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If you're dragging around a bad credit score it'll cause you to pay more for car loans, credit cards, and mortgages. So you've had a few problems getting the bills paid lately, and you're wondering what you can do to repair the damage. You've got plenty of company. There are more than 30 million people in the United States with credit blemishes severe enough (credit scores under 620) to make obtaining loans and credit cards with reasonable terms difficult. Maybe your credit is average, but you'd like to make it even better. After all, the better your credit, the lower the interest rates you can secure on mortgages, car loans and credit cards.

Know Your Score

In order to improve your credit score, it's important to know where you stand currently. Despite all the media attention given to free credit reports, you still have to pay to find out your credit score, the three-digit number ranging from 300 to 850 that is the key to your borrowing costs. You can obtain your FICO credit scores, the scores which lenders use, from MyFico.com, or from Experian's "consumer education" version.

Four Other Credit Traps

Other actions to beware when you're trying to improve your score:

- **Asking a creditor to lower your credit limits.** This will reduce the amount between your balances and your available credit, which could hurt your score. If a lender asks you to close an account or lower a credit limit as a condition for obtaining a loan, you might have to, but don't without being asked.

- **Making a late payment.** A late or missed payment will hurt a good score more than a bad one, dropping a 700-plus score by 100 points or more. If you already have a string of negative items on your credit report, one more won't have a big impact, but it's still something you want to avoid if you're trying to improve your score.

- **Consolidating your accounts.** Applying for a new account can ding your score. So, too, can transferring balances from a high-limit credit card to a lower-limit card, or concentrating all or most of your credit card balances onto a single card. In general, it's better to have smaller balances on a few cards than a big balance on one card.

- **Applying for new credit if you already have plenty.** On the other hand, applying for and receiving an installment loan can help your score if you don't have any installment accounts, or you're trying to recover from a credit disaster like bankruptcy.

All these suggestions work best if you have a poor or mediocre score. Once you hit the 700 mark, any tweaking will tend to have less of a positive impact. If your scores are in the "excellent" category, 760 or above, you'll probably be able to eke out only a few extra points despite your best efforts. There's really no point since you already qualify for the best rates and terms.

1) **Pay down your credit cards**. Paying off your installment loans (mortgage, auto, student, etc.) can help your score, but typically not as dramatically as paying down, or paying off, revolving accounts like credit cards. The credit scoring formulas like to see a big gap between the amount of credit you're using and your available credit limits. Getting your balances below 30% of the credit limit on each card can really help. While most debt gurus recommend paying off the highest rate card first, a better strategy here is to pay down the cards that are closest to their limits.

2) **Use your cards lightly.** Racking up big balances can hurt your score, regardless of whether you pay your bill in full each month. What's typically reported to the credit bureaus, thus calculated into your score, is the balance reported on your last statement. That doesn't mean paying off your balance each month isn't financially smart, it is, just the credit score doesn't care.

3) **Check your limits.** Your score could be artificially depressed if the lender shows a lower credit limit than you actually have. Most credit card issuers will quickly update this information asked. If your issuer makes it a policy not to report consumers' limits, however, as is the usual case with American Express and cards issued by Capital One, the bureaus typically use your highest balance as a proxy for your credit limit.

   You may see the problem here: If you consistently charge the same amount each month, say $2,000 to $2,500, it may look to the credit scoring formula like you're regularly maxing out that card. You could go on a wild spending spree to raise the limit, but a more sober solution would simply be to pay your balance down, or off, before your statement period closes. Check your last statement to see which day of the month that typically is, then go to the issuer's Website about a week in advance of closing and pay off what you owe. It won't raise your reported limit, but it will widen the gap between that limit and your closing balance, which should boost your score.

4) **Dust off an old card.** The older your credit history, the better. But if you stop using your oldest cards, the issuers may stop updating those accounts at the credit bureaus. The accounts will still appear, but they won't have as much weight in the credit-scoring formula as your active accounts, says Craig Watts, an executive

at Fair Isaac & Co., one of the leading credit scorers. Use your oldest credit cards every few months, charge a small amount, and then pay it off in full when the statement arrives.

5) **Dispute old negatives.** Say the fight with your phone company over an unfair bill a few years ago resulted in a collections account. You can continue protesting the charge was unjust, or you can rely on a credit repair agency to dispute the item with the credit bureaus. The older and smaller a collection, the more likely the collection agency won't bother to verify it when the credit bureau investigates your dispute.

6) **Blitz significant errors.** Your credit score is calculated based on information in your credit report, so certain errors can really cost you, though not everything that's reported in your file matters to your score.

   Here's the stuff usually worth the effort when considering using credit repair:

   - Late payments, charge-offs, collections or other negative items that aren't yours.
   - Credit limits reported as lower than they actually are.
   - Accounts listed as "settled," "paid derogatory," "paid charge-off" or anything other than "current" or "paid as agreed" if you paid on time and in full.
   - Accounts that are still listed as unpaid that were included in a bankruptcy.
   - Negative items older than seven years (10 in the case of bankruptcy) that should have automatically fallen off your report.

7) **Consult a credit repair agency.** Consulting a credit repair agency such as: Pappas Assurance Group, can remove delinquent or unpaid items and higher your score significantly. In fact, with these services, you can completely clean up your credit.

Here at Pappas Assurance Group, our services in conjunction with Weston's suggestions provide a killer combination for credit clean-up. Our follow up, outstanding customer service, and unbeatable price, set us at Pappas Assurance Group apart from the other credit repair agencies.

Sources:
Pappas, Luke J. Personal interview. 01 June 2005.
Weston, Liz P. MSN Money. MSN Money. <http://moneycentral.msn.com/content/Banking/Yourcreditrating/P116527.asp>.