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A STEP-BY-STEP GUIDE TO REPAIRING YOUR CREDIT



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TAKING CHARGE OF YOUR CREDIT SCORE



Good credit is critical. Banks won't give you a loan if you have a bad credit score. Credit card companies will reject you and insurance companies may charge you a higher rate. If you have a low credit score, the utility company may require a security deposit before they'll turn anything on.

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. If your actions have lowered your score, you're not alone. Millions of people have experienced the same thing.

The good news is that you can repair and improve your credit score. You've probably seen advertisements for credit repair companies, but the truth is these companies can't take any actions that you can't take yourself. You don't need to hire a company to fix your credit. You can do it on your own.

In this guide, you'll find a step-by-step process to follow in order to both repair your credit and increase your overall credit score. This isn't an overnight process. Depending on how low your score is, it can take some time to improve it.

But if you follow these steps, your score will improve. Don't get discouraged if things don't turn around right away. Keep at it because, in the end, it will be worth it.

Ready to get started? Let's dive in.

UNDERSTANDING YOUR CREDIT SCORE



Before you can begin to repair your credit score, it's important to understand what factors affect it. Many people don't realize that 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.

1. Your credit score will range between 300 to 850 and represents how likely you are to pay back money you have borrowed. In the eyes of lenders, the lower your score, the less likely it is that you'll repay the funds you've borrowed.

2. This is why it's so important to build your credit score. If you have a low score, lenders will be very hesitant to give you money. If your score is under 560, you are considered to have "bad credit".

There are five factors that determine your score. In order of importance, they are:

1. Payment history. Paying bills on time is really important for your overall credit score. Late payments, having accounts sent to collections agencies, or defaulting on accounts will significantly hurt you. Bankruptcy is also very damaging to your score.

2. Credit usage. Credit usage is how much of your available credit you've used. For example, if you have a credit card with a \$10,000 limit and you have a \$3,500 balance on the card, your credit utilization rate is 35%. A low credit utilization rate is better for your credit score.

3. Credit mix. Typically, it's better to have experience with different types of credit than with just a single category. All things being equal, a person who has managed both a home loan and a credit card will probably have a higher score than someone who has only had a credit card.

4. Age of accounts. Creditors like to see that you've had credit for some time, not just new accounts, so older accounts generally help raise your score.

5. Credit applications. When someone examines your credit record to determine whether to give you credit, it's called a "hard inquiry". Hard inquiries can lead to a decrease in your credit score.

As you work to increase your score, keep these five factors in mind. Focus on the things that have the biggest impact on your score.

It's also important that you understand the different types of consumer credit available to you.

STEP #1 - EXAMINE YOUR CREDIT REPORT



The first step in repairing your credit is to know exactly what's on your credit report. Your credit report contains everything that affects your credit score, including all the things pulling your score down.

Yes, it may be painful to take a long, hard look at your credit report. You'll be reminded of financial mistakes you've made. But you can't fix things if you don't know what the problems are.

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. You can also order a credit three-in-one credit report from any one of the bureaus, although you will have to pay for it.

There can be differences between the three bureaus, so it's important to get reports from all three credit bureaus.

Once you've obtained your credit report, read it closely. The report can be pretty long and detailed, so give yourself plenty of time to go through it.

On the report, you should see:

- **Personal information:** name, SSN, birthday, addresses, and employers.
- **Credit information:** open and closed accounts, creditor names, original loan amounts, payment history, credit limits, amounts owed, and more.
- **Public record data** taken from the courts, specifically including bankruptcy.
- **Hard credit inquiries** from potential creditors.

As you read your report, look for the following information:

1. Errors. Are there any accounts that don't actually belong to you? Are there late payments that weren't actually late? Make a record of any of these errors for later follow up.
2. Past due accounts. This includes payments that are late and accounts that have been charged off or handed over to collection agencies.
3. Current credit accounts. In particular, you're looking for any credit accounts that are either over the limit or at the maximum. 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.

Reading your credit report for the first time can be overwhelming. Depending on your financial activity, there can be a lot of information to sort through. It can also be intimidating when you see the amount of work required to repair your credit.

If you're feeling like this, **remember that you're only going to be taking one step at a time.** You don't have to fix everything at once. Step-by-step, you'll progressively improve your credit score as you take the right actions. For now, just focus on highlighting all the important information.

STEP #2 - DISPUTE ERRORS



The next step in repairing your credit is disputing any errors on your report. 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:

- A creditor (bank, credit card company, or other lender) made a mistake and reported a late payment or default incorrectly.
- A collection agency incorrectly reported collecting on debt that doesn't actually belong to you.
- Your identity was stolen, and new credit accounts were opened with your information.
- One of your existing accounts (like a credit card) was compromised and used by someone not authorized.

How To Dispute An Error

If there are errors on your report (not fraud), there are a number of ways you can dispute them.

What's the best method to file a credit dispute?

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 concrete proof along with your dispute, like a credit card statement showing that you made payment on time.
- You have a paper record of your dispute.
- Sending a dispute letter via certified mail ties your claim to a specific date (credit bureaus must respond within 30-45 days).

