

# REBUILDING YOUR CREDIT

How to Achieve Good Credit After a Period of Hardship



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## Achieving Good Credit After a Period of Hardship

If you've faced challenges with your credit, it may feel like your bad credit score will follow you forever. The good news is that nothing in the world of credit lasts forever. Negative information in your credit report may be dragging down your score now, but those penalties will eventually fall off after a set period. And even before that, you can take positive steps to start building your credit back up. With the right strategy, you can clean up your credit report and achieve the score you want, usually faster than you might think!

This booklet will teach you everything you need to know.

### Step 1: Obtain Your Credit Reports

The first step to fixing your credit is to know where you stand. This means that you need to get your credit report, so you can see what it says.

The easiest way to obtain your credit reports is to download them for free at [annualcreditreport.com](https://annualcreditreport.com). You can also call toll-free at **877-322-8228** to request your reports by phone.

### Getting reports from each credit bureau

It's important to note that every consumer actually has three credit reports – one from each national credit bureau.

- Experian
- Equifax
- TransUnion

All three bureaus provide their reports through [annualcreditreport.com](https://annualcreditreport.com). To get your reports, you will enter your name, birthday, Social Security Number, and address. Then you will choose which reports you want to download.

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Since you are just starting the journey to rebuild your credit, it's recommended that you download all three reports. While they all should contain the same information, discrepancies can happen. Thus, you want to check all three to ensure your reports are as accurate as possible.

## Accessing your reports

Each credit bureau will ask you a series of questions based on the information contained in your credit report. This helps them verify your identity before providing your report. Be aware that often the answer will be NONE OF THE ABOVE/DOES NOT APPLY.



Once you've confirmed your identity, you will be able to view your report. You may want to download and print a copy or save it to your computer. Just remember not to leave them where other people can access them. So, once you finish reviewing, delete any copies from your hard drive and empty the trash on your computer to make sure they're gone. If you printed copies, shred them before you dispose of them.

## Step 2: Review Your Reports

Credit reports contain six basic sections of information:

1. Personal information
2. Credit history
3. Credit inquiries
4. Public records
5. Consumer statements
6. Disclosures

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As you work to rebuild your credit, the areas you need to pay attention to are **Credit History**, **Credit Inquiries**, and **Public Records**. You specifically want to look for any negative information, such as missed payments and delinquent account statuses in your credit history and collection accounts, bankruptcies, and foreclosures in public records.

### How long can information be reported?

All the information in your credit report will only show up for a set time. Even positive information will only remain for about 10 years. The good news is that most negative information shows up for a much shorter time, usually seven years.

ITEM	TIME
<b>Missed payments (payments late by more than one billing period)</b>	7 years from the month the payment was missed
<b>Credit inquiries</b>	2 years from the date a credit check was authorized
<b>Chapter 13 bankruptcy</b>	7 years from the filing date
<b>Chapter 7 bankruptcy</b>	10 years from the filing date
<b>Foreclosure</b>	7 years from the date the first payment was missed
<b>Charge-off accounts and collections</b>	7 years from the date the account first became delinquent
<b>Debt settlements</b>	7 years from the date of discharge
<b>Civil suits and court judgments</b>	7 years from the date of entry, or the current governing statute of limitations, whichever is longer

### What to look for as you review

Take note of every negative item in your credit report:

- How many missed payments have you had?
- Are the account balances listed for each account accurate? (Keep in mind that there may be a delay between your

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payment due date and when the balance gets reported.)

- Are all of your accounts current or are some still delinquent?
- How many charge-off accounts do you have? (Charge-offs happen when a delinquent account is closed by the original creditor due to non-payment.)
- How many collection accounts do you have?
- Do you have any negative public records?
- How many credit inquiries are listed in your report?

It's important to be aware that not all negative information may be accurate! Mistakes and errors can occur. So, you need to make sure that anything negative in your credit report is accurate. Otherwise, you need to dispute the mistakes.

