10 Ways to Improve Your Credit Score

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Strategies you can implement now to start cleaning up your credit report and boosting your credit score

The information on your credit report directly impacts your credit score. In fact, it's the only thing that impacts your score. Your credit score in turn determines your ability to obtain credit and potentially be approved for loans. Having a poor credit score will either keep you from obtaining credit altogether or place you in a high-risk category, which means that if you're approved for credit or loans, the interest rates you'll be offered will be significantly higher than someone with excellent credit. Over the life of a mortgage, home equity loan, car loan, or student loan, for example, this can cost you tens of thousands of dollars in interest fees.

For example, if you apply for a $250,000, 30-year, fixed-rate mortgage and your credit score is between 760 and 800 (which is excellent), you could qualify for a rate of 5.9 percent. This would make your monthly payment $1,482.84. Someone with a credit score of between 660 and 679 might qualify for an interest rate of 6.51 percent for that same loan. Thus, their monthly payment would be $1,581.81. Someone with a credit score of 620 to 639 might qualify for an interest rate of 7.49 percent. This would make their monthly payment $1,746.32.

In this example, the person with the credit score between 600 and 679 would pay $1,187.84 per year extra in interest compared to the person with the excellent credit score of between 760 and 800. Over the 30-year term of the loan, that's an extra $35,629.20 in interest fees alone. Meanwhile, the person with the credit score between 620 and 639 would pay $3,161.76 per year extra in interest compared to the person with excellent credit score of 760 and 800. This means that over the term of the loan, the person with the lower credit score would pay $94,852.80 extra in interest compared to someone with what would be considered excellent credit.

If you currently have an above average or excellent credit score, it's important to maintain it. Far too many people do stupid things, like making mortgage payments late or skipping credit card payments, and the negative impact on their credit scores is disastrous. Just one late mortgage payment that gets listed on your credit report could cause you to be rejected or be offered a significantly higher interest rate (with extra fees attached to the loan) if you attempt to refinance your mortgage, need to apply for a new mortgage as a result of a move, or apply for a home equity (or home improvement) loan or second mortgage.

If your credit score is already below average as a result of poor decisions and irresponsible financial actions in your past, it's important to immediately begin rectifying the situation by taking steps to begin rebuilding your credit. This process can take months or even years of diligence and responsible financial planning.

For now, let's focus on ten strategies and tips for improving the information on your credit report, which will lead to a boost in your credit score. Unfortunately, successfully completing just one or

two of these tasks probably won't result in a fast and dramatic jump in your credit score. However, utilizing most or all of these strategies simultaneously over time will definitely give your credit score upward momentum, the results of which you should start seeing within six to 12 months (possibly sooner), depending on your unique situation.

When it comes to repairing or rebuilding your credit, this is definitely something you can do yourself. There are, however, legitimate credit repair specialists who can assist you in better managing your finances and in learning to be more responsible when it comes to managing your credit.

Strategy One: Pay Your Bills on Time

Although this strategy may seem extremely obvious, late payments are the most common piece of negative information that appears on peoples' credit reports and are often responsible for significant drops in credit scores. When it comes to loans and credit cards, it's vital that you always make at least the minimum payments in a timely manner each and every month, with no exceptions.

The impact on your credit report and credit score will be considerable if you're late or skip one or more mortgage payments, however, making late payments on other types of loans or defaulting on any loans will also have a disastrous impact on your credit score that will have an impact for up to seven years.

The benefit to having credit cards is that you can determine how much you spend using them, then decide how much you wish to pay back each month, as long as that amount is equal to or greater than the minimum monthly payment due. This allows you to budget your money and make intelligent decisions, based on your financial situation. Simply paying the minimums on your credit cards will keep those accounts from being late, however, the costs associated with that decision (in terms of fees and interest) will often be significant over time. Plus, this strategy will keep you from greatly reducing or paying off the debt.

One of the worst mistakes you can make, aside from making late mortgage payments, is having an account go to collections. This means that you've neglected to pay your monthly minimums or have skipped payments for several months and the account gets turned over to a collection agency. Once this happens, regardless of whether or not you ultimately make the payments or settle the account, your credit score will be negatively impacted for up to seven years.

Keeping your accounts from going into a collections status is a relatively easy process. If you can't afford to make the full payment due, contact the creditor and try to negotiate an alternative payment schedule. People who get themselves into financial trouble often tend to ignore the problems until they become huge legal problems. Simply by taking a responsible approach, paying what you can and working with your creditors, you can almost always keep your delinquent accounts out of collections, which will protect your credit and save you a fortune.

