CREDIT AFTER BANKRUPTCY OR FORECLOSURE

Brought to you by the author of

7 STEPS TO A 720® CREDIT SCORE

PHILIP TIRONE

FORD TO MERCEDES FOR ONLY $20 MORE PER MONTH!

"In spite of having gone through a bankruptcy, my credit score went from 540 to 748. Once my credit score improved, I replaced my Ford with a brand new Mercedes Benz with payments of only $20 more."

— **Jimi Akiboh, Indianapolis, Indiana**

NOW A BELIEVER!

"Prior to using *7 Steps*, I had tried everything from credit improvement companies to attorneys, and nothing worked for me. I followed Phil's system and my score jumped to 718. I couldn't believe it."

— **Tim Michaels Los Angeles, California**

$100,000 MORE EXPENSIVE HOUSE FOR ONLY $50 MORE PER MONTH!

"Once our credit jumped from 610 to over 720, we moved into a house that cost $100,000 more and our payments only went up by $50 per month!"

— **Shawn and Karlee Bucher, Kaysville, Utah**

CREDIT IMPROVEMENT EXPERT

"I've been in the credit improvement business for twenty years and I have benefited from *7 Steps to a 720® Credit Score* in improving my own credit."

— **Allene Paige, Sandy, Utah**

PER CPA, 7 STEPS SAVES PEOPLE MONEY!

"I have clients who are just a few hundred dollars short each month in their finances. By following *7 Steps to a 720® Credit Score*, they are able to get a better rate on their car, home and credit card, which takes them from losing money each month, to saving money each month. It's the best investment a person can make."

— **David Fenton, CPA President, Fenton and Ross, Los Angeles, California**

REAL ESTATE VETERAN

"I've owned my company for 15 years, I've sold over $300,000,000 in Real Estate, I own my own mortgage company and I learned a ton by following the *7 Steps* system."

— **Anthony Marguleas, Amalfi Estates, Los Angeles, California**

USC PROFESSOR FOR BUSINESS OWNERS ADVISES, GET 7 STEPS!

"Tirone's book is a good overview of protecting and correcting your own credit. Good credit should be guarded by all, especially entrepreneurs. Become and remain bankable!"

— **William H. Crookston, PhD, Professor of Entrepreneurship, University of Southern California**

REINVENT YOURSELF FINANCIALLY WITH 7 STEPS

"*7 Steps to a 720® Credit Score* is a clear and powerful process for reinventing oneself financially. It provides motivation for people trying to take control of their financial future. I would like to see all real estate agents read this book both for themselves and their clients."

— **Floyd Wickman, CSP, CPAE, Speakers Hall of Fame**

THE CORE SECRET TO MANAGING CREDIT SUCCESSFULLY

"Managing your credit is one of the core secrets of success, which makes *7 Steps* the perfect resource for people who have great credit, bad credit, or no credit at all. Tirone's book teaches you everything you ever needed to know about credit."

— **Jennifer Kushell, author of the New York Times bestseller *Secrets of the Young & Successful***

SINGLE MOTHER

"*7 Steps to a 720® Credit Score* really opened my eyes. The book gave me concrete and easy to follow advice on how to turn things around. For that alone, it was worth the investment. But the thing that struck me is that Philip really cares. He doesn't just want more business. He genuinely wants to help people repair their credit, buy a home, and get the best rates. I only wish I lived in his area so he could be my mortgage broker."

— **Sarah Baker, Bozeman, MT**

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WANTED!

Those with a Bankruptcy or Foreclosure

IF YOU HAVE HAD A FINANCIAL CRISIS, you probably know your credit score is going to be severely impacted.

You probably also picture yourself unable to secure credit and avoiding credit altogether.

I'm about to show you that you **can** get credit, and that avoiding credit is the worst thing you can do.

Your credit score is the lynchpin to your financial life; however, you may not realize how easy it is to improve your credit score and add money to your monthly budget each month, even after a significant financial crisis.

Here's what you need to know: if you follow the right steps, you could have a 720 credit score four to five years sooner than if you simply wait for that bankruptcy or foreclosure to fall off your credit report!

Let me repeat that:

> **If you follow the right steps, you could have a 720 credit score seven to eight years sooner than if you simply wait for that bankruptcy to fall off your credit report!**
>
> **If you have a foreclosure, by following my steps, you can have a 720 credit score four to five years sooner!**

As you read this report, you are going to be shocked and amazed by what I tell you. Let's begin with the cost of failing to take action after a bankruptcy, foreclosure, or other financial crisis.

