

I WAS BROKE.  
NOW I'M NOT.

# HOW I BUILD MY CREDIT



By Joseph Sangl

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One of the most common questions I am asked is, "How do I build my credit?" I have various ways that one can build credit while still winning with money.

## PART ONE: Understanding Your Credit Score

Credit scores are a measure of one's ability to manage debt. The dominant credit scoring system which is used by most lenders was created by Fair Isaac. This system provides a measure of an individual's credit worthiness and is commonly known as a FICO Score.

A credit score impacts many things. It determines whether or not you can obtain a loan. If you qualify for a loan, the credit score dictates the interest rate charged.

Credit scores also impact insurability. When you obtain auto, renters or homeowners insurance, the credit score directly impacts the insurance cost. The lower your credit score, the higher the insurance premium will cost. I have seen insurance premiums doubled because of poor credit.

Credit scores also impact the ability to obtain a cell phone contract or an apartment lease. It can affect utility connections. Utility providers usually require much larger deposits from people who have low credit scores. If you have an excellent credit score, a deposit might be waived entirely. Credit scores can even impact your ability to obtain a job. Military personnel have been denied or lost security clearances due to their credit.

It is important to understand how one's credit score is calculated. There are some key characteristics that are used by credit monitoring companies (Experian, Equifax, and TransUnion) to determine your score.

- Type of Credit - There are two types of credit. Installment (car payment, house payment) or Revolving (credit card, line of credit).
- Total Available Credit - This is the total of all credit limits.
- Total Credit Utilized - This is the total of all current debt.
- Length of Credit Relationship - The longer the credit relationship, the better.
- Payment Timeliness - Obviously, payments need to be paid on time to achieve the highest scores.
- Requests for Credit Made for Potential Purchases
- Public Records - Bankruptcies and judgments are not helpful to a credit score.

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Credit scores are only a measure of how well a person can manage debt and contractual financial agreements. If you read the list again, you'll notice it doesn't include any relationship to how much money one might have in a savings account or any connection to a person's net worth.

Here's the fact: You could be a millionaire and have a terrible credit score.

How? By having zero credit relationships.

While a great score is more desirable than a terrible credit score, it is not the best indicator of financial success. You can choose to make financial decisions about what best increases financial margin and net worth while maintaining a good credit score.

## PART TWO: Monitor Your Credit Score

Now that you have a better understanding of how your credit score is calculated, it is important to check your score often. These reports can have mistakes on them and you do not want that to adversely affect your credit. Once you've obtained your credit report, read through it and check for accuracy.

- Is all of your personal information accurate? (Social security number, birth date, full name, address, etc.)
- Are all of your credit accounts being reported?
- Are there any late or missed payments listed that you remember making on time?
- Are there any accounts or applications for credit that you do not recognize?
- Are there any items from decades ago still appearing on your report?

If you identify any mistakes you can dispute them, have them removed from your report and be one step closer to a perfect score.



## PART THREE:

### Swipe Purchase and Immediately Pay Off

A great way to boost one's credit score is to obtain a department store credit card. Here is how it works:

1. Ensure that a small purchase from that store (something you truly need) is included in your monthly budget.
2. Pull the money planned for that purchase out in cash and head to the store.
3. Purchase the item with the department store credit card.
4. Immediately after being given the receipt, tell the cashier that you want to make a payment on your credit account and give them the cash for the purchase to bring your credit account balance to EXACTLY ZERO.
5. Do this once each month.

Your credit will soar as the length of the credit relationship increases and as the balance remains at zero.

**Note:** If you do not trust yourself with a credit card and controlling your spending using a written, monthly spending plan, then **do not** use this method!

## PART FOUR:

### Pay All Bills on Time - Consider Automatic Bill-Pay

If you do not pay your bills on time, the late payments will be reported to the credit reporting agencies. This means that you need to pay off your utility, cell phone, and other monthly bills on time. This is why I am such a huge fan of a written monthly spending plan (budget). When you have a plan, the chances of paying a bill late are greatly reduced.

If you live an exceptionally busy life or are notorious for procrastination, consider automating bill payments. This will ensure that bills are paid on time and can greatly reduce stress and the potential for your credit score to be dinged.



## PART FIVE: Reduce the Amount of Debt You Owe

The amount of credit that you utilize has an effect on your credit score. This is because carrying a high balance could indicate to lenders that you're struggling financially and might not be able to pay it back. Your utilization rate is calculated by adding up the the amount of debt that you owe across all accounts and divide by the amount of your total available credit. For example, if you owe \$3,000 and your maximum credit limit is \$15,000 then your credit utilization is 20%. Keeping this percentage low, ideally below 20%, will have a positive impact on your score.

Credit utilization accounts for about 20-30% of your total credit score so it is very important to manage this percentage. Here are some things you might consider doing to help you manage:

- **Ask your card issuer for a credit limit increase.** Now, this does not mean keep purchasing items on the credit card just because you have a higher limit. This is simply adding to the maximum limit in order to lower your utilization. Consider this: even if you had a credit card with a \$500 limit and you spent \$250 every month and paid it off, you would still be utilizing 50% of your credit.
- **Pay your credit card bills more than once per month.** Paying your bill more than once per month can help ensure that your credit usage is lower when it is reported to the credit bureau.

If you have credit card debt, stop using your credit cards. Work on paying this already existing debt down and your credit score will increase in the process. If you are following the *I Was Broke. Now I'm Not.* Ladder (and you should be!), you begin to accomplish this on Rung Four.

## PART SIX: Understand Why Credit Scores are Necessary

What is the number one reason why someone would want a great credit score? To obtain more debt!

