LEARNING MADE EASY

6th Edition

Credit Repair Kit

for dummies®

A Wiley Brand

Understand credit reports and scores

Build up your credit and plan for your future

Protect yourself from identity fraud

Steve Bucci
Columnist for Bankrate.com

Foreword by Dr. Brad Klontz, CFP
Financial psychologist, professor, and best-selling author of *Start Thinking Rich*

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6th Edition

by Steve Bucci

FOREWORD BY **Dr. Brad Klontz**

Certified Financial Planner, financial psychologist, professor, and national bestselling author of *Start Thinking Rich*

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Table of Contents

FOREWORD . . . xv

INTRODUCTION . . . 1
About This Book . . . 2
Foolish Assumptions . . . 3
Icons Used in This Book . . . 4
Beyond the Book . . . 5
Where to Go from Here . . . 5

PART 1: GETTING STARTED WITH CREDIT REPAIR . . . 7

CHAPTER 1: Introducing Credit Repair, Credit Scores, and Your Life on Credit . . . 9
Repairing Bad Credit . . . 10
Settling debts . . . 11
Resetting your goals . . . 11
Rebuilding your credit by using it . . . 11
Using a cosigner or becoming an authorized user . . . 12
Finding sources of free help . . . 12
Dealing with collectors . . . 13
Weathering a Major Crisis . . . 13
Mortgage meltdowns . . . 14
Medical debt . . . 16
Student loans . . . 16
Car loans . . . 16
Understanding Fairness in Credit . . . 16
Filing Bankruptcy . . . 17
Protecting Your Credit and Your Identity . . . 17
Getting familiar with credit laws . . . 18
Receiving free reports and filing disputes . . . 18
Signing up for credit monitoring . . . 18
Setting alarms, alerts, and freezes . . . 19
Identifying identity theft . . . 19
Maintaining Good Credit Throughout Life . . . 20
Establishing credit for the first time . . . 20
Making credit changes at life's stages . . . 20
Avoiding pitfalls . . . 21
Managing Credit in Today's Unforgiving Economy . . . 22
Planning for success . . . 22
Reviewing your credit report . . . 23

Knowing your credit score . . . 23
Considering credit a renewable resource . . . 24

CHAPTER 2: **Turning Your Credit Around** . . . 27
Understanding How Your Actions Impact Your Credit Score . . . 28
Using a Cosigner to Raise Your Score . . . 30
Turning Small Purchases into Big Credit . . . 31
Maximizing Your Credit Score with Major Expenditures . . . 34
Leveraging your mortgage . . . 34
Financing your car . . . 35
Paying back student loans . . . 38
Understanding How Good Debt Builds Good Credit . . . 39
Achieving goals with the help of credit . . . 39
Sending a message to potential lenders . . . 39
Giving nonlenders a sense of how you handle responsibility . . . 40
Selecting the Best Tools for Building Your Credit . . . 40
Spending your way to better credit with a spending plan . . . 40
Tracking your progress: Paying attention to your credit report and score . . . 42

CHAPTER 3: **Cleaning Up Your Credit Reports** . . . 43
Understanding the True Value of Good Credit . . . 44
Reviewing Your Reports for Problems . . . 45
Using the Law to Get Your Credit Record Clean and Keep It That Way . . . 48
Identifying and Disputing Inaccurate Information . . . 51
Understanding the dispute process . . . 52
Correcting all your credit reports . . . 53
Contacting the creditor . . . 57
Adding Positive Information to Your Credit Report . . . 58
Asking your landlord to report your rent payments . . . 59
Adding your own rent, utility, and cellphone payments to your report . . . 59
Opening new credit accounts . . . 60
Adding a 100-word statement . . . 60

CHAPTER 4: **Getting the Best Help for Bad Credit for Free** . . . 63
Knowing Whether You Need Help . . . 64
Gauging your need for outside assistance . . . 64
Handling situations on your own . . . 65
Identifying Help You Can Get for Free . . . 67
Getting help with your mortgage . . . 68
Considering credit counseling . . . 69
Working with an attorney . . . 75

