CREDIT LITERACY FOR 2021

By: Renee McElroy, MS, AFC®

TouchStones Financial Wellness Services, Inc
https://www.touchstonesfinancialwellness.org

Rebuilding Your Credit History

When you are trying to rebuild your credit history, it is important to understand that no one can legally remove accurate and timely negative information from a credit report. You can, however, ask for an investigation, at no charge to you, of information in your file that you dispute that is inaccurate or incomplete. Unfortunately, it can be much easier to destroy your credit than to fix it, so try to look at this new beginning as an opportunity to form good habits and start your credit history off right. The time and effort you put into building this solid foundation might eventually get you the best cards, loans, and rates and may even end up saving you money.

How to Improve My Credit Score?

As you begin the process of improving your credit score, keep in mind that it's a marathon and not a sprint, but improving your score is worth the effort. A poor credit score (between 400-600) can potentially cost you tens of thousands of dollars over the course of a lifetime. It can also become a source of serious stress, making you feel like you just can't leave the mistakes of the past behind and move on. Luckily, you're not alone. Plenty of people struggle to improve their credit scores and there are numerous ways to build good credit — and reap the rewards that come with having a good credit score (700-800+).

1.Make Sure Your Credit Reports Are Accurate

The first step to improving your credit score is checking your credit reports. Everyone has three credit reports — one from each of the 3 major credit bureaus: Experian, Equifax, and TransUnion. Credit reports can, and often do, have errors on them. A 2012 study from the Federal Trade Commission found that 1 in 5 consumers had an error on at least one of their credit reports, and a follow-up study in 2015 found that those who reported an unresolved error on one of their reports believe that at least one piece of disputed information is still inaccurate. Since your credit scores are based on the data in your credit reports, it's incredibly important to make sure that the information is accurate. If you have a mistake on your credit report, your credit score will reflect that mistake.

It's easy to check your credit reports from each of the three major credit reporting agencies. You're entitled to a free copy, once a year, of all three of your credit reports under the Fair Credit Reporting Act. These reports can be accessed via AnnualCreditReport.com, the government-mandated site run by the major bureaus. (You can also view a free credit report snapshot on Credit.com.)

Most credit scores – including the FICO score – operate within the range of 300 to 850. The credit tiers generally look like this:

Excellent Credit: 750+
Good Credit: 700-749
Fair Credit: 650-699
Poor Credit: 600-649
Bad Credit: Below 600

Once you have your credit reports in hand, here's a quick checklist of questions to ask yourself to help you spot potential errors:

- *Is your personal information accurate? (That can include your Social Security number, birth date, full name, and address.)*
- *Are all of your credit accounts being reported?*
- *Are there any late or missed payments listed that you remember making on time?*
- *Are there any accounts or applications for credit you don't recognize?*
- *Are there any items from decades ago still appearing on your report?*

*I*t helps to go through your credit reports with a highlighter and pick out the inconsistencies. Keep in mind that a credit report from one bureau may have an error, while another may not. That's why it's so important to check all three of your credit reports for inaccuracies. You may find none, a few or perhaps many errors on your reports. That's where the next step to improving your credit comes in.

If you find an error on all three credit reports, you'll have to dispute it separately with each credit bureau, as they're run separately from one another. You'll also have to file a separate dispute for each error you find. You can dispute these errors on your own for free, or you could consider hiring a reputable credit repair company to help.

2. Pinpoint What You Need to Improve

Simply having an error on your credit report doesn’t necessarily mean it’s causing your bad credit. For example, if a misspelled version of your name appears in the personal information section of your credit report, that error probably isn’t causing your credit score to dip. Other errors, like those listed in the previous section, could be to blame — and there are several possible reasons why those errors are there. Here are a few examples:

- *Your identity has been stolen and a thief is abusing your credit.*
- *A collection account from years ago is still being reported, even though it’s past the statute of limitations in your state.*
- *A bill your ex was supposed to pay (per your divorce) has gone unpaid for a while, and now you’re suffering the consequences.*
- *You defaulted on one loan, and now it’s showing up as multiple defaults on your credit report because it’s been sold to debt collectors.*
- *Your credit information has been mixed with that of someone else who has a similar name (and went through a foreclosure recently).*

*I*f your credit report is accurate, but you still have a bad credit score, it’s important to understand why. Here are the major credit scoring factors and how each one can impact your credit score:

- ***Payment History:*** *If you have a history of making late payments, creditors see you as a bigger risk, and this factor has the greatest effect on your bad credit score.*
- ***Amount of Debt:*** *Debt contributes 30% to a FICO Score’s calculation and can be easier to clean up than payment history, according to FICO’s website. (It weighs heavily on other credit scoring models, too.) That’s because if you currently have five maxed-out credit cards, creditors worry whether you’ll be able to take on more credit and whether they’ll get paid back first or if your other creditors will.*

