Ways to Repair Your Credit Score

Steps to get your credit rating back toward 720.

Provided by The William Newby Agency

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We all know the value of a good credit score. We all try to maintain one. Sometimes, though, life throws us a financial curve and that score declines. What steps can we take to repair it?

Reduce your credit utilization ratio (CUR). CUR is credit industry jargon, an arcane way of referring to how much of a credit card's debt limit a borrower has used up. Simply stated, if you have a credit card with a limit of $1,500 and you have $1,300 borrowed on it right now, the CUR for that card is 13:2, you have used up 87% of the available credit. Carrying lower balances on your credit cards tilts the CUR in your favor and promotes a better credit score.[1]

Review your credit reports for errors. You probably know that you are entitled to receive one free credit report per year from each of the three major U.S. credit reporting agencies – Equifax, Experian, and TransUnion. You might as well request a report from all three at once. You can do this at annualcreditreport.com (the only official website for requesting these reports). About 25% of credit reports contain mistakes. Upon review, some borrowers spot credit card fraud committed against them; some notice botched account details or identity errors. Mistakes are best noted via a letter sent certified mail with a request for a return receipt (send the agency the report, the evidence, and a letter briefly explaining the error).[2]

Behavior makes a difference. Credit card issuers, lenders, and credit agencies believe that payment history paints a reliable picture of future borrower behavior. Whether or not you pay off your balance in full, whether or not you routinely max out your account each month, the age of your account – these are also factors affecting that portrait. If you unfailingly pay your bills on time for a year, that is a plus for your credit score. Inconsistent payments and rejected purchases count as negatives.[3]

Think about getting another credit card or two. Your CUR is calculated across all your credit card accounts, in respect to your total monthly borrowing limit. So, if you have a $1,200 balance on a card with a $1,500 monthly limit and you open two more credit card accounts with $1,500 monthly limits, you will markedly lower your CUR in the process. There are potential downsides to this move – your credit card accounts will have lower average longevity, and the issuer of the new card will of course look at your credit history.[1]

Think twice about closing out credit cards you rarely use. When you realize that your CUR takes all the credit cards you have into account, you see why this may end up being a bad move. If you have $5,500 in consumer debt among five credit cards that all have the same debt limit, and you close out three of them accounting for $1,300 of that revolving debt, you now have $4,200 among three credit cards. In terms of CUR, you are now using a third of your available credit card balance whereas you once used a fifth.[1]

Beyond that, 15% of your credit score is based on the length of your credit history – how long your accounts have been open, and the pattern of use and payments per account. This represents another downside to closing out older, little used credit cards.[4]

If your credit history is spotty or short, you should know about the FICO XD score. A few years ago, the Fair Isaac Co. (FICO) introduced new scoring criteria for borrowers that may be creditworthy, but lack sufficient credit history to build a traditional credit score. The FICO XD score tracks cell phone payments, cable TV payments, property records, and other types of data to set a credit score, and if your XD score is 620 or better, you may be able to qualify for credit cards. Credit bureau TransUnion created CreditVision Link, a similar scoring model, in 2015.[5]

Citations

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