

How to Improve Your Credit

If you have had credit problems, be prepared to discuss them honestly with a mortgage professional. Responsible mortgage professionals know there can be legitimate reasons for credit problems, such as unemployment, illness or other financial difficulties. If you had a problem that's been corrected and your payments have been on time for a year or more, your credit may be considered satisfactory.

If you are currently in excess debt, there are four ways to control it:

1. If your credit is not in terrible shape, you can reduce your other expenses, even if it means making hard choices or changing your lifestyle to fit your income. Consider selling a second car, taking equity out of your home, applying for a non secured signature loan, obtaining a loan from a relative, selling your home and paying off your debts with the proceeds and then renting, cashing out your 401K/retirement benefits or selling family heirlooms, jewelry, etc.
2. If your credit is already damaged or one of the above isn't an option, go through Consumer Credit Counseling Services (CCCS). Check your yellow pages for the local number. CCCS may be able to help you pay off your debts as if you were in a Chapter 13 bankruptcy, but you don't actually file for bankruptcy.
3. If CCCS won't take you, you may want to consider bankruptcy. Claiming Chapter 13 bankruptcy takes longer than a Chapter 7, but your credit will end up in a little better standing. Chapter 13 bankruptcy gives you up to 5 years to pay off your debts. The disadvantage is that you're in bankruptcy for up to 5 years plus your credit report shows your bankruptcy for 7 more years after you have finished paying off your debts.
4. If you are so far in debt that you can never repay it, then the best solution may be a Chapter 7 bankruptcy. A Chapter 7 bankruptcy is the least desirable from a credit standpoint, but you are typically out of bankruptcy in 6 months and you don't have to repay any debt. The disadvantage is that this shows on your credit report for 10 years from the date of filing your bankruptcy. Creditors are starting to tighten their credit requirements, and you may have a tough time getting future financing.

If your debts are under control now, but want to improve your bad credit history, the most important factor is to make your monthly payments on time. Use pre-addressed envelopes enclosed with your statements to mail your payments and call the company if you don't receive your usual statement. Also send your payment as early as possible if you carry a balance. Most companies calculate interest on a daily basis, so the sooner they receive your payment, the less interest you'll pay.

Don't procrastinate. It's the day your payment is received that counts, not the date it was postmarked. Give the post office sufficient time (five business days is a good guideline) to deliver your mail. Late payments may mean late fees, higher interest, and/or a negative mark on your credit report.

Never send cash. Open a checking account if you don't have one, or spring for a money order and keep your receipt. Finally do not forget to tell your creditors your new address when you move.

If you are worried about making payments, make a list of your debts and when the payments are due. Contact your lenders immediately if you think you will have trouble meeting the monthly payments to arrange a payment schedule.

Taking money from your retirement account or tapping the cash value of your life insurance policy to pay bills or living expenses may have serious implications you haven't considered, so try to get advice from an expert before you take any major financial actions.

Credit cards can be invaluable in a crisis, since they allow you to charge items and pay them off over time. But they can also be dangerous if you aren't careful and charge more than you can afford. If you do use credit cards, choose those with the lowest interest rates and pay them back as soon as you can to cut your costs.

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