

# PERFECT CREDIT



**PERFECT  
CREDIT**  
7 Steps  
to a  
Great Credit Rating

Lynnette Khalfani-Cox

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I owe a debt of gratitude to a number of individuals and institutions that have helped me learn the importance of achieving and maintaining a great credit rating. First, a word of thanks to Hyundai Motor Credit Corporation, which more than 20 years ago repossessed my very first car. It was a golden brown 1987 Hyundai Excel that I drove while I was a college student attending the University of California, Irvine. At the time I thought that repossession was so very unfair, especially considering that I'd *only* missed two (or was it three?) payments. In hindsight, though, I realize that Hyundai was preparing me to become more financially responsible and credit-worthy. So thank you, Hyundai, for that traumatic experience that I've never forgotten. I've become wiser because of it.

Thanks also to all the bill collectors that have ever called me. A hearty "shout out" goes to "Mr. Johnson," a debt collector who actually called me just a few months ago from National Action Financial Services. I haven't had a debt collector call me in at least 15 years, but here was "Mr. Johnson" asking me to pay an alleged overdue credit-card bill—also from more than 20 years ago. He claimed that the account was opened in 1988 and closed in 1989. You can read in Chapter 10 about how I quickly dispatched of poor "Mr. Johnson." But just know that the sheer pleasure I took in reading this man the riot act, and the empowering feeling I got in knowing and asserting my legal rights, pretty much made up for all the other nasty bill collectors I once had to deal with.

Last but not least, many thanks to my family. I love you all, especially those relatives who have been so very understanding when I've had to say, "No, I'm sorry. I can't," when they asked me to co-sign for loans or do other things that might jeopardize my credit rating. At this point in my life I've come too far and had too many credit battles to give up my Perfect Credit rating. Here's hoping you feel that way one day too.

Lynnette Khalfani-Cox,  
The Money Coach  
December 31, 2009





## **FOREWORD**



## INTRODUCTION

I have a bold statement to make: It's possible to have Perfect Credit even if you've been a less than perfect person. Let me repeat that another way: *You can have an outstanding credit rating no matter what your past history.* And I'm not just talking to those of you who have experienced a slip-up here or there, such as paying your Visa card late once or twice. I'm talking also to those of you who feel as though you've made a complete mess of things. It doesn't matter whether you made previous mistakes out of ignorance (such as getting a ton of credit cards when you entered college), whether you knowingly did fiscally foolish things (such as co-signing a loan for an irresponsible relative when common sense told you he would default), or even whether your emotions drove you to make long-range financial blunders (such as buying things for a former flame). You too can have an excellent credit rating.

To some the idea of having Perfect Credit might sound like a pipe dream, especially if you've been through your share of drama. Maybe you divorced an ex-spouse who was totally reckless, ran up all the bills, and dragged down your credit in the process. Or perhaps your mantra has been, "Look good now and worry about paying later." Well, "later" has come. And now those excessive shopping sprees, along with that stack of overdue credit-card statements stuffed in your drawer, mean the bill collectors have your number on speed-dial. And they aren't shy about calling either—at all hours of the day and night. Every single day.

### Perfect Credit in an Imperfect World

If your credit is downright awful, you might be thinking: "I'd settle for just having decent or 'good' credit. But *perfect* credit? Yeah, right!" But, believe me; I picked this title *Perfect Credit* for a reason. The book really could have been called *Perfect Credit in an Imperfect World* because—let's

be honest—we're all imperfect people, and we're certainly living in less than perfect economic times. Foreclosures abound. Credit-card delinquencies are up. Gas, food, and healthcare costs are all skyrocketing. Throw in a personal setback such as getting divorced, laid off from a job, or sick to the point where you can't work, and it's easy to see why the average person might have a blemish or two (or more!) marring her credit file. But just because you've made mistakes doesn't mean your credit is shot for life. For better or worse, you are judged in many ways by your credit. But let's not forget that even Jesus himself admonished us not to judge too harshly those who have been less than perfect (i.e., all of us) when he said, "Let he who is without sin cast the first stone" (John 8:7).

### **Why Everyone Should Strive for Perfect Credit**

Which takes me back to striving for perfection when it comes to your credit. If you have negative marks in your credit history, I don't have to tell you what a pain it is to live with bad credit. You get turned down for credit cards and loans; you pay sky-high interest rates when you do get approved; or you have to go (hat in hand) asking family or friends to co-sign for you or loan you money. The list of indignities you suffer with poor credit goes on and on.

Lately, amid the ongoing credit crunch, even people with "good" credit histories and respectable credit scores are having a tough time. Banks have imposed new fees, raised interest rates, slashed credit lines, and even closed accounts of customers with so-called good credit. Which is why, even if you have a fair-to-good credit rating, you need to learn how to achieve Perfect Credit.

Do you plan on doing any of the following things in the next two months to two years?

