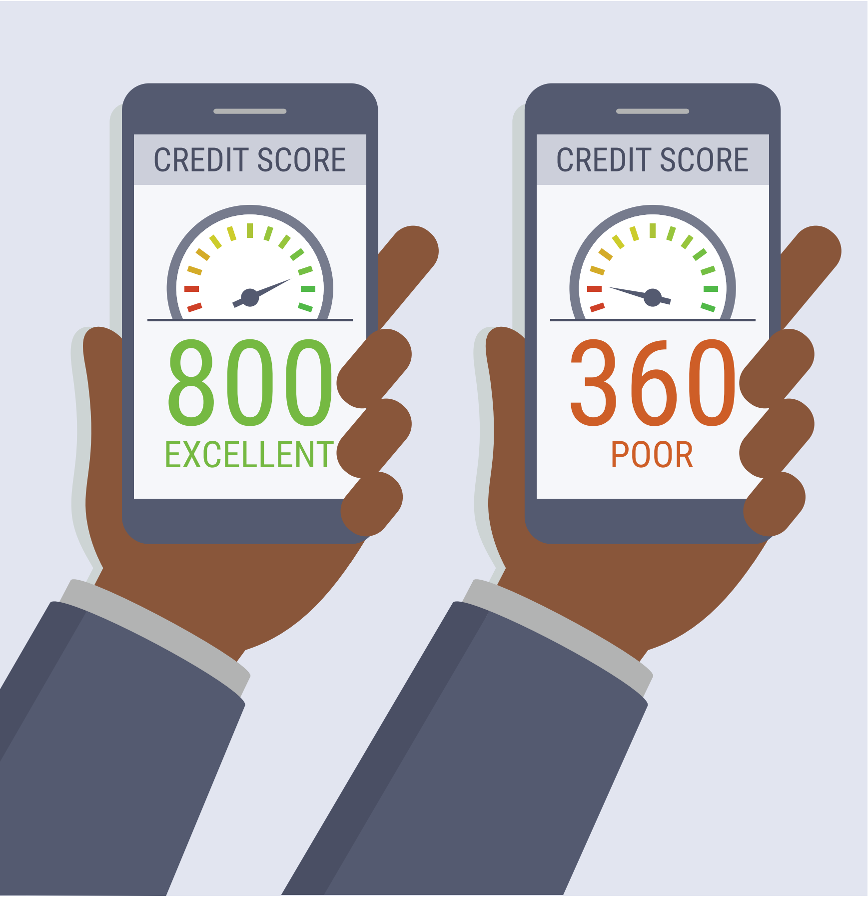
Credit Checkup

By Kristin Baird Rattini

Your credit report and score reflect your financial health. Here's how they're measured and how you can improve them.

Why do your credit report and score matter? Because they summarize for creditors how well you manage your money. And everyone from lenders to landlords, insurers to employers, may check them to determine your financial fitness. By monitoring these report cards of your creditworthiness and maintaining good credit habits, you can improve your chances of securing a higher score and the best credit terms in the future.



ISTOCK.COM / GREYJ

Credit Report: What It Is and Why to Check It

There are three major nationwide credit bureaus: TransUnion, Experian and Equifax. They each compile credit reports. Your credit report lists the names of companies that have extended you credit or loans, the credit limit or loan amount and your payment history for each company. The report also includes any bankruptcies, delinquent accounts, foreclosures, liens or lawsuits.

Consumers are entitled to one free credit report from each bureau every 12 months through the government-sponsored website annualcreditreport.com. You also can order a credit report at any time, typically for a fee, from a bureau (currently fees range from free to about $15).

Read through your report to check for errors. "It's important to verify your name, address and Social Security number are correct," says Debra Harvey, vice president of Thrivent Federal Credit Union. "Also confirm any new activity, especially if it looks unusual."

If there is any data that is incorrect or that doesn't belong to you, immediately contact the credit bureau that issued the report to start a credit report dispute process. You'll need to provide documentation to back up your claim. The bureau will then forward that information to the creditor in question as it investigates your dispute. The bureau must give you its results in writing, along with a free copy of your credit report if the dispute results in a change.

Credit Score: What the Numbers Mean

A credit score crunches the data from your credit report into a three-digit number ranging from 300 to 850. The higher the number, the more appealing you are to lenders and others. "Your credit score can determine not only if you can get a loan but also the amount and interest rate you're offered," Harvey says. "It can influence your insurance rates and if you can get a job or an apartment."

Your score—which you get from the credit bureaus for a fee—is not set in stone. It doesn't consider your age, marital status, salary or occupation. Instead, it evaluates how well you've managed your credit based on five factors. They're listed here, along with how they're weighted.

PAYMENT HISTORY: 35 PERCENT

How well have you handled credit in the past? This is considered the strongest indicator of how you'll do so in the future. Lenders want to see you pay your bills in full, on time, all the time. "If you are 30 days late on one payment on one loan, it can drop your credit score by 80 points," Harvey says.

AMOUNTS OWED: 30 PERCENT

How much do you owe compared with your total credit limit? This is called credit utilization. Lenders prefer to see credit utilization of no more than 30 percent. As you charge purchases throughout the month, make sure your total charges stay under 30 percent of your credit limit.

LENGTH OF CREDIT HISTORY: 15 PERCENT

Lenders want to see as long of a credit history as possible. So if you're considering closing one of your credit cards, be sure to keep the oldest account active.

NEW CREDIT: 10 PERCENT

If you try to open too many new credit accounts in a short amount of time, it sends up a red flag to creditors that you might be experiencing financial difficulties. It also lowers your average credit account age. So don't be tempted by offers, such as 10 percent off a purchase, in exchange for opening a credit card.

CREDIT MIX: 10 PERCENT

"Lenders don't want to see only credit card debt," Harvey says. "They prefer to see a few major cards, such as Mastercard, Visa or American Express, along with closed-end term loans, such as a mortgage or car loan." Before opening another credit card, see if you can first use other forms of credit.

Developing and sustaining good credit habits is key to building a good credit score. ■

St. Louis-based freelance writer Kristin Baird Rattini has written about consumer finance for national publications for two decades.

MONITORING FOR FRAUD

Follow these tips to protect your credit:

- Instead of getting free credit reports from all three bureaus at once, request one from one of the bureaus every four months. That allows you to review your information regularly.
- Consider placing an initial fraud alert on your credit report if your personal data has been breached or if you're concerned about fraud. This 90-day alert requires creditors to verify your identity before issuing new credit. You only need to contact one credit bureau; it will notify the other two of the alert. This measure also qualifies you for a free credit report from all three bureaus.

Thrivent members have access to two identity monitoring products from Experian. Learn more at **Thrivent.com/identity**.