CHAPTER 5: **Coping with Debt Collection** 77
Handling Those Collection Phone Calls 78
Knowing what collectors can do 78
Knowing what collectors can’t do 81
Deciding whether to answer the phone. 81
Preparing to answer collection calls 82
Knowing what not to say 82
Taking Charge of the Collection Process 83
Asking for proof that the debt is yours 84
Knowing when debts fade away: Statutes of limitations. 84
Negotiating a payback arrangement 86
Keeping your promise. 88
Identifying Escalation Options That Help. 90
Asking to speak to a manager 90
Approaching the creditor 91
Fighting harassment 92
Communicating with Customer Service Before Being
Placed for Collection 93
Contacting your creditor promptly 94
Explaining your situation 94
Offering a solution. 95
Covering all the bases. 96
Keeping Collectors in Check. 96
Calling in a credit counselor. 97
Referring the matter to your lawyer 97
Freeing Up Money to Pay a Collector 98
Utilizing a spending plan 98
Cutting the fat from your monthly spending. 98
Avoiding Collectors Altogether 99
Getting organized 99
Stopping the paycheck-to-paycheck cycle .100

CHAPTER 6: **Working with Collectors, Lawyers, and the Courts to Manage Debt Obligations** 103
Getting a Handle on Charge-Offs 104
So what is a charge-off? 104
Making sense of unpaid charge-offs. 105
Making charge-off payments 106
Coming to a Debt Settlement Agreement 107
Considering a debt settlement offer. 107
Hiring a debt settlement firm 108
Knowing when to consider debt settlement 109
Reaching expiration dates on debts 109
Finding Out about Judgments and What They Mean to You. 109

Understanding Wage Garnishments 113
Dodging wage garnishments 113
Figuring out how much can be garnished 114
Stating Your Case in Court 115
Managing IRS Debts, Student Loans, and Unpaid Child Support 117
Handling IRS debts 117
Educating yourself about student loans 117
Putting your kids first: Child support 121

PART 2: REDUCING CREDIT DAMAGE FROM MAJOR SETBACKS 123

CHAPTER 7: Reducing Credit Damage in a Crisis 125
Assessing the Damage from a Mortgage Meltdown 126
Understanding How Mortgages Differ from Other Loans. 128
Spotting a foreclosure on the horizon 129
Counting to 90 129
Knowing Where to Turn for Help 130
Finding good help for free 131
Working with your mortgage servicer 131
Avoiding help that hurts 132
Alternatives to Going Down with the Ship 133
What to do first 133
What to do for more serious problems 134
What to do to end matters. 135
Managing a foreclosure 136
Strategic default: Stopping payments 136
Dealing with Deficiencies 138
Preparing for “Credit Winter”. 140
Curing Medical Debt 141
Understanding new reporting and scoring rules 141
Reviewing your options for paying medical bills. 142
Discovering how insurers get your medical information 142
Monitoring insurance claims for errors 143
Dealing with denied medical claims 144
Managing Student Loans 144
Default timelines 145
Loan forgiveness programs 145
Where to get help 146
Avoiding Car Repossession 146
Repossession: What you can do 147
Dealing with auto loan default deficiencies. 148
Coping with So-Called Acts of God and Other Things That Are Not Your Fault 148

CHAPTER 8: **Filing for and Recovering from Bankruptcy** 151
Deciding Whether Bankruptcy Makes Sense for You. 152
Deliberating the bankruptcy decision 152
Adding up the pluses and minuses. 156
Considering a debt management plan first. 158
Understanding Bankruptcy, Chapter and Verse 160
Qualifying for and Filing for Bankruptcy 161
Qualifying for Chapter 7 162
Qualifying for Chapter 13 163
Managing Your Credit After a Bankruptcy. 165
Telling your side of the story 165
Reaffirming some debt. 167
Repairing your credit score 168
Establishing new credit. 169
Moving forward with a game plan 169

CHAPTER 9: **Repairing Credit Damage in the Wake of Identity Theft** 171
Taking Fast Action When Identity Theft Occurs 171
Communicating with the right people 172
Protecting your identity through the FACT Act 176
Sending out a fraud alert 177
Blocking fraudulent credit lines. 178
Getting and Using Credit After Identity Theft .178
Closing and reopening your accounts 180
Altering your PINs, passwords, and radio transmissions 180
Changing your Social Security number and driver's license number 181

