Rebuilding Your Credit

Do Not Rush Into New Credit Just to Build Your Credit Score. It is tempting to rebuild credit by getting new credit and making timely payments. You should not start trying to get new credit during times of financial difficulty simply to improve your credit report. This is likely to take your attention away from paying high priority debts first. Definitely do not obtain credit from a creditor advertising “easy credit” or “no credit history required.” Many of these offers are rip-offs from lenders preying on consumers who fear that they cannot get traditional forms of credit. One of the most important steps you can take to cope with a bad credit history is to avoid getting deeper in debt during the bad times.

Stabilize Your Situation. In the long run, the most important thing for you to do to reestablish a good credit rating is stabilize your employment, income, and debts. This will prevent new delinquencies from being reported. While your past delinquencies can stay on your record as long as seven years, creditors are likely to ignore older debt problems if your situation becomes stable and if you start paying your present obligations.

Once you get back on track, each year your older debt problems will have less of an impact on your ability to obtain credit. Seven years will come around sooner than you might think, and then there will be no record of those past problems at all. If your financial problems are behind you, your credit record problems will not go away immediately. Be patient. Your credit profile will improve over time.

Establish New Credit Accounts (with Caution). You can improve your credit by getting new credit and paying it back on time. But be careful. Avoid causing yourself more problems by getting unaffordable high-rate credit. One way to avoid this trap is to wait until you are offered a credit card with reasonable terms. You may get credit card offers even though you have a negative credit history, but these offers may be for expensive subprime cards that offer little credit and charge high fees.

Another approach is to get a secured credit card, offered by some banks and other creditors. These cards require that you keep a cash balance with the card issuer and draw down on this amount. You need to be very careful in selecting a secured card because some offers are bad deals.

Finally, if you decide to get new credit, be sure that the creditor you use actually reports account information to a credit bureau. If not, your hard work to pay back the credit will not be reflected in your report.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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