

Cleaning Up Your Credit Score

BY S. KAY BELL



If you've been managing your credit as closely as you should, you're paying the price with a lower credit score. But there are ways to raise your ranking.

For better, or too often worse, credit rules our lives. We have mortgages. We have car loans. We charge things to put in our houses and keep our auto running.

But we pay a price for our credit.

For some, the price is less, thanks to lower loan interest rates. Others, however, end up paying as much in interest as they do for the items they purchase.

Overpayers tend to have bad credit scores. If you're one of them, it's possible to improve your creditworthiness.

And if lenders already see you as a good credit risk, the same techniques can keep your credit ranking clean.

ASSESSING YOUR CREDIT GRADE

You thought when you graduated, you were done with grades. Think again.

"Think of a credit report as financial report card," said Sally Borie, education coordinator with Consumer Credit Counseling Service in Austin. "If you did well in school, you got a high grade. If your finances are OK, then a high credit score reflects that."

Like a scholastic grade, your credit score is a number, a shorthand way for lenders to see what kind of borrower you might be. There are several versions of credit scores, said Borie, but most lenders use FICO, the acronym name of Fair Isaac Corp., the company that developed the credit score standard.

Essentially, a higher credit score indicates to a lender that you're a better credit risk, that you're more likely to pay back a loan. And just like the "A" students who got to skip some of the basic classes and go on to more interesting studies, a high-scoring credit appli-

cant gets rewarded, too – with better loan terms.

Scores range from 300 to 900 depending on the scoring model. "A year and half ago, 680 was considered a good credit score," said Borie. "But in today's economy, most lenders are looking for 720 or above."

CALCULATING YOUR CREDIT SCORE

Your credit score number is based in large part on information in your credit reports. Three nationwide bureaus – Equifax, Experian and TransUnion – track the amount and types of credit you have and your payment habits.

Your credit history, (or how well you pay your bills), is the largest factor in determining your ultimate credit score. It accounts for 35% of your credit score. A big way to improve your score, said Borie, is to pay your bills on time. If you do fall behind, try to get current as quickly as you can.

Another 30% of your credit score comes from how much money you owe. Called utilization, it's basically a tally of all the credit you have available and how much you're using. For example, your combined Visa and Dillard's cards afford you \$10,000 in credit. You're in debt on both cards to the tune of \$8,000. Not so good.



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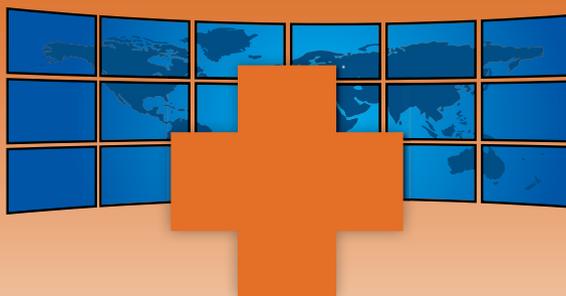
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"Lenders want to see that usage low," said Borie. "A year or two ago, lenders wanted you to use about 50% of what you had available to you. Now they like the utilization level at no more than 30%."

Pay down your debts and don't charge any more to get your utilization at lender acceptable levels.

Next, in your credit score computation, around 15%, is credit history. The longer is better. "Someone who's had credit for many years and is doing well handling it is a better risk," said Borie.

Two other factors account for 10% each.

Applications for loans or new charge cards will show up on your credit report and stay there for two years. Lenders tend to see these as red flags you could be taking on too much debt, said Borie.

Finally, lenders want to see a variety of successfully handled credit in your report. "They want a healthy mix," said Borie, "a couple of credit cards, some store cards, an auto loan."

BECOMING A GOOD CREDIT RISK

The bottom line is to be a conscientious credit user. Your credit history, and therefore your credit score, will improve if you pay your bills on time, pay down your credit cards and have a diverse mix of loan types.

Borie also suggests checking your credit report regularly. You can order a free copy annually from each of the credit bureaus by calling toll-free 877.322.8228 or ordering the reports online at annualcreditreport.com.

Your credit score is not part of these reports; you must ask specifically for that and it will cost you a few bucks. But you can get an idea of whether your score is generally good or bad by seeing what's in your credit report.

If you are about to apply for a loan for a major purchase and want to see your actual credit score, Borie suggests asking your lender what scoring system it checks.

"The lender might consider other factors and the credit score could be only one part if it," said Borie. "But your score is important, very important, as to whether you'll get a loan and how much you'll pay. Make sure you're looking at the same thing the lender is looking at." *AW*

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