

Rebuilding Good Credit



Knowledge of Financial Education

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If you've had credit problems in the past, you probably feel frustrated and worried that your damaged credit history will stay with you forever or at least for a very long time. In almost every case, however, there are strategies you can use to put your credit back on track. If you actively work on improving your credit, you will see results. It may not happen as quickly as you hope – or it may happen more quickly than you expected. Some consumers are able to buy a home in as little as a year after bankruptcy, for example. It all depends on your situation and whether you are willing to take the time and effort required. In this brochure, you'll find proven strategies for building better credit.

Start where you are

Your first step is to get a copy of your credit report, preferably from all three major credit bureaus. With this information, you'll be able to create a game plan for improving your score.

How long can information be reported?

The first thing most people with bad credit want to know is, "how long can this information haunt me?" Under the Federal Fair Credit Reporting Act, credit reporting agencies are not allowed to report any information that is too old, incomplete, or wrong.

While positive or neutral information can be reported indefinitely, negative information can only be reported for the following length of time:

Bankruptcy Filings - Ten years from date filed, not discharged. The three major credit bureaus, and many smaller ones, have agreed voluntarily to remove Chapter 13 bankruptcies -- a

bankruptcy where debts are paid back over several years -- seven years from the date of filing. If that doesn't happen automatically you'll have to ask.

Civil suits, civil judgments, and records of arrest - No longer than seven years from the date of entry, or the current governing statute of limitations, whichever is longer.

Paid tax liens - Seven years from the date satisfied (paid).

Unpaid tax liens - Indefinite until the lien is paid (see above).

Collection or charge-off accounts - Seven years unless a US Government insured or guaranteed student loan, or National Direct Student Loan (NDSL). If those types of student loans are in default and you bring them current for an entire year, your previous late payments will be deleted.

Any other adverse information (including late payments) *Seven years.* Adverse information is any data that may cause an unfavorable result for the consumer, for example; being turned down for credit, employment or insurance; or being charged a higher rate than applied for in the case of credit or insurance.

When does the 7-year period start?

If you have collection or charged off accounts listed on your credit report, you'll want to read this section carefully. It may be confusing at first, but because mistakes are often made, you'll want to make sure you understand it.

For collection or charged-off accounts, the 7-year clock starts ticking 6 months from the date you first fell behind leading up to the collection or charge-off. It does not start when the account

was placed for collection or to the date of last activity.

For example: Let's say your credit card payment was due on June 1, 2008. You lost your job and couldn't make your required payments.

In November of 2008, the issuer charged off your account (wrote it off as a bad debt). In January 2009, it was placed with a collection agency. By law, the collection agency is supposed to tell the credit bureau when it first reports the collection account that the original date of delinquency was June 2008 and that should start the 7 year reporting period.

Warning: Beware of collection agencies that tell you they have ways of reporting the collection account "forever" to the credit bureaus if you don't pay. That's simply not true.

What do I do now?

Once you have your credit report and understand how long information can be reported, you're ready to create a strategy for building better credit.

Step #1: Fix mistakes. It's not unusual to find wrong or outdated accounts. You may want to check for the following items:

Accounts that don't belong to you. Keep in mind, though, that if you cosigned for an account, it will likely be reported on your credit report and treated as your own. If you were only an authorized user on an account that fell behind, the creditor may be willing to remove it from your credit report since you weren't legally responsible for the bills.

Incorrect balances. While you can expect it to take 30 – 60 days for information about your loan balances to be updated, you shouldn't see completely wrong information. For example, an account that was discharged in bankruptcy or settled through a collection agency should show a zero balance.

Duplicate accounts. If an account was turned over to multiple collection agencies, only the most recent collection agency account should appear. Otherwise, it can look as if you have more accounts in collections than you actually do.

Old accounts. You may find old accounts you don't use anymore still listed. Even if an account is paid off, it may remain for the legal time limit. Fair Isaac Company, creator of the popular FICO credit scores, recommends that you don't close old accounts because doing so may hurt your credit score and won't help improve it.

