

Rebuilding Your Financial Situation and Credit History





Rebuilding Your Financial Situation and Credit History

Contents

	Page
Welcome to the Starting Over After Foreclosure Toolkit	3
Be Honest About Your Financial Situation	4
▶ Understand the Result of Your Housing Situation	4
• No Two Processes Are Alike	4
• Tax Implications	5
▶ Accurately Confirm Where You Are Now with Your Current Financial Situation	6
▶ Make a Plan to Pay Down Remaining Debt	6
• What Happens If You Don't Pay Your Bills?	7
• How Do You Talk to Creditors?	8
• Negotiating	9
▶ Can the Bank Come After Me & Make Me Pay My Loan?	10
▶ Understand Your Credit Report & Score	10
• What Is a Credit Score & What Does It Mean?	10
• Order Your Free Credit Report	10
• A Warning About Scams Related to Free Credit Reports and Credit Services	11
• Review Your Credit Report & Correct Any Errors	12
▶ Take Actions to Improve Your Credit Report & Score	14
• Keeping Credit Cards Manageable and Under Control	14
• Knowing When to Apply for and Take on New Credit	14
• Automating Your Bill Payments	15
• Keeping Your Goals in Mind and Being Patient	15
• Staying on Track	15
• Reaching Out for Help, If Necessary	16
References & Resources	17
Handouts & Worksheets	18
▶ Checklist: Danger Signs of Too Much Debt	18
▶ Worksheet: Creditor Communication Tracking	19
▶ Handout: Sample Letter to Creditors	20
▶ Worksheet: How Much Credit Can I Afford?	21
▶ Checklist: How to Maintain a Good Credit Score	22
▶ Handout: Sample Letter for Disputing Errors on Your Credit Report	23

Acknowledgments

Authors

- ▶ Wanda Roberts, Extension Educator, Michigan State University Extension
- ▶ Brenda Long, Extension Educator, Michigan State University Extension
- ▶ Erica Tobe, Ph.D., Extension Specialist, Michigan State University Extension

Reviewers

- ▶ Jim Buxton, Program Instructor, Michigan State University Extension
- ▶ Tracie Coffman, Coordinator, Michigan Foreclosure Task Force, Community Economic Development Association of Michigan (CEDAM)
- ▶ Helena Fleming, Extension Educator, Michigan State University Extension
- ▶ Pam Sarlitto, Program Instructor, Michigan State University Extension
- ▶ Karen Merrill Tjapkes, Attorney, Legal Aid of Western Michigan

Production

- ▶ Marian Reiter, Graphic Artist, Agriculture and Natural Resources Communications, Michigan State University
- ▶ Patricia Adams, Editor, Agriculture and Natural Resources Communications, Michigan State University
- ▶ Rebecca McKee, Editor, Agriculture and Natural Resources Communications, Michigan State University

Starting Over After Foreclosure Toolkit was developed in part with support from the National Mortgage Settlement funds, distributed by the U.S. Department of Treasury.

Produced by Agriculture and Natural Resources Communications (anrcom.msu.edu) at Michigan State University



Welcome to the Starting Over After Foreclosure Toolkit

This toolkit is designed to help people who have been through home foreclosure or are now in the foreclosure process to rebuild their financial lives. There are eight distinct units available for use in this toolkit. They are:

- ▶ Getting a Fresh Start After Foreclosure
- ▶ Reimagining Your Future: What Direction Do You Want to Go?
- ▶ Assessing Your Financial Situation
- ▶ Rebuilding Your Financial Situation and Credit History
- ▶ Finding a Place to Call Home
- ▶ Knowing Your Rights and Responsibilities
- ▶ Getting Prepared, Getting Organized
- ▶ Returning to Homeownership

You may use each of the units in the toolkit when appropriate depending on where you are in the financial rebuilding process after foreclosure. You do not have to read them in order from start to finish, although you could.

This unit, *Rebuilding Your Financial Situation and Credit History*, focuses on developing the skills to reassess your financial situation and improve your credit history. Even though foreclosure can negatively influence your financial situation, you can rebuild your financial health over time to regain self-sufficiency.



Be Honest About Your Financial Situation



Honestly assessing your financial situation is an important step in rebuilding your credit. By understanding the result of your housing situation, accurately confirming where you are now financially, making a plan to pay down remaining debt, understanding your credit report and scores, and taking action to improve your credit history, you can help rebuild your financial situation and lay the groundwork for a successful future.

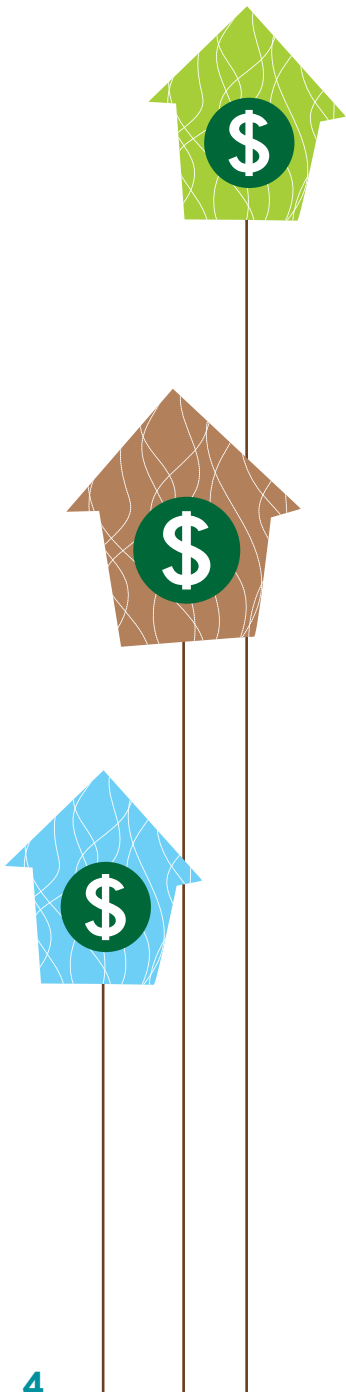
Understand the Result of Your Housing Situation