Imagine if you don't take steps to raise your credit score after a financial crisis. Let's take a look at what will happen the next time you buy a car.

According to www.MyFico.com (February 13, 2009), the difference between a 720 credit score and a credit score of 659 is 5.516 percent in interest! **If a person with a 720 credit score applies for a $25,000 car, he will be given an interest rate of 6 percent, whereas you will be offered an interest rate of 11.55 percent!**

This sixty-one point difference equates to an extra $115 a month, or $1,380 per year, you will be paying in interest on an average car. **Over the course of the loan, you will pay 16.55 percent more for the same car, all because of your credit.**

DON'T MAKE THIS MISTAKE.

And keep in mind that the difference between these scores is only sixty-one points. If you have suffered a financial crisis, such as a foreclosure or bankruptcy, chances are good that your credit score is going to be significantly lower than 659, which means that your interest rate might be higher than 11.55 percent, if you are lucky enough to qualify for the car loan at all.

Aggravating matters, this example considered only a car loan. Do you see yourself buying a home in the future? If you do, you need to raise your credit score.

Nowadays, if you don't raise your credit score after a bankruptcy or foreclosure, you cannot get a home loan unless you get it from a private lender. And because you have poor credit, a private lender will charge an extra 5 percent to 6 percent in interest. **This means that on a $200,000 loan, you will pay an additional $1,000 a month** for as long as you own that home. The typical American moves every six years, so you will pay an additional $72,000 on a $200,000 home.

DON'T LET THIS HAPPEN TO YOU.

Let's see what happens to your credit cards if you fail to raise your credit score after a financial crisis.

As the economy worsens, it stands to reason that credit card debt will increase. According to *U.S. News & World Report,* total credit card debt increased by 50 percent from 2000 until 2008, and the average American with a credit file carries more than $16,000 in consumer debt, excluding mortgages.[1]

Assuming that all of this debt is from credit cards and that you have a low credit score, you will pay $25,000 more in interest. Worse yet, the loan will take thirteen years longer to pay!

$25,000! How is this fair?

IT ALL BOILS DOWN TO YOUR THREE DIGIT CREDIT SCORE.

I would imagine you are beginning to realize that your credit score is your financial lynchpin. Did you know that your car insurance and your homeowner insurance can be affected by your credit score? Did you know that your employment could in fact be impacted by your credit score? I've had clients get turned down for loans because their credit was too bad.

DON'T LET THESE THINGS HAPPEN TO YOU.

The most important factor in improving your credit score after a financial crisis is that you do not wipe your hands clean of credit. If you do, you will overpay for the rest of your life on your existing debt. As well, you will someday want to purchase a home, upgrade

1. http://www.usnews.com/articles/business/economy/2008/08/08/the-end-of-credit-card-consumerism.html

your car, or enjoy a low premium on your automobile insurance. **But your credit score will be low, even after the bankruptcy, foreclosure, or other severe delinquency has fallen off your credit report.**

IN THIS BOOKLET YOU WILL LEARN WHY.

As well, you will learn that re-establishing credit will not be as easy as returning to your old way of paying bills. This won't work.

You will learn that there is an art to re-establishing credit after a financial crisis. Contrary to what you might believe, credit repair is **not** the answer.

In fact, if a company tells you that it can wipe a bankruptcy or foreclosure off your credit report, the company is suggesting something that is illegal and immoral. And, it will come back to bite you.

Per Section 404 - Prohibited Practices under the Credit Repair Organizations Act:[2]

No person may make any statement, or counsel or advise any consumer to make any statement, which is untrue or misleading (or which, upon the exercise of reasonable care, should be known by the credit repair organization, officer, employee, agent, or other person to be untrue or misleading) with respect to any consumer's credit worthiness, credit standing, or credit capacity to--

(A) any consumer reporting agency (as defined in section 603(f) of this Act); or

(B) any person--
- (i) who has extended credit to the consumer; or
- (ii) to whom the consumer has applied or is applying for an extension of credit

2. http://www.ftc.gov/ro/chro/croa1.shtm

Unfortunately, the credit bureaus responsible for assigning credit scores don't reveal the rules of the game, so too many people are left in the dust, wondering exactly what they should do after a financial crisis. This is why I wrote *7 Steps to a 720® Credit Score*, which summarizes exactly what you should do to raise your credit score, no matter what your credit is today.

