

7 Ways to Boost Your Credit Score

IN ORDER TO GET the best rates on consumer loans, you need a good credit score. Late payments, maxed-out cards and an excessive number of credit lines could leave your score sorely lacking.

The good news: Even with a blight on your report, it's possible to give your credit score a boost over time.

The first step is to understand how your FICO score works. FICO stands for Fair Isaac Corp., the Minneapolis-based company that creates the risk calculations used to calculate credit scores. Lenders use FICO scores to predict what kind of borrower you'll be. Scores range from 300 to 850; the higher, the better. A high score means lenders generally consider you a safe bet: that you manage credit responsibly and aren't likely to default on your payments. For that, you'll be rewarded handsomely. For more on credit scores, [click here](#)¹.

When it comes to improving your score, you shouldn't expect dramatic changes overnight. "It's a long haul, like improving your cholesterol or losing weight," says Craig Watts, public affairs manager for Fair Isaac. "You need to make slow changes in habit. It'll take months to improve a poor FICO score."

Ready to get started? Here are seven ways to maximize your score.

1. Talk to your lender

Ask your lender what score you'd need to snag the best interest rate, says Watts. More people are becoming aware of how their credit score can help or hurt them, so many lenders are responding by making more information available.

The average credit score nationwide is 723, according to *MyFico.com*². Generally, if your score is in the mid-700s or higher, you'll be offered a lender's best rates. If your score is somewhere between the low 600s and low 700s, be careful. That's a "gray area where lenders parse out the good and the bad [rates]," says Watts. So be sure to shop around to see where lenders place you. If your score is less than 600, you'll pay dearly for credit (see table).

High Scores, Low Rates			
FICO Score	30-Year Fixed-Rate Mortgage	Home Equity Loan	48-Month Loan for a New Auto
720-850	5.97%	7.95%	6.30%
700-719	6.09%	8.25%	7.04%
675-699	6.63%	8.75%	8.86%
620-674	7.78%	9.52%	10.79%
560-619	8.53%	11.02%	13.40%
500-559	9.29%	12.27%	14.43%

* Statistics courtesy of Fair Isaac Corp. APRs are based on average national rates as of Oct. 24, 2005.

2. Get the right score

While considering a lender, find out which brand of credit score it uses. In addition to *Fair Isaac Corp.*³, each of the three credit reporting bureaus — *Equifax*⁴, *Experian*⁵ and *TransUnion*⁶ — sells credit scores. Equifax uses FICO scores, while Experian and TransUnion have their own formulas.

Your score could vary by as much as 20 to 30 points from one company to another, so it's important to know which measure your lender is using. Each bureau may also have a slightly different version of your credit report, which could also affect your score.

3. Check your credit report for accuracy

Errors can influence scores adversely — especially errors indicating late payments or defaulted credit. And errors are maddeningly common: 25% of reports contain errors that are serious enough to result in the denial of credit, according to a July 2004 report by the U.S. Public Interest Research Group. Be sure to report any inaccuracies to the three credit-reporting agencies.

You're entitled to one free credit report per year, which you can get online at *AnnualCreditReport.com*⁷. Getting your score, however, will cost you. You can get your three FICO scores (one per bureau) for \$14.95 through Fair Isaac. With the three credit bureaus, you can buy a package of your credit report and score for that bureau for about \$15, but not the credit score by itself.

4. Don't be late

"Missed payments are the single biggest killer of credit scores," says Watts. Your past behavior — late or missed payments, foreclosures, bankruptcies and so on — counts for one-third of your credit score. So make sure you pay those bills on time.

If you already have a late payment on your report, you could try calling your lender and asking for a "goodwill adjustment." Also called an account "re-age," the adjustment reports your account as current, rather than late.

The degree of success you'll have with this strategy depends on your track record with the company. If you're a one-time offender, your wish might be granted. Repeat offenders, however, shouldn't hold their breath.

5. Pay down balances

Paying down balances is the one legit quick fix, says Watts. One-third of your credit score is based on the amount you currently owe in relation to your credit limit. So try to keep your balances at 50% or less of your credit limit.

6. Keep old lines of credit open

Another 15% of your score comes from how long you've been managing credit. Closing old accounts shortens your credit history and lowers your score. Lenders also take into account the average age of your accounts, so an older account can help balance newer credit.

7. Limit new credit. Take on new credit only when you need it. New credit can hurt your score twice. For starters, new inquiries for credit count for 10% of your score — and a flurry of new credit requests can lower your score. Also, once a new credit line is secured, the average age of your accounts will shorten, which in turn can drag down your score even more.

¹<http://www.smartmoney.com/nowwhat/index.cfm?story=20020826>

²<http://www.myfico.com>

³<http://www.myfico.com>

⁴<http://www.equifax.com>

⁵<http://www.experian.com>

⁶<http://www.transunion.com>

⁷<https://www.annualcreditreport.com/cra/index.jsp>

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