*Warning: Watch out for identity theft!*

If you find an account that you don't recognize, it may be a sign of identity theft. You will need to contact the creditor or lender to dispute the account. You may also need to dispute it with the credit bureau who issued the report to have it removed.

### **Step 3: Repair Your Credit**

Repairing your credit refers to the process of reporting errors in your credit report so that the information can be corrected. You can dispute a mistake directly with the data furnisher (the creditor, lender, or collector who supplied the information) or with the credit bureau that issued the report.

You can find detailed instructions in another publication in this series titled "Repair Your Credit," but here is a basic summary of what you will do if you are disputing the information with the credit bureau:

1. You can file the dispute online or by mail (mail is recommended).

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2. Detail each incorrect item, noting any relevant account numbers.

3. Provide any documentation that supports your dispute.

Disputes must be answered within 30 days of when the credit bureau receives your dispute. If they request more information, they have 45 days to respond. If an item cannot be verified, it must be removed from your report. The



The credit bureau will then provide a new copy of your report, so you can confirm the information has been corrected.

If the dispute is not successful, then you have the right to send the credit bureau a 100-word consumer statement that provides information about the item you believe is inaccurate.

*Warning: Think twice before hiring a credit repair company!*

There are companies that will offer to repair your credit for you. However, proceed with caution. They can charge high fees to perform the same service that you can do yourself.

What's more, some companies may also advise you to break the law to fix your credit quickly. For example, they may tell you to get an Employer Identification Number, which is meant for businesses but has the same number of digits as a Social Security number. This is illegal and you could face prosecution for fraud!

## Contacting the credit bureaus to make disputes

### ***Experian***

- [Submit an Experian dispute online](#)

- **By mail**

P.O. Box 4500

Allen, TX 75013

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- **By phone:** Call the number displayed on your Experian credit report

### ***Equifax***

- [Submit an Equifax dispute online](#)
- **By mail**  
Equifax Information Services LLC  
P.O. Box 740256  
Atlanta, GA 30374-0256
- **By phone:** 866-349-5191

### ***TransUnion***

- [Submit a TransUnion dispute online](#)
- **By mail**  
TransUnion Consumer Solutions  
P.O. Box 2000  
Chester, PA 19016-2000
- **By phone:** 866-395-6941

## **Step 4: Taking Steps to Improve Your Credit Score**

Once you've corrected the mistakes and errors, there's likely to still be some negative information that you legitimately incurred. You can't change the past, but you can take positive actions now to offset the damage that's been done.

Here is what you need to do to build better credit moving forward:

- **Make all your payments on time.** Credit history is the single biggest factor in calculating your credit score. One missed payment can have a significant negative impact on your score, so do everything possible to make your payments on time. Building positive credit history now will help offset missed payments in the past.

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- **Bring delinquent accounts current.** Any past-due account will not be updated to current until all the delinquent payments have been made. If you have past-due accounts, focus on bringing them current as quickly as possible. Only then will they stop negatively affecting your credit score.
  - **Keep your credit utilization ratio low by avoiding big balances.** Credit utilization is the second biggest factor in calculating your credit score. It measures your total balances versus your total available credit limit. Anything higher than 30% utilization will hurt your credit score.
  - **Space out new credit applications by at least six months.** Too many credit inquiries within six months will damage your credit score. Applying for credit slowly is good for your score and will help ensure you can afford the payments before you apply for a new loan or credit card.

If you want to know more about how your score is calculated, please refer to another publication in this series called "Make the Most of Your Credit Score".

### **Asking creditors for good-faith corrections**

Another option that you may consider as you work to rebuild your credit is to reach out directly to your creditors to ask them for help. If you have negative information that you legitimately incurred which is hurting your score, they may be willing to work with you. They can "re-age" your account, which means updating the information that's been reported to the credit bureaus.

