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JIM: Welcome everybody, and we've got a very special guest today that I think is going to be really important to hear, especially if you're planning on borrowing money to buy a car, a house, or anything else for that matter, and for those of you that may be at the stage where you're probably not worried about borrowing money in the future, you might want to pass this along to your kids or grandkids because I think one of the least understood but one of the most important aspects of someone's financial situation is their credit score, and joining me today is a past guest that we've had on, and it's been awhile, with you the fact that the coronavirus and the banks having to defer mortgage payments and credit card companies, if you say I'm struggling with Covid-19 there's a deferment of payments and it's not supposed to affect your credit score, but I think a lot of people kind of misunderstand that, and they could be finding themselves in a deep hole when all these deferments come into, especially as it relates to their credit score.

Dan, I want to thank you for joining us. It's Dan Krueger from Credit Matters, and his company focuses on helping people, number one understand what makes a credit score what it is, and number two those that have maybe got themselves a little bit in a hole, steps that they can take to repair their credit score.

Dan, before we get into what Covid-19 is all about, maybe describe to people what the advantage is of having a decent credit score, and obviously the disadvantage of not having a good credit score.

01:45

DAN KRUEGER: Sure. Well, thanks for having me. Today we're going to be able to provide a lot of good information that can help people.

A credit score has become pretty vital in people's lives over the last dozen years or so. Everything seems to be dependent on the credit score these days. Most marketing that we work with people on is their mortgage, and of course if their credit score is too low they can't even get a mortgage or car loan for that matter, and sometimes people are even denied home or auto insurance, but even with lower scores if they're able to get a mortgage, they're paying higher costs.

As far as they're paying it sometimes one to one and a half percent more in interest costs. I've seen car loans that are way higher on those interest rates when they have bad credit. I've even 34% interest. It's not uncommon for people to be paying 20% interest with lower scores, so anywhere in between there is just a lot of extra money out of their monthly payment that goes towards higher interest.

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JIM: Some landlords are even asking for credit scores, is that right?

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DAN KRUEGER: Yes, and it so happens my son is a landlord and having worked with our company, the things to look for as part of the screening process but more and more landlords are definitely requesting or requiring credit to see what, how people handle their finances.

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JIM: So how high does a credit score need to be before you start getting the most favorable treatment?

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DAN KRUEGER: Well for, to be able to walk into a Credit Union for example and get a decent car loan, you've got to have a 650 credit score so it's not necessarily real high, and to get a decent mortgage loan where you're paying the lowest rates, you got to have like a 720 credit score. Anywhere between there is going to open the doors to the lower rates. Of course, credit score can go up to 850, that would be perfect. Anything over 700 is outstanding.

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JIM: The thing is, so people should pay attention, so what kind of things effect the credit score?

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DAN KRUEGER: Well, what I tell people is that your credit score is a representation of how well you make your payments on time, and it's a measurement of your likelihood of default, because that's what the banks are concerned about. They don't want you to default, and so it's measuring primarily your payment history, meaning how well or how you've demonstrated making those monthly payments over the last two years. Information reports for seven years, but beyond two years it gets to be ancient history, so the formulas really put a lot of emphasis on the past two years as to how much it's impacting your score, and so the more monthly payments you have made on time, the better, meaning the more accounts you have, the better.

People that have maybe only one account like a credit card, that's a thin file, so there's not much foundation to their score. They should get a mortgage, a car loan, couple credit cards. You've got multiple accounts going on. All of those monthly payments being made on time is building that solid function to your score and giving you a higher score.

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JIM: So, and then it's kind of ironic, so the people that are struggling financially that might be late once in a while or whatever, they're paying sometimes as much you said as 20 or 30%. Doesn't that just make it that much more difficult to get out of the hole when you've got to pay those kind of interest rates?

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DAN KRUEGER: Well, yes, it does. It's a vicious cycle, and what they need to do though is understand the key elements of what to do in building their score, because it's not like they have to take on a bunch more debt or something like that to build a good score, but it wouldn't hurt for them to have a few more let's say secured credit cards. They don't have to use them but those are now accounts that will report every month on-time payments. They can get something called a Credit Builder Loan, that's another type of secured installment loan that they pay $25 a month for example, so that's very affordable but now that's building more payment history.

Of course, staying on top of their bills, and that's probably one of the biggest challenges, just being organized and making sure you're making your payments on time. A lot of times medical bills get left unpaid where they could make payment arrangements with the hospitals and doctors' offices, they're just negligent and they don't realize how much it's going to effect their score when that collection hits their report, so it's awareness, and then just a few disciplines, but they could get out of the hole.

