



Money

## Keeping Your Credit Clean

Carrie Coolidge 02.02.07, 12:00 PM ET

"How you pay your bills and how much you keep on credit is crucial to building and maintaining a good score," says Geoffrey Davis, a certified financial planner in Frisco, Texas.

The easiest way to improve your credit is obvious: Pay off your debt on time.

"However in our 'keep up with the Joneses' society, this is clearly easier said than done," says Jim King, a certified financial planner with Balasa, Dinverno & Foltz in Itasca, Ill. King advises consumers to obtain a copy of their credit report and understand how the FICO score is calculated.

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### In Pictures: 10 Ways To Improve Your Credit

"It is important to note that lenders are using the credit reports to determine the rates at which they are charging each borrower," he says. "By maintaining a healthy credit score, consumers can save a significant amount of money over their lifetime by having access to lower interest rates."

Indeed, your credit history and credit score largely determines the size of the interest rate you will pay for your home mortgage as well as for your credit card balance. A prospective landlord will likely look at your credit report to determine whether you will be a suitable tenant. Even a prospective employer might examine your credit report to learn more about you, but only after getting your written consent to do so.

Utility companies, as well as providers of residential and cellular telephone service, consider your credit report and score when deciding whether to offer you service. The premium you are paying for your homeowners and auto insurance policies is increasingly determined by a credit score—a number assigned to you that is essentially a grade based on your credit history and credit worthiness. Insurance companies believe there is a correlation between credit and the predictability of future claims. In other words, the better you handle your credit, the less likely it is you will file an insurance claim.

The report covers such things as your payment and credit history, amount of debt owed and types of credit used. It also includes information about where you live and whether you've been sued or arrested or have filed for bankruptcy. The report can include most accurate negative information for seven years and bankruptcy information for 10 years.

There is no time limit on reporting information about criminal convictions. Since September 2005, Americans have been entitled to receive a free credit report once every 12 months from each of the nationwide consumer credit reporting agencies, including Equifax, Experian and TransUnion. Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) for a free credit report and to challenge any discrepancies.

**Be wary of "credit counseling" services, warns John S. Davis, a certified financial planner with Mentor Capital Management in Elmhurst, Ill., who is registered with the National Association of Personal Financial Advisors.**

"They may help you eliminate debt, but they often ruin your credit in the process," he says. For more information about credit counseling, Davis recommends the Federal Trade Commission's [Web site](#) about credit counseling.

Finally, never believe that you are stuck with a bad credit rating, says Elaine Scoggins, a certified financial planner in Seattle. "I have seen many people dig themselves out of a bad situation over time," she says. "It takes work and perseverance, but can be

done.”

## **In Pictures: 10 Ways To Improve Your Credit**