

Four Tips for Improving Your Credit Score

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Repairing bad credit is not quite as simple as repairing your car or a broken vase. It can take years for your credit score to bounce back from a delinquency or default. And without a good credit score, you can find yourself fielding rejection notices when you apply for a loan or credit card. Or you could have to pay a significantly higher interest rate to borrow than someone with a higher score.

Why is your credit score so important? It's the number (usually between 300 and 850) 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, the amount you owe creditors compared with the amount of credit that is available to you, and the extent of your credit history. Generally speaking, the higher your score, the lower your perceived risk to lenders.

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 consumers are entitled to free annual credit reports from the major credit reporting agencies, 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 myFICO.com.

Room for Improvement

Here are four tips for raising or maintaining a higher credit score.

1. **Pay your accounts on time and keep your monthly balances low.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
 2. **Be 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%, it will have a negative impact on your score.
 3. **Hold on to older, unused accounts.** While it seems counterintuitive to hold on to accounts you no longer use, keeping an older credit card or bank account open actually can work to your advantage. The longer an account has been open and managed successfully, the higher your score will be.
 4. **Maintain 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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