

10th Edition



# Credit Repair

Robin Leonard, J.D. &  
Attorney Margaret Reiter

- Negotiate with creditors to reduce debt
- Improve your credit score
- Establish good credit
- Avoid credit repair scams

**OVER  
100,000  
SOLD**



10th Edition

# Credit Repair

Robin Leonard &  
Attorney Margaret Reiter



Tenth Edition	MAY 2011
Editor	KATHLEEN MICHON
Cover Design	SUSAN PUTNEY
Production	MARGARET LIVINGSTON
CD-ROM Preparation	ELLEN BITTER
Proofreading	CATHERINE CAPUTO
Index	BAYSIDE INDEXING
Printing	DELTA PRINTING SOLUTIONS, INC.

Leonard, Robin.

Credit repair / by Robin Leonard and Margaret Reiter. — 10th ed.

p. cm.

Summary: "A how-to guide for cleaning up credit reports, maintaining/improving credit scores, paying debt and building credit for the future, with forms to handle existing debts, avoid overspending, and deal with collection agencies. The 10th edition is reorganized with information on bankruptcy, foreclosure and mortgage debt, and the Credit CARD Act."— Provided by publisher.

ISBN-13: 978-1-4133-1420-5 (pbk.)

ISBN-10: 1-4133-1420-1 (pbk.)

ISBN-13: 978-1-4133-1489-2 (epub e-book)

1. Consumer credit—United States—Handbooks, manuals, etc. 2. Finance, Personal—United States—Handbooks, manuals, etc. 3. Consumer credit—Law and legislation—United States. I. Reiter, Margaret. II. Title.

HG3756.U54L46 2011

332.7'43—dc22

2010052786

Copyright © 1996, 1997, 1999, 2000, 2001, 2002, 2005, 2007, 2009, and 2011 by Nolo. All rights reserved. The NOLO trademark is registered in the U.S. Patent and Trademark Office. Printed in the U.S.A.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without prior written permission. Reproduction prohibitions do not apply to the forms contained in this product when reproduced for personal use. For information on bulk purchases or corporate premium sales, please contact the Special Sales Department. Call 800-955-4775 or write to Nolo, 950 Parker Street, Berkeley, California 94710.

***Please note***

We believe accurate, plain-English legal information should help you solve many of your own legal problems. But this text is not a substitute for personalized advice from a knowledgeable lawyer. If you want the help of a trained professional—and we'll always point out situations in which we think that's a good idea—consult an attorney licensed to practice in your state.

## About the Authors

**Robin Leonard** graduated from Cornell Law School in 1985. She is the author or co-author of numerous Nolo books, including *Solve Your Money Troubles: Debt, Credit & Bankruptcy*, *How to File for Chapter 7 Bankruptcy*, and *Chapter 13 Bankruptcy: Keep Your Property & Repay Debts Over Time*.

**Margaret Reiter** was a consumer investigator with the Los Angeles County Consumer Affairs Department for four years and worked for 20 years as a consumer prosecutor with the California Attorney General's Consumer Law Section. She has investigated or prosecuted businesses engaged in consumer fraud, including foreclosure "consultants," mortgage lenders, debt settlement companies, vocational schools, living trust mill/annuity sellers, prepaid phone card companies, and tax refund anticipation loan providers. She has drafted consumer protection legislation, advocated for stronger consumer protection before regulatory agencies, trained other prosecutors and investigators, and prepared consumer alerts and spoken to the public on Truth-in-Lending, telephone slamming and cramming, truth in phone billing, bankruptcy, and vocational schools, among other consumer topics.



## Your Credit Repair Companion

**D**uring these tough economic times, more and more of us are falling into debt—and finding it hard to pay that money back. Unfortunately, the consequences of mounting debt, such as missed payments, defaults, repossessions, and even foreclosures and bankruptcy, eventually find their way into our credit reports.

The consequences of having bad credit can affect many areas of your life. You may have trouble:

- getting a loan
- getting a new credit card
- opening a checking account
- renting a home, or
- getting a job offer.

If you have open-ended credit accounts, like credit cards, and your credit goes downhill, the creditor is likely to increase your interest rate, decrease your credit limit, or cancel credit privileges. And if you are trying to get new credit, you will likely pay much more in interest and fees than those with good credit. Having bad credit can even mean paying more for car insurance.

This can lead to a repetitive cycle in which bad credit prevents you from doing the very things that will help you get back on your feet financially. But it's a cycle you can break by taking action to repair your credit.

Whether you've fallen behind on your bills, been sued, faced a repossession or foreclosure, or even declared bankruptcy, this book will help you take simple and effective steps to repair your credit. You'll learn how to make a budget, negotiate with creditors, clean up your credit report, and build and maintain good credit going forward. As you read this information and decide how to handle your situation, keep these important facts in mind:

**You're not alone.** Economic ups and downs have affected many people. Layoffs and personal bankruptcy filings are on the rise, disposable incomes are falling, and savings are evaporating. Millions of honest, hardworking people—the same ones who receive credit offers almost daily—are having trouble paying their bills.

**You have legal rights.** Knowing and asserting your rights will help you get bill collectors off your back and give you a fresh financial start. Debtors who stand up for themselves often get more time to pay, have late fees dropped, settle debts for less than the full amount they owe, and get negative marks removed from their credit reports.