- ⇒ Buying a house or renting an apartment
- ⇒ Refinancing a mortgage or getting a home equity loan/line of credit
- ⇒ Purchasing a car
- ⇒ Getting a student loan
- ⇒ Applying for a new credit card/switching credit cards
- ⇒ Co-signing a loan for someone else
- ⇒ Seeking a small business loan

⇒ Obtaining a new job or seeking a promotion in your current job

If so, please realize that all of these goals have one thing in common: They all require you to have great credit! So if you, or someone you know, have an immediate or near-term need for credit or a loan, you'll greatly improve your odds of getting approval, and the best rates and terms, if you follow the advice I outline in this book.

*Perfect Credit* is also a must-read for people who want to

⇒ **Establish credit**

- \* high school and college students
- \* recent divorcees
- \* widows
- \* elderly citizens
- \* immigrants
- \* minorities
- \* anyone who mainly uses cash

⇒ **Fix problematic credit**

- \* late payments
- \* charge-offs or judgments
- \* foreclosures or repossessions
- \* bankruptcies
- \* past-due bills

⇒ **Improve their credit**

- \* those with “average” credit
- \* consumers with “good” credit who want an A+ rating

⇒ **Maintain outstanding credit**

- \* anyone with superb credit who wants to hang on to that first-rate status

*Perfect Credit* is the definitive guide to getting and keeping outstanding credit. Think of this book as a roadmap for anyone hoping to establish perfect credit, make improvements to have stellar credit, or simply maintain a fantastic credit standing. Right now roughly 220 million

Americans have credit files maintained by the “Big Three” bureaus: Equifax, Experian, and TransUnion. Another 50 million adults in the U.S. have no credit files, either because they’ve never used traditional forms of credit or because their files are “too thin” to generate a score. *Perfect Credit* offers all these consumers an easy-to-follow blueprint for getting superb credit and avoiding unscrupulous firms that promise to erase bad credit.

Speaking of bad credit, about 1 out of 5 Americans has very poor credit, or “deep sub-prime scores,” according to Experian. Research by the same bureau found that, between the third quarter of 2006 and the second quarter of 2009, the number of people with really low credit scores rose more than 16% to 40 million. Meanwhile the number of people with top-notch credit scores, so-called “super-prime” consumers, fell in 2009 primarily due to late payments from these once highly credit-worthy individuals. One way in which banks have responded to credit delinquencies and other challenging business conditions is by dramatically curtailing access to credit. A September 2009 report from Experian found that in the preceding 12 months banks cut credit-card lines by 17% to \$3.1 trillion. And more cuts are expected. Oppenheimer & Co. analyst Meredith Whitney has predicted that by the end of 2010 lenders will slash available credit to just \$2.3 trillion—less than half of the \$5 trillion that was available on credit cards in 2008.

### **Is Perfect Credit Just About Having a High FICO® Score?**

If you have never seen your credit reports, or been told your credit scores, you may have only a rough idea of your standing. If so, that’s a big mistake. I don’t want you to have hazy or vague knowledge about such a very important topic. I want you to be crystal-clear about your credit rating and know what specific actions you can take to maximize and even profit from it.

Toward that end it’s important to explain the most commonly used credit scores. FICO® is an abbreviation that stands for Fair Isaac Corporation. Fair Isaac is a publicly traded, Minneapolis-based company that creates credit scores for tens of millions of Americans. While there are other credit scores out there (such as VantageScore and Experian’s PLUS score, which I’ll tell you about later in this book), FICO® scores

are the most widely used by U.S. banks, mortgage companies, credit-card issuers, and auto lenders. About 90% of the top banks in America use FICO® scores. So throughout this book, when I refer to “credit scores,” I’m generally referring to FICO® scores, unless otherwise noted.

FICO® scores range from a dreadful 300 points to a pristine 850 points. The higher your scores, the more attractive you are to banks and other creditors, because your FICO® score is designed to predict the chances that you will miss a payment or default on a debt. People with low FICO® scores are riskier to banks because those individuals are statistically less likely to repay a loan than are people with high FICO® scores. That’s why lenders are quicker to say “Yes” to the latter group and to offer people with top-notch credit scores better deals overall.

### **What Exactly is Perfect Credit?**

If your FICO® credit score falls between 760 and 850 points, you rate among the top tier of all consumers and have the cornerstone for what I call Perfect Credit. Getting a great FICO® score, however, is just part of the achievement. Fair Isaac reports that, among consumers with credit scores of 760 or higher, only 1% risk defaulting on a debt. So having Perfect Credit also means being able to access a whole host of products and services—mortgages, automobiles, credit cards, business lines of credit, and personal loans—at the most favorable terms available in the marketplace. Once you snag that impressive credit score, and all the benefits it entails, does having Perfect Credit today mean you’ll have Perfect Credit tomorrow? Unfortunately the answer is “no.”

For every single one of us, earning and maintaining Perfect Credit is ultimately a lifelong process. Once you achieve a high credit rating, you have to work consistently, diligently, and even methodically to sustain it. If you don’t, depending on how you manage your credit along the way, your scores can fluctuate greatly. You may have a 680 FICO® score this year, a 795 score the next, and a 762 score the following year—only to fall back to a 681 score three years later. Therefore, you should never look at your credit scores, or at Perfect Credit in general, as an end point. The truth of the matter is that your credit scores and, by extension, your overall credit rating are constantly changing.

