How to Improve Your Credit Score

Knowing how to improve your credit score is important because your credit score affects many areas of your life. It plays a significant role in determining your ability to get credit cards and different types of loans (personal, auto, debt consolidation, business, mortgage, etc.), as well as their interest rates and limits. Your credit score is sometimes a factor in whether you get a job offer, it's a screening tool when renting a home, and it's used to calculate some types of insurance premiums, just for a few examples.

Having no credit, little credit history, or a low credit score works against you and your financial independence in many ways. Your FICO score, which can range from 350 to 850 in most cases, is the most commonly referenced number. The three major credit reporting bureaus-TransUnion, Experian, and Equifax - also give you a credit score along with their detailed reporting of credit history.

A FICO score over 750 is considered "excellent," while the range of 700 to 749 is considered "good." From 650 to 699, the score is classified as "fair," while 600 to 649 is "poor." And a score of 599 or lower is considered "bad."

With time and effort, you can actively raise your credit score and build a more favorable credit report. Start using these tips on how to improve your credit score right away because it does take time to make significant progress.

Way to Raise Your Credit Score

- **Check your credit score and your credit report for accuracy.** If you have an online account for a bank or credit card, the financial institution probably provides your FICO score for free, updated on a monthly basis. You can get your credit report from TransUnion, Experian, and Equifax once a year for free, too. Do so and review it to make sure everything is right. Also, sites like CreditKarma.com help you understand your credit situation, monitor it on an ongoing basis, and see where you most need to make improvements for free.

- **Correct problems on your credit report.** Each credit bureau has an online process for disputing problems, which you should do as needed. Key things to look for include whether all your personal information is accurate, whether all your credit accounts are being reported, whether there are late payments showing that aren't correct, whether all accounts listed are yours, and whether there are collections accounts that aren't legitimate or that are more than 7 years old.

- **Make all bill payments on time.** This is a huge factor in your credit report. Set up automatic payments, or at least schedule payment reminders to help ensure you aren't late on any payments. Even one late payment can lower your credit score.

- **Don't let bills get sent to collection agencies.** Collection accounts have a strong negative effect on your credit score and creditworthiness. If you have unpaid bills, set up a payment plan rather than ignore them, and ask the organization if there's a way you can reduce the balance owed.

- **Pay down credit card debt.** Using more than about one-quarter to one-third of your total credit limit hurts your credit score. Maintaining low or no balances shows that you use credit responsibly.

- **Open a new line of credit if you have few or none.** Having several lines of credit - especially a few different types, such as credit cards, personal loans, auto loans, and student loan benefits, affects your credit score. Start with a secured credit card (one where you make a deposit upfront to cover the line of credit) if you can't qualify for an unsecured one.

- **Build up the average age of your credit accounts.** Having few lines of credit hurts your credit, but the answer isn't necessarily to open a bunch of new accounts. The average length of time you've had your lines of credit is also an important factor, and ideally, it's over 5 years. Opening multiple new accounts drop your average credit age, so consider whether your number of accounts or the age of your credit history is working against you more.

- **Limit credit checks by lending institutions.** This ties into the above two entries as well. Hard credit checks stay on your credit report for 2 years, and having a lot of them on there lowers your score. These checks are run when you apply for a new credit card, a credit line increase, or any type of loan, so making multiple applications does have a downside.

- **Don't close unused credit cards.** Closing accounts is common advice for people who tend to accumulate too much credit card debt, but it should only be a last resort. A card you've had for a while increases your total credit, your number of credit accounts, and the average age of your credit history, so it works in your favor in a few ways. Even if you have to cut the card up to keep from using it, that's preferable to closing the account.