

# Improving Your Credit

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Unless you're paying for everything – including a home and car – you need to make sure that you have the best credit you can possibly have. Even if you're of the mindset that you'll never use credit, you'll still need a card for things like airline or car reservations.

For most Americans, it's not a matter of whether or not they'll be using credit. Most people do. Instead, it's a matter of what kind of credit you can get. You need massive amounts of credit, the best rates, no annual fee, and so on.

We live in a nation riddled with debt and mired in credit issues. There's a vicious cycle where people take out credit because they can't afford to pay for something in full, but they max out so many cards that eventually, they can't even make the minimums on their credit accounts.

## **Take a Look at Where You Stand Now**

You can fix something until you know what needs to be repaired. You may have been told that you were declined for credit, and that sparked your desire to clean up the mess and be in good standing.

Or maybe you're considering a big-ticket purchase (like a new car or mortgage) and you want to make sure you're where you need to be. Sticking your head in the sand and ignoring the problem just makes it worse.

The first thing you want to do is order your credit reports and scores. This will give you a good idea of what it will take to get you to a place where you're considered a "good risk" rather than a high risk.

You're allowed to order a free credit report from all three credit bureaus (TransUnion, Equifax and Experian) once a year. You can also sign up for

on-going access and notifications on a monthly basis if you want to, and that can save you money in the long run.

You can also get your scores, which is a numerical indication of your credit worthiness, from all three credit bureaus. You may even want to run your FICO score as well, which is slightly different and used by some lenders to determine whether or not you're a viable loan candidate.

After you see what you're up against, it's time to start making repairs to your credit. There are a few steps you can take – some you may not need – and others you will. Everyone is different.

### **Correct Any Errors on Your Credit Report**

First and foremost, go over your credit reports from all three bureaus with a fine-toothed comb. You want to make sure there are no mistakes on your credit file. Some of the most common errors you might find include:

- Someone else's name is on your credit report, being reported slightly different – like a different middle, first or last name. This could be a complete stranger or someone in your family, like the difference between John Doe II and John Doe III.
- Someone else has been using your social security number (fraud) and the one his or her history is being attributed to is you.
- You don't have an account with a lender being reported on your credit history. This can happen if a clerk entered the number wrong, for example.
- Your ex spouse's information is being mixed in with yours for a new account they opened in their own name.
- It's past the date for an old, negative item to be removed from your account, such as a bankruptcy.

- Payment status is incorrect. Perhaps you paid off a debt months ago and it's still being reported with a balance – you can get them to update that information to reflect its new status.

To correct your credit report errors, all three credit bureaus have both online and offline (snail mail) reporting options. You send in the corrections and give them time to investigate it and make corrections.

It won't happen overnight, so it's important that you start cleaning up your credit report as early as possible when you know you're making plans to buy a big-ticket item or apply for any credit lines.

### **Repairing Damage That's Been Done**

Before you start calling creditors and closing all of your accounts on a whim, understand that it's not having the cards that ruins your credit – it's how you use them.

In fact, if you go closing your credit cards, you might actually *hurt* your credit score. That's because you're getting rid of cards with longevity, available credit, and good payment history in some cases.

As you pay off those cards, your balance to limit ratio improves, raising your credit score. The more available credit you have, which you should leave unused, the better it looks for you.

Whenever you can, get your creditors to raise your credit limit, too. This raises the amount available to you and looks good to creditors. Sometimes this will happen automatically, and sometimes you have to ask for it.

Some things you're going to have let drop off of your credit report. For example, if you got behind on payments and some of them were delinquent, it can take seven years to drop off.

If you have any public records like liens or bankruptcies, it will take anywhere from 7-15 years to drop off – most public records for seven years, bankruptcies for 10, and tax liens for 15!

This can be grueling as you wait all that time for your credit to improve, but as long as you clean up the remainder of your credit, lenders can work with you on the other items. You might not get the best rate, but it won't be a firm denial in many cases.