PART 3: REBUILDING CREDIT, NO MATTER WHERE OR WHEN YOU BEGIN 183

CHAPTER 10: **Starting or Restarting Your Credit in Real Life** 185
Debunking Misinformation about Banking and Credit 186
Why you need credit 187
Why credit is safe. 188
Obtaining Credit: Starting Out on the Right Foot 189
Establishing a credit file without a Social Security number. 190
Setting goals before you set out 191
Establishing a relationship with a financial institution. 193
Using prepaid and reloadable cards. 194
Fattening up your credit file. 195
Avoiding high interest, fees, and scams. 197
Overcoming Credit Fears and Mistakes 198

Qualifying for First-Time Cards and Lending. .200
Getting a credit card 200
Using savings for credit 202
Considering Credit for Students and Military Members 203
Giving credit to students 203
Following military credit rules 205

CHAPTER 11: **Ending Life's Negative Credit Surprises**. 207
Keeping Your Credit from Hurting Your Job Prospects 208
Dealing with Rental Application Checks 209
Knowing what's on your reports 210
Taking action 211
Qualifying for a Mortgage 211
Ordering your credit report and score 212
Looking at your credit file like a lender 213
Preparing to Purchase a Car 213
Arming yourself with information 214
Reviewing what to consider when you're at the dealership 215
Unveiling the Relationship between Your Credit and Your Insurance Premiums 216
Understanding insurance scores 217
Getting a copy of your insurance score and insurance claim report 217
Figuring out what to do with your newfound knowledge 218
Taking other factors into account 219

CHAPTER 12: **Protecting Your Credit during Major Life Challenges** 221
Tying the Knot in Life and in Credit: A Couple's Guide to Building Good Credit. 222
Engaging in prenuptial financial discussions. 222
Considering joint accounts. 224
Managing joint debt 226
Avoiding money conflicts 227
Protecting Your Finances in a Divorce 228
Taking precautions when a split-up looms 228
Preparing your credit before heading to court. 229
Protecting your credit in a divorce decree and beyond. 231
Keeping Credit Strong while Unemployed. 234
Preparing your credit for the worst-case scenario 234
Using credit when you don't have a job 235
Protecting your credit lines 236
Curing Medical Debt 238
Reviewing your options for paying medical bills. 238
Discovering how insurers get your medical information 242

Monitoring insurance claims for errors 243
Dealing with denied medical claims 244
Resolving Credit Issues after the Death of a Spouse or Partner 246
Understanding what happens to joint credit when you're single again. 247
Knowing exactly what your liability is. 248
Building your credit record on your own 248
Fitting Credit into Retirement 249
Budgeting on a fixed income. 249
Using credit for convenience 250

PART 4: MAKING SENSE OF CREDIT REPORTING AND SCORING 253

CHAPTER 13: **Discovering How Credit Reporting Works** 255
Grasping the Importance of Your Credit Report. 256
What Is a Credit Report, Exactly?. 257
Revealing the facts about your financial transactions 257
Providing insight into your character 262
The Negatives and Positives of Credit Reporting 263
The negatives 263
The positives 265
Your Credit Report's Numerical Offspring: The Credit Score 266
Cracking credit score components 266
The reasoning behind risk factors 269

CHAPTER 14: **Understanding Credit Reports and Scores** 271
Getting Copies of Your Credit Reports 272
Where to get your reports 273
What you need to provide 274
When to get copies of your credit reports. 275
Tracking Down Specialty Reports: From Apartments to Casinos to Prescriptions 277
Perusing Your Credit Reports 280
Identifying information: It's all about who you are. 281
Accounts summary: An overview of your financial history 282
Bankruptcy public records: The most serious element in a credit report 282
Credit inquiries: Tracking who has been accessing your file. 283
Account history: Think of it as a payment CSI 284
Your optional 100-word statements: Making sure your voice is heard 290
Correcting Any Errors You Find 292
Contacting the credit bureau. 293
Contacting the creditor. 293

Getting and Understanding Your Credit Scores . . . 294
Ordering your score . . . 295
Telling a good score from a bad one . . . 296
Connecting pricing to your credit score . . . 299
Knowing the reason for reason statements . . . 302

CHAPTER 15: **Monitoring Your Credit Reports and Scores** . . . 305
How Credit Monitoring Really Works . . . 306
Understanding the Types of Monitoring Services Available . . . 307
Making a Case for and against Third-Party Credit Monitoring . . . 309
Monitoring on your own . . . 310
When paid monitoring may be worth the time and money . . . 311
Recognizing the protection you have already . . . 312
Getting Your Money's Worth from Monitoring Services . . . 313
Setting Alarms, Alerts, and Freezes . . . 315
Alarms . . . 315
Fraud alerts . . . 315
Credit freezes . . . 316