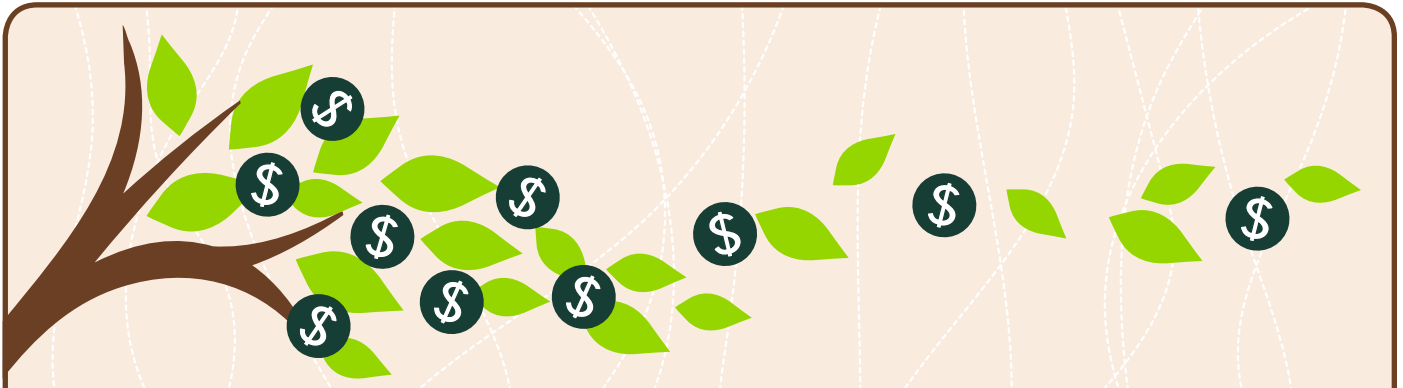
Though you may be relieved to have finally resolved your housing situation, try not to put it out of your mind just yet. Often, different housing outcomes affect your credit differently. By understanding the final terms of the arrangement you made with your lender, you will be in a better position to rebuild your credit history for the long term.

No Two Processes Are Alike

Three options that families may have experienced include short sales, deed-in-lieu or foreclosure. Although housing options may vary, no foreclosure or short sale resolution is exactly the same. The terms and conditions of each event affect your personal credit report and score in different ways, including how the option is reported to the credit bureaus and the length of time it will affect your credit.

- ▶ Short sales will have a negative impact on the borrower's credit score. The degree of the influence will vary depending on how the lender reports your unique situation to the credit bureaus.
- ▶ The effects of a deed in lieu can vary based on if the lender is willing to forgive the debt balance. As a result, always read the contract carefully to see how the debt balance issue was handled. If the document is unclear, take it to an attorney with experience in property law. An attorney's time may seem expensive initially, but could be a bargain in comparison to the financial costs of the agreement, if not understood properly.





Tax Implications

Both short sales and a deed-in-lieu of foreclosure are viewed as a forgiven debt on the borrower's income tax returns if the lender issues a 1099-C for the amount of the deficiency (or unresolved debt). The Form 1099-C (<http://www.irs.gov/uac/Form-1099-C,-Cancellation-of-Debt>) (Internal Revenue Service, 2013-b) denotes debts that have been forgiven by creditors, or a "cancellation of debt." According to the Internal Revenue Service (IRS), lenders must file this form for each debtor for whom they canceled \$600 or more of a debt owed to them. A 1099-C is sent when a consumer settles a debt with a creditor (Federal Trade Commission, 2012, November) or the creditor has chosen to not try to collect a debt (<http://www.consumer.ftc.gov/articles/0150-coping-debt>). When a creditor is no longer attempting to collect any of the unpaid principal balance on a debt, they must report this amount to the IRS.

Because foreclosures are treated like a sale for tax purposes, a **reportable income or gain** (such as a capital gain) from the sale or transfer of a home may be assessed after a foreclosure. Any change in home ownership, including mortgage foreclosure, repossession of a home or cancellation of debt, has an influence when you file your MI-1040 tax form. The Michigan Department of Treasury (n.d.) "Mortgage Foreclosure or Home Repossession and Your Michigan Income Tax Return" (http://www.michigan.gov/taxes/0,4676,7-238-43513_44135-228580--,00.html) provides information on the tax implications for consumers

If, at the time your debt was cancelled, you may be unable to pay your debts, and thus may be considered **insolvent**. This gives you the opportunity to check if you have to report all or part of the **charge-off** (or forgiven debt by the creditor) to the IRS. In this case, you would need to file IRS Form 982, the "Reduction of Tax Attributes Due to Discharge of Indebtedness" (Internal Revenue Service, 2013-a) (<http://www.irs.gov/uac/Form-982,-Reduction-of-Tax-Attributes-Due-to-Discharge-of-Indebtedness-%28and-Section-1082-Basis-Adjustment%29>) if you want to claim the insolvency option.

Canceled or settled debts are not the same as debts that have been "paid in full." If you've settled your debts (thus, did not pay your debts in full), they will appear on your credit report and be considered **derogatory**. This means these debts can negatively affect your credit and can remain on your credit report for up to seven years.





Accurately Confirm Where You Are Now with Your Current Financial Situation

Understanding your current financial situation is extremely important when attempting to repair your personal credit. You'll need to know the answers to such questions as: How much monthly income do you have? When do you receive that income? What are your current priorities for spending and saving? To assist with answering these questions, visit the unit **Assessing Your Financial Situation**, to help guide your process. By doing so, you can develop a spending and savings plan, calculate your debt to income ratio, decide which bills to pay first and understand what happens if you don't pay your bills.

Make a Plan to Pay Down Remaining Debt

Creating a plan for how you will repay debt obligations can help you stay on track with your credit rebuilding process. Be honest in this process. Openly discuss spending decisions with all family members. This will help everyone understand the changes and sacrifices needed for the household's plan to succeed. Open your mail as soon as you receive it, regardless of your situation. Prompt action is important. Let your creditors know you are having trouble before you miss payments and the situation becomes worse. If you simply do not have enough money to pay your bills, visit the unit **Assessing Your Financial Situation** for tips on deciding which bills to pay first.



Tracking your expenses is one action you can take to assist you in creating a debt payment plan. The Federal Deposit Insurance Corporation (FDIC) (2001) *Money Smart – A Financial Education Program* (<https://www.fdic.gov/consumers/consumer/moneysmart/index.html>) suggests a number of ways you can track your spending. Select the option below that you think will help you experience the most success.

- ▶ **Use your monthly checking account statement and check register** to track your spending.
- ▶ **Use a money management software package** to track your income and expenses.
- ▶ **Ask for and save receipts** if you use cash regularly. Add the receipts on a daily or weekly basis so you don't get overwhelmed with this task at the end of the month.
- ▶ **Consider writing down your cash expenses on a regular basis** if you don't always collect receipts. You can use a little notebook or an app or note function on your phone.

No matter what method you choose to track your spending, if you do it consistently, it will give you important information to help you control your money – and not let your money control you.

