

How To Effectively Build Your Credit

Making financially responsible choices isn't always easy, but knowing how to build good credit from the start will put you on the path toward long-term financial success. Following are four ways to start building your credit and financial reputation.

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Pay your bills on time

Paying your bills on time impacts your credit score more than any other factor. On-time payment accounts for 35 percent of your credit score, while the balances of your credit accounts make up another 30 percent. Creditors want to be sure that when they extend credit, they will be repaid on time. When you make timely payments, creditors believe you are financially responsible.

If you do happen to miss a payment, catch up on past due accounts as soon as possible. Not only are late fees punitive, but bills that go completely unpaid may be sold to a collection agency, which will seriously undermine your efforts to build your credit.

Don't ignore collection accounts believing that your credit is already damaged. You can still turn this situation around. Contact the creditor regarding the collection activity and request that they remove the collection status from the credit report once the account is paid in full.

Avoid late payments by scheduling automatic payments straight from your bank account to ensure you never miss a payment again. You can avoid paying interest if you pay your balance in full every month.

Make credit card purchases that you can afford to repay in full each month

It may be tempting when you get a brand new credit card to go on a shopping spree. However, it's a good practice to limit your purchases to an amount you know you can repay in full on the due date so that you are not charged interest while building a good payment history.

Your credit history accounts for 15 percent of your credit score, so it's important to start building credit as early as possible. Look for cards marketed toward individuals with little credit history or low-limit department store credit cards. Looking for a card with no or a low annual fee is also a good idea. You may ask a family member to co-sign on a credit card in your name in order to help establish credit.

Credit service companies rate individuals higher if they have three open and active lines of credit. But as you obtain additional credit, be careful to pay off each balance on time every month.

Keep balances under 30 percent of your available credit

amount

Your credit score is not only based on what you've spent, but it also takes into account your credit utilization (the ratio of what you've spent against how much available credit you have left) as a whole. Keeping your balances near the credit limit lowers your credit score so try to keep account balances below 30 percent of the available balance of your account.

To improve your credit utilization, maintain credit card balances that are low in relationship to your available credit. If you tend to max out credit cards or come close to your credit limits each month, lenders might view you as a higher risk. Future creditors also look to your amount of available credit as an indicator of your ability to take on additional financial responsibility.

Obtain different types of credit

Your credit score improves when you can demonstrate your ability to handle different types of loans, from monthly credit card payments to loans that stretch over several years. Your credit mix makes up about 10 percent of a consumer's FICO score. You can potentially improve your score by opening new types of accounts, such as home loans, car loans, and bank installment loans.

Having a variety of types of accounts, such as credit cards, home loans and retail accounts proves to lenders that you're less of a credit risk. But only apply for credit when you need it. Never apply for credit purely for the sake of improving your score.

To have a good credit history, you have to use credit responsibly. By following these steps, you will be able to start building a solid and reliable credit history. For more advice on how to build your credit, call a PlainsCapital Bank representative at 866.762.8392.