

Credit Repair 101: Credit Cards and Your Credit Score

Free Mortgage Blog

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Credit Repair 101: Raise your credit score with credit cards

Whether it's building credit for the first time or repairing it after a significant adverse event, it's critical to know how to do it the right way. I often counsel my clients on credit repair, and the comment I hear most often is 'how quickly can I get this done?' My answer is always the same, which is 'that depends on you.'

Having been there myself once, I can affirmatively say that there's no such thing as a quick fix when it comes to credit repair. How quickly your credit profile improves is in direct relation to how committed you are and how rigidly you stick to a plan. If you want to build or rebuild your credit, there are specific steps you must take, and I've listed them here for you.

Step One:

Do not hire a credit repair company. You should not be paying someone to repair your credit when you can do it yourself for free. And most importantly, if you're building your scores to get approved for a home loan, you need to make sure you're addressing the right items. Getting approved for a home loan involves not just your score, but what's on your report as well. Only a mortgage broker can give you relevant information on what items you should address.

Step Two:

Do not add yourself as an authorized user to a stranger's account. Some services will, for a fee, add you to someone else's account. These online services claim that you can raise your score by using someone else's credit profile. The problem with this is it's the account of someone you don't know. You have no idea what that person is like or how well they manage their accounts. If you get attached to the wrong person, your credit profile could quickly get much worse.

Adding yourself to a spouse's account is ok, but other than that, stay away from other people's credit. It's just too big of a risk to take.

Step Three:

If you don't have a credit card already, at your very first opportunity, go to your bank and open a secured credit card. There are tons of them available online if your bank does not offer them. With a secured card, you give your bank \$500, for example, and they put it in your account and freeze it so you can't withdraw it. Then, they give you a credit card with a \$300 credit limit. The card works just like any other card would; it's only secured with your frozen funds.

Step Four:

Whether it's an existing card or your newly opened secured card, you need to use them to build credit. Let me say that again, you have to use credit to improve your credit scores! Proper usage is critical, so to take advantage of the benefits credit cards offer, you will want to use them in this manner.

1. If you have an existing credit card, make sure the total balance is no more than 30% of the credit limit. If it isn't, bring the balance down as quickly as possible to that 30% mark. If your card is new, stick to this same rule and make sure you keep your balance low.
2. To build credit, you have to use credit, so whether it's existing or new, you must use your cards consistently. Add something to the cards each month. Fill the car with

gas, buy groceries, or anything you need to do. It doesn't matter what you buy, but keep the cards active by charging something to each of them each month.

3. When the bills arrive, **do not pay the accounts off in full.** To generate a credit score, the bureaus have to have data. They have no data to consider if you always have a zero balance. Instead, pay half of the total bill, or, at least double the minimum payment. This move has you accomplishing three things. One, you're paying more than the minimum. Two, you've paid the bill on time. And three, you've shown that you can responsibly revolve a small credit balance compared to your credit limit. This sort of thing is the data the credit bureaus need, and they'll love it.
4. If you're building new credit or repairing old credit, do not close any credit card accounts under any circumstances. Closing accounts drops your credit score significantly, which is the opposite of what you're trying to accomplish!

After about six months or so, you're going to start getting credit card offers in the mail. Go ahead and take one and use the new card in the same manner as I've outlined above. You'll now have two cards reporting perfect usage to the credit bureaus.

A side note on secured cards: The great thing about secured credit cards is they are secured only for a little while. Once your bank sees that you're handling your account correctly, they'll unfreeze your \$500 and give it back to you.

If you use your credit cards in this manner and religiously stick to this plan, you'll see your credit score sky-rocket. It is not uncommon for scores to increase 100 points or more by merely changing the way you use your credit cards.

The sooner you start, the sooner you'll reach the credit scores you're looking for!

If you have questions about any part of the mortgage process, feel free to contact us.

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