06:43

JIM: All right. Well, we're going to take a short break. When we come back let's talk about the Covid-19 and all these exceptions that people are getting that is not supposed to impact their credit score, but then also to be aware of the time bomb that might be waiting to go off, so please stay tuned.

(BREAK)

07:04

JIM: Welcome back as we continue to visit with Dan Krueger, owner of the credit repair service Of Credit Matters, and today he's sharing with us a little bit about what goes into making a credit score and the importance of paying on time and not having too much debt, the kind of things that having a low credit score actually digs you in a deeper hole where it's hard to get out of, so you want to make sure you're on top of your credit score and you keep a decent credit score, and that brings us to today.

We have this pandemic going on, a lot of people are out of work, lost their jobs, and there's been some relief made as far as people's ability to delay or defer payments, and then not have that impact their credit score, so let's talk about that a little bit.

I know for example with mortgages, if you call your mortgage provider and say you're having a little bit of a challenge because of Covid-19, you can defer your payments, I believe it's up to a year, is that right, Dan?

08:06

DAN KRUEGER: Well, it can be up to a year. It depends on the lender. Everybody's got their own program. Every lender has their own program. I know for example my lender and my mortgage, they would defer up to six months, so it just depends on the lender and what they're offering.

08:22

JIM: And I think if after six months, if you ask that you need an extension you can pretty much get an extension for another six months, is the way I understood it, but now they don't have to make the payments but then all the back payments come due in one year, is that right?

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DAN KRUEGER: Well, again, there's different options that depending on the lender, but yeah. What they're doing is they're going into a forbearance arrangement with the bank, and they can either pay up the back payments after that six months or one year, or again as an example my bank, their offer was to stretch out those back payments over the next six months in addition to the current monthly payment that would be then due, or another option is that, and again depending on the lender, they can have you sign a modification agreement and put those back payments to the end of the loan.

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JIM: Okay.

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DAN KRUEGER: So there's a number of different options.

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JIM: So the key there is, you know if you're short on money or maybe just getting back to work and struggling, the worst thing they could do is just kind of ignore it and hope it goes away, right?

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DAN KRUEGER: Well, exactly, exactly, and not all banks are going to do the modification option. The modification option probably is the most easiest for your average homeowner, you know, because then they're not having to come up with a big hunk of change at all once, or maybe their monthly payment plus Mick up for the last six months on a monthly basis would be too much, but not every lender is going to do the modification agreement.

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JIM: So really if someone's looking to do that, they should understand that ahead of time and not wait until the six months is up, right?

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DAN KRUEGER: Well, exactly, yeah, so they can prepare, know what they're getting into.

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JIM: So let's say someone's got a decent credit score. You talked about if they like have a 720 credit score, that's considered really good, so let's say someone has a 720 credit score and they delay their mortgage payments for six months and the mortgage company doesn't do an extension, they don't have the extra money to pay, what kind of impact will that have on their credit score going forward?

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DAN KRUEGER: Well, at that time if they're not making full payments they'll be marked as late payments once they have gone 30 days, and I've seen that happen with people, is they'll make a partial payment and kind of work with the bank, and the bank might even say, well we'll accept partial payments and won't harass you but it will still show up as a late payment on their credit report.

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JIM: Okay.

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DAN KRUEGER: And every month that goes by where they don't make that up, it's another late payment, so then they'll have this late payment every 30 days until they catch it all up, which will just basically -

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JIM: And then what is -

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DAN KRUEGER: - destroy their score. (LAUGHTER)

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JIM: Okay.

11:12

DAN KRUEGER: That will destroy their score, yeah. That would drop them a hundred points easy. Every late payment is another nail in the coffin on the score.

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JIM: So I know credit cards are offering kind of the same thing. I've seen some car manufacturers saying skip some payments for a while, and are any of those being reported or that's just part of the terms of the loan? You can skip some payments, they won't report it but then at the end of that period, you know, you need to pay it, right?

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DAN KRUEGER: Well, again, it depends on the creditor. Anybody that's getting into a deferred payment should get it in writing as to how those deferred payments are going to be handled as far as the reporting.

I know that with credit card companies a lot of them, they'll make these offers to defer payments but then they go ahead and report you late, and people aren't aware of that, and while the credit card company is not hounding them to catch up right away because they have this verbal arrangement, it's still being reported on their credit report as a late payment 30 days later. Unfortunately that happens a lot.

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JIM: What do you do about that? If you have a creditor error on your report, you know, and you probably don't learn that until you actually are right in the middle of trying to get a loan for something, and then all of sudden -

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DAN KRUEGER: (LAUGHTER) Yeah.