For example, let's say you have an account that is five months behind. Until you make up those five payments, the account status will continue to be listed as delinquent. It continues to negatively affect your score and getting caught up may take time. However, if you start making payments, the creditor may agree to bring the account status current early. It's worth calling to ask.

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In another situation, let's say you missed a credit card payment because you were in a car accident and couldn't work for a time. If you've been a loyal customer who's always paid your bills on time otherwise, they may be willing to delete the missed payment off your credit history in good faith.

It never hurts to ask. Call the customer service department or write a letter to the company asking for a good faith correction. It may help you rebuild your credit faster.

### **Deciding if you want to track your score**

When you obtain your free credit reports, it will not come with your credit score. You will only see the negative information that may be contributing to a lower score, but you won't know the number.



If you want to know your score, you can either pay for it or use a free credit monitoring service, such as Credit Karma or Credit Sesame. Keep in mind that these free services do not monitor your FICO score, which is the score most used by lenders. Instead, these services track your VantageScore, which is a different albeit similar scoring model. If you choose to pay for a monitoring service, FICO offers a credit monitoring tool that allows you to see the score that lenders see.

A credit monitoring service can be helpful to see how your score changes over time. You can assess the impact of actions you take as you rebuild your credit. However, while this is recommended, it is not required. Simply taking the actions described in this publication will improve your score over time.

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## Minimizing Credit Damage as You Get Out of Debt

Facing challenges with debt has the potential to damage your credit. Here are some of the risks that you may encounter:

- **High balances can hurt your credit score.** If you're using more than 30% of any available credit limit, your score may begin to decrease rapidly. The higher your balances go, the more it drops your score.
- **Juggling bills can lead to missed payments.** If you're having trouble making all your payments, then any payments you miss can have a significant negative impact on your credit score. Just one missed payment can drop an excellent credit score by 100 points.
- **Defaults and collection accounts aren't good for your score either.** Even if you keep up with your credit card payments, defaults on student loans, or having medical bills or utilities that lapse into collections can hurt your score as well.
- **Too many credit inquiries will also drop your score.** If you're using credit to cover daily expenses or income gaps, you may be applying for new credit cards too quickly. This can also happen if you're consolidating debt with balance transfer cards or personal loans.

## How debt solutions affect your credit

When minimum payments aren't working effectively to pay off your balances, you may be considering debt relief options that offer faster ways to get out of debt. Some of these solutions are "credit-safe," meaning that they do not result in negative items on your credit report. Others will almost certainly damage your credit.

SOLUTION	CREDIT IMPACT
<b>Balance transfer credit cards</b>	When used correctly, these should not damage your credit. However, applying for too many transfer cards or running up new balances can make a difficult situation even worse.
<b>Debt consolidation loans</b>	When used correctly, this should not damage your credit. However, if you run up new credit card balances, you can end up with more debt instead of less.
<b>Credit counseling</b>	Getting free credit counseling and enrolling in a debt management program will not create any negative items in your credit report. The effect of a debt management program on your credit score is generally positive or neutral. Most creditors will agree to re-age your accounts after three consecutive payments through the program.
<b>Debt settlement</b>	Each debt you settle will create a negative notation in your credit report that remains for seven years. If you stop paying your creditors to generate funds for settlement offers, those missed payments will also damage your credit.
<b>Chapter 13 bankruptcy</b>	This will create a public record in your credit report that remains for seven years from the date you file. Accounts included in your bankruptcy will also be removed after seven years.

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<b>Chapter 7 bankruptcy</b>	This will create a public record in your credit report that remains for ten years from the date you file. Any accounts included in your bankruptcy will be removed from your credit report after seven years.
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As you work to get out of debt, you want to minimize credit damage as much as possible. However, in some cases, you may simply need to be willing to accept some credit damage to turn the page on your finances so you can reestablish stability. Getting out of debt often needs to be the top priority, then you can focus on your credit.

Remember, even if you file for bankruptcy, you will be able to start rebuilding your credit immediately using this booklet as a guide.