Lesson 4: Building Credit

Everyday Money for Everyday People

Companion Workbook
2nd Edition
Todd Christensen
of Debt Reduction Services Inc
Lesson 4: Building Credit One Step at a Time

Credit matters! It really does. The fear of credit card debt does not negate the reality that good credit can be a factor in getting a better job, that good credit can earn us a lower monthly car insurance premium, that good credit will lower the amount of mortgage interest we pay by tens of thousands of dollars in our lifetime - if not a hundred thousand - and that good credit plays a vital role in our ability to rent the apartment of our choice.

I stress this in order to counter the common, though extreme, reaction to bad experiences with credit and debt. This reaction was exemplified by a young couple who had just sat through my bankruptcy class. They explained that they were hoping to buy a home within a couple of years, which, in spite of the challenges presented by their bankruptcy, I knew was a real possibility. They then shared that they had completed a financial program at their church and that they had committed to never using credit again. Finally, they asked, “So, what can we do to build our credit without ever using credit again?”

I hear this time and again from those who attend this same popular program around the country. This couple ended up getting the same reaction from me that you’d get by asking a body builder, “How can I build muscle without ever working out?” You can’t! But just because you might get sore muscles or pinch a finger at the gym doesn’t mean you should give up. Making a mistake with credit is common (I didn’t say, “normal”). However, if our goal is to buy a home, we’re almost certainly going to need to build credit at some point in order to minimize the amount of interest we pay over the life of the mortgage.

When it comes to credit scores, remember that FICO is king. Any other credit score, whether you pay for it or receive it as a complimentary benefit through a bank, credit card company or an Internet service, is known by industry specialists as a FAKE-O. Unless it’s a FICO, it’s meant for educational purposes only since there are virtually no lenders that use any other score to make business decisions.

Here’s What Is in Your FICO

Although credit expert, Al Bingham, (Road to 850) has identified more than 30 individual factors in the FICO scoring model, FICO typically categorized them into 5 dynamic parts:
Rating Your Own Credit

Rate yourself either Positive, Negative or Neither for each of the following categories. How do you think potential lenders would see you over the past 7 years in each category?

<table>
<thead>
<tr>
<th>Category</th>
<th>Positive, Negative or Neither</th>
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<tr>
<td>How do you think potential lenders view your last seven years of payments? Just a couple of late payments can really begin to hurt your rating.</td>
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<tr>
<td>How do you think potential lenders consider the balances on your loans and credit cards? The further from your credit limit or original balance the better.</td>
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<td>How do you think potential lenders view the length of time you’ve had credit? The longer the better.</td>
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<td>How do you think potential lenders view the number of new credit card and other loan applications you’ve submitted over the past 12 months? The fewer the better.</td>
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<tr>
<td>How do you think potential lenders view the variety of loans and credit lines you’ve had over the past 7 years? The more traditional the better.</td>
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Next Steps to Better Credit

List 3 steps you can take today, this week and/or within the next month to improve your credit rating:

1. __________________________________________________________________________
2. __________________________________________________________________________
3. __________________________________________________________________________

Commitment to Check Credit Report

By signing this commitment, I acknowledge that checking my credit report for both accuracies and potential fraud is a vital part of achieving my financial vision in life.

I hereby commit to pull at least one of my free reports from

www.AnnualCreditReport.com

by the date listed below, not to be more than a week from today:

__________________________________________  __________  __________
# Annual Credit Report Request Form

You have the right to get a free copy of your credit file disclosure, commonly called a credit report, once every 12 months, from each of the nationwide consumer credit reporting companies - Equifax, Experian and TransUnion.

For instant access to your free credit report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com).

For more information on obtaining your free credit report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877-322-8228.

Use this form if you prefer to write to request your credit report from any, or all, of the nationwide consumer credit reporting companies. The following information is required to process your request. Omission of any information may delay your request.

Once complete, fold (do not staple or tape), place into a #10 envelope, affix required postage and mail to:

**Annual Credit Report Request Service**

P.O. Box 105281

Atlanta, GA 30348-5281.

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<th>Social Security Number:</th>
<th>Date of Birth:</th>
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<th>JR, SR, III, etc.</th>
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Current Mailing Address:

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<tr>
<th>House Number</th>
<th>Street Name</th>
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<tr>
<th>Apartment Number / Private Mailbox</th>
<th>For Puerto Rico Only: Print Urbanization Name</th>
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City

State

Zip Code

Previous Mailing Address (complete only if at current mailing address for less than two years):

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<tr>
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City

State

Zip Code

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Shade Circle Like This → ●

Not Like This → ☒

I want a credit report from (shade each that you would like to receive):

- Equifax
- Experian
- TransUnion

Shade here if, for security reasons, you want your credit report to include no more than the last four digits of your Social Security Number.

If additional information is needed to process your request, the consumer credit reporting company will contact you by mail.

Your request will be processed within 15 days of receipt and then mailed to you.

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Unwritten Goals Remain Unfulfilled Wishes

Saving Is a Commitment, Not an Amount!

Financial Success Happens at the BEGINNING of the Month!

What will you take away from your time with the Everyday Money for Everyday People program?

- Ideas for escaping the paycheck-to-paycheck treadmill
- Tricks for finally saving money without the risk of breaking the family piggy bank
- Tips for paying off debt and building financial stability

Whatever you take away from this program, you’ll find it to be practical, down-to-earth and financially helpful in the ways you need it to be.

This workbook accompanies our book, Everyday Money for Everyday People (available on Amazon and Kindle), Our Everyday Money blog (www.debtreductionservices.org/education/everyday-money-for-everyday-people) and our Everyday Money for Everyday People presentations and slideshows.

To schedule Todd as a meeting or conference speaker or for more help, materials, and publications from Debt Reduction Services Inc and Todd Christensen, see www.debtreductionservices.org/education/host-a-class or contact us at Education@DebtReductionServices.org or (877) 688-3328.