

# DO IT YOURSELF CREDIT REPAIR

## THE ULTIMATE ACTION PLAN



**16 LETTER TEMPLATES INCLUDED**

- ✓ Actionable insights from subject matter experts.
- ✓ The 9-step process to repairing your credit explained.
- ✓ Includes 17 letter templates to help you communicate with credit bureaus, creditors, and debt collectors

# About Us



We are a team of financial writers, researchers and professionals who love educating people about finance. We offer expert-driven advice and resources to help you earn, save and grow your money.

We do not pretend that finance is simple and easy for everyone to understand. We simplify the convoluted finance jargon, give actionable insights and illustrate concepts by giving you examples.

## About the Authors



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Check out our website at [www.finmasters.com](http://www.finmasters.com)

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These letter templates will help you communicate with credit bureaus, creditors, and debt collectors.

We designed this kit to include all the information that you might need to start a DIY credit repair project.

Some readers may not need all of the information you'll find here. If this is the case, feel free to jump to a section relevant to your situation.

We've included a basic primer on credit scores and credit reports, discussing where they come from and how to understand them. This is important information for anyone concerned with their credit score, and we urge you to review it even if you already have a solid base of knowledge.

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# Introduction

**Credit repair is the process of rebuilding your credit profile after damaging your score. If you've suffered some setbacks, whether it be missing monthly payments, defaulting on a debt, or filing for bankruptcy, then credit repair is your road to recovery.**

Because the journey involves overcoming past mistakes, you'll face more challenges along the way than someone building their credit from scratch. It'll be harder for you to get new credit accounts, and you'll probably have to fix your finances at the same time.

You may need a few years to recover completely on both fronts, and it's easy to get overwhelmed by the sheer scope of the task. Fortunately, do-it-yourself (DIY) credit repair doesn't mean you have to do everything yourself.

Only you can do the walking, but we can chart the course for you. That's why we built this comprehensive credit repair kit, which will guide you through the process from start to finish.

Each section focuses on a distinct step on the path, with links to additional resources if you need more information on any subject. Think of it as a one-stop shop for all your credit repair needs.

We'll walk you through:

- Learning how the credit system works
- Fixing the negative items currently affecting your credit score
- Filling your credit report with a new, positive history

**Whether you're at the very beginning of your journey or partway through and feeling a little lost, this kit will help you navigate the road ahead.**

## Additional Resources

Throughout this ebook, you'll find clickable links to external resources. To keep this guide short we included links to web pages where you can learn more about the topics we'll be covering here.

These links will appear in highlighted boxes throughout the text:

**Dive Deeper:**



In talking about the credit repair process we'll often mention a letter that you need to send to the credit bureaus, your creditors, or debt collectors.

It's important to keep each letter in its place. We'll indicate which letter is relevant to the topic we're currently discussing using a callout:

**Letter Template:**



All the letter templates are listed in the final chapter of this ebook and the files came in a separate folder within this download.



# PART 1

# Learn How Credit Works

## The Importance of Understanding Credit

If you know you need to fix your credit score but feel lost about how to begin, you're not alone. The credit system in America can be frustratingly complex. In fact, almost 40% of Americans report having little to no idea of how credit scores work.

Unfortunately, we tend to fear what we don't understand. A lack of credit knowledge makes repairing your score more intimidating and stressful than it has to be. Myths, misconceptions, and misleading claims can derail your journey before it even begins.

As a result, it's critical that you take the time to learn how credit works before you start trying to rebuild your score. If you don't, you risk making a mistake born of ignorance and digging yourself into an even deeper hole.

In contrast, everything becomes easier when you prepare. You'll feel less anxious, spot the best opportunities for progression, and avoid pitfalls that would've caught you otherwise.

If credit repair is a journey through unfamiliar terrain, this section of the repair kit is your map. It'll teach you the basics of the credit system, debunk some popular myths, and break down the industry's jargon.

Let's get started.

## What is a Credit Score?

Credit scores are actually a relatively modern invention, popularized in the early 1990s. They're supposed to make the process of evaluating a borrower's creditworthiness less biased, though their success in that mission is debatable.

In simple terms, a credit score is a three-digit number that represents how likely you are to make your debt payments on time and in full. The higher it is, the more likely it is that you'll fulfill your obligations.

To get your credit scores, creditors apply proprietary algorithms to your credit history. Most of them check at least one when you request a new account to determine whether you qualify and what kind of terms they can offer you.

Some lenders won't, but think twice before borrowing from them. Not verifying your ability to pay is a sign of a predatory lender that doesn't care whether they work with responsible borrowers. A loan without a credit check usually comes at a high price.

**Dive Deeper:** When and Why Were Credit Scores Invented?



# The Two Primary Credit Score Providers

You have many different credit scores. The most widely used ones come from the **Fair Isaac Corporation (FICO)** and **VantageScore**, though most lenders use FICO products.

Both providers have created multiple versions of their scores over the years as they’ve refined their algorithms.

Currently, the most popular scores from each provider are **FICO Score 8** and **VantageScore 3**.

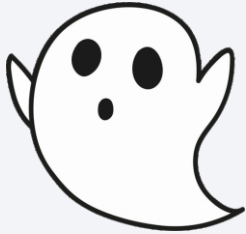
These are **generic credit scores**. That means they represent how likely you are to pay your debts on time, regardless of the account type. Both of them range from **300 to 850**.

In addition to their generic FICO scores, FICO has also created **specialized scores** for specific types of credit accounts, including mortgages, auto loans, and credit cards. Providers of those may use the industry-specific scores instead of the generic versions.

For example, a credit card issuer could decide to use your FICO Bankcard Score 8 when you apply instead of FICO 8 score.

Credit repair typically means improving your generic FICO and VantageScore versions. Fortunately, while every score has a different algorithm, they all correlate with each other strongly.


In other words, you don’t ever have to worry that improving one will hurt the other. You can be confident that if you have a great score in one, you’ll at least have a good score in the others.



### Myth Busting

There’s no such thing as a consumer credit score of zero. Typically, the lowest score you can have is 300. You may have no score at all, but having no score isn’t the same as having a score of zero.

