# Five Ways to Improve Your Credit Score

Your credit score helps determine your financial health. Having a good credit score is especially important when interest rates on loans are on the rise. The higher your credit score, the lower your rate on everything from personal loans to credit cards to mortgages.

Lenders use your credit scores to determine your credit worthiness. Credit scores are based on credit reports produced by the three credit bureaus, Equifax, Experian and Transunion. Scores will vary among lenders depending on what type of credit score they use and which credit bureau the score is based on. Most lenders use FICO and VantageScore credit scores, which are based on a scale of 300 to 850.[1]

A higher credit score could mean saving hundreds of dollars per month on a mortgage. A borrower with a credit score of 620, would, on average, qualify for a mortgage rate of approximately 8.32% on a 30-year fixed-rate mortgage. The monthly payment on a $400,000 home at that rate would be $3,025. A borrower with a credit score of 740 would qualify for an average mortgage rate of 7.233% and would pay $301 less per month.[2]

It's a good idea to monitor your credit score so that you can find ways to improve it. Here are steps you can take to increase your score:

### 1. Pay your bills on time.

Payment history is the most important factor in determining your credit score.[1] Even occasional late payments can have a negative effect on your credit score. To help you make on-time payments, most credit card companies and lenders have websites and apps where you can sign up for automatic payments or have alerts sent to you when your payment is due.

### 2. Check your credit report.

It's important to check your credit report from each of the three credit bureaus. You can receive a free copy from each of them every 12 months at www.annualcreditreport.com. Check it carefully for errors. If you find an error, report it to the bureau immediately because it may be impacting your credit score.

### 3. Keep your credit utilization ratio low.

Try to keep your credit utilization ratio, which is the relationship between your credit card balances and limits, low by paying down your loan balances. If you pay down your balances, you lower the amount of credit you are using, which might increase your credit score.

The credit bureaus report your credit card balances once a month, based on a date shortly after the statement closing date on your accounts. Whatever your credit card balance is on that date will appear on your credit report for the next month. If you pay your balance before the due date, it will lower the balance reported on your credit report which may result in a credit utilization ratio.

## What You Need to Know

- The higher your credit score, the lower your interest rate on everything from personal loans to credit cards to mortgages.
- Payment history is the most important factor in determining your credit score so you should always try to make mortgage, car and credit card payments on time.[1]
- You can obtain free copies of your credit reports from the three credit bureaus every 12 months at www.annualcreditreport.com.

### 4. Leave old accounts open.

Don't be in a hurry to close old credit accounts. If you had a long history with a credit card company and paid your bills on time, it's best to keep the card with a $0 balance. When you close a credit card account, you lower your maximum credit limit. If you're still carrying balances on other cards or loans, your utilization ratio will go up and may negatively impact your credit score. Keep in mind that any bad debts are automatically removed within 10 years.

### 5. Don't apply for new accounts too often.

When you apply for new credit accounts or loans, a hard inquiry is recorded on your credit report. This inquiry will remain on your credit report for 24 months and may impact your credit score for the first 12 months. Avoid applying for multiple credit cards within a short time frame or before taking out a large loan like a mortgage.

Taking these proactive steps will help you increase your score over time. Your credit score won't change overnight but making these changes will provide you with opportunities to save money and improve your overall financial health.


**Sources:**

1. Cook, Leslie. (2022, Nov. 1) 7 Steps to Improve Your Credit Score Right Now. Money.com. https://money.com/7-ways-to-improve-credit-score/
2. Black, Michelle and Dia Adams. (2021, March 8). FICO Vs. VantageScore Credit Scores: What's The Difference? Forbes. https://www.forbes.com/advisor/credit-score/fico-vs-vantagescore-credit-scores-whats-the-difference/



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