When you file your credit dispute, be sure to include 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

1. Including supporting proof is important. If you don't include enough, the credit bureau may consider your claim frivolous. If that's the case, they won't investigate the disputed item and won't issue any updates to your credit report.

However, if it's determined that your dispute is appropriate, an investigation will happen. In many cases, the bureau will simply contact the creditor in question, determine if anything is incorrect, and then respond to your claim.

Alternatively, you can file disputes directly with the creditor (bank, credit card company, or another lender). They are under the same legal requirement to investigate a dispute that you might file.

Writing for Credit.com, Keli Geldis notes:

If you have errors, especially inaccurate negative information, on your credit reports, you can see changes to your credit scores fairly quickly. Credit reporting agencies have to respond to disputes within 30 days, although some can take 45 days. And if the credit reporting agency sides with you, it must remove the mistake immediately. In a 2012 Federal Trade Commission study on credit report accuracy, four out of five people who disputed an error on their credit reports had a modification made to their reports.

After your dispute, one of two things will happen:

1. **Successful dispute.** Your credit report will be updated, the other credit bureaus will be notified, and you'll be issued an updated version of your credit report.

Unsuccessful dispute. No change will occur to your credit score and your report will note that you disputed an item. You can add a statement to your credit report that provides context for the dispute and provides clarity when future creditors review your report.

Taking Things A Step Further

If your dispute is unsuccessful, you do have one further option: file a complaint with the Consumer Financial Protection Bureau (CFPB). If you choose to file a complaint with the CFPB, provide as much information as possible, including all your correspondence with the credit bureaus.

After you file your complaint, the CFPB will work with the credit bureaus to attempt to resolve your complaint.

Filing credit disputes is a tedious process, but **it's absolutely necessary if you want to repair your credit.** If you don't dispute incorrect information, it will remain on your credit report and drag your score down.

Steps to Take if Your Identity Was Stolen

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.

Follow these steps:

1. Contact each of the three credit bureaus (Equifax, Experian, and Transunion) and have them place a fraud alert on your account.

2. Freeze your credit reports so that potential creditors are not able to view your credit reports. This makes it more difficult for new accounts to be opened.

3. Report the theft to the FTC and local police. This creates an "Identity Theft Report" which can then be used to resolve fraudulent transactions on your credit report.

Steps to Take if an Existing Account Was Compromised

If you believe that one of your existing accounts, such as a credit card, has been accessed by unauthorized people, you should immediately contact the creditor. Usually, the creditor will immediately cancel the card, issue you a new one, and then correct your credit report with the proper information.

STEP #3 - ADDRESS ACCOUNTS THAT ARE PAST DUE



The biggest factor in your credit score is your payment history, making up 35%.

This means that if you have multiple past due accounts, your credit score will significantly suffer.

So, after taking care of any errors on your credit report, you'll want to start working on past due accounts. The objective is to get all your accounts paid and current.

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. With this in mind, work on paying off accounts that are past due and in danger of being charged off.

The good news is that your creditor may be willing to negotiate with you. Tell them that you're very eager to avoid having the account charged off. They may be willing to dismiss some of the late fees or let you pay the balance over several payments instead of all at once.

If you have accounts that have been charged off, you're still responsible to pay them. If you don't deal with charged off accounts, you're going to find it really difficult to secure new credit or a loan.

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.** It is possible that a creditor may be willing to settle a charge-off for less than the full amount. You'll need to negotiate with the creditor to determine if this is possible.

In addition to past due and charged off balances, you must handle accounts that have been sent to collections. With these accounts, you can follow the same steps as with charged off accounts by paying off the balance or settling with the creditor for a lesser balance.

Like with charge-offs, your credit report will reflect these balances for seven years.

STEP #4 - BRING DOWN HIGH BALANCES



After your payment history, your credit utilization is the second highest factor in your overall credit score (about 30% of the total).

Remember, credit utilization is the percentage of available credit you've used. For example, if you have \$5,000 in available credit and you have a total balance of \$2,500, your credit utilization is 50%.

This means that if you have really high balances, your credit score will be brought down. If your credit cards are maxed or close to maxed, start paying balances down.

Ideally, **your credit utilization should be below 10%**, but if you can get it below 30% that's a good starting place.

Kelli Geldis offers this helpful tip:

Hint: If you pay a credit card off on time regularly, your issuer will likely see you as a good credit risk and increase your credit limit. Don't however start charging more. Simply charge the same basic amount. Doing so will keep your utilization lower!

Your loan balances also affect your credit score. The higher your balance, compared to the original, the more it hurts your score. If you can pay down overall balances, it will benefit you. However, credit card debt hurts you more than loan debt, so focus on paying that off first.

Which is more important, credit card balances or past due accounts? Obviously, you don't have unlimited funds to invest in repairing your credit. You still have bills to pay and groceries to buy. So how should you prioritize your efforts?

Because your payment history is a bigger factor in your credit score, you should focus first on getting your accounts current. Once you've dealt with accounts that are past due (or close to it), you can then move on to bringing down your high credit or loan balances. Finally, deal with charged off accounts and those sent to collections.

