

More Credit Score Information

Your "FICO" score is a number that lenders use to measure the likelihood you will repay a loan. Lenders rely on credit scores in deciding whether to grant a loan and the interest rate.

Generally speaking, FICO scores above 760 qualify you for the best loan terms, while scores below 600 can mean unappealing terms and higher interest rates or prevent you from getting a loan altogether. Some auto insurers use credit scores to set premiums, landlords use them to find reliable tenants, and some employers factor them into hiring decisions.

Young adults need to be ever more careful with all sorts of financial obligations. It isn't enough just to avoid the classic error of a spotty history with that first credit card.

Lenders now have access to non-credit-based financial history when you apply for a loan. Fair Isaac, the pioneer of the widely used FICO credit score, recently started offering an "expansion score." The new score is similar to a traditional credit score, but it instead factors in data such as apartment rental history, checking-account records and your payment history with utilities and book and music clubs.

Especially for young adults with thin credit histories, lenders may check an expansion score to get a better read on financial reliability.

You could be hurt, for instance, by the fact that you repeatedly paid the electric bill months late when you were a college student living off-campus.

A poor credit score could really cost you. Someone with a 720 FICO score could get a \$160,000, 30-year mortgage with a 6.58% fixed rate, or a \$1,025 monthly payment, according to online lender E-Loan. But if that same person's score was only 600, the interest rate would be 10.75% and the monthly payment would be \$1,500.

On a \$15,000, five-year auto loan, someone with a good score might pay \$290 a month while someone with a 620 score would pay \$325 monthly.

Your score reflects credit information collected on you by the three major credit bureaus - Experian, Equifax, and TransUnion -- generally over the past seven years to 10 years. According to Fair Isaac, the breakdown of the FICO score includes a 35% weighting for payment history; 30% for the amount owed, especially as compared to your credit limits; and 15% for the length of your credit history. The more recent a credit blemish, the more it affects your score. Too many credit inquiries and loan applications by you, or too many accounts opened in a short time, also can hurt you temporarily.

So what do you do if your credit already has been damaged by past mistakes? Often, you can improve your score in a matter of months. Here are some ways to do it.

Pay bills on time -- automatically.

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Since late payments are weighted heavily, having six months to a year of timely payments on your debt can work wonders. Most lenders won't report you to the credit bureaus until a payment is at least 30 days late. But one such late payment can knock 100 points off your score.

One strategy that may help: signing up for automatic bill paying. That service is often free, and it makes sure the payment is automatically deducted from your checking account at the same time each month, so you don't have to worry about forgetting.

Check credit reports annually.

You can get access to your credit reports free at the Internet site annualcreditreport.com once every 12 months. (Don't mess up the Web address or you might end up on a similarly named site that's trying to sell you something.)

Once you get all three reports, carefully analyze them for errors or questionable information. Sometimes, for instance, young adults' financial information will get mixed up with their parents' information on credit reports, says Mr. Watts of Fair Isaac. And sometimes there are just plain incorrect data.

It's worth disputing any information that seems erroneous or questionable. The most effective way to do this is usually by writing a letter to the credit bureau that describes and disputes the questionable information. Send it certified mail. Include any evidence of the error if you have it. Unless the bureaus can verify that their information is correct, they usually remove it from your report.

It's also a good idea to check your credit score at least once or twice shortly before you actually need credit. You can buy your score for about \$6 when you get your free credit reports online. The report usually also tells you what's dragging down your score.

Be a savvy credit user.

Having some loans and credit lines actually helps boost your credit score, because it gives you enough of a credit file for lenders to see how you've managed debt in the past.

But especially with revolving debt like credit cards, try to keep balances low compared to your credit limits. You're better off having low balances on two or three lines of credit than one credit line maxed out. You generally want to keep your balances at 30% or less of your limit.

If you have old, unused credit lines, such as store-based credit cards, you might be tempted to close them. This usually isn't a good idea unless you have a large number of credit lines -- say, six or more. Even then, you're usually better off closing newer accounts because having older credit lines helps your credit score