To dispute wrong information, you can contact the credit reporting agency that is listing the wrong information, the credit grantor that is reporting it, or both. The advantage of going to the credit reporting agency is that they are better equipped to handle disputes. If they cannot promptly confirm the information on your report with the source, by law it must be removed. The disadvantage is that the major credit bureaus don't share information with each other, so you'll have to check all three credit reports and dispute mistakes through each one that has the wrong information.

The advantage of disputing mistakes directly with the credit grantor is that the lender must supply any correction to all the credit bureaus that have the wrong information. The

disadvantage is that creditors aren't always set up to handle disputes and you may find it harder to get your problem resolved promptly.

Whichever approach you choose, put your dispute in writing, type it if your handwriting isn't clear, and make it brief yet describe the problem clearly. If you have any documentation to prove your side of the story, include it. The credit bureau or credit grantor must generally get back to you within 30 days to tell you the results of their investigation. Keep copies of all the letters you send and get back.

Step #2: Let time heal the wounds. As negative information becomes older, it becomes less important on your credit file. It still will have an impact on your credit worthiness but that impact becomes less over time – but only if you now pay your bills on time!

Sometimes, waiting for the negative information to get older is the best strategy, especially if everything on your credit report is accurate. Of course, you'll also want to continue to build positive new credit references.

Step #3: Ask your creditors for help. Sometimes negative information is accurate but due to unusual circumstances. For example, you may have been in a car accident and unable to work or keep up with the large medical bills. Or you may have had a business that failed due to a significant change in the marketplace. Generally, divorce in and of itself is not considered an extenuating circumstance.

If you had a good payment history but then fell behind due to extenuating circumstances, and if you are now back on your feet

and paying your bills on time, you may want to ask your creditors to “re-age” your accounts – or essentially delete those previous late payments. There are banking guidelines that lenders must follow when re-aging accounts, but it can be done under certain circumstances, so it may be worth asking your lender for help.

Step #4: Build positive new credit references. The best thing you can do to rebuild your credit is use credit carefully and always pay your bills on time. Consumers who are proactive about rebuilding their credit after problems have occurred can see significant improvement in as little as a year or two! Here are some tips:

- Lenders will want to see at least a couple of recent credit accounts paid on time. If you still have open accounts, use them periodically for things you would buy anyway, then make sure to pay the bill well before the due date.
- Carrying balances and paying interest is not necessary for rebuilding good credit.
- If you don't currently have any credit cards, it may be a good idea to get one. But avoid “guaranteed approval credit cards” that cost a couple of hundred dollars in fees. A better bet is a legitimate “secured card” where you place a security deposit with the lender in exchange for a major credit card with a modest credit limit. Shop for one at www.bankrate.com.
- Never pay a bill late as it will appear on your credit report.

How Will Credit Counseling Affect My Credit Score?

Many people worry that their credit will be damaged if they enter a debt management program through a credit counseling service. In fact, their credit score may stay the same or actually improve if they successfully stick to the repayment plan. There are several reasons for this:

1. Fair Isaac Co., creator of the widely used FICO scores, does not consider the fact that a consumer is in a counseling program when calculating a credit score.
2. Many creditors will not report anything to the credit bureaus that indicates that an account is being repaid through a counseling agency.
3. Some creditors will “re-age” accounts that are behind when a consumer enters a counseling program and sticks with it for several months. That means the late payments immediately prior to beginning the counseling program may be removed.
4. By entering a credit counseling program you may avoid further late payments, credit problems and even bankruptcy – all of which can significantly hurt your credit.
5. If you successfully pay down your debt through a counseling program, your credit score can improve since the amount of debt you carry is one of the major factors in calculating a credit score.

A warning: While you are paying your debts through a counseling agency, you still remain legally liable to the creditor for those payments. If the counseling agency pays creditors late, or doesn't pay them at all, your credit report will suffer. Choose a reputable counseling agency with a track record of paying creditors on time.

Credit Repair Firms

Think twice before spending your money on a credit repair program. Many times these programs cost hundreds of dollars and their techniques may actually be illegal! For example, some companies will tell consumers to get an Employer Identification Number (EIN), which is the same number of digits as a Social Security Number. They'll then tell consumers to try to get new credit using that number. The goal is to establish a brand new credit file. Obtaining an EIN for that reason, however, is not legal.

