

How to Understand and Manage Debt: The Apogee Way

Ed Harris

Improving your credit score is essential for achieving financial stability and accessing better financial products. A good credit score can open doors to lower interest rates on loans, better credit card offers, and even favorable insurance premiums. This guide outlines the factors that affect credit scores, how to check your credit report, and actionable steps to improve your score. Additionally, it highlights the peripheral ways a poor credit score can impact your life and emphasizes the importance of taking responsibility for your finances through the Apogee Way.

Understanding Credit Scores

What is a Credit Score?

A credit score is a numerical representation of your creditworthiness, typically ranging from 300 to 850. Lenders use this score to assess the risk of lending you money or extending credit. The higher your score, the more likely you are to be approved for credit and receive favorable terms.

Why Credit Scores Matter

Credit scores are crucial for several reasons:

- **Loan Approval:** Lenders use credit scores to determine whether to approve your loan application.
- **Interest Rates:** A higher credit score often results in lower interest rates, which can save you thousands over the life of a loan.
- **Insurance Premiums:** Many insurance companies use credit scores to set premiums, meaning a lower score can lead to higher rates.
- **Employment Opportunities:** Some employers check credit scores as part of the hiring process, especially for positions that involve financial responsibilities.

- Rental Applications: Landlords may review your credit score when considering your rental application, and a low score could result in denial.

Factors Affecting Your Credit Score

Understanding the components that make up your credit score is essential for improving it. Here are the key factors:

1. **Payment History (35%):** This is the most significant factor in your credit score. It reflects whether you have paid your bills on time. Late payments, defaults, and bankruptcies can severely impact your score. For example, a single late payment can drop your score by as much as 100 points, depending on your overall credit profile.
 2. **Credit Utilization (30%):** This ratio measures how much of your available credit you are using. It is calculated by dividing your total credit card balances by your total credit limits. Keeping your credit utilization below 30% is ideal; lower is better. For instance, if you have a total credit limit of \$10,000, aim to keep your balances below \$3,000.
 3. **Length of Credit History (15%):** A longer credit history can positively impact your score. Lenders prefer to see a track record of responsible credit use. If you have old credit accounts, keep them open even if you don't use them frequently, as they contribute to your overall credit history.
 4. **Types of Credit (10%):** A diverse mix of credit types, such as credit cards, mortgages, and installment loans, can enhance your score. Lenders like to see that you can manage different types of credit responsibly.
 5. **New Credit (10%):** Opening multiple new accounts in a short period can lower your score. Each time you apply for credit, a hard inquiry is made on your report, which can temporarily decrease your score. It's best to space out credit applications and only apply for credit when necessary.
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Checking Your Credit Report

How to Obtain Your Credit Report

You are entitled to one free credit report per year from each of the three major credit bureaus: Experian, TransUnion, and Equifax. You can request your reports at [AnnualCreditReport.com](https://www.annualcreditreport.com). It's essential to check your credit report regularly to stay informed about your credit status.

Reviewing Your Credit Report

When you receive your credit report, take the time to review it carefully. Here's what to look for:

- **Personal Information:** Ensure your name, address, and Social Security number are correct. Errors in this section can lead to complications in your credit history.

- **Account Status:** Check the status of your accounts. Look for any accounts that are marked as late or in collections that you believe are inaccurate.
- **Credit Inquiries:** Review the list of hard inquiries. If you see inquiries that you did not authorize, you may need to dispute them.
- **Public Records:** Look for any bankruptcies, foreclosures, or liens. These can have a significant negative impact on your score.

Disputing Inaccuracies

If you find errors in your credit report, it's crucial to dispute them. Here's how to do it:

1. **Gather Documentation:** Collect any documents that support your claim, such as payment receipts or account statements.
2. **Contact the Credit Bureau:** Reach out to the credit bureau that issued the report. You can typically do this online, by mail, or by phone.
3. **Submit Your Dispute:** Provide a clear explanation of the error and include any supporting documentation. The credit bureau is required to investigate your claim, usually within 30 days.
4. **Follow-up:** After the investigation, the credit bureau will send you the results. If the error is corrected, you will receive an updated credit report.

