

# Help I have Bad Credit!

Most of us don't check our credit until we need to borrow money, usually for a car loan or a home loan. Unfortunately, having a bad credit score will not only affect your ability to get a loan, but it may also affect the interest rate you pay on that loan. In other words, having bad credit will cost you money!

If your credit is poor because you can't pay your bills, you don't need credit repair services. You need to determine how to best pay your bills so that you can finally repair your credit. If you are swimming in debt, consider a second job to pay off creditors, or talking to your creditors to arrange for better terms to help you pay off your debt. Credit Counseling companies help you consolidate your debt and negotiate better terms, but they don't do this for free. If you choose this route, make sure you work with a reputable company, and read the fine print in whatever contract you sign.

If you can pay your bills but have a low credit score, it's time to rebuild your credit. A bad credit score can be rebuilt in approximately 3 years, but the last 12-24 months are most important. Here are 4 steps to help you raise your credit score, and make that bad credit a thing of the past:

**Pay all your credit card, car loans and mortgage payments on time.** Approximately 35% of your credit score is calculated from your history of on-time payments. So make on-time payments a priority in your financial life. Mortgage payments and car loans should be set up to automatically be deducted from your checking account every month. Many credit card companies now allow you to deduct either the minimum payment or the full payment from your checking account as well.

**Remove any errors in your credit history.** Approximately 75% of all credit reports have errors. Pull your credit reports for free at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com) from all three credit reporting services and check for errors. Then follow the instructions on these websites to dispute any transactions on your report. If the creditor doesn't respond to the dispute within 30 days, the item must be removed from your credit report. You can pay Credit Repair companies to do this for you, but it is a fairly simple process unless your credit history is riddled with errors.

**Work on "Credit Management".** Don't use more than 75% of the credit limit for any credit card you have. This is true even if you pay your credit cards off every month. Get the credit cards that work for you (with lower monthly interest rates, nice rewards, etc.) and keep them long term.

**Plan on about 6 months for these steps to take affect.** With more serious payment and credit management issues, you may need to wait up to 2 years before your credit has improved significantly. But stay diligent and these small steps will help you reap big financial savings when you buy your next home or car.



# How To Improve Your Credit Score

So you have bad credit. Time to move on in the right direction, and follow these steps carefully.

**Never miss a payment.** One of the best ways to keep your credit clean is to have automatic checking account withdrawals for mortgage bills. Just make sure that there are enough funds in your checking account to cover all your automatic drafts. Approach your bill paying like a business and take it seriously.

**Use credit...** Believe it or not, having available credit is actually a positive factor, along with paying your credit card bills on time. Get credit cards and keep them for a long period of time. You don't have to hold a balance – paying off credit card balances every month still gives you positive payment history.

**...but not too much.** If you want to apply for a mortgage within the next year, try to reduce any high debt load, and don't owe more than 50% of your credit limit on any one credit card. For example, if your credit card limit is \$10,000, reduce your debt to at least under \$5000 and preferably under \$3,000.

**Clean up credit errors.** If you have any errors on your credit reports, you need to dispute the information in order to clear your record. This is the toughest task, because it requires some letter writing (some can be done online at the credit bureau websites) and perhaps phone calls to both the credit bureau and the organization that reported the information. The difficulty in cleaning up errors is why so many people dread having their "identities" stolen. You can pay to have a "rapid rescore" if you have documentation proving errors on your credit report.

**Don't open new credit lines before taking out a loan.** Every time you open a new credit line, your credit score will suffer slightly. Hold off on getting new credit cards until after you buy that next house or refinance.

**Resolve to do better.** Ok, so your credit report has a few delinquent payments that you wished never happened. What do you do? Besides resolving to never miss any more payments, you must pay everything on time for the next year before your credit will show improvement.

The Federal Trade Commission warns against enlisting companies who promise to improve your credit score by removing missed payments. Correct data cannot be removed from your credit report.



# How To Get Your Credit Report and Credit Score

Your Credit Score (also called FICO Score, after the Fair Isaac Corporation which created the software to calculate the score) is calculated by 3 credit bureaus: Equifax, Experian, and TransUnion. Each have their own website that you can access and pay for your credit report and score, either on a one-time basis, or have full access to any additions or changes for a monthly fee. However, the Fair and Accurate Credit Transactions Act (the FACT Act) allows you to get one free credit report from each of the credit bureaus every year. You'll have to pay a nominal fee to get your score. To get your free yearly report, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) .

If you are considering a home loan, a refinance or a home equity loan, your mortgage broker can also pull your credit and score for you.

Since the information these companies have may be slightly different, your credit score may differ from company to company. With very high credit scores, you will get the best lender rates because they consider you a lower default risk. What is a good credit score? If you have scores over 700, pat yourself on the back for your good handling of credit and assume that most lenders would be happy to give you money. Credit Scores below 620 indicate high risk to lenders and could lead to higher interest rates or a denial of credit. The higher your credit score, the less you pay to buy on credit.

For example, on a \$216,000 30-year, fixed-rate mortgage:

If your credit score is	Your interest rate is	...and your monthly payment is
760 – 850	6.53%	\$1,370
700 – 759	6.75%	\$1,401
680 – 699	6.93%	\$1,427
660 – 679	7.14%	\$1,458
640 – 659	7.57%	\$1,521
620 – 639	8.12%	\$1,603