

# How to Recover from Disastrous Credit

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When your credit bottoms out, it can make you feel awful as well as make it more expensive for your lifestyle. Many insurance companies do credit checks and base your coverage on how risky you'd be to have as a client.

If you try to rent a home or apartment, having disastrous credit can make it difficult to find a place. But despite how you might feel about it, having disastrous credit isn't the end. There are ways for you to recover.

## **Goals You Need to Have**

When you have bad credit, you want to create a plan involving both immediate and long-term goals. Immediate goals are ones that you need to fulfil quickly. The good news is that when your credit is at rock bottom, the only place to go is up.

You get to decide what that means specifically. You get to look at your life and decide what you want to put in place as your goal right now. For some people, they want to put some money into a savings account to prevent emergencies from derailing their credit again.

The thing about emergencies is that they always happen and yet few people plan for them. You might think of an emergency as a car accident or an injury and while that's true, there can be day to day living emergencies such as it being the dead of winter, the wind chill making the temperature outside below zero and your heating unit just went out.

Or the car that takes you to work conked out. It needs to be fixed. The first step toward repairing your credit is to make sure that you don't end up in a position that's going to make it worse.

So that means you need to have a savings account. Sell whatever you have to - work a second job for awhile if you have to - but you need to put back a minimum of \$1,000 in your savings account.

For practical purposes, you need about three months' worth of your living expenses put aside in savings. But for now, to repair your credit, you need to have at least a \$1,000 saving's cushion.

Your next goal - and one that you should do quickly - is to reach out to every one of your creditors. Don't avoid them. Make payment arrangements to bring any late accounts back up to date.

Make sure you get this in writing. Many creditors are more than willing to work with you. While you can go to a credit counseling service to manage your credit rebuilding, do your homework on them before you make that decision.

Many people choose to go this route when rebuilding their credit because they think a credit counseling company can get credit card companies and other creditors to lower the monthly interest fee and waive late fees.

While it's true some can do that, so can you. Some people think that using a credit counseling service is a great way to rebuild their credit, but that's a myth. Late payments are put on your credit report anyway.

Plus, when you use a credit counseling service, you have to pay them a fee. This fee could be applied to your outstanding debt to get your credit back to a better score.

So your immediate goals once you have your money in savings and you've arranged to get your debt payments back on track is to do whatever it takes to keep these bills paid on time in the future.

You might think that the answer to rebuilding your credit would be to cut up all your credit cards while you pay them off as well as closing the accounts that you have paid off.

This is a mistake. You need whatever good payment history there is to remain an option. Plus, voluntarily closing credit card accounts can also lower your score. Make your immediate goal one of boosting your income or lowering your expenses so that you can get debt free as fast as possible.

You want to make sure that your debt-to-income ratio is a good one. If you have a \$20,000 credit limit and you're using \$15,000 of that as a balance, then you're at 75% of your credit use.

Keeping your credit cards or revolving loan accounts at that percentage hurts your credit score. The lower your credit card or revolving loan debt is, the higher your score will climb.

One of your immediate goals should be to get an unsecured credit card if you've had to close all your accounts and you just have to start over. This will let you rebuild your credit pretty fast as you make those on time payments.

Once you've shown a history of making payments as agreed, you can move on to an unsecured credit card. If you're trying to make a big purchase like a car or a home, then you need to repair your credit fast - and it needs to be done long before the mortgage lender checks your credit.

This will allow you time to get anything that's wrong removed. Some unscrupulous collection agencies will change the "date of last activity" so that they can keep the negative report on your credit.

Sometimes these debts are past the state's statute of limitations so the companies claim a later date of last activity. This also gives you time to bring any late accounts current.

Any negative accounts need to be paid off and this includes any medical debts. Though many credit agencies state that medical debts aren't counted against consumers, this is a myth.

If you're hoping to buy a home quickly, you can improve your credit score enough so that you should be able to do that within two to three months. If you can take it slower, then you can usually end up with an even higher credit score.

The longer the history of on time payments, the higher your credit score is. The lower your debt-to-income ratio, the better.

### **Credit Repair Agencies**

Some people choose to use a credit repair agency to fix their credit rather than do it themselves. If you do that, you should know that not every agency is reputable and the work they do is exactly what you can do.

Just like you would do, they get a copy of your credit report from all of the credit reporting bureaus. They have to get copies from all three because not all of them will contain the same information.

They'll look over the reports for things that aren't accurate and you'll have to prove that they're not true. An example of this would be if a John Doe Jr. has a bad debt that appears on John Doe Sr.'s account.

Once you prove that the information on your credit report isn't true, the proof you have is then sent to the credit bureaus. Any information contained in your credit file that's wrong must be deleted according to the law.

And the good news is that a credit bureau only has 30 days to answer and handle the dispute. That's good news for anyone who's looking to recover from disastrous credit and wants to buy a house or car in a short amount of time.

You can usually get discrepancies on your credit report handled faster and with less time and headache than if you did it yourself. Plus, a reputable credit repair agency usually knows the laws affecting consumers' credit more than the average consumer does.

They know what rights you have or don't have. But everything a credit repair agency does, you can also do yourself. You should also be aware that these companies can't act outside of the law.