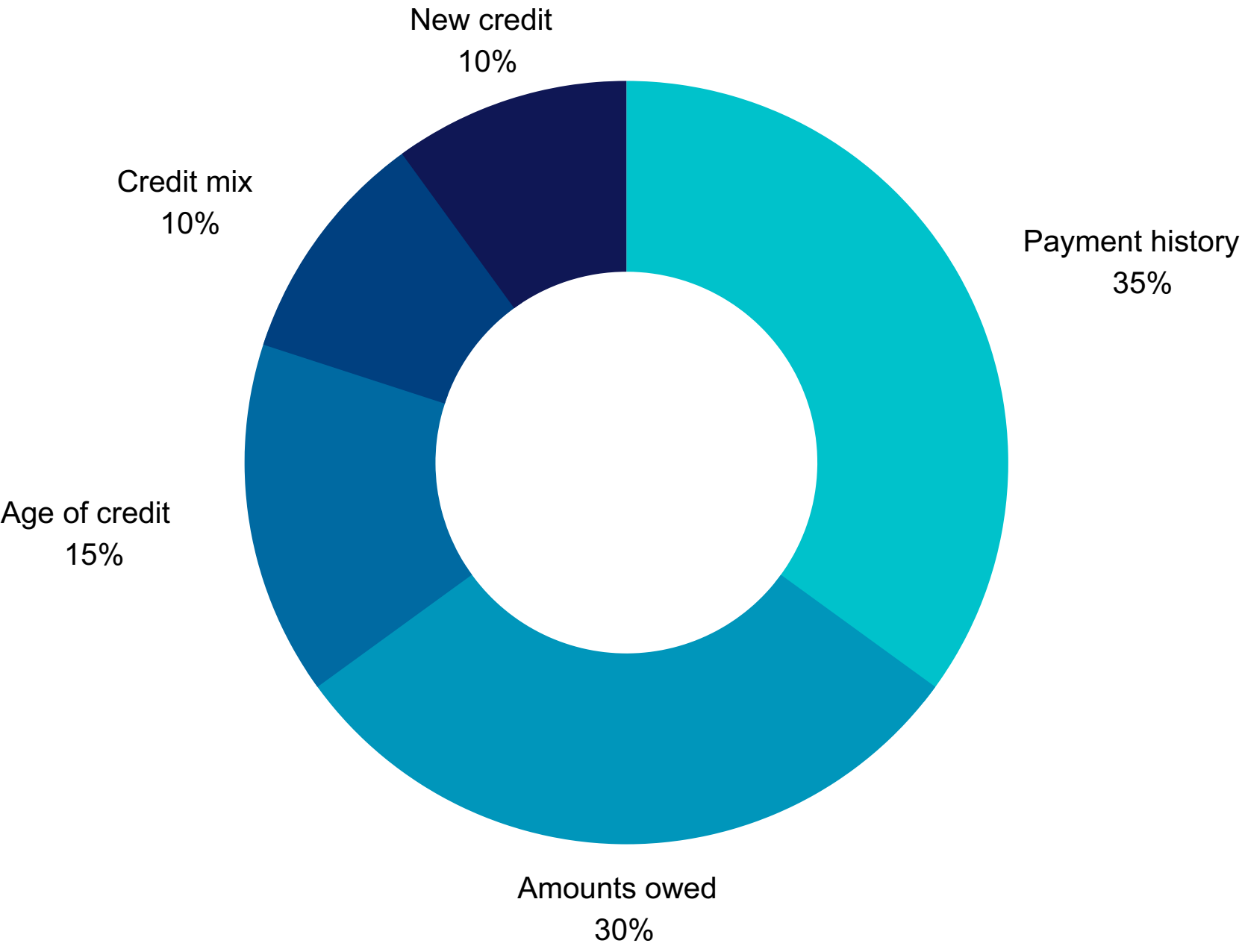
**Dive Deeper:** How Many Different Credit Scores Are There?



# What Goes Into Credit Scores

Credit scores can seem mysterious and complex, but their calculation is surprisingly straightforward. The generic FICO 8 Score is the most popular one, so we'll focus on its algorithm here. These are the five factors that go into it, along with their respective weights:

- **Payment history (35%):** This factor describes the degree to which you've made your debt payments on time and in full. Missing payments or making late payments lower your score. On-time payments improve it.
- **Amounts owed (30%):** This factor refers to the level of debt you have outstanding on your revolving and installment accounts. Generally, the less you owe, the better.
- **Age of credit (15%):** Lenders prefer borrowers with a lot of experience using credit. The older your credit accounts, the better your score.
- **Credit mix (10%):** This factor reflects the number and diversity of your credit accounts. Lenders want to see that you've used different types of credit responsibly.
- **New credit (10%):** this reflects how many credit accounts you've applied for recently. Lenders generally prefer that you don't take on a lot of new debt at once. It increases the risk that you'll miss a payment for one of them.



**Dive Deeper:** How is My Credit Score Calculated?

**Note:** There are differences between the generic FICO and VantageScore calculations, but they use the same factors. The formulas simply place a greater or lesser emphasis on them.

You won't be able to use that information to calculate your credit score, but understanding the general framework gives you a foundation for devising a more strategic approach to your credit repair.

For example, your payment history is the most significant factor in your score. If you do nothing else, making all of your debt payments on time is the best way to repair your credit over time.

Later in this credit repair kit, we'll walk you through the steps you can take to improve your performance in each factor and maximize your credit score.

# Credit Reports and How They Work

At this point, you know your credit score is the result of a proprietary formula from FICO or VantageScore. Given that frame of reference, you can think of credit reports as files that organize the data that goes into those formulas.

Three credit reporting agencies create these credit reports. Known as the three major credit bureaus, are **Equifax, Experian, and TransUnion**.

Contrary to what you might expect, these bureaus generally don't actively search out information about your credit. Instead, creditors and businesses get to choose whether they want to report your transactions with them to the bureaus.

Reporting to a credit bureau costs money, and organizations are not required to do it. As a result, your lenders may not report to all of the bureaus, and the information in your credit reports can vary. That means your score may also fluctuate depending on which credit report a lender uses to generate it.

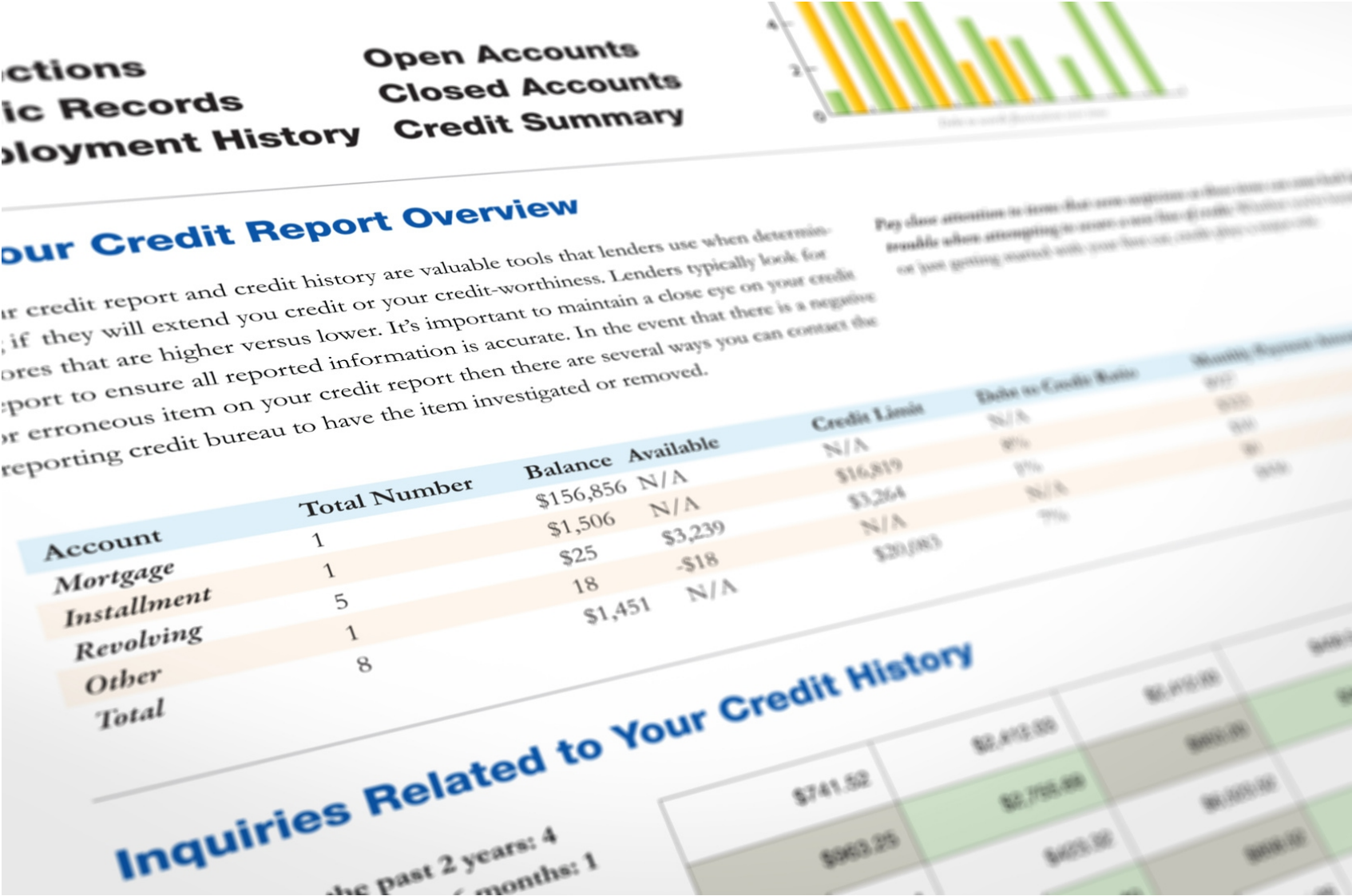
Thanks to the Fair Credit Reporting Act, you have the right to a **free copy from each bureau once per year**.