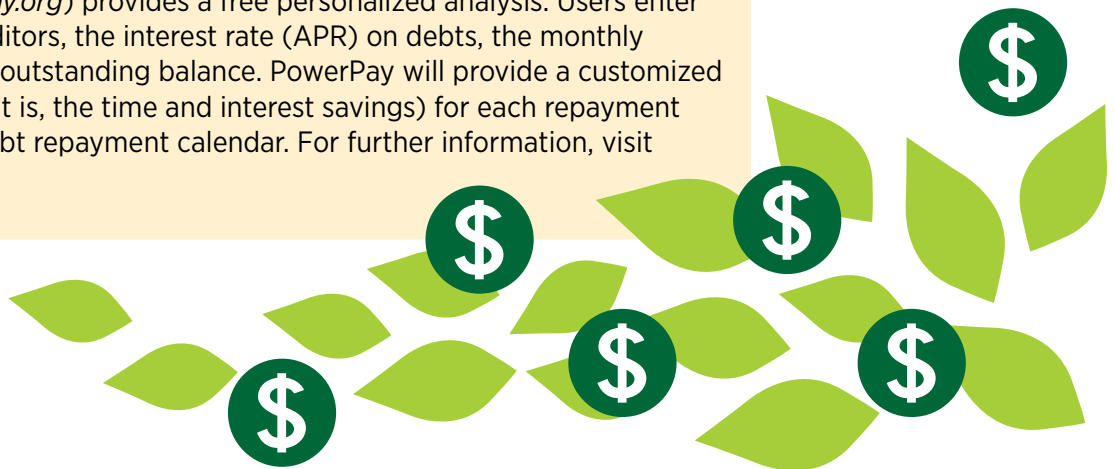




Choose a debt pay-down strategy that meets your financial goals. Several options are available for you to choose from. Even a small payment, as little as \$5, makes a difference if applied over time.

A few methods of paying down debt follow. Choose the option that makes the most sense for you and your situation.

- ▶ **Use the “Debt Snowball” Method.** Determine which debt to pay off first by listing them in order of total balance. Start with the smallest debt first to reduce it as quickly as possible. If you have money left over, apply the extra funds to the next debt. Once those smaller balances are gone, take the money that had been set aside to pay those bills and apply it to the balance with the highest interest rate.
- ▶ **Use the Highest Interest Rate.** Prioritize your list of debts by interest rates on loans or credit cards. Start paying on the debt that has the highest interest rate (since it’s costing you the most money) and continue paying until it’s paid off. Then, add any extra funds to the second highest interest rate loan or credit card.
- ▶ **Use Power Payments.** Power payments can be made in a variety of sequences including starting with debts with the highest interest rate first, smallest balance first or shortest term first. While paying off debt with the smallest balance can provide a psychological boost, starting with the highest interest rate first often provides the greatest reduction in interest and repayment time. The Utah State University Extension (n.d.) PowerPay website (powerpay.org) provides a free personalized analysis. Users enter the names of creditors, the interest rate (APR) on debts, the monthly payment and the outstanding balance. PowerPay will provide a customized debt analysis (that is, the time and interest savings) for each repayment scenario and a debt repayment calendar. For further information, visit powerpay.org.



What Happens If You Don’t Pay Your Bills?

Once you miss a payment, you’ll receive increasing pressure to pay from the creditor. You may receive a letter reminding you that you missed a payment and asking you to pay promptly. After that, you may receive a more direct letter demanding payment, or you may get a phone call. If the bills are still not paid, they will likely be turned over to an independent collection agency. Your delinquency may be reported to the credit bureaus, possibly within three to six months after you default. The types of debts most likely to be sent to a collection agency include: credit card and telephone service debts, followed by other utilities, car, government and medical debts.



The Federal Trade Commission (FTC) enforces the Fair Debt Collection Practices Act (FDCPA) (<http://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text>), which prohibits debt collectors from using abusive, unfair or deceptive practices to collect from you. This includes using abusive or threatening language, calling you at unusual hours or threatening criminal prosecution. Additionally, debt collectors are not allowed to discuss your financial situation with others (Federal Trade Commission, 1996). For more details about debt collection guidelines, visit the Federal Trade Commission (2013, November) Consumer Information website regarding debt collection (<http://www.consumer.ftc.gov/articles/0149-debt-collection>). You can also review appropriate debt collection practices in the **Knowing your Rights and Responsibilities** unit of this toolkit.



TRY IT!

- ▶ Review the “Danger Signs of Too Much Debt” checklist on page 18.
- ▶ If necessary, review the unit **Assessing Your Financial Situation**:
 - Go over the “Simple Rules for Developing a Spending Plan” in that unit on page 6.
 - Figure out the amount you owe using the “How Much Do I Owe?” worksheet in that unit on page 21.

In the University of Illinois Extension *Getting Through Tough Financial Times* website, Bartman, Camp and Chan (2009) recommend that if you receive a call from a creditor or a collection agency:

- ▶ **Ask the name of the caller.** Get the name of the creditor and the name, address and telephone number of the collection agency. Get the exact amount of the account that is claimed to be due. Write down the date and time of each call.
- ▶ **Remain calm.** Explain your current financial situation and tell how much of the bill you are able to pay, according to your repayment plan.
- ▶ **Dispute debts in writing.** If you believe you do not owe the amount claimed or disagree in other ways, make your reasons known promptly in writing to both the creditor and the collection agency. Use the “Sample Letter for Disputing Errors on Your Credit Report” handout on page 23. Always keep copies of your correspondence for future reference.

How Do You Talk to Creditors?

If you do not have enough money to pay your bills, you may need to contact those to whom you owe money and explain your situation. Creditors and lenders are usually willing to work with you **if you contact them** before you get behind in your payments. Usually if you have paid your bills on time, creditors and lenders may be more cooperative than if you were late or didn't make regular payments. If this happens, contact your creditors immediately.

Know Your Information

You must have an accurate picture of exactly how much income you can count on each month and how much you need to pay for essential monthly living expenses. Then you can talk honestly with your creditors about your debts. You can use the “Creditor Communication Tracking” worksheet on page 19 to keep track of all the details.

Be prepared to explain the following:

- ▶ The reason you cannot pay
- ▶ Your current income and prospects for future income
- ▶ Other financial obligations you have
- ▶ Your plans to bring your current debt up to date and keep it current, including the amount you will be able to pay each month



Make a Connection

Visit local creditors in person, if at all possible. Make an appointment to see the loan officer at your bank or credit union, the credit manager of local stores and the budget counselor at your utility companies. Also remember creditors such as your dentist, physician, clinic and hospital.

It's most cost effective and efficient to contact out-of-town creditors by phone or letter. Use the "Sample Letter to Creditors" handout on page 20 as a guide when writing or talking to creditors. Use the "Creditor Communication Tracking" worksheet on page 19 to write down the name and title of the person to whom you talked. Then put the details that were agreed to in a letter. Be sure to keep copies of all correspondence.

Not all creditors will be willing to accept alternatives. However, they'll be more likely to work with your family if you contact them before they contact you. They all want to be repaid and would rather get some money on a regular basis than have to begin collection procedures, which can be costly for them.

Always tell your creditors about any changes that may affect your payment agreement. If you fail to follow the plan that you and your creditor agreed upon, they will be less willing to work with you and it will hurt your chances of getting future credit.

The University of Illinois Extension (Bartman, Camp, & Chan, 2009) states that creditors can take several kinds of legal action against you. These actions are often written into the sales contract you signed. If you fail to make payments, the creditor or collection agency may decide to initiate a lawsuit by filing a complaint. As the defendant, you will receive a summons or notification that a complaint has been filed against you. The case may be settled in small claims court or civil court, depending on the amount of money involved. If you don't respond or lose the case, the court will issue a judgment against you for the amount you owe plus fees for court costs and attorney fees.