If you legally owe a debt and it's within the correct parameters such as date, amount and late history, then a credit repair company can't get it removed any more than you can.

Any debt that's on your credit report must be 100% accurate. If it's not, only then can it be removed. A credit reporting agency can act fast to help you correct inaccuracies, but they can't force your score to go higher anymore than you can.

So if any company is promising to boost your credit score by a certain number of points, don't trust them. Also, don't pay them before they do what they can to repair your credit.

While it might seem strange not to give them money before they do the job, it's against the law according to the Credit Repair Organizations Act for them to make you pay for the service first.

### **Hiring an Attorney to Repair Your Credit**

There is a case both for and against hiring an attorney to repair your credit. In some cases, you won't be able to do it alone unless you do hire an attorney who specializes in credit repair.

But in other cases, you can do it on your own without hiring the attorney. It depends on the situations that affect your credit. Sometimes, when consumers try to get inaccurate information removed because the original debt was bought out by a collection agency and sold a few times over.

Everything gets mired down, confusing and the debt can be mistakenly labeled as verified when you know for sure that it isn't. The amount of the debt is wrong and there are other inaccuracies.

When the credit bureau makes a mistake like that, it will take a lawyer to fix it if - after sending in a certified letter - you don't get any satisfaction. Some people think that hiring a credit repair attorney is just like hiring a regular attorney.

It is. A reputable credit repair attorney usually works out fees differently. You may have to pay a small fee up front which can range from \$20 to \$100. You'll then pay monthly fees until you no longer require their services.

What a credit repair lawyer can do is look at your reports for errors as well as ways to boost your credit score since they know the laws that can help you with that.

They can also get certain negative information removed such as inaccurate accounts from collection agencies or foreclosures. More often than not, a credit bureau will respond faster to an attorney than if you were doing it yourself.

There are a few things you need to be aware of before hiring a credit repair attorney. Keep in mind that they use the exact same laws pertaining to debt that you would have to use.

The laws for removing negative items from a credit report don't change, regardless of who is trying to fix the report. Don't make the mistake of assuming that a credit repair attorney is going to represent you in case you're sued or end up with a judgement from a creditor.

The actions that the lawyer take will always be outlined in the contract that you'll sign. If there's no upfront contract to sign, the company probably isn't reputable. If you're on the fence as to whether or not to hire an attorney, consider your time and headache versus paying for the service.

In some cases, such as help with identity theft, unfair wage garnishment or illegal debt collection bank account seizure, then it's beneficial to hire a credit repair attorney. Otherwise, you're better off repairing your credit yourself.

## **Filing Bankruptcy**

Sometimes, your life can take such a turn and your credit can get into dire straits. You might have creditors call you all hours of the day and night and be on the receiving end of collection letters, threats of lawsuit or wage garnishment.

When you're struggling to pay your bills and it appears you might face eviction or the loss of your home, bankruptcy can be an option to help you start your life again.

It used to be that there was a big stigma attached to bankruptcy, but that doesn't exist anymore. It's simply a legal step many people have to use when they have no choice left to make.

There are different kinds of bankruptcy and a few of them aren't for the average consumer. The ones that are is a Chapter 7 or a Chapter 13. A Chapter 7 is what you file when you want a clean slate from your creditors.

Keep in mind that when you file for bankruptcy, the state in which you reside will use a bankruptcy trustee who handles your case. It's his or her job to make sure everything is on the up and up.

The majority of your property - including your vehicle, your home and your furnishings - are protected from being sold and the proceeds given as part of the repayment to your creditors.

Your attorney will know what you own that's protected and what isn't protected from being sold to pay off the debts. In some cases, if you receive a tax return where you get money back, that money will have to be turned over to the trustee and it's distributed to the creditors.

This type of bankruptcy is usually filed and over with in about 90 days. Some people file Chapter 7 bankruptcy to keep from losing their home to foreclosure, but it only prevents foreclosure for a little while.

If you can't make your house payments once the court discharges your bankruptcy, you could lose your home. To be allowed to file a Chapter 7, you do have to qualify income wise.

People with a lot of assets and a high income, often must file a Chapter 13 instead. If you choose to file Chapter 13, it means that you're going to set up a plan on your own terms and approved by the court to pay back the people you owe money to.

Sometimes, you'll only pay cents on the dollar back to creditors. A Chapter 13 repayment can stretch out for years. It can stop a foreclosure and allow you to work out a payment plan in order to get current.

There are some debt restriction limits for the amount that you can owe creditors involved with a Chapter 13. There are both pros and cons when it comes to filing either type of bankruptcy.

The bad news is that it does stay on your credit report for years. If you have debts that are really choking you financially such as student loan payments, a bankruptcy does not erase that debt.

If you owe the IRS back taxes, a bankruptcy doesn't do away with that, either. The good news is that after you filed bankruptcy, you get out from under the stress of the financial pressure.

You also get to start fresh rebuilding your credit. While some people look at bankruptcy as being a terrible thing, there are many creditors who look at it and will give you credit to start fresh. The reason they do this is because they see that you can afford to pay them back since most of your debt was discharged.





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