In this booklet, we consider how to apply these rules to your credit score if you have suffered a financial crisis. Be sure also to review *7 Steps to a 720® Credit Score* **so you can benefit from all the lessons I learned after studying tens of thousands of credit reports and identifying patterns of change.**

Here are some testimonials from my past clients:

"In spite of having gone through a bankruptcy, my credit score went from 540 to 748. Once my credit score improved, I replaced my Ford with a brand new Mercedes Benz with payments of only $20 more per month."

— Jimi Akiboh, Indianapolis, Indiana

"If it weren't for the 7 Steps system I'd still be renting an apartment and driving the old Honda. It would be a lot different financial situation for me. All things combined, I started to save over $1,000 per month after implementing the 7 *Steps* system."

— James Anderson, Provo, Utah

"Once our credit scores jumped from 610 to over 720, we moved into a house that cost $100,000 more and our payments only went up by $50 per month!"

— Shawn and Karlee Bucher, Kaysville, Utah

Managing Your Credit After a Financial Crisis

I KNOW THAT POOR CREDIT can be embarrassing. Like many people with credit or financial difficulties, you might have ignored your financial problems.

If you are one of the millions of Americans with poor credit, you might be simply biding your time, waiting for the blemishes to fall off your credit report, which generally takes seven years from the date of inclusion. Or, you might be inclined to wipe your hands clean of credit, shred your credit cards, and become a cash-only citizen.

> **But this attitude will only complicate matters. Limited credit is as detrimental as bad credit, so the key to raising your credit score after a financial crisis is to address the problem head on and start rebuilding your credit profile.**

For some, this can be embarrassing. You might think your poor financial record is a sign of poor character, and addressing it might seem overwhelming, but rest assured—bad credit and financial woes happen

to all types of people. **Walt Disney and Mark Twain both claimed bankruptcy.** Bad credit can slowly creep up on you. It might occur because of a crisis, a job loss, a divorce, or a sudden illness. And yes, let's not forget, sometimes it happens because you made irresponsible and rash decisions, or because you mismanaged your money.

But that was in the past. Let's not focus on what you could have or should have done. Let's start adopting proactive steps to take control of your credit score so that you can look forward to your future.

URGENT! Start Today

MOST PEOPLE WITH BAD CREDIT think that time will heal their wounds. Because they have poor credit, they think they cannot get credit. They simply stop using credit, thinking that the problem will solve itself in seven years, when most items fall off a credit report. But a person who approaches credit improvement from this approach will actually extend the amount of time spent with a low credit score.

It works like this: Among other factors, **credit-scoring bureaus give higher scores to consumers who have a healthy mix of credit as well as a history of on-time payments.** Included in the list of people with poor credit are those who make late payments and have little credit. As well, credit scores place more emphasis on recent behavior than on past behavior.

So let's take a look at two people: Oliver and Gerard. Both Oliver and Gerard had a series of collections followed by an automobile repossession. In other words, their credit scores have been trashed. Both have scores of 500.

Oliver knows that the repossession and collection notices will fall off his report within seven years, so he decides to stop using credit. He even stops using the two credit cards that are in good standing. He figures his score will bounce back in seven years, and he will be able to buy a home. So he waits. During those seven years, he watches

his score move a few points as items age and become less and less important in the scoring formula, but his score never exceeds 620.

Finally, the seven years pass. Oliver is eager to pull his credit report. He has been saving to buy a house. The market is strong, and he feels refreshed. But when he pulls his credit report, Oliver finds that his score is 490. Oliver is dismayed, and begins looking for answers. He learns that because everything dropped off his credit report, including the inactive credit cards that were in good standing seven years prior, the credit-scoring bureaus have no information on which to judge him. **To improve his credit score, Oliver must apply for several secured credit cards, get a small installment loan, and begin the process of rebuilding his score.** It could be another two years before Oliver has a score above 620, and another five years before his credit roots are deep.

