

# Tips for Buying

## Four ways to fix bad credit



Credit problems can seem like an insurmountable barrier to getting a home loan. It's not an easy task, but with patience and some insight you can turn things around. Here are four ways you can get on the road to credit repair—and put yourself in a better position for homeownership.

### 1. Develop a budget

Stop all credit transactions right now. It might sound harsh, but you should hide or destroy all of your cards if necessary! Now you can manage your inflow of cash and, more importantly, your outflow—money in and money out.

Develop a flexible budget. Consider all necessary expenses such as housing, food, and healthcare. Then, eliminate expenses that can be trimmed such as entertainment and dining out. For more help, contact a nonprofit credit counseling agency, such as the CCCS at 800/308-2227 or [www.moneymanagement.org](http://www.moneymanagement.org).

### 2. Contact your creditors

If you aren't making timely payments, don't wait for your account to be turned over to collectors. Your creditors may be able to help you get on a lower-interest payment plan or agree to a settlement.

A helpful tip: If your balance is unmanageable, offer a 30% settlement payment first. Some creditors will take payments of 30%-40% rather than have you default. Make sure to get the agreement in writing. Once you've paid in full, send the settlement letter to each of the credit bureaus (Equifax, Trans Union, and Experian/TRW) for reference so they will update your credit report.

### 3. Consolidate your debt

Another approach to consider is acquiring a debt consolidation loan. This type of loan will allow you to pay off your outstanding balances with one, lower-interest monthly payment. A home equity loan for debt consolidation could allow the interest you pay to become tax-deductible.

### 4. Avoid bankruptcy if you can

A last resort is bankruptcy because of its long-lasting effects. Bankruptcy can make it difficult to attain future credit, life insurance, and sometimes even a job. It does, however, offer a new start. The primary types of personal bankruptcy are Chapter 13 and Chapter 7. Chapter 13 allows you to keep property that you would otherwise lose, but pay off a default amount during a three-to five-year period. Chapter 7 (straight bankruptcy) liquidates all of your assets that are not exempt. Property is turned over to creditors or sold by a court-appointed official.

### Help for homeownership is out there

There are lots of programs to help first-time and low-income homeowners, and even those with spotty credit histories who want to realize the American dream of homeownership. One is the Texas Cares program, which provides buyers 3%-6% of the downpayment costs that they don't have to pay back. Texas Cares is supported by the Texas Association of REALTORS® Housing Opportunity Foundation. For more information, ask your Texas REALTORS®.

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