



Report Compliments of **Homes and Lifestyles of Colorado** - *Finding Your Place Called Home*

Denver Office: <http://www.DenverHomeLiving.com> - (303) 816-9199 Office

## 5 Tips For Improving Your Credit Score



***Your credit score is calculated using a complex algorithm that takes into account many different factors.***

It is difficult to predict how many points you can gain by changing the individual components of a credit score. There are no magic formulas to improve your credit score, however the answer is really quite simple: continue paying your bills on time, reduce your debts, and remove negative inaccuracies from your credit report. There are no quick fixes. In fact, quick fixes can sometimes hurt your score. Know your doing what's best for your credit by following these 5 tips.

### **Correct mistakes**

Credit bureaus are required by law to correct errors. Since your credit score is a direct reflection of what is in your credit report, you should review your credit reports from all three credit bureaus for accuracy at least several months before applying for a loan. If you see a mistake, contact them, either through their website, over the phone, or by letter, to explain what's wrong. Correcting your report can take at least 30 days and sometimes a lot longer.

The Federal Trade Commission's "Building a Better Credit Report" (<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.shtm>) has information on correcting errors in your report, tips on dealing with debt and avoiding scams--and more.

**Beware of credit-repair scams.** Sometimes doing it yourself is the best way to repair your credit. The Federal Trade Commission's "Credit Repair: How to Help Yourself" ([www.ftc.gov/bcp/edu/pubs/consumer/credit/cre13.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre13.shtm)) explains how you can improve your creditworthiness and lists legitimate resources for low-cost or no-cost help.

## **Pay your bills on time**

Payment history is the single most important factor in determining your credit score. It comprises approximately 35% of your total score. Recent history is more important than what happened a few years ago. Making payments on time is a great way to begin rebuilding your credit rating.

Delinquent payments can devastate your score. Missing even one payment can knock 50 to 100 points off a good score. A one-time late payment that occurred a few years ago will only have small impact.

Also, open unresolved credit accounts can be hurting your credit score. It is important to settle these past-due accounts even if it is through a settlement for less than what was owed, which will "close" the credit item in question.

## **Reduce your credit card balances and/or Adjust Your Credit Limits**

Keep your ratio between credit card balance and your credit limit between 20%-50%. This is a very important factor in your FICO score. The lower your balances in comparison to your credit limit, the better your score.

Lenders like to see lots of room between the amount of debt reported on your credit cards and your total credit limits. The more debt you pay off, the wider that gap and the better your credit score.

Therefore, it is not a good idea to consolidate credit card balances and thereby raise your ratio between credit card balance and your credit limit. It is better to have low balances on three different cards rather than a large balance on one card.

One way to lower your ratio is to try to increase the credit limit on your credit card. This will instantly improve your ratio.

## **Credit Counseling**

Consider working with a nonprofit agency such as Consumer Credit Counseling Services to set up a debt repayment plan, especially if you are burdened with high-interest debt and are in danger of falling behind on your payments. These services can negotiate lower interest rates and help you pay off your bills within a few years.

References to credit counseling are typically removed from a credit report after a consumer has successfully completed a repayment plan.

## **Stay out of bankruptcy if you can**

Bankruptcy is the absolute worst thing that you can do in terms of your credit rating. It is far worse than paying late, missing payments, or having an account go to a collection agency.



For a person with good credit, it is possible that bankruptcy can knock at least 200 points off their score. Recovering from a bankruptcy can be very difficult. Once a score is pushed below 620, which bankruptcy will probably do, the probability of acquiring credit at reasonable rates becomes nearly impossible.

## **Where can I get my score?**

Go to <https://www.annualcreditreport.com/> This is the only authorized online source for a free credit report. Under federal law, you can get a free report from each of the three national credit reporting companies every 12 months.

You can also call 877-322-8228 or complete the Annual Credit Report Request Form at <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre34.pdf> and mail it to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281.

To find out specifically what you must do to raise your score, you can order your score report from all three national credit bureaus. In addition to your score, you'll get your credit report, an indication of how your score ranks nationally and an explanation of how you can boost your standing.

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