Now let's look at Gerard. Like Oliver, Gerard had a 500 credit score due to collections and an automobile repossession, but unlike Oliver, Gerard decided to be proactive. He researched credit improvement by reading *7 Steps to a 720® Credit Score*, which taught him the importance of having and using credit, especially after a major delinquency. **Gerard, who had two credit cards that remained in good standing, monitored his score closely, and when he opened a secured credit card, he began watching his score climb. He also asked his sister to co-sign on a small installment loan.** In two years, Gerard's score was 639. His interest rates were not great, and he certainly was not an ideal borrower, but he was on his way. Over the next couple years, despite the collection notices and foreclosure, Gerard had extremely deep roots as a borrower, and was pleased to see his score jump way past 720.

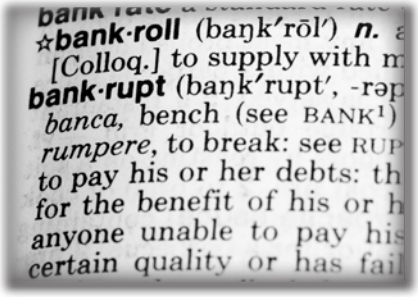
So while Oliver had to wait nine years to see his score move past the subprime mark, and twelve years before his score exceeded 720, Gerard was able to secure loans within two years of his major delinquencies; within a few years, he was qualifying for the best possible interest rates.

Keep in mind that everyone's credit report is different, and that different formulae are applied in different circumstances. Oliver's and Gerard's experiences might be significantly different from your experience. You might find your credit score increases faster or slower, but one thing is certain:

**STARTING NOW—TODAY—
MEANS YOU ARE ONE DAY CLOSER
TO A SCORE OF 720.**

Credit-scoring bureaus place more weight on recent history than on older history. When a person has a severe delinquency, the credit-scoring bureaus want to see that the person has learned a lesson and can start managing credit responsibly. By wiping your hands of credit, the credit-scoring bureaus are unable to make this judgment call. They have no proof that you can indeed manage credit responsibly. And this is why I say you must start the process today.

Coping with Bankruptcy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banca, bench (see BANK¹)
rumpere, to break: see RUP
to pay his or her debts: th
for the benefit of his or h
anyone unable to pay his
certain quality or has fail

TWO TYPES OF BANKRUPTCY EXIST: Chapter 7 and Chapter 13 bankruptcy. While both stay on your credit report for ten years (as opposed to seven years for most other items), Chapter 13 is less harmful to your credit score. **In a Chapter 13 bankruptcy, you negotiate a payment plan, and creditors stop collection attempts.** You keep your assets, but must strictly keep the payment plan active or the creditors will seize your assets.

(That said, always consult the advice of a bankruptcy attorney when choosing the proper type of bankruptcy, and never choose a bankruptcy based on the impact it will have on your credit. Credit can always be repaired if you follow the right steps.)

Under Chapter 7 bankruptcy, you basically trade your assets and, in return, your debt is settled.

If you are declaring Chapter 7 bankruptcy, talk to your attorney about reaffirming a debt. **A reaffirmed debt is one that is kept after a bankruptcy, and in certain circumstances, a reaffirmed debt can help a credit score.** Imagine that you are declaring Chapter 7 bankruptcy, but you have one credit card that is in good standing with a creditor that you have had for years. Instead of having it included in the bankruptcy, ask your attorney if you should keep the account as active, also known as "reaffirming the debt." In some cases, this can help your credit score because it allows you to keep benefiting from the age of an account that is many years old. It also shows the credit-scoring bureaus that you did not use the bankruptcy as an excuse to

wipe your hands clean of all debt. Instead, you stayed true to your commitment to at least one creditor.

Keep in mind that reaffirming a debt is not something I can offer strict guidance on because it falls outside my scope of expertise. In some cases, it could hurt your score. Regardless, your bankruptcy attorney should counsel you one way or another.

What I can counsel you on is the importance of starting new credit. As soon as possible after a bankruptcy of either kind, and regardless of whether you have reaffirmed a debt, you must start establishing new credit. This new credit will likely be in the form of secured or pre-paid credit cards and an installment loan, for which you will likely need a co-signer.

It might sound strange that after filing for bankruptcy, I encourage you to establish new credit. **Keep in mind that I'm advising you to establish new credit, not new debt.** You should use your credit cards only for purchases you would otherwise make and only in amounts you can afford to pay in full at month's end.

I don't expect you to run out and buy a new car because it will help your credit. Instead, you will use an installment loan either to finance something you already have, or to purchase something you were planning on purchasing anyway. I talk more about this later, but the key is to make sure you can pay for the new credit you establish.

