

The Straight Answer on Improving Your Credit Score



Lenders are judging credit scores more closely than ever in the aftermath of the economic crisis. To qualify for no-fee cards, secure a loan and keep your interest rates low, you need a high credit rating. Thankfully, achieving a score of 750-plus isn't hard. Here are four simple ways to skyrocket your credit rating:

By Chelsea Bush

1. Use Credit

Your credit score is not a grade of your financial savvy — it's a measure of how well you use credit. Payment history makes up a hefty one-third of your score, and you can't leave a credit trail if you only pay cash. Worried about steep interest rates? You don't have to accrue a dime's worth of interest to benefit from charging your cards: Borrow small and repay on time, in full, for a major credit score boost.

2. Keep Your Utilization Ratio Low

Creditor raised your limit? Sure they're luring you to spend more, but don't ask them to lower it. Credit utilization — or balance-to-limit ratio — counts for another 30 percent of your score. The more available credit you have, the better. Don't owe \$100 on an account with a \$300 limit (tapping 33 percent of available funds) when you can owe that on a \$1,000 limit (using just 10 percent).

Racking up a high card balance can dent your score even if you pay it off each month. As a rule, use less than 25 percent of your available credit on each card, and get a loan to pay for big recurring expenses.

3. Loyalty Pays

Resist the temptation to freshen your hand with new cards. New requests for credit will chip away at your score, whereas using your oldest cards will fortify it. Assuming there are no annual fees, hang on to these longstanding accounts for an easy lift, charging them periodically to get new updates on your report. Note that many creditors will close an idle account after six months.

4. Don't Settle Up Too Early

It's critical to pay on time, but can you pay too early? Settling an installment loan before the term is over won't hurt your score if you have a few years of solid payment history. But paying off a five-year auto loan in six months will certainly cheat you out of good marks.

Avoid delayed financing, as well: If a store extends you a line of credit for the amount of your purchase — with no payment due for eight months — what do you have? A maxed-out account on your credit report until the bill comes in the mail.

The credit score sweet spot: a few installment loans (auto, mortgage, personal) and four to five revolving accounts (credit cards and lines of credit). A strong credit mix will ensure a healthy balance-to-limit ratio, plus flexibility — if a creditor changes your terms, you're free to leave. For a stellar score, expand your credit portfolio over time. Wait at least six months between requests for new credit and pass up lower-limit store cards for the real deal. ☺