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How To Get The Highest Credit Score Possible… And The Loans That You Deserve

Michael Senoff Interviews
Consumer Credit Expert

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Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

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Now, let's get going.

Michael Senoff

Michael Senoff

Founder & CEO: www.hardtofindseminars.com

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Published by:

Michael Senoff
JS&M Sales & Marketing Inc.
4735 Claremont Sq. #361
San Diego, CA 92117
858-234-7851 Office
858-274-2579 Fax
Michael@michaelsenoff.com
http://www.hardtofindseminars.com

How To Get The Highest Credit Score Possible…And The Loans That You Deserve

Everyone knows you need a high credit score in order to get a good loan. It's the single most important factor lenders use when determining whether you're a credit risk or not. But fortunately no matter what your credit score looks like today, there are simple steps you can take that will boost it to its highest level possible.

That's why in this hour-long interview you'll meet Dave. Dave is a credit consultant, newspaper columnist, and author of *How Credit Really Works*. And according to him, anyone can bring up their credit score – you just need to know how. But the bad news is: your score may be lower than you think. Dave says the credit scores you get online are not the ones most lenders see. In fact, your real score could be more than 100 points lower!

Because there are multiple scoring models used to determine different credit scores, there are sometimes huge discrepancies in what you think your credit score is and what lenders are seeing. So it's important that you know exactly what determines your score and how you can improve it.

Key Concepts You'll Learn From This Interview…

- What is the ideal credit mix – how many credit cards you should have, how often you should use them and what kind of balance is okay to maintain
- What "credit inquiries" are, why they show up on your credit score and how to avoid getting too many of them
- Why you should never close a credit card account – even if you're not using the card – and what you should do instead
- Why you should only use finance companies as a last resort
- What you need to know about balance transfers, debt consolidation and pre-approved credit card offers
- The best place to find credit cards when you need them
- And much more

Dave's been dealing with credit accounts for a long time and he knows all the tricks of the trade. So when he does a consultation, he tells you exactly how to handle every account and discrepancy. He tells you what to say to collection agencies – and what lies you can expect them to say in return. In other words, he tells you how to take a proactive approach to your credit score.

But the key to good credit is in knowing how the system works, and this interview is a great place to start. And after you listen to it, if you're interested in a detailed evaluation of your credit score, Dave's including a free copy of his book with every consultation. Enjoy.

Michael: Let's go over these mistakes that people are making. Let's just take them one by one and discuss each one, okay?

Dave: Sure.

Michael: You've got here a bunch of mistakes that people are making with their credit. Let's talk about some of these.

Number one is not knowing you're three credit scores. Why don't you first describe for a neophyte what is a credit score and why are there three of them?

Dave: There are three credit scores because there are three credit reporting bureaus: Trans Union, Equifax and Experian. A credit score is a three-number, three-digit representation of a person's credit risk, that is how likely are they to pay back a debt and credit was introduced into this country around 1982 by a couple of software engineers, Dr. Fair and Dr. Isaac. That's why we have Fair Isaac & Company FICO score. They sold their software to the three major credit bureaus as a way of calculating risk.

So rather than somebody going into their bank and asking for a loan and that loan officer looks are their credit and makes a human judgment, this is a computer representation comparing tens of millions of credit profiles against each other and determining who's a better risk compared to the worst risk. So the scoring software allowed loan decisions to be done more scientifically. What's interesting is that the consumer credit explosion – you know, all the credit cards and the consumer debt and so forth – really began right around 1982, which is when I got my first credit card.

Michael: Wow. What should us consumers be striving to get as far as a credit score? Tell me, what's a good score and what's a real poor score?

Dave: Well, most people like to be in what I call the 800 club – having their scores over 800. That's not necessary to do anything you want in the world of credit today, a credit score of 740 or higher.

Michael: If I have a 740 credit score, what are some of the benefits that I'm going to get? So if I'm want to work towards that and I'm not quite there, getting that magic number 740 or higher, what's in it for me by having that?

Dave: You get the lowest rates on automobiles, the lowest rates of credit cards, the lowest rates on mortgage loans. When you see those advertisements on TV for 0.9% for buying a car, it says very qualified credit people only. Well, these programs are mostly 730, 735 and 740 credit scores. So in order qualify for the 0% or the 3.99% financing, you're going to need scores like this.

Michael: Alright, now let's paint me a different picture. Let's say I'm right under that threshold. What's the difference I'm going to paying in this finance charge?

Dave: You go to your bank and they'll give you the current automotive interest rate which probably is in the 6% area compared to 9%, or no finance charge.

Michael: Wow! That's huge difference over a five-year car loan or 10-year car loan or mortgage.

Dave: Somebody with a 700 credit score is very easy to get it to 740. Getting somebody from 600 to 740 in a very short time is much harder. Although I've done it, it's much harder.

Michael: So I want you to paint me a picture. Let's say that you have a guy who comes in. He's got a 700 credit score and he qualifies for a certain amount of credit for a home loan – let's say it's a $500,000 loan and it's a 30-year. Then compare it to the guy who comes in with a 750 credit score and he qualifies for, like what you talked about, the best possible loan at the lower rates. After 30 years of paying off his house on that mortgage, what can that mean in dollars when you're comparing the two?

Dave: I'd have to get out my mortgage calculator to calculate that one.

Michael: Can you roughly?

Dave: Sure. Tens of thousands of dollars, probably means something around a quarter percent or three-eighths of a percent better rate over 30 years should calculate out over $10,000.

Michael: So that is much of a better you're going get, maybe a quarter percent better with the 750 compared to the 700?

Dave: If you look on mortgage lender rate sheets, you'll see that there is a bonus for having a score over 720 and sometimes over 680, all the lenders are different.

Michael: Are there any bonuses higher than the 720? Like if you're in the 800s?

Dave: Not for normal mortgages. Maybe for something like time shares or something like that, something rare. The 740 is more automotive. The 720 is for mortgage loans.

By the way – and this is really important, Michael – the scores that people get online when they get their credit scores online are not the scores their mortgage lender will get. It used to be that the mortgage scores were always higher than the consumer scores. But now I find that the mortgage scores can be, I've seen one, 120 points less than the person claimed they got online.

Michael: How can the mortgage people get different scores than what we're seeing if it's supposed to be a representation of our credit score?