Attend the court hearing in person and explain what your situation is to the court and how much you can realistically afford to pay. Whether you show up or not, a judgment will be issued against you. However, if you fail to show, the court may order you to pay monthly payments that are not in line with your income or more that you can realistically afford. In addition, showing up at the hearing shows the creditor you are serious about making things right.



Negotiating

The University of Illinois Extension in their *Getting Through Tough Financial Times* resources (Bartman, Camp, & Chan, 2009) provides options to consider when negotiating with your creditors:

- ▶ Reduce or refinance the loan.
- ▶ Defer a payment for a period of time if you expect your income to increase in the near future.
- ▶ Reduce or drop late charges.
- ▶ Pay only interest on the loan until you can resume making monthly payments.
- ▶ Return an item purchased on credit.
- ▶ Sell the item and use the cash to satisfy, or partially satisfy, the debt (you are still responsible for any remaining balance you may still owe).

Adapted with permission from *Getting Through Tough Financial Times* by D. Bartman, S. Camp, and K. Chan, 2009, Urbana-Champaign, University of Illinois Extension. Retrieved from: <http://web.extension.illinois.edu/toughtimes/>



Can the Bank Come After Me & Make Me Pay My Loan?

If you need legal advice or are concerned about your rights and responsibilities, contact an attorney. You can find one by contacting the State Bar Association of Michigan's (2014) Public Resources (http://michbar.org/public_resources/), Michigan Legal Aid (n.d.) (<http://www.michiganlegalaid.org/>) or Michigan Legal Help (2014) (<http://michiganlegalhelp.org/>).



TRY IT!

Contact your creditors, if needed, to negotiate payment options to pay down debt. Use the "Creditor Communication Tracking" worksheet on page 19 and "Sample Letter to Creditors" handout on page 20 to assist your efforts.

Understand Your Credit Report & Score

Once you have determined where you are financially, you can begin to review your credit history and make a plan for repairing your credit.

- ▶ Learn what credit scores are and understand how to interpret them.
- ▶ Order your free credit report.
- ▶ Review your credit report and correct any errors.

What Is A Credit Score & What Does It Mean?

Credit scores are one of the components creditors use when evaluating a person's credit worthiness. The most commonly used credit scores are provided by Fair Isaac Corporation (2014) (www.fico.com) and are known as FICO scores. They range from 300 (the worst) to 850 (the best). When referring to credit scores, the information provided here focuses on the FICO score.

Every financial decision can positively or negatively affect your credit score. For example, if you file Chapter 13 bankruptcy, you may find that you cannot make the extra payments to the court, meaning you now could have both a foreclosure and a bankruptcy. Late payments and nonpayment to any creditor will be recorded on your credit report, which can lower your credit score. This can affect your ability to get credit, increase the interest rate you will pay and possibly affect your ability to get a job as well as influence the amount you may pay for home and auto insurance. Ensuring you and your family rebuild a positive credit history is essential in repairing your financial situation for the future.

Order Your Free Credit Report

Why Do I Want a Copy of My Credit Report?

A credit report will give you a current snapshot of your financial information: mortgage debt, installment debt (car loans and other debts), and revolving accounts, such as credit cards. It will not list any personal loans you have with friends or relatives – only debt related to accounts with financial institutions that provide information to the credit reporting companies. It also includes information on where you live, how you pay your bills, and whether you've been sued or arrested, or have filed for bankruptcy. Nationwide credit reporting companies sell the information in your report to creditors, insurers, employers and other businesses



that use it to evaluate your applications for credit, insurance, employment or for renting a home or apartment.

You want a copy of your credit report so you can:

- ▶ Make sure the information is accurate, complete and up to date before you apply for a loan for a major purchase like a car or house, buy insurance or apply for a job.
- ▶ Help guard against identity theft (Federal Trade Commission, n.d.-b) (<http://www.consumer.ftc.gov/media/video-0023-what-identity-theft>). Identity theft occurs when someone uses your personal information – such as your name, your Social Security number or your credit card number – to commit fraud. Identity thieves may use your information to open a new account in your name. Then, when they don't pay the bills, the delinquent account is reported on your credit report. This inaccurate information could affect your ability to get credit, insurance or even a job.

Where Do I Get My Free Credit Report?

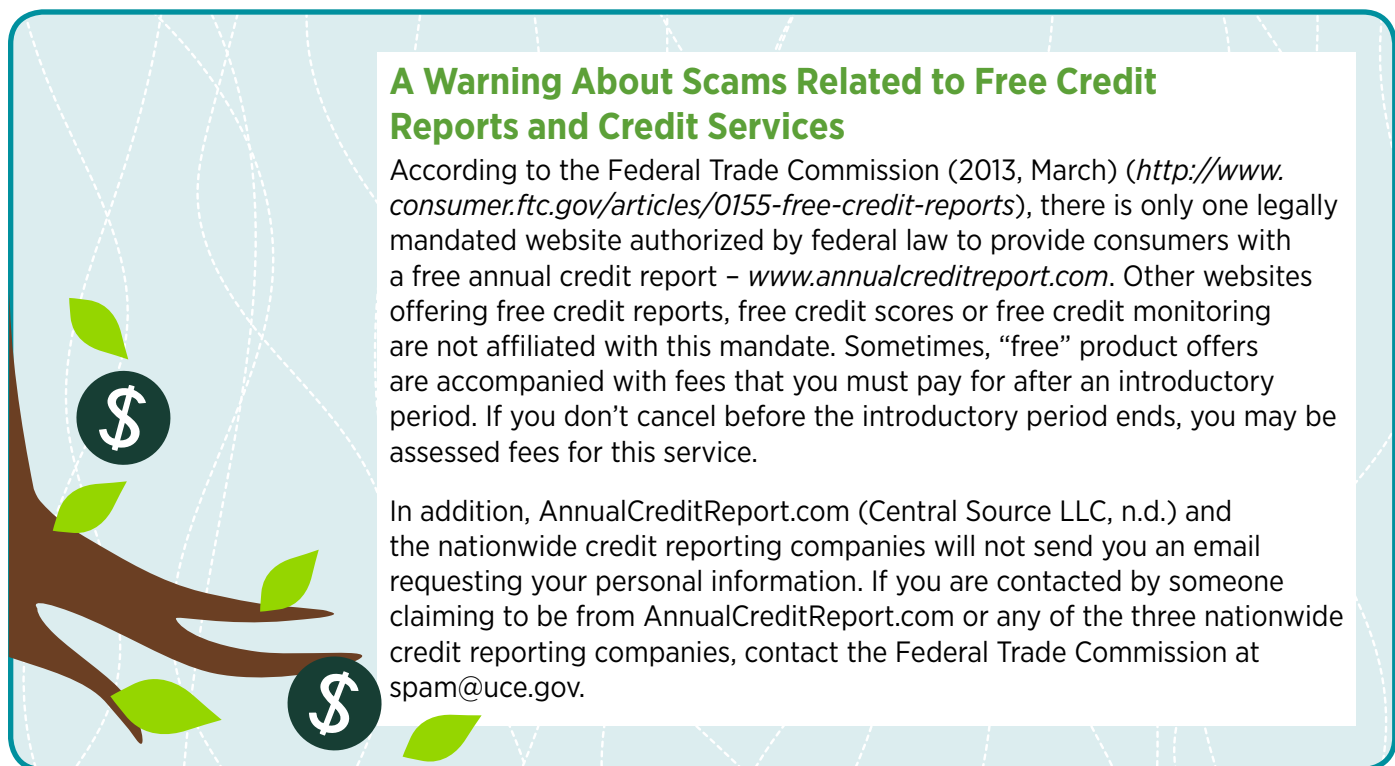
The Fair Credit Reporting Act (FCRA) (Federal Trade Commission, 2012, September) (<http://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf>) requires each of the nationwide credit reporting companies – Equifax, Experian and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. The Federal Trade Commission (n.d.-a) enforces the FCRA with respect to credit reporting companies (<http://www.consumer.ftc.gov/topics/money-credit>).

