

Consumer and Family Sciences

Department of Consumer Sciences and Retailing

To Your Credit: Fact Sheet 9

Fixing a Poor Credit Rating

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Adapted from *Credit Card Smarts*, a series published by the University of Illinois Extension (copyright 1997, Board of Trustees, University of Illinois).
<http://web.aces.uiuc.edu/cfe/ccs/index.html>

You do not have to be a high roller to reach "debt overload." A major life change such as job loss, unexpected medical bills, divorce, or money management mistakes can all cause problems with credit. Losing control of your debts is easier than regaining it. However, there are steps you can take to re-establish your credit no matter why you had credit problems.

Find out where you stand

The first step, and for some folks the most difficult, is to admit you are in trouble. Next, you need to find out exactly where you stand. Write up a financial statement that lists your monthly income after taxes and other deductions; the amount of your everyday living expenses such as mortgage payments or rent, food, utilities, and transportation; periodic expenses such as property taxes and insurance; and your required monthly payments for loans, credit cards, and charge accounts.

Then contact your local credit bureau to get a copy of your latest credit report or call one or more of the national agencies listed on the right.

If you have been turned down for credit, you should receive a letter with the name of the credit bureau that provided the negative credit information. You are entitled to a free report if you have been turned down for credit within the last 60 days. Otherwise, you will pay a small fee for your report.

When you get your report, check for mistakes. Common mistakes include information about someone with a similar name, information for an ex-spouse's account, or a closed account shown open. If there are any errors, write a letter to the

Credit Bureaus

Equifax
Information Service Center
P.O. Box 740241
Atlanta, GA 30374-0241
1-800-685-1111
www.equifax.com

TransUnion
Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022
1-800-888-4213
www.transunion.com

Experian
Consumer Assistance Center
P.O. Box 2104
Allen, TX 75013-2104
1-888-397-3742
www.experian.com

credit bureau. State the error and ask for an investigation. The credit bureau legally has 30 days to investigate and correct the information. If the negative information included in your report is accurate, only the passage of time can assure its removal. Generally, negative information stays on a report for seven years. Bankruptcy information stays on a report for 10 years.

Some agencies advertise that they can repair a bad credit report. Watch out! Some businesses offering debt reorganization may charge substantial fees or a percentage of your debts, and then fail to follow through on the services they sell. Some may do little more than refer indebted consumers to a bankruptcy lawyer, who charges an additional fee. Some credit clinics "clean up" files by exploiting consumer protection originally built into the Fair Credit Reporting Act (FCRA). The scariest credit doctors steal good credit records and sell them to clients with poor records to use when applying for credit.

If necessary, talk to current lenders about working out a plan that will make it easier to pay your debts. You may be hesitant about approaching your creditors because you are not sure how they will receive you. However, if you contact them as soon as you run into financial problems, and if you have paid your bills regularly in the past, most creditors will want to work with you. Explain why you are having difficulty, and emphasize that in spite of everything you want to pay off your debts. Most creditors would rather get a partial payment every month than take you to court or have you file for bankruptcy. If you need help working out a repayment plan with creditors, the Consumer Credit Counseling Service can help. The statewide assistance number is 1-800-432-0420. They can give you the number for the office nearest you.

While you are repaying your debts, do not take on any more. You may want to stop carrying credit cards for a while or have a "plastic surgery" party and cut them up. Before making any non-routine purchase, ask yourself, "Do I really need this or just want

it?" "Will I still want this item three weeks from now?" Also, give some thought to reducing expenses that you might ordinarily consider fixed. For example, reduce utility bills by turning down the heat, cut long-distance telephone charges by writing instead, and trim the amount and kind of groceries you buy.

Starting over

You are ready to start over once you have paid off your debts. First, make sure your credit record is up-to-date. Check that the payments you are making on time are reported to credit bureaus. Another way to show that you are creditworthy is to responsibly use a secured credit card. A secured card looks like and can be used just like a regular credit card. To get a secured credit card you deposit money into a savings account as collateral. Generally, the credit limit on the secured card will be 50 to 100 percent of the money you deposit. You should earn interest on the money deposited, although a secured card may have an application fee as well as an annual service charge. You will pay interest on any unpaid balances.

To apply for a secured credit card, check with your local bank or credit union. When you get the card, be sure the bank or credit union reports your use of the card to credit bureaus so that you can prove you can pay your bills on time.

Once you start using credit again, be sure to manage it well. Learn how to shop for credit and how to read credit contracts. When used wisely, credit is a tool that can help you realize your financial goals.

Building a plan

Once you know what your credit situation is, you need a plan for getting yourself out of the hole. One suggestion is to break the task into several short-term goals. Figure out what it will take to repay some smaller bills in six months and pay them off first. Paying off these debts will give you the momentum to tackle the next target. Use the space below to write your own action plan. What steps do you need to take to re-establish your credit? Decide when you want to accomplish each step and then begin! To see what progress you have made and what you need to do next, review your plan every month. Good luck.

What I Need To Do	By When