

Solving Credit Problems

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Solving Credit Problems

If you are having problems getting credit or paying your monthly bills, you may be tempted to turn to businesses that advertise quick and easy solutions to credit problems. But do not be misled. There are no instant solutions. Although some credit counseling businesses "guarantee results or your money back," you may find that there are hidden strings attached or that the company is gone when you want your money back.

There are steps you can take to help solve your credit problems. However, solving them takes time, patience, and some understanding of the law. This brochure may help you. It explains why your credit history is important, how to build a credit history and establish credit, and what can be done to improve a bad credit history. It also suggests ways to help deal with debts you may have, possibly by using a nonprofit Consumer Credit Counseling Service.

Why Your Credit History is Important

Although creditors usually consider a number of factors in deciding whether to grant credit, most creditors rely heavily on your credit history. To learn how you have handled credit in the past, most creditors obtain a report from your local credit bureau. Credit bureaus gather and sell credit information about consumers and are a principal source of information about your credit history. Your credit bureau report is based on information supplied over time by your creditors. It also provides information on where you live and work and may note other matters of public record such as judgments or bankruptcies. Your report records payments you have made on credit cards, installment loans, and other credit accounts and helps creditors predict whether you are likely to be a good credit risk. A history of timely credit payments helps you get additional credit.

Some creditors are reluctant to grant credit to consumers who have not established a "track record" with other creditors first. In addition, many creditors will not extend credit to consumers with a history of delinquent payments, repossession, judgments, or bankruptcy. If you are in either

situation, be wary of ads that promise you "instant credit" or "a major credit card regardless of your lack of credit history or your past credit record." The fact is that all legitimate creditors want to know whether you are likely to be a good credit risk. Whether you get credit will depend on whether your qualifications meet the creditor's criteria. No one can guarantee you credit in advance.

How to Build A Credit History and Establish Credit

Building a good credit history is important. If you have no reported credit history, it may take time to establish your first credit account. This problem affects young people just beginning careers as well as older people who have never used credit. It also affects divorced or widowed women who shared credit accounts that were reported only in the husband's name. If you do not know what is in your credit file, check with your local credit bureaus. Most cities have two or three credit bureaus, which are listed under "Credit" or "Credit Reporting Agencies" in the Yellow Pages. For a small fee, they will tell you what information is in your file and may give you a copy of your credit report.

If you have had credit before under a different name or in a different location and it is not reported in your file, ask the credit bureau to include it. If you shared accounts with a former spouse, ask the credit bureau to list these accounts under your name as well. Although credit bureaus are not required to add new accounts to your file, many will do so for a small fee. Finally, if you presently share in the use of a credit account with your spouse, ask the creditor to report it under both names.

Creditors are not required to report any account history information to credit bureaus. If a creditor does report on an account, however, and if both spouses are permitted to use the account or are contractually liable for its repayment, under the Equal Credit Opportunity Act you can require the creditor to report the information under both names. When contacting your creditor or credit bureau, do so in writing and include relevant information, such as account numbers, to help speed the process. As with all important business communications, keep a copy of what you send.

If you do not have a credit history, you should begin to build one. If you have a steady income and have lived in the same area for at least a year, try applying for credit with a

local business, such as a department store. Or you might borrow a small amount from your credit union or the bank where you have checking and savings accounts. A local bank or department store may approve your credit application even if you do not meet the standards of larger creditors. Before you apply for credit, ask whether the creditor reports credit history information to credit bureaus serving your area. Most creditors do, but some do not. If possible, you should try to get credit that will be reported. This builds your credit history.

If you are rejected for credit, find out why. There may be reasons other than lack of credit history. Your income may not meet the creditor's minimum requirement or you may not have worked at your current job long enough. Time may resolve such problems. You could wait for a salary increase and then reapply, or simply apply to a different creditor. However, it is best to wait at least 6 months before making each new application. Credit bureaus record each inquiry about you. Some creditors may deny your application if they think you are trying to open too many new accounts too quickly.

If you still cannot get credit, you may wish to ask a person with an established credit history to act as your co-signer. Because a co-signer promises to pay if you don't, this can substantially improve your chances of getting credit. Once you have repaid the debt, try again to get credit on your own.

What Can Be Done to Improve a Bad Credit Report

You are entitled by law to correct any inaccurate information that appears in your credit bureau file. If a creditor rejects your application because of negative information in your credit bureau report, it must identify the credit bureau involved. At your request, the credit bureau must disclose the contents of your credit file. If you act within 30 days of being turned down, there is no charge for this service.

Check to see whether the information in your credit report is accurate and complete. You have the right, under the Fair Credit Reporting Act, to dispute the completeness or accuracy of any information in your report. When you do so, it helps to tell the credit bureau, in writing, why you think the information is not correct. Unless your dispute is frivolous or irrelevant, the credit bureau then must reinvestigate the matter. The credit bureau must correct any information that it finds is not reported accurately. Information that cannot be

verified must be deleted. If you disagree with the results of the credit bureau's reinvestigation, you may file a brief dispute statement explaining your side of the story. At your request, the credit bureau will note your dispute in future credit bureau reports.

