

Special Report From Credit Card Accepted✓

"How to improve your credit score"

You may be out of school, but that doesn't mean you're free from report cards. In fact, if you want to buy a house, a car or any other big-ticket item, a lender will look up your "grade" as soon as you come knocking. That grade is your credit score.

Generally speaking, a credit score measures the likelihood you'll repay what you owe, and it is based on information in your credit report.

The rewards of raising your score speak directly to your wallet: You'll qualify for more loans and be offered better interest rates.

Consumers may now get their FICO score or a comparable version of it from each of the bureaus. It pays to review these scores at least three to six months before shopping for a loan so you'll have time to improve your standing before approaching a lender.

Anyone who wants to improve a credit score should first do some basic housekeeping: Get a free copy of your credit report from one of the three major credit bureaus ([click here](#)), scour it for any mistakes and ask the bureau to remove incorrect information. (Note: changing a mistake on your report - such as a payment that is wrongly labeled as late - can take 30 days to three months.) Once that's accomplished, you can start to work on burnishing your score.

For the uninitiated, credit scores are three-digit numbers increasingly used by lenders when evaluating your creditworthiness. Insurers, employers and landlords also use the scores in evaluating the applications they get. Scores range from 300 to 850. Only about 11% of the surveyed population in U.S. ranks above 800; 29% ranks between 750 and 799

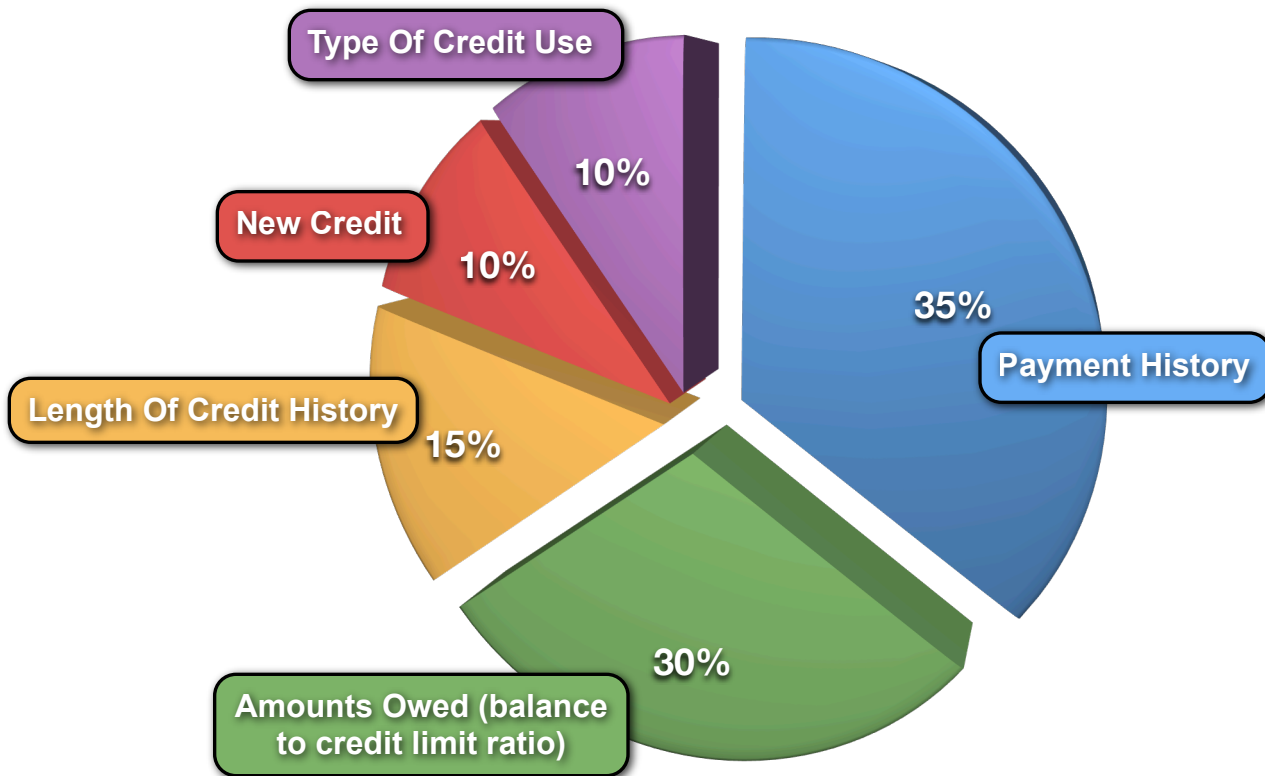
Here, then, are the five steps to credit repair:

Pay your bills on time

Payment history is the single most important factor in determining your credit score, making up 35% of the total. Since recent history carries more weight than what happened five years ago, getting in the habit of making on-time payments is an incredibly powerful way to start rebuilding your credit rating.

Likewise, delinquent payments can devastate your score. Missing even one payment can knock 50 to 100 points off a good score. Skipping payments for a single month on all your bills can lower your number from a respectable 707 to the dismal range of 562 to 632.