**Reading your credit report is the start of every credit repair process.**

If your credit score is low, you probably have negative items on your credit report. These may be late payments, charge-offs (when a creditor writes off your account as uncollectible), collection accounts, or even bankruptcy. These negative items will be the focus of your credit repair efforts.

Dive Deeper: Where to Get Your Free Credit Report







# How to Read and Understand Credit Reports

Your credit report is a comprehensive record of everything a credit bureau knows about you. That makes them a powerful tool for informing your credit repair strategy, but it can also make them a bit dense and difficult to read. Here’s some background to help you understand them better.

While credit reports vary in structure between bureaus, they generally include similar information. You can expect each of them to contain the following sections in one form or another:

- **Personal information:** Your report should always include basic identification details, like your name, Social Security Number, and address. It’s straightforward stuff but still worth reviewing since errors can be a sign of fraud.
- **Credit history:** This section contains the bulk of what goes into your credit score, including a list of your credit accounts and details like their outstanding balances, ages, and any missed payments. They may all be together or split into categories, such as current and delinquent or open and closed.
- **Public records:** There should be a section for the other significant events that can affect your credit scores, such as bankruptcy, debt settlement, and court judgments against you for delinquent accounts.
- **General information:** Lastly, your credit report will give you information on your rights as a consumer. For example, that might include a guide for disputing any errors you find and some laws for debt collectors in your state.

This isn’t a comprehensive breakdown. You’ll find other information in there as well, such as the number of hard inquiries associated with you in the last two years. One thing your credit report typically doesn’t include is your credit score. If you want your score, you’ll have to request it separately.

You should also be aware that your credit reports are very much living documents. The credit bureaus update them whenever they get new information from one of your creditors, which means they’ll typically change every month.

In addition, the information in your credit reports doesn’t stay there forever. Most negative records drop off your credit report in seven years and closed accounts in good standing disappear after ten years.

Dive Deeper: How to Read a Credit Report



## What Is Not On Your Credit Report

The information in your credit report is provided by your creditors. There is also information that does not appear on your credit report.

Federal law prohibits credit bureaus from recording any of these items:

- Your age
- Your gender
- Your marital status
- Your race
- Your national origin
- Your religion
- Your income
- Criminal arrests or convictions
- Tax liens or civil judgments
- Medical information
- Old accounts that have “aged off” your credit record.
- Your savings or investment account balances.

Your lender may ask you directly for some of this information (like your income or assets) and they may be able to get some from a public records search (judgments or criminal convictions) but they won’t get them from your credit report.

This information is omitted in an attempt to reduce discrimination in financial services. Before credit scores existed there was widespread discrimination in consumer lending.

While the credit scoring system is far from perfect, it is a reflection of your own finances and does not include any of the above factors.

## PART 2

# Credit Repair Action Plan

If you're considering credit repair, you probably have negative items on your credit record that are hurting your credit score. Before you start trying to build better credit, you'll need to work on what's already there. This part of our guide will guide you thorough the exact steps you need to take in order to find out what's hurting your credit and address the issues.

## The Importance of Cleaning Up Your Credit File

Repairing damaged credit usually takes more work than building it from scratch. Not only do you have to overcome the damage your past mistakes caused to your credit score, but you're probably still paying off some of those debts.

If we liken the credit-building process to a marathon, this is as if you showed up to the race and didn't get to start at the line with everyone else. Instead, you have to stand a block behind the others with a weight tied to one of your ankles.

In that situation, it doesn't make sense to run forward immediately. At best, you'd make slow progress and struggle to close the gap between yourself and the rest of the runners. At worst, you'd trip and set yourself back even further. Instead, you'd be much better off stopping to at least get rid of the weight before running full speed ahead.

Similarly, opening new accounts and trying to build a positive payment history before cleaning up your credit file is a bad idea. Even if you can manage it, juggling everything will be stressful, and the chances are high that something will slip through the cracks, further damaging your credit.

You're much better off focusing on eliminating the negative accounts in your credit report and paying off any lingering debts before you start the rebuilding process. Here's a step-by-step guide to that process.

## The 9-Step Credit Repair Process

The following part of this guide outlines 9 steps you need to take in order to address the issues on your credit report. Here's what we'll guide you through:

- ✓ **Step 1:** Gather Your Credit Reports and Scores
- ✓ **Step 2:** Understand the Rules
- ✓ **Step 3:** Find Out What is Harming Your Credit
- ✓ **Step 4:** Check for Errors
- ✓ **Step 5:** Dispute the Errors
- ✓ **Step 6:** Follow Up on Your Disputes
- ✓ **Step 7:** Negotiate With Your Creditors
- ✓ **Step 8:** Pay Off Your Outstanding Debts
- ✓ **Step 9:** Let Negative Information Age Off Your Reports

# STEP 1

## Gather Your Credit Reports and Scores

Your credit reports and scores are essential tools throughout the credit repair journey. They are particularly important when you are fixing your past mistakes. You'll need both of them to figure out what's hurting your credit, how bad the damage is, and how best to address each issue.

Fortunately, the Fair Credit Reporting Act requires each credit bureau to give you access to your credit reports for free every year. You can access all three of them at once from **AnnualCreditReport.com**.

**Dive Deeper:** Where to Get Your Free Credit Report 



However, this only gives you your credit report, not your scores. You'll have to go elsewhere to access those three magic digits. Fortunately, you usually don't have to pay for them either.

