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## HOW TO BUILD GOOD CREDIT (AND IMPROVE YOUR CREDIT SCORE)

*Some little things that may make a difference in the number.*

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**740 is the new 720.** If you want to refinance or buy a home or pass muster with a lender, a landlord, an insurer or even a possible employer, it will help to have a credit score of 740 or better. While the median FICO score in America is still 720, many lenders have now set the bar 20 points higher.<sup>1</sup>

Fannie Mae has also raised its requirements: FNMA used to request that you had a credit score of at least 580, and now you need a 620 or higher.<sup>1</sup>

Fair Isaac, the credit rating agency behind the FICO score, says that 13% of Americans have credit scores of 800 or better. You may not, and if your score is nowhere near that lofty mark, here are the steps toward possibly improving it.<sup>1</sup>

**First, look at your credit reports.** Go to [annualcreditreport.com](http://annualcreditreport.com) - a free, centralized online service created by Equifax, Experian and TransUnion - and request a free credit report from each of the big three consumer credit reporting firms. (You can do this once a year.) You need credit reports from each of them, because a creditor doesn't have to report to all three credit bureaus. In fact, some community banks and credit unions may not even report your credit history to them.<sup>2</sup>

**Look for any errors.** Errors on credit reports are more prevalent than you may think. Sometimes information about you is years out of date or just plain wrong. Account histories can be inaccurate, and sometimes people make typing mistakes. The report will include a dispute form; you can use the dispute form to report mistakes or write a letter detailing them. Who knows - you may find something within the report that can help you boost your score.

Does it sound involved? This is actually the easy part. Some work lies ahead of you.

**Stabilize your credit profile.** It is true - a personal bankruptcy will stay on your credit report for 10 years, and late payments on credit cards will stay on your credit history for 7 years. Yet over time, credit bureaus generally give more weight to the

consistency of credit payments than to disruptive events. So consistency is a key. Moderation and caution are also helpful when it comes to rebuilding your credit history. So pay attention to these instructions...<sup>2</sup>

- *Plan to solve any immediate crises in your financial life.* If you can't pay your bills, for example, you won't be improving your credit score anytime soon. As for debts, pay off the smallest first, then the next smallest, and so forth as your finances allow in the coming months and years. Negotiate with any collection agencies and demand a statement in writing showing that you have paid in full.
- *Cutting up a credit card won't help.* While cutting up a card may feel like a clean break, it does not close your account with that credit card issuer. If you want to close an account, do it by paying down your balance, calling the issuer, confirming that zero balance, and verbally canceling the card. Then check your credit report later to see that the account has been "closed at customer's request".
- *Stay on the radar of credit card companies.* Stopping card use may actually do you a disservice, as the FICO scoring formula favors at least occasional activity. So keep your account active, and maintain between two and four credit cards.
- *Keep balances low or wipe them out.* Make every effort to pay off 100% of the balance each month.
- *Set moderate credit limits.* If a credit card company offers you a card with a really generous limit or offers to raise your limit, refrain from accepting the offer.
- *Start a new savings account or build up the one you have.* Creditors look for signs that you have cash reserves and that those reserves are being boosted or replenished.

**Incidentally, if a lender says "no" to you, you can now learn why.** At the start of 2011, a new federal law went into effect - essentially an update of the Fair Credit Reporting Act. If you apply for a loan or a line of credit and are offered clearly less favorable terms than someone with a high FICO score would get, the lender has to tell you why this happened in writing. It has to say which credit report it based the decision on and how you can obtain a free copy of it within 60 days of the notice. (Things will be spelled out even more clearly soon: as of July 21, 2011, the lender must provide you with a free credit score in the letter.)<sup>3</sup>

**Credit scores can be improved.** If your score is way down there, it may seem as though you are facing a mountain that will take years to climb. It may; credit scores improve gradually, and the biggest positive influence on a credit history is a pattern of consistently paying off debts and bills. There is no magic wand that will instantly and dramatically improve your score, but it is better to start the process of rebuilding your credit history today rather than tomorrow.

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#### **Citations.**

1 - [money.msn.com/credit-rating/raise-your-credit-score-to-740-weston.aspx](http://money.msn.com/credit-rating/raise-your-credit-score-to-740-weston.aspx) [9/21/10]

2 - [bankrate.com/brm/news/cc/20011008b.asp](http://bankrate.com/brm/news/cc/20011008b.asp) [7/2/08]

3 - [bucks.blogs.nytimes.com/2011/04/14/get-bad-loan-terms-now-youll-get-some-clues-why/](http://bucks.blogs.nytimes.com/2011/04/14/get-bad-loan-terms-now-youll-get-some-clues-why/) [4/14/11]

4 - [montoyaregistry.com/Financial-Market.aspx?financial-market=what-is-tax-efficiency-and-why-does-it-matter&category=31](http://montoyaregistry.com/Financial-Market.aspx?financial-market=what-is-tax-efficiency-and-why-does-it-matter&category=31) [4/17/11]