

How to Improve Your Credit Score



Obtaining Your Free Credit Report

- You are entitled to a **free** report every 12 months from each of three credit bureaus: **TransUnion, Experian, & Equifax**

www.annualcreditreport.com

877-322-8228

**Annual Credit Report Request
Service**

P.O. Box 105281

Atlanta, GA 30348-5281

Free Credit Score Sources

- *www.creditkarma.com*
- *www.creditsesame.com*
- *www.mint.com*
- Credit card clients: AmEx, B of A, Barclays, CapOne, Chase, Citi, Commerce, Discover, USBank, Wells Fargo, and more

How Your Credit Score Is Calculated

- **Payment history (35%):** Payment history reflects whether you've paid past accounts on time.
- **Amounts owed (30%):** Lenders want to know how much you owe. If you're close to reaching your credit limit for an account ("maxing out"), this may negatively affect your credit score.
- **Length of credit history (15%):** A longer credit history and how long you've been actively using those accounts will improve your score.
- **Types of credit (10%):** The mix of credit cards, installment loans, retail accounts, mortgage loans, and finance company accounts. Your score also looks at the amount of accounts you have open. Closing an account doesn't make it go away; it will still show up on your report.
- **New credit (10%):** Inquiries into new lines of credit can lower your score.

Where to Start

- Check your credit report for errors!
- If you see errors, dispute in writing or online directly to the credit bureau.
- The Fair Credit Reporting Act requires they investigate all except frivolous disputes, and creditors must respond within 30 days or wrong information is removed.



Steps to Improve Your Score

- On-time payments are very important
 - Pay any collections in full
 - Set up payment reminders
 - Online banking reminders
 - Consider enrolling in auto-pays to have payments debited on time



Steps to Improve Your Score

- Reduce the amount of debt you owe
 - Stop using your credit cards
 - Determine how much you owe
 - Create a payment plan to pay off the debt or seek credit counseling for help



Maintaining a Good Credit Score

- Pay your bills on time (35% of score!)
- Get current and stay current on payments
- Be aware that paying off a collection account will not remove it from your credit report (7 years)
- If you're having trouble making ends meet, contact your creditors for hardship or workout plans
- Talk to an NFCC agency about debt management

Amounts Owed Tips

- Keep balances low on credit cards and other "revolving credit"
- Pay off debt rather than move it around—you can't borrow yourself out of debt
- Don't close unused credit cards as a short-term strategy to raise your scores
- Don't open a number of new credit cards you don't need just to increase your available credit

Length of Credit History

- If you have been managing credit for a short time, don't open a lot of new accounts too rapidly
- New accounts will lower your average account age, which will reduce your score
- Rapid account buildup can look risky if you are a new credit user

Obtaining New Credit

- Shop for rates within a focused period of time
 - Every time you apply for credit, it can cause a small dip in your credit score that lasts a year
- Reestablish your credit history if you have had problems, and pay new credit off on time
- Note that it's OK to request and check your own credit report

Credit Use Tips

- Apply for and open new credit accounts only as needed
- Don't open accounts just to have a better credit mix—it probably won't raise your credit score
- Have credit cards, but manage them responsibly
 - In general, having credit cards and installment loans (and paying timely payments) will rebuild your credit scores
- Note that closing an account doesn't make it go away
 - A closed account will still show up on your credit report and may be considered by a score

Summary

- Improving a credit score is more about fixing errors in your credit history (if they exist) and then following the guidelines mentioned to maintain consistent, good credit history
- Raising your scores after a poor mark on your report or building credit for the first time will take patience and discipline
- Beware of credit repair shops—there are no quick fixes



Source

Chestnut Credit Counseling Services

www.chestnut.org/credit

