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## How to Improve Your Credit Score

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How can you raise your score fast in order to qualify for a home loan? What can you do in the present to pave the way for future home-buying success? Here are four things you should focus on more than anything else.

### 1. Eliminate Bad Habits

If you have credit problems right now, they are probably the result of bad financial habits. For many people, this includes a history of not paying bills on time, maxing out credit cards, acquiring too much debt, etc. So before you move on to the other items on this list, you need to identify and eliminate any bad habits you have. This is crucial if you want to raise your credit score as quickly as possible. You have to stop the source of the problem first.

### 2. Review Your Credit Reports

If you have erroneous information on your credit files, it could be dragging your score down lower than it should really be. Unfortunately, data mix-ups are common within the three companies who produce credit reports -- Equifax, Experian and TransUnion. They would probably argue with me on this point, but I'm here to tell you it happens all the time. So your next step in raising your score as fast as possible is to order copies of all three reports and review them for errors.

You should also make sure that negative (but accurate) information is removed from your credit reports when the time comes. Most negative information has to come off after seven years, while bankruptcies can stay on there for up to 10 years. So if you see an item that shouldn't be on your report anymore, but it is ... you need to dispute this with the company that produced that report.

I can't stress the importance of this enough. Your credit score is based on the information within these documents. So if you want to raise your score fast you need to start by ensuring the accuracy of your reports. And you should start this review process ASAP, because it can take some time to get it sorted out.

### 3. Reduce Your Credit Card Balances

Credit utilization is one of the "ingredients" that will contribute to your overall score. This is an industry term that refers to the percentage of your available credit that you are currently using. If you have one or more credit cards that are near their limits (or cards that are maxed out already), then you'll have a high credit-utilization ratio ... and this is a bad thing.



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On the other hand, if you have a couple of credit cards with very low balances (relative to the amount of credit available on the cards), you'll have a lower utilization ratio. So by paying down the balance on cards that are near their limits, you can raise your credit score even more.

Notice I didn't say you should cancel your credit cards / accounts. This could actually hurt your score, because the utilization ratio is an average of all your accounts. So, for example, if you cancel a card that has a really low balance, you could hurt the overall average of your credit-utilization ratio. On top of this, if you close your oldest account, you could inadvertently shorten your credit history -- and this too can hurt your score. This is why I recommend keeping the accounts but reducing the balances (in most scenarios).

#### **4. Pay Bills on Time**

You've probably heard this before, but it's a critical item -- one of the most important considerations when trying to raise a credit score fast. So it's part of my 4-part plan for boosting your score as quickly as possible.

Most mortgage lenders today use the FICO score when reviewing an applicant's financial history. There are different scoring models in use, but FICO is the one most commonly used in the mortgage industry. Your payment history on all of your bills makes up around 35% of your score, so it gets more weight than any other single item!

So if you want to raise your credit score as fast as possible, you need to combine this with the other items I've listed above. Creditors will usually send you a late-payment notification after 30 days, followed by a stronger warning after 60 days. In most cases, they will report the missed payment to the credit reporting agencies after 90 days past-due, and that's when it can show up on your report and affect your score.

So pay your bills on time! And if you are late on a payment, be sure to pay it as soon as possible. This can prevent it from showing up on your credit file.

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#### **About the Consumer Credit Blog**

The Consumer Credit Help blog gives consumers a place to go for straight answers to tough credit questions. It is a free service offered by the publishers of the Home Buying Institute. To learn more about the Consumer Credit Help blog, please visit [www.HomeBuyingInstitute.com/help](http://www.HomeBuyingInstitute.com/help).

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