Dave: It's supposed to be. Well, the thing I always keep in mind is that the credit bureaus are multi-billion dollar businesses and they're interested in more money. They're not interested in providing necessarily true information. So about five years ago when consumers scores were available to consumers, it was created on a completely different scoring model than mortgage lenders use and mortgage lenders use a different model than automotive lenders use.

The Fair Isaac & Company FICO has multiple different scoring models. So when I pull a person's credit for mortgage purposes, the FICO scores are calculated for the purpose of a mortgage loan. When somebody goes to their auto dealer and those scores are pulled, they're going to be a little different than the mortgage scores because a person's going to scored more heavily on their past automotive payment history. Some people don't pay their credit cards that well but they pay their auto loans great. So obviously the credit score for an automotive loan should be weighted towards the purpose of the loan and the purpose that the scores are being drawn.

Michael: So purchasing the wrong scores is a mistake when you're trying to establish where you're at credit-wise?

Dave: Yeah. The online scores to me are worthless unless they're being used to compare where you were six months ago to where you are now. I even find that that when people go to different places and pull their consumer scores, they're vastly different. So if you're just going to go online and see if you have a 700 credit score at different bureaus from one resource, you should go back to that resource again so that you're establishing a base. But when I do a consultation, I draw their mortgage credit. One, I get more information so I can give them better advice; and two, they're more realistic scores compared to what they'll get.

Michael: Can a consumer pull his own mortgage score? Is there a resource for that or do they have to go through an expert?

Dave: Mortgage lenders are authorized by the three credit bureaus to pull mortgage credit. They actually send an inspector out to the mortgage office and make sure that certain things are in place for security of the files and so forth. For example, a credit repair company is not allowed to pull credit at all. They don't like credit repair companies.

Michael: Why is that?

Dave: Because the credit repair companies have cost them hundreds of millions of dollars in extra labor that they otherwise wouldn't have had to spend.

Michael: Because of the Fair Credit Reporting Act?

Dave: They have to respond in 30 days and there are probably thousands of illegal credit repair companies pumping up their franchises and software being sold and people are going into this business completely illegally, completely ignorant of the federal and state laws that they would have to follow to be able to be in that business.

But about a year ago, the credit bureaus, being the arrogant people and corporations that they are, actually went in front of Congress – I believe it was the Finance Committee – and blatantly told that committee that they were no longer going to verify negative items more than once even though that's a direct violation of the Fair Credit Reporting Act. See, they were trying to cut their labor costs. They were so inundated with all of these credit repair companies popping up all over the United States in people's spare bedrooms and basements that the hundreds of millions were becoming more hundreds of millions and they wanted to cut their labor costs.

Michael: What do you think happened?

Dave: I think that the volume of disputes on negative credit items reached a crescendo and the credit bureaus said, "Enough! We've got to cut these expenses."

Michael: So is it making it harder for consumers to challenge the reporting agencies?

Dave: Much harder. The credit bureaus are only verifying a negative item once.

Michael: One time?

Dave: One time. So now relying upon credit repair to remove negative items to increase scores is harder than ever and it's less likely than ever to result in the improved scores that a person wants.

Michael: And that's why you're different, where you're focusing more on improving the credit assets you have rather than messing with or trying to remove the negative stuff.

Dave: Right. You can still work on the negative stuff, like there are correct ways to handle collection accounts and incorrect ways. But when you do something with your positive credit or correctly add the right kind of positive credit, the scores go up without question. I mean if a person does what I tell them, the scores will go up. They just will. And the uncertainty of disputing a negative credit compared to the 100% certainty of doing something I suggest is vastly different.

Michael: Here's another mistake: having unnecessary credit inquiries on your credit report. Tell me, what is an inquiry and why is this a mistake?

Dave: Sure. When you apply for credit, let's say you go to Circuit City or Best Buy or Home Depot or whatever and you want their credit card or the mall stores, the clothing stores – "We'll give you 10% off today or a t-shirt if you applied for the store credit card." There's an inquiry on the credit report.

Actually, we're in the area of what I think is the biggest myth about how credit scores work out there. This is a question I get asked often when I'm lecturing: *Is it true, Dave, that when you're applying for a home loan or an auto loan, you can have as many inquiries as you want within a 30-day period and it doesn't affect your scores?*

That's the myth that's out there that it won't affect your scores and that's not true. Now, you get maybe four or five credit inquiries within the last 90 days and that won't affect your scores. But you get over that and your scores are dropping two to five points for every inquiry temporarily and as time passes, those two to five points are slowly added back to the credit scores.

Michael: How long does that take, do you know, to get back?

Dave: Yeah. The inquiries stay on the credit report for only two years and as time passes, they hurt the credit less and less. I saw one guy, a Wells Fargo bank mortgage loan officer and he asked me to look at his credit and he had 36 inquiries in one day. He only went to one dealer to shop for a car. That finance manager called out to 36 companies and there were 36 inquiries on that Saturday.

Michael: And that brought his score down about 60 points?

Dave: Yeah.

Michael: Wow! So when you're shopping for a car and you're trying to get credit, be very careful there.

Dave: Oh, yes. That was an extreme example but very true.

Michael: Could that happen when they're shopping for mortgage loans?

Dave: It can, absolutely. Every loan officer that you speak with is going to want to see your credit reports. It's not only about scores, it's about how old the accounts are. Mortgage lending is very complicated just as credit scoring is very complicated. So it's not all about credit scores. Lenders require the accounts to be open for a certain length of time. Lenders require the accounts to be of a certain size, etc. So it's not only about scores.

Michael: You also say here a mistake is not knowing the lender's guidelines before you apply.

Dave: Yeah. Different mortgage lenders and different automotive lenders have different requirements. Like maybe Wells Fargo, to get their best automotive rates, maybe they have six grades of credit. To be in their top grade of credit for the best rates, maybe that requires a 700 credit score or a 720. And then you have a slightly higher rate for 680 and a higher rate for 660, etc.

So you can just go into your bank for an automotive loan or even a mortgage loan and ask what those criteria are. But remember you have to draw the right kind of credit report to know what those scores are.

Michael: If I was to go into my bank, what are some good questions that I would ask about their guidelines?

Dave: Just ask for their rate sheet on automotive loans and they'll just hand it to you. It's just that simple.

That's not true for mortgage rate sheets. Mortgage rate sheets are very complicated and here in the Los Angeles area, I only know of one bank that will hand out its daily rate sheet.