So, your order of actions should be:

1. Past due accounts
2. High credit or loan balances
3. Charged off and collections

STEP #5 - BUILD NEW CREDIT



When it comes to repairing your credit, there are two sides of the coin. On the one side, you want to eliminate as much negative information as possible. This is why you tackle things like past due accounts and high credit balances.

On the other side, 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.

When getting new credit, consider these important points:

1. You absolutely MUST make your payments on time.

If you don't, you'll only be hurting your credit score even further. If you don't think you can make payments on time, don't get a new credit card.

2. Avoid applying for too many credit cards at one time.

When you apply, a "hard" inquiry is made on your credit, which goes on your credit report and can pull your score down slightly.

So, with that being said, you can build new credit by applying for a credit card from one of the major companies (Discover, American Express, Visa, Mastercard, and more).

When searching for a card, look closely at:

- **Recommended credit score.** This will help you know the odds of being approved for a particular card.
- **Annual fee.** Some cards require you to pay a fee every year.
- **Annual Percentage Rate (APR).** This is the interest you pay on purchases.

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. With these cards, you have to put down a security deposit that will be used if you fail to make your payments. If you faithfully make payments on time for six months or so, you're often given the option to upgrade to an unsecured card.

You also might consider getting a retail credit card, such as a Walmart or Amazon card (or another store you prefer). These cards are often easier to get than cards from the large credit companies.

OTHER TIPS FOR BUILDING SOLID CREDIT



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 raise your credit score.

Try these strategies:

1. Team up with someone who has good credit and a good payment history. For example, let's say your spouse has a really solid credit history and a credit card with a relatively low balance. They can add you as an authorized user to their credit card.

- When they do that, their available credit becomes yours and you begin to benefit when they make payments on time.

2. Consider keeping older credit cards, even if you don't use them much anymore. Why? Because the age of your credit history impacts your credit score. Having an older card on your credit report extends the total age of your credit.

3. You may want to enroll in the Experian Boost program. With this program, you connect your bank account that you use to pay your utility and cell bills to Experian. Then you highlight on-time payments you've made to these companies and these payments are added to your credit report.

- Once they're added, your credit score is increased.

4. Get a secured loan, which is similar to a secured credit card. Essentially, you deposit a set amount into a bank account and then can borrow against the deposited amount. When you make on-time payments, they're added to your credit report and your score increases.

5. Finally, you may want to look into non-profit lending organizations. In recent years, a number of organizations have been created that are designed to help people get financing and build their credit.

For example, Mission Asset Fund makes small loans available to certain individuals which can be used to improve credit scores.

HEALTHY FINANCIAL BEHAVIORS



In addition to knowing how to repair and build your credit, it's also important to implement healthy financial behaviors. If you don't have healthy financial behaviors, you'll end up sabotaging your efforts to repair your credit.

Keep these items in mind as you continue to build your credit score.

Debt-To-Income Ratio

Your debt-to-income (DTI) ratio is your total monthly debt divided by your gross monthly income. For example, if you have \$1,000 in monthly debt and a gross monthly income of \$10,000, your DTI ratio is 10%.

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%). Additionally, mortgage studies indicate that if you have a high DTI, you'll find it more challenging to make your monthly payments.

Budgeting

A budget helps you effectively manage your finances. It helps you calculate the amount of expenses you have every month and then balance those expenses against your income.

If you don't have a budget, you may not have enough income to cover monthly credit payments.

Comparison Shopping

When trying to get credit, like an auto loan, it's really important to shop around. Different lenders offer different interest rates and fees, and these can significantly affect your monthly payment.

Compare different lenders against each other and go with the ones that offer you the best deal.

Fraud Protection

Few things can tank your credit score faster than fraud. If someone steals your identity,

they can open up new credit accounts in your name, all of which go on your credit report and affect your score. If someone steals your credit card, they can rack up thousands of dollars in fraudulent purchases and then never make the payments.

It's absolutely essential that you 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.

Also, you may want to use an app like [Credit Karma](#), which allows you to constantly monitor your credit report.

If you see any accounts that you don't recognize, get in touch with the credit bureaus as soon as possible.

BE PERSISTENT, BE PATIENT



Rebuilding your credit is a process that requires persistence and patience.

You must work persistently to dispute incorrect information, catch up on past due accounts, pay down high credit balances, and build new credit. If you're not willing to put in the persistent work, your credit simply won't improve.

Repairing your credit also takes patience. Depending on your credit history, it can take a year or longer. For example, how quickly you can bring past due accounts current, your credit mix, the age of your credit, and other factors will all affect the time it takes to raise your score. Don't be discouraged if things take longer than you expect.

We've talked about five specific steps in this guide:

1. Examine your credit report.
2. Dispute errors.
3. Address accounts that are past due.
4. Bring down high balances.
5. Build new credit.

If you follow these steps, as well as the other suggestions regarding healthy financial behaviors, you'll see your credit score rise.

As your score rises, other opportunities will open up to you. So, do the work and be patient as you go. You'll be glad you did!