RECOMMIT TO WEALTH!

START OVER, FINISH RICH

10 Steps to Get You BACK ON TRACK IN 2010

Author of 7 *NEW YORK TIMES* Bestsellers

DAVID BACH

Dear Friend,

Welcome to the free download of my new book, *Start Over, Finish Rich*! You have taken the first step in putting your finances—and your dreams—back on track in 2010. As you'll see, this is a very powerful book. It's super short and super simple. You'll be able to read it in a couple of hours. But it's going to change your life and totally motivate you to join in the economic recovery that comes after a recession. The recovery is starting now—and you cannot afford to miss it! This book gives you your action plan for 2010. I'll show you how to:

- Get out of debt
- Fix your credit
- Rebuild your 401(k) plan
- Take SMART risks
- Make your financial recovery automatic
- Rebuild with real estate
- And much more

Whatever you may have lost in the last few years—that's behind you. Life is too short to stay down. So please take this book—take your dreams—and START OVER.

Thank you for reading this, and please know that I am honored and grateful that you spent this time with me. I want to hear about how 2010 works out for you so email me your success story at success@finishrich.com and stay connected in the following ways:

VISIT MY WEBSITE

JOIN OUR FACEBOOK COMMUNITY

FOLLOW ME ON TWITTER

BUY THE BOOK

SUBSCRIBE TO MY NEWSLETTER

SUBSCRIBE TO MY NEWS FEED

Now start reading—and take your first steps on the new road to wealth in 2010!

Your friend,

David Bach
January 4, 2010

BROADWAY

This book is designed to provide accurate and authoritative information on the subject of personal finances. While all of the stories and anecdotes described in the book are based on true experiences, most of the names are pseudonyms, and some situations have been changed slightly for educational purposes and to protect each individual's privacy. It is sold with the understanding that neither the Author nor the Publisher is engaged in rendering legal, accounting, or other professional services by publishing this book. As each individual situation is unique, questions relevant to personal finances and specific to the individual should be addressed to an appropriate professional to ensure that the situation has been evaluated carefully and appropriately. The Author and Publisher specifically disclaim any liability, loss, or risk which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this work.

Published in the United States by Broadway Books, an imprint of the Crown Publishing Group, a division of Random House, Inc., New York.
www.crownpublishing.com

BROADWAY BOOKS and the Broadway Books colophon are trademarks of Random House, Inc.

The Automatic Millionaire Homeowner, The Automatic Millionaire, The Latte Factor, Smart Women Finish Rich, and Smart Couples Finish Rich are registered trademarks of FinishRich, Inc.

Library of Congress Cataloging-in-Publication Data
Bach, David.
Start over, finish rich : 10 steps to get you back on track in 2010 /
David Bach. — 1st ed.
p. cm.
Includes index.
1. Finance, Personal. 2. Financial crises. 3. Recessions. I. Title.

HG179.B2444 2009
332.024'01—dc22

2009035406

ISBN 978-0-307-59119-7

Printed in the United States of America
10 9 8 7 6 5 4 3 2 1
First Edition

STEP 4

FIX AND PROTECT YOUR CREDIT SCORE

When was the last time you checked your credit score? More than likely, if you haven't checked it in the last 12 months, someone else has—maybe even your employer. Your credit score is your financial GPA. In good times, it determines how much interest you will pay on any kind of loan, from credit cards to your mortgage. Today, because of the credit crisis and the recession, having a high score is more crucial than it has ever been.

In the current environment, if you don't have a decent score, you may not be able to borrow money at all—even if you don't have other debt, and no matter how much interest you are willing or able to pay. In some cases, employers are refusing to hire people who have low scores. I recently gave a talk at the Pentagon and the military leaders there told me that they take credit scores so seriously that a bad one can actually prevent a soldier from being promoted. (That's because they consider someone with bad credit to be a security risk.)

This alone should tell you how important it is that you take your credit score seriously and work to get it back on track this year. What excites me (and should excite you) is that these days we know so much about what goes into calculating your credit score that aiming to raise your credit score by 50 to 100 points in less than a year—and often in less than six months—is a completely realistic goal.

YOUR GOAL THIS YEAR: A FICO SCORE OF 720— OR EVEN HIGHER

According to Fair Isaac Corp., the company that created the well-known FICO credit-scoring system, the median credit score in America today is 720 (meaning half of us score better than that and half of us score worse). In fact, Fair Isaac has been citing that same number since 2005, and most experts are skeptical of its accuracy. My guess is that the median

FICO score today is actually much lower than 720—probably somewhere in the mid-600s.

That said, I think 720 is a good number to aim for, and my goal for you is to get your FICO score up to that level this year—and ideally even higher. With this in mind, we're now going to look at exactly what you can do to make this a reality.

GET TO KNOW YOUR CREDIT SCORE

Your credit score is not in fact a single number. Each of the three big national credit bureaus (Equifax, Experian, and TransUnion) has its own particular way of calculating our creditworthiness, as do literally hundreds of other lesser-known credit-reporting agencies.

