The YOUR HOME Credit Guide

Credit is one of the most important tools in the arsenal of your financial health. Here's how to keep it sharp.

As a homeowner, you already know the importance of good credit. But no matter how hard you try, you may not be able to maintain perfect credit year after year. Your circumstance may change, priorities could shift, and despite good intentions, you could end up damaging your credit rating.

If you think this is happening to you, what should you do? First, understand that you are not alone. Millions of Americans every year discover that their credit "score," the numerical calculation lenders use to gauge a borrower's creditworthiness, has fallen. Second, educate yourself. Though mysterious on the surface, the logic behind credit scores—how they are determined, how they are used by lenders—is pretty simple, and there are a few steps you can follow to improve your credit standing.

What's in a Score?

The three main credit reporting agencies, Experian, Trans Union and Equifax, collect data on consumers and their borrowing history and share this information with lenders nationwide. A fourth company, Fair Isaac Company has designed a simple way of interpreting this data, known as a credit score. Lenders use this score to make quick and fair decisions when offering credit.

Credit scores can range from 350 on the low end to 850 at the top, with the low 600s representing the generally accepted cut-off for "good" credit. Lenders, such as your mortgage company or auto dealer, often set numerical guidelines based on credit scores to help them determine whom to offer credit and on what terms. According to Costa Mesa, California-based Experian, the average nationwide credit score as of May 2007, was 692.

Your credit score isn't the sole determinant of whether or not you are able to secure credit—and at what interest rate—but it is a factor. Some lenders may set a floor (or lowest acceptable credit score) beyond which they will not offer credit, while other lenders may simply assign different interest rates or payment terms to borrowers with lower scores.

Credit Culprit: Identity Theft

One of the biggest single threats to a homeowner's credit today is identity theft. While you may not be responsible for the debt if fraud was proven to be the culprit, it could take months or even years to clean up the mess. And during that time, you may have trouble refinancing or getting other credit.

Tracking your credit use is the best method for detecting identity theft. Each of the three credit agencies provides a service (for about $50 annually) that will alert you to unauthorized use of your credit. Certain financial institutions offer similar types of services, such as e-alerts, which will automatically notify you of any suspicious activity on your account. Many times these services are free.

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The Right Mix

Credit scores are influenced by a number of factors, some of which go beyond the simple standard of whether all your bills have been paid on time. According to Fair Isaac, the weight of any one factor depends on the overall information in your credit report(s).

The biggest determinant (35 percent) of a credit score is your payment history—how timely and fully you've made your payments. In this regard, every additional month you fall behind on a payment can lower your score further, while long stretches of on-time payments are viewed favorably. The second most important determinant (30 percent) is the total outstanding amount that you owe, particularly in relation to your income. Lenders perceive every additional line of credit (from any source) as a potential barrier to your ability to pay your bills on time, particularly if your yearly income remains the same. As a rule, experts suggest carrying no more than 50 percent of your total available credit. In other words, if you have $20,000 available on all of your credit cards, you should try to restrict your amount owed to less than $10,000 at any one time. A common misconception is that closing some credit card accounts will boost your score. In reality, your score will only rise if you're paying down the outstanding debt on those cards as you're closing them.

Another factor is the amount of time you've had available credit, particularly revolving credit lines like credit cards or home equity loans. A credit report with mostly new accounts is not as favorable as one with accounts that hold a long credit history. It may be useful to consider any accounts under a year old as "new." The type of credit matters, too. A borrower who has a mortgage, a home equity loan, credit cards and an education loan, for example, has a healthier mix of credit products than just holding credit cards. A final significant factor in determining your credit score is the number of "inquiries," or times that a potential lender reviews your credit report. Even though all credit inquiries received within a 14-day period as a single inquiry, shopping for credit numerous times throughout the year can raise a red flag. This doesn't include the unsolicited, preapproved credit card offers you receive in the mail.

Get a Better Score

So what do you do if you discover that your credit score is lower than desired? Here are a few simple rules to follow that can help boost your score.

- **Pay down your revolving debt.** Don't move debt around between credit cards.
- **Get current on bills and stay current.** If paying your bills is an issue, consider using online bill paying or other automatic ways to pay your bills. You'll set it up once and not only pay your bills but build your score automatically.
- **Don't open a lot of new accounts.** Instead, hang onto and maintain your older accounts.
- **If you are having trouble making ends meet,** contact your creditors or see a legitimate, non-profit credit counselor. Believe it or not, creditors (mortgage or otherwise) would rather work out a payment schedule than see you fall delinquent and not pay at all. Good credit can be a homeowner's most valuable possession. Use it wisely and guard it well!

Know Your Credit Score

Where to go to learn your credit score and/or obtain a copy of your credit report...

1. To receive your one free annual report:

Annual Credit Report Request Service
PO Box 105283
Atlanta, GA 30348-5283
877.322.8228
www.annualcreditreport.com

2. To receive additional reports (for a fee), which will include your credit score:

Equifax	Experian	TransUnion
PO Box 740241	PO Box 2104	PO Box 1000
Atlanta, GA 30374	Allen, TX 75013	Chester, PA 19022
800.685.1111	888.397.3742	800.888.4213
www.equifax.com	www.experian.com	www.transunion.com

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