By establishing new credit, you tell the credit-scoring bureaus that you have turned over a new leaf. As we discuss in *7 Steps to a 720® Credit Score*, the credit-scoring bureaus place more weight on recent activities than they do on past activities. While your bankruptcy will likely hurt your score for several years, it will become less and less important if you give the bureaus evidence that you used the bankruptcy as an opportunity to establish different behaviors.

Handling a Foreclosure or Repossession

IN CERTAIN SITUATIONS, repossessions on small accounts can be less harmful than bankruptcies because repossessions only affect one account, whereas bankruptcies can result in auto repossession and discharging of many credit cards. That said, repossessions and foreclosures can be devastating.

Does this mean that it is hopeless if you have suffered from a foreclosure or repossession? **Absolutely not.**

Yes, a foreclosure or repossession is a major default, but it isn't the end of the world. You can bounce back relatively quickly if you are strategic and remember two important concepts we have already discussed:

1. **Do not wipe your hands clean of credit.**
2. **Establish new credit after a foreclosure or repossession.**

Think about two people: Toby and Janice. Toby has three credit cards, all of them with limits less than $1,000. He is a little wary of credit and does not want high limits, so he keeps his balance below 10 percent of his limit, which means his balance never exceeds $100. Janice, on the other hand, has three credit cards, each with a $20,000 limit. Janice keeps her balances at 30 percent of the limit. So while Toby has $300 in credit card debt, Janice has $18,000.

Obviously, there is a lot of context here. Janice makes upwards of $1 million a year. She pays her debt in full each month, and $18,000 in credit card debt is within her ability to pay back easily since she makes more than this each month. Toby, on the other hand, makes $40,000 a year. Both Janice and Toby have home loans and car loans, though Janice's monthly payments are ten times what Toby pays.

But they both manage their debt responsibly, and they both have a 750 credit score. Even though Janice is proving her creditworthiness on a much grander scale, Toby is proving himself as well.

This brings me to my point: If you have had a foreclosure or repossession, I think I can safely assume you have suffered from a financial breakdown of some sort, which many times means you may be reluctant to open new credit. **But your score will not increase unless you show that you can manage credit responsibly.** If you qualify for a $100 secured credit card, which means your balance cannot exceed $30, you should do it because it will help raise your score. If you buy a car for $1,500, which you can pay for in cash, finance a small amount—even if it is only $300—and find someone who will co-sign on an installment loan for you, especially if you have had a repossessed car. Sock the $300 in an interest-bearing savings account and pay the installment loan monthly for six months, then pay off your loan.

It matters not whether you prove your creditworthiness on a grand scale with large amounts or on a small scale with smaller amounts.

Regardless of your salary, you must show lenders that you will be responsible in the future.

Now let's switch gears and talk about people who are in danger of having their homes foreclosed upon. These people fall into one of three categories: **Those who can save their homes, those who can take the lesser of two evils, and those who must enter foreclosure**.

Let's consider the first: Those who have tight finances but are not doomed to foreclosure.

CATEGORY 1: THOSE WHO CAN SAVE THEIR HOMES

Imagine that you own a home. You have a job, and you are able to manage your house payments, though you do not have extra money at the end of the month. Then you suffer a hardship—your hours are cut on the job and you have an unexpected medical expense your insurance will not cover. After pouring over your finances, you are worried that you cannot afford your home. What should you do?

First and foremost, you should contact your creditors. Especially in this market, the banks do not want to foreclose. Yet too many people avoid their creditors when they suffer a financial hardship because they are afraid of what might happen. This is the exact opposite approach that you should take.

Instead, contact your creditor's hardship department. Many times, the hardship department will offer a payment program, modify your loan or, in some cases, delay your payments.

Do not wait until you are already late on a payment. As soon as you know you are going to be late, even if it is five days before the payment is due, call the hardship department and see what you can work out.

Some people have credit protection, which means that if they lose a job or suffer from a medical condition, their payments will be automatically delayed. You will only find out about this sort of service if you call the hardship department.

The first step is to keep a log and see how much you can save by avoiding the soda machine, bringing your lunch to work, cutting your magazine subscriptions, or, if push comes to shove, selling your car. I'm sure this sounds extreme, but wouldn't you rather keep your home and take the bus to work than live out of your car because you don't have a home?

