

COMMON CENTS



Guide to Make, Save & Manage Your Money

Module 13

**Real Life Solutions and Simple Fixes
for Seriously Bad (But Common!)
Money Problems; Problems that Can
Affect Your Home, Retirement, Your
Whole Family**

**WAYS TO MAKE & SAVE MONEY
TRAINING COLLECTION**

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HOW TO RAISE YOUR CREDIT SCORE



There are so many variables that go into your credit score that pretty much everything you do in your financial life can affect it one way or another. With this in mind, let’s look at how some simple actions can raise or lower your score.

Table of Contents

- Some Things That Will Damage Your Credit Score3
- Actions That Raise Your Credit Score5
- Self-Reflection Questions.....6
- Action Tips6



Some Things That Will Damage Your Credit Score

1. **Applying for a credit card.** The simple act of applying for a credit card can hurt your credit if you apply too frequently. If you apply for several cards at once, it'll do serious damage to your score.
 - Spacing your applications out over time does less damage at once, but it lengthens the time it takes you to build up your total credit limit. Having high limits with low usage helps your score, but brand new cards can also lower it.
 - ***Even though new cards can lower the score a bit, it still helps to build up your limits over a reasonable amount of time.*** The credit score boost you'll receive once these cards show a wise record of usage is more than the temporary cut from when each card is new.
2. **Using your credit card.** Another factor in your credit score is your credit to limit ratio. This is essentially the fraction of how much credit you've used compared to how much you have. So the more you use your card, the closer you get to your limit and the lower the score.
 - However, you have to use the card occasionally. You see, if you just let that credit card sit in your wallet untouched, the company that issued the card may cancel it due to lack of use.
 - ***For a higher score, use your cards every so often, but keep your usage to less than 25% of the total amount of credit available to you.***



3. **Canceling your credit card.** That's right. Basically, once you have a credit card, you need to keep it. A lot of people make the mistake of thinking that closing unnecessary credit accounts will help their score. This is incorrect. In fact, it will lower your credit score as it lowers your total credit limit and affects your "credit age," doing damage on two fronts.

It seems that regardless of which way you turn, you end up lowering your credit score, which just begs the question, "How am I supposed to get a high credit score when everything I do damages it?"

Fortunately, there are also specific actions you can take that will raise your score.



Actions That Raise Your Credit Score

The best way to raise your credit score is to pay off your current balances. This will widen the gap between your credit balance and your credit limit. While having cards clear of debt is nice, you'll want to use your cards enough to keep them active.

Each month, charge something to your card and then pay it off before the payment due date. This will build excellent credit without you having to pay any interest charges. As time goes on, the fact that you kept those accounts open for as long as you did will lean in your favor when calculating your credit score.

While keeping your balance all on one card may be convenient for you, it's actually better to **spread the debt around to all of your cards.** While the total will still be the same, this will reduce the balance on each card and that will work in your favor.

This also helps form a sort of "revolving door" of debt. If you set up the cards so that some are due early in the month and others are due around the middle, you can set up a system where there is always a balance on at least one card at any given moment. **This will show creditors that you're willing to use your cards without going overboard, thus boosting your credit score.**

Lastly, **check your credit report at least once each year** and make any necessary corrections. This will keep you informed of what's going into your credit reports and alert you to any suspicious activity.

Another strategy is to get your free report from a different bureau every 4 months. Alternating your reports in this way spaces it out to where you only request one from each bureau once each year, so they're all free, but you keep up with more current information.



Self-Reflection Questions

**Question 1:**

Do I frequently apply for new credit cards?

**Question 2:**

Have I been careful not to max out my credit cards?

**Question 3:**

How can I improve my credit score?

Action Tips

**Action Tip 1:**

If you can't pay off a balance, try to pay it down to less than 25% of your limit.

**Action Tip 2:**

If you can't get it down to 25%, then pay more than the minimum charge as you work on it.

**Action Tip 3:**

Use your cards frequently and pay off your charges each month.

**Action Tip 4:**

Space out your applications for credit to reduce the negative impact on your credit score.