- ***Age of Accounts:*** *If you're newer to credit and borrowing, there isn't a whole lot of data to go on. You may need time to see your credit score improve.*
- ***Account Mix****: Lenders want to make sure you can handle different types of credit like credit cards and auto loans, for example. If the only credit you have is in the form of credit cards, you may be keeping your score from rising.*
- ***History of Credit Applications:*** *If you applied for a dozen new credit cards this month, creditors wonder why. They may be worried you're overextended financially.*

3. Create a Plan to Improve Your Credit Score

If your credit report information is accurate, but you know what you did wrong and want to work to improve it, you can make an action plan using your free Credit.com account, and see how that plan impacts your credit scores over time. You can even get tips on what your problem areas might be.

4. Fix Your Late Payments

Even closing an account won't make your late payments disappear. Your best bet here is to get yourself back on the right track — set up payment due date alerts with all your credit cards and loans, and get organized. You can move credit card payment due dates around easily on your bank or lender's website. Be sure to check your payment due dates in relation to your paycheck schedule.

Ask your credit card issuer or lender if they can forgive that late payment. Maybe you were out of the country on vacation or the check got lost in the mail and you had no idea the bill existed. Credit card companies are pretty forgiving if you have a long track record of making on-time payments.

5. Build a Strong Credit Age

If you have a short credit history, there's not much you can do quickly here to improve your credit. You could try to piggyback on a friend or family member's credit card if they have a long history of on-time payments. Have them add you as an authorized user, however, you may struggle to find someone willing to do so since they would be responsible for any charges you make. Your other option: Wait it out and don't close any accounts.

6. Clear Up Any Collection Accounts

Pay off your debt instead of repeatedly transferring it to new accounts. Contact the debt collector listed on your credit report to see if they'd be willing to stop reporting the debt to the credit bureaus in exchange for full payment. This technically violates some of the collectors' agreements with the credit bureaus, so it may be a non-starter, but it never hurts to try. Just be sure to get that promise in writing before you make a payment. Also, if it's a debt that you don't recognize or seems inaccurate, dispute it with all three credit bureaus. You may get it removed and see your credit score improve quickly.

7. Don't Let Old Mistakes Unfairly Haunt You

If you've filed for bankruptcy, gone into foreclosure or suffered through a short sale, you may be wondering when the credit score misery ends. How long will it really take to get out of the credit score hole you're in? For these errors, your credit score takes the biggest hit when it first hits your credit report, but its impact will lessen over time and eventually that account will disappear from your credit report due to federal laws that limit the amount of time it can impact you. If you see an item that shouldn't be on your report anymore, dispute it with all three credit bureaus and you'll likely see your credit score move up when the item is removed.

8. Get a Credit Card

If you've never had a credit card before, your scores may be suffering because of that account mix factor we talked about earlier. Just make sure you make on-time payments — a new credit card account with a bad payment history will hurt you, not help you improve your credit scores. If you have a fair, good or excellent credit score, there are many credit card options out there for you. If you have a poor or bad credit score, read the next tip.

9. Open a Secured Credit Card

A secured credit card is a type of credit card where you make a deposit into a checking account that "secures" the line of credit the bank or lender is extending you. For example, you can open a checking account and put $200 in it and get a line of credit for $200 (though some secured options will give you a higher credit limit than your deposit). You can get a secured card with bad credit, and adding a new account with a positive payment history will go a long way in showing creditors you're back on solid ground.

10. Limit Applications

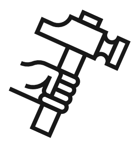
The 10% discount for signing up for a store credit card may seem worth it in the moment, but your credit score will take a hit for applying, whether you get approved or not. A hard inquiry will impact your credit score for a full year, though your score will start improving almost immediately after you apply. The hit is small (normally around 3 to 5 points) but if you're on the edge of two credit score tiers or applying for lots of credit offers in a short time span, you can do a lot of damage.

11. Fix Your Credit Utilization Ratio

If your credit card balances every month are more than 30% of your limits, your score is suffering, even if you're paying off your balances in full every month by the payment due date. That's because your statement balance is most likely what's being reported to the credit bureaus. So, keep an eye on those balances, and consider pre-paying some of the balance if you know you'll be above that 30% mark this month.

Like we said earlier, improving a poor credit score takes time, but it'll be completely worth it. Constantly worrying about being approved for loans, mortgages and new credit cards is not something you want to be doing for the rest of your life. Following these tips will not only save you money, but also teach you the valuable skills necessary to maintain a good credit score in your future. If you have bad credit, don't give up on credit entirely. Instead, be responsible and stay educated about your accounts and scores so you can successfully handle your own finances.

