Practical Ways To Rebuild Your Credit

People who have been through a financial crisis—bankruptcy, repossession, foreclosure, history of late payments, IRS lien or levy or something similar—may think they won't ever get credit again. This is certainly not true. By following some simple steps, you can rebuild your credit in just a couple of years.

After you've cleaned up your credit report, here are some suggestions for rebuilding your credit:

Send in Positive Information for Your Report

If your credit report is missing accounts that you have paid on time, send the credit bureaus a recent account statement and copies of canceled checks showing your payment history. Ask that these be added to your report. The credit bureau doesn't have to, but often they will.

Creditors like to see evidence of stability, so send the following to the bureaus: your current employment, your previous employment (especially if you've been at your current job fewer than two years), your current residence, your telephone number, your date of birth and your checking account number. Again, the credit bureau doesn't have to add these.

Acquire New Credit and Use It Responsibly

You can use new credit to rebuild your old credit standing. The one type of positive information creditors like to see in credit reports is credit payment history. If you have a credit card, use it every month. Don't charge as much as your credit limit allows, but make small purchases and pay them off to avoid interest charges.

If you don't have a credit card, apply for one. If your application is rejected, try to find a cosigner or apply for a secured card, where you deposit some money into a savings account and then get a credit card with a line of credit around the amount you deposited. Using credit is good, because it demonstrates your ability and willingness to pay your bills. You must have some credit history to have a credit score.

Once you succeed in getting a credit card, you might be hungry to apply for many more cards, but be careful here. Having too much credit may have contributed to your debt problems in the first place. Ideally, you should carry one or two bank credit cards, maybe one department store card and one gasoline card. This should be sufficient for most families.

Your inclination may be to charge everything on your bankcard and not bother using a department store or gasoline card. Lenders view charge accounts or home equity lines of credit that you're not using as a risk that you could go on a spending jag at any time. When creditors look into your credit file, they want to see that you can handle more than one credit account at a time. You don't need to build up interest charges on these cards, but use them and pay the bill in full.

Please be aware that if your credit applications are turned down, your file will contain inquiries from the companies that rejected you. Your credit file will look like you were desperately trying to get credit, something creditors never like to see.

Close Accounts You're Not Using

Before you apply for an important mortgage or car loan, you'll want to close dormant accounts. Be careful, though, not to do it too quickly. If you close them all at once, your new lender might assume you've hit the financial skids. Close one or two a month (including department store cards) until you've closed them all.

Don't Hit All Your Credit Limits

First, make sure that your total credit limit (not including your mortgage, of course) is less than your annual income.

Next, see how much debt you have outstanding. If you're using 80 percent or more of the credit you have available, it's a sign to lenders that you're stretched. In that case, it pays to sign up for another card or ask to have your limits raised on your existing ones.

As long as you don't tap that larger reservoir, having the additional credit available should help bring your balance back into the acceptable range. Try to keep credit card balances low on all of your credit lines.

Manage Inquiries into Your Record

The more often someone asks a credit bureau about you, which happens whenever you apply for a loan or a new car, the lower your credit score will be.

Recent rules for lenders require them to count all inquiries for the same purpose during a one month period (all inquiries from mortgage lenders, for example) as one inquiry, but it's still not a good idea to apply to more than four or five places for credit in any six month period.

Automate to Be on Time

There are some months when we all goof. We forget to pay the Visa bill. We forget to write a check to AT&T. One way to stop this from happening is to automate as many payments as possible. You can now authorize everyone from your health club to your mortgage lender to your utilities company to automatically deduct funds electronically from your checking account each month.

Then your only challenge is making sure the funds are there to cover those payments. (In fact, some lenders will give you a break on your interest rate for paying this way.)

Don't Allow Delinquent Payments

This is the single most important thing you can do. How you've paid your bills in the past is usually the best indicator of how you'll pay in the future. Be sure to pay at least the minimum amount required by the date it is due on your account statement or invoice.

You can always pay more (and should!), but you should never pay less than the minimum. Remember—being late on a payment is a negative mark on your credit record, even if you make up the payments later. If you haven't always paid your bills on time, you can start today! Credit scores emphasize your most recent payment record.

If there is an instance when you are delinquent and you catch it quickly, don't immediately pay the late fee—first try to fight it to keep it from showing up on your credit report.

Call up and explain: You were out of the country. Your child was in the hospital. Often, you can get away with one of these excuses because the lender wants to keep your business.