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JIM: - you find out you have this problem. How do you deal with that?

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DAN KRUEGER: Well, the first step is to contact the creditor and say hey, you know, you reported me late. Some creditors will make the correction, but typically the problem there is the right hand doesn't know what the left hand is doing at the creditor. The person you're talking to at the creditor doesn't have the ability or authority to make any changes. That's a different department.

Well, does that other department get around to doing it? Maybe, maybe not, but it's the first step of what you need to try. The next step is if they aren't able to or willing to make the correction, then you need to make a dispute through the credit bureaus, and to make that dispute stating that the error has been made and that the late payment should not be reported, and then that's the process that takes about 30 days. Typically that will resolve the issue.

13:25

JIM: So rather than waiting until you need a loan, do you recommend that people check their credit score on a regular basis? I know I've got a couple credit cards that actually report my credit score for me each and every month, and one thing I found that's interesting, they're both about 25 points apart from each other, so is there a good source to check? Should people be checking regularly? And how do you know which score is the right one?

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DAN KRUEGER: Well, (LAUGHTER), there's a lot in that question. (LAUGHTER) There's a lot of different credit scores. Generally speaking your online scores are vastly different than the score a lender will pull. A very typical or common web site that people go to is Credit Karma. I think that's one of the most popular, or Experian dot com is another very popular web site. Those scores are using an entirely different formula than say like a mortgage score or an auto financing score, or even a credit card score. They can be a hundred points off.

I tell people, pay no attention to those scores because they go up and down for different reasons then what your true score, say you want to get a mortgage. It didn't going to go up and down like your Credit Karma score, so but the main thing to pay attention to is what's on the report, so when you go into Credit Karma you can view your full report for example, or Experian dot com, same thing. All of the accounts and all the account detail is there. That's what you want to be watching.

Yeah, you can look at your score as an indicator, and you're oh, it just dropped 40 points. Well let's go in and look at why, okay, and then if you see the late payment, well then you know, but it's about looking at the actual account items. That's where the value of these online web sites are. Just seeing your score, really very little value there.

15:19

JIM: Now, there's a lot of different information on the internet, what people should or shouldn't do, so what would say are some of the biggest misinformations that people are getting? Maybe what you just described there is probably one of them.

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DAN KRUEGER: Right, about credit scores. I think the other one that is a chief misinformation point is how to handle collections. People, they'll call us and want to see what they can do to improve their score, and they'll say, I've been working on my credit.

I ask, well what specifically do you mean by working on your credit? Well, I've been paying off my collections. Well, unfortunately that doesn't really help the score. I'm not saying it's not helpful to pay off your collections, but as far as your score is concerned it doesn't really affect the score much.

I tell people it's like a speeding ticket. It's an event that happened. You get a ticket, points come off your license. The only way your points come back onto your license is over time. You pay the ticket, that doesn't bring the points back on to your license. It's the same thing with collections, or charge-offs. It's an event that occurred, a default event, and so then at that time is when the points came off your score. Paying the balance isn't going to affect that because it still happened. Only time brings those points back. A new collection can drop a score by 70 points.

16:45

JIM: So let's just talk a little bit about what you do, because I know you help people get their credit standing, rebuilding that for folks that have had a challenge with it. I want you to talk a little bit about what you do, so for example we talked about misreporting on the credit score, mistakes and errors, and how difficult sometimes that can be to get those fixed, and I know you help assist clients with that as well as almost coaching them on how to rebuild their score and then keep it in a level where they don't get hit up with these higher interest charges or worse yet, not even be able to get credit.

So talk a little bit about what you do and how that works, and I'm sure there's other organizations out there that do the same kind of work, but I know you're somebody I've sent some clients to for help and you've always done a really good job.

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DAN KRUEGER: Um-hum, sure, yeah. Most people that come to us are seeking a mortgage or a car loan. They're looking for some type of financing, and at the time that they're applying they don't qualify. Their score is too low, and so typically our process is it starts with reviewing their credit report and discussing things that they can do such as maybe paying down credit card debt, that can have a big market on score. Opening new accounts or additional accounts to help build that payment history, or some other things, you know, steps that they might be able to take to improve their score, but generally speaking for most of them it's the number of negative items on their credit report.

These would be late payments and collections, and so then the question is, is I mean if it's a creditor error, well that's one thing. That's pretty easily resolved because it's an actual error, but all of the other things and typically most of the things on their credit report are not really errors. You know, that collection, it's like they'll say, I owe this money. I didn't pay, so then how do we help them with that.