**You can do it yourself.** The information and forms in the book are good in all 50 states and the District of Columbia. You can follow the instructions on your own; you don't need to pay for credit repair services (and will be far better off if you don't). (Chapter 3 explains why you should avoid using credit repair clinics.) Generally, you won't need a lawyer, either. But in some situations you may need or want to consult with a lawyer. This book will suggest when consulting with a lawyer might be a good idea.

Nobody's credit is beyond repair. If you've been through devastating financial times, you may think you'll never get credit again. That's simply not true. As long as your financial troubles are behind you, you'll probably qualify for limited types of credit relatively quickly. Within about two years, you should be able to repair your credit enough to get a major credit card or loan. Many creditors are willing to extend credit to people who have turned their financial situations around, even if their credit records are less than stellar.

This book provides in-depth information on credit repair. Easy-to-use forms in Appendix B and on the enclosed CD-ROM help you with the sometimes daunting tasks of assessing your debts, planning a budget, negotiating with your creditors or bill collectors, and dealing with credit reporting agencies. Using this information, you'll be able to repair your credit and pave the way for a better financial future. ●

# Table of Contents

	<b>Your Credit Repair Companion.....</b>	<b>1</b>
<b>1</b>	<b>The Elements of Repairing Credit .....</b>	<b>3</b>
<b>2</b>	<b>Credit Reports and Credit Scores: The Nuts and Bolts...5</b>	
	How Creditors Evaluate Your Credit Worthiness .....	7
	Credit Reports and Credit Scores: What’s the Difference?.....	8
	Your Credit Report.....	9
	Getting Your Credit Report.....	11
	What Is in a Credit Report?.....	17
	Investigative Reports.....	22
	Who Can Look at Your Credit Report .....	23
	Your Credit Score: What It Is and Why It Matters .....	27
	How Credit Scores Are Calculated.....	28
	What Credit Score Do You Need to Get Credit?.....	33
	Getting Your Credit Score.....	34
<b>3</b>	<b>The First Step—Cleaning Up Your Credit Report.....</b>	<b>39</b>
	Common Errors in Credit Reports.....	41
	Your Right to an Accurate Credit Report .....	42
	Review Your Report for Errors and Incomplete or Prohibited Information.....	45
	Dispute Incomplete and Inaccurate Information .....	47
	Add an Explanatory Statement to Your Credit File.....	57



	Add Positive Information to Your Credit Report.....	59
	Check Your Credit Reports Often.....	62
	Avoid Credit Repair Clinics .....	64
<b>4</b>	<b>Assess Your Financial Situation.....</b>	<b>69</b>
	How to Assess Your Financial Situation.....	71
	Determining Your Credit Repair Options Based on Your Financial Situation.....	81
<b>5</b>	<b>Reducing Current Expenses and Debts.....</b>	<b>87</b>
	Cutting Expenses.....	88
	Reducing Current Debt Obligations .....	98
<b>6</b>	<b>Reducing Your Mortgage Debt.....</b>	<b>113</b>
	How a Foreclosure Works.....	115
	How Foreclosure Affects Your Credit .....	118
	Federal Programs for Homeowners Having Difficulty Paying Their Home Mortgage.....	120
	Short-Term Solutions.....	121
	Refinance .....	122
	Modify Your Loan Terms .....	124
	Leaving Your Home.....	127
	How a Modification, Short-Sale, or Deed-in-Lieu Affects Your Credit.....	131
<b>7</b>	<b>Reducing Debt Through Bankruptcy.....</b>	<b>135</b>
	Chapter 7 Bankruptcy .....	136
	Chapter 13 Bankruptcy .....	139
	Bankruptcy and Credit Repair: Does It Help or Hurt?.....	140

<b>8</b>	<b>Finding Money to Pay Your Debts</b> .....	143
	Ways to Raise Money.....	144
	Options to Avoid.....	154
<b>9</b>	<b>Negotiating With Creditors and Collection Agencies</b> .....	161
	Prepare a Negotiating Plan.....	162
	Negotiating With Creditors and Debt Collectors.....	169
	Dealing With Collection Agencies.....	179
	Tax Consequences of Forgiven Loans.....	194
<b>10</b>	<b>Getting Help to Negotiate and Manage Debts</b> .....	197
	Avoid Most Debt Relief Services.....	198
	How Does a Debt Repayment Plan Work?.....	201
	Debt Repayment Plans vs. Chapter 13 Bankruptcy.....	203
	Choosing a Good Credit Counseling Organization.....	204
	After You've Chosen an Agency, Monitor Your Plan.....	210
<b>11</b>	<b>Building Positive Credit History</b> .....	211
	First Steps to Rebuilding Credit.....	212
	Ways to Improve Your Credit History Without Getting New Credit.....	216
	Next Steps to Rebuilding Credit—Getting New Credit.....	223
	Putting It All Together: Preventing Future Financial Problems.....	232
	Be on Guard for Credit Discrimination.....	235
<b>12</b>	<b>Choosing and Using Credit and Debit Cards</b> .....	247
	The New Credit CARD Act: What's in It for You.....	248
	Choosing Credit Cards.....	252

Using Credit Cards: How to Protect Yourself.....	262
Why You Should Avoid Debit Cards.....	269
Avoid Prepaid Debit Cards.....	273

<b>13</b> <b>Avoiding and Dealing with Identity Theft</b> .....	275
The Crime of Identity Theft: The Scope of the Problem.....	276
What’s in a Stolen Name?.....	277
How Can an Identity Be Stolen?.....	278
How to Protect Yourself.....	279
Protecting Your Social Security Number .....	284
If Your Identity Is Stolen.....	286
Identity Theft Protection Products and Insurance.....	294