PART 5: SUCCESSFULLY MANAGING YOUR CREDIT FOR LIFE . . . 317

CHAPTER 16: **Putting Yourself in Control of Your Credit** . . . 319
Determining Your Credit Style . . . 320
Balancing Spending, Savings, and Credit Use . . . 322
Spending on your terms . . . 322
Saving for financial emergencies . . . 322
Using credit to enhance your life . . . 323
Remembering the Importance of Planning When It Comes to Your Credit . . . 323
Zeroing in on the plans others have for your money . . . 324
Developing your own plans for your future . . . 324

CHAPTER 17: **Taking a Sustainable Approach to Your Credit** . . . 327
Going Green: Treating Credit as a Renewable Resource . . . 328
Recognizing your credit environment . . . 328
Taking a closer look at the parts that make up your credit ecosystem . . . 329
Sustaining Your Credit Ecosystem for Life . . . 331
Funding college . . . 331
Home sweet home . . . 332
Credit on wheels . . . 332
Steering Clear of Credit Pollution . . . 332
Endangering your payment history . . . 333
Clear-cutting your credit in bankruptcy . . . 334

Outlasting a long, cold credit winter . . . 335
Surviving and Reviving After a Credit Catastrophe . . . 335
Understanding what happened . . . 335
Rebuilding your credit ecosystem . . . 337

CHAPTER 18: **Safeguarding Your Credit with a Spending Plan** . . . 339
Appreciating the Benefits of a Solid Spending Plan . . . 340
Deciding on Goals: Imagining Your Future as You Want It to Be . . . 342
Setting the stage for planning . . . 342
Categorizing your goals . . . 343
Putting your goals in order . . . 344
Building Your Vision of Your Future . . . 344
Step 1: Counting up your income . . . 344
Step 2: Tallying what you spend . . . 346
Step 3: Making savings part of your spending plan . . . 351
Step 4: Managing your credit to improve your spending plan . . . 354
Step 5: Looking at your insurance options . . . 356
Step 6: Planning for the IRS . . . 357
Step 7: Planning for retirement . . . 359
Using Cool Tools to Help You Build and Stick to a Spending Plan . . . 361
Web-based financial calculators . . . 361
Smartphone apps . . . 362
Spending plan assistance . . . 363
Adjusting Your Priorities and Your Plan . . . 363

CHAPTER 19: **Fair Access to Credit** . . . 365
Benefitting from Financial Inclusion . . . 367
Participating in the Financial System . . . 367
Taking or Retaking Control of Your Credit . . . 368
Educating Yourself on How the System Works . . . 368
Tackling Debt . . . 372
Student loans . . . 372
Payday loans . . . 373
Collections . . . 373
Bankruptcy . . . 374
Working Toward the Goal of Homeownership . . . 374

CHAPTER 20: **Knowing Your Rights to Protect Your Credit** . . . 377
Why You Have the Right to Credit Protections . . . 378
The CARD Act: Shielding You from Credit Card Abuse . . . 379

The Consumer Financial Protection Bureau: The Cop on the Financial Beat. 382
Safeguarding Your Credit Data through the FACT Act 382
The FDCPA: Providing Protection Against Debt Collectors 385
Controlling the contacts 385
Finding out about the debt 386
Stopping a collector from contacting you 386
Spotting prohibited behavior. 387
Suing a collector. 387
The CROA: Getting What You Pay For. 388
Knowing what credit repair organizations must do 388
Understanding what credit repair companies can't do 389
Exploring Other Protections 389
The ins and outs of payday loans 390
The details of debt settlement. 392
The scoop on the statute of limitations 394

CHAPTER 21: **Protecting Your Identity** 397
Keeping Thieves at Bay. 399
Getting on the technology train 400
Looking out for phishing scams 400
Keeping passwords secret 404
Protecting your mail 404
Storing financial data in your home 405
Putting your credit information on ice 405
Shielding your credit card number 406
Catching Identity Thieves in the Act 408
Watching for early-warning notices 410
Early warnings from the IRS. 410
Handling a collections call 412
Detecting unauthorized charges. 412
Being denied credit or account access. 413
Noticing missing account statements. 413