Fair Isaac essentially invented the credit-scoring business back in 1989, and since then it's been considered the industry standard. All the big credit-reporting agencies base their individual scoring systems on mathematical models developed by Fair Isaac. This is probably why most people think the term "FICO score" is just another way of saying credit score (sort of the way people call all adhesive bandages Band-Aids and all facial tissues Kleenex and all photocopies Xeroxes).

According to Fair Isaac, more than 80% of lenders use FICO scores as part of their lending decision, so knowing your FICO score will give you a pretty darn good idea of whether or not you will be able to get a loan and how much it will probably cost you. What's more, while your FICO score may differ slightly from the scores calculated by the credit-rating agencies, it's not likely to be wildly different. In other words, if you have a great FICO score, chances are your other scores will be pretty good too. The opposite is also true: bad FICO score, bad credit bureau scores.

HOW DOES FICO DO IT?

Finding out your FICO score is simple enough. You just go to the FICO website (**www.myfico.com**). Figuring out how to improve your score isn't much harder. It's simply a matter of knowing the various factors that Fair Isaac uses to calculate it and seeing where you are weak. Where things get tricky is figuring out how to eliminate those weak spots.

On its website, Fair Isaac spells out how it weighs the various factors that go into calculating your score. They are, in order of importance:

1. **Payment History** (counts for 35% of your score)—Do you always pay your bills on time or do you have delinquencies? Are there any bankruptcies, liens, judgments, garnishments, et cetera, on your record? PAY ATTENTION TO

THIS! Simply paying your bills on time impacts more than a third of your score.

2. **Amounts Owed** (30%)—How much do you owe? What kinds of debt do you have? What proportion of your total credit limit is being used? (Most experts agree that a credit utilization of more than 50% will hurt your score. So if your Visa card has a credit limit of, say, $5,000, you want to avoid charging more than $2,500 on it at any one time.)
3. **Length of Credit History** (15%)—How long has it been since you opened your first credit account? How old is your oldest active account? (The average is 14 years; the longer your history, the better.) This is why you should no longer close old accounts you don't use—and why you should keep accounts open even after you have paid them off.
4. **New Credit** (10%)—How many accounts have you opened recently? How many recent inquiries by potential lenders? (Too much new activity is considered a bad sign.)
5. **Types of Credit Used** (10%)—How many different kinds of active credit accounts do you have? (A varied mix of credit—e.g., credit cards, installment loans, mortgages, retail accounts, etc.—is a plus; too much of one type is a minus.)

Basically, Fair Isaac takes the answers to all these questions and runs them through a complicated series of calculations. The result is a number somewhere between 300 and 850. Anything over 700 is considered good. Score 750 or higher and most lenders will give you their best deals—even in today's economy. On the other hand, a score below 620 means you will have to pay through the nose for credit. And if you score less than 500, the likelihood you can get a loan of any kind is very low.

What is amazing is how dramatically a difference of just 50 to 100 points on your FICO score can change everything when it comes to borrowing money. The table below, similar to one you'll find on the FICO website (**www.myfico.com**), shows how differing FICO scores will affect the mortgage rates banks are willing to offer you.

HOW FICO SCORES AFFECT YOUR MORTGAGE

Score	Interest Rate	Monthly Payment
760-850	4.85%	$1,584
700-759	5.08%	$1,624
680-699	5.25%	$1,657
660-679	5.47%	$1,697
640-659	5.90%	$1,779
620-639	6.44%	$1,885

Based on a $300,000, 30-year fixed-rate mortgage, as of 7/31/09

A 10-STEP ACTION PLAN TO IMPROVE YOUR SCORE

So let's get started. The simple truth is that raising your score isn't that hard if you know what to do. It just takes time. As I noted above, it's mainly a matter of understanding the factors that FICO weighs and then figuring out which of them you can change for the better. Over the years, I've coached literally thousands of people on fixing their credit scores, and based on that experience I've developed a 10-step action plan to get your score up quickly and keep it there. I promise you—regardless of where you are starting from, if you follow this plan, in six months your score will be higher than you thought possible.

1. Get your credit report and check it for errors. There is only one place you can get a truly free copy of your credit report: **www.annualcreditreport.com,** a centralized service for consumers to request free annual credit reports run by the three nationwide consumer credit-reporting companies, Equifax, Experian, and TransUnion. You must do this first, because it's extremely likely that there are errors in your report. A 2004 survey by the National Association of State Public Interest Research Groups found that 79% of all credit reports contained incorrect information. There is no reason to believe that things have gotten any better since then. Once you get your report, go through it with a fine-tooth comb. If you find any damaging errors (for example, late payments that were actually paid on time or credit limits that are lower than they should be), get them corrected as quickly as possible. You can do this by sending the credit agency a certified letter that explains what information was inaccurate, including copies of documents (such as bank records or mortgage statements) that verify what you're saying, along with a copy of your credit report with the disputed information circled in red. Under the Fair Credit Reporting Act, both the credit-reporting agencies and the banks and merchants that provide them with data are required to correct inaccurate or incomplete information in your report when it's pointed out to them. (Occasionally, errors can help you, as when accounts you closed are listed as being open; don't feel obliged to correct these.) You can find sample correction letters on my website at **www.finishrich.com/creditletters**.

