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Improving Your Credit Score

Your credit score is a number that lenders use to gauge how likely you are to repay debts on time. It is derived from information compiled in a credit report, including your payment history (whether you have missed or been late with any payments for bills or loans), the amount you owe creditors compared with the amount of credit that is available to you, and the extent of your credit history (how long various accounts have been open).

Know Your Number

Before launching a campaign to raise your credit score, know what you are shooting for. Get a current copy of your credit report and review it for accuracy. All U.S. consumers are entitled to free annual credit reports from the major credit reporting agencies, which are Experian, Equifax, and TransUnion. You can request all three reports at www.AnnualCreditReport.com. Unlike credit reports, your credit score is not free. You can purchase your score from one of the above-mentioned agencies or from www.myFICO.com. A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your score, the lower the perceived risk to the lender, and the more attractive the interest rate you will be offered.

Room for Improvement

A few tips for raising or maintaining a higher credit score include:

- **Paying your accounts on time and keeping your balances low.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
- **Being conservative in the amount of available credit you use at any given time.** About 30% of your score is determined by what the industry refers to as your "utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, your score will be lower.
- **Holding on to older, unused accounts.** The longer an account has been open and managed successfully, the higher your score will be.
- **Maintaining a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.

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