



*A step-by-step guide to*

# REPAIRING YOUR CREDIT



# REPAIRING YOUR CREDIT ACTION GUIDE

## Taking Charge of Your Credit Score

- **Good credit is critical.** Unfortunately, it's pretty easy to hurt your credit score. Something as simple as being late on a loan payment can do serious damage to your score.
- **The good news is that you can repair your credit and raise your credit score.** And you don't need to hire a company to fix your credit. You can do it on your own.
- **It's important to remember that repairing your credit score is a process that takes time.** Don't get discouraged if things don't turn around right away. Keep at it because in the end, it will be worth it.

## Understanding Your Credit Score

- **There are a number of specific things that affect your overall credit score.** If you don't pay attention to all of them, you can unknowingly hurt your score. Your credit score will range between 300 to 850 and represents how likely you are to pay back money you have borrowed.
- **There are five factors that determine your score.** In order of importance, they are:
  - **Payment history.** Paying bills on time is really important for your overall credit score.
  - **Credit usage.** Credit usage is how much of your available credit you've used. A low credit utilization rate is better for your credit score.
  - **Credit mix.** Typically, it's better to have experience with different types of credit than with just a single category.
  - **Age of accounts.** Generally speaking, the longer you've had credit, the higher your score.



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- **Credit applications.** When someone examines your credit record to determine whether to give you credit, it's called a "hard inquiry", and too many hard inquiries can lower your score.
- **It's also important that you understand the different types of consumer credit available to you.** There are four types of credit:
  - Revolving credit (credit cards)
  - Charge cards
  - Service credit (utilities, cell phone bill)
  - Installment credit (loans)

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## Step #1: Examine Your Credit Report

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- **Your credit report contains everything that affects your credit score,** including all the things pulling your score down. The first step in repairing your credit is to know exactly what's on your credit report. You can get a free yearly copy of your credit report from AnnualCreditReport.com.
- **In the United States, there are three different credit bureaus:** Equifax, Experian, and TransUnion. The credit report from AnnualCreditReport.com will contain your credit score at each of the credit bureaus.
- **Once you've obtained your credit report, you need to read it closely.** On the report, you should see:
  - Personal information
  - Credit information
  - Public record data
  - Hard credit inquiries
- **As you read your report, look for the following information:** (You're going to approach each of the above situations differently, so you may want to use different colored highlighters or pens to flag each type of scenario.)



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- Errors
- Past due accounts
- Current credit accounts
  
- **Reading your credit report for the first time can be overwhelming.** If you're feeling like this, remember that you're only going to be taking one step at a time. For now, just focus on highlighting all the important information.

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## Step #2: Dispute Errors

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- **If you think that any information on the credit report is incorrect or incomplete, you have the right to dispute it.** Credit disputes can be made online, by phone, or through the mail. You should receive instructions about how to file a dispute when you order your credit report.
  
- **Errors on your credit report happen for four different reasons:**
  - Creditor mistake
  - Collection agency error
  - Stolen identity
  - Existing account compromised
  
- **If you believe your identity was stolen, it's critical that you take *immediate action*.** The longer you wait, the more fraudulent activity can take place on your account. The same goes for a compromised account. You should contact the appropriate parties as soon as possible.
  
- **If there are errors on your report (not fraud), there are a number of ways you can dispute them.** Filing online is the quickest and easiest way to do it. The problem, however, is that you don't have any evidence or a paper trail regarding your dispute. This is also the case when you file by phone.
  
- **Filing by mail has a few distinct advantages:**
  - You can include a concrete proof.
  - You have a paper record.
  - Sending a dispute letter via certified mail ties your claim to a specific date.