Think about it. I am not a fan of debt at all. It robs people of peace and places tremendous strain on relationships.

What is debt anyway? Debt is nothing more than pledging tomorrow's income to someone else.

If one has zero debt, then they will have no credit score. They could have \$10,000,000 in the bank but have a zero credit score.

Your credit score should not define who you are, but it will play an important role in your future financial decisions.

Now that you have a better understanding of credit scores and how they are calculated, work on building a decent credit score, and do it all with a written spending plan.





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# **ABOUT I WAS BROKE. NOW I'M NOT.**

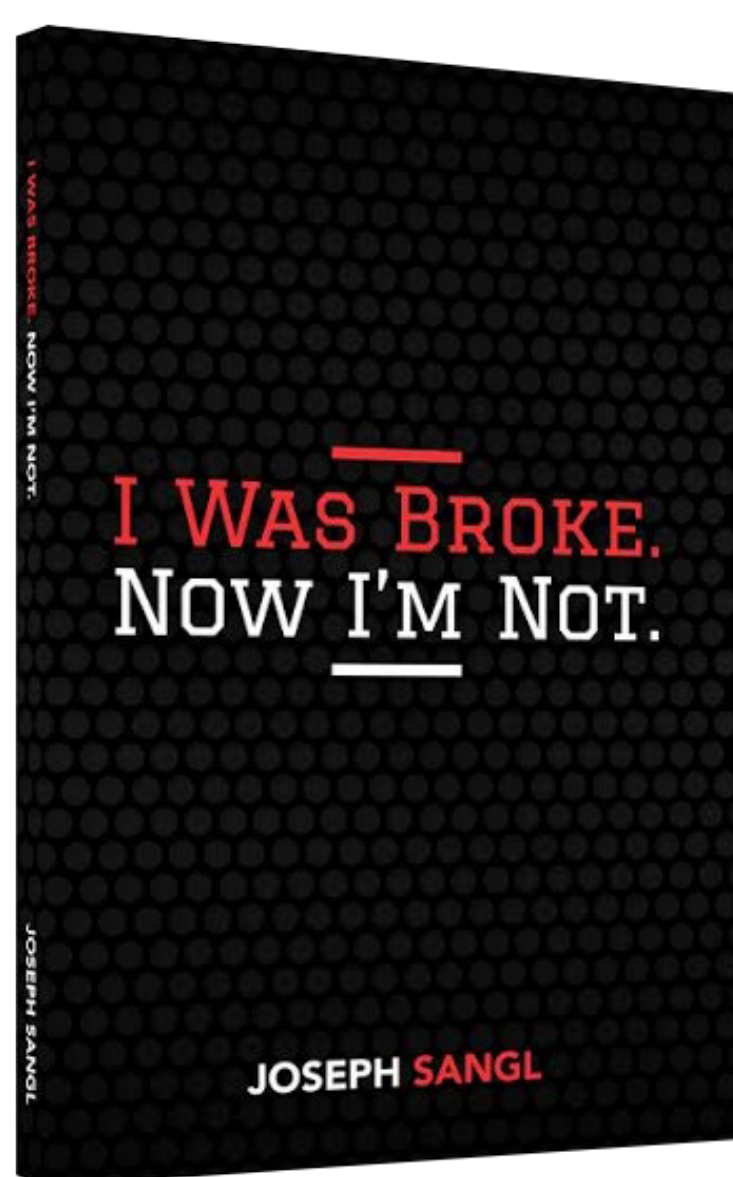
I Was Broke. Now I'm Not. was founded by Joseph Sangl who had a dream to teach people practical ways to win with their money. The IWBININ Team is passionate about equipping people to accomplish far more than they ever thought possible with their personal finances.

The IWBININ Team accomplishes its Passion Statement through the following means:

- Providing FREE personal finance tools via its website
- Writing books, studies, articles, and blog posts that teach practical and relevant personal finance tools
- Teaching live online experiences that build knowledge on financial topics
- LIVE speaking and teaching at churches, business and non-profit organizations throughout the world

Contact the IWBININ Team via email at [info@iwbnin.com](mailto:info@iwbnin.com) or call [864] 332-4151

# **I WAS BROKE. NOW I'M NOT.**



Money doesn't have to be a frustrating or confusing topic. When you apply the practical tools shared by Joseph Sangl in I Was Broke. Now I'm Not., you will gain control over your finances. As your financial education increases, you will begin to see your plans, hopes, and dreams become a reality as you start living a fully funded life! In this book, you will learn the fundamental rules of money. Even more importantly, you will walk away with HOPE that you can live a fully funded life!

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# ABOUT JOSEPH SANGL

Joseph Sangl is a leading teacher of personal finances. It is his passion and mission “to help people accomplish far more than they ever thought possible with their personal finances.” He firmly believes that when people are financially free, they are much more likely to go do EXACTLY what they have been put on Earth to do – regardless of the cost or income potential.

He is the founder of I Was Broke. Now I'm Not., an organization that provides financial teaching through live events, print and web resources.

Joe has taught hundreds of thousands of people through Financial Learning Experience, Financial Freedom Experiences, one-on-one financial coaching sessions and personal finance messages. He is the author of the books, I Was Broke. Now I'm Not., What Everyone Should Know About Money Before They Enter The Real World, Funded and Free, and OXEN: The Key to an Abundant Harvest. His story has been featured in Money Magazine, the world's largest personal finance magazine.

He obtained a BS Degree in Mechanical Engineering from Purdue University in 1996 and an MBA from Clemson University in 2001.

Joe resides in Anderson, South Carolina, with his bride, Jenn, and their three children.



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