How to quickly increase and Maintain a High Credit Score

Loans with Your Best Interest in Mind
From The Desk Of Joe & Bonnie Tufo

Improving a credit score takes time, but there are some things that you can do to change your score quickly. This article suggests ways to achieve the best possible score in both the long- and short-run.

Each credit reporting agency collects its own information, uses its unique statistical model, and calculates its own credit score. The material and suggestions in this article relate to Experian's FICO model and credit score. These principles also apply to the models for Trans-Union and Equifax.

What does a credit score "say"?

A credit score is primarily designed to predict the likelihood of a consumer receiving a 90-day late in the next twenty-four months. Research conducted by Fair, Isaac & Co. (FICO), identified indicators determining the probability a consumer will receive a 90-day late in the next twenty-four months. The best indicator, and the one given the greatest consideration (weight), is recent late payments (within the previous six months). For example, the "average" consumer with a current 90-day late has a history of recent late payments on other accounts.

When we help you repair bad cre dit we work on the below-mentioned problem-areas in the order shown. The percentage figures indicate the item's weight (contribution) in the credit score. These are reason codes. When reading a credit report, up to four of these codes will appear directly below the credit score. On a credit report, there may be a code representing the reason code. Many times we call the appropriate agency to be sure we know which reason codes are contributing to the score.

Reason Codes

1. Late Payments, Collections, Bankruptcies--35%

2. Outstanding Debt--30%

3. Length of Credit History--15%

4. Types of Credit--10% Inquiries

5. (Applications for New Credit)--10%

Late Payments, Collections, Bankruptcies--35%: The best indicator of getting a 90-day late is recent late payments.

Tip: Some consumers think a mortgage late is "worse" than a credit card late. The FICO model doesn't distinguish between the two. A late payment is a late payment--period. You should make all payments on time. Late payments in the previous six months reduce a credit score the most, followed by late payments in the previous seven to twenty-four months. Late payments over twenty-four months are the least damaging.

Outstanding Debt--30%: Outstanding debt refers to revolving credit--specifically, credit cards. A home equity line is revolving credit, but an equity line is treated more favorably compared to a credit card.

Tip: The key to a good credit score is the ratio of outstanding debt-to-credit limit per card and overall. For example, a credit card with a $4,500 balance and a $5,000 limit is worse than a credit card with a $10,000 balance and a $15,000 limit. If you have several credit cards, it's better to spread debt among them to achieve an overall, low debt-to-credit limit ratio.

Tip: A credit reporting company may not know the current limit on a credit card. They sometimes report a previous, highest outstanding balance as the credit limit. This could lower a credit score in some cases. Be sure they know what the credit card limits are.

Tip: A credit card balance of zero will not contribute to a score. If you have a good payment history for a card, make sure a balance for that card appears on the credit report.

Length of Credit History--15%: The length of time a card is open contributes to a score. Several credit cards open for a short time will lower a score.

Tip: Don't open several new credit card accounts in order to spread debt among them (in order to lower a debt/credit limit ratio). This will lower a credit score.

Types of Credit--10% Inquiries: A credit card issued by a finance company is less favorable compared to a card issued by a major bank.

Tip: Some large, "wholesale-to-the-public," warehouse-style stores issue their own credit cards. These cards are sometimes backed by finance companies. These cards can lower a score.

(Applications for New Credit)--10%: These are credit inquiries. Today, the number of inquiries can be effectively "ignored" under certain circumstance. The inquiries one makes into one's own credit don't count.

If a consumer is shopping for a mortgage and several inquiries have been made in the previous thirty days, only one mortgage inquiry is considered in the score. In the eleven months prior the previous thirty days, only inquiries occurring more

than two weeks apart are considered.
For example: A consumer has five mortgage inquiries in the previous thirty days. Only one inquiry is considered in the score. In the period covering the eleven months prior to the previous thirty days, the consumer has a mortgage inquiry every fourteen days. Only one inquiry is counted in the eleven-month period. On the other hand, if the consumer has a mortgage inquiry every fifteen days in the previous eleven months, all twenty-two inquiries are counted in the score.

How to quickly increase a credit score:

As previously mentioned, a score will suffer if the total debt-to-credit limit ratio is high (a consumer is "maxed" out on their credit cards). Consider adding yourself as an authorized user on your parent's credit cards, and have this verified by the credit reporting agency(ies). Your debt-to-credit limit should improve and so will your credit score.

Miscellaneous tips:

Question: A consumer has a seven-month old, unpaid collection account and they're considering getting a loan. Do they pay the collection account before getting their loan?

Answer: No. By paying this collection account, they're updating activity connected with the collection account, and moving it into the "most recent six month" period. Remember, late payments in the last six months are the worst. The credit model doesn't "care" if the account is paid or unpaid. It only knows if there is recent activity connected with the account. It's best to pay it in escrow.

Question: A consumer has two credit reports, each with different FICO scores. What's happening?

Answer: Fico has recently amended it's statistical model to better meet the needs of creditors and consumers. The new FICO model (version 2) may provide a better credit score. Make sure you know which model is being used to determine the credit score.