

# Simple Ways to Repair Your Credit

Credit has become a central part of the way we live today. Many of us are accustomed to paying with things, from everyday purchases to bills with credit cards. Our larger purchases, such as automobiles and homes, usually depend on loans. That's why having credit problems can make life very difficult. It's not only harmful to our financial life, it can be quite stressful as well. In this report, we'll be looking at some simple yet effective ways to address credit problems.

## **Your Credit Score**

You are probably familiar with credit scores. Perhaps you know your own and are looking for ways to raise it. Credit scores can seem very complicated and mysterious if you don't understand them. They are, however, based on some fairly straightforward data.

There are several types of credit scores, but most lenders base this number on something called the FICO (Fair Isaac Corporation) method, which was developed in the 1980s. There are three main credit bureaus -Equifax, Experian and TransUnion, all of which use FICO when calculating your credit score.

Your FICO credit score can be anywhere from 300 to 850. The majority of people, however, have scores between 500 and 800. Here is a general breakdown of what credit scores mean.

*Below 620* -This is the lowest category, known as sub-prime. People with scores in this range are considered high risk and will have difficulty getting any type of loan or credit. Loans offered to such people will have higher than normal interest rates.

*620 to 674* -This is below average credit, which means you have fewer options than people with higher credit scores but you can still get loans if you shop around. You'll also pay higher than average interest rates.

*675 to 719* -If your credit score is within this range, your credit history is

considered average. You won't be eligible for lenders' best rates, but you won't have much trouble getting loans.

*720 and up*- This is where everyone wants to be, in the highest range. When you reach (or maintain) this type of credit score, every lender will be glad to offer you loans and you'll qualify for the best possible terms.

Obtaining credit is more than a number, of course, and different lenders use different criteria when deciding whether or not to offer you a loan, and what terms are offered if they do make one available. However, all lenders do consider your credit score, so this is a useful place to start when looking at how strong your credit is.

### *Know Your Credit Score*

It's always a good idea to know your credit score. This isn't difficult information to access, but it will usually cost you something. You probably see ads that offer to tell you your credit score for free, but there are generally strings attached.

One way to find out your credit score for free is to sign up for a free trial with a company that offers credit monitoring. If you want it to be truly free, of course, you have to cancel your membership before the free trial expires.

You can also obtain your credit score from the MyFico.com website for about \$20, and this also comes with a credit report. This is useful, because your credit report goes beyond a mere number and gives you more detailed information about your credit.

### *What is Your Credit Score Based On?*

While it's good to know your credit score, it's even more important to know how it's calculated. This is, after all, the first step in repairing it. Your credit score is based on five different factors:

*Your Payment History*

*Outstanding Debt*

*How Long You've Had Credit*

*Recent Credit*

*Type of Credit*

Your payment history and outstanding debt are the most important criteria. That's why the number one reason for a poor credit rating is not paying your bills on time. The next biggest reason is having a large amount of outstanding debt.

All of this information is useful because it provides you with clues on how to improve or repair your credit. It's good to check your credit score every so often, but don't get too hung up on it. If you start to practice the tips we'll be sharing in the following sections, your score will start to climb.

### **Mistakes to Avoid When You're Having Credit Problems**

When you have difficulties with credit, it's easy to dig yourself deeper into a hole. You tend to be stressed out, and this can cloud your judgement. Additionally, you may be vulnerable to various scams and supposed easy fixes that you see advertised. So let's look at some of the most important mistakes to avoid if you want to repair your credit.

- \*\*\* Overusing credit cards
- \*\*\* Using credit to pay off credit
- \*\*\* Getting new credit cards
- \*\*\* Payday loans and cash advances
- \*\*\* Hiding from creditors
- \*\*\* Maxing out credit cards
- \*\*\* Making minimum payments

These are some of the most common actions that typically get you deeper into debt without solving your problems. Let's look at each in some detail.

