



# YOUR FINANCIAL FUTURE

Your Guide to Life Planning

May 2014



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## Tips for Improving Your Credit Scores

Americans have become more informed about certain aspects of their credit scores, but many still don't know enough about the risks associated with low scores and alleged "credit repair" services.<sup>1</sup>

While a majority of consumers know some of the basics about credit scores, many are still unclear about some of the most important facts. For example, a majority of respondents knew that mortgage lenders and credit card issuers use credit scores. However, less than 40% knew that many other service providers also use these scores, including landlords, home insurers, utility companies, and cell phone companies. A sizable minority also falsely believe that credit scores are influenced by their age (43%) and marital status (40%).

### What You Can Do

A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your score, the lower the perceived risk to the lender, and the more attractive the interest rate you will be offered. A score of 680 or lower will make it more difficult for you to get approved for credit and will probably increase the interest rate you are offered.

Here are some tips for raising or maintaining a higher credit score:

- **Pay your accounts on time.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
- **Keep your balances low.** About 30% of your score is determined by what the industry refers to as your "credit utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, your score will be lower.
- **Open a credit card account.** While many Americans are turning to prepaid credit cards or debit cards to help them better manage their finances, this can work against your credit score. Without any credit history, you could be considered "unscorable" and may have difficulty in obtaining credit.
- **Don't open too many credit lines in a short period of time.** Each time you apply for a loan or credit card, the lender will make an inquiry into your credit score, which typically knocks points off of your score.
- **Hold on to older, unused accounts.** The longer an account has been open and managed successfully, the higher your score will be.
- **Don't default on your payments.** If you default on a loan -- such as when you file for bankruptcy or a bank forecloses on your home -- it can knock up to 100 points or more off of your credit score.
- **Maintain a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.
- **Beware of credit repair companies.** The Consumer Federation of America warns consumers away from these companies, saying that they overpromise, charge high prices, and perform services, such as correcting credit report inaccuracies, that consumers could do themselves by simply contacting the lender and the credit bureaus.

<sup>1</sup>Source: *The Consumer Federation of America, Credit Score Knowledge 2013, May 2013.*

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