

As you plan and save for the future, one of your goals should be to always have a good credit record. The quickest way you get a bad record is to fall behind or be late on any promise you made to pay for something—whether it's charges on a credit card, a car loan, your mortgage, or even your rent, electricity, or phone bill.

When this happens, you may be unable to get car insurance, credit cards or other loans. And if you do get credit, you will pay much higher fees and interest. You may be rejected if you apply for a job. So if you do get a bad credit record, it's important to try to improve it.

Symptoms of Bad Credit

You try to use a credit card to buy a washing machine, but the card is rejected. You want to refinance your mortgage at a lower interest rate, but the bank refuses because your mortgage payments have been arriving late. If you are having these types of problems, it's time to check your credit reports and credit scores.

Lenders use your credit score as a way to predict the risk they are taking if they lend you money. Your credit score is a number, usually between 300 and 850. It is based on information that the three national consumer reporting companies keep of your bill-paying history and your outstanding credit. In general, the lower your score, the harder it will be to get new credit, and the more likely you will pay higher-than-average finance charges. Your credit report lists the amount of debt and credit you have on all your cards, loans, etc., and your payment record.

It's important to keep an eye on your credit reports to make sure that they do not contain mistakes. If a report contains wrong information, you should immediately write a letter to the credit reporting company stating that the information is wrong. You

should enclose copies of checks or any other proof that you paid, and request that your record be corrected. (For details, see "Your To-Do List" at the end of this Tip Sheet.)

Credit Improvement Options

Many people end up with bad credit due to a crisis such as illness, job loss, identity theft, or a natural disaster such as a hurricane. But whatever the cause, if your bad credit record is correct, you should take steps to improve your credit. It's important to begin

How to Check Your Credit Record

Federal law says you can get a free report from each of the three national consumer reporting companies every year. You can order your free reports three ways:

- Call 1-877-322-8228.
- Visit www.annualcreditreport.com.
- Mail a request form to Annual Credit Report Request Service, PO Box 105281, Atlanta, GA 30348-5281.

Do not try to get your free annual report from any other source. Even if you're pretty sure your credit is good, look at your reports each year to make sure that no wrong information has been added and that mistakes have been corrected. You do not need to order all three credit reports at the same time. You can set up your own free monitoring system by ordering one credit report now, another in four months, and the third four months later. That way you are checking at least one of your credit reports every few months.

right away, because the negative information may stay on the report for anywhere from seven to ten years.

There are two ways to improve your credit—create a do-it-yourself plan, or work with a credit counselor.

Do-It-Yourself Plan

Try this if you're pretty well organized, if you know how you're spending your money each month, and if you have the discipline to stick to a budget and debt payment plan, even if no one is helping you. Here are the steps you should take:

- List all your bills and how much you owe.
- List all your regular expenses and income.
- Create a budget that includes regular payments to get rid of all the debt.
- Pay down the debt with the highest interest rates first.
- Pay current bills on time, and make sure you avoid late fees and other charges that may increase how much you owe.
- Limit the number of credit cards you hold. Keep one that you pay off in full every single month to avoid finance charges.
- Consider using a debit card to avoid interest charges.

Check every month to make sure you are sticking to your plan. If it's not working out, then consider getting help from a credit counselor.

Credit Counseling

Credit counseling organizations can help you create a realistic budget, manage your money, develop a schedule for paying off what you owe, and offer advice on other financial issues and decisions.

However, if you decide to go this route, you need to make sure you're dealing with a reputable organization. In recent years, many companies that claim in aggressive advertising to resolve credit problems are actually scams, designed to take your money for services they don't deliver. Or they rush you into a debt consolidation plan that does not solve your debt problem. They may even advise you to commit fraud, by suggesting you lie on a loan application or get a

new Social Security number. Avoid any agency that says it uses your first month's payment to creditors for its own fee or as a "voluntary contribution." Stay away from any company that claims to be able to get rid of your debts in a quick phone call.

One way to locate a credit counseling organization is to contact the National Foundation for Credit Counseling, Inc., at www.nfcc.org, whose members are nonprofit counseling agencies. Try to find an organization and a counselor who will meet with you personally, in their office—not just talk on the phone or advise you on the Internet. Some other places to search for reputable assistance are through your credit union, bank or other financial institution, local consumer protection agency, military base, university or the U.S. Cooperative Extension Service. Check with your state attorney general to find out if complaints have been made about the agency's practices.

Under the latest bankruptcy reform, consumers must get credit counseling before filing for bankruptcy. The U.S. Trustees Program, a Department of Justice group that works to improve the bankruptcy system, lists approved credit counsel agencies. Even if you are not considering bankruptcy, you can consult with these agencies, www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm.

But before signing an agreement and paying money to any credit counseling organization, ask these questions and make sure you are comfortable with the answers:

- What is your detailed plan for improving my credit?
- Exactly what fees will I be charged? ("Nonprofit" does not mean the service will be free.)
- What training and certification do your counselors have?
- How long will it take to improve my credit score?
- Do you offer any guarantees?
- What is the name of your company and what is the business address?

Your To-Do List:

- Read the Federal Trade Commission's** advice on how to dispute wrong information on your credit report and get it corrected, www.ftc.gov/bcp/conline/pubs/credit/debt.htm.
- Learn how to protect your rights** under the Fair Credit Reporting Act from the FTC website, www.ftc.gov/bcp/conline/pubs/credit/fcrasummary.pdf.
- Use worksheets** from the National Endowment for Financial Education to create a plan for paying your bills, keep payment records, and to track your monthly expenses at www.smartaboutmoney.org/nefe/pages/content.asp?page=1305.
- Before you sign up with a credit counseling service**, read the Federal Trade Commission's advice on how to avoid credit repair scams, at www.ftc.gov/opa/2006/02/badcreditbgone.htm.
- Search for a nonprofit credit counseling agency** near you. Contact the National Foundation for Credit Counseling, Inc. by calling 1-800-388-2227, or by visiting their website at www.nfcc.org. Spanish language services are available at 1-800-682-9832.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

