7 STEPS TO CLEAN CREDIT

FINANCIAL WELLNESS and HOMEBUYER EDUCATION

Every Successful Financial Plan Needs to Have Clean Credit and a High FICO Score

Knowing how to improve your three-digit FICO score is one of the most important factors in improving your credit. The Fair Isaac Corporation created this three-digit number that is used to determine the amount of interest you will pay on your credit cards, home mortgage, etc.

Home and business ownership in the U.S. is based on a positive credit rating to obtain loans and determine creditworthiness. Many opportunities to grow your money can be missed because of poor credit. But with a process and patience, you can improve your credit score for good.

Here are the 7 steps to clean credit:

1. Clean Up the Easy Mistakes

First, check your credit report for incorrect information. To get a free copy of your report, go to www.annualcreditreport.com. Seventy-five percent of all reports have errors related to identity, payment status, balances and debt owed. Dispute every single claim that you think may be incorrect. The Federal Trade Commission (FTC) does a good job of explaining how to dispute credit report errors (www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports).

Second, get rid of small balances that you forgot about. Set a threshold for small balances. Depending on your budget, this could be anywhere from $10 to $100. Once you know what you can afford, pay it off immediately.

2. Pay Every Bill on Time

Thirty-five percent of your FICO score is attributed to your payment history. It's the most important component of your score. The easiest way to make sure you pay your bills on time is to set the payments on autopilot.

Of course, you have to manage your accounts to ensure the funds are available on the day bills are debited. Envelope budgeting is a technique where you separate cash for each bill into its dedicated envelope for paying.

3. Eliminate Debts on Your Report As Soon As Possible

Steer clear of new debt. Promotional offers like frequent flyer miles won't make you a millionaire. You don't need to show debt to build your credit. Simply budget your paycheck, pay more than the minimum balance and pay your bills on time.

4. Keep Old Accounts Open

Thirty percent of your FICO score is your balance-to-lending ratio. Balance-to-lending ratio is the comparison of debt being used to the total amount of debt available. Before paying down the debt completely, be sure to keep this ratio low so that you don't overextend yourself financially. But don't cancel the account. Canceling that account can lower your FICO score.

Fifteen percent of your FICO score is your length of credit history. The older the account, the more weight that has on your FICO score.

For instance, if you have a credit card that has 10 years of history on it, you would want to keep that account open versus a card that only has less than one year of history. Creditors like seeing a long track record with which they can more effectively evaluate your ability to repay debt.

5. Use a Credit Counselor

Going to a credit counselor or a credit consolidation agency is not viewed negatively by FICO in determining your score. The FTC has tips on finding a reputable credit counselor here: www.consumer.ftc.gov/articles/0153-choosing-credit-counselor.

6. Steer Clear of Bankruptcy

Bankruptcy is a long-term blemish on your credit report. Two hundred points can be deducted right away, and it stays on your report for 10 years. Bankruptcy is even harder to file for as a result of the Bankruptcy Abuse Prevention legislation passed by the Bush administration in 2005.

Avoid bankruptcy, work your plan and adhere to the final step.

7. Be Patient

Nothing happens overnight. The path to financial security is a mindset. The process is a marathon, not a sprint.

1199SEIU Funds
Benefit and Pension