How to Evaluate and Raise Your Credit Score

Why do some people get offers for pre-approved credit cards and others don't? What do car dealers know about your financial health that you don't know? The answer is your credit score.

Your credit score is a number generated by a mathematical formula to estimate how likely you are to pay your bills. Based on the information in your credit reports from the three credit bureaus, Equifax, Experian, and TransUnion, your credit score has been a factor in your ability to qualify for loans and good interest rates for more than twenty years. Lenders compare your credit report with millions of others to determine your score.

While there are a variety of credit scoring methods available to lenders, the most widely used is the FICO score. Based on a scoring system developed by Fair, Isaac & Co., FICO scores range from approximately 300 to 800 points and are provided to lenders by the three credit bureaus. You also have access to your FICO scores but will be charged a fee by each credit agency providing your report.[1]

According to Fair Isaac, the credit scores of the American public are divided as follows:

- 499 and below 1 percent
- 500-549 5 percent
- 550-599 7 percent
- 600-649 11 percent
- 650-699 16 percent
- 700-749 20 percent
- 749-799 29 percent
- 800 and above 11 percent

A score of 720 or higher will probably get you the best interest rates on a home mortgage. Your credit card company looks at your credit score to decide whether or not to raise your credit limit or charge you a higher interest rate. The higher your credit score, the better you look to lenders and the lower your interest rates.[1]

Several factors affect your credit score including your payment history, the length of your credit history, any outstanding debt, how long and how often you've had derogatory credit information, such as bankruptcies, charge-offs, or collections, and the amount of credit you are using compared to the amount of credit available to you.[2]

So how do you raise your credit score? Well, the first thing to do is to order a copy of your credit report with the score included from each of the three credit bureaus. Review your reports and note any discrepancies. Correcting blatant errors is the first step to repairing your credit, and changes can take up to three months to be recorded.

Next, remember to pay your bills on time. It may seem like a small thing at the time you're writing that monthly check, but an accumulation of timely payments says a lot to a potential lender looking for a reliable client. Prompt payments in the last few months can actually make a big difference in your credit score.

While collections, bankruptcies, and late payments have the greatest negative effect on your credit score, your debt is a factor as well. Keeping your account balances between 25% and 50% of your available credit signals a responsible borrower. For example, if you have a credit card with a $2000 limit, keep your debt below $1000. For this reason, consolidating your credit card debt can actually lower your credit score, as it raises the ratio of your debt to your available credit. The best solution is to simply pay off your existing cards as quickly as possible.[3]

Excessive inquiries over a short period of time also damage your score. When lenders, banks, or credit card companies check your credit report, the inquiries are recorded. Several of these "hard inquiries" in the same time period may signal to other lenders that you are opening multiple accounts due to financial difficulty.

If you discover that you have accounts on your report that you didn't open, or your public records such as tax liens or judgments that are not yours, you may be a victim of identity fraud. It is up to you to deal with the damage that can happen to your credit score because of this criminal activity. Being aware is your first step, but when the items end up on your report, you have no alternative but to clean it up. For more information on dealing with credit issues, go to www.apscreen.com.

Overall, give yourself time to build a good credit score and even more time to correct serious problems. The length of your credit history is another determining factor in a good score. Lenders want to know that you are able to maintain prompt payments and good standing for a period of time. So check your reports yearly, do your due diligence, and your score can improve.