## Appendixes

<b>A</b> <b>Resources</b> .....	297
Debtors Anonymous.....	298
Nolo Publications.....	298
Other Publications .....	299
Online Resources.....	300
Where to Complain: Federal Agencies .....	301
State Consumer Protection Agencies.....	304

<b>B</b> <b>Forms and Letters</b> .....	311
Form F-1 Request Credit Report	
Form F-2 Request Reinvestigation	
Form F-3 Request to Furnishing Creditor to Reinvestigate	
Form F-4 Request Follow-Up After Reinvestigation	

- Form F-5 Request Removal of Incorrect Information by Creditor
- Form F-6 Creditor Verification
- Form F-7 Request Addition of Information Showing Stability
- Form F-8 Request Addition of Account Histories
- Form F-9 Monthly Income
- Form F-10 Your Debts
- Form F-11 Daily Expenses
- Form F-12 Payments to Savings and Debt Reduction
- Form F-13 Monthly Budget
- Form F-14 Inform Creditor of Judgment Proof Status
- Form F-15 Request Short Term Lower Payments
- Form F-16 Request Long Term Lower Payments
- Form F-17 Request to Pay Nothing Short-Term
- Form F-18 Request to Pay Nothing Long-Term
- Form F-19 Request Rewrite of Loan Terms
- Form F-20 Offer (Delayed) Payment of Past Due Amounts
- Form F-21 Offer (Reduced) Lump Sum Payment
- Form F-22 Offer Payment Schedule to Pay Off (Reduced) Debt
- Form F-23 Cashing Check Constitutes Payment in Full (Outside of California)
- Form F-24 Cashing Check Constitutes Payment in Full—First Letter (California)
- Form F-25 Cashing Check Constitutes Payment in Full—Second Letter (California)
- Form F-26 Cashing Check Constitutes Release of All Claims
- Form F-27 Offer to Give Secured Property Back
- Form F-28 Request Direct Negotiation With Creditor

Form F-29 Request for Verification of Debt/Identity of Original  
Creditor/Return of Debt to Original Creditor

Form F-30 Complaint about Debt Collector Violation of Law

Form F-31 Debt Collector: Cease All Contact

Form F-32 Request for Basis of Unfavorable Credit Offer or Action

Form F-33 Identity Theft Dispute Letter for Existing Accounts

Form F-34 Identity Theft Dispute Letter for New Accounts

Form F-35 Notice of Billing Error Dispute on Credit Card Bill

Form F-36 Notice of Claim or Defense Dispute on Credit Card Bill

Identity Theft Victim's Complaint and Affidavit

Annual Credit Report Request Form

FTC Law Enforcement Cover Letter

**C Additional State Protections Concerning  
Credit Repair Clinics ..... 407**

**D How to Use the CD-ROM ..... 415**

Installing the Files Onto Your Computer ..... 417

Using the Word Processing Files to Create Documents..... 418

Using Government Forms ..... 420

Using the Spreadsheets..... 421

Files on the CD-ROM..... 423

**Index ..... 427**

## The Elements of Repairing Credit

**C**redit repair is not a quick fix. If you are serious about improving your credit, you'll have to make a commitment, and then follow the steps discussed in this book. Some of these steps require time and hard work to complete, others you can do fairly quickly. And for some, you may have to wait until your finances are under better control before you dive in. With each step, we walk you through the various options and warn you away from alternatives that might make your situation worse. And throughout the book, we provide sample letters and forms that you can send to creditors, debt collectors, credit reporting agencies, and others to aid in your credit repair efforts.

**First steps: Learning about your credit report and assessing your financial situation (Chapters 2, 3, and 4).** The first step in credit repair is to get a clear picture of your current financial situation and how it relates to your credit history. Start by understanding your credit reports and credit scores: what's in them (and what's not), how your credit reports control what's in your credit scores, and what's most important and what's less so in credit scoring. Chapter 2 tells you how to get your reports and scores and how to review them. Chapter 3 tells you how to fix errors and other problems in your report, and how to add positive information, so that your report is as accurate and complete as possible.

At this point, you must also analyze your current debts, income, and expenses, prioritize your debts and expenses, and start laying out a budget that will put them in balance. With this information, you can better determine what credit repair strategies to employ, or whether you need to take care of a financial emergency first.

**Next steps: Getting your income, debts, and expenses into balance (Chapters 5, 6, 7, and 8).** Often the most important way to improve your credit is simple: pay your bills on time. But it's also one of the hardest things to do after financial problems have set you back. The next steps involve bringing your expenses and debts into balance with your income

so that you can meet your debt obligations, and start saving some money. We look at ways to make major reductions in debts (including your mortgage) and other expenses and ways to find more money to pay down debts. You will also learn about other methods of dealing with debts such as foreclosure and bankruptcy—and how each will impact your credit history. As you explore these options, the book steers you away from the minefield of scammers ready to take your money and derail your credit repair efforts.

**Paying and negotiating debts (Chapters 9 and 10).** Whether you're trying to reduce your debts enough to be able to pay current bills on time, or you are ready to tackle paying off debt, you will likely need to flex your negotiation muscles to achieve your goals. By negotiating with creditors and debt collectors, you may be able to settle debts, get better payment terms, and improve how your debts are reported to credit reporting agencies. In Chapter 9 you'll learn how to set negotiation goals, ways to negotiate, how the debt collection business works, and what debt collectors can and cannot do.

