Understanding and Maintaining Your Good Credit

We've all been there. While browsing through your favorite store, you see something you really like. Maybe it's on sale. You really can't afford it, but how can you pass it up? You may not get another chance to buy it at this price again. You've got the answer. You'll charge it! After all, that's what your credit card is for; right?

Decisions like this may affect your credit rating. Your credit history determines your eligibility for most private loans, including private student loans. How do you maintain and protect a good credit score? If your credit maybe isn't so great, how do you repair it? These questions are answered below.

If you have ever had a student loan, a credit card, or any type of consumer loan, you have a credit history. Your credit history is comprised of your past payments to your lenders and demonstrates your willingness to repay future debt. Your credit history is examined by lenders considering giving you a loan to help them determine whether or not you are a good credit risk. Lenders look at your credit history to figure out how likely you are to repay any new loans they may issue you.

Your credit history is summarized on your credit report. There are three national credit bureaus: Equifax, TransUnion, and Experian. These agencies compile information on the types of debts you have, payment performance, current balances, unused credit, and credit inquiries. Any time you apply for credit or a consumer loan, an inquiry may appear on your credit report to show that you had attempted to obtain some type of debt. If you file for bankruptcy, this may negatively affect your credit for ten years, although most information remains on your credit report for seven years. Your credit report summarizes your individual accounts and your borrower behavior.

When potential lenders look at your credit report, they may not analyze the types of accounts and your financial circumstances. They may simply look at your credit score, or FICO, to determine how likely you are to repay. Credit scores may range from 0 to 850. Your credit score is influenced by the amount of your total debt, how promptly you have made your payments, the number of credit accounts you have open, the balances on those accounts, and the age of those accounts. Negative factors, such as defaults, foreclosures, collections, and bankruptcies, will lower your credit score. Making payments on time, keeping credit card balances low, and opening accounts only when necessary will help to maintain your credit score. Items such as race, age, sex, and salary do not affect your credit score. Although lenders vary in their credit criteria, you are generally not considered to be a bad credit risk if your score is greater than 700.

It is a good idea to obtain a free copy of your credit report annually. This will help you recognize any errors and allow you to correct negative information. Once you know what your score is, you will be able to take action to maintain or repair your credit history.

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In order to have the highest possible credit score, you should do the following:

1. Make all payments promptly
2. Limit your credit card spending
3. Pay at least your minimum monthly payment on your credit card balances
4. Do not allow your credit card balances to be more than one-third of your available credit amount
5. Do not open more credit accounts than you really need
6. Keep your spending within your budget
7. Avoid closing old accounts and opening new ones

Following these tips will also help you rebuild good credit. Because credit information follows you for several years, it takes time to reestablish good credit. It is important to be patient and diligent in your efforts. Remember that every on-time payment you make will impact your credit history positively.

Also, be aware of your spending habits. Set up a personal budget showing your monthly income and expenses. Allocate some funds for unplanned needs, entertainment, repairs, etc. Then, stick to your budget and do not allow yourself to overspend or open accounts that you will not be able to repay. If you can't make the payment, then don't take on the debt. You should also avoid using your credit cards to make purchases you really can't afford. Even though your credit cards provide an easy way to pay, keep in mind that you are increasing your debt with every swipe. Is the possibility of negatively affecting your credit score now worth the risk of not being able to make a substantial purchase in the future? This is a question you must ask yourself before making decisions that may have serious consequences and jeopardize your financial position.

Your credit rating has a huge impact on your financial options. Having good credit will help you purchase a home, buy a car, obtain credit cards, and possibly finance your education. Although your credit history is not the only factor lenders will analyze, your credit score is something you will forever be judged by. Understanding the factors that affect your credit early, and knowing how to maintain and improve your credit score, will prove to be invaluable throughout your life. Commit now to properly managing your credit and taking the steps necessary to successfully meeting your financial goals in the future.