

Reports on credit

and other financial information

Creating a positive credit history

What can you do to create a positive credit history?

When you apply for credit, print clearly. Consistently use your complete name. Providing complete, accurate and consistent identification on your credit applications helps set up your credit history correctly from the beginning. It also minimizes the chance that your credit file will be incomplete or mixed with another consumer's file.

The key to creating a positive credit history is simple: Pay your bills on time! Most lenders look at the most recent information on a report. So if you've paid your accounts on time for the last two to three years, the lender may ignore a few late payments from five years ago.

Review your credit report 60 to 90 days before making a major purchase (such as a home or car). You can get your credit report online at www.experian.com/consumer or call 888 EXPERIAN (888 397 3742) to request a report to be delivered by U.S. mail. After you review your report, let us know if any items are inaccurate. Experian® will investigate any information you question as inaccurate within 30 days and send you the results.

Set up a budget, and live within it. In the age of self-help and empowerment, managing your finances should top your list.

Here are some other keys to building a positive credit history:

- Have some credit but not too much. Having no credit history is almost as bad as having a negative credit history. If you have paid one or more accounts as agreed, you have shown you can manage your finances responsibly.
- Keep your balances well below your credit limits. High utilization (balances close to credit limits) often indicates high risk on additional debt.
- Have a mixture of credit types. It is good to have a history of repaying an installment loan, but a revolving (credit card) account is even more predictive of credit risk because you must manage your balance and monthly payment.
- Only apply for the credit you need. Several recent inquiries may indicate you have opened new accounts that don't yet appear on your credit report.
- Be aware of your debt-to-income ratio. Creditors typically want not more than 20 percent of your take-home pay to be spent on credit, excluding your mortgage.
- Demonstrate stability. Some creditors consider your length of employment, length of residence, whether you own or rent, and if you have any savings.

What should you do if you begin to fall behind in your payments?

If you begin to fall behind, contact your lenders. Ignoring the situation will only add to your problems. Many lenders will work with you to set up a different payment schedule or interest rate. It never hurts to ask.




It has been said that time heals all wounds. That's not always true, but the adage is accurate in the credit reporting business. Your credit report shows how well you managed your responsibilities during a certain period of time. Over time, the negative information drops off, and the positive information remains.

*This issue of **Reports on Credit** answers these important questions:*

- *What can you do to create a positive credit history?*
- *What should you do if you begin to fall behind in your payments?*
- *Are credit repair clinics bad for consumers?*
- *Who can remove accurate negative information from your credit report?*
- *How do you establish a positive credit history if you have no credit at all?*

You may find it easier to pay one, affordable consolidated loan rather than several separate accounts. Most importantly, stop using credit until your finances are under control.

Look to professionals if you need assistance or if you don't have time to develop your own plan. Nonprofit credit counseling organizations are available to help consumers understand credit reports, contact creditors, manage debt and set up budgets.

Are credit repair clinics bad for consumers?

There is nothing any credit repair clinic can legally do for you — including removing inaccurate credit information — that you can't do for yourself for free, and their fees can be substantial, ranging from hundreds to thousands of dollars. The Credit Repair Organizations Act, a federal law which became effective April 1, 1997, prohibits credit repair clinics from taking consumers' money until they fully complete the services they promise. It also requires such firms to provide consumers with a written contract stating all the services to be provided and the terms and conditions of payment. Under the law, consumers have three days to withdraw from the contract.

Who can remove accurate negative information from your credit report?

Federal law specifies how long negative information may remain on a consumer's credit report. Most negative information remains on a consumer's credit report for seven years. Bankruptcies may remain for up to 10 years. Experian removes Chapter 13 bankruptcies after seven years. Unpaid tax liens may remain on your Experian credit report for 15 years.

Negative information remains on a consumer's credit report for the allowed period of time as long as it can be verified by the company which reported it. Usually only time can erase bad credit.

How do you establish a positive credit history if you have no credit at all?

To establish credit individually for the first time, start small and build up. A local department store or local lending institution is a good first step. Even if you don't have other credit, you may be able to obtain a credit card with a small credit limit — perhaps \$200 or \$300.

Before you apply, ask if the credit grantor regularly reports your bill-paying history to a credit reporting company. Since your intention is to build a positive credit history, lenders who don't report your information to credit reporting companies will not help you.

When you get a credit card, use it. Consistently pay your bills on time. Each month, your credit grantor will report this information. In this way, you'll establish a history of responsible credit use.

After six months, apply for another card. Continue using your credit and paying your bills on time. Before you know it, you won't have to ask for credit — credit grantors will come to you. (Be careful, though, not to get carried away. Know your financial limits; keep your use of credit in check.)

If you're turned down for credit, ask the credit grantor for specific reasons. Perhaps your salary is not high enough or you haven't lived at your current address long enough. Time may resolve these matters. Reapply for credit when your situation changes.

Another option is to ask a parent, family member or friend with an established credit history to cosign your loan or credit card application. If granted, the account will appear on both your and the cosigner's credit reports. Take extra care to repay your cosigned debt promptly. Failure to do so will hurt your cosigner's credit as well as your own. After a few months, try again to get credit on your own.

Yet another option is to apply for a secured credit card. To obtain a secured credit card, you must open and maintain a savings account as security for your line of credit. Your credit line is a percentage of your deposit.

Also, beware of the extra fees you may have to pay to obtain secured credit. Secured credit cards typically have higher interest rates than unsecured cards; annual fees also are common. Use extreme caution before calling a 900 telephone number for a credit card. The call itself can cost up to \$50, and there's no guarantee you'll receive the card.



Experian and the marks used herein are service marks or registered trademarks of Experian.

Other product and company names mentioned herein may be the trademarks of their respective owners.

Reports on Credit is published by Experian's Consumer Education Department to help consumers better understand important credit and other financial issues. You may reproduce and distribute this report. For more information, visit our Web site at www.experian.com