

your credit score: it pays to aim high

Having a good credit score is important to consumers planning to apply for a loan or to get or keep a good deal on a credit card, but it is especially the case in an uncertain economy. In difficult times, lenders are pickier about the loans they make and who they lend to, and that means consumers can and should be more proactive in improving their credit score.

First, what is a credit score?

It's a number calculated by a credit agency to summarize each person's financial reliability. You also may hear a credit score referred to as a "credit rating" or as a "FICO" score (the latter a reference to a widely-used credit score produced by the Fair Isaac Corporation).

In general, when it comes to borrowing money, the higher your credit score, the more likely you are to get a loan or credit card with a low interest rate and low fees. But credit scores also can be used for other purposes, such as when you apply for a job, rent an apartment or obtain insurance.

How can you improve your credit score and get a better deal, especially in a turbulent economy?

Review your credit reports for incomplete or inaccurate information and get them corrected. Credit reports, produced by credit bureaus, detail each person's financial history (such as how you pay your bills or if you have filed for bankruptcy) and are used to develop credit scores.

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It's important to review your credit reports periodically — especially in the months before you make a major purchase, such as a new home or car — to make sure that inaccurate information hasn't lowered your credit score. Your credit reports can also reveal instances of identity theft, especially if you notice accounts that you do not recognize.

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continued

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Beware of advertisements for "free credit reports". You may have seen the ones with the humorous characters and the promise of a free credit report. There is often a catch – when you go to these sites, you are often enrolled in a subscription service to have your credit monitored.

Experts suggest that consumers spread out their annual requests — for example, to mark your calendar to get a credit report from a different agency every four months — to monitor changes. This way you'll periodically get a "report card" about your credit situation. What's more, it's important to get reports from each agency because the information may differ among the three.

Pay your bills on time. One or two late payments on your loans or other obligations over a long period of time may not significantly damage your credit record, but making a habit of this can count against you. That includes library fines and

parking tickets. Municipalities have become increasingly aggressive about turning over delinquent accounts to collection agencies, which will drag down your score.

Be especially careful with payments in the months before you apply for a loan. Your payment history is the largest percentage of your credit score, so make every effort to pay your bills on time.

Have a mortgage, especially one that is paid on time. This can be especially beneficial in improving a credit score or maintaining a good one.

Keep your debt levels low.

The higher the ratio of your debt to your income or your available credit lines, the more you will be viewed by potential lenders as a higher-risk borrower. Just because you have a \$20,000 limit on your credit card or home equity line of credit doesn't mean you can borrow that much money without it affecting your credit score.

Paying off your credit cards every month is one of the best strategies for keeping a good credit score and saving money on interest at the same time.

Don't cancel multiple credit cards.

That can suddenly lower your available credit and can hurt your credit score. Keep old accounts open to ensure a long credit history.

If you don't have a credit history, start one by obtaining a secured credit card and managing it responsibly.



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