Be aware that when negative information in your report is accurate, only the passage of time can assure its removal. Credit bureaus are permitted by law to report bankruptcies for 10 years and other negative information for 7 years. There is nothing that you (or anyone else) can do to require a credit bureau to remove accurate information from your credit file until the reporting period has expired. Don't be misled by ads aimed at people with bad credit histories, judgments, or bankruptcies. Promises to "repair" or "clean up" a bad credit history can almost never be kept.

How to Deal with Your Debts

A sudden illness or the loss of your job may make it impossible for you to pay your bills on time. Whatever your situation, if you find that you cannot make your payments, contact your creditors at once. Try to work out a modified payment plan with your creditors that reduces your payments to a more manageable level. If you have paid promptly in the past, they may be willing to work with you. Do not wait until your account is turned over to a debt collector. At that point, the creditor has given up on you.

Automobile loans present special problems. Most automobile financing agreements permit your creditor to repossess your car any time that you are in default on your payments. No advance notice is required. If your car is repossessed you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. Do not wait until you are in default. Try to solve the problem with your creditor when you realize you will not be able to meet your payments. It may be better to sell the car yourself and pay off your debt than to incur the added costs of repossession.

How to Evaluate Credit Repair Companies

If you are having trouble paying your bills, you may be tempted to turn to a company that claims to offer assistance in solving debt problems. Such businesses may offer debt

consolidation loans, debt counseling, or debt reorganization plans that are "guaranteed" to stop creditors' collection efforts. Before signing up with such a business, investigate it thoroughly. Be sure you understand what services the business provides and what they will cost you. Do not rely on oral promises that do not appear in your contract. Also, check with the Better Business Bureau and your local consumer protection office. They may be able to tell you whether other consumers have registered complaints about the business.

Consumers who turn to such businesses for help sometimes encounter additional problems. For example, debt consolidation or other large short-term loans may have high hidden costs and may require your home as collateral. An unscrupulous company may misrepresent the terms of such loan agreements; if so, you could end up losing your home.

Businesses offering debt counseling or reorganization may charge substantial fees or a percentage of your debts, but fail to follow through on the services they sell. Some may do little more than refer indebted consumers to a bankruptcy lawyer, who charges an additional fee. Businesses advertising voluntary debt reorganization plans or "Chapter 13" relief may fail to explain that Chapter 13 debt adjustment actually is a form of bankruptcy. To qualify for it, you must have a source of regular income and a plan for repaying your creditors that meets the approval of the bankruptcy court. Businesses that sell bankruptcy-related services may not tell you all that is involved or assist you through what can be a complex and lengthy legal process. Debt problems can be distressing, but be careful when selecting a solution. Some "solutions" may only add to your problems.

Where to Find Low-Cost Help

If you need help in dealing with your debts, you may want to contact a Consumer Credit Counseling Service (CCCS). This is a non-profit organization with more than 850 offices located in 50 states. CCCS counselors will try to arrange a repayment plan that is acceptable to you and your creditors. They will also help you set up a realistic budget and plan future expenses. These services are offered at little or no charge to you. You can find the CCCS office nearest you by checking the White Pages of your telephone directory or by calling from a touch-tone phone 1-800-388-2227 to get the telephone number. However, if you have other questions, contact:

National Foundation for Consumer Credit, Inc.
8611 Second Avenue, Suite 100
Silver Spring, Maryland 20910
(301) 589-5600

In addition, non-profit counseling programs are sometimes operated by universities, military bases, credit unions, and housing authorities. They are likely to charge little or nothing for their assistance. Or, you can check with your local bank or consumer protection office to see if it has a listing of reputable, low-cost financial counseling services.

Where to Find More Information

The Federal Trade Commission enforces a number of federal laws involving consumer credit, including the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Fair Credit Billing Act, and the Fair Debt Collection Practices Act. It also provides free brochures explaining these laws. For these or related publications, such as Building a Better Credit Record, Women and Credit Histories, and Credit Billing Blues, write to: Public Reference, Federal Trade Commission, Washington, D.C. 20580.

Although the Commission cannot solve individual problems for consumers, it can act when it sees a pattern of possible law violations develop. If you have a complaint that may involve a violation of consumer protection law, write to: Correspondence Branch, Federal Trade Commission, Washington, D.C. 20580.

fast facts

- * Your credit report records your payments on credit cards, installment loans, and other credit accounts. It helps creditors predict whether you are likely to be a good credit risk.
- * Be wary of ads that promise you "instant credit" or "a major credit card regardless of your lack of credit history or past credit record."
- * If you are rejected for credit, find out why. You can get a free copy of your report if you request it from the credit bureau that provided it, within 30 days of being turned down.

* Check to see whether the information in your credit report is accurate and complete. You are entitled by law to correct inaccurate information that appears in your credit bureau file.

Bureau of Consumer Protection
Office of Consumer & Business Education
(202) 326-3650

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