Credit Card Smarts

Fact Sheet 7

Build a New Credit Record

People have credit problems for many different reasons. Job loss, unexpected medical bills, divorce, or money management mistakes can all cause problems with credit. You can take steps to reestablish your credit no matter why you have credit problems.

Check Your Credit Report

When you apply for credit, the lender receives information in a credit report from one or more of the credit reporting agencies. The credit report includes a statement of your bill payment history, current unpaid bills, available credit, property liens, lawsuits, and other related information. Credit reporting agencies try to give accurate information but they can make mistakes. When you’re having trouble getting credit, the first thing you should do is check the accuracy of your credit report. If you’re turned down for credit by the lender, you should receive a letter with the name of the credit reporting agency that provided the negative credit report. You’re entitled to a free report if you’ve been turned down for credit within the last 60 days. Otherwise, you can get a free credit report once every year from each of the three credit reporting agencies.

When you get your credit report, check for mistakes. Common mistakes include information about someone with a similar name, information for an ex-spouse’s account that your name was never on, or a closed account shown open. If there are any errors, write the credit reporting agency that issued the report. State the error and ask for an investigation. The credit reporting agency legally has 30 days to investigate and correct the information. The credit reporting agency can’t remove negative information if it’s correct. Generally, negative information stays on a credit report for seven years. Bankruptcy information stays on a report for ten years.

Some groups advertise that they can repair your credit report. Be careful! These groups can’t do anything that you can’t do. A consumer protection law requires that a credit repair company give you your legal credit rights in writing. Also, the company can’t collect any money from you until it has finished the work it said it would do for you.
Manage Your Money

To reestablish your credit you need to build a good credit report. This means you must take a close look at how you manage your money. Take time to write a spending plan for yourself. Compare your income with your expenses. Make sure that you pay your bills by the due dates. Talk to current lenders about working out a plan that will make it easier to pay your debts. The National Foundation for Credit Counseling (800-388-2227) or Myvesta.org can help with these tasks. Another resource for counseling is www.moneymanagement.org.

To build a good credit report, lenders must report positive information about you to the credit reporting agencies. Check that payments you’re making on time (such as rent, loan, or utility payments) are reported to one or more of the three credit reporting agencies.

Use Secured Credit Cards

Another way to show that you’re creditworthy is to responsibly use a secured credit card. A secured credit card looks like and can be used just like a regular credit card. To get a secured credit card you must deposit money into a savings account as collateral. Generally, the credit limit on the secured credit card will be 50 – 100 percent of the money you deposit. You should earn interest on the money deposited. A secured credit card may have an application fee as well as an annual fee. You’ll pay interest on unpaid balances. Know the fees and interest rate charges before you apply for a secured credit card.

To apply for a secured credit card, check with your local bank or credit union. Check Card Web (1-800-874-8999) at: www.cardweb.com. It has a list of banks offering secured credit cards. You’ll pay a small fee for this list. When you get a secured credit card, be sure the bank or credit union reports your use of the card to the credit reporting agencies. A secured credit card may be convenient, but remember that the main reason you have the card is to reestablish your credit by proving you can pay your credit bills on time.

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For more information on credit, see other Credit Card Smarts fact sheets. A related fact sheet is “Check Your Credit Report.”