

Bad Credit and How to Clear It

In this article:

New year, new credit habits. Don't let a poor credit history drag you down. Five ways to rebuild a poor credit history.



Don't let a poor credit history drag you down; it's never too late to take action to fix bad credit.

The introduction of [comprehensive credit reporting](#) means that it's not just late payments and defaults included in your credit report. Your report will now capture a full range of credit information, including any efforts you make to improve your credit health. Here are five ways to rebuild a poor history and boost your credit rating.

1. Check your credit report

To know the size of the problem, you first need to look at your credit report. Available free once a year from each of the three major credit bureaus, the report contains a range of information about you, including monthly repayment history, credit account information, credit enquiries, missed payments, defaults and court judgements.

If your report is scattered with negative data, take heart that it won't be there forever. Each listing is removed as soon as its time limit is up. In the case of repayment history, this data is only kept for two years. Credit enquiries, credit default listings and court judgements are cleared after five years. Overdue accounts listed as a serious credit infringement are maintained on file for seven years.

Keep in mind that your credit report will be updated to show any efforts you make to pay off these debts.

Tip!

Check your report for errors that could damage your credit score. Mistakes might be as simple as a misspelt name or as serious as identity fraud. There is no charge for making a complaint about anything in your report you believe to be inaccurate.

2. Chip away at your debt

Comprehensive credit reporting gives you an incentive to break the habit of late repayments. Turn over a new leaf and show lenders you can improve your credit health.

If you start paying off your credit card and loans on time, this will demonstrate you are getting serious about responsibly managing debt. Arrange a direct debit to pay off your monthly debts automatically from your savings or transaction account.

Even the most hopeless credit situations can be improved by practising good habits consistently. Your goal should be to continuously chip away at your debt with regular on-time payments, avoiding any new default listings on your credit file. Consider the possible advantages of consolidating your debt into a low-interest balance transfer card or a consolidation loan.

Tip!

Speak to your Yellow Brick Road mortgage broker about whether a balance transfer card or debt consolidation loan could be a viable option for your situation.

3. Freeze credit

Stop using your credit card while paying down your debt. Credit cards, particularly store cards, carry high-interest rates. Paying more than the minimum amount each month will help you out of the credit trap of spending all your spare cash just in paying off interest.

Take your credit cards out of your wallet and switch to a debit card or BPay. Removing the temptation of credit will help develop the discipline of making purchases only when there are funds in your bank account.

Tip!

On time payments are essential to improving your credit score.

4. Be realistic about credit repair

If you're going to the considerable expense of using a credit repair agency, be realistic about what they can achieve. While credit repair can remove incorrect or out of date listings on your credit file, there is nothing that can be done to remove genuine black marks against your name.

A reason to use a credit repair agency would be if you don't have the time and patience to clear up incorrect listings yourself, not because you think they can wipe your debt away.

Tip!

Be wary of credit repair agencies that make lofty promises or ask for upfront fees.

5. Ask for help

Your credit providers may be able to accept lower repayments for a period. Be sure to read the fine print of any repayment plan that claims to stop your debts being listed as defaults in your credit file.

[Financial Counselling Australia](#) offers free, independent advice to those in financial difficulty.

Tip!

Avoid making multiple credit enquiries in a short space of time as this will negatively impact your credit score. By using a Yellow Brick Road mortgage broker, you can get a good idea of your home loan borrowing power without submitting an application.

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