It's true that your creditors want to be paid in a timely manner. However, most also understand that people sometimes run into financial problems. You'll find that by communicating with your creditors and demonstrating good faith by making at least minimum monthly payments, the

creditors will be understanding and try to help keep you from destroying your credit.

The easiest and most straightforward thing you can do to protect your credit report and credit score (or begin repairing it) is simply to pay your bills on time. It's that easy!

Strategy Two: Keep Your Credit Card Balances Low.

The fact that you have credit cards impacts your credit score. Likewise, your payment history on those credit card accounts also impacts your score. Another factor that's considered in the calculation of your credit score is your credit card balances. Having a balance that represents 35 percent or more of your overall available credit limit on each card will actually hurt you, even if you make all of your payments on-time and consistently pay more than the minimum due. If you have a $1,000 credit limit on a credit card, ideally, you want to maintain a balance of less than $350, and make timely monthly payments on the balance that are above the required monthly minimums.

Demonstrate (through your credit history) that you're actively reducing your balances, while properly and responsibly utilizing your credit cards. Depending on your personal situation, it could make sense to spread your credit card debt over three, four, or five cards, while keeping your balance on each of them below that 35 percent of the total credit limit mark, as opposed to maxing out one credit card. If you do this, make timely payments on each card and keep them all in good standing. Managing your credit card debt appropriately will not only keep your score from dropping, it could also give it a boost.

Deciding to spread your credit card debt among several cards might help your credit score, however, before adopting this strategy, calculate the interest you'll be paying and compare interest rates between cards. In some cases, you may save money by consolidating your credit card balances onto one low-interest card, as opposed to having that same balance spread over several higher interest bearing cards. Do the math to help you make the decision and take the action that's best for you.

Strategy Three: Having a Good History Counts, So Don't Close Unused Accounts.

One of the factors considered when calculating your credit score is the length of time you've had the credit established with each creditor. You're rewarded for having a positive, long-term history with each creditor, even if the account is inactive or not used. The longer your positive credit history is with each creditor, the better.

Knowing this, avoid closing older and unused accounts. If you have a handful of credit cards you never use, instead of closing the accounts, simply put the credit cards in a safe place and forget about them. Although you don't want to have too many open accounts, having five or six credit card accounts open, even though you only actually use two or three cards can be beneficial. Likewise, if you have a five-year car loan, for example, showing three, four or five years of positive payment history (with no late or skipped payments) will benefit you.

Administration. As a result, joint accounts that include someone who is deceased will be flagged when the creditors are notified.

Strategy Six: Correct Inaccuracies in Your Credit Reports, and Make Sure Old Information Is Removed.

One of the fastest and easiest ways to quickly give your credit score a boost is to carefully review all three of your credit reports and correct any erroneous or outdated information that's listed. A credit repair specialist, like Pappas Assurance Group can help you with this usually within 60-90 days.

Strategy Seven: Avoid Excess Inquiries.

Every time you apply for a credit card or any type of loan, a potential creditor will make an inquiry with one or more of the credit reporting agencies (Experian, Equifax or TransUnion). This inquiry information gets added to your credit report and will typically remain listed for two years. For one year, however, the inquiry will slightly reduce your credit score. If you have multiple inquiries in a short period of time, this can dramatically reduce your credit score.

Keep in mind, when shopping for a mortgage or car loan, it's permissible to have multiple inquiries for the same purpose within a 30- to 45-day period, without those multiple inquiries hurting your credit score. In this situation, the multiple inquiries will be counted as one single inquiry.

Strategy Eight: Avoid Bankruptcy, if Possible.

There are a lot of misconceptions about the pros and cons of filing for bankruptcy if you encounter serious financial problems. In terms of your credit report and credit score, filing for bankruptcy is one of the absolute worst things you can do. If your credit score hasn't already plummeted as a result of late payments, missed payments, and defaults, when the bankruptcy is listed on your credit report, you will notice a large and immediate drop in your credit score. Furthermore, that bankruptcy will continue to plague your credit report for up to ten years.

For most people, bankruptcy does not offer an easy way out of their financial responsibilities or offer a quick fix. Instead, you're setting yourself up for long-term financial difficulties, because obtaining any type of credit or loans in the future will be significantly more difficult. Many mortgage brokers (and lenders) and car loan financing companies will automatically reject applicants with bankruptcies listed on their credit reports.

