

# STEP SEVEN: UNDERSTANDING AND IMPROVING YOUR CREDIT SCORE



Your credit score is a number determined by the three main credit agencies based on information supplied to them by those who loaned you money. This is your credit scorecard-the higher the better, and it tells others how likely you are to pay them back. Good credit is one factor that can lead to: more housing options, more job opportunities, and approval and lower rates on bank loans, auto loans, credit cards, and insurance. Good credit tells a potential landlord that you will pay your rent in full and on time.

## 7A: UNDERSTAND CREDIT SCORE

7A1:

**ACTION: Obtain a free copy of your credit score**

RESOURCE: [freecreditreport.com](http://freecreditreport.com): No Credit Card Needed. or [Annual Credit Report.com](http://AnnualCreditReport.com)

7A2:

**ACTION: Read your report**

RESOURCE: [How to Read a Credit Report Tools](#)

RESOURCE: [MMI Credit Reports and Credit Scores Getting the Most Mileage Workbook](#)

7A3:

**ACTION: Know your credit score.**

Scores range from the 300's-800's. In 2019, the average American FICO score was 706. Scores are based on the following:

- 35% payment history – payments paid on time
- 30% amounts currently owed to creditors
- 15% length of credit history
- 10% amount of new credit (# of inquiries)
- 10% types of credit in use (diversify, not just credit cards)

RESOURCE: [What Is a Good Credit Score – Clark Howard](#)

RESOURCE: [9 reasons your credit score might have dropped](#)

## 7B: CREDIT COUNSELING WITH MONEY MANAGEMENT INTERNATIONAL

MMI/Clearpoint will review the client's credit score and credit report and discuss strategies to improve their score. Clients can use this free service as often as is needed. M2H expects every client to utilize this service.

**ACTION: Book an appointment with MMI in person or remotely**

RESOURCE: MMI's Hispanic Center for Financial Excellence (in person at the Norcross center and phone consultations available. Client does not have to be Hispanic) 1-877-705-3167 or [Schedule Appointment with Clearpoint](#)

## 7C: REVIEW AND REPORT ERRORS

**7C1:** Identify errors: The credit reporting agencies build their report from information obtained from a variety of sources and errors do occur which can cost you loan approvals, lower rates, and even employment. Review all of the information in your report and look for errors in:

- Identification information
- Account status information
- Active account dates
- Out of date information

**7C2:** File a dispute form via mail or online with ALL credit reporting agencies that contain the disputed charge. Be sure to include copies of all supporting documentation and retain the original copy of everything you send them.

RESOURCE:  
Experian: [experian.com/disputes](https://experian.com/disputes)

TransUnion: [transunion.com/credit-disputes/dispute-your-credit](https://transunion.com/credit-disputes/dispute-your-credit)

Equifax: [equifax.com/personal/disputes](https://equifax.com/personal/disputes)

RESOURCE: [How to reach a human at credit bureaus](#) | Clark Howard

**7C3:** Each agency must investigate the dispute by contacting the creditor who then has 30 days to respond to the agency. A creditor must certify in writing that the information is correct. If the creditor cannot verify or fails to get back within 30 days, they must remove the disputed information from the credit report of each agency to which it reported the charge. **YOU MUST CONFIRM THIS YOURSELF BY LOOKING AT YOUR CREDIT REPORT AFTER THE 30-DAY PROCESS.** To be successful, you must be organized, keep good records of all calls and contact, and follow up.

## 7D: REBUILD CREDIT

**7D1:** Keep your balances low. Ideally, creditors want to see that you have spent less than 30% of the credit available to you. This is called your credit utilization ratio. It is calculated by dividing the amount of money you owe on a card by the credit limit of that card. For example, if you owe \$400 on a card with a limit of \$4000, your credit utilization ratio is 10%. Another way to reduce your credit utilization is to increase your credit limit.

**7D2:** Reduce your total debt. It is crucial that you make monthly payments on your debt and incorporate these payments into your budget. You can focus on the account with the smallest balance first (snowball method) or the one with the highest interest rate (avalanche method). Choose the method you prefer but start paying down your debt-today.

Resource: [Put Your Debt on a Diet](#) (Video | Money Management International)

## 7E: EVICTION DEBT

**7E1:** The most common housing barrier experienced by M2H clients is prior eviction debt, meaning you owe money to a property owner for either rent, damages, or both. This will stay on your credit report for 7 years. Property owners in this community will almost always reject applications from people with outstanding eviction debt. It is critical that you prioritize the repayment of all housing related debt so that you can move on to a new home. Be sure to discuss this with your MMI counselor and they can give you tips on how to negotiate a settlement for less money. Additional information can be found in [Step 6 Remove Housing Barriers](#).

**ACTION:** [Schedule an appointment with MMI](#)

RESOURCE: HCFE 1-877-705-3167

RESOURCE: [Schedule Appointment with Clearpoint](#)

RESOURCE: [Settle the Debt Guidelines](#)

**7E2:** The EITC refund is a great source of funds to pay down eviction debt quickly. Your EITC refund can be garnished by the Department of Education if you are in default on your student loans.

RESOURCE: EITC (Earned Income Tax Credit)

RESOURCE: To learn more about student loan repayment plans go to [Step 6: Eliminate Housing Barriers](#)

## 7F: USING CREDIT WISELY

When you use credit, you are borrowing from your future earnings and so will have fewer choices for spending and savings in the future. It is appropriate to use credit for education, home improvements, a home mortgage, or a financial crisis if you do not have emergency savings set aside. It should not be used for buying luxuries that you cannot afford or buying products that will not outlast the credit payments. See the resource below for more information about:

- Identity theft
- Secured and unsecured credit
- Predatory lending
- Individual and joint accounts
- Authorized users
- Co-signers and co-borrowers
- Credit terms and the true cost of purchase
- Guidelines for using credit cards
- Alternatives to credit cards
- Establishing credit
- 6 steps to building excellent credit
- Couples and credit
- Know your rights

RESOURCE: [MMI | Use Credit Wisely Handbook](#)