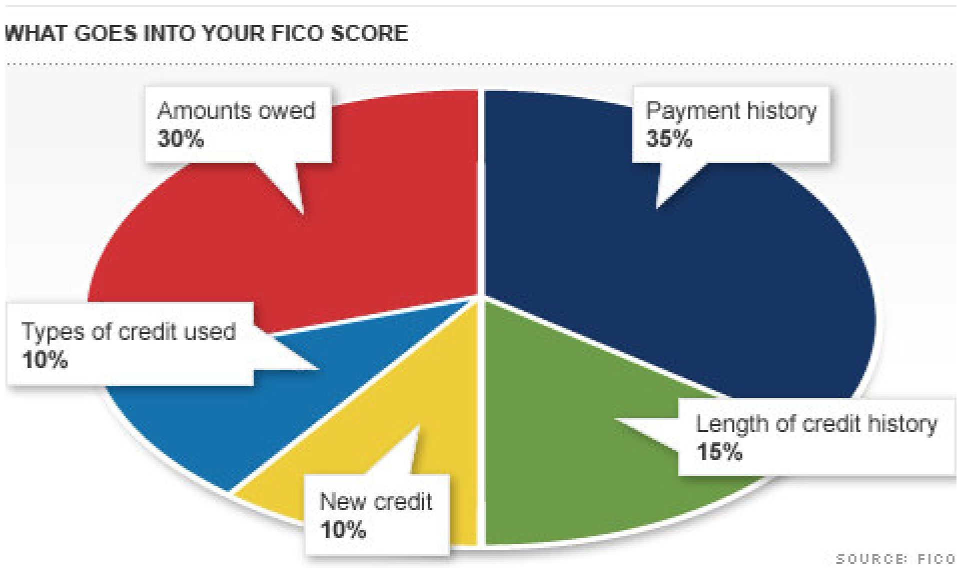
6 steps to improve your credit score

To find out the perfect credit score to nab the best rates on homes, autos and credit cards, click here.

By Ismat Sarah Mangla, staff writer August 26, 2010



(MONEY Magazine) -- Ready to embark on the quest for an 800 credit score?

You'll have to start by getting your exact score by shelling out $16 at myfico.com. (The best free scoring tool, the report card at Credit.com, gives you only a letter grade and a range your score probably falls into.)

You actually have three credit scores, one for each of the three major credit bureaus: Equifax, Experian, and TransUnion. Mortgage lenders pull all three.

Though based on the same model, these scores can differ -- typically by no more than 15 to 20 points, says FICO spokesman Crag Watts -- depending on how lenders report to the bureaus and how the bureaus include that information in the report.

At myfico.com, you have the option of buying only your Equifax or Trans-Union score; Experian doesn't sell its FICO score to consumers. If you're shopping for a home loan, get the two available to you.

Scores change whenever your creditors report new information -- like your credit card balance -- so if you're in the market for a big loan, start monitoring your number six to 12 months beforehand.

You might also find it useful to sign up for a tool like Equifax's Score Watch, which for $13 a month will alert you when your score shifts. For those who aren't loan shopping, there's no need to check your number more than twice a year, says Wayne Sanford. owner of credit consulting firm New Start Financial Corp.

The 800 club: 3 couples who have the perfect score

And if you find out you're not in the promised land? Don't worry. You don't need to be fanatical to get to 780. Those in the know say these moves matter most:

1. Stay on top of your credit reports. You're entitled to one free copy per year from each bureau. Get 'em at annualcreditreport.com, and look for misreported delinquencies, over-reported loan amounts, and underreported credit limits. Request corrections from the bureau in writing.

2. Pay bills within the grace period. Lenders report tardiness to the bureaus once you're 30 days past due; if your score started at 780, it can go down to 680 after just one delinquency, says Watts. So set up payment reminders or have payments automatically deducted by a certain date.

3. Focus on paying off credit cards vs. other debt. Whittling down revolving debt will do a lot more for your score than erasing installment loans. Paying off a $250,000 mortgage when your score is already high will boost it by only five or 10 points, says Watts. But wiping away a few thousand bucks on plastic can add 100 points.

4. Stay under the magic 10%. Just paying credit card balances off every cycle doesn't mean you have a 0% utilization; issuers report the total amount you charge each month to the bureaus. That suggests you should use credit cards sparingly, says Watts. Aim to spend no more than $2,000 on a $20,000 line; and put cards on ice a few months before applying for a loan.

5. Have a favorite credit card. The FICO model penalizes you for having multiple balances, so limit the bulk of your spending to one card. That said, issuers are closing inactive lines, which can hurt your utilization ratio. So make small charges to your other cards every three months or so.

6. Ask FICO what else will work for you. FICO offers a free Score Simulator tool to those who buy scores on myfico.com, and this allows you to see how your score would respond to certain actions, such as paying down debt or even taking on new loans.