



Establishing or Improving Your Credit Score

Your credit history is a record of how you have used money in the past, including credit cards, loans and whether you pay your bills on time. Your ability to repay a loan is normally gauged by evaluating your credit report (a summary of your credit history) and credit score.

Credit scores are the result of the individual credit bureaus' FICO® system algorithms that consider the following:

- **Payment History.** This factor is given the most weight in scoring. Have you paid your accounts on time? Late and missed payments hurt your score. Weight: 35%
- **Amounts Owed.** How much debt you have is the second most important factor, including how much available revolving credit you are using. If you can keep your use of credit at 30% of your maximum credit allowed, it will improve your score. For instance, if you have a credit card with a limit of \$10,000, you should try to keep your spending on that card at \$3,000 or less. The scoring also takes all types of credit (not just credit cards) into consideration when calculating the percentage of credit used. Weight: 30%
- **Length of Credit History.** How long have your credit accounts been open? How long have you been managing and repaying debts? Weight: 15%
- **Recent Activity.** How many credit inquiries have you had within the previous 12 months? How many new credit accounts have been opened? Weight: 10%
- **Credit Mix.** How many kinds of credit do you have? Includes mortgages, credit cards (major and store), auto loans and other installment loans. Weight: 10%

Where do credit reports come from? In the U.S. the three major credit bureaus are Experian® (www.experian.com), TransUnion® (www.transunion.com) and Equifax® (www.equifax.com). These credit reporting agencies collect information submitted by companies you do business with, such as, retailers, lenders, utility companies, housing organizations, medical facilities and collection agencies. These creditors voluntarily report your credit history to one or more of the credit bureaus.

How to Establish Credit:

- Ask someone with established credit to co-sign a loan for you, [open a joint credit card account or add you as an authorized user](#) to an existing credit card account. Or apply for a secured personal loan backed by collateral which the lender could take possession of if you don't repay the loan as agreed.
- Apply for a secured credit card. Unlike a traditional credit card, a [secured credit card](#) requires you to make a deposit, generally \$200 to \$2,000, which becomes your credit limit. That protects the card issuer if you can't pay off the charges. Be sure the card issuer reports to the credit bureaus.
- Ask your bank about taking out a [credit builder loan](#). These are small loans for short terms, usually 6 months to 24 months.
- Ask your landlord and utility companies to report your positive payment history to the credit bureaus.
- Ask a potential creditor to request your Extended View score or VantageScore from all three major credit bureaus. These scores incorporate more sources of information to build a better picture of your financial history.

If you are having difficulty obtaining credit you need, the first thing you should do is check your credit reports (from all three bureaus) to make sure the reports are accurate. You can dispute any inaccurate information with each credit bureau. For more information, visit the [Federal Trade Commission's 'Understanding Your Credit' article](https://www.consumer.ftc.gov/articles/understanding-your-credit). <https://www.consumer.ftc.gov/articles/understanding-your-credit>

Improving credit scores may take time. Similar to building your credit, here are some things you can do to improve your credit scores:

- Reduce the amounts of credit used on your accounts to 30% or less of the credit limit.
- Make your payments on time.
- Do not apply for additional credit unless necessary. So many businesses are offering discount at checkout if you apply for their credit cards. This creates an inquiry on your credit report and can affect your score.
- Be aware of your credit mix.
- Do not cancel credit accounts that have a long history; just make sure they are up to date and balances remain below 30% of the maximum credit limit. Long term good history is a plus.
- Get a pre-paid credit card from a lender who reports to a credit bureau. This allows you to have a credit card without the worry of going over your limit.
- If you have made payments to a company that does not report to a credit bureau, you can work with the credit bureaus to get that information included on your reports. Paying your rent and utilities on time shows good payment character on your part and should be part of the credit equation.
- Become a co-signor on a credit card with someone who has good credit.

Establishing and building credit is a marathon - not a sprint. It takes time to show a history of good re-payment activity.

Get free business counseling:

To help find local counseling assistance, the Small Business Administration's [counseling tool](https://www.sba.gov/tools/local-assistance) (<https://www.sba.gov/tools/local-assistance>) can connect you with guidance in planning your exit strategy.

- **SCORE Mentors** – www.score.org
- **N.D. Small Business Development Centers (NDSBDC)** – www.ndsbdc.org
- **N.D. Women's Business Center (ND WBC)** – www.ndwbc.com
- **N.D. Veteran Business Outreach Center (VBOC of the Dakotas)** – www.und.edu/dakotasvbc