PART 6: THE PART OF TENS 417

CHAPTER 22: **Ten Consumer Protections Everyone Needs to Know** 419
The Fair Debt Collection Practices Act 420
The Bankruptcy Abuse Prevention and Consumer Protection Act. 420
Your Lawyer 421
Statute of Limitations Laws 422
Your State Attorney General 422
The Consumer Financial Protection Bureau 423

The Credit Card Accountability, Responsibility, and Disclosure Act . . . 424
The Fair Credit Reporting and Fair and Accurate Credit Transactions Acts . . . 424
The Federal Trade Commission . . . 425
Servicemembers Civil Relief Act . . . 426

CHAPTER 23: **Ten Strategies for Dealing with Student Loans** . . . 429
Knowing How Student Loans Are Reported Differently Than Other Loans . . . 430
Dealing with the Collection Process . . . 430
Identifying the Best Repayment Option for Your Situation . . . 431
Taking Your Loans to Bankruptcy . . . 432
Dealing with the Prospect of Default . . . 433
Gaining Student Loan Forgiveness . . . 433
Lowering Your Bill While You're in School . . . 435
Keeping Up with Your Loans After You're Out . . . 436
Setting Limits During the Planning and Application Process . . . 437
Getting Help If You're in the Military . . . 437

CHAPTER 24: **Ten Ways to Deal with a Mortgage Meltdown** . . . 439
Knowing When You're in Trouble . . . 439
Knowing How Your State's Laws Treat Foreclosures . . . 440
Deciding Whether to Stay or Go . . . 441
Tightening Your Spending to Stay in Your Home . . . 444
Prioritizing Your Spending to Build Cash . . . 445
Lessening the Damage to Your Credit . . . 445
Knowing Who to Call . . . 446
Beware of Scams . . . 446
Beefing Up Your Credit . . . 446
Consulting an Attorney . . . 447

INDEX . . . 449

Foreword

We've all made money mistakes. I know I have. Sometimes they come from ignorance. Sometimes we know better but do it anyway. And sometimes life throws us a financial emergency we didn't anticipate or prepare for. Looking back, we realize that not having an emergency fund was a huge mistake — oops. Other times, even if we did prepare with 6 to 12 months of savings, the crisis is so severe or drags on so long that it still leaves us in a financial hole.

No matter how it happens, a financial crisis can damage your credit score and trigger a vicious cycle of hardship. If this has happened to you, take heart: You are not alone. Maybe it happened recently. Or maybe it happened months or even years ago, and the stress was so overwhelming that you avoided dealing with it while the problem quietly grew worse. Either way, you're here now, and you're ready to take it on. That's worth celebrating.

It may not feel like it, but you've already taken the most important step toward a better financial future. And you've come to the right place. I've known Steve Bucci for more than two decades, and he's always been my go-to expert on credit and credit repair. His work has helped thousands of people transform their financial lives, and I know he can help you transform yours.

As you move through this process, don't be surprised if you feel guilt, shame, regret, or frustration. Money is the number-one source of stress for most Americans, and mistakes with credit are incredibly common. Don't be too hard on yourself. If you find yourself discouraged along this journey, set the book down, take a walk, listen to some music, or spend time with a friend. You can start back up when you're feeling better tomorrow.

The key is to keep moving forward. Every page you read and every step you take will build your confidence and momentum. Before long, you'll start experiencing the freedom and peace of mind that come from a healthy relationship with money and credit.

You've got this!

Dr. Brad Klontz

Certified Financial Planner, financial psychologist, professor, and national best-selling author of *Start Thinking Rich*

Introduction

In uncertain times, we look for a trusted resource to help us reach our goals. This book is a time-tested and updated guide to help you create the life you want and deserve for yourself and your loved ones.

Credit Repair Kit For Dummies is here to guide with you with helpful advice and trustworthy information throughout your journey, with vetted information about credit at every stage of your life. And I've been delighted and proud to have been your guide since 2005.

Twenty years is a very long time. Over those years, your life likely changed. If you're now in your twenties, you were growing up; if you're now in your forties, you were just becoming an independent adult and you may have been starting a family; and if you're now in your sixties and looking at retirement, you may have been thinking you'd never get there.

For many people, credit loosens and tightens cyclically. For others, it has been a challenge through good times and bad. Fair and equal access to credit and the benefits it brings have never been fully assured for those new to credit, minorities, the working poor, or merely the naive and uninformed.