Many credit monitoring services for individuals exist, including **Credit Karma and Credit Sesame**. They can offer you a free copy of your credit scores. However, they often give you your VantageScore 3.0, **which isn't the score lenders use most often**.

If you want to get a free FICO Score 8 for each credit bureau instead, here are some resources you can use:

- **Experian:** You can get your FICO Score 8 based on your Experian credit report for free directly from the credit bureau.
- **Equifax:** You can't get your Equifax FICO Score 8 from the credit bureau directly, but Citi Bank gives it to consumers that hold one of their credit cards.
- **TransUnion:** TransUnion won't give you your FICO Score 8 either, but you can get it from Discover. It was previously available to everyone, but Discover only gives it to cardholders as of March 1, 2022.



You typically don't need to have your scores from all three bureaus. You can probably navigate the credit repair process well enough with your free FICO Score 8 from Experian and your credit reports.

If you're willing to buy your FICO scores, you have many more options.

For example, **MyFico** will give you access to your FICO scores from all three credit bureaus, along with credit reports, credit monitoring, identity theft monitoring and insurance, if you pay them \$29.99 per month.

**Dive Deeper:** Where to Get Your Free Credit Score 



## STEP 2

# Understand the Rules

The credit reporting process involves several parties.

- The consumer (that's you)
- The credit bureaus
- The information furnishers (your current and past creditors)
- People who request your credit report

All of these parties have rights and obligations, which are laid out in the Fair Credit Reporting Act (FCRA). It's important to understand these rights and obligations before you start.

You have rights under the FCRA.

- You have the right to request a complete credit report every year from each credit bureau.
- You have the right to know if information in your credit file has been used against you. If someone refuses to extend you credit because of your credit report, they have to tell you why.
- You have the right to dispute an item on your credit report. The credit bureau must confirm the information with the creditor.
- If the information in your credit report is inaccurate or cannot be confirmed within 30 days, it must be removed.
- You have the right to privacy. Access to your credit report is limited to those you authorize or those with a valid reason to see it.

There are also limits to your rights.

- You cannot force a credit bureau to remove accurate, verified information from your credit report.
- A credit bureau is not obligated to provide documents they don't have. For example, asking for an original signed contract establishing your debt will not force a credit bureau to remove information from your credit report.

It's important to keep these rules in mind as you start the credit repair process.



STEP 2

# Find Out What is Harming Your Credit

You'll need your credit reports for this step. Ideally you'll have all three of them – Experian, Equifax, and TransUnion – because some records may not appear on all three.

Your mission is to identify the records that are harming your credit score. Look for these.

- **High credit utilization.** Credit utilization is the percentage of the credit limit that you are using on a revolving account. If your balance on a credit card is more than 30% of the credit limit on the account, your score may suffer.

**Dive Deeper:** What Is Credit Utilization And How to Improve It



- **Late payments.** If you make a late payment your score will suffer. If you make multiple late payments your score will suffer more.
- **Charge-Offs.** A charge-off appears when a creditor has written off your debt as uncollectible. This means they will no longer try to collect from you. It also means the account will probably be sold to a collection agency.
- **Collection accounts.** A collection account appears when your debt is sold to a collection company. If a creditor that does not report to the credit bureaus sells your debt to a collector, the collector will place the account on your credit history.
- **Foreclosure or repossession.** If your mortgage is foreclosed or your car is repossessed there will be a significant impact on your credit score.
- **Bankruptcy.** A bankruptcy will do major damage to your credit score, but it will also eliminate debts that could hurt your score going forward.
- **Hard inquiries.** A single hard inquiry will do minimal damage to your credit score, but several of them close together can have a larger impact.

Identify each damaging record on your credit report. Highlight them and make a note of every detail.

## STEP 3

# Check for Errors

The credit bureaus are far from perfect at gathering information. A Consumer Reports study found that a third of individuals have at least one error in their credit reports.

You must confirm the accuracy of the information in your credit file before you do anything else. Once you have your reports from each bureau, verify everything from your personal information to your credit account balances.

Watch out for these common credit report errors.

- Incorrect identifying information (name, phone number, address).
- Accounts belonging to another person with the same or a similar name.
- Closed accounts reported as open, or the other way around.
- An authorized user reported as the account owner.
- Payments incorrectly reported as late or delinquent.
- Incorrect date opened, date of last payment, or date of first delinquency.
- Accounts listed more than once.
- Accounts appearing after they should have “aged off” your credit report.
- Accounts with incorrect current balance or credit limit.
- Reinsertion of deleted incorrect information.
- Accounts appearing several times under the names of different creditors.

Any of these errors can hurt your credit. Examine each entry on your credit reports carefully, compare with your records, and note any discrepancies or inaccuracies.

## Things to Look Out For

Most errors are just errors, but if you find a credit account in your file that you don’t recognize, it may be a sign of identity theft. Investigate immediately and consider freezing your credit to prevent thieves from opening any additional fraudulent accounts.

An account you don’t recognize might not be an error. Some companies do business under one name and report under another.

If you see an entry you don’t recognize, call the number listed on your credit report. Ask them to explain why they are on your credit report. The answer should clarify whether the entry is an error.

**Pay particular attention to the damaging records that you have highlighted. Check your payment records and account statements. Any difference between your records and the record on your credit report may be grounds for a dispute that could remove the item.**

## STEP 4

# Dispute the Errors

This is the **core of the credit repair process**. A successful dispute can remove a damaging record from your credit report and boost your credit score.

If you find something you believe is incorrect in one of your reports, you'll need to reach out to the credit bureau that manages it and request that they correct the error.

Each bureau has its own process for this, which you can learn more about here:

- [Dispute Credit Report Information | Experian](#)
- [File a Dispute on Your Equifax Credit Report | Equifax](#)
- [Dispute Credit Report | TransUnion](#)

Unfortunately, if the error is on all three credit reports, you'll need to reach out and fix the issue separately with each bureau. They generally don't share dispute information with each other.

You can dispute an error by writing a letter and sending it to the credit bureau. You can also register a dispute by phone or online, but sending a letter by certified mail, return receipt requested, is the preferred method.



A letter sent by certified mail gives you a written record of your dispute and when it was received. That could be important down the line.

## Is It Worthwhile to Dispute Accurate Reports?

Many self-styled credit repair gurus recommend disputing every negative entry on your credit report, even if it's legitimate. Many credit repair companies also promise this service.

### But does it work?

Technically, no. A credit bureau is not required to remove a verified account from your credit report. There is no special letter or trick that will force them to do it.

It is not true that you can demand an original signed contract establishing your indebtedness and the credit bureau will have to remove the account if they can't provide it. A credit bureau is not required to provide you with any document they don't have.

### But can it work?

Sometimes, yes. Sometimes the verification request falls through the cracks and the information provider fails to provide the information. If that happens, even a legitimate account may be removed from your record.

### Is it worth a try?

That depends. If the account is with the original creditor, it's generally not worth it. They have your information and they will provide it. The credit bureau may even declare your dispute frivolous and ignore it.

If your account is with a collection agency, it's a different story, especially if it's an old account that has gone from one collector to another. Collection agencies buy debt in bulk and they may not have the information to verify your account.