If you do file for bankruptcy, the best thing you can do is slowly rebuild your credit by paying all of your bills on time from that point forward, with no exceptions. Rebuilding your credit in this situation will mostly likely take years, with no quick fixes available.

Strategy Nine: Avoid Consolidating Balances onto One Credit Card.

Unless you can save a fortune in interest charges by consolidating balances onto one credit card, this strategy should be avoided. One reason to avoid this is that maxing out your credit card will detract from your credit score, even if you make on-time payments. Assuming the interest rate calculations make sense, you're better off distributing your debt over several low-interest credit cards. An alternative is to pay off high-interest credit card balances using another type of debt consolidation loan or by refinancing your mortgage with a cash-out option.

Strategy 10: Negotiate With Your Creditors.

Contrary to popular belief, your creditors aren't your enemies (at least they don't have to be). Your creditors are in business. The nature of business dictates that they earn a profit. When you don't pay your bills, that impacts a creditor's ability to do business and impacts its bottom line. Many creditors are willing to be understanding of difficult financial situations and short-term financial problems, especially if you openly communicate with them in a timely manner.

In other words, instead of skipping a handful of payments or defaulting on a loan, contact the creditor as soon as a problem arises and negotiate some form of resolution that's acceptable and within your financial means. Forcing a creditor to turn your debt over to a collection agency will simply cause you bigger problems in the future because many collection agencies are relentless when it comes to recovering money. Furthermore, the negative information that's placed on your credit report will have a long-term negative impact on your credit score.

Depending on the level of your financial difficulties, your creditors may be willing to do one or more of the following things to assist you, assuming you make the effort and show good faith in contacting them to discuss your situation:

Reduce your interest rate.

Reduce your monthly minimum payment.

Waive extra finance charges and late fees.

Allow you to skip one or more monthly payments (and extend the length of the loan).

Close the account and allow you to make affordable payments to slowly reduce the outstanding balance over time.

Close the account and accept a settlement for less than the amount you actually owe.

Allow you to refinance the loan at a lower interest rate and/or for a longer term to reduce your monthly payments.

Strategy Four: Only Apply for Credit When It's Needed, Then Shop for the Best Rates on Loans and Credit Cards.

If you're in the market for a bunch of new appliances or other big-ticket items, it's common for consumers to walk into a retailer and be offered a discount and a good financing deal on a large purchase, if they open a charge or credit card account with that retailer. Before applying for that store's credit card, read the fine print. Determine what your interest rate will be and what fees are associated with the card.

Next, only apply for new credit if you absolutely need it. Applying for a retail store card you're going to use once or twice, when you could just as easily use an existing credit card, might not be the best idea. Applying for and obtaining multiple new credit cards (including store credit cards) within a several month period will be detrimental to your credit score. Unless you can save a significant amount of money on your purchase over time and can justify accepting a reduction in your credit score, don't apply for credit you don't actually need.

Strategy Five: Separate Your Accounts after a Divorce.

During a marriage, it's common for a couple to obtain joint credit card accounts and co-sign for various types of loans. Coming into the marriage, the information on each person's credit report and their credit score will eventually impact their spouse, especially when new joint accounts are opened or a spouse's name is added to existing accounts. Consolidating all your accounts once married makes record-keeping easier. If a couple gets divorced, however, this can create a whole new set of credit-related challenges.

First, understand that just because you obtain a legal divorce, it does not release one or both people from their financial obligations when it comes to paying off a joint account. As long as both names appear on the account, both parties are responsible for it.

As your divorce proceedings move forward, be sure to pay off and close all joint accounts, or have one person's name removed from each account, meaning only one person will remain responsible for it.

It will probably become necessary for one or both parties in the marriage to re-establish their independent credit. When doing this, start off slowly and build up your independent credit over a few years. Immediately applying for a handful of new credit cards, a new car loan and/or a new mortgage within a short period of time after your divorce won't help to improve your credit report and credit score. Try to spread out new credit card acquisitions and new loans by at least six months each.

In the event of a spouse's death, creditors can not automatically remove the deceased person's name from the joint account and make the debt the sole responsibility of the living spouse. It will be necessary to contact each creditor separately. In some cases, the widow or widower may need to reapply for the credit card or loan as an individual borrower. Keep in mind that several of the credit reporting agencies regularly update their records using information provided by the Social Security