Is a Perfect Credit Score Possible for You?

Description

About 1% of the population has perfect credit. How they earned those gold stars is no secret. A quick peek into their credit files reveals that these star pupils haven't got any fancy tricks up their sleeves. Instead, they share such ho-hum traits as:

- Between four and six revolving accounts (meaning credit cards).
- At least one "installment" tradeline (e.g., a mortgage or auto loan) in good standing.
- A few accounts around 20 years old with a long history of positive use. (To get into the 800 FICO score range, you need 10 years of positive account history.)
- Around 30 years of credit use.
- No late payments (or other account blunders) for at least the past seven years.
- Very few credit inquiries (no more than one to three in a six-month period).
- No derogatory notations — collections, bankruptcies
- Debt levels on credit accounts of less than 35% of their overall credit limit.

Enough gawking, let's cheat off their homework! Here's a quick crash course on keeping your credit healthy for life:

See what everyone's saying about you

Two major credit-reporting agencies are keeping tabs on your financial comings and goings, and so should you. At least once a year (and certainly several months before entering any major loan situation), go to both Equifax and Transunion and fill out the required forms to receive your credit report from each.

Fix the typos

Given that your credit record spans nearly a decade of your borrowing activity, it's no surprise that errors sometimes turn up. Some common credit-reporting blunders include out-of-date addresses, closed accounts being shown as open, and outright false information.

Mend your uncreditworthy ways, ASAP

Those self-inflicted credit wounds (like a history of late payments, defaults, and generally bad behaviour — think back to your freshman year in college) will fade from your record over time. (You cannot wipe out accurate information from your credit report. Nor can any firms who offer to do so for a fee.) Since your most recent behaviour carries more weight than old news, vow that from this day forward you will be a financial Goody Two-shoes. Knowing how your credit score is calculated can help here.

Memorize the mantra: It's plastic, not cash

A credit card is just that — a *credit* card. Even though you've been deemed worthy by some entity to borrow $34,538, you don't actually have $34,538 to spend, which leads naturally to the next rule …

Ignore bankers' rules on what is an "acceptable" level of debt

Your debt-to-income ratio is the measure of how much debt you carry to how much money (after taxes) you have coming in. In the world of lending, it is acceptable to carry 25% of your income in debt. That ratio is pretty high in our opinion. At the very least you want to keep your debt — including car loans — to 15% or less of your after-tax income.

Lather, rinse and repeat

Based on what's in the Bo-Derek-of-borrowers' files, you can see that fancy maneuvers aren't necessary to keep your credit looking spiffy. Just keep your spending under control, pay your bills on time, don't apply for extra credit too often — and don't be shocked when you find yourself among those with elite credit-score status.

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