**If your account is with a collection agency a dispute could be worth a try even if the account is legitimate.**

# Disputing an Error in Your Credit History

Errors in your credit history will do the most damage to your credit score, and this is where you will focus your credit repair effort. If you have a late payment, charge-off, or collection account that has an error in it or is not yours, you can use a dispute letter to correct it.

Dispute letters are often called “**609 letters**”, supposedly after the section of the FCRA that deals with disputes. That is incorrect – Section 609 of the FCRA does not deal with disputes (that’s Section 611) – but the name has become so widespread that we use it anyway.

Many myths have sprung up around these letters. Many people claim that their super special letter (usually for sale) is guaranteed to succeed and can even remove legitimate accounts from your credit record.

This is nonsense. To understand why you must understand one simple fact about dispute letters.

**No human being will ever read your letter.**

That’s right. Your letter will be electronically scanned by a system called e-OSCAR (Online Solution for Complete and Accurate Reporting). The system will assign a code to your dispute and send it to the information provider (the creditor who made the report) for verification.

**If the creditor verifies the information within 30 days, it will not be removed from your record. If they do not, it will be removed.**

It will not help to write a long letter filled with legalese and threats to complain to the CFPB or FTC. It could even hurt: if e-OSCAR doesn’t understand your letter it might get misclassified.

Your letter has to do three things.

- Identify you.
- Identify your account.
- Describe the reason for the dispute.

That’s all. You want to do this as clearly and concisely as possible because it’s being read by a machine that does not understand detail and context. **The 609 letter template in this download kit will work, but there’s no magic to it.**

Letter Template: “609” Dispute Letter



# Disputing a Hard Inquiry

A hard inquiry won’t do major damage to your credit report, but every little bit counts, and if you have several hard inquiries close together your score could take a significant hit.

If you see an inquiry that you don’t recognize, check it out first. It could be legitimate: some companies report under a different name than the business you may remember. Some lenders are actually loan brokers, soliciting quotes from different lenders.

Start by contacting the business. There will be a phone number listed in the entry on your credit report. Ask why they requested your credit record. Remember that a hard inquiry can only be made with your written authorization, usually by your signature on a credit application.

If you did not authorize a hard inquiry you should ask for details of how it was authorized and by whom. This could e an early sign of identity theft, so you will need to get to the bottom of it. Ask to speak to the fraud department of the lender that made the inquiry and proceed as they suggest.

You will also need to file a dispute letter to have the erroneous hard inquiry removed from your credit report. Use the credit inquiry removal letter in this download.

Letter Template: Credit Inquiry Removal Letter





STEP 6

# Follow Up on Your Disputes

In theory, this should be a simple process. The credit bureau should investigate, confirm your record, and delete it if there’s an error.

In practice, it doesn’t always work that way.

The FCRA requires the credit bureaus to investigate and resolve disputes **within 30 days**. Credit bureaus receive thousands of disputes daily, and in practice, the investigation consists of asking the original information provider to verify the information.

There are two ways that this can go wrong.

- 1. You may not get a response. If you don’t, use the follow-up letter we provide to push the credit bureau into action.
- 1.The credit bureau may tell you that the account is verified. If the information from the provider was incorrect in the first place, the dispute process will end up with the same information being repeated.

Letter Template: Credit Dispute Followup Letter (no answer)




If the information coming from the creditor is incorrect, you can **go directly to the creditor** with the debt verification letter included in this download.

Letter Template: Debt Verification Letter



If the original creditor establishes that there is an error they should correct their report to the credit bureau. If they do not, use the credit dispute follow-up letter included in this download.

Letter Template: Credit Dispute Followup Letter (unsatisfactory answer)



If the creditor and the credit bureau still refuse to remove the record, you can take further steps.

If you are sure that the entry is an error and you have evidence to prove it, consider these moves:

- Submit a complaint to the Consumer Financial Protection Bureau (CFPB)
- Submit a complaint to your state’s Attorney General.
- Speak to a lawyer about filing a lawsuit. You may qualify for free legal services.
- You have the right to place a statement on your credit report explaining your dispute.

**If your dispute is received favorably and the erroneous entry is removed, the credit bureau must provide you with a copy of your adjusted credit report.**

STEP 7

# Negotiate With Your Creditors

At the close of the dispute process, you will probably have some negative entries left on your credit report. These are legitimate, verified accounts that cannot be removed through the dispute process.

You will not be able to remove these debts from your credit report. That doesn't mean there is nothing you can do about them.

You'll face two types of debts.

- **Original creditors** are the companies you originally borrowed money from. Typically lenders and credit card issuers.
- **Collection agencies** buy debts from creditors who have given up on collecting them. If you don't have collection accounts yet, try to avoid them!

You'll deal with these differently, so we'll discuss them separately.

## Negotiate with Original Creditors



**Key point:** your creditor does not want to sell your debt to a collection agency. They will get only pennies for every dollar of debt, a significant loss for them. They have every reason to negotiate with you.

Reach out to your creditors and try to negotiate. Taking the initiative and showing them you want to repay your debts is often enough to generate some goodwill, and they may be willing to help you.

Remember, creditors and collectors usually have to chase down people with delinquent accounts to make them pay. That is laborious and costly in more ways than one, and it's not necessarily effective.

They'd much prefer that you come to them so you can create a workable plan to pay off your debts. It's also possible they'll already have a program established to assist borrowers struggling with their debts due to financial hardship.

## Hardship Programs

Many creditors, particularly major credit card issuers and lenders, have hardship programs designed to help borrowers who are having trouble due to circumstances beyond their control. Typically these include:

- Job loss or reduced work.
- Illness or injury.
- Divorce or other family crisis.
- Natural disasters.

If you are in one of these situations and have evidence to prove it, you may be able to take advantage of a hardship program. These programs are often not advertised, so you'll have to ask your creditor if they offer one. Use the hardship letter included in this package.

Letter Template: Request for Hardship Program

## Try a Goodwill Letter

Even if the creditor does not have a formal hardship program, they will often be more willing to work with you if you can show hardship. Use the goodwill letter included in this package.

Letter Template: Goodwill Adjustment Letter

# Negotiate a Payment Plan

With or without hardship, you'll be approaching each of your creditors to try to negotiate a payment plan that you can afford. You'll still be paying the debts, but once a payment plan is in place your account will not be sent to collections and your payments will not be reported as late, as long as you pay on schedule.

Before you negotiate, check your budget and decide what you can afford to pay. Once you commit to a payment plan, you'll have to make the payments you agree to make.

# Try a Settlement

If you have no way to pay the debt you may try to negotiate a settlement. You will offer less than the full amount as full payment of the debt. If the creditor believes that this is the only alternative to selling your debt to a collector, they may accept your offer.

Use the debt settlement letter included in this package.

A settled debt will be reported on your credit report as settled for less than the original amount, and that will harm your credit. If you are trying to build your credit settlement is not an ideal option.

If you strike an agreement with your creditor, make sure you get it in writing. That's the best way to confirm that everyone is on the same page and hold both parties to their word.


Letter Template: Debt Settlement Letter



Dive Deeper: Debt Relief Options: Which One Should You Use



# Negotiate With Collection Agencies



**Key point:** collection agencies buy debt from creditors for an average of 4 cents for every dollar of debt. That means they can accept much less than the amount you owe and still earn a profit.

If you have debt in collections, you have to deal with two problems.