To request your free credit reports, visit www.annualcreditreport.com (Central Source LLC, n.d.).

A Warning About Scams Related to Free Credit Reports and Credit Services

According to the Federal Trade Commission (2013, March) (<http://www.consumer.ftc.gov/articles/0155-free-credit-reports>), there is only one legally mandated website authorized by federal law to provide consumers with a free annual credit report – www.annualcreditreport.com. Other websites offering free credit reports, free credit scores or free credit monitoring are not affiliated with this mandate. Sometimes, “free” product offers are accompanied with fees that you must pay for after an introductory period. If you don't cancel before the introductory period ends, you may be assessed fees for this service.

In addition, AnnualCreditReport.com (Central Source LLC, n.d.) and the nationwide credit reporting companies will not send you an email requesting your personal information. If you are contacted by someone claiming to be from AnnualCreditReport.com or any of the three nationwide credit reporting companies, contact the Federal Trade Commission at spam@uce.gov.





Should I Order My Reports From All Three of the Nationwide Credit Reporting Companies at the Same Time?

It's your choice. Because nationwide credit reporting companies get their information from different sources, the information in your report from one company may be different from the information you receive in the other reports from the other two companies. Personal financial management experts recommend that you order one of your free reports every four months. For example, request your report from Equifax in January, then from Experian in May and then TransUnion in September. Remember that the law allows you to order one free copy of your report from each of the nationwide credit reporting companies every 12 months.

What Information Do I Need to Provide to Get My Free Report?

To access your free report, the Federal Trade Commission (2013, March) suggests that you be prepared to provide your name, address, Social Security number date of birth, and additional information that only you would know. This could include items such as the amount of your monthly mortgage or rent payment, or your monthly cell phone payment amount.

Are There Any Other Situations Where I Might Be Eligible for a Free Report?

According to the same Federal Trade Commission resource (2013, March), you are entitled to a free report if you are denied credit, insurance or employment based on the information in your report. You can request the additional free report within 60 days of receiving notice of the denied request. You can also receive an additional free report a year if you are unemployed and plan to look for a job within 60 days; using public assistance; or if your report is inaccurate because of fraud, including identity theft. Otherwise, each credit reporting company is allowed to charge you a reasonable amount for another copy of your report within a 12-month period.

To buy a copy of your report, contact:

- ▶ Equifax: 1-800-685-1111 or equifax.com
- ▶ Experian: 1-888-397-3742 or experian.com
- ▶ TransUnion: 1-800-916-8800 or transunion.com

Review Your Credit Report & Correct Any Errors

What If I Find Errors – Either Inaccuracies or Incomplete Information – in My Credit Report?

Under the Fair Credit Reporting Act (FCRA) (Federal Trade Commission, 2012, September) (<http://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf>), both the credit reporting company and the information provider (that is, the person, company or organization that provides information about you to a consumer credit reporting company) are responsible for correcting inaccurate or incomplete information in your report (Federal Trade Commission, 2014, March) (<http://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>). To take full advantage of your rights under this law, contact





the credit reporting company and the information provider. You do not need to hire someone to fix your credit report. Tell the creditor or other information provider, in writing, that you dispute an item. Include copies (not originals) of documents that support your position. Each of the three major credit reporting bureaus specify an address or specific process for disputes. You can create a letter using the “Sample Letter for Disputing Errors on Your Credit Report” handout on page 23. Send your letter by certified mail “return receipt requested” so you can document what the credit reporting company received. Keep copies of everything you send.

Credit reporting companies must investigate the items in question – usually within 30 days – unless they consider your dispute without legal merit or of little importance. They also must forward all the relevant data you provide about the inaccuracy to the organization that provided the information. After the information provider receives notice of a dispute from the credit reporting company, it must investigate, review the relevant information and report the results back to the credit reporting company. If the information provider finds the disputed information is inaccurate, it must notify all three nationwide credit reporting companies so they can correct the information in your file.

When the investigation is complete, the credit reporting company must give you a short written response and describe the results, which include how your report has changed. If an item is changed or deleted, the credit reporting company cannot put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The response provided by the credit reporting company must also include notice that says you can request a description of the procedure used to determine the accuracy and completeness of the information, including the business name, address and phone number of the information provider (Federal Trade Commission, 2012, September) (<http://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf>). If an item is changed or deleted, the credit reporting company cannot put the disputed information back in your file unless the information provider verifies that it is accurate and complete. The credit reporting company also must send you written notice that includes the name, address and phone number of the information provider.

What Can I Do If the Credit Reporting Company or Information Provider Won't Correct the Information I Dispute?

If an investigation doesn't resolve your dispute with the credit reporting company, you can ask that a statement of the dispute be included in your file and in future reports. You also can ask the credit reporting company to provide your statement to anyone who received a copy of your report in the recent past. You can expect to pay a fee for this service.

If you tell the information provider that you dispute an item, a notice of your dispute must be included any time the information provider reports the item to a credit reporting company.

You may also contact the Consumer Financial Protection Bureau (CFPB) (<http://www.consumerfinance.gov/>). The CFPB was established by Congress to protect consumers by carrying out federal consumer financial laws.





TRY IT!

Review your credit report to ensure your credit situation is financially sound. Visit <https://www.annualcreditreport.com/index.action> for more information on accessing your free credit report.



How Long Can a Credit Reporting Company Report Negative Information?

A credit reporting company can report most accurate negative information for seven years and bankruptcy information for 10 years. However, there is no time limit on information reported about criminal convictions, information reported in response to your application for a job that pays more than \$75,000 a year, and information reported because you've applied for more than \$150,000 worth of credit or life insurance. Information about a lawsuit or an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

Who Can Get a Copy of My Credit Report?

