BEST PRACTICES FOR Managing Your Credit

When you are applying for a mortgage, car loan, home-equity line, insurance, home rental or job, be aware that your credit score may impact your application. Few other numbers help or hurt your life so deeply. Here's how to find and improve this key indicator in your financial life.

Your credit score is likely from Fair Isaac Corp. (FICO), and takes into account factors in five major categories:

- **Your payment history (35%);**
- **Amounts owed (30%);**
- **Credit history length (15%);**
- **New credit (10%); and**
- **Mixed credit types (10%).**

850

Your score falls between 300 and 850. Generally, any score above 750 denotes excellent credit, around 650 is considered fair and less than 600 is poor credit.

300

Review Your Credit History Once a Year

If you have a long history of consistently making payments on time, you're considered a better credit risk. And it can actually be good to have accounts on your credit report without any activity, because it helps reduce your debt to credit ratio.

The amount you owe in outstanding debt is another factor in your score. Typically, someone who doesn't use all of his or her revolving debt scores higher than someone who uses 100% – even if they pay it off every month. Keep your debt-to-credit ratio at 30% or less.

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A Few Credit Tips

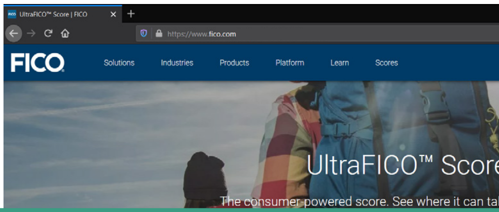
Naturally, a long history of good credit earns you a higher score than if you're just beginning to build a credit rating. Some people worry that applying for lots of credit will hurt a score. This is not necessarily true: Some credit inquiries don't even show up and FICO makes allowances for credit shopping such as for a mortgage or an auto loan.

Of course, you will not want to apply for credit that you don't need and opening a lot of new credit accounts in a short period of time can hurt your score.

FICO also looks at your credit mix:

- Installment debt that you pay off according to a regular schedule;
- Revolving debt from any money that you borrowed in fluctuating amounts over a set time;
- Your retail debt on stores' accounts;
- Your mortgage; and
- Your debt from finance companies.

Your delinquencies, collections, bankruptcies and the time taken to resolve these issues naturally also come into play.



Information about unresolved problems typically stays on your record for seven to ten years.

Credit Steps to Take

Review your credit report at least once a year to ensure that it's accurate, complete and up-to-date. Your inspection can also help you guard against identity theft or at least spot crooks early.

You can monitor your credit score by requesting a free annual report from the credit reporting agencies (Equifax, Experian and TransUnion) at www.annualcreditreport.com.

The Consumer Financial Protection Bureau reports that most (77%) complaints against the reporting agencies simply involve wrong information on reports, such as errors in personal information or the statuses of past accounts. Report and resolve discrepancies immediately.

And don't let stories of bad-credit snarls and indelible debris of fraud discourage you: The big three agencies agreed to change how they handle errors and list unpaid medical bills, and promised to speed resolution for proven victims of fraud and ID theft.

The reality is that your credit score can open or close many doors. And good credit is one of the foundations on which solid financial planning is built.

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