

How To Start, Get, Keep a Good Credit Rating

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There's good news on the credit front for consumers baffled by the process that determines your fitness for credit.

By September of 2005, the credit reports from all three companies that compile data will be available to all Americans at no charge.

Many parts of the country, including a grouping of states in the Midwest just added, are already eligible to receive the credit reports free. All Americans will have access to the free reports by September, when the Northeastern states become eligible.

The companies providing the reports are Equifax, TransUnion and Experian. These companies supply the reports to Fair Isaac Corporation, which determines your overall FICO scores. It is these score that lenders use to make decisions about issuing credit.

To date, the FICO score is not available for free, however there are numerous online FICO score estimators, such as the one available at BankRate.com.

Receiving a copy of your credit report is a necessary tool before you apply for a loan. For starters, you may find errors in the reporting.

"It happens with alarming regularity," says Greg McBride, a senior financial analyst with BankRate.com. He says that the number of errors contained on the reports was one of the motivations behind making them available to the public at no charge.

If an error is discovered, the consumer should report it directly to the credit bureau and fill out the necessary forms to contest the item.

The credit bureau will then contact the creditor that filed the report. The credit bureau has 30 days to file the documentation that validates the item on the report.

If the creditor does not provide documentation within 30 days, "it's resolved in the consumer's favor," McBride says.

A glance at the credit reports may also show some things missing.

"Not every creditor reports to the credit bureau. You want to make sure they're going to report your timely payments, otherwise you're (not getting the benefit)," McBride says.

Of course, what's left on the reports speaks volumes about your worthiness to a lender. To improve those figures requires commitment.

"The two big components of credit score are paying your bills on time and the amount of debt you have," McBride says. It's imperative to make timely payments and not overextend yourself in terms of borrowing.

Generally speaking, improving your credit scores is not something that can be accomplished in a hurry. However, Thomas Farley, of howtoadvice.com, says taking out small loans or secured loans, and making the necessary payments on time, can help you improve your credit scores.

Though your credit rating is of paramount importance for obtaining a loan, it is not the only time your history is used.

“Your credit rating is very far reaching. It affects your ability to borrow, it impacts your insurance premiums and affects your ability to get a job and get an apartment,” McBride says.

Once a good credit history is established, it’s important to maintain it. That’s done the same way, by staying on top of bills and maintaining a reasonable amount of debt.

One of the chief ways of keeping your credit rating strong is to protect against identity theft, McBride says.

“You need to safeguard personal information. Don’t give out your social security number. Use a shredder when discarding documents of a personal or financial nature. Immediately investigate any suspicious activity, such as bank statements or account statements not received in the mail or statements that show up with items for which you did not apply.”

While changes in the law have allowed free access to credit reports aid consumers, it is not the only potential legal shift in the offing. Work continues in Washington, D.C. on reforming bankruptcy laws, potentially making it more difficult for consumers to walk away from credit card debt.

Such potential changes make it instrumental that consumers begin getting a better handle on their credit activity, one credit counselor suggests.