Family Financial Education Foundation Edition 3, Volume 12

Rebuilding Your Credit and Improving Your Credit Score

If you find yourself in a position where you need to rebuild your credit and improve your credit score, don't despair. You've taken the appropriate steps with help from Family Financial Education Foundation to learn to live within a budget, set money aside for emergencies and large purchases, pay off debt according to a plan, and ultimately become debt free. And thanks to such organizations as the Federal Trade Commission (FTC), there are tips you can use and definite steps you can take to refurbish your credit and boost your credit score.

First things first: Check out your credit score

The first thing to do is make sure that the credit information that exists about you is accurate. That information resides with the credit bureaus. Ask your FFEF Counselor about obtaining an FFEF CreditScore Review. This helpful Review will provide you with a copy of your 3-in-1credit report and your FICO credit scores—the same credit reports and scores used by mortgage companies, banks, and other lenders when determining your credit worthiness. A 3-in-1 report includes information from all three of the major credit-reporting agencies. But more importantly, this Review will help you understand your credit report and make suggestions on how to improve your credit score and dispute any errors that you find on the report.

An FFEF-approved, certified Credit Report Reviewer will counsel you for an entire year and review your credit report with you line by line to address every concern. This is NOT credit repair. This is important information that can help you make the necessary changes in your financial habits to improve your credit score over time. Call your FFEF counselor for more information about the CreditScore Review.

Under the Fair Credit Reporting Act (FRCA), the credit reporting bureaus and the information providers (the people, companies, or organizations that provide information about you to the credit reporting bureaus) are responsible for correcting inaccurate or incomplete information in your credit report. If you see inaccurate or incomplete information in your credit report, take steps to get it corrected.

1. Contact the creditor or other information provider in writing to state what information you think is inaccurate. Be sure to include copies (NOT originals) of documents that support your position. Many providers specify an address for disputes. If the provider reports the item to a credit reporting company, it must include a notice of your dispute. And if you are correct—that is, if the information is found to be inaccurate—the information provider may not report it again.

2. Have patience and take the necessary time to improve accurate but negative information. The cold hard truth is, when negative information in your report is accurate, only the passage of time can ensure its removal. A credit reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. There is no time limit on reporting information about criminal convictions; information reported in response to your application for a job that pays more than $75,000 a year; and information reported because you've applied for more than $150,000 worth of credit or life insurance. There is a standard method for calculating the seven-year reporting period. Generally, the period runs from the date that the last event took place.

3. Add accounts to your file. Your credit file may not reflect all your credit accounts. Most national department store and all-purpose bank credit card accounts are included in your file, but not all. Some travel, entertainment, gasoline card companies, local retailers, and credit unions are among those that usually aren't included. If you've been told that you were denied credit because of an "insufficient credit file" or "no credit file' and you have accounts with creditors that don't appear in your credit file, ask the credit reporting companies to add this information to future reports. Although they are

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not required to do so, many credit reporting bureaus will add verifiable accounts for a fee. However, if these creditors do not generally report to the consumer reporting company, the added items will not be updated in your file.

4. Keep your credit clean.

To help establish good credit and ensure your credit report is painting a positive picture of you, it's important to follow these tips:

• Pay your bills on time.

You're already a step ahead when it comes to paying your bills on time because of your involvement with Family Financial Education Foundation. Nothing helps your effort to improve your credit standing faster than keeping current on all bills.

• Avoid consumer debt.

Eliminate or reduce the number of credit cards you have and keep the balances low. It's wise to have just one or possibly two major credit cards and use them only for emergencies. If you must charge something, make sure you can pay it off at the end of each month.

• Limit the number of inquiries into your credit and don't open several new accounts at once. The fact is, too many inquiries over a short time period may be perceived as an indication that you are seriously seeking credit, perhaps due to financial troubles or desperation. Similarly, opening several new accounts at the same time could also be seen as a sign of a rough financial patch. To avoid this perception, be choosy when you shop for credit and limit the number of creditor inquiries, and keep the number of credit accounts and balances to a minimum.