Weighting of factors in a FICO score



★ **Tip:** One of the best ways to avoid late payments is to put as many of our bills on automatic as possible. Our mortgage lender, utilities and phone service providers are happy to take their payments directly from our checking account each month. Online bill-payment systems are another way to ease monthly check-writing chore, and many provide reminder services so you don't forget a bill. The latest versions of Quicken and Money have good reminder features, as well.


Pay down your debts - and consider charging less

Lenders like to see plenty of breathing room between the amount of debt reported on your credit cards and your total credit limits.

The more debt you pay off, the wider that gap and the better your credit score.

What many people don't know is that credit scores don't distinguish between those who carry a balance on their cards and those who don't. So charging less can also improve your score - even if you pay off your credit cards each month.

Your credit-card issuer takes a look at your account once every month or so and reports the outstanding balance on that day to the credit bureaus. This snapshot doesn't reflect whether you pay off that balance a few days later or whether you carry it from month to month.

 **Tip:** If you plan to apply for a mortgage, car loan or other major credit account in the next year, start paying down those balances now. And if you're in the habit of charging everything in sight to your cards - to gain more frequent flier miles, say - consider switching more to cash in the months before you apply. Depending on your situation, the loss of a few miles could be more than made up for by a better score, and thus a lower interest rate.

This kind of advice, by the way, makes the folks in the credit scoring business more than a little nervous. Credit scorers and lenders don't want to see people "artificially" changing their behavior to pump up their scores. Moderation in using plastic is never a bad thing, however, and if the desire for a better score has you using credit more wisely, who's the loser? Oh, other than the fee-charging, interest-rate-boosting credit-card companies, of course.


Don't close old, paid-off accounts

We used to tell people to close accounts they weren't using. Now here's the word from direct from Craig Watts, an executive at Fair Isaac & Co., one of the leading credit scorers: "Closing accounts can never help your score, and often it can hurt." This knowledge is frustrating to those who want to simplify their lives and reduce the opportunities for identity theft by closing unused accounts. But credit facts are credit facts.

Shutting down credit accounts lowers the total credit available to you and makes any balances you have loom larger in credit score calculations. If you close your oldest accounts, it can actually shorten the length of your reported credit history and make you seem less credit-worthy.

Of course, perhaps you can afford not to care too much about the effect of closing an account. If you don't use your cards much and your score is already high, the damage caused by shutting down more recent unused accounts will be minimal and may be well worth the peace of mind.

If you do carry balances or charge a lot, however, leave all your old accounts open, especially if you're about to apply for new credit.

 **Tip:** Keep all this in mind the next time a department store clerk offers you a 10% discount for signing up for a new card. Each new account can put a small ding on your credit score, and offer a new opportunity for credit thieves. Since closing accounts can hurt, it's better to apply only for credit you really need.


Don't be afraid of credit counseling

If you're overloaded with high-interest debt and are in danger of falling behind on your payments - or you already have - consider working with a nonprofit agency such as Consumer Credit Counseling Services to set up a debt repayment plan. These services can negotiate lower interest rates and help you pay off your bills within a few years.

Contrary to what you might have heard, credit counseling probably won't hurt your credit score. It used to, but about three years ago Fair Isaac discovered that people in debt-repayment plans were no more likely to default or go bankrupt than other consumers. "Today the FICO score ignores any and all references in a credit report to credit counseling or debt management programs," Watts said.

Those references to credit counseling, by the way, are typically removed from a credit report after a consumer has successfully completed a repayment plan. That means there's no lasting reminder on your credit history.

Watts notes that a few lenders still use the old scoring system, which punishes folks on debt repayment plans. Others, particularly mortgage lenders, simply won't work with people in credit counseling until their plans are completed, regardless of their credit scores.

 **Tip:** Don't confuse legitimate, nonprofit credit counseling services with fly-by-night outfits or so-called debt settlement firms. Debt settlement will hurt your credit score, since you're paying less than you owe, and fly-by-night firms can disappear with your payments, making your credit even worse.

Stay out of bankruptcy if you can

Bankruptcy is the nuclear bomb of the credit world - worse than delinquencies, loans or collections. Its impact, however, depends on how many black marks you made on your credit before you filed.

Bankruptcy can knock 200 points, or more, off the score of someone with otherwise good credit. People with multiple delinquencies or collections on their reports will see

less of a decline because their scores are low to begin with. Either way, recovering from a bankruptcy can be tough. Once a score is pushed below 620, which bankruptcy inevitably does, credit becomes scarce and far more expensive.

High-interest lenders love recent bankruptcies, because they know consumers aren't allowed to file again for another six years - plenty of time to squeeze out lots of high-rate payments.

Mainstream lenders, however, generally will reject consumers with a bankruptcy on their record - and bankruptcies are reported for up to 10 years.

Knowing your credit score, and the potential impact of a bankruptcy, might help you steel your resolve to pay off your bills and improve your credit situation. Or you may decide you can't make matters much worse, and file anyway.

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