

3 Ways to Improve Your Credit Score if You Already Pay Your Bills on Time

Description

If you've always paid your bills on time, never defaulted on a loan, and never gone over any credit limit, you still may not have a sterling credit score.

How is this possible? Well, your credit score comes from a very complicated calculation, one that takes a lot of factors into account. So, understanding the nuances can be the difference between a "Good" score (between 660 and 725) and an "Excellent" score (760 and above).

With that in mind, below are three simple tricks to bring your credit score up.

1. Take advantage of old credit cards

Let's suppose you have an old credit card, one that you don't use anymore. Perhaps it's one that has no annual fee, so you forgot about it. Should you cancel this card?

The answer: absolutely not. These cards reduce your *credit utilization ratio*, which measures the percentage of your available credit that you use. In fact, your best strategy is to use this card periodically, even if it's just a small purchase every six months. Doing this will ensure the card is classified as an active account, which is given more weight in credit scoring.

2. Beware of the store credit cards

Imagine you're buying some new furniture. You're at the register, and the salesman makes an offer you just cannot refuse: in exchange for taking a store credit card, you get a discount on your purchase. And the card comes with no fees of any kind. So, how can you lose?

Unfortunately, these cards can take a bite out of your credit score. Thus there are two important things to keep in mind. First of all, don't apply for a bunch of store credit cards at once. That's viewed as a big negative by the bureaus.

Secondly, if you can't resist that discount, make sure to pay the balance right away. Then cancel the card.

3. Beware the pre-authorized debits

Pre-authorized debits are very popular way to pay off a credit card balance. And it's easy to see why: the payment is done automatically, is always made on time, and can be for the entire statement balance. Thus you can just set it and forget it.

Well, not so fast. Pre-authorized debits may be convenient, but can also be damaging to your credit score if you're not careful. This is because they are typically designed to pay every dollar on the last possible day (without incurring any penalties).

As a result, your average credit card balance would be higher than if you were to pay off the balance every couple of weeks. This can be damaging to your credit score, since using more than 35% of your balance can count against you. Even worse, pre-authorized debits can lead to a sense of complacency, increasing the risk of going over your credit limit.

If nothing else, remember this: even if you've paid off all your debts, and can afford to keep a zero credit card balance, you may not have a great credit score. But that can be fixed over time, as long as you have the right habits.

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Date

2025/07/21

Date Created

2015/06/02

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