Well, what we do is we work to get that negative information removed from the credit report. If we do nothing it will sit there for the remainder of seven years and continue to hold down that score, and so we use the dispute process. The same dispute process I mentioned a few minutes ago, about how we challenge something on each of these negative items that have forces or requires the credit bureau to have to then prove or verify that the information they're reporting is accurate. If they can't verify or prove that within 30 days, then they must remove it from the credit report, and once that item is removed from the credit report it's no longer holding the score down.

What we've found is that through repetitive disputing we're able to get more and more of these negative or derogatory items removed from the credit report, and that's the essence of our service is to try and get, consult them first on things they can do, help building their understanding of what affects the score so they can better manage their credit worthiness, and then we work on getting the negative things removed, and through that repetitive disputing process, it takes somewhere around three to six months typically, because every dispute is 30 days, you know, 30-day time frame that the credit bureaus have to verify things or not. We're able to typically get 40 to 60% of the negative items removed from the credit report.

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JIM: So it really comes down to, it's kind of like you're talking about paying off bill collectors, doesn't really do a lot, so it's a matter of prioritization where first things first and maybe second things not at all, would that be a correct assessment -

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DAN KRUEGER: Exactly.

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JIM: - when you're coaching people?

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DAN KRUEGER: Yes, because when they're trying to get a mortgage, for example, the underwriters typically don't care about unpaid medical bills, if they're outstanding. They still affect the score whether they're medical or phone bills or whatever that go unpaid.

Getting those negative things off is what's necessary to get, you know, as many as we can off to get the score up, but after the score is high enough if there are some non-medical unpaid collections still showing on the report, well now they can allocate their dollars to pay that, you know, more strategic.

Like you said, first things first. Let's get the score up and then strategically identify the things to pay that are necessary so you can move forward on getting your mortgage, or car loan, or whatever.

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JIM: Well, this has all been very helpful, Dan, and I know you put together like a pamphlet that people could, that it just teaches them some of the basics about understanding a credit score. Do you still have that available for people to look at, or do you have something on your web site that if someone is really curious, you know, what's important as far as how to keep and maintain a decent credit score, do you still have those resources available?

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DAN KRUEGER: Yes, we have a couple of sites, or pages that people can go to. Our main site is GoCreditMatters.com, and there you can navigate to the Seven Steps To Better Credit. That's the document or booklet you're talking about. It's in digital format, of course (LAUGHTER) but the same information is there, so it's GoCreditMatters.com and then click on the link to read the Seven Steps To Better Credit.

The other resource we have is a separate web page at CreditMattersCheatSheets.com. So that's Credit, all one word, CreditMatterCheatSheets.com, and there are cheat sheets that talk about some of the things that we, I talked about today, you know specifically collections and credit card debt, and online scores, that give people the information they need to know to be able to manage their score effectively.

22:59

JIM: I talk to a lot of clients and they've got kids or grandkids that they just shake their head on, that don't manage their finances very well, and these kids are kind of oblivious and don't really care until it gets to a point where they're just drowning, and so for those grandparents out there that want to help educate their grandkids, because they don't teach this stuff in schools, those Seven Steps To Better Credit Scores is something really that should be taught in the high schools before people start borrowing money and getting themselves in trouble, is understanding what impact those decisions could make.

So any rate, Dan, I want to thank you again. You're a wealth of information, and I think one of the most important things people can do for themselves, because let's face it, I do retirement planning and if you're paying 30% interest on your debt, there's not a lot of money to take care of yourself in the future, much less the present, so understanding your credit score, and not just understanding it but keeping then and maintaining a good credit score so you get the best of terms is probably one of the most critical things people can do for their financial future.

So again, Dan, I want to thank you, and if anybody wants to get ahold of you, are you available to help people all over the country, or are you regional? What's your service area, and how can people get ahold of you?

24:16

DAN KRUEGER: We're in Wisconsin, but we work with people all across the country. It's the same three credit bureaus; TransUnion, Equifax, and Experian that we deal with, that the whole country deals with, (LAUGHTER), so we've worked with people pretty much I think in every state. We've been doing this for 17 years, and the best way to reach out to us, there's a couple of ways.

One would be to call our office, it's an 800 number. (800) 531-7279, or email us at Company@GoCreditMatters.com.

Once we have a credit report we provide a free consultation and review, and if people want to enroll we have some different plans that meets their affordability.

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JIM: All right, well I appreciate it, Dan, always a pleasure, and thanks for sharing this information with us our listeners today.

25:09

DAN KRUEGER: My pleasure, thank you.

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