Also, you might want to consider selling your home and renting. Don't think that you will never own a car or a home again. If you are financially strained, think of this as a temporary situation that will preserve your credit for future purchases and allow you to regain control of your finances.

Another option would be to refinance. Are you able to lower your payments? Can you consolidate bills? Do this before your credit is damaged.

Afterward, review *7 Steps to a 720® Credit Score* and take a look at the things that are not reported to the credit-scoring bureaus. Your gas bill probably is not reported, and your home phone line is probably not reported. If you must be late on something, be late on these bills. Obviously, it is your responsibility to pay your bills on time, but if you are having financial difficulties, be strategic. Look at those things that will hurt your credit the least, and be late on those if it means that you will save your home and your credit score.

After you have done all this—you have called the creditor, you have watched your spending, you have looked at refinancing your home—then you should ask: Am I able to keep my home? Remember not

to get caught in a trap where you feel you must keep your home no matter what. Sometimes it is better for your finances, credit, and peace of mind to sell.

Like many Americans, I have had the experience of driving a top of the line car, having a home, and having no money in the bank. After I had been in the mortgage industry for two years, I bought a home for $529,000 and was driving a car that cost $1,200 a month. My life was centered on paying these bills. I could not afford drapes, much less furniture for my home. Some weeks, I was collecting change so I could put gas in my luxury car. It was no fun, to say the least. At that time, if I had lost my job, I most definitely would have lost my house.

The moral: Taking prudent steps now to preserve your credit score is the kindest thing you can do for yourself and your peace of mind. By being strategic now, you will allow yourself to be positioned for future purchases when your financial situation is corrected.

CATEGORY 2: SELLING THE HOME

Obviously, no one wants to lose a home, but if you have decided that you have no other option, you should of course try to sell it. After you contact your lender about your tight finances, the first thing you should do is connect with a real estate agent who specializes in the current market. A seller's market is when buyers compete for the same home, which drives the price of the home up. A buyer's market is when sellers are desperately trying to attract buyers, which drive the price of the home down. These situations require a particular type of agent to manage the transaction, so be sure to find an agent who specializes in your area.

Visit *7 Steps to a 720® Credit Score* to request a referral in your area. Whatever you do, don't turn to the "For Sale by Owner" approach in the hopes of saving commission. According to the *2005 NAR Profile of Home Buyers and Sellers* report, the median price paid for a home that

is sold directly by the owner is 16 percent less than if sold through an agent. In 2006, the National Association of Realtors upped this number to 32 percent,[1] so while you might save money on the commission, the house will sit on the market longer and be sold for less. For the same reason, stay away from discount agents. A good agent can more than make up for his commission.

What if your home is worth less than your mortgage, which is happening more and more in this declining market? First of all, list your home with an agent who specializes and understands short sales. When you receive a short sale offer, the agent will help you negotiate a short sale with your bank. Short sales are not good for your credit score, but they are better than a foreclosure as they are not accompanied by a string of late payments leading up to the foreclosure date (as long as you are making your payments). At times, short sales are a Catch 22 as some lenders won't negotiate short sales unless the owner is significantly behind on their payments. Your short sale specialist will help you find the right answers.

With a short sale, the bank agrees to accept less than the total amount currently due on your loan. Not all lenders will agree to short sales, but in a distressed market, some lenders prefer a short sale to a foreclosure. If you are going to lose your home, this is a better option than foreclosure because the bank gets the home faster and, in many instances, in better shape.

Keep in mind, too, that there are tax implications anytime you sell a home, go through a short sale, or experience a foreclosure. Be sure to consult a CPA.

1 http://www.realtor.org/research/research/fsbofacts

CATEGORY 3: THE FORECLOSURE

Unfortunately, foreclosure is a reality from time to time. If you fall into this category, you should still be strategic and take action now. Burying your head in the sand will cause more problems down the road. Once you know foreclosure is going to happen, take every step necessary to preserve your status with other creditors so that you can consolidate the damage. If at all possible, keep a spotless record with your auto lender and credit card companies, which positions you much more favorably than if you let your foreclosure affect your other obligations.

Immediately after the foreclosure, start rebuilding your credit by following *7 Steps to a 720® Credit Score*. If a foreclosure is inevitable, go out of your way to accommodate the bank. Do not damage the home
or leave the home in need of repair. You can also contact non-profit organizations, such as Operation HOPE, who can help you find the economic tools you need to work through the foreclosure.

