TAKING CONTROL OF YOUR CREDIT

People often ask, “How can I raise my credit score?” The reality is that getting a credit score above 700 can be difficult, but knowing the factors that affect a credit score, as well as how to maximize the traits that improve a score, can assist a financial coach to help consumers raise their credit score fast. These factors are credit mix, amount owed, payment history, length of credit history, and recent applications.

Improving the Credit Mix: Credit diversity makes up 10% of your score

The type of credit has a small effect on the overall credit score, but it is one of the easiest to change to make improvements. Scores increase with a variety of credit that has different terms and requirements. The different types of credit that the Fair Isaac Corporation (FICO) tracks are mortgages, credit cards, installment loans, revolving accounts, and finance company accounts.

Avoiding New Credit Applications: Inquiries make up 10 % of your score

Applying for new loans in considered a risk factor because it implies that additional cash is needed. Every new loan application appears on a report and stays there for two years. The effect that new applications have on a credit score reduces quickly over time and is almost fully eliminated after one year. When the goal is to raise the credit score, consumers should avoid applying for new credit a year before the purchase.

One tip that won’t raise a score, but will reduce the negative effect of applying for loans, is to shop around for loans in a short period of time. FICO understands that car and home buyers may want to work with multiple banks and provide a grace period for shopping. No matter how many lenders check credit for mortgage or car loans, as long as each check occurs in a 30 day period (some suggest 14 days), it will appear as one application on the credit report. This means shopping around during that timeframe won’t be such a negative hit to the credit.

Reducing the Amount Owed: Debt ratio makes up 30% of your score

The amount of money owed is the second largest factor in determining a credit score and changing it is one of the best ways to raise a credit score quickly. This score factor is split into a few subcategories; the main three are total debt, the number of credit cards with a balance, and credit utilization.

The total debt category is how much money that is currently borrowed. The less money borrowed, the higher the score, because lenders want to feel confident that they will be paid back. Similarly, the fewer credit cards you have that have a balance, the better. The credit utilization is the ratio of credit card debt to total credit limits. The lower this ratio is and the more credit that is available, the higher the score will be. The thing that makes credit utilization a useful way to raise credit score quickly is that it is reported on a monthly basis and the utilization from previous months does not factor into the current score.

For example, if the total credit limit across all cards for a consumer is $5,000 and a big $3,500 purchase happens on a card one month, credit utilization indicates that 70% of the total available credit is used, which is a bad sign. If the bill is paid off when it arrives, the next month shows 0% utilization. Reducing credit utilization, paying down debt and keeping balances on one card can improve a credit score as much as 100 points, making this one of fastest ways to improve a credit score.

A Good Payment History: Payment History makes up 35% of your score

Your payment history is the most important aspect of your credit score. It is the easiest to use in your favor, but also the most difficult to repair if it begins dragging your score down. Lenders are primarily concerned with whether they will get their money back from the people they lend it to. Having a track record of making payments on time is the best way to boost their confidence. It isn't fast or glamorous, but paying loans on time over a couple years has a massive impact on raising a credit score.

When payments are missed the amount of time with a delinquency determines how much impact results on the score. Many lenders will overlook one missed payment. Some lenders will even work with consumers upon request to avoid the negative mark on the report.

Increasing the Length of the Credit History: Age of credit history makes up 15% of your score

Credit score length is broken into two categories – the actual length of the history and the average age of credit accounts and loans. The longer a loan exists the more information that FICO has, and this results in a small boost to the score. A short credit history is not harmful but fewer points are received in this category as a result.

One part of this category can be easily raised is the average age of accounts. When lenders see people applying for loans and credit, they see risk because the implication is that money is needed. This part of a credit score is the length of time each loan and credit card has been open, divided by the number of loans and credit card a consumer has. The higher the average age, the higher the score will be. People score the most points in this category by not applying for new loans or credit cards unless absolutely necessary, as each new account will reduce the average age of accounts.

Side Tip: Avoid Paying Interest to Improve a Credit Score!!

One thing that is important to note is avoiding interest to improve a credit score. One of the benefits of a high credit score is saving money on interest payments, so paying unnecessary interest to achieve a high score is self-defeating. If consumers have the money to make a purchase in full, they can finance it to get the new type of loan listed in their credit history, then pay it in full once the loan has appeared on the credit report. This allows them to avoid interest while reaping the benefits of an improved score.

Credit Quick FAQs:

Q: What is considered a "good" credit score?

A: "Good" is a relative term. Scores range from 350 to 850. Generally, higher scores provide the best access to great rates.

Q: How can I check my credit score?

A: Scores can be purchased at **myfico.com** for approximately $20. You can also receive a score by engaging in financial coaching with a certified housing counselor. HUD sponsors housing counseling agencies throughout the country providing free or low-cost advice; visit **https://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm** or call (800) 569-4287 for more information. Additional resources may be found through the Consumer Financial Protection Bureau or at **www.KnowYourOptions.com**.

Q: How does my credit score affect me buying or owning a home?

A: Low credit scores can delay or even deny a person from receiving credit, including a mortgage loan. It's best to check your credit report and score at least a year in advance of buying a home. Housing counselors recommend checking credit at least once yearly at **www.annualcreditreport.com**. Watch out for those "free credit report" offers and remember – nothing in the credit reporting world is free.

Habitat for Humanity® of Michigan

Source: **https://www.habitatmichigan.org/news/blog/taking-control-your-credit** – Shared courtesy of, Sue Ortiz, *Family & Homeowner Support Director*, and Angie Hamlett, *Homeowner & Family Support Manager*