

Realty Q&A: A 6-step plan for boosting credit score to buy home  
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By [Lew Sichelman](#)

## A 6-step plan for boosting credit score to buy home

WASHINGTON (MarketWatch) -- Question: I need some assistance in cleaning up my very poor credit score of 638 from Trans Union and 559 from Equifax. It's not the result of any credit cards but poor choices (which I admit) and a divorce with little to no child support of three girls. I'm in my mid-forties and all three girls are over the age of 18.

**My question is how do I increase my FICO score within the next 6-10 months and is there a reputable agency that can work on my behalf? I would like to purchase a home early next year. I know there's a lot of work that needs to be done and would greatly appreciate any assistance you or an agency can provide.**

Answer: I turned to attorney Edward Jamison, who operates a credit-repair law firm in Los Angeles, for help with this one because you did not mention any specific problems. His reply was far more detailed than I had expected, and I learned a lot from it.

For starters, Jamison says "there is hope" for all divorcees whose credit has suffered as they try to raise children by themselves, often without financial help from the former spouse. He offers the following six steps to raise your score. If one or more steps don't apply, just ignore them:

### 1. Settle collections

The best way to handle this credit-scoring dilemma is to contact the collection agency and explain that you are willing to pay off the collection account under the condition that all reporting is withdrawn from credit bureaus. Request a letter from the collector that explicitly states its agreement to delete the account upon receipt/clearance of your payment.

Although not all collection agencies will delete reporting, removing all references to a collection account completely will increase your score and is certainly worth the effort involved.

### 2. Get rid of the 'black marks'

Credit-scoring software penalizes you for keeping accounts past due, so "past dues" destroy a credit score. Consequently, pay the creditor the past due amount as reported. However, if the creditor has the account listed as already charged off or in a collection status, it is better to try to settle for a deletion with payment because a paid collection or charge-off is not much better than an unpaid collection or charge-off.

Jamison also advises that whenever someone has limited funds available to pay on their accounts, they should try to apportion their funds toward settling the newer collection or charge-off accounts before the older ones because the older the account, the less the effect on the credit score. Also, charge-offs and liens do not affect your credit score as much once they are older than 24 months. "Therefore," the credit expert says, "paying an older charge-off or a lien won't help your credit score nearly as much as if it were a newly charged off debt."

On the other hand, charge-offs and liens that have occurred within the past 24 months severely damage your credit score and should be settled as soon as possible. The Southern California

attorney says paying the past due balance on charge-offs and collections usually means paying the entire amount because the only way to bring a past due collection or charge-off account current is to pay it in full or settle it for less than the full balance and bring it to a zero balance.

If you have both charged-off accounts and collection accounts -- but only a limited amount of money to pay them -- Jamison suggests you apportion funds as follows:

- First, pay the past due balances on accounts that are not in collection or charge-off status. For example, those that are only a month or two behind.
- Second, pay collection agencies that agree to remove all references of your accounts to credit bureaus.
- Third, although not related to past due balances, pay off your credit cards that are open and revolving. This is third in order of importance because it will help your credit score a lot more than paying or settling unpaid collection or charge-off accounts that the creditor will not agree to delete with payment.
- Fourth, pay or settle the remaining collections or charge-offs that are unpaid but the creditor refuses to delete with payment. It still makes sense to settle or pay these because not doing so can lead to a lawsuit or the debt being sold to a different collection agency, which will cause more negative reporting and will reduce your credit score.

"I am trying to help you get the highest score possible and prioritize the advice based on the assumption you may not be able to do all four," Jamison says. "You should do all four if you have the money, but follow the order of importance outlined here to get the most out of your credit score when you can't afford to do everything mentioned."

### **3. Clean up late pays**

Contact all creditors that report late payments and request a good faith adjustment that removes the late payments reported on your account. "Be persistent if they refuse to remove the late pays," the credit expert emphasizes. "Remind them that you have been a good customer that would deeply appreciate their help."

