Boost Your Credit Score in Months

Description

At The Motley Fool Canada, you're so much more than just a number to us.

Still, a lot of folks — from your lender to your landlord to your insurer to your employer — define your character by the three-digit score that reflects what's in your credit file. To them, whether or not to do business with you comes down to where you rank on the following scale:

- 750 and up: You're golden and will get the best interest rates on loans.
- 710-750: Though you're not quite a VIP, qualifying for competitive offers is no problem.
- 650-710: Approval is easy, but platinum status isn't likely.
- 580-650: You qualify for credit at subpar rates and so-so terms.
- 580 and below: Brace for denial and/or loan-shark rates.

Source: John Ulzheimer, President, Credit.com Educational Services. Based on FICO scoring range 300-850. A higher score indicates lower credit risk.

Of course, what's on the inside really does matter most of the time, but in matters of credit, you really can't escape the scrutiny.

Nine ways to improve your credit score

If you're on the cusp of decent creditworthiness, take heed: You *can* improve your lot in as few as three to six months (or even more quickly, if you discover that some of the errors being reported aren't really your own). If your score suffers deeper scars, credit triage is about a 12-month process, though your actions will begin to positively affect your score in 30 to 60 days.

Here are nine tactics to improve your credit score ASAP.

Concentrate on performance factors

Payment punctuality and credit use levels account for 65% of the credit-scoring equation. That's why, even if you change nothing else, being an on-time, low-spending Goody Two-shoes for a while will do wonders for your reputation.

This is important even if you are just starting with credit and have no score yet. These will be a good path for you to get your credit score off to a good start.

The blow to your score for any 30- or 60-day late payments in the past year will begin to diminish after you mail the cheque and rectify your wrong. Recovering from a 90-day late payment (a ding that can be as damaging to your score as bankruptcy) will take longer. But it will fade to black eventually, particularly if your more recent payment habits are pristine.

Keep balances low

Aim to use 35% or less of your credit line to avoid lenders' ire. (Of course, if you want to get on our Foolish good side, we'd love to see your debt levels at 0% after every billing cycle.) Before any major loan application process (mortgage, auto loan, etc.), get serious about paying down your debt. In this instance, usage of 10% or less is ideal. To keep balances low, postpone big purchases, keep card use to a minimum, and pay down as much debt as possible.

Get more credit for your history

Do not close old accounts, even if you never use them. Canceling lines of available credit hurts your credit utilization ratio (also known as your debt-to-available-credit ratio). Instead, give lenders some good news to report (instead of stagnancy) by using old cards every six months to buy something small.

Improve the looks of your limits

Are lenders reporting accurate credit limits? If not, ask them to. You can also improve your credit ratio by asking your banks to up your credit limits — with this caveat: Don't do it if you think access to more money will go to your head and drive you to the mall. If you do ask for more rope, er, spending power, make sure the request won't require your credit to be re-pulled; that can trigger a "hard inquiry," which can bring about a potential score reduction of five points or more if enough are made within a 12-month period. Also, do not try to build creditworthiness by opening a home equity line of credit. A "secured revolving account" has little impact on your overall score.

Attack unattractive debts

Pay off no-money-down financing debts ASAP, possibly with a home equity loan (HELOC). An HELOC penalizes your score less than revolving credit card balances and financing deals, because consumers are more conscientious about payments. Don't swap debts lightly, though, since the roof over your head is at risk if you don't pay what you owe on an HELOC.

Deal with collection accounts

In a strange karmic twist, paying off debts that have been sent to collections won't improve your score much (the biggest hit comes earlier from the "charged-off debt" designation), with one exception: if the payment lowers your outstanding debt. Try negotiating with the collection agency (in writing) to have them mark the account as “paid as agreed” or remove the notation from your credit repot entirely.

Watch the clock when rate shopping

The credit scoring system treats clusters of credit inquiries for mortgages and car loans as a single hard inquiry, so long as you contain your loan-quote requests within a 45-day period. However (there’s always a “however,” isn’t there?), some lenders still use the old FICO system, which allows just a two-week window of safe harbor, so err on the conservative side when window-shopping for a loan.

Make sure that’s not a typo

Don’t assume that negative entry in your credit file is really your fault. Consumer watchdogs report that as many as 80% of credit reports contain errors — and a quarter of the time, those errors are significant enough to cause a FICO score drop of 50 points or more. Be sure to review your official records from the two major credit reporting agencies (Equifax and TransUnion).

Don’t ruin a good thing

Got good credit? Good news: Keeping it that way won’t require much more effort than what you’ve been doing to get it there. Just continue to pay your bills on time, watch your spending and don’t monkey too much with what’s clearly working (doing so may actually lower your score).

Finally, you may wonder why we didn’t mention the time-honored tactic of piggybacking on someone else’s already established good credit as an authorized user or joint account holder. That’s because the suits pulled the plug on this strategy after some businesses began using it in nefarious ways. In other words, the bad guys ruined it for all of us. Still, even though you’re on your own, following the rules above should have you earning your gold star all by yourself in no time.

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