

So you've had a few problems getting the bills paid lately, and you're wondering what you can do to repair the damage.

You've got plenty of company. There are more than 30 million people in the United States with credit blemishes severe enough (and credit scores under 620) to make obtaining loans and credit cards with reasonable terms difficult.

Or maybe your credit is OK, but you'd like to make it better. After all, the better your credit, the lower the interest rates you can secure car loans and credit cards. And these days, having high credit scores is the one sure path to homeownership.

In order to improve your credit scores, it's important to know where you stand currently. The three-digit numbers, which range from 300 to 850, are the key to your borrowing costs. See "How to get a credit report for free" to learn how to get a copy.

www.annualcreditreport.com

Now you're ready to take the seven steps to speedy credit repair:

1) Pay down your credit cards. Paying off your installment loans (mortgage, auto, student, etc.) can help your scores, but typically not as dramatically as paying down -- or paying off -- revolving accounts such as credit cards.

Lenders like to see a big gap between the amount of credit you're using and your available credit limits. Getting your balances below 30% of the credit limit on each card can really help.

While most debt gurus recommend paying off the highest-rate card first, a better strategy here is to pay down the cards that are closest to their limits.

2) Use your cards lightly. Racking up big balances can hurt your scores, regardless of whether you pay your bills in full each month.

What's typically reported to the credit bureaus, and thus calculated into your scores, are the balances reported on your last statements. (That doesn't mean paying off your balances each month isn't financially smart -- it is -- just that the credit scores don't care.)

You typically can increase your scores by limiting your charges to 30% or less of a card's limit. If you're having trouble keeping track, consider using a check register to track your spending, logging into your account frequently at the issuer's Web site, or using personal finance software like Microsoft Money or Quicken, which can download your transactions and balances automatically.

3) Check your limits. Your scores might be artificially depressed if your lender is showing a lower limit than you've actually got. Most credit-card issuers will quickly update this information if you ask.

If your issuer makes it a policy *not* to report consumers' limits, however -- as is the usual case with American Express cards -- the bureaus typically use your highest balance as a proxy for your credit limit.

You may see the problem here: If you consistently charge the same amount each month -- say \$2,000 to \$2,500 -- it may look to the credit-scoring formula like you're regularly maxing out that card.

You could go on a wild spending spree to raise the limit, but a more sober solution would simply be to pay your balance down or off before your statement period closes. Check your last statement to see which day of the month that typically is, then go to the issuer's Web site about a week in advance of closing and pay off what you owe. It won't raise your reported limit, but it will widen the gap between that limit and your closing balance, which should boost your scores.

4) Dust off an old card. The older your credit history, the better. But if you stop using your oldest cards, the issuers may stop updating those accounts at the credit bureaus. The accounts will still appear, but they won't be given as much weight in the credit-scoring formula as your active accounts, said Craig Watts, an executive at Fair Isaac, one of the leading credit scorers. That's why Ferguson often recommends to her clients that they use their oldest cards every few months to charge a small amount, paying it off in full when the statement arrives.

5) Get some goodwill. If you've been a good customer, a lender might agree to simply erase that one late payment from your credit history. You usually have to make the request in writing, and your chances for a "goodwill adjustment" improve the better your record with the company (and the better your credit in general). But it can't hurt to ask.

A longer-term solution for more-troubled accounts is to ask that they be "re-aged." If the account is still open, the lender might erase previous delinquencies if you make a series of 12 or so on-time payments.

6) Dispute old negatives. Say that fight with your phone company over an unfair bill a few years ago resulted in a collections account. You can continue protesting that the charge was unjust, or you can try disputing the account with the credit bureaus as "not mine." The older and smaller a collection account, the more likely the collection agency won't bother to verify it when the credit bureau investigates your dispute.

Some consumers also have had luck disputing old items with a lender that has merged with another company, which can leave lender records a real mess.

7) Blitz significant errors. Your credit scores are calculated based on the information in your credit reports, so certain errors there can really cost you. But not everything that's reported in your files matters to your scores.

Here's the stuff that's usually worth the effort of correcting with the bureaus:

- Late payments, charge-offs, collections or other negative items that aren't yours.
- Credit limits reported as lower than they actually are.
- Accounts listed as "settled," "paid derogatory," "paid charge-off" or anything other than "current" or "paid as agreed" if you paid on time and in full.
- Accounts that are still listed as unpaid that were included in a bankruptcy.
- Negative items older than seven years (10 in the case of bankruptcy) that should have automatically fallen off your reports.

You actually have to be a bit careful with this last one, because sometimes scores actually go *down* when bad items fall off your reports. It's a quirk in the FICO credit-scoring software, and the potential effect of eliminating old negative items is difficult to predict in advance.

Some of the stuff that you typically shouldn't worry about includes:

- Various misspellings of your name.
- Outdated or incorrect address information.
- An old employer listed as current.
- Most inquiries.

If the misspelled name or incorrect address is because of identity theft or because your file has been mixed with someone else's, that should be obvious when you look at your accounts. You'll see delinquencies or accounts that aren't yours and should report that immediately. However, if it's just a goof by the credit bureau or one of the companies reporting to it, it's usually not much to sweat about.

Two more items you don't need to correct:

- Accounts you closed listed as being open.
- Accounts you closed that don't say "closed by consumer."

Closing an account can't help your scores, and may hurt them. If your goal is boosting your scores, leave these alone. Once an account has been closed, though, it doesn't matter to the scoring formulas who did it -- you or the lender. If you messed up the account, it will be obvious from the late payments and other derogatory information included in the file.