Michael: So get the rate sheet and avoid them running reports on you and lowering your score?

Dave: Yeah, so long as you know what your actual score is. You have your mortgage credit run on the agreement with the loan officer. You get a copy of that credit report – it's run once. Now you see that your credit scores are 720, 725 and 760. So now you know that your middle credit score, which is used for mortgage lending, is over 720. Now, when you shop for mortgages, everyone you speak with, you just say, "Assume my score is 720." That loan officer should also ask questions like "Do you have three accounts that have been open for at least 24 months?" Then you look at your credit report and you say, "Yes, I do." "And is at least one of those accounts $2,500 of open credit?" "Why yes, it is."

So having the actual credit report – mortgage, automotive, there's even one for landlords – knowing what your scores are for that type of credit you're applying for, this is how you can avoid multiple inquiries.

Michael: Very good advice. Leaving a balance on my credit card account – is that a mistake?

Dave: Both yes and no. Having a high balance compared to your credit limit will definitely harm scores. Why don't I just give you those percentages?

Michael: Well, give me an example. A balance on my card. Let's say I have a $10,000 credit limit. Should I be paying it off? I don't understand.

Dave: Well, on a $10,000 credit limit, if you carry the balance over $7,500, you would get the lowest credit score related to the account possible.

Michael: Yeah, I see. So you've got your card just about maxed out, they don't like that because it shows that you need money basically.

Dave: Yeah, you're a credit risk. There is a theory – one that's been really hard for me to check out – that if you carry a balance between 30 and 35% of your credit limit month after month after month, it very slowly pumps up your credit scores but I'm always of the belief that you can buy more in your life with cash and you buy less in life when you use credit because you're paying interest. So paying interest on 30% of your credit limit carrying a $3,000 balance month after month I don't think it's worth a few extra points.

Michael: If you have credit cards and you can pay them off, it's always better to pay them all the ways off so there's zero balance. That's going to get you a higher score?

Dave: Any financial planner will tell you that's best for financial planning and I'll tell you that that's best for credit scores.

Michael: Let's say I'm trying to establish better credit and I go out and get five cards. Paying them all off – that's still going to get me a positive score rather than paying maybe the minimum, let's say it's 10% of my balance. Don't they want me to make payments so they can money on the interest? Or does that have nothing to do?

Dave: Of course, the credit card companies do. I run $3,000 or $4,000 a month through one of my credit cards …

Michael: But that has nothing to do with my score?

Dave: Using your credit cards both raises and lowers your scores for different reasons. Like if you have a zero balance and you go out and put $5 of gasoline in your car. I actually had somebody who scores dropped just because they put $5 of gasoline in their zero balance card. That taught me something new. I had told him to use his credit cards about every four months because that gets the best score possible. You just use your credit cards every three, four or five months.

Michael: What about more frequently?

Dave: Not necessary.

Michael: I see. You want to keep it active.

Dave: Yeah, because people who leave credit cards in their sock drawers, like I used to do, and they get a notice that their card has been cancelled for non-use. I actually had one cancelled on me for seven months of non-use.

Michael: You don't want your card cancelled like that.

Dave: It's a negative item on the credit report. It's not horrible but it says "Account closed by credit grantor". If you close an account yourself, it may or may not drop your credit scores. It may raise your scores, it may lower scores. It is not necessarily a good idea or a bad idea.

Michael: Let's say I'm sitting on five or six cards that I'm not using, they're inactive. What should I do?

Dave: Go out and buy groceries with each card every four months.

Michael: Okay, that's a good idea.

Dave: Yeah, obviously you need the food. You should keep your scores as high as possible. You don't have to go out and spend a lot of money on anything. You just use your cards for what you ordinarily buy and use each card every four or five months for best scores.

Michael: This may be redundant but it's number six: maxing out your credit cards each month. That's a mistake.

Dave: A huge mistake. Over the past few years, credit card companies more and more have been raising interest rates just because people carry a high balance even if they're paying more than the minimum because by their logic – and Citibank is worst in this area and had to answer to Congress a few months ago about it – they raise people from their 9.9% up to whatever the legal maximum is in the state, 25%, 30%, just because they look like a credit risk because they're carrying a high balance or just making minimum payments.

People call me about this all the time. *But Dave, I paid on time, I paid more than the minimum. They took me from 8.9% to 25%. What do I do?* There's nothing they can do except avoid it in the first place.

Michael: Number seven: assuming that the lenders share payment history with reporting agencies. What do you mean by this?

Dave: Well, the credit reporting system is a money-making system for the credit bureaus. A creditor or a lender is charged for putting data onto credit reports. So it's an expense for lenders and creditors. So they're not required to do it. There's no law that a lender or creditor actually has to report. So maybe a small credit type company only reports to one credit bureau or two or none. You can't necessarily assume that just because you were granted credit, that is going to be reported.

Michael: So credit unions are the worst offenders?

Dave: Yeah, that's true. I like credit unions because their rates are highly competitive and I like them a lot as a lender. But you can't assume necessarily that they're going to report to all three credit bureaus.

Michael: Can you request that your lenders report or is it just their policy?

Dave: It's going to be their policy. For example, TransUnion, last time I checked, required that 5,000 accounts be reported on every month. So if a creditor or lender was to going to report to TransUnion, they would have to pay for 5,000 accounts to be reported.

Michael: What about people who want to rate shop? They do rate shopping. Why is that a mistake?

Dave: It's only a mistake if there's a credit inquiry for each time a person applies and that goes back to your earlier question – find out what your credit scores are on your automotive credit report or your mortgage credit report, get a copy of it, agree that you get a copy of the report when you first allow somebody to inquire. So you can go ahead and rate shop so long as you know what your scores are. You just don't allow anyone else to draw your credit.

Michael: What if I've been offered credit where I can acquire credit reports from a third party? Is that a mistake?

Dave: Well, that's usually an online resource and you get those consumer scores that are either much higher or much lower than the actual scores. Those consumer scores don't really measure anything. They're not measuring risk. FICO Company merely created another method of scoring. I have to confess that I'm confused as to why one source would be 40 points higher than my mortgage report and another source might be 30 points lower than my mortgage source. That one still honestly confuses me except for the possibility that some of these companies that draw you credit for you might be buying 90-day data because it's cheaper.

Michael: I see. Is it a mistake using finance companies?

Dave: Absolutely.

Michael: Why is that?