If you want help in talking to creditors, or in setting up a debt repayment plan for all or most of your debts, Chapter 10 explains your options. You'll also learn how to find legitimate credit counseling and debt relief services and how to avoid the rest.

**Stepping toward the future: Rebuilding and protecting your credit profile (Chapters 11, 12, and 13).** At this point, we turn the corner and concentrate on how you can start to rebuild your credit. Chapter 11 recommends ways to build (or rebuild) your credit profile that don't involve getting additional credit. And when you're ready, it helps you figure out how to get and start using credit again, how the different choices may affect your credit history and credit score, and how to avoid credit discrimination.

Because credit cards are a big part of rebuilding credit for many people, Chapter 12 provides information on how to choose and safely use credit cards and debit cards. Finally, Chapter 13 provides information on how to reduce the risk of identity theft or what to do if you become a victim, so you can keep your credit strong after all your hard work. ●

SAMPLE

## Assess Your Financial Situation

<b>How to Assess Your Financial Situation</b> .....	71
Total Up Your Income.....	71
Determine Your Debt Payments and Total Debt .....	72
Total Your Debt and Compare to Your Income.....	76
Tally Up Monthly Living Expenses .....	77
Track Money You Put Towards Savings and Reducing Your Debts .....	78
Make a Budget.....	79
<b>Determining Your Credit Repair Options Based on Your Financial Situation</b> .....	81
You Face a Financial Emergency .....	81
Your Living Expenses Are Greater Than Your Income .....	84
Your Income Is Sufficient to Cover Your Living Expenses.....	85



**A**t this point in the book, you have reviewed what creditors consider important. And you have taken the first step to repair your credit by getting at least one of your credit reports, reviewing it, and starting the process of making it (and the other two reports) correct and complete.

You have also learned that about 65% of your FICO credit score is based on whether you pay your bills on time and whether your debt is low in relation to your credit limits. Of course, if you've had debt trouble, you can't show timely payments and low debt levels right away—but you can get there. The next step in credit repair is to take stock of your financial situation so that you can figure out what strategies are available to you for reducing your debt levels and becoming able to pay all of your bills on time. This chapter will help you assess your financial situation—you will determine how much you have in total and delinquent debt, monthly expenses, and income, and whether they are in balance.

Although you may be tempted to skip this step, know that it is the necessary foundation for everything else you will be doing to repair your credit. If you are still struggling with debt, this will give you a clear picture of your current situation. With that, you can then figure out which steps to take to balance your income and expenses—whether it be reducing expenses (perhaps even your mortgage), increasing income, setting up a debt repayment plan, negotiating with creditors to reduce payments or outstanding debt or to protect your credit history, or filing bankruptcy.

If you can meet your current expenses, but still have past debt to deal with—this lets you know how much money you have to deal with delinquencies, pay down debt, and negotiate with creditors for different payment terms, a reduced lump sum to settle a debt, and to improve credit descriptions or remove negative information from your credit report.

## How to Assess Your Financial Situation

You may think you already have a pretty good idea of how much you earn and how much you owe. Or you may be afraid to find out how bad your financial situation is. The truth is, to really get into the nitty-gritty of credit repair, you need more than a ballpark idea of your financial state of affairs. Instead, you must take the time to figure out your monthly income, monthly debt payments, the amount of your outstanding debt, the amounts you are behind (if any), and your other monthly expenses. Here's how.

### Total Up Your Income

Gather your paystubs and any other documents showing income and a calculator.

First, add up your income from all sources. Use Form F-9, Monthly Income (in Appendix B, and on the CD-ROM).

If you are married or live with someone with whom you share expenses, include income information for both of you. If you are paid more often than monthly, see the instructions in Form F-9 to convert your pay to a monthly amount. If you don't receive the same amount each period, average the last 12 months. Then enter the average. If you don't have income from a source listed, leave it blank. This form is for income only. So, if you receive child support, for example, include it, but if you pay child support, don't enter it here. It will go on another form. If you have income from other sources not on the form, list it next to "Other."

When you are done listing all income, add up the income for you and your spouse for each line and enter this amount in Column 4. Total each column. Then, as a check, add the "Net Income" for Columns 2 and 3. That total should be the same as the total for Column 4. The total of Column 4 is your total net monthly income.

SAMPLE

## Determine Your Debt Payments and Total Debt

Now you are ready to figure out your debt. Use F-10, Your Debts (in Appendix B, and on the CD-ROM). Gather the documents that show your payments, the total you owe, and any amount past due, including any fees or interest that have been added, and get a calculator. In addition to obvious debts like those for your house, car, and credit cards, include any contracts you cannot cancel whenever you want without a penalty, for example, a phone or gym contract that lasts for a number of months or years. Also include back debts, even if you have no regular monthly payment or them or no long-term contract, for example, past due utility bills.

### Column 1: Debts.

Enter the type of debt in column 1. List debts even if they are deducted from your paycheck. Include debts for your spouse or a person you are sharing living expenses with, even if you are not certain which debts you may be responsible for. If your relationship is intact, it's best to work on your credit situation as a team. If you are separated or recently divorced, see *Solve Your Money Troubles: Debt, Credit & Bankruptcy*, by Robin Leonard and Margaret Reiter (Nolo), for an explanation of debts for which each spouse or ex-spouse may be responsible.

