

Improve your credit

While it's possible to get by without credit, access to credit is essential for buying a home, financing a car or getting a credit card. And poor credit can hinder your ability to rent an apartment, start phone service, buy insurance or get a job.

Many people first realize the impact credit can have when they are turned down for a loan, a job or a rental dwelling. Landlords, utility companies, employers and insurers, as well as lenders, all have the right to check your credit history and use your credit status as a reason to turn you down. If this happens, you have the right to know why.

Why was I rejected?

Your application may have been denied because you don't have good credit or because you've never had credit. To have access to credit, you need a credit history—a record of how you have handled your finances in the past.

Poor credit is a serious problem. It can be the result of late payments on your credit cards, loans you never paid back or bankruptcy. Negative information remains on your credit report for seven to 10 years. If you have experienced these problems, you may find it difficult to get credit or do things that require a good credit history. Even if you can get credit, you may be asked to pay higher-than-average rates and fees on mortgages, loans and credit cards.

If you ever had a loan or a credit card, you probably have a credit history on file with one or all of the three major credit reporting bureaus. This is called a credit report. If your credit report shows you didn't handle credit responsibly in the past, you will probably be turned down for new credit.

If you've never had credit, if you've just begun to use credit or if you haven't used credit in many years, you may not have a credit report. Without one, lenders have no way of judging if you are a good credit risk.

Building good credit

It is never too late to clean up your credit or start to build a credit history. Once your credit record is on track, you will have access to the financial safety net that good credit provides.

Depending on how serious your past and present credit problems are, it may take time and patience to establish good credit. If you've never had credit, you can start to use

credit in a way that will help build a good credit history. If you have a slightly damaged credit history, with only a few late payments, you may be able to bring your accounts up to date and improve your credit in just a few months.

Free credit reports

As a first step to building good credit, get a copy of your credit report.

Under federal law, every year you can get a free copy of your credit report from all of the major companies that provide credit reports. These companies are:

- ◆ Experian: 888-397-3742 (www.experian.com)
- ◆ Equifax: 800-685-1111 (www.equifax.com)
- ◆ TransUnion: 800-916-8800 (www.transunion.com)

The three major credit reporting companies have created the "Annual Credit Report" site (www.annualcreditreport.com) for you to get the free annual credit reports required under federal law. You can order your reports online, by phone at 877-322-8228, or by mail. To order your reports by mail you must visit the web site and download an order form.

You are entitled to a free credit report annually from each of the three companies. You can order all three reports at the same time, or you can stagger your requests. Ordering individual company reports at different times during the year gives you a chance to monitor your credit report more frequently without having to pay for additional reports.

You're also entitled to a free report if a company denies your application for credit, insurance, or employment—but only if you ask for your report within 60 days of the denial. If a company denies your application, it will send you a notice with the name, address, and phone number of the company that provided the credit report. You're also entitled to one free report a year if you're unemployed and plan to look for a job within 60 days; if you're on welfare; or if your report is inaccurate because of fraud, including identity theft. In the crime of identity theft, crooks use your personal information, such as Social Security number and date of birth, to apply for credit in your name and use it to buy expensive items like jewelry or electronic devices.

If you are not eligible for a free report, the credit reporting agencies charge about \$10 per copy. You can buy a copy at any time.

Negative information

Your credit report may list some old, unpaid debts—ones you might have forgotten. Perhaps an old debt was forwarded to a collection agency. When the collection agency could not find you, it reported the delinquent debt to the credit bureaus. This is an example of negative credit information.

Other information on your credit report that is seen as negative by potential lenders, landlords or employers:

- ◆ Late payments on credit cards and loans.
- ◆ Unpaid debts.
- ◆ Bankruptcy.
- ◆ Court judgments against you, such as child support payments or lawsuits in which you owe money.

There's a chance that your credit report lists debts that don't belong to you. It's not unheard of for credit files to be mixed up, especially for people who have common names.

Mistakes on your credit report

All the information you need to correct an error is sent with your credit report. If you find incorrect information on your credit report, fill out the dispute form provided by the credit reporting bureau or write a letter to the bureau explaining your dispute.

The credit bureau has approximately 30 days to investigate and respond to your dispute. You should receive a written report on the results of the investigation. If your dispute results in a change to your credit report, you'll also get a free copy of your report with corrections.

If the investigation reveals an error, you may ask that a corrected version of the report be sent to anyone who received it within the past six months. Job applicants can have corrected reports sent to anyone who received a report for employment purposes during the past two years.

The credit bureau cannot put the disputed information back in your file unless the company that provided it attests to its accuracy. In this case, the credit bureau should give you a written notice that includes the name, address and phone number of the original provider. If the information is validated, the disputed items can go back on your credit report.

Write to the company that provided the incorrect data

to let it know of your complaint. The company then is required to note your dispute when it provides information about that account to credit reporting bureaus in the future.

You also may provide the credit reporting bureau with your side of the story by writing an explanation of no more than 100 words. Explain your position clearly and concisely and send it to the credit reporting bureau. Your statement will be added to your credit report.

