

Borrowing – Building Good Credit

How to Build a Good Credit Score

Whether you're just starting out and want to know how to ensure you build a good credit score or whether you currently have a bad credit score and need to improve it, there are several things you can do.

Credit History

It's important to have a credit history in order to have a good credit score. The longer you have a credit account, the better it is for your score. Be careful when transferring an older account to a new one as credit bureaus consider the new account as new credit which could lower your score. This may happen if you transfer your credit card balance from one card to a new card. The new card would be new credit. If you do a balance transfer, try keeping the old card open and use it periodically to keep it active. Then close it once your new card is no longer considered a new account.

Payment History

Your payment history is also important. Always make your payments on time and make at least the minimum payment if you can't pay the full amount that you owe. Contact your lender immediately if you think you'll have trouble making a payment or paying a bill. Don't skip a payment, even if a bill is in dispute. Pay your bill first and then dispute with the creditor. If your bill goes into collection, it could negatively affect your credit score for a long time. Make use of any electronic alerts your financial institution offers that will notify you of things such as low balances, insufficient funds for scheduled payments, etc. Try to pay your debts as quickly as possible. Not only is this good for your credit score but it will also be good for your bank account in the long run as you will pay less in interest.

Credit Limits

Don't go over your credit limit. Try to use less than 30% of your available credit. It is better to have a higher limit and use less of it each month than it is to use a lot of your available credit and pay it off on time each month.

Keep Credit Applications & Checks to a Minimum

Try to keep your credit applications and credit checks to a minimum. Limit the number of times you apply for credit and only apply when you really need it. Be careful when shopping around for things such as a credit card, a new car or a mortgage as each quote will likely involve a credit check. And, too many credit checks will negatively impact your credit score.

Diversify Your Credit

Try to diversify your credit. Your credit score may be lower if you only have one type of credit product, such as a credit card. If you can have a mix of different types of credit (such as a credit card, a loan, and a line of credit) it may improve your credit score. Just be sure you can pay back the money you borrow on all those different types of credit or your efforts may backfire and negatively impact your credit score.

Are All Forms of Credit Good for Building Credit?

Not all types of credit are good for building credit. While you should be careful with all kinds of credit, some types of credit are a little riskier or come with some potential pitfalls that can cause more harm than good.

Store credit cards aren't a great way to build credit. This is because they usually have a higher interest rate. They can be expensive and often take a long time to pay down.

Lease-to-Own Credit can also make building your credit more challenging. This is when you buy an item and pay it off in installments. The installment payments can often last longer than the item you are buying. Be careful of the contract you sign when doing a lease-to-own purchase as they may allow the seller to take the item from you if you miss a payment or are simply late making a payment. And, financially, the cost of the item plus the interest you pay over the repayment schedule can significantly increase the price of the purchase and may even add up to twice the value of the item or more.

Buy now, pay later purchases can also be bad for your credit score and your wallet. Often, if you don't pay the full amount within the contract period, you will pay the full amount of interest regardless of how much or how little is left unpaid (even if it's just \$1 left, you will pay the full amount of interest). Often these interest rates are very high. And these situations can often make it difficult to improve your credit because they may leave you with a large amount of interest owing which affects your credit score.

Cell phone contracts can also affect your credit. They are not a credit product, but they are tracked by credit agencies and are shown on your credit report. Be careful when shopping around for a cell phone provider. Don't allow them to do a credit check until you are sure you want to go with them as this will be recorded as a hard inquiry which can affect your credit score. Similarly, when vehicle shopping, don't allow the dealer to do a credit check until you've chosen the vehicle you wish to purchase, as all credit checks they do show as a hard inquiry and can make it look like you are trying to purchase multiple vehicles.