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6 Tips for a Clean Credit Record



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The Motley Fool

By Dayana Yochim
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1. Pay your bills on time. More than one-third of your credit score -- the most popular being **Fair Isaac's** FICO score -- is based on your bill-paying habits. Late payments can have brutal consequences, particularly those that are 90 days or more past due. While recent changes to the FICO calculations make isolated incidents a bit less damaging, 90-day late payments can be just as troubling for picky lenders as a bankruptcy filing, a tax lien, a collection, a judgment, or a repossession.

So don't skip any bills (certainly not your rent or your mortgage payment). Send in just the minimum amount due if you have to, but *send it in*. If you know your payment will be late, call your lender and explain, and he might give you a free pass just this once.

2. Don't max out your credit cards. You might have a \$15,000 credit limit on your card, but that doesn't mean that's how much you can afford to spend. Even a temporary splurge could turn into long-term debt trouble if you're not careful.

One study of consumers carrying credit card debt found that it wasn't overindulgence reflected on their bulging [credit card balances](#), but the charges of everyday living.

Keep your debts to 35% or less of your credit limits. Red flags start waving when your debt-to-available-credit ratio exceeds 50%. Living within your means counts for a whopping 30% of your score.

3. Create a credit history. The longer your borrowing history -- particularly if you've been a responsible, card-carrying citizen -- the better your score.

The length of time you've spent in the system determines 15% of your overall score. If you're going to close some accounts, it might make sense to cancel newer ones since the old ones help establish your long and illustrious credit record.

4. Avoid frequent card-hopping. If you lent someone money, you'd probably get nervous if that person started asking all of his or her other friends for a loaner, too. Same with professional lenders. Applying for lots of credit makes them tighten their purse strings and fire a few warning shots at your credit score. Still, new credit applications have just a 10% impact on your score. So if you're trying to pay off debts, shopping around for the best deal makes sense. (Fools call this "snowballing.")

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But remember, every line of credit you apply for will stay on your record for at least seven years, even if the account is open only for a day or two. So take great care when opening and closing accounts.

5. Don't borrow money just to boost your score. Those with the highest scores have a proven history with different kinds of credit -- such as [installment loans](#) (like a car loan or mortgage) and revolving debt (your workaday credit card). But paying interest -- or annual fees or other costs of borrowing -- just to boost your score isn't worth it. If your score is 750 or higher (on a range from 300 to 850), you probably already qualify for the best rates. This measure counts for just 10% of your overall score. Remember, time and responsible bill-paying habits matter the most.

6. Know who's checking. Your credit score can affect a lot more than just your interest rates. Insurers check it to set your car and home insurance premiums. Potential employers use it to help them size you up. A lot of folks have the keys to your credit file. Each time a potential lender or insurer checks, a "hard inquiry" is recorded in your file. (When you or an employer accesses the file, it's a "soft inquiry" and has no effect.)

If you haven't already gotten your [free credit reports](#) from each of the major credit reporting agencies, do so -- and make sure those who are being nosy have a right to be.

This article was originally published on Nov. 1, 2005. It has been updated.

Dayana Yochim wishes everyone the best credit score possible. Try any of our Foolish newsletters today, free for 30 days. The Fool has a [disclosure policy](#).

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