Dave: A finance company is something I refer to as a lender of last resort and finance companies usually have the word "finance" in their name. Western Financial is an automotive finance company. Household Finance, American General Finance, even Wells Fargo Finance. Wells Fargo Finance is worse credit to have than Wells Fargo Bank itself because the finance company, in theory, is the lender you go to because you can't get high quality, low interest credit.

Michael: Are the rates with financing companies usually pretty high?

Dave: Often as high as the highest credit cards, meaning 24%, 25%, 28%. You know, when you're spending 24% on interest, every three years, you're paying back everything that you borrowed if you don't pay down your balance. That is the creditor's doubling their money every three years at 24%.

Michael: Wow. Maybe that's why there are so many finance companies.

Dave: Yes.

Michael: Good business.

Dave: It is.

Michael: Closing credit card accounts – you touched on this. Well, let's do this again. Why is closing your credit card account a mistake?

Dave: I'm going to give a fascinating example. I was doing a radio show interview with a CBS affiliate in Chicago and I had mentioned that paying down your credit cards can be one way to rapidly increase your scores. He says, "Well, Dave, that's not true." I'm like, "Hm?" And he said, "I paid all of my credit cards down to zero and my scores dropped 160 points when I paid them all down to zero." Well, as you know, the worst thing that you can do in a radio interview is be silent. So I gave a little dead air for a few seconds and quickly thought about it and decided I know what I know. So I asked that host, "Isn't it at least logical – scores don't always behave logically – but isn't it least logical that if you pay off unsecured debt, your thousands, tens of thousands of dollars and you pay it off, isn't it at least logical that you're a better credit risk because you do that and you should be rewarded with higher scores?" He said, "Yeah, that's logical." So I asked him, "What else did you do?" And he said, "Why, I closed all my accounts, of course."

Michael: After he paid them off?

Dave: Yeah. His scores were lower because he was carrying all of that debt. He paid them off. His scores probably went up 40-70 points because he paid them off. Then he closed them and observed that he went down 160 points. There was probably 200-250 point swing in what he did wrong versus what he did right.

Michael: So those people who maybe have been in debt in the past and just get all their credit cards paid off, it can be a real big mistake just closing all your accounts and saying, "I'm not doing credit again."

Dave: Absolutely. I see this time after time. Now, there is a famous radio show across the country. The first name is Dave, like me, who tells people not to have credit cards because people get into real ugly trouble or they pay too much interest. But for purposes of credit scores, you've got to have a couple or three credit cards that are of good quality and are older accounts for best scores.

I remember I was being interviewed right after his show aired on an affiliate station in the Southeast and the producer wanted to make sure I had no disagreement with that radio host because that was a real money-maker for that radio station. I have no disagreements with the guy. I agree with him that people shouldn't carry credit card balances. I only disagree with him that they should have no credit cards. You got to have credit cards for tax course.

Michael: What about the perception that "Oh, I make a lot of money, I have a very high income and that's going to overcome everything when it comes to my creditworthiness"?

Dave: Not at all. There are plenty of people in Beverly Hills and Pacific Palisades who are paying 12% on their mortgage rates because they didn't pay their bills on time. The income has little to do with credit scores, possibly none. If I was a creditor or a lender and I reported to the credit bureaus, there's nothing on the data that I report that shows how much you make. So in theory, scores are not calculated on income.

Michael: What about my insurance rates? Are those affected by my credit score?

Dave: Yes, nowadays they are. I tell people that when they're shopping for automotive insurance to ask the broker or the insurer: "Are my insurance rates based on my credit scores?"

Also health insurance rates are becoming based on credit scores. So employers are actually getting authorization to draw credit before they hire somebody because they want to see if they're going to have extra health insurance expense because the person has a bad credit report.

Michael: How are bank debit cards different from credit cards? Can I build credit with debit cards?

Dave: Debit cards are very much like writing checks that are instantly cashed. They have no effect on credit scores, better or worse.

Michael: Even though they say Visa or MasterCard, don't be fooled.

Dave: That's right. It's just another way for the banks to make money. They charge the merchants every time you use a debit card.

Michael: What about someone who's considering co-signing for other people or someone's asked you to co-sign for him? Can that be a mistake?

Dave: It can be a horrible mistake. I cannot tell you how many credit reports I've seen where the only late payments the person had were on an account they co-signed. A parent co-signs on an auto loan for a child and their child, whether 18 or 30, makes late payments and that directly affects the parents' credit report badly. So if a person insists that they have to be co-signer because they feel obligated to, I strongly suggest to them that they collect the payment from whoever they're co-signing for so that they can make the payment on time. Does that make sense?

Michael: That totally makes sense and I've heard that before. Why is it a mistake to use cash only in today's world?

Dave: Well, because there are going to be purchases almost everyone needs to make on credit. Most people don't pay cash for their cars and even few people pay cash for their houses. So when you need those credit accounts and credit scores to be high for the biggest purchases that you're going to make, you've got to have the credit there.

Michael: That makes sense. Number 17 here, it says "It's just a small collection on my report." This is a mistake believing that this is not a big deal?

Dave: Yeah. Any collection is going to hurt credit at least a little bit. A new collection account might cost 30 points and if you pay it immediately, you're doing the best thing for your credit scores, believe me. You don't want to let a collection sit for four months or six months and then pay it because your score will actually drop. Remember it looks like a brand new collection, not a six-month old collection. Besides that, that collection company can sell to another collection company who will have another collection account of the credit. That drops the score again, etc. It's a vicious cycle.

Michael: How is a loan different from a line of credit and how does each affect your credit score positively or negatively?

Dave: A loan that you make equal payments on is called an installment loan and that's how it's reported on the credit report. If it's done with a good lender, like a major bank and not their finance company or another finance company, that's good credit. When the new account hits the credit report, the scores will drop because it's a brand new account. Any new account drops credit scores.

Michael: Oh, if it's a new account, even though it's been paid on time, it'll drop the score?

Dave: Yeah, temporarily because it's new credit. But an installment loan paid month after month, even year after year, gradually raises credit scores. That's an installment account, that's where the payment is the same, that's a loan.

And then a line of credit, particularly a home equity line of credit, it just acts like a giant credit card on the credit report. That's called revolving debt instead of installment debt. So when people charge up or use cash on their equity lines of credit, it's behaving just like a big credit card. When the balance is too big, the scores drop.