### *Overusing Credit Cards*

This is often what gets people into trouble in the first place. Credit cards are very tempting to use, and they often lead to making purchases we wouldn't otherwise make. Not only are there all kinds of temptations everywhere we go in the real world, but the internet makes it all too easy to order all kinds of things, from goodies and luxuries to necessities.

If you want to start repairing your credit, one of the first things you should do is to think carefully before making any credit card purchases.

### *Using Credit to Pay off Credit*

This is one of the worst things you can do, as it increases your debt and ends up harming your credit rating. This is a downward spiral that can quickly lead to disaster. At some point, you will run out of credit and then you may find yourself facing immense debt.

### *Getting New Credit Cards*

New credit cards will mean the possibility of getting further into debt. Not only that, but the very act of applying for lots of credit cards can be detrimental to your credit score. That's because every credit card (or loan) you apply for results in a "hard" credit check by the lender. This can lower your credit score. So, if you're facing financial difficulties, this isn't a good time to be applying for every new credit card offer that arrives in your mailbox (or in your inbox).

### *Payday Loans and Cash Advances*

These are two different things, but carry similar risks. Payday loans are those emergency loans and "Get Cash Now" ads you see everywhere. They usually offer amounts ranging from \$500 to \$1500. The interest rates on such loans are enormous and you will be paying this off long after the loan money has been spent.

Cash advances are just that -cash you take out using existing credit. Only the interest rates are considerably higher than they are when you buy items with your credit cards. Doing this will quickly increase your debt and max out your credit.

### *Hiding From Creditors*

If you're at the stage where collection agencies are calling you, you know how stressful this can be. You also may be getting notices in the mail warning you of the consequences if the bill isn't promptly paid.

Some people have the instinct to hide and start avoiding phone calls when this happens. This is not a solution to the problem. It's better to talk to the person and try to work out a payment schedule.

If you are being called by an especially obnoxious or even abusive collection's agent, you still shouldn't hide from him or her. In this case, make sure you get their name and tell them that you still have rights even though you may be in debt (which is the truth!). You can even file a complaint against a collection agency that is using unethical practices. In most cases, however, these agents are persistent but are careful to stay within legal boundaries.

### *Maxing Out Credit Cards*

If you've already used up all of your available credit, there's no point in worrying about it. But if you still have credit cards with an available balance, don't max them out. That's one of the worst things you can do for your credit rating.

### *Making Minimum Payments*

The credit card companies actually prefer people to make minimum payments, because it means that it will take a very long time for you to pay off your debt, and you'll be paying the highest possible interest rates. For this very reason, you should always try to pay something above the minimum payment, even if it's just a few dollars.

## Positive Steps to Improve Your Credit

Now that we've looked at some of the most common mistakes you can make with your credit, let's look at the other side of the coin. In many ways, the best policies to take are simply to do the opposite of what was discussed above!

\*\*\* Pay off credit cards as quickly as possible

\*\*\* Correct mistakes in your credit report

\*\*\* Keep accounts open and active

\*\*\* Communicate with your creditors

\*\*\* Seek help

\*\*\* Cut back on spending

These are some of the things you can do to improve or repair your credit. Sometimes it's easier said than done, but you should try your best.

### *Pay Off Credit Cards*

Not everyone can do this, of course, but you should make it a goal. If you have a choice of paying off an auto loan, mortgage or credit card, you should choose the latter. Having outstanding balances on credit cards adversely affects your credit much more than owing money for other types of loans.

### *Correct Mistakes in Your Credit Report*

One reason why it's important to access your credit report is to make sure it's accurate. Don't worry about minor errors, such as misspellings or dates that are inaccurate. You should, however, make sure you correct anything that could be harming your credit score. An example of this is if you were incorrectly charged with a late payment.

You should check with all three of the major credit credit bureaus,

Experian, Equifax and TransUnion and dispute any mistakes you find. You can do this online, but it's safer to do it by mail, as you then have documented evidence of all data.