Think of achieving Perfect Credit as akin to earning elite status on

your favorite airline. Frequent flyers who obtain elite status get all sorts of nice perks, such as complimentary upgrades to cushy seats in the First Class cabin, priority boarding and baggage handling, freedom from pesky airline fees, and bonus miles that can be used for free travel. I currently happen to be a Platinum Elite member with Continental Airlines. Platinum Elite passengers rack up 75,000 miles or more annually. If I fly a little less or change my travel patterns, I could be downgraded to Gold Elite status (50,000 miles) or Silver Elite status (25,000 miles). In fact, if I opt to restrict my travel severely, or perhaps spread my travel among multiple carriers, it's likely that I would not earn elite status at all. I am very aware of the fact that every calendar year, starting January 1, I have to requalify for my flying status. The same principle holds true for sustaining my elite credit status. As of this writing, my top FICO® score was 788. (My husband's was 775.) Every year that I manage my credit well, I am rewarded with certain perks, such as 0% credit-card deals, offers to increase my business line of credit, and a stress-free approval process when I want to apply for a loan.

My goal in writing this book is to help you earn elite credit status too. I want you to win at the credit game by using practical, proven techniques to manage your credit and debt wisely over a lifetime. I mention debt also because the debt you take on is inextricably linked to your credit standing. Remember, the whole purpose of a credit score is to summarize your risk to a lender by predicting the likelihood that you will repay a debt. I will consider myself successful if you read this book, apply its key strategies, and wind up with the following:

- ⇒ FICO® credit score of 760 or higher
- ⇒ The qualifications to get approved for any credit you require
- ⇒ Detailed, up-to-date knowledge about your credit at any given time
- ⇒ Mastery of how to manage credit wisely on an ongoing basis
- ⇒ An understanding of the written and unwritten rules that govern credit
- ⇒ The ability to eliminate excessive debt, particularly “bad” forms of debt

That is the complete definition of Perfect Credit, which is within your reach. In fact, I have developed a virtually fool-proof system for you to



get Perfect Credit in just seven manageable steps. This method for improving your credit can work for anyone, regardless of age, income, professional background, marital status, or level of financial sophistication. Trust me: Once you get Perfect Credit, you'll never want to settle for anything less. I speak from personal experience. In fact, many of you have heard me talk about getting out of debt, and improving my own credit, on ABC, CNN, Fox Business Network or daytime talk shows, where I regularly appear as a guest expert.

## How to Use This Book

Throughout this book I'll share my very best financial advice about achieving an outstanding credit rating. *Perfect Credit* is divided into two parts. In the first I'll describe the current economic and credit environment and how that has impacted the way a host of financial institutions deal with you, ranging from commercial banks and insurance firms to credit-card issuers and auto-finance companies. I will also teach you the basic rules, written and unwritten, about credit that you must understand in order to survive and thrive in this economy. Part II is the meat of this book. First, I'll share my own ups and downs with credit. In ensuing chapters I then will explain my seven-step Perfect Credit system in detail. If you follow it step by step, I promise that you will get the results you desire. In addition to discovering my plan for Perfect Credit, you will learn these things:

- ⇒ The **exact criteria that determine your FICO® credit scores** and precisely how many points your score may decline if you make mistakes, such as maxing out a credit card or missing a loan payment
- ⇒ The **quickest ways to boost your FICO® scores**
- ⇒ **Little-known strategies of credit experts** with Perfect Credit (one is my own never-before-revealed trick to get as many free credit reports as you'd like in a year instead of just one)
- ⇒ **How to prevent identity theft from ruining your credit** and what to do if you are victimized

- ⇒ **What to do if your bank has increased your rate, cut your credit line, or closed your account**
- ⇒ **What to say to creditors**, and what not to say, when your bills are past due
- ⇒ **The written (and unwritten/unspoken) rules about credit** that you must know
- ⇒ **How to improve your credit rating by negotiating** with your existing creditors, debt-collection firms, and “zombie” debt collectors

Make no mistake about it: The link between debt and credit standing is huge. Many of you may have read my *New York Times* bestseller *Zero Debt*, which I wrote after eliminating \$100,000 in credit-card debt over just three years. While I consider that quite an accomplishment, I can tell you that learning to master credit has taken much more time and been far more challenging.

Some of the financial advice I dispense is based upon my 15-plus years of experience as a business journalist. I was previously a *Wall Street Journal* reporter and CNBC correspondent. I put my journalistic skills to good use for this book, drawing upon the wisdom of credit experts and industry professionals such as bankruptcy attorneys, consumer-rights advocates, current and former representatives from credit agencies and credit-scoring firms, financial experts, and so forth. *Perfect Credit* is also inspired by the real-life stories of people who've used the strategies I recommend to improve their credit dramatically.

I hope you agree that Perfect Credit is a goal worth pursuing. If you're ready, just turn the page, and I'll help you get on the path to a terrific credit rating.

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