Michael: When you say the balance on the home equity line of credit, how big is too big? Is it all compared …?

Dave: Over half of the credit line, the scores drop.

Michael: Let's say, for instance, I'm trying to build my credit and I could qualify for a home equity line of credit and I get a line of credit for say $20,000 and I used it but paid it off. How would I use that line of credit to best increase my credit score?

Dave: Probably pay off high balances on credit cards. Having one account like a line of credit that's too high over 50% is better than having two, five, eight credit cards over 50%. So say you have a line of credit, you go over 50% of the credit limit by paying off your credit cards. The net effect is very positive for the credit scores because you paid off multiple accounts that had high balances with just one account.

Michael: Let's say I qualify for a line of credit and I get a $20,000 line of credit and let's say I use $1,000 of it and then I pay it off and then it's back to zero. Can that help my credit score?

Dave: It can if you repeat that.

Michael: So how often should I repeat it?

Dave: You can repeat it monthly. Those lousy credit cards I mentioned with $250 and $700 credit limits that we talked about before, there are actually ways of using those to improve scores. It can take six or nine months. If that applies to a person when I'm doing a consultation with them, I'll teach them how to use those accounts to pump up their scores and that can be very effective across six or nine months – 60, 90 points, 110 points of score improvement with that trick.

Michael: If I got that line of credit and let's say I was awarded the line of credit and I never used it, that can't really help my credit score as long as I'm not using it. Is that right?

Dave: No, when a new account gets the credit report, it shows as a new account and drops the scores for a little bit. If it's unused, the creditor may close the credit line. Banks are closing down home equity lines of credit or not allowing people to drop more cash right now.

Michael: Oh, I see. What about transferring credit card balances to get percentage rates? That's a very attractive offer for people who have very high rates. Why is this a mistake?

Dave: It could be a wise thing to do and it could also be a mistake. It depends on the circumstances. When I do consultation, I ask people when they're next going to use their credit for a major purchase like an automobile or a home, and that's usually why people call me is because they need the help yesterday. Credit scores don't move in two weeks. They move in a month or two months. So people are always calling me too late.

But there's always a balance between what's right for a person financially and what's right for their credit scores. So I use my judgment in talking with them to accomplish the best compromise between those two things. Obviously, the less interest you pay in your life, the more cash you have. Sometimes, you simply need your credit scores. You simply need them to be as high as the lender or creditor wants for the best rates. Other times, you simply want to do what's right for paying the lowest interest rate on your debt.

Michael: Why is applying for a lot of new accounts, even if you have a good credit score, is applying for a lot of new accounts in a short time a red flag for the lender? Why is it a mistake?

Dave: Because it looks like you're looking for cash and you're having terrible income and debt problems and it drops the scores terribly.

Michael: Let's say you wanted to acquire more accounts and more credits, how should you space it out?

Dave: I would ask the person why they want more credit. Are they looking to go into more debt or are they trying to raise their scores?

Michael: Let's say they're trying to raise scores.

Dave: I would look at their credit reports and decide whether or not they should even apply for more credit. The very worst thing to do is to get another credit card.

Michael: So if people have good credit, a lot of these companies have a good idea and they're sent these very attractive offers. What would you tell someone who keeps getting these attractive offers that say you're pre-approved for this, you're pre-approved for that and it looks so easy? Just say no?

Dave: I would suggest that they shred those and throw out the applications in their trash for identity theft protection purposes. People don't need more credit. They need to keep more of the money that they spend in their pockets and their investments. We have a negative savings rate in this country right now. People are spending more than they make. People have used their houses like an automatic teller machine. I can't tell you how many loan applications I see with people in their 50s buying a house for the first time, that's going to be paid off when they're 80-something and they only have $50,000 in their retirement account. And they're in their 50s. So they're going to retire in 13 years and still have a mortgage? How are they going to live on $50,000 of retirement account? Having great credit scores is great when you need to buy a house or need to buy a car but getting into debt … oh my.

Michael: Why is it a mistake not to have good major credit cards and what are some examples of the major credit cards?

Dave: There's a lot of major credit cards, you know, the big banks – Wells Fargo, Bank of America, Washington Mutual, MBNA, etc, etc. And there are a lot of credit cards nobody has ever heard of. Here's a piece of advice: Go to a website called bankrate.com and you'll find all kinds of wonderful credit cards that you've never heard of with low fixed rates like 8% fixed, Pulaski Bank being one of those. That's major credit. If you're looking for a great balance transfer deal or a great fixed rate, that's a terrific resource for finding what the credit card companies are offering.

Michael: Is it a mistake to pay off my installment credit cards early? Can that hurt me?

Dave: Installments loans or credit cards?

Michael: Okay, I'm looking at paying off installment credit accounts early. The longer you hold an installment account in good standing, the higher your credit scores.

Dave: That's true. In my experiment, there's actually an optimum. The longer you pay the installment account, the more your scores creep up. Credit scores seem to love longer installment accounts but there seems to be a limit on that by experiment. An installment account or an automotive account shouldn't be more than 24 to 36 months. So people who finance their cars for 48 months, 60 months, 72 months – my goodness, that's practically a mortgage on the car of six years. 96 months I've seen for automotive credit, eight years. Those are actually not good for credit.

Michael: They are not good?

Dave: And it's not good for the person financially either. They're going to owe more on the car than the car is worth for years and years and years and years. Did you know that the average car is financed for 105% of its purchase price, in fact? That shows that people are up side down on their cars and they go and get another car and the old debt that was not covered by the value of their card just goes out in the new loan. More interests, more money for the banks.

Michael: This is interesting: it's a mistake to ignore your negative reason codes, the 49 factors. What is a negative reason code? Why is it on my credit report? What are these 49 factors?

Dave: That was actually my first attempt into how credit scores worked. There are reason codes that each credit bureau on a credit report with scores as to why the scores are not higher. One of them is that accounts too new, your accounts are too new. Well, like I just said, opening a new account hurts scores. There it is right there in the reason code. Some of the reason codes are contradictory to each other. It's like you can't win – accounts too new, accounts not established long enough, not enough accounts open. Accounts too new, not enough accounts open. That's contradictory.

Michael: Are these codes available to the public?

Dave: Absolutely. They're the person's first hint as to why their scores are not higher.

Michael: Okay. How many different codes are there?

Dave: Last count, 53 or 54.