### Column 2: Outstanding Balance.

In this column, enter how much you still owe on each debt. For example, if you borrowed \$10,000 for a car purchase and you still owe \$6,000, enter \$6,000. If you have a doctor's bill for \$3,000 on which you still owe \$2,000, enter \$2,000. You can get your outstanding balance for each debt by:

- checking your most recent bill
- calling the customer service department, or
- checking your account information online (you may have to register to access your account data).

Many creditors have automated telephone systems that provide balance and payment information automatically, without requiring

you to speak to a person. If you must speak with a person and you are concerned about being hassled by creditors you've been avoiding, ask for balance information only. If the customer service representative turns into a bill collector, explain that you are exploring your options and need to know how much you owe before you proceed. Let the representative know that you will contact the company as soon as possible, but for now you need to know only how much you owe. If the representative still hassles you, hang up. You'll just have to estimate how much you owe that creditor or wait for your next bill.

Not all debts you list will have an outstanding balance, for example, child support or homeowners' dues. For those, just put a line through the space in Column 2.

### **Columns 3 and 4: Monthly Payment and Total Amount You Are Behind**

In Columns 3 and 4 enter the amount you currently owe on the debt. If you don't have set monthly payments, for example, on a medical bill, put the total you owe in Column 4 and leave Column 3 blank. If you make regular monthly payments, say on a car loan or mortgage, put the monthly payment amount in Column 3. If you are behind on those payments, put the full amount you are behind in Column 4. Include the number of late payments times the number of payments missed, plus any interest or penalties that have been added. If you aren't sure of the total amount you are behind, you can probably get it online or by contacting the creditor's customer service line—the same way you found your outstanding balance amounts. If you can't get an exact figure, use your best estimate.

For credit cards, enter the monthly minimum required payment in Column 3 and the entire balance in Column 4. This doesn't mean paying only the minimum payment is a good idea for the long term. (See Chapter 12 for more on using credit cards responsibly.)

Be careful not to enter a particular monthly debt payment more than once. So, for example, if you pay child support through paycheck deductions, you already deducted it from your income when you filled in Form F-9, so don't list it again in Column 3. If you owe back payments,

SAMPLE

however, that are not being deducted from your paycheck, do include that amount in Column 4.

### Column 5: Is the Debt Secured?

You will need to know whether a debt is secured or unsecured to determine its priority for payment and your negotiating strategy with the creditor.

#### Secured and Unsecured Debts

To successfully negotiate with your creditors, you must understand your options, which often depend on whether your debts are secured or unsecured. Understanding this distinction will also help you decide which debts to pay first.

A **secured debt** is one for which a specific item of property (called “security” or “collateral”) guarantees payment of the debt. One way for a debt to be secured is for you to sign an agreement to create a secured debt and specify the security. If you don’t pay, the creditor has the legal right to take the security. Because of this, these debts will usually be your highest priority (unless you don’t care if you lose the property). The other way a debt becomes secured is for a creditor to record a lien (a notice that you owe the creditor money) against the property. With a few exceptions (taxing agency, unpaid contractor or subcontractor), a creditor cannot record a lien without filing a lawsuit against you, and then, usually not until the lawsuit is over.

Common examples of secured debts include:

- mortgages and home equity loans (also called “second mortgages”)—loans to buy, refinance, or fix up a house or other real estate
- loans for cars, boats, tractors, motorcycles, planes, or RVs
- personal loans from finance companies for which you pledge real estate or personal property, such as a paid-off motor vehicle

SAMPLE

### Secured and Unsecured Debts (cont'd)

- charges on a department store charge account for which the store requires you to sign a security agreement pledging the item purchased as collateral for your repayment (most store charges are not secured), and
- tax liens, judgment liens, mechanics liens, and child support liens.

Unsecured debts have no security or collateral. Most credit cards, for example, are unsecured. When you charge a television set on your Visa card, the creditor can't take the television back if you don't pay your Visa bill. If the credit card company wants to be paid, it must sue you, get a judgment for the money you owe, and try to collect. A creditor who wins a lawsuit typically can go after your wages, bank accounts, and valuable property.

The majority of debts are unsecured. Some common unsecured debts include:

- credit and charge card purchases and cash advances (such as Visa, MasterCard, American Express, or Discover Card)
- gasoline charges
- most department store charges
- most student loans
- bills from doctors, dentists, hospitals, accountants, and lawyers
- alimony and child support
- loans from friends or relatives, unless you gave the person a note secured by some property you own
- rent, and
- utility bills.

Usually, paying unsecured debts should be a lower priority than paying secured debts. However, because collectors of some unsecured debts—such as student loans and unpaid child support—are allowed to use more aggressive collection tactics than the typical unsecured creditor, or because you can't afford to lose the service—such as heat or electricity—those debts deserve more attention.

SAMPLE

SAMPLE

In some cases, a creditor can have a security interest in your property even if you haven't signed a security agreement. For example, a subcontractor that you or your contractor you did not pay can put a mechanic's lien on your home; the IRS can get a tax lien on your property; and if you lose a lawsuit, the winner can get a judgment lien against your property.

Because you can more easily lose something of value if you don't pay a secured debt, these debts usually your top priority for payment. In Column 5, list the property that secures each of your secured debts (the property is called the collateral). If you are not sure, take a look at the credit agreement to see if it includes a security interest and what it lists as collateral.

