Getting and keeping your credit in shape

Having good credit is important. Lenders check your credit report before approving you for credit cards and loans, including car loans, student loans, and mortgages, and what they find will affect the interest rate you'll be offered.

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Know where
you stand

Check Your Credit Report and Score

First, it's important to understand the difference between your credit report and your credit score. A credit report is a detailed report of your credit history. The three major credit bureaus – Equifax, Experian, and TransUnion – collect information about individuals' credit history and create credit reports that lenders use, along with other details, to determine the creditworthiness of loan applicants.

There are five components that make up your FICO score:

- Payment history – 35%
- Amount owed – 30%
- Length of credit history – 15%
- New credit – 10%
- Types of credit used – 10%

What is a FICO score?

Your FICO score is a credit score calculated by the Fair Isaac Corporation (FICO) that acts as an indicator of your creditworthiness. FICO reviews data from your credit report and provides you with a score between 300 and 850 that represents your credit profile. In general, FICO scores between 690 and 720 are considered good, and a score over 720 is considered excellent.

You can check your credit report once a year for free at AnnualCreditReport.com. If you find any errors on your credit report, contact the credit bureau with the information you believe is inaccurate and include copies of any documents that support your position. You may also want to contact the appropriate creditor to explain that you are disputing the information the credit bureau has.

Get your annual free credit report at AnnualCreditReport.com

How to improve your score

Take Action to Improve Your Credit

Because your credit score affects the interest rates you can get, you want to increase that score as much as possible. Even if you currently have a less-than-stellar credit history, there are things you can do to improve your score. paying more over the life of the consolidated loans.

1

Reduce the amount of debt you owe.

Make a list of all the debt you have (use your credit report for this information) and the interest rates you're being charged. Develop a plan to pay down the debts with the highest rates first while maintaining payments for all accounts.

2

Get current on missed payments.

Lenders consider how reliably you pay your bills, so if you have any accounts that are past due, get those paid up.

3

Pay off debts that have gone into collection.

Your credit report will list any accounts in collections as separate records and will provide information for how to get in touch with the collection agency. Be aware that you can't get a collection removed from your credit report by paying it off; it will stay on for seven years.

4

Negotiate outstanding balances.

If you have any debt that's gone into collection that you can't pay back in full, you may be able to negotiate your debt. If you reach an agreement with the entity that owns your debt, be sure to get the details of the terms in writing.

5

Increase your credit limit (with caution).

If you're not in a position to pay down your balances, you could improve your credit utilization rate – the amount of available credit you use – by increasing your credit limits on existing credit cards. It's important that you not use any of that credit as that would defeat the purpose if increasing your limit.

Keeping your score healthy

Maintain Good Credit Habits

Keeping your credit in good shape requires ongoing diligence.

Pay your bills on time.

This goes for all bills. Setting up automatic bill payment whenever possible helps make this easy.

Keep balances low on credit cards.

If you have any cards that run up big balances every month, it could look like you're over-using credit even if you pay the bills in full every month. That's because the balances are reported to the credit bureaus only once per month. Consider sending in payments at least twice a month to keep the running balance lower. A good rule of thumb is to keep your balance to 30% or less of your credit limit.

Don't open a lot of new accounts in a short period of time.

New accounts will lower your average account age, and it can create too many "hard credit pulls," both of which could bring down your score. And it could offer temptation to accumulate debt by over-spending. Apply for and open new credit accounts only when necessary.

Protect yourself

Safeguard your identity

Identity theft, one of the fastest growing crimes in the US, can damage your credit. In addition to being diligent with all of your passwords – using unique, hard-to-guess passwords and changing them periodically – and following other best practices for safeguarding your personal information, here are other smart steps to follow.

Check your credit reports regularly.

Federal law requires each of the three major credit bureaus to give you a free credit report every 12 months on request. You can stagger your requests during a 12-month period to give you a more frequent opportunity to monitor your credit history.

Consider placing a credit freeze on your reports.

Also known as a security freeze, it restricts access to your credit report, which makes it more difficult for an identity thief to open new accounts in your name. It also prevents legitimate pulls of your credit report – for example if you're applying for new credit or a job – but you can temporarily lift the freeze for those circumstances. You will need to contact all three of the credit bureaus and there is a fee, but a credit freeze will not affect your credit score.

Looking for something else? We're here with information to help guide you down the road to financial success and the resources to get you on the right path.

Find more resources to help you on your journey at laurelroad.com/resource-hub

Laurel Road provides mortgages that are smart, simple, and secure – so you can focus on your home, not your mortgage. For more information, visit laurelroad.com/mortgage.

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