The key here is to make a strategic decision now to contain the damages. Too many homeowners whose homes go into foreclosure lose all hope and think that their credit is indefinitely harmed. They start missing payments on their car, credit cards, and other debts because they figure their credit cannot get worse. The problem is that it will.

If your credit is otherwise spotless, a foreclosure will hurt you for less time than if you entirely destroy all of your credit roots. Instead of ignoring the problem for six months, which only serves to compound issues, create a strategy to act now so that the foreclosure will not impact your future as much as it could with a less intentional plan.

I discuss collection accounts in detail in Step 6 of *7 Steps to a 720® Credit Score*. As with foreclosures and repossessions, a lot of people with credit card debt simply bury their heads in the sand and refuse to

take proactive steps. They try to ignore the problem, hoping it will go away. And guess what? Their accounts get turned over to collection. As a result, many people find their accounts sent to collections unnecessarily because they have not been proactive.

Don't be one of those people.

If you are going to be late, or if you have been late, pick up the phone and call your creditor. Many will work with you if you are in communication with them. It isn't uncommon for creditors to postpone payments for a couple of months while you get back on your feet. If you experience a financial tragedy or hardship, sometimes the solution is as simple as picking up the phone and asking for an extension.

Once an account is in collection, the solution becomes more complicated. We discuss this negotiation process in detail in Step 6 of *7 Steps to a 720® Credit Score*, and offer a script in the 7 Steps *Practical Guidebook*, *Guaranteed Results Workbook*, and *Guaranteed Results Toolkit CD-Rom*.

If you already paid items that are in collections, you won't have any luck getting it wiped off your report unless it was actually a mistake. In this case, your plan is simple: Follow the *7 Steps* and don't default on anything for at least two years, and you will see a substantial rebound.

Being On Time Every Time

HERE IS THE STORY of two people, Charles and Amy. Charles has sixteen years of positive credit history. He has a mortgage, three credit cards, and a few student loans. He tried to keep his utilization rate at about 30 percent. (If you do not know what a utilization rate is, see Step 1 of *7 Steps to a 720® Credit Score*.) Charles has never been late on any payment. His middle credit score is a 745, which isn't a perfect score (850 to 900, depending on the bureau), but it is a great score. He has exceeded the ideal utilization rate a couple of times (Step 1) and he doesn't have a car loan (Step 4), but Charles is going to qualify for the best loans available because he has deep roots and above a 720 credit score, which is the key number that gets him the best loans available.

Now let's consider Amy, who has a 745 credit score, the same as Charles. About three years earlier, Amy had a bankruptcy. She immediately implemented the *7 Steps*, and she began increasing her score quickly. She opened three new credit card accounts, used an installment loan to buy a computer, kept her utilization rate at 10 percent, and followed all the seven steps. But Amy doesn't have deep roots. Her strong credit could easily be affected with a couple of mistakes. So let's see how this plays out.

Consider that Charles, the guy with a 745 credit score and deep roots, is late for the first time in his life on a credit card payment. He has

never been late before. He has a great history with his credit card company. His score drops ten points. The credit card companies are alarmed because Charles's late payment is a change in his normal behavior, but the formula recognizes that a person who has deep roots is not as likely as someone with shallow roots to have repeated late payments. Because of Charles's long history of on-time payments, the ding to his score is not devastating.

The same month, Amy makes a late payment. The credit bureaus immediately see this as a red flag because they know she had a bankruptcy three years prior. The credit-scoring formulas are designed to give creditors a concrete answer to the following question: "What is the likelihood that this borrower will be more than ninety days late within the next twenty-four months?" And because of Amy's bankruptcy, the credit-scoring system assumes Amy is more likely than Charles to make future late payments, so they are harsher on her. Unlike Charles, who gets the benefit of the doubt, Amy is immediately dropped to a lower category. Instead of having a ten-point decrease, Amy has a fifty-point decrease. While Charles had the exact same late payment, he still has excellent credit— now a 735. Amy, on the other hand, goes from having excellent credit to having fair credit—695—with just one late payment.

Those of you serious about reclaiming your credit need to understand that **while you rebuild your score, you cannot be late.**

Not even once, not even for a day.