### **Column 6: Priority of Debts**

These are the debts that are most important for you to pay because of the severe consequences if you don't. Most secured debts are priority debts. Other debts are a high-priority, for example, because the electricity can be turned off if you don't pay them, or you would lose your health insurance. Government-backed student loans might be medium-priority (because of the severe consequences of default), even though they are not secured. Most unsecured debts, like unsecured credit cards, are probably the lowest priority because the creditor can't take anything from you until they win a lawsuit and get a lien. And, if necessary, most unsecured debts can be eliminated in a bankruptcy. (See Chapter 7 to learn which debts can be eliminated in bankruptcy.) For now, mark as "1," the debts you think are your top priority, "2," for those you think are medium priority, and "3," for those that are low priority. In later chapters you will revisit this form as you work on repairing your credit and balancing your income and debts.

### **Total Your Debt and Compare to Your Income**

Now, total up the columns in the "Your Debts" table. Column 2 shows you how much total debt you have. Column 3 is the amount you need

each month just to pay your minimum credit obligations. Column 4 is a total of how much back debt you owe.

Now subtract the total of your monthly minimum payments (Column 3) from your total net income (Column 4 on Form F-9) to get a sense of how much money you have left each month to cover the rest of your monthly expenses, pay down outstanding debt, and begin saving money.

## Tally Up Monthly Living Expenses

The next step is figuring out how much you spend each month to live, including your regular monthly debt payments from Form F-10, Column 3 (except for your minimum credit card payments). This includes all your living expenses, but not payments you make on past due debts. For example, you should include your mortgage payment (since this is your monthly housing payment), and if you purchase groceries with your credit card, list the full grocery expense. Get started by completing Form F-11, Daily Expenses (in Appendix B, and on the CD-ROM), which gives you space to record everything you spend over the course of a week. Here's how to use the form:

1. Make nine copies of the form so you can record your expenditures for 60 days. (You'll only need 4 days from the last week.) You should track expenses for a couple of months to make sure your budget isn't based on a week or two of unusually high or low expenses. If you are married or live with someone with whom you share expenses, you should each record your own expenses and add them together at the end of the week.
2. Select a Sunday to begin recording your expenses.
3. Record that Sunday's date in the blank at the top of one copy of the form.
4. Carry that week's form with you at all times.
5. Record every expense you pay by cash or credit. Include payments by check, ATM, debit card, automatic bank withdrawal, or credit card. Be sure to include bank fees. Don't include savings and investments, such as deposits into savings accounts,

SAMPLE



SAMPLE

- certificates of deposit, or money market accounts, or purchases of investments such as stocks or bonds. Form F-12 is for that.
6. Do not include expenses you charge on a credit card. But don't include monthly payments on a credit card for items you've charged in the past. Instead, you will list those in Form F-12. For example, say you have an outstanding balance of \$1,000 on your credit card, you add a total of \$230 in new charges over four weeks, and you pay \$250 on the card in the fourth week. List the \$230 according to the dates and items purchased (\$130 for groceries, \$50 for gasoline, \$35 for cable service, \$15 for electric service). But don't list the extra \$20 you paid toward the old balance. That \$20 should go to Form F-12.
  7. At the end of each week, put away the form and take out another copy. Go back to Step 3. For the last week, you just need to do the first 4 days.
  8. Once you've tracked expenses for 60 days, list on any form under the category "Other Expenses" seasonal, annual, semi-annual, or quarterly expenses you incur but did not pay during your two-month recording period. The most common are property taxes, car registration fees, magazine subscriptions, tax preparation fees, and insurance payments. But there are others. For example, if you record expenses in the winter months, don't forget summer expenses such as camp fees for your children, or pool maintenance. Similarly, if you record in the summer or spring, don't forget to include your annual holiday gift expenses. Think broadly and be thorough. It may help to look back at your check register or credit card statements for the year.

## **Track Money You Put Towards Savings and Reducing Your Debts**

Use Form F-12, Payments to Savings and Debt Reduction, to keep track of how much money you put towards saving or paying down outstanding debt. This would include savings and investments, deposits into savings accounts, certificates of deposit, or money market accounts,

purchases of investments such as stocks or bonds, and payments towards your credit card balances that are above and beyond your regular minimum monthly payments. So for example, if you have \$230 of new charges on your credit card during the month, but pay \$250, that extra \$20 goes toward reducing the balance on the credit card—list that \$20 on Form F-12. Form F-12 tracks your savings and debt payments on a once per week basis. But if you make payments toward savings and debt reduction just once a month, you can use one of the weekly forms for the whole month.

For amounts you put into savings by payroll deduction, such as money into a 401k account, you already deducted that from your income in Form F-9. Don't deduct it again here. Instead, list the type of deduction (such as 401(k)) to remember it in your planning, but don't write anything under "Amount." Keep track of money you put towards savings and debt reduction for 60 days.

## Make a Budget

Once you've tracked your expenses, income, savings, and debt reduction payments for a few months, you're ready to create a budget or spending plan. Use Form F-13, Monthly Budget (in Appendix B, and on the CD-ROM).

When it comes to credit repair, the primary goal in making a budget is to get a clear picture of your financial situation—this will inform your options for credit repair. In addition, creating a budget will help you figure out where you can make changes so you are able to make your regular payments on time, and so you can begin reducing high outstanding balances and past due debts. If you have had late payments, repossessions, foreclosure, or bankruptcy in your past, the sooner you can build an on-time repayment record and reduce your outstanding balances to well below your credit limits, the sooner your credit will rebound. Your budget is your most important tool for getting there.