Avoid the red flags that can limit your credit. To keep your credit history looking good, get to know some of the red flags that trigger lender disapproval:

- ◆ High balances. If the balances on your credit cards are close to or equal to your maximum credit limit, it can negatively affect your credit. Pay off the balances before you apply for new credit. Even if you are up-to-date with your payments, you may be turned down for new credit because lenders believe you owe too much money.
- ◆ Too many applications. Several recent applications for credit can be seen as a warning sign that you might overextend your credit use. Apply only for the credit you need. When you apply for credit, the application shows up on your credit report, whether or not you are approved. The credit bureaus call this an "inquiry."
- ◆ Low credit score. Your credit history is summed up in a number known as a credit score. In general, your score is based on recent credit activity, late payments, how many times you have applied for credit and public actions you have been involved in, such as lawsuits, liens, foreclosures or bankruptcies.

Your credit score can change frequently depending on how you use and repay your credit accounts. To improve your score, apply only for the credit you need, don't miss payments (because a late payment is better than none) and clear up credit disputes before they are sent to a collection agency.

Repairing your credit mistakes

Building or repairing your credit is not an overnight thing. It is an ongoing process that you must approach with determination, diligence and discipline. Follow these tips:

- ◆ Keep your existing credit accounts in good standing. You can repair your credit by improving the way you handle existing accounts, as well as by obtaining new credit. In general, pay more than the minimum

payment—but, if you are in financial trouble, at least pay what the creditor asks for on a regular basis while you work on improving your finances. However, even paying \$20 more per month will shorten the payoff period considerably.

- ◆ To rebuild credit, apply for a credit card or small loan from your bank, credit union or a local department store. Explain that you have had credit problems, but that you are serious about improving your credit history. If your credit problems are severe and/or recent, your application may be denied. Don't take rejection personally. Most credit denials—even by local stores, banks and credit unions—are based on credit reports or lack of credit history.
- ◆ Ask a relative or friend with good credit to co-sign your credit application. A co-signer promises to pay if you don't—make sure the co-signer understands this serious responsibility. After one year of making all payments on time, apply for credit on your own and when you get it, close the co-signed account.
- ◆ Get a secured bank credit card. Secured cards are backed by money you deposit and keep in a bank account. If you don't pay off your credit card bill, the money in your account will be used to cover that debt. Even people with poor credit may be able to get a secured Visa or MasterCard. Secured credit cards can help you repair your credit. You will probably qualify for a secured credit card if all your bills are paid and you have had no bad marks on your credit for at least six months.

Make sure the credit card company will report your payments to credit bureaus. Show that you can handle credit responsibly by using your card to make a few purchases. Make all payments before the due date and, if possible, pay your balance in full each month. After one year, apply for a regular, unsecured card.

Your credit line, the maximum amount you can charge on a secured card, is usually equal to the amount of your deposit. Look for a card that will pay interest on your deposit. Most secured credit cards have annual fees. Be sure to research the products available and avoid any unnecessary fees.

Find your way out of debt

Unpaid debts are among the most damaging items on your credit report. Make every effort to pay

outstanding bills. Start by deciding on a realistic payment schedule—most lenders and collection agencies will work with you to set up a reasonable payment plan.

If you are overwhelmed by your debts, contact your local Consumer Credit Counseling Service. These are non-profit organizations in every state that counsel consumers in debt. Their services, which include budgeting and payment reduction plans, are offered at little or no cost. Call 800-388-2227 to find a local office. English and Spanish speakers are available.

Even after you repay your debt, the information will remain on your credit report for seven years. (Bankruptcy remains on your report for 10 years.) Make sure it shows the account as paid in full. A paid account looks much better than an unpaid one on your credit report.

An ongoing commitment

Good credit requires an ongoing commitment to using credit wisely and staying on top of changes that could negatively affect your credit history. Check your credit report at the three major credit reporting bureaus every year. Incorrect information is often found in credit reports and credit fraud is on the rise.

To protect yourself from credit fraud, examine your credit report closely for new accounts you don't recognize that could signal that someone else is using your name and Social Security number to get credit.

Credit repair claims

Companies claiming they can repair your credit advertise on TV, in newspapers, with flyers and on the Internet. These companies guarantee to fix credit for a fee. Be sure to research any company you are considering doing business with.

Some credit repair companies offer you a new credit identity or taxpayer ID number. This is illegal.

It's often done with forged documents or by applying under false pretenses for a new taxpayer ID number. You are breaking the law if you use a false credit history.

If you respond to credit repair offers, there's a good chance you will be ripped off. Credit repair scams prey on people's desperation. They take your money and run.

Legally, credit repair companies only can take the steps we outline in this brochure. You can do these things yourself for free. Save your money: only time, discipline and

patience will repair damaged credit.

Credit repair companies are allowed to operate as long as they follow federal and selected state laws designed to protect you from common deceptions.

A company offering to repair your credit cannot perform any services until it has your signature on a written contract. You have three days to cancel the contract without penalty or fees. All contracts must describe the services to be performed and provide detailed disclosures on cost, payment terms, how long it will take and how to contact the company.

Credit repair companies cannot ask you to pay any money until they have completed any promised services. For example, if the company promises it can remove a listing from your credit report, you cannot be charged for the service until it provides you with a copy of your credit report that proves that the information has been removed.

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