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Lift Your Credit Score To Save Money

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The credit crunch has shocked skittish lenders into tightening up. Loans and credit are tougher to get.

Showing you are creditworthy is more important than ever. That's measured by your credit score.

Credit scores also are weighed when you want to refinance a home loan or buy something on time. Some car and home insurers judge you by your credit score, too.

Distribution Of Credit Scores

The most common score is between 750 and 799

Under 500	2%
500-549	5%
550-599	8%
600-649	12%
650-699	15%
700-749	18%
750-799	27%
800+	13%

Source: myfico.com

The higher your score, the easier to get a loan. A higher score helps you land a lower interest rate.

So it pays to know how you can raise your score. Actually, you probably have several credit scores.

There are three major credit bureaus: Equifax, Experian and Trans-Union. Each can give you a different score. Some lenders have their own scores as well.

That's because scores are based largely on reports from lenders and retailers. Each credit bureau and lender can get information from different sources.

To find out how to get scores, follow directions at each bureau's Web site. Each usually charges a fee. At myfico.com, you can get scores from all three credit bureaus for \$47.85.

You are entitled to a free credit report yearly from each bureau. But those do not include your score.

Most credit scores are in the 600 to 800 range, according to Fair Isaac. That company developed the FICO scores used by most lenders.

There is no universal cutoff score for loan or credit eligibility. Each lender can decide how much risk it's willing to assume with each applicant.

Only 15% of credit scores are below 600. And 13% are 800 or higher. Between those numbers, small moves can make a big difference.

"You may need a score over 680 to get a competitive rate on a home mortgage," said Steven Katz, director of

consumer education for Trans-Union's TrueCredit.com.

A few years ago, you could get a prime-rate loan with a 650 score. So lenders are raising their standards.

How can you raise your score?

Start by understanding the five factors that go into your FICO score:

- Payment history
- Amounts owed
- Length of credit history
- New credit
- Types of credit

Here's what each of those means.

Your payment history makes up 35% of your score. To get the full benefit of this section, you must not have late payments on your record, Katz says. Pay the minimum due on bills if that's all you can manage.

Each late payment hurts your credit score. A 60-day late payment is worse than a 30-day lateness. And 90 days is even worse.

"Negative reports stay on your credit report for seven years," Katz said. But the impact on your score falls after four or five years.

Amounts owed build 30% of your score. Basically, this has to do with the ratio of your debt to credit.

To milk the max from this part of your score, keep account balances relatively low. As balances go over 35% of the credit available per account, your score can go down.

Say you have a \$50,000 credit line from a lender. If you owe \$20,000, that would be 40% of the limit. Credit bureaus will typically deduct points for that.

Your ratio is most likely to sneak over the limit while you wait for, say, a monthly credit card bill to arrive. Try to curb your spending on that card toward month-end.

"Spread your credit card usage around," Katz said. Say you're charging \$10,000 this month. It's better to put \$5,000 on each of two cards than \$10,000 on one card.

Also, be careful about credit card use while you're looking for a loan.

Say you're trying to refinance a mortgage. While your application is being evaluated, lighten up on credit card spending. Raising your outstanding balances may lower your score.

Length of your credit history is worth 15% of your score. Typically, the longer your history, the better.

The new-credit category is worth 10% of your score.

Multiple credit requests and multiple new accounts are negatives. To wary lenders, multiple requests can mean you don't have enough cash to pay your bills. That's the last thing they want to see.

Many people apply for new credit cards during the winter holiday season. Beware of doing that, especially if you're applying for a big loan around the same time.

Retailers often offer a discount on purchases the day you get a store card. But if you do that at several stores within a few weeks, you can lower your score.

Reward For Responsibility

The fifth category, types of credit in use, accounts for 10% of your score.

Basically, it's good to have both revolving (credit cards) and installment (car loan) credit in your history. It can show that you are good about paying various types of debt.

The five categories can impact one another. Closing an old credit card, for example, can hurt your score. You might be removing favorable records from your credit history.

It can also force you to raise your debt-to-credit ratio on other cards.

Instead of closing a little-used card, keep it in effect. Use it regularly for items such as groceries and gasoline. Then pay the bills on time.



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