- **Resolve the debt.** Debt collectors can be persistent and unpleasant. They could even sue you. One way or another, you need to get the debt resolved.
- **Protect your credit.** Collection accounts do real damage to your credit score. You may not be able to remove the account, but paid collections have less impact than unpaid ones.

If you have a debt in collections, follow these steps:

- Learn how to communicate with debt collectors.
- Validate your debt. A debt collector must send you a detailed validation statement within five days of their first contact with you. If you have not received this, do not speak to the collector until you have.
- Confirm that all validation information is accurate.
- Check the date of the debt against the statute of limitations in your state.

# Negotiate With Collection Agencies



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- Confirm that all validation information is accurate.
- Check the date of the debt against the statute of limitations in your state.

Once you have done this you can decide how to proceed.

- If the **validation information is missing or inaccurate**, do not pay. Use the debt validation letter in this packager. Dispute the debt with the credit bureaus. If the collector cannot verify the debt it will be removed from your credit report.

Letter Template: Debt Validation Letter

- If the **statute of limitations has expired or nearly expired**, do nothing. If the statute of limitations has expired the debt will soon age off your credit report with no action on your part. Use the Statute of Limitations letter in this package.

Letter Template: Expired Statute of Limitations Offer

- If the **debt is valid and current**, you will need to negotiate with the debt collector.

When you negotiate with the debt collector, you are asking for a **pay-for-delete settlement**.

You offer to pay a fixed amount to resolve the debt if the collector will delete the account from your credit record. Use the pay-for-delete letter included with this download.

Decide what you can afford to pay before you make an offer. Don’t start with the maximum you can pay. Leave yourself room to negotiate. Start with half of what you could pay and work from there!

Not all collection agencies will accept pay-for-delete arrangements and they may not succeed in removing the record from your credit report, but it’s worth a try.

If your debt collector does not accept pay-for-delete agreements you may simply offer a debt settlement, using the debt settlement letter included with this download. The account will not be removed from your credit record, but it will be listed as “paid”, which reduces its impact on your credit.

Letter Template: Pay for Delete Letter

Dive Deeper: How to Communicate With Debt Collectors



# Consider Credit Counseling or a Debt Management Plan

If you are paying more debts than you can manage, your problems go beyond credit repair. In order to improve your credit, you will need to get your finances in order and take control of your debts.

Non-profit credit counseling services may be able to help. Most reputable services will offer a free initial consultation to help you evaluate your situation and your options.

Your credit counselor may recommend a **debt management plan**. This is a form of debt consolidation that does not involve taking on new debt. Instead, you will make a single payment directly to the credit counseling service. They will distribute the money to your creditors.

The credit counseling service will also negotiate with your creditors to get better terms and potentially reduced amounts. They are experienced negotiators and they may be able to get better results than you could on your own.

Debt management plans can be challenging to complete and you will pay a fee, but they can be an effective way to get your debts under control if you have the discipline to follow the plan.

**Dive Deeper:** Credit Counseling 101



# STEP 8

## Pay Off Your Outstanding Debts



You have now taken the following credit repair steps.

- Disputed all negative entries that you have a chance of removing.
- Negotiated the best deals you can with your remaining creditors.



At this point, there’s nothing left to do except put in the work. You need to fulfill the promises you made to your creditors, catch up on your delinquent accounts, and reduce your overall debt levels.

While this is technically a guide to credit repair, this stage of the journey is primarily about your personal finance skills. You must be able to stick to a budget, hustle for extra income, and use your savings to pay off your debts strategically.

Dive Deeper: How to Start Budgeting





Dive Deeper: How to Start Making Extra Income





Once you have the cash flow necessary to make meaningful progress paying off your accounts, here are two popular strategies for allocating your funds to consider:

- **Debt snowball:** Make the minimum payment on all your credit accounts, then devote all other cash flow to the account with the lowest outstanding balance.
- **Debt avalanche:** Make the minimum payment on all your credit accounts, then devote all other cash flow to the account with the highest interest rate.

Dive Deeper: What Is the Debt Snowball Method and How Does It Work?



Dive Deeper: What Is the Debt Avalanche Method and How Does It Work?




Of the two, the debt avalanche method is more efficient. It’ll save you the most money and get you out of debt the fastest. People only use the debt snowball method to get some early wins and keep themselves disciplined. The idea is that eliminating the smaller accounts early on will give you extra motivation.

Personally, I’ve always thought that was rather silly. You’re leaving money on the table and keeping yourself in debt longer for little reason. You shouldn’t need to Jedi mind trick yourself into paying off your debts. Even if you do, you can always use a better trick.

For example, you could tally up all your outstanding debts and think of them as a single beast to defeat, then set artificial paydown goals that you can celebrate, such as your first \$500, \$1,000, and \$5,000 paid off.

Dive Deeper: How to Get Out of Debt in 5 Steps



STEP 9

# Let Negative Information Age Off Your Reports

Once you have successfully paid off your outstanding debts, congratulations are in order. That weight is off your ankle, and you’re almost back to the starting line.

There may still be some negative records on your credit report, and you won’t be able to change that. You’ll just have to wait for them to drop off. That takes seven years for most negative entries, including the following:

- Late payments
- Foreclosures
- Debt settlement
- Collection or charged-off accounts
- Chapter 13 bankruptcy

There are a few exceptions to the seven-year rule. For example, the hard credit inquiries you add to your credit report each time you apply for new accounts stop affecting your score after a year. They’ll fall off your credit report entirely in two years.

Conversely, Chapter 7 bankruptcy stays on your credit report for ten years since using it means that you don’t have to pay back everything you owed to your creditors.



Those negative marks may be on your credit for seven years, but their impact on your credit score will fade long before then. Credit scoring models prioritize recent information and the older a record is, the less it will affect your credit.

Once you've reached this stage, removing harmful data from your credit reports is just a waiting game. As a result, you should have the mental and financial bandwidth to build a positive payment history. That’s what we’ll tackle in the next section.

## PART 3

# Building Better Credit

You're now done with the process that most people would call "credit repair". Let's review what you've finished.

- You've disputed every reasonably disputable negative entry on your credit report.
- You've negotiated the best possible deals with creditors on any accounts you couldn't successfully dispute.

So what's left to do? Let's take a look.

## Assess Your Progress

Start by going back to the beginning and taking another look at your credit reports. You may wish to wait around two months to do this to make sure any changes are reflected.

If you successfully disputed any entries, the credit bureau concerned will send you a copy of the revised credit report.

Changes that come from deals you've negotiated with creditors will not be reflected until the creditor reports to the credit bureaus. Most lenders and credit card issuers report monthly but some may report less often.

## Don't Expect Magic

Hopefully, your credit report looks better than it did before. You may have removed some negative accounts and resolved others.

That does not mean that your credit report is going to be a thing of beauty. Credit doesn't work that way: you can't just wipe away all the stains and leave it pure. Old negative entries may still be there. Settled accounts will be marked as settled for less than the original amount. These entries will still harm your credit.

## The Bad News

Most negative entries will remain on your credit report for seven years, calculated from the date that the account first became delinquent and was not subsequently brought back up to date.

There are some exceptions. Hard inquiries drop off your credit record in two years. A Chapter 7 bankruptcy will remain on your account for 10 years.