### *Keep Accounts Open and Active*

Canceling accounts with creditors is not a good idea, because it erases part of your credit history. If you have credit cards, it's best to keep the accounts open and even use them once in while.

### *Communicate With Your Creditors*

As mentioned, it's never a good idea to avoid your creditors. In fact, rather than waiting for their calls, it's best to be proactive and call them first! This is not something many people enjoy doing, but it can work to your advantage.

When you call your creditors, it shows good faith. Explain your situation, and if you can't make the required payments, see if they will offer you an alternative payment plan.

Incidentally, this strategy is one you should follow with any creditor, not only credit card companies. If you owe money to your local power company, the cable company or the IRS, it's always better to keep the lines of communication open. Remember, above all else they want to receive payments from you. This means it's in their interest to be reasonable and offer you a plan you can live with.

### *Seek Help*

There are free credit counselors who can provide you with helpful advice for improving your credit. You can receive this kind of help online, by phone or in person from various nonprofit organizations.

Be wary of paying for credit card assistance. In some cases, it can be helpful to pay for services designed to help you with your credit issues. Yet you also have to be careful, as some of these are simply scams to get your money.

In general, be wary of claims that sound too good to be true, such as someone promising that they can erase your debt overnight.

### *Cut Back on Spending*

This may seem obvious, but it can be very difficult to do. You may be surprised how much money you spend on things like eating out and takeout food, driving your car more than necessary and impulse purchases.

Very often, overspending is the main reason people develop credit problems in the first place. One thing to keep in mind is that cutting back on spending doesn't have to mean feeling deprived or having a lower quality of life.

Believe it or not, simplifying your life can be quite rewarding. For example, you can hone your cooking skills, buy more bulk foods and save money you'd otherwise spend in restaurants and fast food places. This can be satisfying and even healthier in addition to helping you save money.

Similarly, you can learn to enjoy spending time with friends and family that doesn't entail high cost entertainment.

### **Should You Consider Bankruptcy?**

"Bankruptcy" is a word that scares many people. It is usually the last resort for someone in financial difficulty, and should never be done without careful thought. However, you should also realize that sometimes it's the best decision.

People have different attitudes about bankruptcy. As mentioned, the very word sounds terrifying to some people, who feel they have to avoid it at any cost. Yet, for other people it can sound like a tempting and easy way out of their difficulties. You shouldn't be too quick to either dismiss it or embrace it.

Never declare bankruptcy simply because you're stressed out and like the idea of having your debt erased. Bankruptcy is a serious decision with long term consequences. It will not only affect your credit score, but it will make



you practically ineligible for credit for several years. Some lenders will work with you even after a recent bankruptcy, but these will be extremely poor terms.

If you're facing a situation where there's no way you can realistically pay off your debt in the foreseeable future, bankruptcy is an option you should at least consider.

If you're even thinking about bankruptcy, the best thing to do is consult with a credit counselor or an attorney who specializes in this field.

### *What to do After a Bankruptcy*

If you have already declared bankruptcy, or are seriously considering it, this isn't the end of the world, not even your financial world. Many people have done this nowadays, so you aren't alone.

The best approach to take after a bankruptcy is to slowly but steadily rebuild your credit. You obviously don't want to get into massive debt all over again, but neither should you fear credit. A person with no credit is at a real disadvantage in today's world, so you should obtain at least one credit card if possible.

If you can't get a credit card, look for secured credit. This is a credit card that must be backed up by money you actually have in the bank. So, technically this isn't really credit at all, but it's still something you can use to help rebuild your credit.

### **You Can Rebuild Your Credit**

No matter what challenges you may be facing, it's always possible to rebuild and improve your credit. Don't let yourself get overwhelmed by your present circumstances. If the bills are piling up and creditors are phoning you at all hours, it can seem like things are out of control.

The solution is to look at the situation as calmly and objectively as you can. Tackle one issue at a time, and resolve to pay off your debts one by one. It may take some time to repair your credit, but others have done it successfully and so can you!