Michael: What if one's facing a divorce and improperly dividing the debt in a divorce, how can that be a mistake?

Dave: Well, that's going to be handled between the lawyers and the judge. I was writing newspaper columns for years for the same company that owns USA Today but they own the military newspapers that our service people and intelligence officers read. So I get lots of emails from our people in the armed forces.

Anyway, my editor suggested writing an article about how to avoid credit problems in the event of future divorce or when one's divorcing. Well, preventative measures are always better than when you're in the disaster of a marriage breaking down. The ultimate tactic, in my opinion, would be that each spouse have their own credit and never have a joint account.

Michael: Yeah, that's good advice.

Dave: Right. *You pay the mortgage. No, you pay the mortgage. No, you pay the mortgage. I'm not paying the mortgage. Well, I'm not either.* It hurts both of them as it's a joint account or they have a joint credit card. *Well, I'll get him. I'll charge it to the maximum.* The next thing you know, the balance goes from $50 to $5,000 on five cards. Maybe she's just a joint authorized user and he's responsible … you get the idea. It can be a horrible mess.

Michael: Yeah, that makes sense. That's good.

Not increasing your credit limit – why is that a mistake?

Dave: It's a good tactic if you carry balances on your credit cards. Let's say we have the example of somebody who has a $5,000 limit and they owe $4,000 on it. Now, for that account, that's the worst credit score possible. It's over 75% of the limit. They owe $4,000. Let's say that they get the credit line increased to $10,000. Well, now, you're at 40% of the credit limit. The score actually increases for two different reasons: you've gone from over 75% to under 50% and you've gone through two score increases for doing that.

Obviously, I don't love the idea that people get into debt. Some people just feel that that's extra cash that they have and they go and spend up to the new limit. So this is only advice for people who can control their spending.

Michael: Should one rely on the credit card companies to increase your balance or would you say it's more the responsibility of the credit card holder to ask for that increase?

Dave: Some people will experience continuous increases in their credit lines. Other people will find that they have to ask.

Michael: How often should one ask if they want to try and get the highest increases?

Dave: Again, I'd ask the purpose. Why do you want to be able to charge a Mercedes on your credit cards? I can but I also know that I control my spending and I don't carry balances on my credit cards. To me, the credit cards are there for a rainy day. One time, I bought an investment property on my credit card because I needed the money faster.

Michael: I don't know for sure. I guess my experience is credit card companies will look at giving you an increase every six months or every year.

Dave: Yes, yes, they will.

Michael: Okay. Is it a mistake to ignore mistakes on your credit report?

Dave: Absolutely. Usually I find that people are finding the mistakes on the credit report when they need their credit scores to be the highest. So I get the call, "Well, I got turned down from my mortgage and I'm under contract to buy it. Can you change my credit scores yesterday?" No. So people need to be aware of what's on their credit report. Not only for highest credit scores but to see if they've been a victim of identity theft. That's why all of these services providing identity theft protection and monitoring of credit reports are making so much money these days. People are afraid of that.

Michael: Is there a wrong time to apply for credit?

Dave: I would say that there's a wrong time to apply for credit when you're going to need your scores to be higher fairly soon. Let's say you know you're going to buy a house in four months or a year. It's not a good time to open new credit card accounts or buy a car. Definitely not. I've had an awful lot of people who bought a car before they tried to buy a house and because that car payment was too high, they couldn't afford to buy a house. You can always get the auto loan. I've seen people with three auto repossessions get auto loans at 30%. But the house is more important and it's harder credit to get.

Michael: Dave, what are negative narratives both from the lender and on the consumer side? How are they different and how can they negatively affect your credit report?

Dave: A narrative is a comment from a lender or a creditor about the account status or it's a comment from the consumer about their account. So a negative item – I'd mentioned one of these earlier – "account closed by credit grantor", meaning the creditor closed the account, like if you didn't use your credit card for seven months like I didn't or two years, that's a negative item. Another narrative or comment from a creditor might be "account settled." These are the services that you hear on the radio offering to settle your debt for 50 cents on the dollar of that credit card company. So "account settled" means that you didn't pay in full, you didn't pay as agreed and it's negative for your credit.

Michael: So we don't want those on there.

Dave: No, absolutely not. My simple rule, Michael, is anything you do to your credit other than pay on time and in full and as agreed has a negative credit consequence. Anything that you do other than on time, in full or as agreed has a negative credit consequence.

Michael: That's simple enough.

Dave: Yeah. Well, think about it. You see the Capital One ads – 9.99%. Oh yeah? Pay a day late and watch that go to 25%. That's not paying as agreed. You're not 30 days late. You're just past due by one day.

Michael: And these companies are banking on that. They want you to screw up.

Dave: They know how to make money.

Michael: Why is it a mistake to use your personal credit report for your business?

Dave: This is why the industry of establishing corporate credit is booming right now. You know that. Let's face it. Most people when they're starting up a business, they need credit, they need to buy things and they need them. So if they sign for the loan, they put it on their credit cards. Well, it's a basic truth that most business fail; the vast majority of them fail in a year or five years. Then the person's responsible for that debt. Obviously, it would be better if a corporate was responsible for the debt and if the business failed, then the human being wouldn't be responsible for that debt.

So it's advised – and there are companies that do a good job and there are companies that do a bad job of establishing corporate credit – for business purposes, you want your debt to be on the corporation. There are even those who advise that personal be on a corporation. I don't agree with that because I don't think it's ethical. I think when you benefit from something personally, you should be responsible for it personally. That's just my ethics.

Michael: So you should really keep it separate. If you've got a business, build your own business credit separate from your personal credit.

Dave: Yeah, because it's the right and responsible thing to do.

Michael: There are people out there who believe they can force a creditor to report your payment history. Is that accurate?

Dave: No. We covered this earlier. A creditor is not required to report to the credit bureaus. Just that simple.

Michael: Believing in debt consolidation loans and we see these on TV and they're all over the internet. Is this a good way to go? They seem to say it is.

Dave: I don't think so. For one thing, it's true that you cannot borrow your way out of debt. Now, it can be good for credit scores. It just won't be good for a person financially. Remember earlier I said sometimes you have to make compromises between credit scores and what's best for your finances? So let's say a person has $20,000 of debt on their credit cards and the average rate that they're paying is 24% and they go to a debt consolidation company and they get a loan for what they own at a rate of 24%. Well, all they're doing is trading five accounts for one account. The new account will cause their score to drop a little because it's a finance company, so another score drop. But they paid off multiple credit cards and the scores will go up for that reason. Overall, it's better for scores to do that. But you know, this is still case by case. In a consultation, I would need more data to see what's best.

