

Building Credit

A good credit history makes it possible to get credit, especially for major purchases like a home, and it keeps the cost of all borrowing to a minimum.

Having to pay just one extra percentage point on an average home mortgage because of bad credit could cost \$100,000 or more over the course of the loan. A bad credit score may also make it expensive or impossible to get some education loans, potentially making it difficult to complete your degree or go to graduate school.

To build and maintain good credit, follow these tips:

- ▶ Review your credit report periodically for accuracy. Knowing what's on your credit report will give you a chance to dispute any information you feel is inaccurate.
- ▶ Use your bank account responsibly – bounced checks will lower your score.
- ▶ If you have services in your name such as telephone, cable, gas or electric, make sure you pay your bills in full and on time.
- ▶ Consider one or a maximum of two credit cards. Having numerous credit cards will not help your credit score and may increase your risk of financial problems.

If you do have more than one or two cards, pay the extra cards off and destroy them. But there's no need to call and officially close the account. Closing the account could reduce your credit score since the score is tied to both the length of your credit history and to the amount of your total available credit that is used.

- ▶ Always make payments for loans and credit accounts by the due date each month. Even being one day late may increase your interest rate and will certainly result in a late fee (\$35 on average). If a payment is more than 30 days late, your credit report will be damaged for seven years. Payments more than 60 days late cause even more damage.
- ▶ If you have an emergency and cannot pay your bills, contact your creditors. Before you call,



have a clear summary of why you can't pay and what you would like the creditor to do to help. For example, if you can't afford a \$100 minimum payment, maybe you can afford a \$40 minimum payment. You will also want to ask that your account continues to be considered "current" on your credit report.

- ▶ Dispute any inaccurate information with the credit bureaus in writing. They will respond to your request within 30 days.
- ▶ Avoid scams. If you are in a hurry to raise your credit score, there are companies out there ready to take advantage of you. Any guarantee of a credit score increase is likely a scam. And if you do use a service to help with your credit, make sure they give you a copy the *Consumer Credit File Rights Under State and Federal Law* document before you sign a contract.
- ▶ Understand the risk of identity theft. No matter how well you are in managing your money, an identity thief could be using your good name to open new credit accounts. Again, review your credit report annually to spot identity theft.

If you have been denied credit, the lender is required under the Fair Credit Reporting Act to provide you with a free copy of your credit report at your request.

Otherwise, you may use the <http://www.AnnualCreditReport.com> website if it has been less than one year since your last check.

If you need help understanding your credit report, review our material on "Reading Your Credit Report."