The Fair Credit Reporting Act specifies who can access your credit report. As previously stated, creditors, insurers, employers and other businesses that use the information in your report to evaluate your applications for credit, insurance, employment or renting a home are among those that have a legal right to access your report. The Federal Trade Commission (2013, February) says that an employer must get your permission before asking for a report about you from a credit reporting company or any other company that provides background information (<http://www.consumer.ftc.gov/articles/0157-employment-background-checks>).

Take Actions to Improve Your Credit Report & Score

To continue to improve your credit report and score, follow these actions on a daily basis: keeping credit cards manageable and under control, knowing when to apply for and take on new credit, automating your bill payments, staying on track by keeping your goals in mind and being patient, and reaching out for help, when necessary.

Keeping Credit Cards Manageable and Under Control

If you pay off or lower your existing credit card balances, you may be able to add points to your FICO credit score. The industry standard suggests that using only 30 percent of your available credit amount will help build your credit and increase your credit score faster. In addition, the less you owe, the more likely it is that you will be able to pay all of your bills each month.

Knowing When to Apply for and Take on New Credit

Do not attempt to raise your credit score by closing open credit lines. This might actually hurt your score more after a short sale or foreclosure when access to new credit will be limited. When you close credit lines, potential lenders might think you have over-extended your credit and may not be able to afford additional loans in the future. However, if you are left with no credit lines after a foreclosure or short sale and cannot qualify for unsecured lines of credit, you can apply for a secured credit card or a personal loan. Secured cards and loans require you to deposit funds with a financial institution in exchange for credit. For example, if you deposit \$500, that will be the amount of your secured credit line. Using secured cards and loans responsibly will help to increase your credit score. Over time, the lender may raise your line of credit for "good behavior," which means paying your bills on time, every time. Eventually, you'll be a candidate for unsecured credit again. Be sure to read the fine print in the agreement for all secured cards and loans, and confirm that you will not be charged additional fees.



Automating Your Bill Payments

Set up automatic bill pay on all of your existing credit accounts to make certain that creditors are always paid on or before the due date. Do not solely count on grace periods when you are trying to rebuild your credit. An alternative to automatic bill pay is to use the bill reminder features on your phone or computer. If you have missed payments in the past, commit to starting good habits now. You can rebuild a healthy credit score by paying every bill on time, every time. On the contrary, skipped or late payments will reduce your credit score further.

Keeping Your Goals in Mind and Being Patient

Rebuilding credit after a short sale or foreclosure can be frustrating and requires patience. However, over time, negative information in your credit report will eventually reduce its influence on your credit score. Items such as foreclosure come off after seven years, while Chapter 7 bankruptcy remains for ten. According to the Fair Isaac Corporation (FICO) (n.d.-a), the older the item, the less influence that particular negative item will have on your FICO credit score. For a more complete list of how negative credit items can influence your personal credit score, visit <http://www.myfico.com/crediteducation/questions/negative-items-on-credit-report-chapter-7-13.aspx>.



TRY IT!

Review the “How Much Credit Can I Afford?” worksheet on page 21 and the “How to Maintain a Good Credit Score” checklist on page 22 to create a plan for building and managing your credit appropriately.



Staying On Track

Freddie Mac (n.d) suggests the following eight tips to help you stay on track with rebuilding your credit.

- ▶ Remember to pay your bills on time including paying the agreed upon amount.
- ▶ Try to keep balances low on credit cards and other revolving debts.
- ▶ Pay off debt instead of transferring your debt from credit card to credit card. Be cautious when using a consolidation loan.
- ▶ Try not to apply for credit that you don't need.
- ▶ Shop around for the best loan rates. According to Fair Isaac Corporation (n.d.-b), try to do this within a 30-day period so it won't have an immediate effect on your credit report.
- ▶ Request a free copy of your credit report annually. Remember – you are allowed one free credit report from each of the three credit bureaus per year.
- ▶ Check for errors on your credit report, and work with the credit reporting agency to fix them. If an error is identified, use the “Sample Letter for Disputing Errors on Your Credit Report” handout on page 23 as a guide.
- ▶ Beware of fraudulent credit repair companies. Improving your credit takes time, so be suspicious of any person or agency that says they can “fix” your credit quickly – especially for a fee. These types of services can be a scam and should be reported immediately to the “Prevent Loan Scams” website, a project of the Lawyers Committee for Civil Rights Under Law (2010) found at <http://lcintake.serveronline.net/intake-basic-qualify.aspx?source=Freddie>.

Adapted from *Rebuilding Your Credit* by Freddie Mac, n.d. Retrieved from http://www.freddiemac.com/homeownership/after_foreclosure/rebuilding_your_credit.html

Reaching Out for Help, if Necessary

Knowledge is power. Invest in yourself by learning all you can about credit, debt and ways to reach your financial goals. Plenty of free, quality information and education is available. The suggestions below will help you get started:

- ▶ Visit MI Money Health (www.mimoneyhealth.org) and click on the “Educational Programs” to find out about learning opportunities offered through Michigan State University Extension (2014).
- ▶ Explore the eXtension (2014) Personal Finance resources (http://www.extension.org/personal_finance). An interactive learning environment, eXtension offers expertise and answers based on research from America’s land-grant universities.
- ▶ Visit your local library. Many libraries offer free financial education workshops and have many books and multi-media learning materials that provide tips and skills about how to successfully manage your money. Visit the National Center for Education Statistics (2005) website (<http://nces.ed.gov/surveys/libraries/librarysearch/>) to find a library near you.
- ▶ Check out the National Foundation for Credit Counseling (2014). It offers free financial education online at www.nfcc.org/FinancialEducation. You can also call 1-800-388-2227 to find educational programs in your area.
- ▶ Call the U.S. Department of Housing and Urban Development (HUD) (n.d.) at 1-800-569-4287 or visit their website (<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>) for a list of approved housing counselors in your area. There are housing counselors who can help you regain control of your finances. These counselors often work for nonprofit organizations. They are trained to help you determine your goals, rebuild your credit and get back on track if you’ve lost your home to foreclosure. There is no charge to work with HUD-approved counseling agencies.
- ▶ Be cautious when dealing with companies who offer credit repair. No one can legally remove accurate negative information from your credit report. You could hire a company to investigate for you, but anything a credit repair company can do legally, you can do for yourself at little or no cost. To file a complaint if you suspect you are a victim of fraud, visit the Federal Trade Commission (n.d.-c) FTC Complaint Assistant at ftc.gov/complaint or call 1-877-FTC-HELP (1-877-382-4357).

- ▶ Take advantage of the information provided by the Consumer Financial Protection Bureau (n.d.) (<http://www.consumerfinance.gov>). Their mission is to make markets for consumer financial products and services work for Americans – whether you are applying for a mortgage, choosing among credit cards or using any number of other consumer financial products.



