



Susan Tompor: It's time to rebuild your credit score

Getting out of debt is one of the more popular New Year's resolutions. And frankly, rebuilding credit should be at the top of the list in 2012.

Too many credit scores took fairly big hits during the recession, as people paid bills late or not at all.

"It's been rough," said Todd Albery, CEO of Detroit-based Quizzle, a credit information website www.quizzle.com that's part of the Quicken Loans family. He noted that during the past two years, Quizzle has seen credit scores dip by 20-30 points for many consumers.

Quizzle, which provides free credit reports and free credit scores every six months, says the national average score is 657 based on its system. Albery said that average drops to 647 in Michigan and 603 in Detroit.

Ideally, consumers get better interest rates at 700 or higher. The 600-range or lower is a danger zone to qualify for loans at all.

Many people have no idea what it takes to rebuild a credit score and get on a better financial footing.

One thing is certain: Some old ways to get

out of debt no longer apply.

In the past, people who got into a financial pinch often could tap into the nest egg at home and take out a home equity line of credit to pay down high-rate credit card bills by using a lower-rate mortgage.

"It was just one more lever to pull if people were having problems," Albery said.

But with home values dropping, many can no longer borrow against the house.

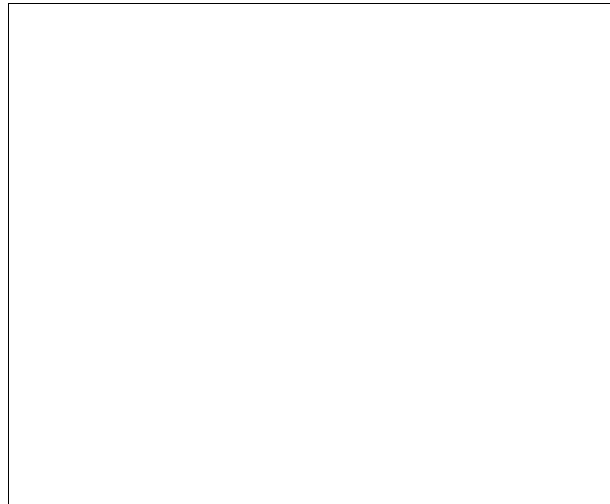
What do you do? We're going to give you a dozen other ways to deal with credit in 2012.

Get credit score, then reduce your debt

When you try to lose weight, one of the first things you need to do is hop on the scale and get a real number.

Painful as it is, you must get the real score

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when you're tackling your debt, too.

So we're starting our dozen ideas for 2012 by suggesting that it's time to know what you owe.

No. 1: Get a free credit report to see a listing of credit card debt, loans and liens.

Receive a free report every 12 months from Equifax, Experian and TransUnion at www.annualcreditreport.com.

You also can phone: 877-322-8228.

No. 2: Get a free score.

You have to pay for a credit score via www.annualcreditreport.com.

But you can get a free score -- not a FICO score but another type of score that is worthwhile -- at a Detroit-based outfit called Quizzle, which is part of Dan Gilbert's Quicken Loans family. See www.quizzle.com.

Another spot for free scores: CreditKarma.com. Again, you don't get a FICO score. But this can work, too.

No. 3: Give up the notion that if you pay your bills each month you will have a good credit score.

It is important to make at least the minimum payments on your credit cards each month and on time. But John Ulzheimer, president of consumer education at SmartCredit.com in Atlanta, notes that paying on time only amounts to

35% of a credit score. Other factors apply -- and 30% of your score is based on how much you owe.

No. 4: Pay down your credit card debt.

Ulzheimer said one strategy could be to tackle debt on department store or specialty store cards, which tend to have credit card rates that exceed 20%.

No. 5: Yes, throw extra money at credit card debt first.

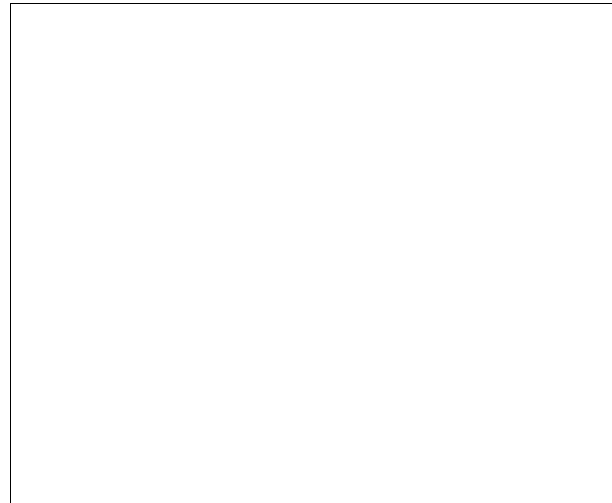
"Always prioritize your plastic over your metal or your brick," Ulzheimer said. Your mortgage rate is far less than most credit card rates; your car loan rate is often lower than credit card rates.

No. 6: Watch how much you borrow on individual cards.

If you're trying to get out of debt, use cash.