• Check up on your credit report at least once a year.

Chances are that even if you've been good about paying your bills on time, there may be incorrect or outdated information on your credit report that is hurting your credit profile. To ensure the accuracy of your credit report, review it at least once a year. Ask your FFEF Counselor about obtaining an FFEF CreditScore Review. The FFEF CreditScore Review will help you understand your credit report and how to improve your credit score and dispute any errors that you find on the report.

5. Apply for unsecured credit.

A local department store may be more likely to issue you a credit card than a national creditor. If the store does grant you credit, demonstrate your financial responsibility by paying all of your bills on time. Just remember that the interest rates or finance charges of the typical department store card are quite high, even 20% or higher, so be sure to charge only what you can afford to pay off each month and not carry a balance with such a high interest rate.

6. Apply for secured credit.

If bankruptcy is in your past or if you have had your credit cards revoked, you need to demonstrate that you can handle credit responsibly. One way to do this is to apply for a secured credit card. ■

Watch Out for Advertisements Promising Debt Relief

In your efforts to improve your financial situation and relieve yourself of some of the stress caused by financial worries, don't be tempted by advertisements that offer what sounds like a quick fix. Ads promising you debt relief are often really talking about bankruptcy.

If you hear phrases like "consolidate your bills into one monthly payment without borrowing," "keep your property," and "wipe out your debts using the protection and assistance provided by federal law," BEWARE! You'll find out, maybe when it's too late, that such promises often involve filing for bankruptcy, which not only hurts your credit but also costs you money in legal fees.

Companies, some of them very large companies, try to appeal to consumers who have poor credit histories. They promise, for a fee, to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job. These are empty promises. The truth is, only time, a conscious effort, and a personal debt repayment plan like the one you have worked out with FFEF will eliminate your financial woes. ■

Things You Should Know about Bankruptcy

If you have already established your debt management program and are making monthly payments according to the schedule you established with your FFEF debt management counselor, give yourself a pat on the back. You are on the road to recovery. Your choice to make the sacrifice necessary to repay your debts is a much better choice than a bankruptcy alternative.

If you are struggling to make that monthly payment, keep up the fight. Your FFEF counselor understands how difficult it can be and is there to offer encouragement and help every step of the way. There are three things you should be sure you do every month:

1. Make your full scheduled payment and make it on time.

2. Check your monthly statements from your creditors to make sure they are showing your payment was received.

3. Contact your FFEF counselor right away if you are unable to make your scheduled payment.

If the going gets too tough and you feel tempted to consider bankruptcy, you need to be aware of some changes made to the bankruptcy laws in 2005. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was passed by Congress and signed by President George W. Bush on April 20, 2005, and took effect on October 17, 2005. It is one of the most comprehensive overhauls of the Bankruptcy Code in more than 25 years, particularly as it applies to consumer bankruptcy.

Individuals can file for bankruptcy in a federal court under two forms of bankruptcy. These two forms are

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What is a secured credit card and should I get one?

A secured credit card requires that you deposit a specified amount of money with the card issuing company. This money becomes the amount of credit you have on that card. For example, if you deposit $500 in the account; you can charge up to $500. If you make the agreed-upon payments for approximately one year, the card company may then release the funds held as security and issue an unsecured card. Be sure to look for hidden fees and charges. Take time to shop around for the best interest rates and lowest annual fees.

Credit cards are a fact of life.

In today's world, it is almost impossible to make a hotel reservation, buy a plane ticket, or rent a car without a credit card, even if you plan to pay cash. Some department stores require a credit card to accept your check. So where does that leave you if you've never had credit or need to repair a poor credit history? A secured credit card may be the best way for you to establish or rebuild your credit.

Where can you get a secured credit card?

If you belong to a credit union, ask about the possibility of getting a secured card. About half of the nation's credit unions offer secured cards to their members and may offer lower interest rates and waive annual fees. If that's not possible, do some research at www.bankrate.com. This website provides a list of companies that issue secured credit cards. Beware of taking offers that arrive in the mail. These often include high fees so be sure you check them out carefully.

