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Rebuilding Your Credit

Whether you have gone through a divorce, bankruptcy, or made a few mistakes with your finances, rebuilding your credit is possible. It may seem like a big job and feel like a slow process since there is no “quick fix” or “magic bullet.” If you are willing to create a plan and stick with it though, you can rebuild your credit. It’s worth your while since improving your credit lets you borrow when you need it, pay lower interest rates, increase your employment and housing options, and even lower your insurance rates.

Improve your credit by:

- Keeping up with current bills.
- Making a plan to catch up with overdue bills.
- Paying down credit card or loan balances.
- Checking your credit report for old or wrong information.
- Looking at options to add to your positive credit history.

Know where you are at financially. If you’re still going through a rough patch, you may not be in a position to pay down debt or keep up with current expenses. On the other hand, if your income and situation is in a good place, now may be the perfect time.

Steps You Can Take Now (for Free!)

There are many things you can do to clean up your credit and raise your score. Avoid debt settlement companies that charge you to do things you can do on your own. To get started:

- **Know your budget.** Figure out how much money you need to live on and cover current bills and how much can go towards paying off past due bills.
- **Check your free credit report from www.annualcreditreport.com**—See exactly where you need to improve. Do you have a lot of missed or late payments? Is the amount of debt you have too high? These clues can help you figure out what items to tackle first. Find out more about credit report errors that could be affecting your credit score on page 2.
- **Pay all your current bills on time.** You can start adding to your positive credit history by keeping up with your bills, especially bills reported to the credit bureaus. You can see if your utilities or landlord, for example, report to the credit bureaus by looking at your credit report.
- **Catch up on past due bills.** Overdue bills lower your credit score if reported to the credit bureaus. If you’ve gotten an overdue notice, contact the creditor to make a plan to pay off that bill. Will they accept monthly payments? Can they lower fees? Not all creditors will be willing to make a deal, but you can always ask.
- If a past due bill has gone into collections, you can contact the collection agency to offer a payment plan. There are some things to be wary of when paying off older debt, so you may want to contact a non-profit credit counselor. Many credit counselors offer a free first visit to explore options. To find a counselor: www.debtadvice.org

Building Positive Credit

If you have a credit card, you can use it as a tool to build your credit. To raise your credit score, never use more than 30% of your credit limit. That means if your credit limit is \$300, don't charge more than \$100/month. Pay it off monthly or at least pay more than the minimum.

If you can't get a credit card, look into a 'secured credit card.' Secured cards require you to keep money in the bank to cover your credit limit. Make sure the secured card reports to one or more of the credit bureaus. Some secured cards turn into a regular credit card after 1-2 years of making on-time payments and keeping balances low. Check with a financial institution.

These things don't help rebuild your credit:

- **Using a debit card or paying cash.** These don't help you prove you can repay debts because they aren't loans to start with.
- **Using a prepaid card.** A prepaid card is your own money, loaded onto the card in advance. Most don't report to credit bureaus.
- **Taking out a payday loan.** Even making on-time repayments might not help your credit. Usually, only late payments are reported to credit bureaus.
- **Taking an auto loan from a "buy here, pay here" car lot.** Most don't report to credit bureaus. If they promise to report on-time payments, get it in writing in your contract.

For More Information...

Contact your local UW-Extension Family Living Educator for more financial education resources. Go to www.uwex.edu/ces/cty/ to find your County office.

For help with balancing your monthly spending plan, contact a non-profit Certified Consumer Credit Counselor online at www.debtadvice.org or by calling 800.388.2227.

Don't Pay for Credit Monitoring

Many companies that promise "free" credit reports want you to sign up for credit monitoring services. You can take these no cost steps to protect yourself.

Monitor your credit yourself – By law you are entitled to a free credit report every 12 months from each of the 3 credit reporting agencies—TransUnion, Equifax, Experian at www.annualcreditreport.com. You can view all 3 reports at the same time, but reviewing one report every four months provides you with up-to-date information.

Know what to look for—First, make sure the information belongs to you—your addresses, employment, and accounts. Then make sure the information is up-to-date. There are limits to how long negative information can be included on a report:

- Late payments: 7 years from the date the payment was late
- Collection accounts: 7.5 years from the date of delinquency on the original debt
- Judgments: 7 years from the date entered by the court if paid, possibly longer (10-20 years) if unpaid

Sign up for an email reminder— Visit the UW-Extension 'Check Your Free Credit Report' website at www.fyi.uwex.edu/creditreport. You can sign up for free reminder emails, plus find information about getting and reading your reports, credit scores, and what to do if you find errors.

To \$um It Up:

- \$ Rebuilding your credit takes time—there are no short cuts or secrets.
- \$ To improve your credit, keep an eye on your free credit report at www.annualcreditreport.com
- \$ No one will keep an eye on your credit report for you. Making sure your report is correct and up-to-date is 100% up to you.

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