

# The Truth About Your Credit Score

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The dreaded FICO score. It's that number that's associated with every credit report. We all know about it—most people have one—but *what does the credit score really mean?*

Like it or not, your credit score is *not* an indicator of winning financially. **All it tells you is whether you are good at borrowing money and paying it back.** That's it.

But let's take a deeper look. How is your FICO score determined?

- 35% of your score is based on your debt history.
- 30% is based on your debt level.
- 15% is based on the length of time you've been in debt.
- 10% is based on new debt.
- 10% is based on type of debt.

## It's the I-Love-Debt Score

Your FICO score is an I-love-debt score, isn't it? Does it factor in your income—or, even better, your debt-to-income ratio? Nope. Does it factor in your savings accounts, net worth—anything other than debt? Absolutely not.

The only way to have a good credit score is to go into debt, stay in debt, and continually pay your accounts perfectly—without adding too much debt or paying too much off. In other words, stay in debt for as long as you can. How ridiculous is that?

Now, if you are on Dave's plan—paying off old debt and not opening any new debt—then you'll eventually reach the point of being debt-free. At first, you'll pay off credit cards, car and student loans and things like that. Then, one sweet day, you'll finally knock off that mortgage.

After killing all that debt, your credit score will become "indeterminable." This is great news! By this point in your life, you haven't taken out a loan in years, you've saved a ton of money, and you're paying cash for everything. So **you don't need a credit score, anyway, since you don't plan on using credit!**

## Getting a Mortgage Without a Credit Score

Let's go back a few years, though—back before you paid off that mortgage. How can you get a mortgage without a credit score in the first place? Isn't this magic number your key to the world of mortgages and homeownership?

Actually, no, it isn't. **You can get a mortgage without a credit score.** How so? Manual underwriting.

Not every lender is going to do manual underwriting—which is basically when they use a little common sense and look at factors like your income and not just your credit score. Churchill Mortgage is the lender we recommend for manual underwriting.

Now, this doesn't mean that just anyone can walk into a bank or mortgage lender and walk out with a home loan using manual underwriting. Remember, this is the way weird people do it, so **there are some requirements** you've got to live up to. Specifically, you must:

- Put at least 20% down on your home.
- Choose a 15-year, fixed-rate conventional mortgage.
- Have a strong employment history and personal income to support the loan.
- Demonstrate 4–6 trade lines that span 18–24 months. These are just regularly recurring expenses such as rent, electric bills, water bills, cell phones, etc.

Also, your old credit history has to be in good shape. Even if you have a zero score, the old history is still there and impacts the loan decision. If you have an old history of late or missing payments, then you could have some problems.

## You *Can* Live Without It!

Now don't go out and trash your credit score and say "Dave Ramsey told me to!" That's not what we're saying. But we will tell you not to bow at the altar of the "Great FICO." In other words, **don't worship your credit score**—because you *can* live without it.

Dump debt, save money, and pay cash. Do that and you will be well on your way toward building wealth—not your credit score. And what's more important?

# How to Read Your Credit Report

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You know you *should* get a copy of your credit report every year and check it over for any inaccuracies.

But do you actually do it?

Most people don't because they're confused by all the numbers and terms. Once you've learned what all that information means, you'll have no trouble reading your credit report. And since **79% of all credit reports contain some kind of error**, it's important that you not only get an annual copy of your credit report, but that you check it over to make sure everything is correct.

Obtain a copy of your credit report from the three major credit-reporting agencies: Experian, TransUnion and Equifax. You are allowed **one free copy every year** from each of the agencies. The reports are not automatically mailed to you; you must ask for them.

There are four parts to any credit report:

## Identifying Information

This section lists your name, address, Social Security number, date of birth and other information used to identify you. Read through the information carefully. It isn't uncommon to find your name misspelled or the wrong address listed.

## Credit History

The bulk of the report is in this section. It's a list of your open and paid credit accounts. It also shows any late payments on your part. Things like total loan amount, high credit limit and how well you've paid the account are included as well. Read and re-read this section to make sure all information is correct. If you've closed a credit card account, double check to see if it's noted. Thirty percent of credit reports contain credit accounts that were closed by the consumer but are still listed as open on the report.

## Public Records

You want this part to be blank. Financial activity like bankruptcy, tax liens and judgments are listed here. Everything given is public record, and you want to keep this section as clean as possible. It's not about saving your credit score; it's about saving your financial life. The smarter you are with money decisions, the better financial life you will have.

## Inquiries

Everyone who has asked to see your credit report will be listed in this section. If anyone checks out your report, a detailed inquiry will be posted. This is extremely beneficial for you as the consumer. The inquiries are in two sections soft and hard. Soft inquiries are from companies who want to send you promotional materials or from current creditors who are checking your account. Hard inquiries are made when you fill out a credit card application.

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