

Three digits you need to know: Understanding and improving your credit score

If you're thinking about buying a house or car, applying for a credit card or even purchasing insurance, there are three digits you need to know. Those three digits make up your credit score and greatly influence virtually every important financial transaction you make. So it makes sense to know what your score is, understand what it means and learn what you can do to improve it.

How do you get a credit score? Every person who has ever borrowed money or utilized credit has a score that reflects how well he or she has handled that credit in the past. It considers factors like how much credit you have, how much money you owe and whether you have made past payments on time. Essentially, lenders believe how you've handled credit in the past is a good indicator of how you will handle it in the future. So your credit score serves as a quick, objective and reliable predictor of how likely you are to repay your next loan on time.

If you've had credit problems in the past – such as late payments or even a delinquent account charged off -- chances are your credit history has some strikes against it. If that is the case, many banks and credit unions may shy away from loaning you money. Fortunately, there are companies experienced in providing credit to consumers who have less-than-perfect credit scores.

“Today, one-third of people who seek automotive financing have some blemishes on their credit records. However, just because they don't qualify for prime-rate loans doesn't mean there aren't other resources they can turn to,” says Steve Bowman, Chief Credit Officer at AmeriCredit, one of the nation's leading non-prime automobile financing companies. “Our company is committed to offering a second chance to consumers who have had financial difficulties.”

Many lenders rely on a credit-scoring system that ranges from 350 (poor credit risk) to 850 (excellent credit risk) and is based on more than 30 pieces of information, including a person's payment history, the amount they owe all their creditors and the length of their credit history. There are three primary credit bureaus that track this information: TransUnion, Equifax and Experian.

“Any time you open a new credit card, apply for a loan or fail to make a payment on time, that information is reported to the bureaus and affects your score,” says Bowman.

So when it comes to improving your credit score and reducing your debt, the sooner you take action, the better off you'll be in the long run.

Here are some tips for improving your credit score:

1. Pay your bills on time. If you have missed payments, get current on your bills and stay current. Delinquent payments have an extremely negative impact on your score.

Remember, you can usually ask your creditor to move the due date of your bills to a different time of the month. If that would help you pay on time, consider that option.

2. If you can't pay off the balances of your credit cards each month, meet the minimum monthly payments. Paying the minimums consistently and on time will help improve your score.
3. Don't hit all your credit limits. Using a large percentage of your available credit is a warning sign that you are stretching your limitations. Some experts recommend that you should keep your balances at 50 percent of your credit limit or less.
4. Close accounts you don't use, except for some of your oldest accounts. Lenders may see open accounts that aren't being used as a risk that you could go on a spending spree and overextend yourself. Closing your oldest accounts, however, may make your credit history appear shorter. When deciding which accounts to close, consider closing the accounts with annual fees or the highest interest rates first.

If your credit score is fairly strong, but you still have a lot of debt, **here are some ways to reduce your debt:**

1. Make a plan. The experts agree that preparing a budget and sticking to it is the most realistic way to start chipping away at debt.
2. Pay off the credit card with the highest interest rate first, while paying the minimum on other cards. Once your highest-interest-rate card is paid off, move to the card with the next highest rate, and so on. You are better off paying your debt down than you are moving it around to other cards with lower rates.
3. Each month, apply a little extra money available from your budget to your bills, just as though it were part of the payment. Paying as little as \$10 over the required minimum payment amount can cut your repayment time in half.

Good Reasons to Start Today

Order your credit report from the three credit bureaus (TransUnion, Equifax and Experian) to learn exactly where your credit stands and why. When a person requests his or her credit report, it is listed as a "soft inquiry" and doesn't count against your score.

"Being educated about your credit rating, even if your rating is lower than you'd like it to be, is much better than being misinformed," says Bowman. In addition, identity theft is an ever-increasing problem. Bowman adds, "If you never monitor your credit report, you won't know what's on there that *doesn't* belong, and that could be bringing down your score."

If your credit has blemishes on it, you may be thinking, "Will it benefit me to start improving my credit now?" Yes – it's never too late to dedicate yourself to increasing your score. Events on your credit record that occurred during the last two years weigh more heavily than events further in the past. After seven to 10 years (depending on the type of event), the information is dropped from your credit record altogether. If you have work to do to improve your score, you'll be better off the sooner you get started.

Editor's Note: AmeriCredit Corp. is a leading independent non-prime auto finance company. Using its branch network and strategic alliances with auto groups and banks, the Company purchases retail installment contracts entered into by auto dealers with consumers who are typically unable to obtain financing from traditional sources. AmeriCredit has approximately one million customers and nearly \$12 billion in managed auto receivables. The Company was founded in 1992 and is headquartered in Fort Worth, Texas. For more information, visit www.americredit.com.

Information sources:

www.transunion.com

www.myfico.com

www.debtsteps.com

www.debtredirectiongroup.com