offsets your improvement in this area.

The number one area people are lacking in this area is with respect to installment accounts. Lenders like to see that you are experienced with different terms of repayment and differently structured financial obligations so that they can be confident that you can manage various types of credit efficiently. The easiest way to open an installment account is to open a savings account at a local bank or credit union and ask to borrow money against that savings account. Secured bank loans are typically on 12 month terms, and you should pay the loan out for the full 12 months if possible.

In terms of specifics, you cannot score a perfect 55 points on this category if you do not have a mortgage—hands down. Additionally having more than two non-mortgage installment accounts can hurt your score, because these obligations are more long-term and have fixed terms that could be more difficult to pay if too many of them stack up.

<u>The Best Credit Mix Would Look Similar to This:</u>

4-5 Credit Cards: (Mix of Bank Cards, Store Cards, and Open-Ended Charge Cards)

1 Auto Loan -or- 1 Personal Loan

1 Mortgage

No Consumer Finance Accounts

Having more than 4 or 5 credit cards is not THAT big of a deal. Lots of individuals have been reported as having above a 760 score with as many as 20 open accounts. As mentioned in the Capacity/Utilization/Amounts Owed Chapter—what is critical is the number of accounts with balances, although this doesn't affect the Types of Credit Category.

Having a single installment account allows one to score double the points they would if they simply had revolving accounts. One receives extra points in this category for each additional revolving account up to four of them. The specifics of the raw point-value impact have yet to be published, but that information effectively allows you to deduce how to improve your mix.

Chapter Seven: Conclusion

Now that you understand how each category is calculated, we can summarize this e-book by seeing how they fit together to produce the whole score. As mentioned much earlier, the score would start at 350 points (unless you have a credit file with no accounts older than six months, at which point you would be called a 'Ghost,' and would typically be treated as though you had a 600 assumed score).

The calculations, then, would go as follows. Let's assume you start at 350 and you have a brand new payment history (only six months old) and earn a 142.5 out of 192.5 possible points in that category. You would then take 350 + 142.5 = 492.5. Then, in the utilization capacity let's say your cards are all below 30% and you don't have massive amounts of debt, and you earn 120/165 points in that category. You would then add 350+142.5+165 = 657.5.

Then, in the length of credit history category, you would score very few points (since your accounts and file are so young), something like 7 points out of a possible 82.5. At this point, keeping with the flow, you'd add 350+142.5+165+7 = 664.5. Then, let's say you only have three inquiries (and they were all from six months ago when you got started), you would score around 39/55 points. So 350+142.5+165+7 +39 = 703.5.

Finally, in the types of credit portfolio, let's say you have one installment loan, no mortgage, and two revolving accounts that are both bankcards. You would probably earn roughly 20 out of 55 points. So, 350+142.5+165+7+39+20 = 723.5.

It's pretty simple, five distinct parts totaling 550 points, and you start out at 350 points. Taken apart, you can also see how even if some factors (like Payment History or Length of Credit History) seem really beyond your control, you can still manipulate the other 50% of your score (275 points or so) regardless of what negative markings or unseasoned credit you may have.

Thanks for taking the time to read this E-Book, and I hope it is helpful in moving you forward to improving both your financial standing and your lifestyle. If you have any questions, feel free to contact us at info@americanlf.com.

Unfortunately, a lot of credit repair is very temporary, and times of financial well-being can be short-lived, but education lasts forever—so, please, pass this free book on to others so that more people can come to understand the complicated system that creates that three digit number that impacts so many aspects of our lives.