

## **How to Improve Your Credit Score**

Do you need to improve your credit history? If you're like the majority of Americans, the answer is yes. According to FICO, 60% of all people have a credit score less than 750. This means there is plenty of room for improvement for many people. There are many methods to check on your FICO Scores; each credit reporting agency allows one report per year ([www.equifax.com](http://www.equifax.com), [www.experian.com](http://www.experian.com), [www.tuc.com](http://www.tuc.com)). While you can't simply fix your credit history overnight, there are many things you can do to begin building a more positive credit history. Here are steps you can take:

### **1. Pay Your Bills on Time**

This one is probably quite obvious, but it has to be mentioned right out of the gate. The single greatest factor that determines your credit score is your payment history. If you pay on time and continue to do so for years, this will lay a solid credit foundation. One thing you do have to keep in mind is that this goes beyond just paying your credit card, mortgage, or car loans on time. Even things such as utility bills, cell phone, rent, and so on will likely be reported if late. While these types of accounts don't generally show up on your credit report if you're in good standing, they usually will still show up as a blemish if you're late (usually after 30 days late).

### **2. Don't Bounce Checks**

What does bouncing a check have to do with your credit history? On the surface, it seems like an innocent bounced check wouldn't be of much concern other than the overdraft fee, but it can adversely affect your credit history. While your overdraft may not show up on your credit report, most banks have their own system to track customers with bad finance habits. It is called ChexSystems, and if you don't think it will show up the next time you're looking for an auto loan or mortgage through a bank or credit union, think again.

### **3. Start Small**

If you have a limited or poor credit history, the likelihood of being approved for a large amount is slim. Without a proven credit record, most lenders won't be willing to extend significant amounts, so it is in your favor to start with smaller requests. A lender would like to see that you are financially responsible with a relatively small amount before taking on more risk with a larger sum. Sometimes you have to crawl before you can walk, but even a good payment history with small amounts can go a long way towards proving you are responsible over the long run.

### **4. Visit Local Lenders**

A local lender may be more willing to extend credit to you than a large national chain. In many cases with the large chains, your Social Security number simply gets run through a

computer that checks your credit information and automatically approves or denies your application. When you work with a small and local institution, the decision may be based on more than a simple computer calculation. They may know you personally, know your employer or family, and this can potentially lead to an approval.

## **5. Apply for a Secured Credit Card**

If you are having a hard time getting approved for any standard credit card, you may want to consider opening a secured card. To establish a secured credit card, you typically have to keep a deposit with the bank that can cover the charges you make on the card. This works as collateral just as a home or vehicle would be on a mortgage or loan. While it won't quickly improve your credit history, it will begin to show that you are financially responsible and lead to possibly getting approved for other loans or credit cards to further build your credit.

## **6. Review Your Credit Report Once a year**

When you know you have bad credit, one of the last things in the world you feel like doing is pulling your credit report just to be reminded of it, but it is still important to check it annually. The information is usually accurate, but mistakes do happen on occasion, and even worse, you may notice fraudulent activity. It is in your best interest to correct these issues sooner rather than later. If too much time passes before you try to resolve an issue, it may be too late, and that inaccurate mark won't disappear for seven years.

## **7. Review Your Credit Report a Few Months Before Requesting a Major Loan**

When you're thinking about applying for an auto loan or a home mortgage, make sure you give your credit report a once over a few months before going into the application process. This will give you a head's up on any potential inaccuracies so that you can have them resolved before going into the loan, or at least help you be prepared to explain to the lender why an item is on your report and whether or not it is being resolved. The lender is certainly going to pull your report, so the last thing you want to do is go in uninformed and possibly face a surprise

## **8. Avoid Letting Accounts be Turned Over to a Collection Agency**

If you thought a few late payments to your lenders was bad, you don't want to entertain the idea of letting your accounts go to collections. The last thing a lender wants is to turn over an account to a collection agency because they will only recover a fraction of the outstanding debt even if you pay the collection agency in full. Since the lender doesn't want to turn you over to collections, it is in your best interest to work with the lender directly when problems arise. If you're already late and foresee a problem of getting your account current, give them a call and see if they will work with you. In most cases they will work to develop a more reasonable payment plan so that this can be avoided.

## **9. Avoid Having Judgments Filed Against You**

Being dragged into court faced with a judgment against your debt is clearly not a position you want to be in. Unfortunately, if you fail to repay a debt, this is a very real possibility. Just like with collection agencies, even if you pay what the court says you owe, the judgment will stay on your credit report for seven years. This will not help your chances of getting approved for a credit card or loans. Again, it is in your best interest to work with your lender at the first sign of a problem to avoid this from happening.

## **10. When Denied Credit, Review Your Credit Report**

When you're denied a loan or credit, the lender is required to offer you a copy of your credit report at no cost. While they may give a brief explanation as to why you were denied, this is a good time to pull your report and find out exactly what they saw. It could be a legitimate problem with your history, but you also want to keep an eye out for something out of the ordinary if this denial came as a surprise.

## **11. Try to Avoid Frequent Changes in Residence and Employment**

Just like constantly moving from job to job, lenders like to see stability in residence. If you're renting a new place every year, the lender will wonder why you need to keep moving. Lenders also look favorably upon homeowners, so if you currently do own a home, this can also help.

## **12. Work to Increase Your Income**

Easier said than done, but your debt-to-income ratio is quite important when it comes to getting approved or not. In addition to the actual ratio, lenders like to see regular increases in your income. Whether this is through annual raises or occasional bonuses, this can help your chances of getting approved. Also, if you are expecting a bonus sometime shortly after applying for a loan, bring this up to your lender. Knowing that you'll be receiving additional income can be a deciding factor if you are on the line of being approved or not.

## **13. Work to Decrease Your Debt**

The debt-to-income ratio can be improved by decreasing outstanding debt. The more income you have relative to your debt, the better. So that means if you can't easily increase your income, you can achieve the same results by decreasing your debt. If you continue to use credit cards while paying them off, your amount of debt relative to your income won't improve. On the other hand, if you can show that you have consistently been reducing your overall debt for a period of time; this can look as good as showing regularly increasing income. Develop a plan to pay off non-mortgage debt.

**Remember, It Takes Time**

It can be frustrating, but working to establish or improve your credit history takes time. There isn't an overnight solution, so you have to approach this as a long-term goal. If you're just beginning to establish credit for the first time, take things slow and begin by opening a few small accounts. With these initial accounts, make sure you use the credit wisely and develop sound habits. It won't be long and you'll be on your way to building a great credit history.

If you already have a credit history but it has been damaged by something mentioned above, don't despair. While you won't be able to increase your score 200 points in the span of a couple months, following the suggestions above will put you on the right track to begin increasing your score.

The best way to improve your credit score is to develop the discipline to make good choices. Secondly, develop a working budget to live by!