The very best thing you can do is to pay off your debt and stop using your credit cards. Reducing the amount owed can be done one of two ways. Most lenders will recommend that you pay off the highest interest rate cards first, and just pay the minimum payments on the others.

But some people need a bit more motivation and enthusiasm when they're going through this process. That's why they might want to go a different route – one that has them paying off the card that has the lowest balance first.

When you use the lowest balance first approach, it enables you to put that minimum payment toward the next card in line once the lowest one is paid off in full.

When you have your credit scores in front of you, the report will actually tell you what you're doing wrong – and what you're doing right! This can be a big help along the road to your credit recovery.

For example, it might say:

- You've made all your payments on time – this is something you're doing right!
- You aren't applying for new credit all the time – another benefit.
- You have multiple types of accounts, which enables lenders to see how you manage your debt overall.
- You have a mortgage – and are paying it on time – very responsible of you.

But then it could have some negative items on your report, such as:

- You've spent 90% of your available credit, which makes it look like you're living off your credit cards.
- You've spent over half of the credit lenders have given you – you should have some cards paid off in full.
- Your credit limits are too low. When lenders give you a high credit limit, it means you have experience managing larger available lines of credit.

It's wise to periodically run your credit report – or better yet, sign up for the alerts system that tells you whenever any changes have occurred on your report. That way you're always on the ball about where your credit stands.

### **Maintaining a Quality Credit History**

Pay your bills on time, every time. Creditors might waive a late fee and not report you once if you call and explain a situation, but don't expect them to do that for you time and time again.

Never let anything go into collections. That's the worst – when creditors have to chase you down to try to get money from you. Instead, call and negotiate a payoff amount or new payment date.

Pay as much as you can or get a consolidation loan to give yourself one monthly bill rather than multiple missed payments. Do your best to avoid collection agencies.

It's okay to use credit, but try to pay off your credit cards in full every month. If that's not possible, make sure you keep your spending in line and don't go nutty with charging up needless items.

Go easy on the new lines of credit. As your score and report clean up, you'll start getting plenty of offers in the mail. Don't open new ones unless it's truly needed and necessary.

Every time you make an inquiry for a new line of credit, it shows up on your credit score. Having 1-2 inquiries is okay, but more than that and it starts to affect your credit score.

Whenever you do apply for new credit, shop smart. If your score and history is cleaned up and rising every month, there's no need for you to accept a credit offer with an unusually high interest rate or large annual fee.

### **Is a Credit Counselor or Debt Consolidation a Good Option?**

In some cases, they are wise options – but not for everybody. Basically, if you can handle it on your own without a debt counselor or consolidation loan, then it's better to do it that way.

But some people simply aren't good at managing money or their credit, so having a professional guide you along the way can be a real blessing that removes the stress of the situation from your life.

A credit counselor is someone who helps you make a budget and debt plan. They'll educate you about your finances and assist you in knowing what is the best course of action. The National Foundation for Credit Counseling is one option. They help using a low cost scale.

When you find a credit counselor, they'll want you to bring along any pay stubs you have along with statements, a listing of assets, and a list of your monthly bills including groceries, gas, etc.

If you're already getting collection agency calls or letters, they'll need to see those so that they can help you get n the right track as soon as possible, because those are the most urgent ones.

The biggest thing you need to be aware of before dealing with a credit counseling service is that there are a ton of scams out there. You want to be working with a non profit agency – one who won't cause you more harm than good when it comes to your credit score.

Debt consolidation is when you take all of your debt that's owed and merge it into one account, typically lowering your monthly payment. This doesn't immediately boost your credit score, though.

In fact, it can hurt it initially. Yes, you'll lower your monthly payment – so if you can't make your minimums, this might be an option. But it suddenly puts a hard inquiry on your credit report – plus, you now have a big installment loan on your credit report, too.

Cleaning up your credit when you're in a rush can be frustrating and disheartening. You sometimes wish you just had a clean slate to do it all over again – better!

But that's not how it works. The good news is, once you have your money under control, you have the opportunity to enjoy pristine credit for years to come. It's very freeing once you're out from under the thumb of the credit and debt monster.



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