

Title:

Bad Credit? Start Rebuilding

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Summary:

Once you're back on your feet, be sure not to repeat the same mistakes you made in the past, but don't swear off credit altogether, either. Just because you're in bad shape now doesn't mean that you always have to be.

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Article Body:

Bad Credit? Lose The Shame, Take Responsibility, and Begin Rebuilding

According to the research firm Sherbrooke and Associates, 43 percent of American households are "credit constrained." This is probably because they carry too much current debt, or they were forced into making poor choices with their credit in the past. With interest rates rising and the housing market cooling, the number of credit constrained households is likely to increase. If you find yourself in a such a situation, know that you're not alone.

Having excess debt and bad credit is a source of shame for many, and it has even been known to break up otherwise loving marriages. Many people who are credit-constrained feel there is no way out - particularly now that bankruptcy laws have been changed to make filing for bankruptcy more difficult for people with even average incomes. The truth, contrary to what most bankruptcy lawyers will tell you, is that bankruptcy is rarely the answer. You can dig yourself out of debt and repair your credit - all that it takes is commitment, discipline, and most of all, a new attitude.

Step #1 - Let Go Of Your Shame

Unless you fraudulently charged items that you had no intention of paying for, you need to let go of all shame related to your bad credit and debt. After all, the credit system is set up with the understanding that some people will be

unable to pay their debts - that's why lenders are paid interest, to compensate them for risk. If you buy a corporate bond and the company goes under, nobody feels sorry for you, so don't let your creditors make you feel sorry for them. Just like buying a bond, your creditors took a financial risk by lending to you, and they didn't do it out of the kindness of their hearts - they did it to make money. So long as you had every reason to believe that you'd be able to pay for your debts, you have nothing to feel guilty about.

Letting go of your guilt and shame is not the same as abdicating all responsibility. To one degree or another, you are responsible for your situation. To another degree, externalities - things in the outside world - are responsible. Take responsibility for your actions, but do not let anyone make you feel guilty or they will wield that guilt as a weapon against you.

Step #2 - Contact Your Creditors

Once you've let go of your shame and have committed to taking responsibility, it will be much easier to face your creditors. Explain to them that you're over your head in debt, and while you want to honor your commitments, you would appreciate it if they would work with you to make doing so easier. Most of the time, your creditors will be more receptive than you would imagine - after all, they're used to people in your position ducking under a rock and ultimately sticking them with the bill.

Your creditors may offer to let you skip a payment or two in order to help you get back on your feet, or they might offer to lower your interest rates. If you still have your accounts open, they might offer to suspend your credit while you pay off the balance in principal only at regular monthly intervals. Finally, they may offer to settle your accounts at less than the full amount due if you pay in one lump sum.

Step #3 - Begin Rebuilding Your Credit

While restructuring your payment terms, by all means, stop abusing credit. You need to work out a budget that will prevent you from finding yourself in this situation again. If you still have credit cards that haven't been canceled, you should continue to use them - but make absolutely sure that you can pay for everything you've charged that month when the bill comes due. By doing this, you'll keep a credit account active, which is good for your credit.

Many of these negotiated payment plans will adversely affect your credit - particularly settling for less than the total amount due, which will be a black mark on your credit report for up to seven years. The fact is that negotiated

settlements may still may be superior to falling deeper and deeper into debt, which could ultimately destroy your credit and lead to legal action being taken against you.

Once you're back on your feet, be sure not to repeat the same mistakes you made in the past, but don't swear off credit altogether, either. Just because you're in bad shape now doesn't mean that you always have to be. Open up a small credit account and pay your bills in full and on time, and in a matter of just a few short years, your credit can be just as good as anyone else's. The sooner you start rebuilding after a near credit meltdown, the sooner you'll be able to experience the security and peace of mind that the other 57 percent of Americans enjoy.

Stay safe.

Sincerely,

James