Building Your Credit History from Scratch



Every credit journey has to begin somewhere. And while it may seem impossible to begin your own when creditors keep denying your applications due to your lack of credit, generations of consumers have proven that it IS possible to build your credit from scratch. Here are some tips to get you started.

Consider getting a credit card

If you were denied credit in the past, it may have been because the cards you applied for required a high credit score for approval. When you're just beginning to build your credit, consider starting off small and looking for options available for those with little or no credit:

Secured credit cards: can be great for building credit because almost any applicant can qualify for them, as they're backed by mandatory cash deposits. In other words, the cardholder is required to make a deposit to help remove the risk of default for the issuer. Just be sure that the company reports the card to the credit bureaus so your positive payment history can help build your credit file.

Student credit cards: can be great options for young consumers who are just starting to build their credit history. These cards typically offer higher acceptance rates and may even come with promotional offers and rewards. The drawback is that they usually have lower credit limits and higher interest rates.

Retail credit cards: are another option commonly used to build credit. While they're usually easy to get and can help consumers save money at their favorite stores, these cards often have low credit limits and interest rates that are considerably higher than non-retail cards.

Asking to become an authorized user on a close family member or friend's credit card is also a great option to consider. Since the card's history is usually reported to the credit bureaus, if you and the card-owner use it responsibly, it should help the both of you. However, keep in mind that the opposite situation is also true-- if either of you miss a payment or rack up a lot of debt on the card, it could hurt both of your credit histories.

Getting a credit card should be done with care and consideration. As with any major decision, do some research about the different options out there. You can check out reviews to see what people are saying about the cards you're interested in and read the fine print so you understand the fees, interest rates, reward program details and other specifics. In short, know what you're getting into. Lastly, keep in mind that if you're under 21, you'll need to have either a co-signer or a verifiable income that proves you have the means to repay your credit cards

Use your credit responsibly

Once you receive your first credit card, it's important to get your credit history off to a good start. Keep in mind these smart credit habits:

- *Consider paying your card in full. Contrary to popular belief, you don't need to carry a balance to build credit. We're sure you don't enjoy wasting money, so as often as you can, consider paying your entire balance to avoid paying interest on purchases.*
- *t's important to pay your bills on time. Late payments can stay on your credit reports for seven years and wreck your score, so try to make each payment on time.*
- *Try not to max out your card. While you may be excited about receiving your first credit card, don't be overzealous and proceed to test its limit-- it could make it look like you're desperate for credit. Instead, try to use only one to 30 percent of your available credit. This looks good to creditors because it shows that you use credit but aren't overly reliant upon it.*

Once you have rebuilt or established your credit history, here is some additional information to help you manage your credit responsibility:

Tips for Managing Your Credit

- Pay off your entire credit card bill every month
- Stop using it if you can't pay it off
- Pay on time and avoid late fees
- Ignore credit card offers
- Be aware that borrowed money costs money

Disadvantages of Using Credit

- Usually costs more using cash
- You may buy more than you can pay for or need
- It ties up future income
- You may have to give up other needs to make credit card payments

Why Credit is Denied

- No credit history
- Too much outstanding debt
- Maybe too much credit available based on your income
- Credit not handled responsibly in the past
- Victim of fraud

Major Credit Scoring Factors

Payment History: Current and past payment information. If you have a history of paying on-time or late payments – high risk – low credit score (35%)

Amount of Debt: Outstanding credit limits and balances. Debt contributes 30% to the FICO Score's calculation and is easier to clean up than payment history and weighs heavily on credit scoring models. – Reducing your debt – raise credit score

Age of Accounts: New credit – lower rating – Older accounts with good payment history – higher rating. New credit with good payment history – time to see credit score improve

Account Mix: Lenders like to see a mix of credit (loans and credit cards). If you only have credit cards this may keep your score down. (types of credit 10%)

History of Credit Applications: Overactivity in the credit application. Overextended financial stability. (15%) with new credit being (10%)

In addition, the credit report contains information from public records, as well as names of companies who have asked for a copy of your report.

How Long Does It Take to Improve Your Credit Score?

Whatever you do to improve your Credit Score: Be patient.

- *Balance reductions can take a minimum of 3 months*
- *Delinquent accounts paid – a minimum of 6 months*

The content of each credit file is different so there isn't a set timeline that can be quoted. The older the delinquency the less likely it will affect the credit file as long as there are accounts paid satisfactorily to offset the delinquency.

How Long Do Negative Items Stay on Your Credit Report?

Late payments/delinquencies - 7 yrs.
Accounts in collections - 7 yrs.
Charge-offs or profit/loss write-offs - 7 yrs.
Repossession - 7 yrs.
Government Student loan defaults - Indefinitely
Judgments – paid or unpaid - 7 yrs.
Tax Liens - paid or unpaid - 7 yrs./forever
Bankruptcy
Chapter 7 - 10 yrs.
Chapter 13 - 7 yrs.