A 6-Step Guide to Building a Solid Credit Score

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Credit rating is a crucial factor not just in securing a mortgage, credit card or loan – it can dramatically affect everything from car insurance and mobile phone contract rates to overall employability.

What is a credit score?

Put simply, this is a three-digit number any lender looks at to estimate how risky a borrower you are likely to be: the higher it is, the better off you'll be in terms of acceptability and interest rates. Lenders usually use the FICO credit scoring model – its scores ranging from 350 to 850 – and incorporate five factors when calculating it: payment history (30% importance), total amount of debt owed (25%), length of credit card history (25%), credit mix (10%) and new credit (10%).

If potential lenders see you've been financially irresponsible in the past, you could be in a pickle. (After all, would you lend your money to a person with a history of not paying their debts?) And there's slim chance of keeping anything from them, since they'll likely consult all of the big three credit reporting agencies agencies: Experian, TransUnion and Equifax. Credit mix, meanwhile, is an assessment of the various types of accounts in your name (including credit cards, student loans and personal loans), while the new credit numeral shows how many times you've applied for a loan recently.

Once your financial history and habits are thoroughly dissected, you get a credit report – a summary of payment history, credit accounts and balances. Logically, negative payment history can damage your score. Moreover, should you be more than 30 days late to pay a balance, you will likely be reported to one of the major credit agencies. Once this shows up on a report, you're marked as a risky borrower, which could stay on a report for up to seven years.

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Building a credit score may seem like a daunting process, and in truth it does take effort and time, but there are specific steps to follow.

1. Build your credit file

This is a vital first step for laying down a good track record, and includes the opening of new accounts that will be reported to bureaus. Credit-builder loans or secured cards are great options if you're just starting out. A way to attain a higher score is by mixing different types of accounts. Although it may sound strange to own debt in various forms, it's proof of reliability as long as you're paying bills on time, which brings us to…

2. Maintain good payment habits

Payment history is one of the most crucial factors. It's simple: a long history of regular payments is the most important factor in score calculation, so make sure to keep track of loans, credit card balances and pay dates. And don't wait more than 29 days after the "payment due" date, since 30-days-late payments could get reported to bureaus. A wise move to do is set up automatic payments, while securing any associated bank accounts from overdrafts. And if you're having

trouble putting together money for a bill, reach out to your card issuer to discuss options. It's *far* worse to simply ignore the problem.

If you're in trouble with a credit card debt, the wisest thing to do is to consult a credit counselor on creating a debt management plan, one aspect of which will be a negotiation of reduced payments and/or interest rates.

3. Review reports periodically

Obtain a copy of your current report (the FTC maintains a good site detailing how and where to get them): see where you stand and where you want to go from there. A point that's often overlooked is that there might be errors hurting a score; if you notice any, notify the credit agency about them, which usually means explaining in writing what's wrong and including documents that support you. For that reason, keep records of payments (banking apps are a blessing in this regard).

Related: Help Save Your Credit Score with Lexington Law's Credit Repair Service

4. Don't use more than 30% of your credit

Keep abreast of your card limit and try not to use any more than 30% of it. Too much credit utilization can hurt a score, and it's always possible to ask a bank to increase a limit to offer more flexibility. Pro tip: To keep balances low, pay credit card bills twice a month.

5. Minimize new credit requests

"Hard" credit requests for such things as credit cards, loans or lines of credit will most often lower a score (a few-points

difference can make or break an application).

6. Don’t close accounts not in use

Don’t close that credit card from college. It doesn’t hurt to keep it open; in fact, closing the account might damage your score. For each account you decide to close, points will be lost.

What if you have no credit?

If you have not utilized any credit cards or loans in the past ten years, you might not exist in the credit report world at all. However, having no profile could pose a significant problem once you decide to put a roof over your head or a steering wheel in front of you. To avoid that happening, check with your bank or credit union to determine if you can get a secured credit card (which usually means putting down a deposit). But, of course, you must then use it responsibly and make regular payments.

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How long it takes to build a score

Unfortunately, there is no definitive timeline for building or rebuilding credit. The first thing to do is find out what’s hurting (or fueling) yours, then set priorities. Suppose you missed just one payment. Relax: it should not take long to rebuild by keeping up with payments after a slip-up. However, if you start to miss them on various accounts and sink significantly behind, it will take longer to recover.

Once you start taking steps to build it, it may take some time for you to notice an impact on a report. Still, it’s important to persevere. And the truth is that no solution fits all

situations, so it’s wise to ask for credit management help when in doubt.

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