BUILD A *BETTER* CREDIT SCORE

BY KATE ROCKWOOD

Why do you want a high credit score? Three words: You save money. The difference between stellar and not-so-good credit could save you more than $6,000 on a five-year, $20,000 auto loan. That's because lenders weigh both your credit report (a history of your financial actions) and your credit score (a numerical snapshot of that past) when deciding terms and rates for everything from home mortgages to store credit cards.

Read this to separate fact from fiction—then improve your score.

DOES YOUR SPOUSE HAVE CRUMMY CREDIT? Don't worry! There's no household score for the two of you. Keep in mind, though, that if you're applying for a joint account, both your histories will be considered.

Checking your credit report more than once a year will damage it.

FALSE

While it's true that applying for a loan or a line of credit will cause your score to dip 5 to 10 points, credit agencies distinguish between these kinds of requests and consumers pulling their own reports. So don't hold back from requesting your report and reviewing it carefully at least once a year. A Federal Trade Commission study found that 1 in 5 reports contain an error that may affect your score—so finding and fixing it can help. You're legally entitled to a free report from each of the three main credit agencies (TransUnion, Experian and Equifax) every year.

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2 It's better to make a minimum onetime payment than a larger late payment.

TRUE

Your ability to pay on time counts for as much as 35% of your credit score—and just one late payment can drag it down by quite a bit. FICO, an agency that calculates your score, doesn't award brownie points if you pay more than the minimum once it's late.

So above all, be prompt. For bills that are the same amount each month, set up automatic payments. For others, create calendar alerts so no due date slips through the cracks.

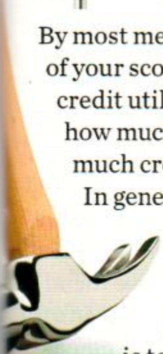
3 When you declare bankruptcy, your credit is wiped clean.

FALSE

Bankruptcy can be a last resort to regain control of your finances, but it doesn't mean a fresh start for your credit report. The public record of the court proceedings lingers on your credit report for 7 to 10 years, and any accounts included in the bankruptcy affect your credit score until seven years after the first delinquency date. If you've filed for bankruptcy, you can start to rebuild your credit, but with baby steps: Be sure to pay your bills on time and spend conservatively. Regular, responsible use of credit is the way to lift your score slowly but surely.

4 Extending your credit limit raises your score.

TRUE



By most measures, almost a third of your score is determined by credit utilization—the ratio of how much debt you have to how much credit is available to you. In general, you want to be using 30% or less of your available credit. One way to improve your ratio is to pay down balances; another is to increase your credit limit. Call the card company where you've had the longest, cleanest payment history and remind them that you've been a dedicated client for a long time. Just don't spend more to match your higher limit!

5 Once you've settled a debt, it drops off your credit report.

FALSE

Whether it's good, bad or ugly, accurate information on your credit report stays put for an average of seven years. So even if you catch up on your past-due MasterCard bill, those late-payment dings will show up on your report.

One way to prevent the semipermanent mark: Call your lender as soon as you know you're going to be more than one billing cycle late and explain the circumstances. If you're a long-term client in good standing, they may honor your request to not report the late payment to credit agencies.

6 Having a fistful of plastic hurts your credit score.

FALSE

Less isn't more when it comes to the number of cards in your wallet. For one, banks like to see you manage your credit responsibly, and ideally that means having more than one credit card. Second: Closing an account means you have less credit and are using a bigger percentage of it, which can harm your score.

If you must close an account, pick one you've had for a short time, with a modest limit, and don't close more than one card per year.

7 You can pay to have your financial blunders erased.

FALSE

Beware of companies that claim they can clear a credit report of your mistakes, like the time you paid your Visa bill three months late or forgot that you had an auto loan. What these companies do is flood credit-reporting agencies with dispute letters. But once a creditor verifies that it was your misstep, the info goes right back on your report.

What *can* be permanently changed on your report are any factual inaccuracies, such as duplicate accounts. If you do spot an error, send a certified letter to the credit-reporting agency or dispute it online, providing copies of supporting documents.

SOURCES: Rod Griffin, director of public education, Experian, a credit-managing platform. Bethy Hardeman, consumer advocate, Credit Karma, a credit-monitoring firm. Trey Loughran, president, Equifax Personal Information Solutions, a credit-reporting agency. Alexa von Tobel, founder and CEO, LearnVest, a financial planning company.