



Regions Next Step Podcast

Credit Basics: Fixing Your Credit Score

In this podcast, you'll hear about steps you can take to help you fix your credit score from Eric Smith - founder of The EKS Group, and creator of The Financial Literacy Coach and The Money Game Literacy Program.

Want to learn more about the following topics? Check out the link below to hear from Eric:

- Checking your credit report for errors
- Better money management for paying your bills on time and paying down debt
- Understanding how and when your score may be affected

Episode Transcript

Narrator:

You're listening to the Next Step podcast Fixing Your Credit Score, part of our Credit Basics Series presented by Regions Next Step, advice, tools and resources to help you get closer to reaching your unique financial goals. Here with us today is Eric Smith, Founder of the EKS Group and creator of the Financial Literacy Coach and the Money Game Literacy Program. Today we will be talking with Eric about fixing credit scores. Eric, thank you for joining us today. Credit scores can play a really important role in a person's finances. Because your score can impact potential lending, employment and more, it's important to know how to improve it. To kick off our conversation, what are some reasons a person's credit score may be lower than they'd hoped?

Eric Smith:

Well, that's a good question and there are several reasons that could really account for that. First and foremost, perhaps they haven't paid their debt as agreed. Unfortunately, paying debt late more, than 30 days late, has a severe impact on one's credit score. The more recent those late payments have occurred, the more of an impact they're going to have on lowering one's credit score. Another factor in lowering one's score would be perhaps they are using credit cards excessively. Any time that you carry more than 30 percent of a credit card limit in an outstanding balance -- so if you have more -- let's just say, for example, the credit card limit is \$1000. And we only make minimum payments and we continue to carry more than \$300 outstanding from one month to the next, that's going to have a negative consequence on one's score. And lastly, another factor could be public collection items. Things such as liens or garnishments or medical collection items that perhaps haven't been paid yet



from an insurance. I know that in my own personal life I've had several issues where bills were turned in from the doctor and my insurance company was just slow to pay and they threatened to turn over to a medical collection company and then very short period after that the bills were paid. But if it had not been the case, it would have had an impact on my credit score.

Narrator:

What steps do you recommend to someone that wants to improve their credit?

Eric:

The most important thing to avoid is failing to establish credit. You can't build credit unless you establish it first. If you have no credit or weak credit, one way to start building is with a savings secured line of credit or a secured credit card. Both are secured by money in your deposit account. Most of the time, the bank will put a hold on the security deposit in your savings account so that you're unable to use it. In the long term, this can help build up both your savings and your credit. As soon as you pay off the loan with on-time monthly payments, you'll still have that original deposit in your savings account.

Narrator:

That's great advice for someone starting to build and establish their credit. What else should people avoid if they are trying to build credit?

Eric:

Well, that's a great question. And my first response would be first and foremost to pay your bills on time. Make a commitment to do that every single month. And it may not have an impact overnight but long term that's going to be the greatest impact of your credit score. But starting out I would highly suggest that we pull our credit reports and check for any errors. A large percentage of credit reports unfortunately have been found to have errors on those. So, you want to go to annualcreditreport.com at least once every 12 months and pull those credit reports to make certain that there aren't errors in there that are affecting your credit. And then, if you do find something, there are directions and instructions generally on all those credit reports on how to contact the bureaus. And secondly, look at, again, create a plan for paying down some of this debt. If your credit cards have been used excessively to the point again that it exceeds that 30 percent limit, then we need to figure out a plan, how can we systematically start managing our money in such a way that we can lower that outstanding debt on those credit cards. And then, you know, again, understand and how and when your score may be affected. Items such as going to apply for additional credit, if you get frustrated and the payments are getting so burdensome and you're tempted to go obtain -- try to get another credit card to remedy that situation, you need to understand that that in turn just by simply applying of that debt or that



credit you're going to have a negative impact because that's called a hard inquiry. And so, you just need to understand the factors that influence that credit score. The fewer times that you have somebody pulling your credit and just so you know when you pull your own credit, that's called a soft inquiry. And it has no bearing or impact whatsoever on your credit score. Only when you go to obtain credit, you apply for credit or you ask a credit grantor such as a credit card company or a bank to pull your credit does it have a negative impact on your credit score. I would say again let's examine the reasons why the credit is less than desired. I guess desired is somewhat of a subjective word but let's just say that the credit or credit score is such that you're having difficulties obtaining additional credit or maybe you're having a difficulty using credit or obtaining credit to accomplish certain financial goals in your life and if that's the case, again, let's reexamine the factors that have contributed to your credit being in that situation to begin with, let's look at the behavior, what can we do to force some discipline. I can tell you just personally speaking that if I don't do a budget every single week, I tend to be an impulsive spender and when I'm reacting and I don't have a plan, I sometimes tend to waiver and get off base and so a spending plan for my own life it's a way of forcing discipline into my life in regard to how I handle money. But for many Americans, again, the debt is a result of the fact that we haven't planned appropriately. Oftentimes when I meet people and they're up to their eyeballs in credit card debt, I usually don't have to ask are you doing a budget. Because generally the person that I meet that does a budget and makes that a priority in their life every month they're usually not in that situation where they're just totally stressed out about debt. That person is typically the one that plans, has a little bit of money saved and has learned how to use debt responsibly to add value to our life and not create or wreak havoc on our life and create undue stress.

