

## Rebuilding Your Credit Record

If you've been through foreclosure or a loan modification or have had to leave your home because of financial difficulties, chances are your credit record needs work. Rebuilding it takes time and effort, but it's worth it. It affects the cost of any loan you take out, for any reason. Having a good credit record can make you eligible for a loan or mortgage or increase your options when renting. If you are eligible for a loan or mortgage, you'll likely pay a lower interest rate if you have good credit.

### First Step: Make a Budget and Stick To It

The first step to rebuilding your credit is to create a realistic budget that helps you be in control of your spending. This will help you to save for a rainy day and a down payment if you would like to buy a home again in the future. (See the Budgeting to Weather the Storm fact sheet for ideas and a worksheet.) Then work on rebuilding your credit.

### How Foreclosure Affects Your Credit

If you have been through a foreclosure, short sale, or deed-in-lieu, your credit score may have dropped anywhere from 85 to 300 points, depending on your credit record

before the loss of your home. (Your credit score is a single number between 300 and 800 that gives an overall picture of how good your credit record is.) If you want to buy a home again soon, you may not be eligible for an FHA-insured loan for at least two years after a bankruptcy or three years after the loss of your home, depending on how the

date of the loss is determined in each specific event. It may also affect whether you can rent some apartments, and makes any loan cost more.

Regardless of the reason for the loss, an on-time payment history on newly re-established credit is an important element to rebuilding your credit profile and eligibility for loans in the future.

This is an important time to review your credit report, correct any errors, and work to improve your credit score. You have the right to receive a free copy of your credit report once a year from each

of the three national consumer credit reporting companies (TransUnion, Experian and Equifax). To request your free annual report, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) or call (877) 322-8228. (This is the **only** authorized site for your free report.)

### Credit Repair Scams

*When you see commercials on TV or see ads promising "We can erase your bad credit — legally!" — don't believe it. The only way to rebuild your credit is to correct any errors and then pay your bills regularly and on time. No one can remove negative information if it's accurate, or change a settlement on past debts that have gone into collection. Don't waste your money on companies that promise quick fixes.*

## Completing Your Credit Report and Correcting Errors

- ▶ Add a brief note to your credit report about what led to your foreclosure or other housing situation.
- ▶ Correct any errors on the report by writing to the creditor explaining the error and insisting that your credit report be corrected. (See the sample dispute letter on page 3.) Follow up to be sure the error has actually been corrected.
- ▶ If you see a “charge-off” on your report, it doesn’t mean you no longer owe that loan, and it does hurt your credit score. The original creditor — or a third-party debt collector who has bought the right to collect on the original creditor’s charge-off — still has the right to collect the debt, unless you received a bankruptcy discharge. Pay off any charge-offs or other late payments to the original creditors, or negotiate a settlement with third-party debt collectors so that your credit report shows a zero balance and “paid as agreed” status.

### ***Give It Time!***

*You will need to be patient while you rebuild your credit. There is no quick fix. Be diligent about correcting errors and becoming credit-worthy. It may take a couple of years, but you will be able to move ahead then if you take the right steps now.*

## Rebuilding Your Credit

There are several things you can do to rebuild your credit record.

- ▶ Pay your bills on time. Use online bill-paying services to reduce mailing and posting time.
- ▶ Make your rental payments on time and make sure they are reported to the credit reporting companies. Reporting will probably be done if you rent from a large rental company. If you rent from a small company or private home or live with

family members, get receipts or keep copies of cashed rent checks. You can include these with a future loan application to show your track record.

- ▶ Save receipts for other payments you make that may not be reported to the credit bureaus, like phone, cable, gas and electric payments.

- ▶ After you’ve had some time to save, open a certificate of deposit (CD) account at a bank or credit union with \$500 to \$1,000. The bank then uses those funds as collateral for a credit card attached to the account, with a credit limit equal to the amount you deposited, or a small installment loan. By paying the balance of

the credit card or installment loan regularly and on time, you show that you are financially responsible for new credit.

- ▶ In a similar way, some banks or credit unions will give you a credit card with a low credit limit after you deposit funds in a savings account. (This is called a “secured” credit card.) The card may have a low credit limit, from \$200 to \$1,000. These types of cards are likely to have high interest rates, so only charge what you can pay off every month.
- ▶ Slowly establish additional credit lines by applying for a credit card from a department store, finance company, or gas company. If you pay these on time, it will rebuild your credit standing. However, credit cards issued by national banks that you pay on time affect your credit standing in an even more positive way. Try to keep a balance of bank and nonbank credit cards. Be sure to pay off balances completely every month or at least pay more than the minimum.

- ▶ Opening too many new lines of credit will have a negative effect on your score. All requests are noted on your credit report.
- ▶ Nothing will increase your credit rating as well as 12 months of on-time bill paying! It takes at least 6 months to see any changes in your credit score and will likely take 1–2 years to re-establish good credit.

### **Getting Expert, Unbiased Assistance**

If you need guidance through the process of rebuilding your credit, contact a nonprofit credit counseling agency. You can find a list of reputable, HUD-approved credit counseling agencies at [www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm](http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm), or at the National Foundation for Credit Counseling at [www.nfcc.org](http://www.nfcc.org) or by phone at (800) 682-9832.

### **Resources**

- ▶ The Federal Trade Commission's *Building a Better Credit Report* page gives lots of helpful advice at [www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.shtm)
- ▶ Learn more about credit bureaus and credit ratings at PNC Bank's Credit Bureau FAQs page at [www.pncsites.com/borrowersassistance/creditFaq.html](http://www.pncsites.com/borrowersassistance/creditFaq.html)
- ▶ Learn more about secured credit cards at <http://credit.about.com/od/usingcreditcards/bb/securedcard.htm>

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## Sample Dispute Letter

Date

Your Name

Your Address

Your City, State, Zip Code

Complaint Department

Name of Company

Address

City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are circled on the attached copy of the report I received.

This item (identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the item be deleted (or request another specific change) to correct the information.

Enclosed are copies of (use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents) supporting my position. Please investigate this (these) matter(s) and (delete or correct) the disputed item(s) as soon as possible.

Sincerely,  
Your name

Enclosures: (List what you are enclosing)

*Sample letter courtesy of the Federal Trade Commission, "Building a Better Credit Report"*  
(<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.shtm#moreInfo>)