People with pristine credit and spotless credit reports can afford a bump or two. You cannot. So if you want to see a shift, you must be strict and diligent. This means that you must live within your means. You cannot have a day of retail therapy. You cannot buy a car that is just a little outside your budget. You need to be frugal and dedicated all the time.

My message might seem convoluted. On the one hand, I tell you to live within your means; on the other hand, I tell you to use credit, get an installment loan, and open new credit cards. You must have and use credit to build a good credit score, but this is not to say that you should make unnecessary expenditures. Use your credit card only to pay bills you must pay anyway or to buy things you must buy anyway. If you are going grocery shopping, pay for your food with your credit card, and then use the cash in your bank to pay the credit card off immediately so that you do not spend the money elsewhere and end up having to pay interest.

And certainly, do not go out and buy yourself a new car using an installment loan just so you can increase your score. Instead, read Step 4 of *7 Steps to a 720® Credit Score* for establishing an installment loan history for a person on a tight budget.

To Do List

1. Get your credit report immediately. Go to www.7StepsTo720.com for the link.

2. Open three new lines of credit following the advice of 7 Steps to a 720® Credit Score.

3. If you don't have the *7 Steps to a 720® Credit Score*, visit www.7StepsTo720.com to purchase your copy.

4. "FRIEND" Philip Tirone on facebook and be part of free product give-a-ways.

5. Follow Philip Tirone on twitter and keep up-to-date with cutting edge information.

6. Turn your success story into cash. Go to www.7StepsTo720.com for more information.

A FINAL THOUGHT

WHEN IT COMES TO YOUR FINANCIAL FUTURE, this book could be the most important book you ever read. Unless you systematically rebuild your credit, your bankruptcy or foreclosure could cost you hundreds of thousands of dollars over the course of your lifetime.

Don't be a statistic!

Be sure to also check out www.7StepsTo720.com for valuable insight into dealing with collections, correcting errors, and developing great credit habits. Try my *7 Steps* program in your home risk free for thirty days. If my program doesn't put you on the path to saving money, simply return it, and I will give you 100 percent of your money back. Your satisfaction is assured through my no-risk, you-can't-lose, 100-percent, no-questions-asked, ironclad money-back guarantee. For more information, visit www.7StepsTo720.com.

I offer this guarantee because I know one thing for sure: By following the instructions provided in the full *7 Steps* book, you will always feel blessed with information that translates to beautiful results!

Sincerely,

Philip Tirone
President
7 Steps to 720, LLC

P.S. Please email me at Philip@7StepsTo720.com with your comments or thoughts. Although I am unable to give personal credit advice, I would love to hear your thoughts, comments, and success stories!

P.P.S. Make sure to visit us at www.7StepsTo720.com for our other great products, news and information.

ABOUT THE AUTHOR

RECOGNIZED AS A THOUGHT LEADER in the credit industry, Philip Tirone speaks nationwide on the problems with our credit scoring system and how it erroneously burdens America.

After closing $500 million in residential home financing, Philip became attentive to the thousands of dollars in extra interest payments being wasted by Americans because of their credit scores. His mission is clear: educate Americans on how to increase their monthly disposable income *without* changing their lifestyle, simply by understanding the credit scoring process.

Realizing the strain this lack of credit transparency has on the American financial system, **Philip has made a personal commitment to show consumers how to navigate our credit system until our credit laws are changed and are fair to consumers.**

Philip's book *7 Steps to a 720® Credit Score,* dispels the misconceptions around our credit-scoring system and guides consumers who are struggling with bankruptcy, foreclosure, short sale, divorce, and many other experiences that impact a person's credit score.

Philip and his programs have been featured in the *Los Angeles Times*, *Wall Street Journal*, *Woman's World Magazine*, *San Francisco Chronicle*, *Bottom Line Magazine*, and the *New York Times* bestseller *"Secrets of the Young & Successful."* Additionally, Philip has been a frequent guest lecturer at UCLA Anderson School of Business and Management.

Philip currently resides in the Los Angeles area with his wife and three children.

For Information on:

Additional life-changing products:
www.7StepsTo720.com

Speaking engagements for Philip Tirone:
www.PhilipTirone.com

Have a success story? Go to:
www.7StepsTo720.com

7 Steps to a 720® Credit Score

Credit After Bankruptcy, Foreclosure, or Financial Crisis

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