

Ten tips to clean up your credit score

By Erin K. Witt

For many consumers, credit score is a great mystery—falling somewhere between the secret of the Sphinx and trigonometry.

But credit history is one of the most important factors in determining not only whether or not consumers can obtain a loan, but the terms of the loan, such as the interest rate and the loan to value. Having a good understanding of credit score and its impact on your ability to receive financing for major purchases like homes or vehicles is an important step towards using credit responsibly and making educated buying decisions.

Credit reports are available from three major credit reporting agencies: Equifax, Experian and TransUnion. Scores are usually between 500-800, with higher scores indicating a lower risk to lenders.

The scoring system is based on five separate factors, including:

- ❑ *Payment history of previous account,*
- ❑ *Amount owed on accounts.*
- ❑ *Length of credit.*
- ❑ *New credit.*
- ❑ *Types of credit.*

When buyers are looking for a mortgage loan, most lenders will provide some of the best rates if the middle of three credit scores from these agencies is at least 680. The interest rate would go up as the score went down.

If you want to clean up your credit score to secure a mortgage loan, or for any reason, here are ten tips to help:

Tip #1: Improve your payment history. Always pay your bills on time. Late payments play a major role in driving down your credit score. If you're already late, get current and stay that way.

Tip #2: Communicate with creditors. Contact your creditors as soon as you know you will have a problem paying bills on time. Try to work out a payment arrangement with your creditors and negotiate with them to keep at least a portion of the late notations off of your credit reports. The main hits to credit scores are recent public record events such as foreclosures, bankruptcies, judgments, suits and liens, but wage attachments and collection items may also cause the scores to drop. Avoid these problems before they affect your credit score.

Tip #3: Make a plan you can stick to—and get help if you need it. Work towards developing an ongoing track record of paying on time. If your situation is serious, see a legitimate,

non-profit credit counselor. Avoid the scam artists who promise a quick reversal of your credit problems.

Tip #4: Manage your accounts owed. Keep your credit card balances low. High debt-to-credit-limit ratios drive your scores down. Also, pay off debt, don't move it around. Owing the same amounts, but having fewer open accounts, can lower your score if you max out the accounts involved.

Tip #5: Close accounts with caution. Don't automatically close unused accounts—the zero balance might help your score. At the same time, don't open new accounts that you don't need as a quickie approach to altering your debt-to-credit-limit ratios. That can lower your score.

Tip #6: Bide your time. Improve the length of your credit history. Don't open several new accounts in a short period, especially if your credit history covers less than three years. Adding accounts too rapidly sends up a red flag that you might not be able to handle your credit responsibly.

Tip #7: Be careful of credit inquiries. Several credit inquiries during a short period probably means you are attempting to open multiple new accounts. Look for lowered credit scores. Credit scoring software recognizes when you are shopping for a single loan within a short period of time (such as a home loan.) If multiple inquiries are necessary, have them pulled close together.

Tip #8: Take matters into your own hands. Checking your own credit report does not affect your scores when you order the report from the credit reporting agency or an organization authorized to provide credit reports to consumers. Try to open a few new accounts if you've had credit problems in the past. Pay them on time and don't max out your credit limits.

Tip #9: Mix it up. Typically, revolving credit will not be looked upon as favorably as installment credit and mortgage credit. A mixture of credit cards and installment loans can help raise your score if you manage the credit cards responsibly.

Tip #10: Give your credit report a closer look. If you discover errors in one or more of your credit reports, or even worse, accurate references to late payments or other debt-related issues, they can be fixed. Make a copy of your credit report and circle every item you believe is incorrect. Write a letter to the reporting agency (the address will be printed on the report). Explain each dispute and request an investigation to resolve the issues. If you have supporting paperwork, send it along, coding pages to match dispute paragraphs. Do not send your originals. Send all materials by certified mail, return receipt requested, so that you can prove the packet was received. Send a similar letter of dispute to the creditor whose reports you disagree with. You should contact all three major credit-reporting agencies to make sure the problem is corrected across the board.