## The Good News

Negative accounts may remain on your credit report for seven years, but their influence on your credit score fades long before then. Creditors want to know how you are handling money now, not how you handled it five years ago.

**Credit scoring models prioritize recent information.** That means that if you can put new positive records on your credit report, they will soon outweigh the impact of your old negative records.

**That's your next task. You need to put positive records on your credit report that, as time passes, will outweigh the impact of those negative records leftover from the past.**

Let's get started.





# Quick Reminder: What Makes a Positive Record?

Let’s take a quick look back at some points from Part 1, because they are about to become very important. What does it take to make a tradeline on your credit record a positive influence rather than a negative one?

- **Make payments on time.** Making every payment on-time is the single most important positive contributor to your credit score.
- **Keep credit utilization low.** Keep the balance on your revolving credit accounts below 30% of your credit limit. Lower is better, as long as the account is active!
- **Mix it up.** Having both installment loans and revolving credit accounts (credit cards) will give you a good credit mix.
- **Only apply for credit when you really need it.** Each application is a hard inquiry on your credit report, and too many hard inquiries can hurt your credit.

To make these methods work for you, you’ll need to have active tradelines on your credit record. Start with the ones you’ve already got.

## Use Your Existing Tradelines

If you are coming out of the credit repair process you almost certainly have at least a few active tradelines. If you do, you have everything you need to start building better credit.

As you review your most recent credit reports, take note of the accounts that are currently active. Break these accounts down into categories.

- **Installment accounts** are loans where you borrowed some money and pay it back in installments. Student loans, car loans, personal loans, and mortgages are installment loans.
- **Revolving accounts** let you borrow repeatedly up to a credit limit. Credit cards and home equity lines of credit (HELOCs) are the most common revolving accounts.
- **Alternative accounts** are tradelines from reporting rent, utilities, streaming service payments, and other recurring expenses. These will only be on your credit report if you have engaged a service to report them.



You are mainly concerned with installment and revolving accounts.

Alternative accounts can help your credit, but many scoring models, including the very popular FICO 8, do not even consider them.

If you have both installment and revolving tradelines on your account, focus on managing those accounts well.

## Manage Your Installment Accounts

If you have existing installment loans, like a student loan, car loan, or mortgage, there’s only one thing you need to do: **make every payment on time.**

Each on-time payment is one more step toward a positive credit record.


In most cases, paying off a loan early won’t help you build credit. It could even hurt your score, as paying off a loan will reduce the average age of your active accounts. If you only have one active installment loan and you pay it off you will also hurt your credit mix.

# Manage Your Revolving Accounts

Revolving accounts are slightly more complicated.

Job #1 is still the same: **make every payment on time**. With a revolving account you'll also need to **think about credit utilization**.


Credit utilization, as we mentioned earlier, is the percentage of your credit limit that you use. Try to keep your utilization under 30% at all times. Under 10% is better! This can be difficult to do if you have a low credit limit, but it's a critical part of building better credit.

 If the credit limit on your credit card is \$1000 and your balance is \$300, your credit utilization rate is 30%.

Another important part of managing revolving accounts is **avoiding the minimum payment trap**.

Making a minimum payment will keep your account in good standing for the moment, but it means escalating interest expenses, and if you keep using your card your credit utilization will almost certainly rise.

Always try to pay your balance in full for each statement period. That will keep your interest costs at zero and keep your balance down!

 **Tip:** here's a way to make sure your revolving account builds credit. Put one small recurring expense on your card, like a Netflix subscription or your internet bill. Set up an automatic payment from your checking account to cover it. Then put the card away and use your debit card or cash for everything else. Your card will be active, credit utilization will be low, and every bill will be paid on time!



## Don't Worry About the Past

You may have a history of late payments on one of your existing accounts. That doesn't mean that you should close the account and open a new one. Those old problems will still be on your credit record, and they won't age any faster.

If you already have active revolving and installment credit accounts, be careful about adding new ones. You may just complicate your life and make a late payment more likely. Focus on keeping your existing accounts in good standing and only add accounts if you are absolutely sure that you can manage them well.

# Add New Accounts

In some cases, you may emerge from the credit repair process with few or no active accounts. If you are coming out of bankruptcy your debts may have been discharged. If you have used a debt management plan you may have had to close accounts. You may have closed accounts as part of the credit repair process.

There are dozens of credit-building tools available. All will put a new tradeline on your credit report. That doesn't mean you need to use all of them. You'll need to choose the ones that best fit your situation, make sure you make all payments on time, and keep your credit utilization low.

You may think that adding more tradelines will build credit faster, but that's not always the case. Too many accounts may lead to confusion and missed payments, which will harm your credit.

**You should aim to have at least one revolving account and one installment loan. If you're missing one of these categories, you'll need a new account.**


## Add a Revolving Account

If you don't have a revolving credit account, look for a no-fee credit card. If your credit repair efforts have boosted your score to the "good" range (above 670), you'll have lots of cards to choose from. If your credit is below that level you still have options.

## Become an Authorized User

Authorized User Status is one of the easiest ways to start building credit. Most major credit card issuers (not all – always check) will report authorized user accounts separately to the credit bureaus.

All you need is a reliable person with a good credit record who is willing to add you as an authorized user. You don't need to use the account or even have a card. Just be sure that the person adding you has good credit and is a responsible card user. Their activity will go on your account, for better or for worse.

**Dive Deeper:** The Authorized User Strategy 

## Get a Secured Card


A secured credit card is probably the best way to add a revolving account to your credit record if you don't have great credit. You'll put down a deposit and that deposit will become your credit limit. If you handle your account well many issuers will refund your deposit and upgrade you to a regular card.

Your card will function like any other credit card. If you make every payment on time and keep your credit utilization low, you will build better credit. Remember that you credit limit will be low, so you'll have to use your card very carefully to keep credit utilization down!

**Dive Deeper:** Best Secured Credit Cards 

## Use an Unsecured Card for Bad Credit

Many card issuers offer unsecured cards for bad credit. These have one advantage: you won't pay a deposit. Most of these cards have extremely high fees and interest rates, though, so they quickly become more expensive than a secured card. These cards cn help you build credit if you manage them well, but they are an expensive way to do it.


**Dive Deeper:** Best Unsecured Credit Cards For Bad Credit 

## Store Cards

Many stores offer store-specific credit cards. These are cards that can only be used at one store. These can be effective ways to build credit if you are a regular customer at that store. You should still check the terms carefully. You might be better off with a secured card that you can use anywhere.

Some single-store cards are designed and marketed specifically as credit-building tools. They are typically easy to get and may not require a credit check. There is a downside, though. In many cases the goods sold in these stores are heavily overpriced: the operators are going to make money somehow!

Dive Deeper: Best Store Credit Cards With Guaranteed Approval



## Alternative Options

New credit-building options come on the market regularly, and there are new ways to place a revolving account on your credit record.

If you’re worried about your ability to manage a credit card, [Kikoff](#) offers a \$500 credit line that you can use to purchase e-books at their store. You can order a \$20 e-book and pay \$2 a month for 10 months, keeping credit utilization down and making on-time payments easy.

[Tomo](#) and [Cred.ai](#) offer unsecured no-fee cards with approval based on your banking history rather than your credit score.

