5 Tips to Help Build Better Credit

Like building a house, constructing a financially stable life requires laying a stable foundation. Good credit is a major part of that foundation. Having solid credit can make it easier to qualify for loans, get better interest rates and receive credit on better terms. Follow these five basic tips and you'll be well on your way to improving your credit score.

1

Pay Bills on Time

Paying bills when they are due is one of the most important ways to improve a credit score. Staying on top of expenses shows lenders that you are responsible with credit. According to FICO, payment history accounts for up to 35 percent of your credit score, making it the single most important factor in FICO's scoring model. One tip to stay on top of your payments is to set up autopay whenever you can. With autopay, your bills will be paid on a preset date, and you won't have to worry about forgetting.

2

Mind Your Credit Card Balances

Similar to paying your bills, paying your credit cards down will reduce your credit utilization ratio, which matters because credit utilization is the second most heavily weighted factor in FICO's scoring model. Credit utilization is essentially the percentage of available credit that you are actually using. Generally, the lower the ratio, the better. Lenders will notice your accountability and ability to stay on top of your finances, leading to higher credit scores.

3

Don't Apply for Credit Too Often

Applying for credit is something we all need to do, but the frequency with which we do it can impact our credit scores. It's important to remember the difference between soft inquiries and hard inquiries. Soft inquiries occur when you check your own credit report or when a credit card company preapproves you for an offer. Soft inquiries do not impact your credit score. A hard inquiry, on the other hand, is recorded on your credit report when you apply for a new line of credit, which can temporarily lead to a lower credit score. Multiple hard inquiries in a short time span is sign of risk – creditors wonder why you all of a sudden are seeking so much credit. The good news is that most scoring models treat multiple inquiries of a single type as a single inquiry. So, if you're shopping for the best rate on a car loan and getting quotes from different lenders, those could be treated as just one inquiry.

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Review Your Own Credit Report

Credit reporting agencies are thorough, but there are still opportunities for mistakes or even fraud to occur. You can combat these possibilities by obtaining your own credit report and reviewing it for accuracy. You can verify that each payment is credible and legitimate. If there are errors, you have the opportunity to have them rectified and thereby improve your credit score.

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5

Learn How Credit Scores Are Determined

Many factors go into a credit score. The first and largest is your payment history, which, as mentioned earlier, can account for 35% of your score, according to FICO. The best thing you can do to maintain or improve your score is to make consistent and on-time payments. Other factors, including your payment history, credit utilization ratio, mix of types of credit, and how long you've been using credit have a substantial impact on your credit score as well.

In the end, it's about good habits.

The best thing you can do is to develop good habits with credit. Don't get caught up in the game of trying to achieve a "perfect" score. Instead, focus on paying your balances on time, keeping a low utilization rate, and apply for credit, but only when you need it. Following these basic rules can help you improve your score over time.

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