

Make a resolution to increase your credit score in 2010!

If you are thinking about buying a house or a car, your credit score is a very important number. The interest rate you will pay for the money you borrow will be determined, in large part, by this three digit number that is generated from the information on your credit report. Taking the time to understand your credit score and taking steps to improve your score can often help you qualify for lower interest rates and save you money!

Credit scores can range from 300 to 850 and are calculated using complex formulas. There are five major areas that affect credit scores.

1. Payment history - How well you pay your bills on time.

Delinquent payments and collections can have a significant impact on your credit score. Once an item has been sent to a collection agency, it will remain on your report for seven years after it has been paid. If you have missed payments, get current and stay current. The longer you pay your bills on time, the better your score will be. You can set up automatic payments from your credit union account to help you pay on time, but be sure to have enough money in your account to avoid costly overdraft fees.

2. Capacity - How well you manage the credit limits you have.

Keep balances low on credit cards and other "revolving credit." High outstanding debt can negatively affect a credit score. Don't close unused credit cards as a short term strategy to raise your score, eliminating capacity may actually lower your score. However, don't open a number of new credit cards that you do not need, just to increase your score. This approach could also backfire and actually lower your score.

3. Length of credit - How long you have had a credit line.

If you have been managing your credit for only a short time, do not open a lot of new accounts too quickly. New accounts will lower your average account age, which will have a larger effect on your score if you do not have a lot of other account information.

4. Mix of credit - installment debt (auto loans) versus revolving debt (credit cards).

In general, having credit cards and installment loans (and making payments on time) will raise your credit score. It is OK to have credit cards but manage them responsibly. Someone with no credit cards, for example, tends to be a higher risk than someone who has managed credit cards responsibly. Note that closing an account doesn't make it go away; a closed account will still show up on your credit report for seven years.

5. Accumulation of debt - How fast you are adding debt.

Apply for and open new credit accounts only as needed. Do not open accounts just to have a better credit mix- it probably won't raise your score. Also, rapid account buildup can look risky if you are a new credit user.

It is also important to correct errors on your credit report, since your score is calculated based on the information on your report. Below is a list of items that will be worth the effort to correct with the credit bureaus:

- Late payments, charge-offs, collections, or other negative items that are not yours.
- Credit limits reported as lower than they actually are.
- Accounts listed as "settled", "paid derogatory," "paid charge-off" or anything other than "current" or "paid as agreed" if you paid on time and in full.
- Accounts that are still listed as unpaid that were included in bankruptcy.
- Negative items older than seven years (ten in the case of bankruptcy) that should have automatically fallen off your report.

Under federal law, you are entitled to a free credit report from each of the three national credit reporting companies once every twelve months. The reports will not be sent automatically, each consumer must request a copy by going to go to www.Annualcreditreport.com, or calling 1-877-322-8228.