Narrator:

Wow. There are so many ways people can improve their score. What tips would you give to someone who needs to pay down their debt?

Eric:

Avoid over-using your credit and use the credit you have modestly. It shows a lot of responsibility when you have a credit line and almost always charging less than the maximum limit. Even if you're making your payments on time, you still can negatively affect your credit by always using so much of it. Try using no more than 30% of your available credit to help prevent your score from going down. I think the first tip would be to create a repayment plan. I call that a spending plan. It's another word for a budget. And the reality is if we don't have a plan for what we're going to do with our money before we get it, the chances of becoming successful in that repayment plan are greatly reduced. So, I think the first step would be to certainly maybe take a spreadsheet or take a sheet of paper and budget our money out for the next six months or 12 months and see exactly and really take a hard, close look at how we spend our money. I always encourage people when they're considering doing a budget to take a sheet of paper and every time you spend any money write it down. It's always amazing to me when I do that to see how much money I actually waste. Oftentimes people will say I can't afford to save any money or I can't afford to pay stuff down. But yet they can afford to spend money every day on a cup of coffee or they can afford a subscription to a movie service. And I know in



my own life that I tend to spend -- maybe waste some money that I shouldn't and so again the first step would be to take an inventory, create a plan for the repayment and then I would - you know there's several opinions on this. Again, you could go and attack the highest interest rate debt first or if you prefer there's another method of starting out with the smallest debt and repaying that. But again, I would caution that generally speaking people do not get into debt over night. I don't think it's reasonable to expect you're going to get out of debt over night. But you do have to have a plan. You've got to stick to that plan and you've got to have some forced discipline. And that's what a spending plan or a budget helps to accomplish in one's life. And so, I would tell you that if you really want to commit to paying down debt, I think the first step is to commit to doing a budget every single month of your life. And talking about that I do know that Regions Bank makes a lot of resources available to people and I do know that if you go to Regions.com/nextstep there are plenty of resources there that will help you create a spending plan, set those financial goals and kind of provide a framework for helping you get organized and get started to repaying that debt.

Narrator:

That's a great plan for those who need to pay down their debt. Thank you. Now, if you do not currently have credit and are looking to establish it, where do you suggest someone start?

Eric:

Yes! Diversifying your credit file lets lenders know that you know how to budget. To do this - avoid using only credit cards. While they're essential to building credit, they're not the only option. A mortgage, auto loan or even a big purchase at a retail store with a closed end installment loan option can help you diversify. Remember - our goal is diversification, so don't open a store credit card to pay for that big purchase because it will defeat the purpose. That is a great question and one that I get asked all the time, especially from college students. You know, the reality is if you have never used credit before, you're generally going to have an empty credit file and generally that means you're going to have no credit score. And when you don't have a credit score and you're trying to obtain credit or establish credit, it can be difficult at times. You know, one product that some people will suggest is obtaining a secured credit card or a secured 12-month loan. And basically what that involves is you saving some money. Let's just say for example you're going to save \$500 in cash. You would really like to have a credit card so that you can responsibly use that to manage your expenses but unfortunately because you've never borrowed money before it's really difficult to obtain a credit card. Well, these secured credit cards work in such a way that you basically you save the money, you send the \$500 and this example to the credit card company and then they in turn give you a credit card with a \$500 credit limit that is secured by your \$500. Or another suggestion is to take that \$500, go to a bank and ask for a 12-month installment note and that is one way to create and establish credit. But oftentimes when I'm asked that question from a college student, I generally would recommend that whatever bank they're banking at right now go to that bank and tell them that you want a responsibly establish credit and ask if they have a credit establishment program. Oftentimes,



the banks do provide for that, and I think Regions Bank actually has that program in place to help college students establish credit.

Narrator:

Thank you, Eric. This has been very helpful. You can find additional information about credit and more online at www.regions.com/nextstep. No matter your goals, Regions will help you with each step you want to take. Thank you for listening.

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