

How to Build or Repair Credit

► Knowing your credit score and how it affects your life is important. Whether you are building or rebuilding your credit, the steps are the same. There are no overnight fixes, but in time you can become creditworthy.

Are you financially fit? Do you know your credit score? According to *thebalance.com*, the average credit score in Alabama is 687. This places Alabama in the bottom 10 in state credit score rankings. It is crucial that you know and understand your score.

Your credit score communicates your creditworthiness to lenders. A low credit score can negatively impact your ability to buy a home or rent an apartment. It can influence whether you are required to make a down payment for utilities or a cell phone plan. And it may lead to paying more for insurance and a vehicle.

Credit is a vital part of financial wellness. Following are six important steps to follow to repair or build your credit.

Monitor your credit report.

You can receive a free credit report annually from each of the three credit bureaus: Equifax, Experian, and TransUnion. Visit the AnnualCreditReport.com website to request your free credit report from each bureau.

The free credit report will allow you to see the information on your report, including what you owe and how it affects your score. It will not include your actual credit score, however; you will need to pay a small fee for that.

Carefully review your accounts. Know what debt you owe and how much. Check for inaccurate information, such as dates, addresses, amounts, or debtors. If you see any accounts open without your permission, dispute those accounts so that they can be removed from your report.

Pay your bills on time.

Your payment history makes up 35 percent of your FICO score. A FICO score is created by Fair Isaac Corporation (FICO). It is used by creditors to assess risk and to determine whether to extend credit to an individual.

It is important for you to know the due date of each bill and pay at least the minimum amount due on time each month. Paying more than the minimum will lower your principal balance.



If possible, pay the total balance on your credit cards each month. Paying in full will prevent you from paying interest.

Use no more than 30 percent of your available credit limit.

The amount you owe makes up 30 percent of your FICO score. To receive a more favorable score, do not allow this amount to exceed 30 percent of your available credit limit. For example, say you have a credit card with a \$300 limit. Multiplying that amount by 30 percent shows that \$90 is the most you should have as a balance on that card ($300 \times 0.30 = 90$). Also work toward decreasing each balance.

Pay attention to credit history.

Your credit history makes up 15 percent of your FICO score. Make payments on time or early each month and keep credit usage at 30 percent or less. Over time you will build a positive credit history.

Have different types of credit.

Credit mix makes up 10 percent of your FICO score. Maintain a mixture of revolving and installment accounts. Examples of revolving accounts are credit, retail, or

gas credit cards. Examples of installment accounts are mortgages, auto loans, or student loans. Having multiple credit cards is not considered a good credit mix. A good credit mix may include a mortgage, a vehicle loan, and a credit card.

Keep new credit to a minimum.

New credit makes up 10 percent of your credit score. Do not apply for more than two new credit accounts within 2 years. Applying for several types of credit in a short period of time signals to creditors that you are attempting to accumulate debt.

All applications for new credit will appear on your credit report whether they are approved or denied. This is called an inquiry.

Conclusion

Knowing your credit score and how it impacts your life is important. The Federal Deposit Insurance Corporation (FDIC) reminds us that “the higher the score, the lower the credit risk.”

Beware of scammers who offer to “fix” your credit score overnight for a fee. According to the Federal Trade Commission, “Only time and a personal debt repayment plan can improve your credit.”

Dedication and commitment are required when following recommended steps to build or rebuild your credit score. Always monitor your credit report, pay your bills on time, use no more than 30 percent of your available credit limit, decrease balances owed, pay attention to credit history, have a good credit mix, and limit your applications for new credit. Over time you will become creditworthy.

References

“The Average Credit Score By State.” The Balance.

“Credit Repair Scams.” Federal Trade Commission.

“Risk Management Examination Manual for Credit Card Activities.” Federal Deposit Insurance Corporation (FDIC).



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