Rather than offering secured cards, some banks prefer offering unsecured cards with lower limits and higher interest rates and fees. While you don't have to deposit money to begin with, you may end up paying a lot more. Secured cards are often a better choice—and sometimes your only choice.

What kind of fees will you have to pay?

Some cards charge an application fee so look for one that doesn't. You may be required to pay an annual fee and these can vary greatly. Some will demand that you buy an insurance policy along with the card. This is not a good offer. Be sure you read the fine print or have someone explain the terms to you if you're not sure you understand what is said. Your FFEF counselor can help you with this. If you're not careful, it is possible to have a large chunk of your deposited money eaten up in fees. Also, find out if it is possible to have the card changed to an unsecured credit card if you demonstrate you have control of your finances and how long it takes before that can happen. ■

Things You Should Know about Bankruptcy (continued from page 3)

called Chapter 7 bankruptcy and Chapter 13 bankruptcy.

Chapter 7 Bankruptcy

Chapter 7 is a “liquidation” of an individual’s assets. Other terms referred to in this type of bankruptcy include “written off” and “discharged.” This form of bankruptcy is sometimes referred to as "straight bankruptcy." Some debts, however (such as real estate mortgages), are not written off or discharged and must be repaid. Individuals are allowed to keep certain assets and the guidelines for this vary from state-to-state. Cars are often allowed to be kept, usually because they are critical to a person’s ability to continue to work, but if a loan exists on the car, it must be repaid. Other assets are sold (liquidated) to repay debts. Many types of unsecured debt, such as credit card debt, are legally discharged by the bankruptcy process, which means they do not have to be repaid. There are, however, certain types of debt that are not discharged in a Chapter 7. These commonly include child support, taxes, student loans, and fines imposed by a court for any crimes committed by the debtor. Debts that are not discharged must be repaid.

Chapter 13 Bankruptcy

In Chapter 13 bankruptcy, an individual proposes a plan to repay his or her debts over a three-to-five year period. During this time, the creditors cannot attempt to collect on the individual's previously incurred debt. In general, the individual gets to keep his or her property, and the creditors end up with less money than they are owed.

While an individual is under a Chapter 13 bankruptcy, he or she is not allowed to obtain additional credit without the permission of the bankruptcy court. More than likely, creditors will not be willing to risk lending money to the individual anyway.

The bankruptcy law requires individuals to complete steps you have already taken—seek the help of a credit counselor, establish whether or not there is enough income to support a payment program, and accept financial education to prevent future bankruptcy filings.

A bankruptcy should always be considered as the last resort for solving financial problems because the long-term results of a bankruptcy exceed any other solution. Your credit report will show a bankruptcy for ten years and make it very difficult to do many of the things you would like to do.

It is, however, a legal procedure that can be used when individuals find themselves under extreme circumstances they can no longer survive. Ask your FFEF credit counselor about the options that may still be available to you before taking this legal action.

What Else Should I Know about Bankruptcy?

Utility services—Public utilities, such as the electric company, cannot refuse or cut off service because you have filed for bankruptcy. However, the utility can require a deposit for future service and you do have to pay the bills you receive after bankruptcy is filed.

Discrimination—An employer or government agency cannot discriminate against you because you have filed for bankruptcy.

Driver’s license—If you lost your license solely because you couldn’t pay court-ordered damages caused in an accident, bankruptcy will allow you to get your license back.

Cosigners—If someone has cosigned a loan with you and you file for bankruptcy, the co-signer may have to pay your debt. If you file a Chapter 13, you may be able to protect co-signers, depending upon the terms of your Chapter 13 plan.

Discharge—You will receive your Order of Discharge officially canceling your debts about four months after your meeting of creditors.

Spouse—Your spouse’s assets are not included in your bankruptcy unless you file together. Likewise, your discharge will not cancel your spouse’s debts. A married couple may file a joint petition but are not required to. ■

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