HOW TO REBUILD GOOD CREDIT

Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget, let alone save money for retirement? Considering bankruptcy? Need to re-establish your credit after a bankruptcy?

If any of the above sounds familiar, you may want to consider the services of a credit counselor. Many credit counseling organizations are nonprofits and work with you to solve your financial problems. But beware—just because an organization says it is "nonprofit" doesn't guarantee that its services are free, affordable—or legitimate. Some credit counseling organizations charge high fees, some of which may be hidden, or urge consumers to make "voluntary" contributions.

Most credit counselors offer services through local offices, the Internet or on the telephone. An organization that offers in-person counseling is preferable. Many universities, military bases, credit unions, housing authorities and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs.

CHOOSING A CREDIT COUNSELING ORGANIZATION

Reputable credit counseling organizations advise you on managing your money and debts, help you develop a budget and usually offer free educational materials and workshops. Their counselors are certified and trained in consumer credit, money and debt management, and budgeting.

A reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If a firm doesn't do that, go elsewhere for help. Once you've developed a list of potential counseling agencies, check them with your state attorney general, local consumer protection agency and Better Business Bureau. They can tell you if consumers have filed complaints about them, although the absence of complaints is not a guarantee that they're legitimate.

DEBT MANAGEMENT PLANS

If your financial problems stem from too much debt or your inability to repay your debts, a credit counseling agency may recommend that you enroll in a debt management plan (DMP).

Under a DMP, you deposit money each month with the credit counseling organization, which then uses your deposits to pay your unsecured debts, like credit card bills, student loans and medical bills, according to a payment schedule the counselor develops with you and your creditors. Your creditors may agree to lower your interest rates and waive certain fees, but check with all your creditors to be sure that they offer the concessions that a credit counseling organization describes to you.

A successful DMP requires you to make regular, timely payments and could take 48 months or longer to complete. You may have to agree not to apply for—or use—any additional credit while you're participating in the plan.

Beware of any organization that tells you it can remove accurate negative information from your credit report. Legally, it can't be done. Accurate negative information may stay on your credit report for up to seven years.

DEBT NEGOTIATION PROGRAMS

Debt negotiation is not the same thing as credit counseling or a DMP. It can be very risky and can have a long-term negative impact on your credit report and, in turn, your ability to get credit. That's why many states have laws regulating debt negotiation companies and the services they offer.

Debt negotiation firms may claim they're nonprofit. They also may claim that they can arrange for your unsecured debt—typically, credit card debt—to be paid off for anywhere from 10 percent to 50 percent of the balance owed. For example, if you owe $10,000 on a credit card, a debt negotiation firm may claim it can arrange for you to pay off the debt with a lesser amount, say $4,000.

The firms often pitch their services as an alternative to bankruptcy. They may claim that using their services will have little or no negative affect on your ability to get credit in the future or that any negative information can be removed from your credit report when you complete the debt negotiation program. The firms usually tell you to stop making payments to your creditors and, instead, send your payments to the debt negotiation company. The firms may promise to hold your funds in a special account and pay the creditors on your behalf.

Just because a debt negotiation company describes itself as a "nonprofit" organization, there's no guarantee that the services they offer are legitimate. There also is no guarantee that a creditor will accept partial payment of a legitimate debt. In fact, if you stop making payments on a credit card, late fees and interest usually are added to the debt each month. If you exceed your credit limit, additional fees and charges also can be added. All this can quickly cause a consumer's original debt to double or triple. What's more, most debt negotiation companies charge consumers substantial fees for their services, including a fee to establish the account with the debt negotiator, a monthly service fee and a final fee of a percentage of the money you've supposedly saved.

While creditors have no obligation to agree to negotiate the amount a consumer owes, they have a legal obligation to provide accurate information to the credit reporting agencies, including your failure to make monthly payments. That can result in a negative entry on your credit report. And, in certain situations, creditors may have the right to sue you to recover the money you owe. In some instances, when creditors win a lawsuit, they have the right to garnish your wages or put a lien on your home. Finally, the IRS may consider any amount of forgiven debt to be taxable income.

If you decide to work with a debt negotiation company, be sure to check it out with your state attorney general, local consumer protection agency and the Better Business Bureau to determine if any consumer complaints are on file about the firm you're considering doing business with. Also, ask your state attorney general if the company is required to be licensed to work in your state and, if so, whether it is.

CONSIDER A SECURED CREDIT CARD

Another way to establish or re-establish credit is through a secured credit card. With this method, you deposit a specific amount into a special account, and you receive a card with a credit limit that equals your deposit. In effect, you are borrowing against your own money and paying interest to do so. If you declared bankruptcy, you normally can't apply for a secure credit card until after your bankruptcy has been discharged by a court.

It may take months, even years, to establish a good credit rating after having missed numerous payments or declaring bankruptcy. But you won't be able to unless you have a plan and pay your debts in a timely fashion.

(Adapted from an article by the Federal Trade Commission.)