"You will find that you will pay more attention to your total sale if you are using

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cash," said Andrew K. Johnson, a spokesman for GreenPath Debt Solutions in Farmington Hills.

For a stronger credit score, use a small percentage of the available credit on a card.

It's not a lot to borrow \$300 on a credit card. But you don't want to borrow \$300 on a credit card that has a limit of \$400 -- especially if you don't have other credit.

This is true even if you pay off the balance each month.

No. 7: Do not start the year by just closing credit cards.

Todd Albery, CEO of Quizzle, said consumers could unknowingly hurt their scores by closing a card that has a large credit line or closing a card held for years.

Say you owe \$10,000 on three cards that together have a \$30,000 line of credit. You're using 33% of the total available credit -- not bad. But ideally, Albery said, you'd want to use less than 30% of your available credit line.

What if you close one of those cards? You would owe \$10,000 with a \$20,000 line of credit. Bingo: You're at a 50% utilization rate and your score drops.

No. 8: Be extra, extra careful about offers you get in the mail that promise ways to be debt-free in two or three years.

Gerri Detweiler, a personal finance expert

for Credit.com, said one concern is whether credit card companies will sue you. That could happen if a debt-settlement company waits too long to pay off large credit card balances on major cards.

One consumer noted that a firm she talked to wanted to try to settle smaller debts first, but after talking to other experts she realized that she would be vulnerable to legal action if a bigger issuer was left hanging on the hook.

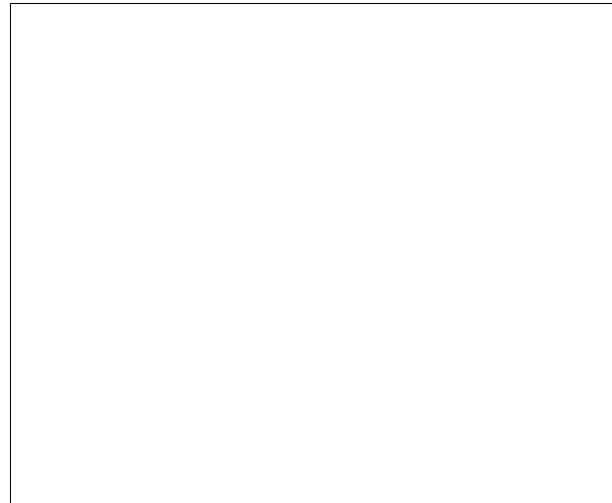
Some companies claim that they're part of a reform effort instigated by the U.S. government. No such thing, Detweiler said.

No. 9: See if you can settle debt with collection agencies. But do not agree to pay more than you are able.

Go to www.ftc.gov for a video that explains consumer rights relating to debt collection.

No. 10: Be aware of your debt-to-income ratio.

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How much of your monthly gross income must be used to pay debt each month? That number should be less than 36% to have the best chance for qualifying for a mortgage, Albery said.

No. 11: Be cautious about a 0% balance transfer offer.

The strategy can work for consumers who pay attention to how much debt they have -- and when introductory offers end.

But will you pay down debt aggressively while the rate is 0%? Or will you just have more debt when a much-higher rate kicks in in six months or 11 months?

You could pay \$5 or 3% of the amount of each transfer, whichever is greater, too.

FICO notes that you don't want to just move around credit and consolidate on one card.

"In fact, owing the same amount but having fewer open accounts may lower your score," according to MyFico.com.

No. 12: Go a week without spending money. See what you can live without for seven days.

If you see you can easily save \$50 in one week, why not set that as a goal and use that money to pay off existing debt? Or better yet, set aside some of that money for emergency savings -- and use some to pay off debt?

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Dealing with debt in 2012

- Read your credit report to see whether someone else's credit cards or loans are showing up on your report. Correct the mistakes.

- Stay away from a scam that tells you to clean up your credit by obtaining a federal employer identification number and using it as a new Social Security number to apply for credit.

- Never apply for credit by transposing the digits on your Social Security number. Such plans are illegal and will make you liable for fraud and criminal prosecution, according to Brette McWhorter Sember, author of "The Complete Credit Repair Kit."

- Do not use your credit card as a license to spend, McWhorter Sember said. Decide you'll spend X amount each month to pay down your debt and stick to it.

- See www.myfico.com for information on FICO scores.

- See www.quizzle.com for a Detroit-based service that offers free credit scores.

- Debtors Anonymous offers help to compulsive spenders at www.debtorsanonymous.org.

- Talk to a nonprofit credit counselor, such as www.greenpath.com; reach them by phone at 800-550-1961.

- More information on debt collection is at www.askdoctordebt.com. The website was created by the ACA International Education Foundation.

- Credit Karma, a free credit education website, this week began offering free credit monitoring to registered users. The service tracks credit reports provided by TransUnion. You'd have to provide details such as a Social Security number. Members are notified of any significant change in their credit report. Credit Karma earns its revenue through advertising on the site that may be targeted to users.

- To find a certified credit counselor and a National Foundation for Credit Counseling member agency, call 800-388-2227 or go online to www.DebtAdvice.org.

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