Credit Scores Matter More And More

by Ilyce_Glink

What's a girl (or guy) to do when poor credit makes it hard to put a financial foot forward?Linda is 34, and like many people in their 30s, she's already lugging some financial baggage: school loans, car payments, $10,000 in credit card debt, held jointly with her ex-fiancÃ©, and a credit score hovering around 500. Of all these serious obstacles to her financial freedom, the most damaging is her low credit score. Increasingly, Americans live and die by their three-digit credit score. Linda has been unable to rent an apartment, refinance her car loan, or make more than the minimum payment due on her credit card because she can't get a lower-rate card.She might even have difficulty finding a new job. Many employers now regularly pull a copy of your credit history and score to help them judge what kind of risk they're taking in hiring you.Even if Linda could get an apartment (by offering two months' security deposit instead of the customary one month), her low credit score might make it difficult for her to set up utility accounts - something most Americans take for granted.A few bad financial mistakes made in your early 20s can haunt you for the next decade or more. Credit scoring has become the key driver in the financial world.Creditors will decide whether to grant you credit and how much you'll be charged based on your credit score. Insurance companies will decide whether to allow you to purchase various forms of insurance, and how much you'll be charged, based on your score.While mortgage companies will give you a loan even if your credit score is 500, you'll pay hundreds of dollars more each month than someone with a credit score of 800.According to the MyFico.com Web site, if you have a credit score of 800, you'll qualify for a 30-year mortgage carrying an interest rate of 6.077 percent (as of mid-September). The monthly payment is $1,814.Compare that to the loan you'd qualify for if your credit score was only 500. Your 30-year mortgage would carry an interest rate of 9.133 percent, and your monthly payment would be $2,443.While improving your credit score can take years, it is possible. Here are a few basic steps you can take to help push up your score:Pay all of your bills on time. Paying bills late, or not at all, will send your credit score tumbling, says Todd Mark, a certified credit counselor with Consumer Credit Counseling Services of Greater Atlanta (CCCSATL.org). If you've missed mortgage or credit card payments in the past, you'll need to catch up on those payments and start paying at least the minimum amount owed on time.Pay attention to how much you owe each creditor. High outstanding debts can affect your credit score. Paying off your debt will help your credit, while moving it from card to card will hurt it if you're not using your "savings" each month to eliminate the debt.Don't "max" out your credit cards. If you carry a balance that exceeds 30 percent of your maximum credit limit on a particular card, that will hurt your score. If your debt-to-limit balance is out of whack, pay down that card, or transfer part of the balance to another card. Sharing the balance between two cards should help improve your score.Never close an account with a balance on it. Closing accounts with balances shows lenders you can't manage your credit. In general, be careful about which card accounts you open and close. Closing unused accounts and opening accounts when you don't need the credit could adversely affect your score.When it comes to fixing your credit history and raising your score, the most important ingredient is time. It can take months to erase erroneous errors from your credit history. Negative information can stay on your credit history for 7 to 10 years. And it can take one to two years worth of on-time payment to raise your credit score from 500 to the 700s.But if it means you can move forward with your financial life, that's time well spent.