

Take Care of Your Credit Score

As lenders tighten credit standards your credit score has become especially important when considering large purchases, such as a home. Without a good credit score it is virtually impossible to get a loan these days, and even finding a good rental can be made difficult.

You don't have just one score, but many. Your FICO score, the one developed by Fair Isaac Corp., is the most looked at and runs from a low of 300 to a high of 850. It varies depending on which credit bureau is reporting it and the kind of lender that requested it.

Your score doesn't reflect your income, employment history or your assets. It also doesn't show whether you pay your rent or utilities on time.

You can pay off your credit cards every month, but that won't affect your score. That's because the credit bureaus don't have a clue whether you pay your bill in full or carry a balance on your cards each month. All they know is the amount you owed on your most recent statement.

Instead, the crucial fact is how much available credit you have used. You should keep your credit use to less than half your credit limit to minimize the impact on your score.

Unfortunately, about 30% of your FICO score is based on "credit utilization," a broad term that includes how much you've used of your credit limit, how much you've borrowed as a percentage of your total available credit and even how big the dollar balances actually are.

If you charge groceries, charitable contributions and just about everything else to get points on a reward card, you may be jeopardizing your score.

The single most important factor in your score, accounting for 35% of the total, is whether you have paid your bills on time. One late payment will ding your score for up to a year, very late payments can hurt you for two or three years, and collections and bankruptcies can penalize you for up to seven years.

What counts as late? Just one day. But because credit-card companies know that people move, get sick or misplace their bills, they commonly wait to report your late payment to credit bureaus until about 30 days have passed, or you have missed two due dates. (You will likely be assessed a late fee right away, however.)

If you have missed a payment, pay it as soon as possible and consider calling and doing a lot of groveling. Many companies will waive or reduce fees the first time a good customer makes a mistake, and they may even agree to withhold reporting the infraction to the credit bureau.

Bad news will stay on your report for seven years. But good news hangs around and pays dividends a lot longer. In addition, closed accounts in good standing will stay on your record for a decade. Both old and closed accounts can help your score because the length of your credit history is another, if smaller, piece of the formula.

You don't have to get new credit to show a so-called hard inquiry on your credit report. If you have opened a new checking account, the bank may have checked your score. If you bought a car, the dealer may have checked your credit. One inquiry can knock up to 15 points off your score-and that's typical.

For that reason, you should ask up front if a bank, insurer or car dealer plans to check your credit record. Luckily, shopping around for a car or education loan or mortgage counts only as one inquiry as long as you do it within a few weeks. Otherwise, multiple inquiries may knock your score back for a year.

You may think a score of 800 or more will make you more attractive to lenders or anyone else. True, every 20 points in your score can mean a slightly lower mortgage rate or better car loan, but only up to the mid-700s.

That means it's worthwhile to take steps to improve a score in the 600s or low 700s, and in the high 700s, you'll have plenty of room for score fluctuation. Beyond that, a higher score is meaningless.

There's a lot more to consider when it comes to your credit score. If you are contemplating the purchase of a home, make sure you know your score and fully understand your credit history and all that can affect it before you go shopping for a house. Even though you may think you have good credit, you may discover that you have to do some credit repair before you can get a loan.