



Guide to Repairing and Maintaining Your Credit Score

Blotches on your credit report cost you. But, don't despair. It's never too late to become credit worthy -- just get started, and remember that it won't happen overnight.

Here are 5 steps for improving your credit rating:

1. Order your credit reports

Find out what the top three credit bureaus -- Equifax, TransUnion and Experian -- are saying about you. It's likely that they're all slightly different. Yes, different! Creditors don't have to report to all three credit bureaus, so they typically report to the credit bureau to which they also subscribe. Time and money is wasted, says Steve Rhode, president and co-founder of Myvesta.org, if you only order a report from one credit bureau. You can order a credit report from each bureau for free once a year through annualcreditreport.com. If you've been denied credit, insurance or employment because of your credit report, you are entitled to a free copy of your report from the reporting agency. The company you applied to must supply the credit bureau's name, address and telephone number. You have 60 days after receiving the denial notice to request your copy.

2. Examine your reports carefully

Nearly every consumer has an error on at least one credit report from one of the major credit bureaus, says Rhode. Credit bureaus generate your report on information they receive from your creditors; they don't verify.

Keeping your credit report a true reflection of you is -- like it or not -- your job.

Get ready to clean and polish. Carefully look for everything from typing errors, outdated and incomplete information to inaccurate account histories. You'll want to make a thorough list of items you dispute and why. Be meticulous.

Here's [how to read and understand your credit report](#).

If the negative information in your report is true, only time and improved habits can change that. Late payments, such as [credit cards](#), and charged-off accounts remain on your report for seven years; bankruptcies for 10. Most creditors, however, look for a pattern of payment rather than focusing on one-time or rare occurrences; so consistent on-time bill payments will improve those blemishes.

3. Double-D strategy -- dispute and document

Remember, a bad report costs you money. So, it pays to be thorough! You can either complete the dispute form provided with your credit report or write a letter. Clearly identify each mistake and state why it's wrong. A recommendation is to send a photocopy of your credit report with the mistakes circled to the reporting credit bureau. Include copies of supporting documents.

Document, document, document. Keep copies and records of all the forms, letters and documentation that you send the credit bureaus, plus dates sent. The credit bureau must investigate any relevant dispute within 30 days of receiving your letter. Any item that is not verified as accurate by a creditor is removed.

Sometimes it's necessary to contact your creditors to resolve mistakes. Bankrate's [7 steps to fixing your credit report](#) will help you tackle the serious errors.

If the credit bureau makes any changes to your credit file, it will send you the results and a free, updated copy of your credit report. Once a negative item is removed from your report, the credit bureau cannot put it back on unless a creditor verifies its accuracy and completeness -- and sends you written notice.

4. Solve and dissolve debt

Now's the time to [devise a spending plan](#) that reduces your debt and sets you up to pay on time, every time.

If you're having difficulty making payments, be proactive. Call your creditors and negotiate to keep your accounts current and from being reported as delinquent or "bad debt." You can ask for reduced monthly payments, or even change due dates to balance out your monthly bills.

The same strategy can be used for fixed-loan payments. Remember, though, that this is a

short-term strategy. You'll pay more interest to extend the repayment schedule, but it allows you to stay current and save your credit rating. Use the extra money to pay off debts one at a time, gradually increasing payments to other debts.

Check out Bankrate's [10 steps to paying off credit cards](#) for more ideas.

Deal with any collection accounts. Unpaid collections are worse than paid collections. You can negotiate a pay-off settlement that reduces your bill, plus demand that all derogatory remarks are removed from your credit report or at least reported as paid in full. Be sure to get verbal agreements in writing before sending off your payment.

Slowly close out unneeded or unused credit accounts. Most experts recommend carrying between two and four [credit cards](#). But, be cautious when canceling because closing accounts can negatively impact your credit score, commonly called a FICO score. FICO considers the ratio of total debts to total available credit. A good rule of thumb is to keep your revolving debt to 50 percent of your available credit.

Remember that cutting up the card doesn't close out the account. Here's a [step-by-step guide](#) to smartly close out your account.

Other tips:

- Close out your newest accounts so that you don't lose your longer credit history.
- Close out accounts slowly over several months.
- Verify that all accounts you've closed are reported as "closed by consumer" for the best report.
- Even if creditors offer to raise credit limits, allow yourself only moderate credit limits.
- Keep your balances low and avoid revolving balances.

5. Add stability to your credit file

You can also work to add positive information and show stability in your credit file.

You may have been denied credit because of an insufficient credit file, yet you have credit. Some creditors -- such as, travel, entertainment, gasoline card companies, local banks and credit unions -- may not report your credit history to the credit bureaus. You can try asking the credit grantors to report your account information and monthly payment history to a credit-reporting agency. Not all will do that. So, in the future, before opening a new account, ask if your on-time payments will be reported monthly to a credit-reporting agency, recommends Myvesta.org

If you have really bad credit -- perhaps even filed bankruptcy -- don't let your credit status go dormant. "The faster you begin to re-establish good credit, where you pay on time, every time," says Craig Watts, consumer affairs manager of the Fair Isaac Corp., "the faster you'll improve your credit score." Build a solid credit history. Secured [credit cards](#) offer people with no credit and those repairing their credit this opportunity. Shop around for the best deal available, but limit your applications. Credit bureaus look at how many new accounts you've opened, and the number of "inquiries" for new accounts that are listed. A sudden flurry of "inquiries" results in a lower score, because many times consumers anticipating money problems increase their credit lines. Inquiries made by creditors wanting to make "prescreened" credit offers are not counted.

Lastly, open a savings account at your bank. This shows creditors that you are working to save and that you have reserves to repay debts.