Your need for great credit never ends. This book will help you successfully build, rebuild, or manage your credit. Rather than taking an academic approach to the subject of credit, *Credit Repair Kit For Dummies* helps you succeed at integrating credit into your *real* life. It enables you to make great credit an outcome of the decisions you make every day as you pursue life and happiness. I call it your *credit–life connection.*

Given today's increasing reliance on credit reporting and credit scores for lending and non-lending decision-making, you need better credit and a higher credit score to access today's credit products, which are an essential part of leading a rewarding life in today's society. Not only are the criteria for the best access to credit very selective, but the penalties for ignorance and failure have multiplied. Threats to your credit are everywhere. Data breaches are so common that it is not a stretch to say that if everyone's personal information isn't already for sale on the dark web, it will be soon.

And if all this isn't enough, the non-lending use of credit reports is growing by the day. Updates to this book tell you about new consumer databases that collect information about your medical history, prescription drug use, rental history, banking data, and more. Employers, insurance companies, landlords, and lenders use this information to decide whether to hire or promote you, what insurance rates to give you, whether to rent you an apartment, and whether to offer you new banking products. You need to know what's in these files, and that's one of many things I tell you how to do in this book.

Credit Repair Kit For Dummies comes at a critical time. Credit plays an ever-changing and increasingly important role in your life, regardless of whether you use a credit card. Insurance, employment, home buying or renting, and getting an education with student loans are more dependent than ever on you having good credit. Plus, although the rewards for good credit have never been higher, the penalties for failure — foreclosure, eviction, job problems, mounting debts, collections — have never been greater. For these reasons and more, millions of people are looking for up-to-date, useful, and proven answers from a trusted and knowledgeable resource. If you know the rules of the credit game, you'll get a winning score. That's why I wanted to bring you the best, non-biased information in the industry based on decades of experience and research.

About This Book

The approach I outline in this book is different because it's low-cost and simple and drives right to the heart of the matter. With this book, you can manage your credit by applying just a few key concepts. Unlike the talk-show approach of making one philosophy fit all after a 15-second question-and-answer period, this book takes the time to give you the concepts and tools you need so that you can apply them to your specific situation and come up with an answer that's custom-tailored to you.

So why this book?

- **Because although credit problems can seem incredibly complex and unfair, you can have good credit with a few simple actions that anyone can master.** I give you all the tools and insight you need to rebuild your credit (or build it up for the first time).
- **Because you may need the advice of an experienced advisor to guide you through a mortgage problem.** This book tells you how to find a good resource for credit or bankruptcy counseling.

- **Because your credit may be in detention due to crushing student loans.** This book can help you find the right solution and then rebuild your credit score as quickly as possible.
- **Because you want to get a job or promotion; buy a reliable car to get to your job; start a business; insure your home, apartment, or car; or further your education.** If any of these situations applies, you need a good credit record.
- **Because you may be one of the millions of people who become victims of personal data theft each year.** This book provides valuable information to salvage and protect your identity and credit from thieves.
- **Because you may be on the brink or even over the cliff of credit trouble.** This book gives you budgeting and spending advice that can pull you back from the edge.
- **Because the time is right for you to regain control of your credit and your financial peace of mind.** This book helps you do just that.

Foolish Assumptions

I assume that you're reading this book because you know that repairing your credit is important, but you may not know all the ins and outs of making credit work for you. Whether your credit is not so great and you want to know how to improve it or your credit is just plain nonexistent and you want to establish it on your own terms, you'll benefit from this book. An understanding of your credit and how the credit system works may be especially important during life's transitions. This book is of particular value to you if you're

- Concerned about your credit report and who may be looking at it
- Concerned about the credit status of a loved one
- Considering what to do about overwhelming debt
- Wondering how to deal with medical bills
- Unsure about the credit impact of remaining in your home or walking away
- Starting over again after filing for bankruptcy
- Taking on or paying back a student loan
- Concerned that your personal information may have been compromised or stolen

» Already in or soon to be in a marriage or partnership
» Recently divorced or in the process of divorcing
» Reestablishing credit after the loss of a spouse or partner
» Hunting for a job or hoping for a promotion
» Establishing credit for the first time
» Wanting to know how to maintain good credit after you get back on track

I assume that you don't have a formal education in credit or personal finance. Even if you do, however, I believe that you can still find practical insights in this book based on my experience and that of others I've helped.