Actionable Steps to Improve Your Credit Score

Improving your credit score takes time and effort, but it is achievable. Here are actionable steps you can take:

1. **Make Timely Payments:** Set up reminders or automatic payments to ensure you never miss a due date. Consider using budgeting apps that can help you track your bills and payment due dates.
2. **Reduce Credit Card Balances:** Aim to pay down existing debt and keep your credit utilization below 30%. You can use strategies like the snowball method (paying off the smallest debts first) or the avalanche method (paying off debts with the highest interest rates first) to tackle your debt effectively.
3. **Avoid Opening New Accounts:** Limit the number of new credit inquiries, as each one can temporarily lower your score. If you need to apply for credit, do so strategically and space out your applications.
4. **Diversify Your Credit:** If possible, consider adding different types of credit to your profile. For example, if you only have credit cards, you might consider taking out a small personal loan or a secured credit card to diversify your credit mix.
5. **Keep Old Accounts Open:** The length of your credit history matters, so keep older accounts active even if you don't use them frequently. This can help maintain a longer average credit history.
6. **Set Up a Budget:** Creating a budget can help you manage your finances more effectively. You can allocate funds for debt repayment and avoid overspending by tracking your income and expenses.
7. **Consider Credit Counseling:** If you're struggling to manage your debt, consider seeking help from a credit counseling service. These organizations can provide guidance and help

you create a plan to improve your financial situation. If you go this route, be clear about the costs and processes they use if offering “credit consolidation” services. These can harm your credit score in the short term and may not be the best solution for improving your credit score.

8. **Use Credit Monitoring Services:** Consider enrolling in a credit monitoring service that can alert you to changes in your credit report. This can help you stay informed and take action if any issues arise.

Peripheral Effects of a Poor Credit Score

A poor credit score can have far-reaching consequences beyond just loan approvals. Here are some of the ways a low credit score can impact your life:

- **Higher Interest Rates:** Lenders may charge higher interest rates for loans and credit cards, leading to increased costs over time. For example, a difference of just 1% in interest rates on a \$20,000 car loan can result in hundreds of dollars in additional interest payments.
- **Increased Insurance Premiums:** Many insurance companies use credit scores to determine premiums. A lower score can lead to higher rates for auto, home, and renters insurance. This means you could end up paying more for coverage simply because of your credit history.
- **Lower Credit Limits:** Creditors may reduce your credit limits if they perceive you as a higher risk. This can negatively impact your credit utilization ratio, further lowering your score.
- **Difficulty Renting:** Landlords may check your credit score as part of the rental application process. A low score could result in denial or require you to pay a higher security deposit.
- **Employment Opportunities:** Some employers check credit scores as part of the hiring process, especially for positions that involve financial responsibilities. A poor credit score could hinder your job prospects.
- **Security Deposits:** If you have a low credit score, you may be required to pay higher security deposits for utilities or rental agreements, increasing your upfront costs.

The Apogee Way: Taking Responsibility for Your Finances

Improving your credit score is not just about numbers; it’s about taking control of your financial future. The Apogee Way emphasizes personal responsibility and proactive management of your finances. Here are some principles to adopt:

- **Educate Yourself:** Understanding how credit works is the first step toward improving your score. Read books, attend workshops, or take online courses to enhance your financial literacy.
- **Set Goals:** Create specific, measurable goals for improving your credit score. For example, aim to increase your score by a certain number of points within a specific timeframe.
- **Monitor Your Progress:** Regularly check your credit report and score to track improvements and make adjustments as needed. Use credit monitoring tools to stay informed about changes to your credit profile.

- **Create a Financial Plan:** Develop a comprehensive financial plan that includes budgeting, saving, and debt repayment strategies. This plan should align with your long-term financial goals.
- **Practice Patience:** Improving your credit score takes time. Be patient and stay committed to your financial goals, even if progress seems slow.
- **Seek Help if Needed:** If you're struggling, consider consulting a financial advisor or credit counselor for guidance. They can provide personalized advice and help you create a plan to improve your credit score.
- **Celebrate Milestones:** As you make progress in improving your credit score, celebrate your achievements. Recognizing your successes can motivate you to continue working toward your financial goals.

By following these steps and embracing the Apogee Way, you can take charge of your credit score and pave the way for a healthier financial future. Remember, improving your credit score is a journey, and every small step you take can lead to significant improvements over time. Take responsibility for your finances, and you will reap the rewards in the long run.



A stylized, handwritten signature of Ed Harris in dark ink, positioned above a thin horizontal line.

Ed Harris is the Founder and CEO of Apogee Wealth Management and the driving force behind Apogee Wealth Academy, a 501(c)(3) nonprofit dedicated to financial education. With over 20 years of experience, Ed helps clients navigate complex financial landscapes and achieve their goals through a holistic approach that considers financial, emotional, and psychological aspects of financial decision-making.

Beginning his journey in ministry at age 15, Ed developed a deep commitment to uplifting others. He and his wife, Melissa, raise their five children with values centered on health and personal growth. An advocate for financial literacy, Ed actively participates in community initiatives to empower underserved populations, striving to create a world where everyone can make informed financial decisions.

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