The figures you entered on Forms F-9, F-11, and F-12 will form the basis for your budget.

SAMPLE



## TIP

**You can start your budget before you finish your expense and savings forms.** Even if you have not yet completed Forms F-11 and F-12 for all 60 days, you can begin to work on your budget. You will be returning often to your budget to adjust it as you go along, so there's no harm in getting started now. Just use your best estimates until you complete F-11 and F-12 for all 60 days.

To make and use a monthly budget, follow these steps:

1. Make several copies of Form F-13, "Monthly Budget." Making a budget you can live with is a process of trial and error, and you may have to draft a few plans before you get it right.
2. Get out Forms F-9, F-11, and F-12, which list your income, expense, and savings/debt reduction figures.
3. Review the expenses listed on Form F-11. They are divided into common categories, such as home expenses, food, and transportation. If you don't have any expenses in a particular category, you can cross it out, delete it on your computer, or simply leave it blank. If you have a type of expense that isn't listed on the form, add that category to a blank line.
4. In the first Column (labeled "Projected"), list your average actual monthly expenses in each category. Calculate these amounts by adding together your actual expenses for the two months you tracked, then dividing the total by two. (For regular monthly payments, like car payments or mortgage payments, you can just use the monthly payment amount. If you have seasonal, annual, or quarterly expenses, include a monthly amount for those as well. For example, if you pay \$3,600 in property taxes each year, you should list a projected expense of \$300 a month (\$3,600 divided by 12) in this category.) Don't forget to include your savings and debt reduction payments from Form F-12.
5. Add up all of your projected monthly expenses, savings and debt reduction and enter the total at the bottom of each page. Then add up and enter the total of all three pages on the line marked

“Total Expenses” at the bottom of the “Projected” column on the last page of Form F-13.

6. On the last page of Form F-13, enter your projected monthly income (from Form F-9) below your projected total expenses.
7. Compare your projected income to your projected expenses. These figures will help you determine your options for credit repair.
8. Continue to track your expenses each month. On Form F-13, write the current month in the heading of the column next to the “Projected” column. Track your expenses for that month, using the categories in the Budget. Do the same for the next month. Each month (or several times per month), compare your month’s actual expenses to your projected expenses to see if you are staying within your budget.

## Determining Your Credit Repair Options Based on Your Financial Situation

Now that you’ve figured out your income, living expenses, and total outstanding debt, it’s time to take a hard look at your financial situation. This book covers many different options and strategies for credit repair. Your financial figures will help you determine which of these will be best for your situation.

Most people will fall into one of these categories:

### You Face a Financial Emergency

A financial emergency is any situation that may leave you homeless or without some very important property or service. A pending eviction, a letter threatening foreclosure, an IRS seizure of your house, a utility cut-off, and a threat of car repossession are financial emergencies. A nasty letter or threatening phone call from a bill collector, while unpleasant, is not an emergency. (If you are being hassled by a collection agency, see Chapter 9.)

SAMPLE

If you face an emergency, credit repair is premature. Focus on the urgent situation at hand. Once you have weathered the storm (which may take months, a year, or more), you can revisit credit repair. Some of the strategies for reducing your debts or negotiating with creditors or debt collectors in later chapters may assist you. And you may be able to limit the negative effect on your credit as part of negotiations to resolve a debt emergency. But your primary goal is to deal with the immediate crisis. Begin by contacting the creditor and finding out exactly what you'll need to do to keep your wheels, your home, or other valuable property. Before you agree to anything, however, you may want to talk to a lawyer to make sure you aren't getting yourself into deeper trouble. For example, a new agreement for reduced or delayed payments may make your life easier right now, but it may also eliminate rights you currently have, add significantly to the interest you'll owe, or give a creditor more rights to collect a debt. If a creditor wants you to agree to make a payment on a very old debt or to make any changes to an existing loan or agreement (other than to reduce or delay your payments), an attorney can help you figure out whether the agreement will solve your problems or make them worse.

**CAUTION**

**If you know you will need a lawyer, start looking for one right away.** Waiting will only make your problems more difficult to resolve. If your income is low, you may qualify for free legal assistance from a government or nonprofit legal aid organization. Otherwise, get recommendations from family and friends, contact your state bar, or use an online directory, such as Nolo's Lawyer Directory, at [www.nolo.com/lawyers](http://www.nolo.com/lawyers).

**When to Get Help Beyond This Book**

This book can help you assess your finances and repair your credit. If you need to take immediate action, however, you'll have to consult other resources (perhaps another Nolo resource) or contact a lawyer.

