



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

Consumer Tips June 2008 – Improving Your Credit Score



Many Americans are feeling trapped in the current economic climate, facing foreclosure on their homes and living on credit cards to make it from month to month. Now, more than ever, it is important to maintain a high credit score and know what is in your personal credit report.

You first need to understand that, under federal law, you are entitled to a free credit report from each of the three national credit reporting companies each year. To get started, select a date on the calendar. Let's start today. Go to your computer and log on to www.annualcreditreport.com. Be sure to order your report from this website. Other sites will charge you a fee. Using the date you select, you will be able to receive another free report each year by logging on and requesting your credit report. You may also call 877.322.8228 to request the form.

While you're checking on your credit report, you will also have an opportunity to check your credit score. This report will cost you a nominal fee, but it is important to know your score. Each year on your selected date, you will be able to order your free credit report and purchase a copy of your credit score.

What is a credit score?

The three national credit reporting bureaus — Experian, Equifax and TransUnion — keep reports based on information they receive from companies who have extended credit to you. These reports include information such as your payment history, the length of your credit history, and the types of credit you have and the amounts you owe. From that information, they derive your credit score, which can range anywhere from 300 to a perfect 850.

Keep in mind that the higher your score, the better interest rates you'll receive. For example, consumers with a credit score above 700 generally receive lower interest rates and those with a credit score of 760 or higher will receive the lowest interest rates. The median credit score is 723. Consumers with the highest credit scores usually pose a lower risk as a potential borrower. If you're thinking about buying a new car or purchasing a new home, your 3-digit credit score will in large part determine your interest rate.

How is your credit score calculated?

According to one financial planning expert, your credit score is calculated using this formula:

- 10% is based on the types of credit in use, including the number of accounts and the mix of those accounts.
- 35% is based on your payment history. Do you pay your bills on time? Do you have any bankruptcies, judgment liens or foreclosures on your record?
- 30% is based on the amounts owed on available credit cards and installment loans.
- 15% is based on the length of your credit history.
- 10% is based on the number of new credit accounts opened recently.

How can you improve your credit score?

- Pay your bills on time. If you find it difficult to make time to sit down and pay your bills on a regular basis, consider setting up an automatic payment system through your bank, so you're never late. Of course, be sure you have enough money in your account to avoid overdrafts.
- Be sure you don't have too much credit. Too many credit cards and installment accounts can negatively affect your credit score.
- Don't max out your credit cards and keep balances on your credit cards low. Experts suggest you keep your debt ratio on your credit cards under 50%. If you have a \$5000 limit, don't carry a balance more than \$2500.
- Don't open a lot of credit cards you don't need.
- Pay down those credit cards with the highest interest rates first.
- Carefully review your credit report and correct any errors immediately.

Credit is a good thing, but we all know what they say about too much of a good thing. Use credit responsibly and you'll find your lender will offer you the lowest interest rate when you go to purchase that new home or automobile.

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