Michael: We talked a little bit about accepting pre-approved offers. When you get something in the mail and it says pre-approved, you really believe it's pre-approved but that is not necessarily always true.

Dave: Sure, and it's says up to $20,000 and then you get approved for $2,000 and then you've got a new account which dropped your scores. You didn't get the $20,000 you thought. You only got $2,000.

Michael: You get an inquiry.

Dave: You get an inquiry.

Michael: So you're not really pre-approved?

Dave: Well, you're pre-approved for something?

Michael: Oh, I see.

Dave: Just not what it says there.

Michael: It's just a come-on to get you to get something, I guess.

Dave: Sure, just as 3.9% balance transfer. Look, the credit card companies are looking for more business and they've learned ways to get more business. They're smart.

Michael: Why is it a mistake by adding a consumer statement to your report? What's a consumer statement?

Dave: Okay. That would be a consumer narrative which we touched on earlier. A person is invited by each of the credit bureaus by law to place a statement about an account on to their credit reports. So that would be a consumer comment or a consumer narrative, same thing. It's a mistake because, first, it does absolutely no good and it does harm by acknowledging that the negative credit item actually exists or is true even if your comments says this is not true. So there's nothing to be gained and plenty to be lost. And we can keep that simple.

Michael: What about someone who's renting an apartment or renting a house and they don't have mortgage? Would you say that's a mistake?

Dave: Well, a lot of people wish they could own a home. We got up to 62%, I think, home ownership in this country a couple of years ago, which is highest ever. But a lot of people still can't afford a house. I can tell you this, Michael. Time after time after time, I have seen a person buy a home and make their first few mortgage payments and their scores are 40 to 50 points higher. Mortgage credit is the most valuable credit to have but it's not necessary to survive. I'm not invested in real estate right now and my scores are around 780 and all I have – no auto loans – are credit cards.

Michael: Wow. So renters, are they perceived as a higher risk than a homeowner in the eyes of the lender?

Dave: I don't think so necessarily. I think that that would be human judgment. The scores are a better judgment. I can just say I've seen the scores go up a few months after a person has paid their mortgage on time. I also know plenty of renters who are very wealthy people with excellent credit.

Michael: Having lenders that will not report your credit limit, that can be a mistake, right?

Dave: Oh, yes. There are actually a few creditors that are very guilty of this. It's another reason I don't care for Capital One. They are the primary company. Capital One, I think, has 55 million card holders. That's huge. Maybe most of those 55 million people have low scores because of how Capital One does not report their credit limit.

Michael: What do you mean credit limit? Give me an example.

Dave: Sure. Let's say the credit limit on a credit card is $1,000 but Capital One does not report that. They only report the highest balance that you've ever owed. So let's say that you charge $300 on that credit card and Capital One reports that you have $300 as your high credit used – not credit limit of $1,000 – and you have a $300 balance. Well, remember having a high balance really hurts credit scores? You get 100%.

Michael: They can't do the ratio without the limit.

Dave: Right. They do the ratio against the high credit used.

Michael: Yeah, but if they reported the limit, they could do a more fair ratio.

Dave: Right.

Michael: So it's skewed.

Dave: So if a person actually charged $1,000, paid off $700, now Capital One would be reporting their high credit used, which is really their credit limit, and they'd be 30% of that. So that ratio for credit scoring that account would be correct only in that case.

Michael: So when you consult with someone and you pull their credit report and you look that they have a Capital One, can you tell if the limit is being reported?

Dave: Sure. I just use a simple piece of advice and it's very, very cheap to raise a score on a Capital One account. But yeah, I'd definitely look for that.

Michael: What's that?

Dave: Let's say that they have a $750 limit. They owe $399 and they've used $400. Well, $400 is the high credit. So they just pay off half, down to half of that $400 to $199, cost them 200 bucks and they get a score improvement.

Michael: Here's a big one. Having recent late payments – why is this a no-no?

Dave: Late payments obviously are a negative credit item because anything that you do other pay on time, in full and as agreed, anything you do other than that is negative. So late payments can show that you're being less responsible for paying your bills and debts, they can show that maybe you lost your job. It's just an indicator that something is wrong. Some people just really have terrible bill paying systems. They're just bad at it and they just have continuous late payments as far as the eye can see back for years. It's just they have no system. My parents were smart enough when I was 15 to give me control of their checks and their bills and balance the checkbook and I did that for a couple of years as a teenager. I put the money towards the savings, I balanced the checkbook. "Dad, what about this $500 charge at Sears for the washer and dryer?" And he said, "Oh, pay half of it and pay the rest next month." That's how I learned.

Michael: That's good. Having too much of one thing – what do you mean by that?

Dave: Well, that is having usually too much of just credit cards. You get the highest scores by having a good mix of credit on the credit report. A good mix is say three credit cards that are older with low or no balances and no late payments – three credit cards that's revolving credit – and then having an installment loan with anything but a financial company – that's installment credit – and then having an older mortgage loan – that's mortgage credit. Those are the three basic types of credit on the credit report – mortgage, installment and revolving.

Michael: Very good. Dave, someone listening to this, can you talk about what you do and some of the services that you could provide for someone who's maybe listening to this and maybe is trying to get into a home or has a need, a real need to improve their personal credit score? What is it you can do for them?

Dave: Well, my first suggestion is to think ahead and if you think you're going to need credit improvement, let's have three months or more to make it happen. Usually people call me when it's way, way, way too late. They're desperate, they're under contract to buy a house, their car blew up and they don't want to pay 18% on their auto loan and tremendous rushes like that. Well, credit scores don't respond very quickly, just by nature of the credit reporting system between the creditors and the credit bureaus. So we need time.

The next thing is I would ask them questions to try to best solve their problems at the lowest cost and put myself in their shoes. Do they really need a full blown consultation which is the most expensive thing that I offer? Or should they just read the e-book which is the least expensive thing that I offer? So I basically use my judgment. To me, every person is case by case, every credit report is case by case. If a person needs a consultation, how do they handle any negative credit items if they have them? How do they handle the positive credit items to get their scores up? How do we do it fastest? Do we have two months? Can they wait two or three months to buy the house? It's a consultation.