### When to Get Help Beyond This Book

Seek additional help if...	Explanation	Where to get help
You're behind on your house payments.	Your lender has the option of foreclosing—declaring the entire balance due, selling the house at an auction and kicking you out.	General information on foreclosures is in Chapter 6. You can get more specific help from your lender, a lawyer, or <i>The Foreclosure Survival Guide</i> , by Stephen Elias (Nolo).
You owe child support or alimony.	If you can't afford to pay your child support or alimony, you need a court order reducing your obligation. Don't hesitate; child support and alimony are virtually never modified retroactively.	Contact your local child support enforcement agency. Although these agencies focus on enforcing support orders, many also assist with reviewing existing orders. Or visit DivorceNet ( <a href="http://www.divorcenet.com">www.divorcenet.com</a> ) for links to state self-help services. Many states have online legal forms to request child support modification. Or, see a lawyer.
You owe income taxes.	The IRS can seize virtually all of your assets of value and close to 100% of your wages without first suing you. You have several options in dealing with the IRS. You may be able to negotiate an installment agreement for repayment or drastically reduce what you have to pay.	See <i>Stand Up to the IRS</i> , by Frederick W. Daily (Nolo) or see a tax attorney.
You face eviction.	In some states, an eviction can take place in just three days. Rather than risk being homeless, take steps to get immediate help.	In California, see <i>California Tenants' Rights</i> , by Janet Portman and David Brown (Nolo). Outside of California, you can get an overview of eviction and eviction defense issues in <i>Every Tenant's Legal Guide</i> , by Janet Portman and Marcia Stewart (Nolo). Or, contact a local tenants' rights group or a tenants' rights lawyer.
You've been sued.	If you just received court papers, you need to file a response with the court within a tight time limit. If the creditor already has a judgment, it can try to attach your wages, take money from bank accounts and place a lien on your real estate (and in some states, personal property). You may be able to prevent certain collection tactics, particularly if you don't own much.	See <i>Solve Your Money Troubles: Debt, Credit &amp; Bankruptcy</i> , by Robin Leonard and Margaret Reiter (Nolo). Or, see a lawyer.

SAMPLE

### When to Get Help Beyond This Book (cont'd)

Seek additional help if...	Explanation	Where to get help
You are considering bankruptcy.	Many people overwhelmed by their debts conclude that bankruptcy is the best option. There are two types, called “chapters” of bankruptcy for consumers. In Chapter 7, you ask that your debts be wiped out. In Chapter 13, you set up a repayment plan whereby your creditors receive some—or all—of what you owe.	Forms and instructions for filing a Chapter 7 bankruptcy are in <i>How to File for Chapter 7 Bankruptcy</i> , by Stephen Elias, Albin Renauer, and Robin Leonard. Forms and instructions for filing a Chapter 13 bankruptcy are in <i>Chapter 13 Bankruptcy: Keep Your Property &amp; Repay Debts Over Time</i> , by Stephen Elias and Robin Leonard. For information on figuring out if either Chapter 7 or Chapter 13 bankruptcy is right for you, see <i>The New Bankruptcy: Will It Work for You?</i> , by Stephen Elias. (All are published by Nolo.)

## Your Living Expenses Are Greater Than Your Income

If your living expenses are greater than your income, your priority is to stabilize your financial situation. Repairing your credit is secondary. You may need to take actions that will worsen your credit in the near term, in order to stabilize your financial situation. For example, you may need to give up your car or even your house. It might be possible to get a creditor to agree to report these in a way that minimizes the damage to your credit—but even if not, remember that your main goal is getting the excessive debts resolved. Focus your energy on finding a job or other income source, reducing your expenses, and paying accounts in order to keep your home, car, and other necessities.

Some ways to climb out of a financial hole include:

- Getting help from a legitimate credit counselor. (See Chapter 10 to learn about credit counselors and how to choose a good one.)
- Filing for bankruptcy. (See Chapter 7 for information about bankruptcy.)
- Consulting with a career counselor about getting a job or moving into a higher paying field.
- Reducing expenses. (See Chapter 5.)

SAMPLE

- Reducing or eliminating debts through negotiation and settlement. (See Chapters 6 through 10.)

For the most part, your credit record will improve only after you demonstrate to creditors that you are back on your feet financially.



#### RESOURCE

**For a comprehensive guide to dealing with financial emergencies and digging yourself out of debt,** get *Solve Your Money Troubles: Debt, Credit & Bankruptcy*, by Robin Leonard and Margaret Reiter (Nolo).

Depending on the difference between your income and expenses, what kind of debts you have, whether you have any money you can pay to make lump sum settlements, and your diligence in attempting to make major reductions to your expenses or increases to your income, you may be able to change your situation so that you are able to cover your living expenses and other costs each month. As you go through the following chapters, if you are able to cut expenses or reduce existing debt obligations, return to your budget and enter the adjustments. When you're finished, add up these new figures to determine the new total expense amount. Your goal is to balance your expenses and income so that your income is sufficient to cover your living expenses.

### Your Income Is Sufficient to Cover Your Living Expenses

If your income is larger than your monthly living expenses, you have achieved a major step in credit repair—getting your daily finances in order. But your monthly budget is still important to determine how much money you have left over each month to deal with outstanding debts. (And for some, that debt burden may be large and intimidating.) So, just as the following chapters provide assistance for you when you are trying to balance your current living expenses with your income, they will also help you reduce burdensome outstanding or delinquent debts necessary to rebuild your credit. Some options you may have for the next steps in credit repair include:

SAMPLE



- free up money to pay down outstanding debts (Chapters 5 and 6 tell you how to reduce your expenses and debts)
- pay down some or all of your debts (see Chapter 8, “Finding Money to Pay Your Debts”)
- negotiate with creditors to pay off debt with a smaller lump sum or enter into a more beneficial payment arrangement, ideally in exchange for removal of negative information from your credit report (see Chapter 9, “Negotiating with Creditors and Debt Collectors”)
- get assistance to come up with a plan to pay off some or all of your debts (see Chapter 10, “Debt Repayment Plans”), and
- file for bankruptcy (see Chapter 7, “Reducing Debt Through Bankruptcy”). ●

SAMPLE