



At some point in your life, you may face financial challenges. You or your spouse could be laid off or cut down to part-time work, or you could face high medical bills due to an accident or injury. Regardless of the circumstances, financial trouble could have a devastating impact on your creditworthiness and credit score.

Fortunately, there are things you can do to help better prepare yourself. If you've faced financial difficulty in the past and now find yourself with less-than-perfect credit, take the following five steps to help get back on track.

5 Simple Tips for People with Less Than Perfect Credit

1. Make the best of your existing lines of credit. It's important to understand that if financial trouble has negatively impacted your credit score, for a period of time it may be very difficult to obtain favorable credit terms. Instead of seeking new credit, aim to responsibly use the credit you currently have. You may consider adding a 100-word statement to your credit report (200 words if you reside in Maine) explaining any unfavorable items. Also consider disputing any inaccurate items or items that don't belong to you. Incorrect negative information can have a drastic effect on your credit report, so be sure to take care of it immediately.

2. Address the issues that got you here in the first place. If you've lost your job and now find it difficult to pay your bills, your first goal should be to find a new job to replace your lost income. If underemployment is the problem, it may be time to make drastic changes in your lifestyle to lower your expenses and align them with your current income. If you're faced with overwhelming medical debt, talk with the doctor or hospital and try to work out a payment plan.

3. Pay your bills on time. Continue to pay your bills on time to avoid late fees and negative information on your credit report. If you are behind, catch up on your payments and make sure you pay on time going forward. This can positively impact your credit history because payment history is weighted the most heavily in your credit score.

4. Make a plan to pay down your debt. Start by listing all of your debts from smallest to largest. Pay more than the minimum towards the smallest debt while still making minimum on-time payments on your other debts. Once the smallest debt is paid off, put those extra dollars towards the monthly payment of the next debt on your list. This is known as "the debt snowball method." Continue this process to pay down all of your debts, and do not put any additional debt on your credit cards while you are trying to pay them down.

5. Seek help from a trusted advisor. If the process of paying down your debts is overwhelming, consider enrolling in a debt management plan with a qualified non-profit credit counseling agency. This plan could potentially lower your interest rates with existing creditors; help you pay down your debts in a shorter period of time than if you were to do it alone; and minimize the stress of working with creditors directly. These plans can also be convenient because you make only one monthly payment instead of multiple payments to multiple creditors.

If you've found yourself facing financial challenges that have impacted your credit, remember that you can change the trajectory with steady progress. Less than perfect credit can be a setback, but by following these tips, you can take charge and get on the road to a healthy financial life.