Icons Used in This Book

Icons are those little pictures you see sprinkled in the margins throughout this book. Here's what they mean:

REMEMBER

This icon denotes critical information. Considering the state of our own overcrowded memories, I wouldn't ask you to remember anything unless it was really important.

TECHNICAL STUFF

This image of a credit professional — okay, fine, of the Dummies Man — shows up whenever I go into more detail on a concept or rule. If you don't care about the details of how something works or where it came from, feel free to skip these gems.

TIP

This lightbulb lets you know that you're reading on-target advice — often little-known insights or recommendations that I've picked up over the years.

WARNING

This icon serves as a warning, telling you to avoid something that's potentially harmful. Take heed!

Beyond the Book

In addition to what you're reading right now, this product also comes with a free access-anywhere Cheat Sheet that lists the contact information for the three major credit bureaus, credit score breakdowns, tips for improving your credit score, and advice on handling an overdue mortgage. Just go to www.dummies.com and type **Credit Repair Kit For Dummies Cheat Sheet** in the Search box.

This book includes companion downloadable content, too. Go to www.dummies.com/go/creditrepairkitfd6e to find useful forms, worksheets, sample letters, and credit-related legislation and laws.

Where to Go from Here

You get to choose what happens next. This book is packed with information to help you repair your credit. You can use the table of contents and index to jump directly to the topics of most interest to you, or you can start at the beginning of the book and take it from there. With the information in *Credit Repair Kit For Dummies*, you can get great credit and keep it great for the long haul. I wish you all the best in achieving your dreams, which increasingly require good credit to realize. You and your family deserve it.

1

Getting Started with Credit Repair

IN THIS PART . . .

Understand the basic workings of credit, the role of artificial intelligence (AI) in credit decisions, credit repair, and credit scores.

Find out how to rebuild your credit after a crisis.

Fix inaccuracies and add positive data in your credit reports and boost your credit score.

Solve your credit problems on your own or get expert help that really works for free.

Field calls from debt collectors with confidence.

Deal successfully with debt collectors, lawyers, and court actions.

IN THIS CHAPTER

- Handling credit problems
- Dealing with the issues surrounding fairness in credit
- Rebuilding your credit after a crisis such as a foreclosure or bankruptcy
- Safeguarding your credit and your identity
- Discovering how to manage your credit
- Keeping your credit solid in every stage of life

Chapter 1
Introducing Credit Repair, Credit Scores, and Your Life on Credit

Credit plays a larger role in life than ever, and its influence will only expand in the years to come. The good life, happiness, and credit are inextricably linked. It's not that more material things make you happier, but bad credit exacts a price from your life, your hopes, and your dreams, as well as your relationships with others. Think of it as your credit/life connection. Whether it is hard or easy, fair or not, you must learn to successfully manage your credit and, by extension, your personal finances if you are to lead a successful and satisfying life in the United States.

Financial products, credit foremost among them, have become much more complex and powerful, while the price for having a bad credit report or no credit at all has never been steeper. Your *credit report* is a financial snapshot of your life in financial terms. For example, a divorce can wreak havoc in your life, and that instability can show up as missed payments or even a bankruptcy on your credit report as well. When you use credit, the information usually gets reported to a data center known as a *credit bureau.* This information ends up on your credit report for at least the next seven years. The good, the bad, and the ugly are all there for anyone you do business with to see and for FICO, VantageScore, and other lesser-known scoring elves to summarize in a three-digit number known as your *credit score.*

A bad credit report can keep you from finding a job, getting the promotions you deserve at work, being approved for an affordable loan, getting insurance (or paying the lowest price for it), securing an apartment or house, and more.

This chapter is all about getting you started in repairing, rebuilding, or even just starting your credit so you can get that job, promotion, loan, home, and insurance to protect it. I cover the basics and the fine points. It's really simple. But if you don't understand credit, you can't fix it, so I discuss how credit works, how to apply that knowledge to get what you want, how to deal with the effects of life's inevitable setbacks on your credit, and how to recover from those setbacks as quickly as possible. Other chapters build on this information, helping to make your credit the best it can be and keep it that way. Why? Because life isn't always fair, but you still need to repair the damage and carry on without being taken advantage of by unscrupulous financial companies or wasting precious years recovering from credit problems that you can avoid or minimize by using the advice in this book.

