

1-2-3 Banking

Strong beginnings to a healthy financial future

Credit Score Tidbits

You've probably heard or have seen ads about improving your credit score. But what is it really? A credit score is a number based on a snapshot in time of your credit history. Many times people ask how they can improve their credit score. Listed below are several easy ways to help your score.

Be on time.

The single most important factor of improving your credit score is simply paying your bills on time. Keep in mind that your monthly bills like cell phone and utility companies don't report your positive monthly payment history. However, if you are late on payments this can hurt your credit score. Credit card companies and banks do report monthly payment history, both positive and negative. If you have missed a payment or are currently delinquent, work hard at becoming current and staying there.

Jumping is not always a good thing.

Pay off debt instead of moving debt from credit card to credit card. It's common for individuals to want to take advantage of low interest rates on credit cards, resulting in several new credit card accounts. Opening new credit cards or store cards can actually have a negative effect on your credit score. At the time it may seem like a cost savings, but it can have a negative impact on your score. It increases the amount of credit available to you, which is viewed as an increased risk by credit reporting agencies. It is recommended that you only have one store card. Keep your credit card balances low or better yet paid off monthly.



Give credit where credit is due.

The types of credit you have will also impact your credit score. Having different types of credit demonstrates that you can handle both installment and revolving debt. Having a credit card that you've used responsibly is better for your credit score than having no credit card at all. The ideal credit mix is to have only two major credit cards, one in-store card, one recent installment loan (more than two open installment loans may negatively impact your score) and no personal finance company loans. Credit cards are not for everyone. Even though they help you build credit, if you think having a credit card would cause you to overspend or that you wouldn't pay it off every month, then opening a credit card is probably not a good idea. Credit cards are like fire, they can be a tool or they can burn you.

The benefits of playing it safe.

Knowing these key things about credit scores will help you build an attractive credit score that will likely help you when the time comes to get a loan to make your first large dollar purchase. Enjoy the journey!