[Sesame Cash Credit Builder](#), [Chime Credit Builder](#), and [SeedFi Credit Builder Prime](#) offer innovative services that place revolving accounts on your credit record. You won’t get the convenience of a credit card, but you won’t have to worry about overspending or maxing out your limit either!

Buy Now Pay Later providers like [Sezzle Up](#) and [PerPay](#) will place a revolving account on your credit record.



# Add an Installment Loan

You don't have to go out and borrow money that you don't need to put an installment loan on your credit record. You won't have as many options as you have with revolving accounts, but you can still get the installment tradeline that you need.

## Credit-Builder Loans

A credit-builder loan is a cost-effective way to add an installment loan to your credit mix. If you only have revolving credit, a credit-builder loan is an effective way to balance that without taking on substantial new debt.

If you take out a credit-builder loan, you won't get the money you borrow right away. It will be deposited in a locked savings account. You'll make regular monthly payments, which the lender will report to the credit bureaus. When you finish paying off the loan, the lender releases the entire sum to you.

This model reduces the lender's risk, so these loans are often available with no credit check. You will pay interest and possibly fees.

These loans are designed to build credit, so they typically involve relatively small amounts. That keeps the payment low and makes it easier to make on-time payments.

You won't need to worry about credit utilization - that only applies to revolving accounts - but you will need to make every payment on time. Consider setting up an automatic payment from your checking account!

Dive Deeper: What Is a Credit Builder Loan



[Self](#), [Credit Strong](#), and [Brigit](#), are among the major providers of credit-builder loans. You can also ask at your own bank or credit union.

Dive Deeper: Best Credit Builder Loans



## Other Options

Several other products will place an installment tradeline on your credit account.

- [Extra](#) is a credit-building debit card that reports as an installment account.
- [Loqbox](#) works like a credit-builder loan, but can be completely free.

You may also choose to add a conventional installment loan like a car loan, personal loan, or mortgage, but these are substantial commitments and not recommended unless you really need them.

# Add Alternative Credit Accounts

Alternative accounts are a relatively recent development. They place bills like rent, utilities, and streaming services on your credit record. They have a very significant advantage and an equally significant disadvantage.

- **The advantage:** you’re using accounts that you’re already paying. You won’t be adding new debts.
- **The disadvantage:** some scoring models, including the popular FICO 8 score used by many lenders, don’t use data from alternative accounts.

These accounts may be worth using, but you can’t count on them to improve your credit. You will look for services with relatively low fees and services that report to all three credit bureaus.

There are three major types of alternative accounts.


## Rent Reporting

Rent reporting places your rent payments on your credit record.

Some rent reporting services, like [Rental Karma](#) and [Esusu Rent](#), draw data from your landlord. These services require the cooperation of the landlord, but they can report cash payments.

Other rent reporting services, like [Boom](#) or [Rent Reporters](#), draw their data from your bank records. You won’t need your landlord’s agreement, but these services only work if you are paying rent directly from your bank account.

Dive Deeper: Best Rent Reporting Services



## Utility Reporting

Services like [Experian Boost](#) and [eCredable Lift](#) can place your utility payments on your credit record.


Both services report only to a single credit bureau: Experian for Experian Boost and TransUnion for eCredble Lift.

## Streaming Services

[Grow Credit](#) will place common streaming services on your credit report and has a free tier.

## Multiple Services

[ExtraCredit](#) will report both rent and utility payments, bundled with a range of credit monitoring, credit repair, and identity theft protection services.



Keep in mind that the data reported by many of these services will not be included in some popular scoring models. Look for free or low-cost services. If the service is free you have nothing to lose, but you don’t want to pay to report data that may not appear on the credit scores that matter.

# Let Time Do the Work

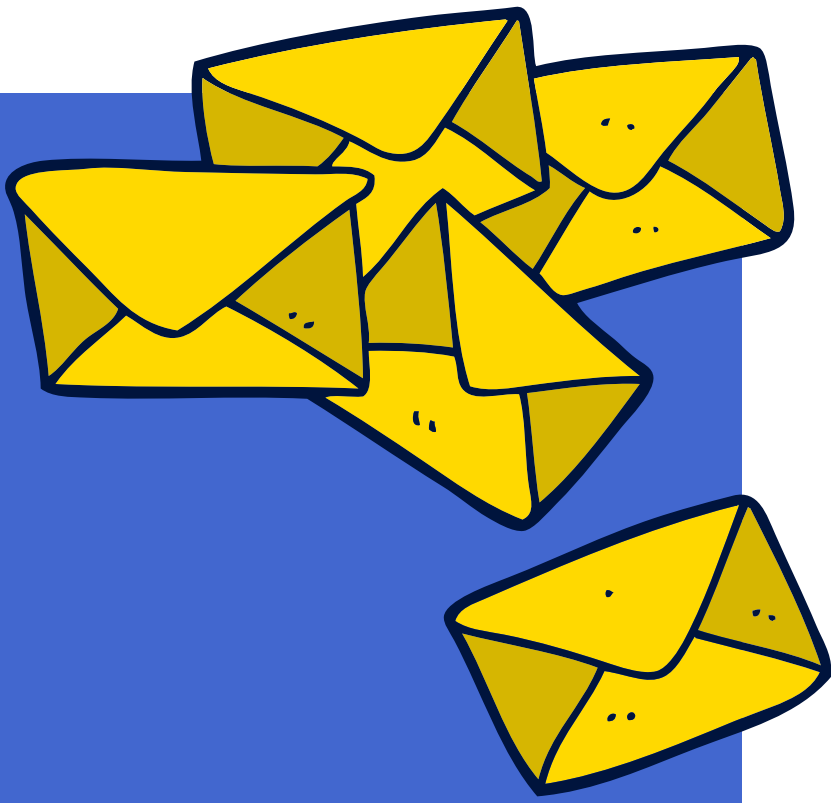
Once you've selected the credit-building tools that best suit your needs, there's not much left to do. Keep track of your accounts, make every payment on time, keep your credit utilization low, keep both revolving and installment accounts open, and all you have to do is wait.

Building better credit takes time. Don't expect to see instant results. You will probably still be carrying some negative records, but their impact on your credit score will fade as time passes.

**The last step in the credit repair process is simply management.**

Remember the mistakes that got you into credit trouble in the first place, and don't repeat them! If you've taken every step in this credit repair guide, all you need to do is manage your accounts well and wait. You should see the difference in your credit score soon!

# Letter Templates



## Letters You Can Send to a Credit Bureau

- “609” Dispute Letter
- Credit Inquiry Removal Letter
- Credit Dispute Followup Letter (no answer)
- Credit Dispute Followup Letter (unsatisfactory answer)

## Letters You Can Send to an Original Creditor

- Goodwill Adjustment Letter
- Request for Hardship Program
- Loan Modification Letter
- Debt Settlement Letter
- Hard Inquiry Verification Letter
- Debt Verification Letter

## Letters You Can Send to a Debt Collector

- Debt Validation Letter
- Debt Settlement Letter
- Pay for Delete Letter
- Response to Debt Settlement Proposal
- Confirmation of Verbal Offer
- Expired Statute of Limitations Offer
- Cease and Desist Letter