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- **When filing your credit dispute, including the following:**
  - A copy of your report (highlight the disputed item)
  - Proof that supports your claim
  - A concrete, explicit request that the erroneous information be either corrected or removed
- **After your dispute, one of two things will happen:**
  - **Successful dispute.** All information and parties will be updated appropriately.
  - **Unsuccessful dispute.** No change will occur to your credit score.
- **If your dispute is unsuccessful, you do have one further option:** file a complaint with the Consumer Financial Protection Bureau (CFPB). After you file your complaint, the CFPB will work with the credit bureaus to attempt to resolve your complaint.

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## Step #3: Address Accounts that are Past Due

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- **The biggest factor in your credit score is your payment history, making up 35%.** So, after taking care of any errors on your credit report, you'll want to start working on past-due accounts.
- **When one of your accounts is more than 180 days past due,** it's considered a charge-off. Charge-offs are really bad for your credit score and you want to do whatever you can to keep them from going on your credit report. The good news is that your creditor may be willing to negotiate with you.
- **Once your charged-off account is fully paid,** your credit report will show a \$0 balance for that account. However, it will still show up on your credit report for seven years.





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- **In addition to past due and charged off balances**, you must handle accounts that have been sent to collections. Like with charge-offs, your credit report will reflect these balances for seven years.

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## Step #4: Bring Down High Balances

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- **After your payment history, your credit utilization is the second highest factor in your overall credit score (about 30% of the total).** Credit utilization is the percentage of available credit you've used.
- **This means that if you have really high balances, your credit score will be brought down.** Ideally, your credit utilization should be below 10%, but if you can get it below 30%, that's a good starting place.
- **Your loan balances also affect your credit score.** The higher your balance, compared to the original, the more it hurts your score.
- **Which is more important, credit card balances or past due accounts?** Because your payment history is a bigger factor in your credit score, you should focus first on getting your accounts current.

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## Step #5: Build New Credit

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- **You also want to add positive credit data to your credit report.** If you consistently do things like make on-time payments, your credit score will go up. So, how do you get new credit? One simple way is to get a new credit card, make purchases, and then make payments on time.
- **You can apply for a credit card from one of the major companies.** When you search for a card, look closely at:
  - Recommended credit score
  - Annual fee
  - Annual Percentage Rate (APR)



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- **If you don't get approved by a major credit card company, you have a few other options.**
  - You can apply for a "secured" credit card.
  - You also might consider getting a retail credit card, such as a Walmart or Amazon card (or another store you prefer).

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## Other Tips for Building Solid Credit

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- **In addition to getting a new credit card and using it to build up your credit,** there are a number of other specific tactics you can use to improve your overall credit score.
  - Team up with someone who has good credit and good payment history. Get added as an authorized user on one of their credit cards.
  - Keep older credit cards, even if you don't use them much anymore. Having an older card on your credit report extends the total age of your credit.
  - Enroll in the Experian Boost program. Cell phone and utility payments can be added to your credit score.
  - Get a secured loan. You deposit a set amount into a bank account and then can borrow against the deposited amount.
  - Look into non-profit lending organizations. Mission Asset Fund makes small loans available to certain individuals which can be used to improve credit scores.





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## Healthy Financial Behaviors

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- **If you don't have healthy financial behaviors**, you'll end up sabotaging your efforts to repair your credit. Here's what you need to keep in mind.
- **Debt-To-Income Ratio.** Your debt-to-income (DTI) ratio is your total monthly debt divided by your gross monthly income. The lower your DTI ratio, the better. For example, if you're applying for a mortgage, you usually need a DTI ratio of less than 43% (most lenders really want to see below 36%).
- **Budgeting.** A budget helps you effectively manage your finances. If you don't have a budget, you may not have enough income to cover monthly credit payments.
- **Comparison Shopping.** Different lenders offer different interest rates and fees. Compare different lenders against each other and go with the one that offers you the best deal.
- **Fraud Protection.** It's absolutely essential that you work hard to protect yourself against fraud. Keep a close watch on your credit statements for anything that looks suspicious. If you see anything, immediately contact the credit card issuer.

