

Kirby's Guide to Establishing or Rebuilding Credit for a Home Mortgage.



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Whether you are establishing credit for the first time or re-establishing after a bad history, you will face many of the same dilemmas... you need good credit history before you can get credit but can't establish good history without having credit. So what do you do? Below you will find some common approaches to developing a good credit history for those who either don't have any history or have had problems in the past.

Financial institutions pay credit bureaus to compile information about consumers. These reports are similar to high school and college grade transcripts--instead of collecting grades, credit bureaus collect credit information. There are three credit bureaus that compile information about your credit history. They are Equifax, Experian and Trans Union.

In order to get credit, you must show a number of stabilizing attributes. Most notably, your report must prove to the lender that he will get their money back. Without a history to prove this, however, you still have a few options at your disposal.

CO-SIGN

One way is to piggy-back onto someone who already has a good credit history established and is willing to co-sign. If you are fortunate enough to know of such a person, you are not only well on your way to establishing credit, but you are very fortunate indeed. But be aware that any default of credit on your part affects the credit of the co-signer. People who care enough about you to co-sign, do not deserve a bad credit incident through no fault of their own.

Once the co-signing has occurred, you simply make payments on or before the due date. In time you will have established a credit history. If you want to accelerate the issue, payoff the debt in full when the first bill arrives but not before. Completion of the full billing cycle is important for a "pays on time" report card to be established.

This will not only make your creditor happy but your co-signer as well. The next step is to ask the co-signer to repeat his generosity (if necessary). Then: create a debt, wait until the first bill comes, pay it off in full. Keep repeating until you no longer need the co-signor. Credit history is now established.

SECURED CREDIT CARD

Another method to establish credit history is through a "secured credit card". With this method you open a savings account with someone who offering this type of card. Once the savings account is established (sometimes with as low as \$100.00), you are issued a normal credit card which can be used up to the amount you have in the savings account.

Be aware that interest is charged just as with any other card even though return payment is actually guaranteed to the lender through your savings. Now, follow the pattern I suggested in "co-signer" above:

Create a debt on the new card.
Wait until the first bill comes.
Pay the bill off in full or make payments until paid off.
Repeat until you can establish unsecured credit.

DEPARTMENT AND GASOLINE CREDIT CARDS

Since gasoline credit cards are not revolving (cannot carry a balance forward month-to-month), often they are easier to obtain than regular credit cards. Similarly, some department stores offer revolving credit for a specific purchase and this is sometimes easier to establish. It is also a great way to establish credit.

But a word of warning. Every time you apply for credit, you get a check mark. Too many check marks in a short period of time and you are declined for credit, "Excessive Inquires". It's an additional "catch 22" that usually will not catch you, but it is far from uncommon

SPECIAL NOTE ABOUT REESTABLISHING CREDIT

Of course, if you've had credit issues in the past, one of the most important first steps is making sure that you "clean up" your credit report with all three credit bureaus, before you try to reestablish your credit. The best way to do this is to "dispute" errors on your credit report. For example, if your credit report is showing that you still have outstanding collections or overdue payments and you have paid them, then this is an error on your report that needs to be corrected. While this is not always an easy process to complete it is important to your financial health. Although many people believe that once they pay an outstanding collection or overdue bill that the creditor will report it to the three credit bureaus, this does not always happen. Unfortunately, many collection agencies and some creditors do not update your records with the creditor bureaus, which means you are burdened with trying to correct these errors directly with the three major credit bureaus. (See the attached examples of a dispute letter to the credit bureaus)

Cleaning up your credit before you apply is very important because it will help you get better rates and offers from creditors when you open new accounts.

FINAL THOUGHTS

Eliminate the need for the co-signer or secured card savings as soon as possible. You'll be much further ahead. Unfortunately in this day and age, not having credit can cost you money in more ways than one. That having been said, I highly recommend paying off your balance IN FULL, every month and don't fall victim to uncontrollable debt!

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Request Correction of Credit Report

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Equifax
P.O. Box 740241
Atlanta, GA 30374

Experian
P.O. Box 2104
Allen, TX 75013

TransUnion
P.O. Box 2000
Chester, PA 19016

This is a request for you to investigate the following items which appear on my credit report:

The following accounts are not mine:

Creditor: Strong's Department Store
Account Number: 123-456-6789
Explanation: I've never had a Stong's department store account.

The account status is incorrect for the following accounts:

Creditor: Big Bank Mastercard
Account Number: 1234 5678 9123 4567
Status: This account was discharged in bankruptcy; the account balance is \$0

The following information is too old to be included in my report:

Creditor: XYZ Collection Agency
Account Number: 123-123-123-123
Status: This account was closed in 1995 and is more than 7 years old and should no longer be included on my credit report.

Other errors:

My American Express account is listed twice. One listing indicates the account was discharged in bankruptcy (this is correct); the other listing shows the account with ABC Collection Services (incorrect). Furthermore, this account is missing the date of delinquency.

I understand that you will check each item above with the credit grantor reporting the information, and remove any information the credit grantor cannot verify. I further understand that under the federal Fair Credit Reporting Act, 15 United States Code §1681i(a), you must complete your reinvestigation and issue me and anyone who has requested a copy of my credit report within the previous one year (two years if requested for employment purposes) a new credit report within 30 days of receipt of this letter.

Enclosed you will find a copy of my driver's license and social security card for identification purposes. I have also included a copy of my bankruptcy discharge papers.

Thank you.

Signed: _____
Joe Doe Smith
100 Main St.
Lafayette, Indiana 47901
Social Security number: 999-99-9999

Enclosures

EXAMPLE

EXAMPLE