

Building and Repairing Credit History

Building a positive credit history is important because lenders will use it to decide whether they'll lend you money. Your credit history tells them if you have paid your bills, managed your money responsibly, and can be trusted with more credit. It also tells them if you've had to pay late-payment fees or have ever defaulted on a loan. By informing landlords, lenders, employers, insurance providers, and others how well you handle credit, your credit history directly affects the success of your future loan applications.

Building a credit history

If you have recently entered the work force or are new to the country, you may not have a credit history. If you're a married woman whose credit has only been in your husband's name, a first step to establishing your own credit can be to put a utility bill in your own name or apply for your own credit card.

Today, it's relatively easy to build a credit history. After all, credit card issuers are flooding the mails with offers. But it can take two years to build enough credit history to qualify for a car loan and three to five years for a home mortgage.

Here's how to begin building a positive credit history:

- Pay all of your bills on time or early. Even your payments for rent and utilities are reflected in your credit records.
- Maintain a checking account without bouncing checks.
- Start small by applying at a local bank, credit union, or retail store for a credit card. Because lenders may deny your application if you ask for several new accounts at once, open just one account at a time.
- Apply for a secured credit card that lets you borrow up to the amount you've deposited in a savings account. After you pay off that card, apply for a small loan. Repaying one debt isn't enough; paying off a series of debts builds a favorable credit history.
- Avoid changing jobs or moving frequently. Lenders consider you stable if you work at the same job or have the same address for at least five years.
- Review your credit report at least once a year to see if it accurately reflects your payment history.

- If you expect to be late with your payments, make arrangements with your creditors as soon as possible. Try to negotiate with creditors before they turn your accounts over to collection agencies. Collection activities stay on your credit history for seven years.

Rebuilding credit

Rebuilding your credit involves the same process as building it from scratch. You must prove to lenders that you are responsible with money, that you won't borrow more than you can repay, and that you'll repay every loan on time or early. It's harder to overcome a poor credit history than to build a good one in the first place, so consider the following steps as well:

- Work hard to decrease debt and increase income. That makes you a better credit risk.
- Don't spend more than you make. Lenders look favorably on those who show they can live within their means.
- Limit how often you apply for credit so lenders don't request your credit report too many times.
- Should you be denied credit, you must be told why if you ask. If a lender denied you credit because you have too many credit cards, consider closing the ones you aren't using. Be sure to request a free copy of your credit report; you're entitled to one if you're turned down for credit. Check it carefully, and make sure any errors are corrected. (See *Credit Cents* no. 4: *Credit Reports 101*.)
- Remember that bankruptcy is a last resort rather than an easy way out. It's reported to potential lenders for 7 to 10 years.

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