

Rebuilding Credit FAQ

Improve a poor credit rating so your next credit check is better.

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Where do credit reports and credit data come from?

Credit reports are compiled by credit bureaus -- private, for-profit companies that gather information about your credit history and sell it to any number of businesses that are allowed to see your credit report: banks, mortgage lenders, credit unions, credit card companies, department stores, insurance companies, landlords, and employers.

The three major credit bureaus are Equifax, Experian, and TransUnion.

Credit bureaus get most of their data from creditors. They also search court records for lawsuits, judgments, and bankruptcy filings. And they search county records to find recorded liens (legal claims).

Credit reports include noncredit data too, such as current and former names, past and present addresses, Social Security number, employment history, and even marriages and divorces. Your report will include the names of your creditors, type and number of each account, when each account was opened, your payment history, your credit limit or the original amount of a loan, and your current balance. If an account has been turned over to a collection agency or is in dispute, that will appear in the report as well.

How can I get a copy of my credit report?

You can get a free copy of your report once a year, from each of the three major credit bureaus. To order your free report, go to www.annualcreditreport.com or call 877-322-8228.

You are entitled to an additional free copy of your credit report each year -- even if you've already received your annual free report as described above -- if:

- you've been denied credit because of information in your credit report
- you're unemployed and looking for work
- you receive public assistance
- you believe your file contains errors due to fraud or identity theft, or
- you've been denied employment (or another adverse employment decision has been made) based in whole or in part on information contained in the report.

How long can negative information stay in my credit report?

Most negative information can appear in your credit report for seven years. This includes lawsuits, judgments against you, paid tax liens, accounts sent to collection, criminal records (except criminal convictions, which may be reported indefinitely), late payments, and overdue child support.

Some adverse information regarding certain types of student loans may be reported for more than seven years. Bankruptcies can stay in your credit report for up to ten years after the last activity (usually the date you received your discharge or the date the case was dismissed).

Credit inquiries (requests by companies for a copy of your credit report) can be reported for only two years.

For more information, see [How to Clean Up Your Credit Report](#).

What should I do if I find mistakes in my credit report?

Make a list of everything that's incorrect or out of date in your credit report. Examples of incorrect information include:

- incorrect or incomplete name, address, phone number, birthdate, Social Security number, or employment information
- bankruptcies not identified by their specific chapter number
- accounts that are not yours or lawsuits in which you were not involved
- incorrect account histories, such as a history of late payments when you paid on time
- any closed accounts that are listed as open -- it may look as if you have too much open credit, and
- any account you closed that doesn't say "closed by consumer."

Then, complete the disputed items form provided by the credit bureau. List each incorrect or out-of-date item and explain exactly what is wrong. Once the credit bureau receives your request, it must investigate the items you dispute and contact you within 30 days.

If you are right that the information is inaccurate or incomplete, or if the creditor who provided the information can no longer verify it, the credit bureau must remove the information from your report or modify it based on the results of the investigation.

What can I do to rebuild my credit?

Start by cleaning up your credit report. Then, build credit by adding positive information to your record. Here are two suggestions:

- If your credit report is missing accounts you pay on time, send the credit bureaus a recent account statement and copies of canceled checks showing your payment history. Ask that these be added to your report. The credit bureau doesn't have to add this information, but often will.
- Creditors like to see evidence of stability, so if any of the following information is not in your report, send it to the bureaus and ask that it be added: your current employment, your previous employment (especially if you've been at your current job fewer than two years), your current residence, your telephone number (especially if it's unlisted), your date of birth, and your checking account number. Again, the credit bureau doesn't have to add these, but often will.

I've been told that I need to use credit to rebuild my credit. Is this true?

Yes. Creditors like to see evidence in your credit report that you have a history of paying off credit on time. If you have a credit card, use it every month. Make small purchases and pay them off to avoid interest charges. If you don't have a credit card, apply for one. If your application is rejected, try to find a cosigner or apply for a secured card -- one issued after you deposit some money into a savings account, against which you can charge purchases.

But a word of caution: Before you apply for credit, get back on your feet financially. Otherwise, you're likely to end up with high-cost credit that will put you back in the hole again.

How many credit cards should I carry?

Once you succeed in getting a credit card, you might be hungry to apply for many more cards. Not so fast. Having too much credit may have contributed to your debt problems in the first place.

Ideally, you should carry one or two bank credit cards, maybe one department store card, and one gasoline card. Creditors want to see that you can handle more than one credit account at a time. But use all of the cards only if you can pay the charges in full each month -- don't build up interest charges.

Creditors may frown on applicants who have too much open credit. So keeping many cards may mean that you'll be turned down for other credit -- perhaps credit you really need. And if your credit applications are turned down, your file will contain inquiries from the companies that rejected you. Your credit file will look like you were desperately trying to get credit, something creditors never like to see.