Six smart tips for an improved credit score

Your credit report is a snapshot of your dealings with creditors. Items like your payment history, outstanding loans and general indebtedness are statistically evaluated by the credit bureaus, such as Equifax, TransUnion and Experian. Based upon a compilation of that data, among other factors, you are assigned a number, generally between 300 and 850, with the lower the number being less credit worthy and the higher the number being more credit worthy.

In addition to obvious negative items, such as late or missed payments or high credit card balances, potential lenders look for other signs of your financial state in items that may seem innocuous to you. While there is no magic formula or quick fix for drastically improving your credit rating, understanding how a lender interprets your credit report may enable you to take action to improve your score.

Credit Inquiries

For example, every time you apply for a credit card just to get that free t-shirt may have an adverse impact on your credit. Each time you apply for a credit card, you are adding another hard inquiry to your credit report. When potential lenders see these inquiries, they may wrongly conclude you have a financial challenge that requires you to borrow more. You may then be flagged as a high credit risk.

Now, do not confuse these hard inquiries with what are termed soft inquiries, such as your own requests to view your credit report or when an employer requests to view the report. Typically, these soft inquiries don't affect your credit.

Generally, having 10 or more credit card inquiries in six months will likely negatively affect your credit score. The good news is that many inquiries typically drop off your credit report after approximately two years.

Open accounts

You may have credit accounts which you don't use and may even have forgotten about. These accounts will still count toward your total available credit. You may be thinking you want to close the accounts you don't

use. However, some experts suggest that you should not close accounts. Some experts suggest just not closing your oldest card, because it contains the most credit history. Other experts suggest retaining at least four cards with average balances so as not to affect your ratio. Also, closing accounts could lower your available credit, which could hurt your credit utilization ratio – how much debt you have compared to available credit – an important factor typically used in calculating your score. Ideally you want to use less than thirty percent (30%) of your total credit limit, and the more you lower that percentage, the better it is for your credit score.

Maxed-out credit lines

Maxed-out credit lines typically wave a red flag and indicate you may be financially challenged. If you have several credit cards, you could try to even out the balances to reduce the debt load on any one card.

Debt-to-Income ratio

Your debt in relation to income is another factor that a lender may view. Generally, unsecured credit card debt that is more than twenty percent (20%) of your annual income can be a red flag and lenders may charge you higher rates if they were to give you a loan.

Here are six smart tips to improving and maintaining good credit.

- Pay your bills on time. Late payments generally stay on your report for seven years. For your credit cards, try to make payments over and above the minimum interest payment that is due. Credit bureaus not only look at the amount of debt an individual has outstanding, but also the length of time it takes to pay off the debt.
- Keep your balances low in relation to your credit limits. Lenders may negatively view high balances which are close to your credit limits.
- Be cautious in the number of credit applications you submit. A high number of applications may not be a good sign for lenders. Every time you apply for a line of credit, the inquiry will show on your credit report. Your credit could be negatively affected depending on the number of inquiries you have over a given period of time.
- Maintain a good mix of credit. A combination of home loans, car loans, and a small number of credit cards are generally considered better risks compared to those people with only credit cards.
- Make sure you regularly monitor joint or co-signed accounts. If the other party fails to make timely payments, it will likely impact your credit too.
- Review your three credit reports and scores to show that they correctly reflect your credit history. Evaluating the negative information on your credit report will not make the information disappear, but rather give you an opportunity to correct any mistakes that may have been made.

Having a low credit score is not the end of your financial world. You do have the power to change it, and Financial Strength Builder's™ tips and strategies can empower you to help boost your score and improve your chances of success the next time you need a loan. You have the power to influence your credit. If you have poor credit, begin making smart money decisions to improve your credit today.