Preparing to Buy a Home: *How to Raise Your Credit Score Fast*

Understanding credit scores

Your credit score, also called a FICO score, is a three-digit value ranging from 300 to 850. This number indicates how likely you are to repay your debt. This score is based on info in your credit report that comes from the three major credit bureaus: Transunion, Equifax, and Experian.

"Any score above 670 is considered very good. Anything below 600 is considered weak," says Lou Haverty, a chartered financial analyst (CFA).

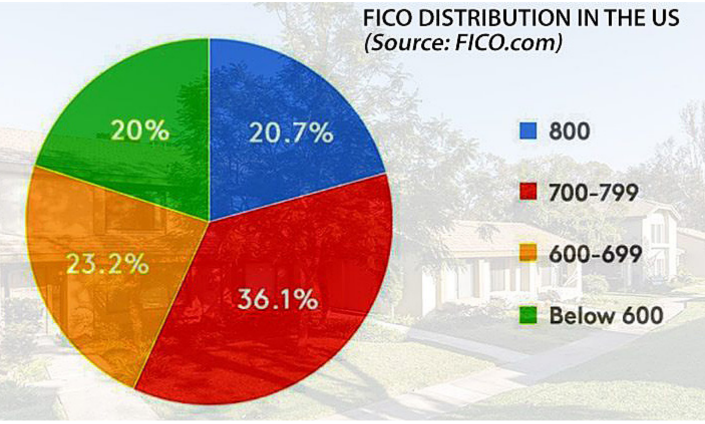
A higher score gets you access to better home loans. "That's very important when buying a home," says Daryn Gardner with Jax Federal Credit Union.

"For example, a high credit score borrower may be offered a 30-year fixed-rate loan at 4 percent," he says. "An average credit score borrower may be offered the same loan at 5 percent. On a $200,000 loan, the average score borrower would pay $40,000 more in interest over the life of the loan."

What determines your credit score?

Five factors make up your FICO score calculation:

- **Payment history** (35 percent of your score)
- **Utilization** (30 percent) - Your utilization is the amount of credit used divided by the amount available, and lower is better.
- **Length of credit history** (15 percent) - A longer credit history will raise your score.
- **Mix of credit** (10 percent) - Installment accounts like car loans are better than revolving accounts like credit cards.
- **New credit** (10 percent) - Opening too many new credit accounts over a short period can lower your score.



Quick ways to raise your score

To improve your credit score, try these tips:

- **Check your credit report.** Request a free copy at AnnualCreditReport.com. Correct errors that are lowering your score. Alert the three credit bureaus about any errors you find. "It's important to immediately dispute all claims made against you that are false on your credit report," says Steven Millstein, a certified credit counselor with Credit Zeal.

- **Reduce your debt.** "The most effective way to improve your credit score is to pay down your revolving debt," suggests Gardner. "Apply your tax refund to pay down your debt." You may be able to improve your score simply by replacing credit card (revolving debt) with a personal loan (installment debt).

- **Make on-time payments.** "Try setting up automatic payments through your lender or financial institution," says Gardner. "And always pay on time the minimum payment stated on your bill."

  If your problem is that you have a limited credit history, you can get a boost by having family members or friends with great credit add you to their accounts as an authorized user. You don't actually use the account. But its good payment history will appear on your credit report.

- **Apply for new credit carefully.** "Don't try applying for more than three new credit accounts in a single month," cautions Millstein. "Your credit score is greatly affected by the number of inquiries made to your credit report." Also, choose merchants that are more likely to approve you. "Aim for a secured credit card at your local bank, department store, or fuel merchant."

Other steps you can take

- **Don't max out your credit cards.** Using credit cards responsibly can help build your credit. But charging near or more than your credit limit max will hurt your score. "Only charge as much as you can reasonably pay off within a given month," Millstein notes.

- **Improve your debt-to-income (DTI) ratio.** Get your DTI by summing your expenses and dividing it by your gross monthly income. "Say your monthly income is $1,500. Say your total monthly expenses are $800. Divide the former by the latter to get 53 percent," Millstein says. "Lenders prefer your DTI to be 43 percent or lower."

- **Avoid closing a financial account before applying for a loan.** "The longer the info remains on your report, the better it is for your credit score," says Millstein.

- **Don't let accounts gather too much dust**. "With credit you use infrequently, try making a small purchase from time to time. This prevents your account from becoming inactive," Millstein suggests.

How quickly can you expect your score to rise?

If all you need is error correction, you can see your FICO increase in a matter of days (but there is no guarantee that correcting errors will make your score go up). Paying down significant amounts of debt -- say, dropping your utilization from 80 percent to 20 percent -- can also pop your score up rapidly.

But if your credit report is littered with late payments collections or other serious problems, Gardner says it can take up to 12 months to raise your score. You must first demonstrate a consistent payment history.

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