

7 steps to clean up your credit report

Paying attention to your credit report only when you're about to make a big purchase, such as a house or car, can backfire. According to a 2004 [U.S. Public Interest Research Group study](#), nearly 80% of surveyed reports had inaccuracies. (And 25% had "serious errors.") If any inaccuracy takes some time to sort out, that can be a problem if you're racing the clock to secure a loan. Get a head start by going over your credit report now, and check up on it periodically so you can catch and fix any problems right away.

Striving for a perfect credit score

1. Order a copy of your credit report

If it's been years since you've given your credit report a good once-over, or if you never have, just figuring out where to start can be daunting. Luckily, federal law entitles you to a free copy of your credit report once every 12 months from each of the three major credit-reporting agencies: [Equifax](#), [Experian](#) and [TransUnion](#). You can get a free copy of all three bureaus' versions of your credit report at [AnnualCreditReport.com](#). To check your credit report every few months, order one at a time and space them out over the year. Or, if you're getting acquainted with your credit history for the first time, order all three at once.

If you're turned down for a job or credit, or if you don't get the best interest rate available, you also have a legal right to see your credit reports at no charge. The paperwork you get notifying you of the decision will include a number for you to call.

2. Start with your identification basics

It's easy for people to forget the most important part of their credit report: checking their identifying information, including name, address and Social Security number, says Natalie Lohrenz, the director of counseling at the Consumer Credit Counseling Service of Orange County, in California. "People obsess over tiny fluctuations in their credit score, but what they should focus on is the question 'Is it accurate?'" she says.

Small discrepancies, such as an account that lists you by your nickname instead of your given name, don't affect your score, but if there's a more serious discrepancy such as an incorrect Social Security number, you'll want to straighten it out, says Maxine Sweet, vice president of public education at Experian. After checking all of the identifying information, look at the accounts and make sure they're all yours. Keep in mind that some lenders, such as the financing companies that issue store-brand credit cards and companies that handle medical billing, might have different names from those on storefronts or hospitals.

3. Scan your report for discrepancies

"If you see an account you don't recognize, you definitely want to call that to a credit bureau's attention," says Craig Watts, the public affairs manager for FICO. "Definitely find out what's going on. If you see any negative information like a collection account that you don't think belongs there, it could be somebody else's account that got into your report by mistake, or something you forgot about," he says. Watts says another red flag can be accounts with a much higher balance than you carry. Because any of these items could indicate a case of mistaken identity or identity theft, these are problems to address right away.

Jessica Cecere, a regional president at credit counseling organization **CredAbility**, says one common error she encounters is the inclusion of old negative information that should have come off the person's record. Most negative information stays on for seven years, and Chapter 7 bankruptcies remain for 10. "A lot of times the information on your report doesn't automatically fall off at that seven-year mark," she says.

4. Watch out for phantom money

Lohrenz says consumers with a history of collections can have their outstanding balances appear larger than they actually are because of the booming secondary market for collections. Here's how it happens: If a consumer has a credit card balance that becomes delinquent, the issuer will attempt to collect for a while, then give up and sell the account to a collection agency. The card balance should then drop to zero, and a new account, this time with the collection agency, should appear on the report. Sometimes, though, the issuer won't strike that balance from its records, and it will appear as if the consumer has two outstanding debts. If the debt is bought and sold numerous times, which is common, the problem can multiply. Another instance of "phantom money" can occur when a consumer has a closed bank account that had an overdraft protection line of credit. In some instances, that line of credit will remain on a person's report even after the account is closed, says Bucci.

5. Dispute any mistakes

If you find a major mistake, order your credit report from all three bureaus. Doing so can help you figure out if the problem is limited to just one report. The next thing to determine is if you need to take your dispute up with the credit-reporting bureau or the lender. If there's a case of mistaken identity, such as someone else's information on your report, or accounts listed that aren't familiar to you, contact the bureau. All three bureaus have online dispute forms, which Sweet says are faster than snail mail for resolving problems.

"Taking things up with the bureau is easier because they have one set process," says Bucci. "There's a dispute process in place, so you can dispute any account with the same process, whereas when you contact the creditor, every one's a little different. It's not as neat and simple."

In the case of negative information more than seven years old or a report of an outstanding balance that has actually been paid off, try contacting the lender directly.

6. Follow up

It would be great if you could just file a dispute and forget about it, but you may have to follow up. Especially if an item is very old, the creditor in question may have been bought, merged or gone out of business entirely, which makes documenting everything important. Keep notes of the people you speak with at the bureau or lender, when you contacted them and the date by which any corrective action is to be taken. Check your credit report again after that date to make sure they followed through. The three credit bureaus communicate with each other electronically, so a correction made on one report should be reflected on the other versions, too.

7. What not to sweat

There are a couple of items pertaining to your credit report that might seem alarming but really aren't a big deal. Closed accounts in good standing don't need to be taken off your report. In fact, leaving them on your report can help. Credit inquiries also aren't as damaging as many people believe, says Sweet. "Honestly, a **hard inquiry** is very small impact on your credit score, and it is short term. It stays on for two years, but it has the most impact only within six months." A "hard" inquiry will appear if you applied for a loan or credit card. It can also crop up if you enter into a service contract such as a cell phone or cable-TV plan.

Lohrenz says not to worry about the actual credit scores, the three-digit numbers lenders use to gauge your level of risk. It's what the report contains that dictates your score, so concentrate on making sure it's accurate and up to date.