References & Resources

- Anderson-Porisch, S. A., Heins, R. K., Petersen, C. M., Hooper, S. E., & Bauer, J. W. (2009). *Dollar works 2: A personal financial education program*. St. Paul, MN: University of Minnesota Extension
- Bartman, D., Camp, S., & Chan, K. (2009). *Getting through tough financial times* [Website]. Urbana-Champaign, IL: University of Illinois Extension. Retrieved from <http://web.extension.illinois.edu/toughtimes/>
- Central Source LLC. (n.d.). *AnnualCreditReport.com*. Retrieved from <https://www.annualcreditreport.com/>
- Consumer Financial Protection Bureau. (n.d.). [Website]. Retrieved from <http://www.consumerfinance.gov/>
- Equifax. (2014). [Website]. Retrieved from <http://www.equifax.com/>
- Experian. (2014). [Website]. Retrieved from <http://www.experian.com/>
- eXtension. (2014). *Personal finance* [Website]. Retrieved from http://www.extension.org/personal_finance
- Fair Isaac Corporation. (n.d.-a). *Chapter 7 & 13: How long will negative information remain on my credit report?* Retrieved from <http://www.myfico.com/crediteducation/questions/negative-items-on-credit-report-chapter-7-13.aspx>
- Fair Isaac Corporation. (n.d.-b). *Credit report Q&A*. Retrieved from <http://www.myfico.com/crediteducation/questions/credit-inquiry-help.aspx>
- Fair Isaac Corporation. (2014). *Fico* [Website]. Retrieved from <http://www.fico.com/en/>
- Federal Deposit Insurance Corporation. (2001). *Money smart – A financial education program*. Retrieved from: <https://www.fdic.gov/consumers/consumer/moneysmart/index.html>
- Federal Trade Commission. (n.d.-a). *Consumer information: Money & credit*. Retrieved from <http://www.consumer.ftc.gov/topics/money-credit>
- Federal Trade Commission. (n.d.-b). *Consumer information: What is identity theft?* Retrieved from <http://www.consumer.ftc.gov/media/video-0023-what-identity-theft>
- Federal Trade Commission. (n.d.-c). *FTC complaint assistant* [Website]. Retrieved from <https://www.ftccomplaintassistant.gov>
- Federal Trade Commission. (1996). *Fair debt collection practices act*. Retrieved from <http://www.ftc.gov/enforcement/rules/rulemaking-regulatory-reform-proceedings/fair-debt-collection-practices-act-text>
- Federal Trade Commission. (2012, September). *Fair credit reporting act*. Retrieved from <http://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf>
- Federal Trade Commission. (2012, November). *Consumer information: Coping with debt*. Retrieved from <http://www.consumer.ftc.gov/articles/0150-coping-debt>
- Federal Trade Commission. (2013, February). *Employment background checks*. Retrieved from <http://www.consumer.ftc.gov/articles/0157-employment-background-checks>
- Federal Trade Commission. (2013, March). *Consumer information: Free credit reports*. Retrieved from <http://www.consumer.ftc.gov/articles/0155-free-credit-reports>
- Federal Trade Commission. (2013, August). *Consumer information: Sample letter for disputing errors on your credit report*. Retrieved from <http://www.consumer.ftc.gov/articles/0384-sample-letter-disputing-errors-your-credit-report>
- Federal Trade Commission. (2013, November). *Consumer information: Debt collection*. Retrieved from <http://www.consumer.ftc.gov/articles/0149-debt-collection>
- Federal Trade Commission. (2014, March). *Consumer information: Disputing errors on credit reports*. Retrieved from <http://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>
- Freddie Mac. (n.d.). *Rebuilding your credit*. Retrieved from http://www.freddiemac.com/homeownership/after_foreclosure/rebuilding_your_credit.html
- Internal Revenue Service. (2013-a). *Form 982, reduction of tax attributes due to discharge of indebtedness*. Retrieved from <http://www.irs.gov/uac/Form-982,-Reduction-of-Tax-Attributes-Due-to-Discharge-of-Indebtedness-%28and-Section-1082-Basis-Adjustment%29>
- Internal Revenue Service. (2013-b). *Form 1099-C, cancellation of debt*. Retrieved from <http://www.irs.gov/uac/Form-1099-C,-Cancellation-of-Debt>
- Lawyers Committee for Civil Rights Under Law. (2010). *Prevent loan scams*. Retrieved from <http://lcintake.serveronline.net/intake-basic-qualify.aspx?source=Freddie>
- Michigan Department of Treasury. (n.d.). *Mortgage foreclosure or home repossession and your michigan income tax return*. Retrieved from http://www.michigan.gov/taxes/0,4676,7-238-43513_44135-228580--,00.html
- Michigan Legal Aid. (n.d.). [Website]. Retrieved from <http://www.michiganlegalaid.org/>
- Michigan Legal Help. (2014). [Website]. Retrieved from <http://michiganlegalhelp.org/>
- Michigan State University Extension. (2014). *MI money health* [Website]. Retrieved from <http://www.mimoneyhealth.org/>
- National Center for Education Statistics. (2005). *Search for public libraries*. Retrieved from <http://nces.ed.gov/surveys/libraries/librarysearch/>
- National Foundation for Credit Counseling. (2014). *Financial education* [Website]. Retrieved from <http://www.nfcc.org/FinancialEducation/>
- State Bar Association of Michigan. (2014). *Public resources* [Website]. Retrieved from http://michbar.org/public_resources/
- TransUnion. (2006-2014). [Website]. Retrieved from <http://www.transunion.com/>
- U.S. Department of Housing and Urban Development. (n.d). *Housing counseling* [Website]. Retrieved from <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>
- Utah State University Extension. (n.d.). *PowerPay* [Website]. Retrieved from <https://powerpay.org/>
- Witter, J. (1999). *Money 2000*. East Lansing: Michigan State University Extension



Danger Signs of Too Much Debt

The following questions can help you tell if you have a debt problem, so you can do something about it before it gets worse. Look over this list and check off any statements that are true for you.

- I can't seem to stop myself from buying things I don't need or can't afford.
- I buy things from television or catalogs on monthly payments.
- I tend to get behind in my utility or rent payments.
- I keep things that I buy on credit secret from my partner or lie about how I paid for them.
- I have gotten a phone call about an overdue credit payment.
- I have taken a cash advance to pay for my bills or living expenses.
- I charge more than I pay on my credit cards each month.
- I have made a credit payment with a post-dated check.
- I don't know how much I need for my monthly living expenses.
- I don't know how much I owe in total.
- I owe money to more than seven creditors.
- I owe more money to my creditors than I own (house, car).
- If I get a raise, I already know I'll have to use it to pay my debts.
- I depend on extra income, such as overtime, to make ends meet.
- I owe back installment payments that will take more than a year to pay.
- More than 15 percent of my take-home pay goes to credit payments (other than home mortgage).
- I'd like to consolidate my loans or extend my current loans.
- To make ends meet, I have taken out a loan, withdrawn money from savings, skipped payments or paid only the minimum due.

If you checked off four or more of these statements, you may have a problem with using credit.

If you checked off seven or more, you're in danger of getting into big trouble with credit. You need to start making some changes now to avoid more serious problems in the future.