Michael: Tell me how it's going to work. Let's say I say, "Dave, let's do it. There are some issues I want to work on my personal credit." How are you going to proceed? You can work with anyone in the country, right?

Dave: Absolutely. Some people in Canada, I just don't have access to those credit reports.

Michael: Alright. So what's the first thing you're going to do? Are you going to send me an agreement or what?

Dave: You're going to fill out a simple sign up form. It's going to authorize me to draw your mortgage credit. That will be an inquiry but it also gives me by far the most complete data so that I can do the very best possible for helping you raise your credit scores.

So then I draw the credit reports. I know what the person is trying to accomplish with their credit, why they're trying to accomplish it. I know their time frame and I sit down very quietly away from the phone and I start making notes on their credit report, account by account by account by account. Then sometimes I have to flip back and forth because somethings not making sense or I'm not sure how to give the best advice.

Then after I feel I found every way possible to raise credit scores and every way possible to deal with any negative credit items that they may have, I will sit down to type up the report. It's usually six to nine pages typed. There is even for certain people with collection accounts that I'm doing something experimental with. I want to see if what I think will work will really work. If it does work, it's going to be probably the greatest secret is handling collection accounts and their negative effects on credit ever thought up. But I need people to actually do it and I need people to tell me what the results were so I can know that this experiment was a success.

Anyway, so we got six to nine typed pages and usually people have email, so I email that to them. For the fee of $379, I will also do half an hour of consultation with them over the phone. Now, usually people ask questions that have already been answered in what I wrote. So I suggest people read it a couple of times so they're not wasting that half of an hour.

But basically they have guidance. Here's what they do for this account, here's what they do for that account, here's what you say to this collection company – the exact words, here are the lies that they're going to tell you – expect them to say these lies, here's how to respond to those lies, here's how to go over that person's head, etc. So there are a lot of advice on correctly handling the negative credit items too for the best results that takes work on the person's behalf. I am not waving a magic wand. If a person doesn't do what I suggest, if they don't actually do things, then their scores are not going to up.

Michael: You're not going to do it for them. You're going to tell them what to do and they're going to have to do it.

Dave: Sure, even if it's just as simple as paying $75 on your Capital One account.

Michael: You know the to-dos to get the score up.

Dave: Absolutely.

Michael: Do you like say, "Here's your score here and if you do these things that I suggest here in this report I provide, we should be able to get your score here."

Dave: Yes, I think yes, but I won't be terribly, terrible accurate for the simple reason that everybody's credit report is at least in some way different than everyone else's and we're dealing with computer software here that's highly technical. It's a massive program and it probably has more data in it that I have collected in my 60 years of life. So what I can say is that the scores will go as high as possible. And isn't that what a person wants?

I can give one example. I used to talk in front of real estate investment clubs because it got me more mortgage loans. What got me in was my credit expertise. Boy, these people were wild! I mean, mortgage loan officers learned a lot of things. Credit repair people learned a lot of things. I've always gotten compliments.

I think probably the greatest success I've had was for a person trying to buy a home. People can't expect results this fast. This is the fastest, most wonderful success I've ever had. Their mortgage credit score went from 580, which is poor, to 750, which is very, very good in three weeks. That was on one piece of advice.

Michael: What was it?

Dave: Well, it was special for her case and if somebody else were to apply this particular piece of advice and it didn't apply to them, it could cost them 170 points. The advice that I give is case by case. Just because I give you a piece of advice doesn't mean that it's going to work for sister or dad.

Michael: Yeah, that's fair.

Dave: Again, back to the logic. A few years ago, I got a call from a credit repair company. They had deleted a collection account. They got rid of a bad item and the score dropped 60 points. Well, that's not logical. Why would the score drop? They got rid of a bad item and the score dropped very badly. So they asked me to think why and I did. I asked, "Did it happen to be the oldest open account on the credit report, even though it was a bad item?" And they said, "Why, yes, it was the oldest open account." That actually taught me something but I had to think it through.

And then as I was lecturing around the real estate investment club and since very often there were credit repair people and mortgage people in there, I would mention this story and people would shoot their hands up – "I've had that happen too! We lost 40 points when we deleted the collection account." "We lost 50." And so it's for that reason. It's just part of how the software works. The oldest account on the credit report is very important even if it's a bad account.

So should a person try to delete an old collection account? Maybe yes, maybe no. It depends on what else I see on the credit report. It's very individualized.

Michael: Tell me about your book called How Credit Really Works.

Dave: That's what I promoted on the radio shows nationwide. To my knowledge, it's the first book every written about how credit scores actually work. It takes a person from absolutely no knowledge about credit or credit scores and makes them more of an expert than a mortgage lender who's been doing it for 25 years. I've had mortgage lenders even tell me that.

Michael: Have you had any famous people read your book?

Dave: Yes. Before the book was actually published, Suzie Orman, quite a TV and radio and media personality, read a pre-press copy of my book. She actually didn't send me a comment. It was kind of funny. One of her limousine drivers was a client of mine at that time and he gave her a copy of the book. So that's what I know about it. Others, I don't know. I just thought that that was funny.

Michael: And Suzie Orman, she teaches a lot about FICO scores and stuff that's in this book.

Dave: Yeah, well, if she has expertise in that area, I'm almost certain it's because she read my book years ago.

Michael: How long did it take you to put this work together?

Dave: Well, the actual study, that began in 1998 when I became a loan officer and it was published four and a half years ago. So it took a lot of years, a lot of years of study. In the book, people are always getting into debt, we talked about debt consolidation and we talked about settling debt for 50 cents on the dollar or whatever – these radio ads are everywhere. I spent 1,200 hours alone investigating these types of settlements or debt negotiation companies. And I actually did it with the advice of one of these companies' debt managers, I did it for a friend on her four accounts that she wanted settled just to have the actual experience myself. There's a lot of investigation and study that's gone into the material in that book. There are things that the bankruptcy lawyers won't tell people, I want them to know. There are things that the debt settlement companies won't tell people and they end up with three lawsuits against them because they decided to use that method of getting out of debt when it was completely wrong for them.

Michael: And you wrote all of this in the book?

Dave: Oh, golly, yes.

Michael: Now, as a bonus for my listeners, if someone does a consultation with you, would you be willing to provide the digital version of the book to them?

Dave: Certainly.