Repairing Bad Credit

After you've had a rough patch and fallen behind on your payments, you may think that you can never recover. Between the cost of interest and maybe even collection actions, the situation can be overwhelming. But I assure you that you can reverse the cycle. You can not only reestablish good credit but also keep good credit and enjoy its benefits for the rest of your life. Forever is a long time, but if you follow my advice, you can banish the credit blues permanently! It's not magic, and it won't cost you another dime. By realistically assessing your situation, seeing yourself as others see you, knowing where you stand, using free help if you need it, setting goals, planning your spending and savings, and using credit as part of your overall plan, you can quickly rebuild your credit.

Settling debts

You hear the ads all the time: "Settle your debt for pennies on the dollar!" "You have a right to pay less than you owe!" Debt settlement is an often misunderstood option that may work for you, but only if you handle it properly. Many companies that offer debt settlement services help themselves a lot more than they help you. You can avoid huge fees and potential credit damage if you reach a settlement agreement with your lender on your own for free using the information in this book or if you use your own attorney.

REMEMBER

You are personally responsible for the actions of the debt settlement company you hire, and your credit will be ruined in what is a protracted and adversarial settlement process. Chapter 6 gives you the information you need to decide whether debt settlement is for you and outlines your best options.

Resetting your goals

Just as you did when you first started establishing credit, I want you to revisit your goals from time to time. When your life changes, your goals should reflect your new reality. Goals that once seemed within easy reach may move from short term to long term. Others may change as you mature. Buying that red sports car may not be as important to you now as it was in your 20s. Take the time to reset your sights, as I explain in Chapter 2.

Begin by envisioning your life as you'd like it to be over the short, medium, and long term. Next, create a spending plan (or update your plan if you already have one) so that you know your current financial strengths and weaknesses. Then begin to see how long it will take to fund your goals and determine when using credit may be appropriate. Chapter 18 goes into detail about how to create and maintain a spending plan and how to use credit wisely as a part of that plan.

To ensure that your credit is up to the task of supporting your goals for the future, check your credit reports and dispute any inaccuracies or out-of-date information. To rebuild your credit reports, you need to start with an accurate credit history, not one riddled with errors that may hold you back. After you check your reports, look for opportunities to review them for free as often as you can. Part 4 tells you everything you need to know about credit reporting.

Rebuilding your credit by using it

The best way to rebuild your credit is to exercise it! Using your goals and spending plan as a guide, start making those payments as agreed, on time and for the correct amounts. Every month you do so, you build better credit while your older, bad credit either counts for less or drops off your credit reports altogether.

TIP

Consider opening a *secured credit card* (backed by a bank account deposit) or a *passbook/savings account loan* to add a revolving and installment account to fatten your credit history and boost your score. You can find the details in Chapter 10.

Using a cosigner or becoming an authorized user

I normally don't recommend that you, personally, ever cosign for a loan, but in this case, someone else is doing the cosigning for you! Enlisting a cosigner is a way to get access to credit so that you can begin to rebuild your credit history with the credit bureaus. But you need to keep in mind a few important rules:

- You have to make all the payments on time.
- If you can't make a payment when it's due, you have to tell the cosigner in advance so that the cosigner can make the payment and protect his or her credit. You can pay your pal back later.
- You can't get mad at the cosigner for not being understanding or more helpful while you owe him or her money. Your cosigner is doing you a huge favor at great personal credit risk!

Another way to rebuild your credit is to become an authorized user on someone else's credit card. After you're added to the other person's account, his or her good credit history flows onto your credit record as a positive account and payment stream, beefing up your record and credit score. The person needs to have good credit, though, or his or her bad credit may negatively affect yours. I suggest that you decline getting your own card for the account so that only the other person's charges appear on the account. That way, if he or she has a bad memory (as I do), you're spared monthly calls asking whether this or that charge is yours. Although you won't have access to new credit, your credit score gets a boost.

Finding sources of free help

You can do a lot of things on your own, but sometimes having a pro on your side to give you tips helps. You can find that help in three main places, and it ranges from inexpensive to free. Nonprofit credit counselors, pro bono lawyers, and HUD-approved counseling agencies offer priceless free insight, assistance, and advice. The trick is to know to ask for it.

Nonprofit credit counselors work with you to set goals, develop a spending plan, and assess your ability to repay your debts. They can set up a repayment plan in