Adapted with permission from Anderson-Porisch, Heins, Petersen, Hooper, and Bauer's *Dollar Works 2: A Personal Financial Education Program* (2009, St. Paul, MN: University of Minnesota Extension, Action Page 9-1: Warning Signs of Too Much Debt, p. 207).



Creditor Communication Tracking

Directions: Communicating with creditors can be an intimidating process. Keeping track of your communication is useful when documenting and discussing important financial discussions with lenders and creditors. Using the tracking form below, document each conversation that you have with creditors and lenders.

Prior to initiating communication, complete the chart below as a guide for your conversation:

Date of the conversation:	
Name of company:	
My account number:	
My amount owed:	
What I need to know:	
Questions I need to ask:	<ol style="list-style-type: none"> 1. 2. 3.
Other important information:	

During the communication, complete the following information:

Name of the contact:	
Phone number, including extension:	
Responses to the questions you asked:	<ol style="list-style-type: none"> 1. 2. 3.
My next steps:	
Their next steps:	
Are we meeting again? If so, when do I need to contact them?	



Sample Letter to Creditors

Your Name
Your Address
City, State Zip

Date

Company Name
Company Address
City, State Zip

Attention: (Name and/or title of the individual that this needs to be sent to)

Subject: (Your name and account number)

Use this example as a guide when writing or talking to creditors. Fill in the blanks with your family's specific situation.

The purpose of this letter is to inform you that I am currently having some difficulty paying my bills. I am not able to make my minimum monthly payment to you as a result of _____ (a family crisis, a recent job loss or seasonal unemployment, or other issue)

I have taken a careful look at our financial situation and have set up a realistic minimum budget for my living expenses and debt repayment plan. I am hoping you will accept a reduced payment of _____ (amount you will pay). I will increase this amount as soon as possible until the debt of \$ _____ (amount owed) is totally repaid.

You may expect the first payment on _____ (date).

I hope you find this plan acceptable. I look forward to your letter of acknowledgment. Thank you.

Sincerely,
Your signature

Adapted with permission from *Getting Through Tough Financial Times* by D. Bartman, S. Camp, and K. Chan, 2009, Urbana-Champaign, University of Illinois Extension. Retrieved from: <http://web.extension.illinois.edu/toughtimes/>



How Much Credit Can I Afford?

Directions: Using the worksheet below, determine how much you can safely spend on credit, given your monthly financial obligations and net monthly income (take home pay).

If you buy on credit, how much credit can you afford to use?

Method I

Usually, credit payments (excluding mortgage payments) should be no more than 12 to 15 percent of your take-home pay.

My take-home pay \$ _____ x 0.15 (15 percent) = \$ _____

Method II

To determine what you can safely spend on credit each month, complete the following information:

(A) How much money do you need for basic expenses: housing, food, clothing, transportation and similar expenses?

(B) Subtract what you spend for these basic needs from your take-home pay. What remains is your available income.

(C) You should use no more than one-third of your available income that remains for credit purposes.

My monthly take-home pay/income \$ _____ (A)

My monthly expenses for:

Mortgage or rent \$ _____

Utilities \$ _____

Food \$ _____

Clothing \$ _____

Transportation \$ _____

Medical Expenses \$ _____

My monthly basic needs total \$ _____ (B)

Monthly Remaining Available Income after other expenses (A-B=C)
\$ _____ (C)

Divide remaining available income (C) by 3 = \$ _____
(the amount you can safely spend on credit payments each month)

Note: Method II may give a lower remaining available income than Method 1. For most consumers, the second method is the safest way to guard against overspending on credit.



How to Maintain a Good Credit Score

Credit scoring systems usually look at your credit history in the areas listed below. How well are you doing? Place a check mark in front of the statements where you may need to make changes to boost your credit score.

Payment History

- Pay bills on time.
- Make credit payments 5 to 10 days before they are due to avoid paying late fees.
- Avoid companies that say for a fee, they will “fix” your credit. A person can do the same thing by contacting creditors.
- Stay current on student loan payments.

Amount of Outstanding Debt

- Keep credit card balances low. A low balance on two credit cards may be better than a high balance on one.
- Avoid taking on new debt.
- Pay more than the minimum on credit balances to avoid extra finance charges.
- Make a payment on a credit card balance as soon as possible after the bill arrives.

Length of Credit History

- Have a long credit history with at least one financial institution.
- Review your credit report every year to check information for accuracy.
- Review your credit report if your name has changed.
- If you are married, have some credit accounts in your name as well as some in the name of your spouse to establish a credit history for both people.

Applications for New Credit

- Whenever possible, pay with cash instead of using credit.
- Apply for credit only on an as-needed basis.

Number and Type of Credit Accounts

- Shop for credit that has a low annual percentage rate (APR) and no annual fee.
- Have and use only one or two credit cards.

Other Considerations

- Live at the same address for five or more years.
- Buy a home and pay the mortgage and utilities on time.
- Stay at the same job for three years or more.
- Give a street address rather than a post office box or general delivery address.

Adapted with permission from Anderson-Porisch, Heins, Petersen, Hooper, and Bauer's *Dollar Works 2: A Personal Financial Education Program* (2009, St. Paul, MN: University of Minnesota Extension, Action Page 9-1: Warning Signs of Too Much Debt, p. 207).



Sample Letter for Disputing Errors on Your Credit Report

[Your Name]
[Your Address]
[Your City, State, Zip Code]

[Date]

Complaint Department
[Company Name]
[Street Address]
[City, State, Zip Code]

Dear Sir or Madam:

I am writing to dispute the following information in my file. I have circled the items I dispute on the attached copy of the report I received.

This item **[identify item(s) disputed by name of source, such as creditors or tax court, and identify type of item, such as credit account, judgment, etc.]** is **[inaccurate or incomplete]** because **[describe what is inaccurate or incomplete and why]**. I am requesting that the item be removed **[or request another specific change]** to correct the information.

Enclosed are copies of **[use this sentence if applicable and describe any enclosed documentation, such as payment records and court documents]** supporting my position. Please reinvestigate this **[these]** matter[s] and **[delete or correct]** the disputed item[s] as soon as possible.

Sincerely,
Your signature

Enclosures: **[List what you are enclosing.]**

If you find an error in your credit report, use this sample letter provided by the Federal Trade Commission to contact the credit reporting company and the information provider in writing. Replace the bolded words in brackets with your specific information. Send your letter by certified mail "return receipt requested" so you can document what the credit reporting company received. Include copies (not originals) of documents that support your position. Remember to keep copies of everything you send disputing the errors for documentation and proof.

From Consumer Information: *Sample Letter for Disputing Errors on Your Credit Report* by the Federal Trade Commission, August 2013. Retrieved from <http://www.consumer.ftc.gov/articles/0384-sample-letter-disputing-errors-your-credit-report>

Starting Over

After Foreclosure Toolkit

Evaluation

Please consider taking a short, anonymous survey about how you are using this toolkit.

Your response will help us improve future versions.

Visit:

bit.ly/ForeclosureToolkit