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How to Transform a Good Credit Score to Great

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Question: I'm planning to buy a house in about six months, so I'd really like my credit score to be in the 800s by then. I already pay my bills on time. How can I make my credit score off-the-charts great?

The good news is that 750 is more than "pretty good." Many lenders say they offer their best rates to customers with scores of about 720 or better.

However, in today's credit market, it's better to have a higher score than is absolutely necessary. And most of the tactics you'll use to raise your score make good financial sense anyway. I think working to improve [your credit score](#) from good to great is a very worthy goal!

Credit scores are no longer any mystery. They're based on how you pay, what you owe, how long you've been paying and other factors. Here's what affects the widely used FICO credit scoring model and by how much:

Making all your payments on time accounts for 35 percent of your FICO score. You're doing great on that. However, even having a 100 percent perfect payment history would leave 65 percent of your score to be determined by other factors.

Thirty percent of your FICO score is calculated from debt levels in proportion to the amount of credit you have available. Even if you never go over your credit limits or miss a payment, if you're constantly almost bumping against your credit limit, you're at a higher risk of default -- from a creditor's perspective.

Fifteen percent of your score -- a significant amount -- is based on length of credit history. There's no way to change this number quickly, which is why it's impossible for younger people to have perfect credit scores.

Ten percent of your credit score is based on any recent applications for credit. The more recent the applications, the lower your score. The credit scoring model's reasoning is that people who are running short of cash often start looking for more sources of credit.

The last 10 percent of your score is based on your credit mix. That's your history of carrying various types of credit; for instance, a car or [home](#) loan in addition to credit cards.

When you know what affects your score, you can concentrate on the changes that will have the biggest impact. Here's how you can have a higher score in just six months:

Month 1: Get a copy of your free credit report. Then, correct any errors you find on your report. Start this process now -- not all mistakes are fixed on the first try.

Month 2: Improve debt levels by paying down credit card balances. Your balances at any time during the month should be no more than 30 percent of your available credit. If necessary, apply now for one additional credit card or request higher limits on your existing cards. New applications temporarily ding your score, but it should recover before you need your home loan. (Don't open a slew of new cards, and by all means, don't spend that new available credit!)

Month 3: If [your credit report](#) only shows credit cards, improve your credit mix by asking other



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creditors to report your information to the bureaus. According to myFICO.com, creditors such as student loan lenders, credit unions and local retailers are not required to report credit information, but it never hurts to ask.

Do not buy a car or anything else just to improve your credit mix score. It doesn't help your score enough to be worth the money you spend.

Revive any old accounts you haven't used in awhile so they will be reported and improve your length of credit history score. One transaction every six months is enough to keep an account active.

Month 4: Set up automatic payments. Even one late payment can hurt a decent credit score. Depending on your normal checking [account balance](#), set up an automatic payment just large enough to keep you from ever making a late payment, or create multiple payments to keep your card balance close to zero throughout the month. When your bill comes, pay what's left.

Month 5: To make sure your credit card balances are reported as low to the credit bureaus before you go loan shopping, start using mainly cash as much as possible now. You can also go online and check your credit card balances before the credit card statement period ends and pay it off early to keep from having your balance reported at its highest point.

Month 6: Do all your rate shopping for a mortgage loan within a short period of time so you don't get dinged for multiple credit inquiries.

Good luck and enjoy your new home!

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