2. Automate your bill paying so you never miss a deadline. Even if it's only a few days late, just one overdue payment—whether it's for your mortgage, a utility bill, an auto loan, a Visa account, or any of a hundred other credit obligations—can seriously damage your FICO score. FICO pays a lot of attention to whether you make a habit of missing due dates, so a series of late payments can really hurt your score. By the same token, a consistent record of on-time payments can improve it. Although FICO says it takes as much as **two years** of on-time payments to bump up your score, my experience is that if you pay all your bills on time for **a year,** your score will improve. This is why it is so important to set up the kind of automatic bill-payment plan I described in Step 3. If you haven't already done this, go back and reread that step and put the plan in place—it will protect your credit score and ultimately raise it.

3. Don't despair if you have missed payments. It's never too late to clean up your act. Get yourself current as quickly as you can and then stay current. Your score will begin to improve within six months—and the longer you keep it up, the more noticeable the increase will be. The negative weight FICO gives to bad behavior like delinquencies lessens over time, so as long as you stay on the straight and narrow, those black marks will eventually disappear from your record for good.

4. Keep your balance well below your credit limit. Of all the factors you can control—and improve quickly—how much you owe is probably the most powerful. What makes this especially important is that ever since the credit crunch first hit in the fall of 2008, credit card companies have been cutting customers' credit limits without warning—a practice that can be devastating to your credit score. Say you've got a $1,000 balance on card with a $2,000 credit limit—and then the card company slashes your limit to $1,000. Suddenly, you've gone from 50% credit utilization to being maxed out, and being maxed out can cost you as much as 100 points. This is why I recommend you use the DOLP plan I explained in Step 3 to pay down all your credit card balances as quickly as possible.

5. Spread your balances around—and don't borrow from Peter to pay Paul. Using one credit line to pay off another sets off FICO alarm bells—even if all you're doing is consolidating your accounts. All other things being equal, your FICO score will be higher if you have a bunch of small balances on a number of different cards rather than a big balance on just one or two.

6. If you rack up high balances, pay your credit card bill early. The "Amounts Owed" part of your FICO score is based on the balance due listed on your most recent credit card statements. So even if you pay your bills in full each month, running up high balances can still hurt your score. You can avoid this problem by paying down all or part of your bill *before* the end of your statement period, thus reducing the balance due that will be reported to FICO.

7. Hang on to your old accounts, even if you're not using them. Closing old accounts shortens your credit history and reduces your total credit—neither of which is good for your FICO score. If you have to close an account, close a relatively new one and keep the older ones open. Also, closing an account will not remove a bad payment record from your report. Closed accounts are listed right along with active ones.

8. Use your old cards. In the aftermath of the credit crunch, the credit card industry has begun closing inactive accounts. This can hurt your credit score, since it reduces the average age of your credit accounts. So my suggestion is that you pull out your old cards today and start putting at least one charge on each of them every month. This will keep the account open, which in turn will keep your credit history nice and long—and ultimately raise your score.

9. Demonstrate that you can be responsible. The best way to raise your score is to demonstrate that you can handle credit responsibly—which means not borrowing too much and paying back what you do borrow on time. Don't open new accounts just to increase your available credit or create a better variety of credit. This is especially true if you are just beginning to establish a credit history. Adding a lot of new accounts may look risky—and it will definitely lower the average age of your accounts, which can hurt your score if you don't have much of a track record. You should open new credit accounts only if and when you need them.

10. When you're shopping for a loan, do it quickly. When you apply for a loan, the lender will "run your credit"—that is, send an inquiry to one of the credit-rating agencies to find out how creditworthy you are. Too many such inquiries can hurt your FICO score, since that could indicate you're trying to borrow money from many different sources. Of course, you can generate a lot of inquiries doing something perfectly reasonable—like shopping for the best mortgage or auto loan by applying to a number of different lenders. The FICO scoring system is designed to allow for this by considering the length of time over which a series of inquiries are made. Try to do all your loan shopping within 30 days, so the inquiries get batched together and it's obvious to FICO that you are loan shopping.

BONUS TIP: Consider getting a credit score monitoring program. All of the three major credit bureaus, **www.equifax.com, www.experian.com,** and **www.transunion.com** offer an annual subscription service to monitor your credit record (most offer a free 30-day trial). The cost varies, depending on the offer—but this service can be invaluable to you to catch mistakes, and potentially any identity theft. Read the fine print before you sign up so you truly understand how much the service costs on a monthly basis and for how long they will bill you.

GOOD WORK!

You are on your way to a higher credit score and all the benefits that that provides: easier credit, lower interest rates on debt, and the trust of landlords, employers, and anyone inclined to check your trustworthiness. This lays the groundwork for the financial steps you have yet to take this year. So turn the page and let's get going.

TO DO IN 2010 ✓

- ☐ Go to www.annualcreditreport.com and get your free credit report.
- ☐ Consider signing up for an annual credit monitoring service at one of the major credit bureaus.
- ☐ Identify the factors that are keeping your score down (see pages 65–66). Take action on each one.
- ☐ Recheck your credit score in six months and again at the end of the year. Remember, your goal is 720 or higher.