Since most creditors receive calls at a call center, if the person you speak with refuses to make a courtesy adjustment on your account, call back and try again with someone else, or ask for a supervisor. "Persistence and politeness pays off in this scenario," Jamison warns. "If you are frustrated, rude and unclear with your request, you are making it very difficult for them to help you and probably won't succeed."

### **4. Get even**

If you can't pay off your credit cards, check your card limits and evenly distribute the balances. Make sure creditors report your credit limits to bureaus. When no limit is reported, credit scoring software scores the account as though your current balance is "maxed out."

For example, if you know that you have a \$10,000 limit on your credit card, make sure that the limit appears on the credit report. Otherwise, your score will be damaged as severely as if you were carrying a balance of the entire available credit. Credit-scoring software likes to see you carry credit-card balances as close to zero as possible.

If it is difficult for you to pay down your balances, follow these guidelines to maximize your score as much as possible under the circumstances:

- Balances above 50% of your total credit limit on any card damage your score the most.  
Try to bring all balances below the 50% level right away
- Paying off your credit cards completely is best. But when your financial situation prevents that from happening, try to evenly distribute the debt you have. In other words, distribute the total of your outstanding credit-card debt among all your credit cards rather than carry a large balance on one. For example, if you are carrying a \$6,000 balance on a credit card with a \$10,000 limit, and you have two other credit cards with \$3,000 and \$5,000 limits, respectively, transfer your balances so that you have a \$1,000 balance on the \$3,000 limit card, a \$1,666 balance on the \$5,000 limit card and a \$3,333 balance on the \$10,000 limit card. Now each card is at a third of its limit.

### **5. Remain open**

Closing a credit card can hurt your credit score, since doing so affects your debt-to-available-credit ratio. For example, if you have a total credit-card debt of \$10,000 and the total credit available to you is \$20,000, you are using 50% of your total credit. If you close a credit card with a \$5,000 credit limit, you will reduce your credit available to \$15,000 and change your ratio so that now you are using 66% of your credit.

Jamison says the "magic number" of credit-card accounts to have in order to maximize your score is between three and five. Having more will not significantly damage your score, but he advises not to close credit cards at all to be on the safe side.

### **6. Remain active**

If you are like most people, you have long forgotten credit cards that are still open but just haven't been used for awhile. Look at your credit report to see if this is the case. Fifteen percent of your credit score is determined by the age of the credit file.

Jamison points out that credit-scoring software assumes people who have had credit for a longer time are at less risk of defaulting on payments. Therefore, even if your old credit cards have horrible interest rates, closing those cards will decrease the average length of time you've had credit.

The expert suggests using the old card at least once every six months to avoid the account becoming inactive. Keeping the card active is as simple as pumping gas or purchasing groceries every few months, then paying the balance down.

"An inactive account is weighted less by credit-scoring software, so you won't get the benefit of the positive payment history and low balance that card may have," the attorney says. "The one thing all credit reports with scores over 800 have in common is a credit card that is 20 years old or older. Hold onto those old cards, and use them at least once every six months to keep them active."

Finally, Jamison warns that repairing credit is "a slow and time-consuming process." So don't let it get you down. You didn't get into trouble overnight, and you are not going to get out of trouble overnight, either. Be persistent.

Also key to the process -- the expert calls it "pivotal" -- is full knowledge of your credit profile and how it represents you to creditors and credit bureaus.

There are reputable companies out there that can help you repair your credit but you have to be careful because many are not on the level. Jamison says "anyone who promises you a 'certain' result is lying...There is an element of luck involved in credit repair, so nothing is a guarantee."

At the same time, though, when you know what you are doing, the success rate overall is much higher. Make sure you get in writing everything the company says it is going to do for you, and what guarantee they offer, if any.

Nationally syndicated columnist Lew Sichelman has been covering the housing market for 35 years. Because of the volume of mail he receives, he cannot answer individual questions, nor can all questions be answered in this space. E-mail [lsichelman@aol.com](mailto:lsichelman@aol.com).

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