



Building and Maintaining Good Credit

Here are the basic tools you need for creating a good credit record. Keep in mind this underlying reality: to demonstrate your ability to handle credit well, you must borrow, either through the use of a credit card or consumer loan. Borrowing has its place in the economic life of most Americans. So establishing a record of repaying the money you borrow in a timely fashion establishes the fact that you are a credit-worthy borrower.

Step One: The first and most important step, therefore, is to maintain a responsible payment pattern. Make sure that you avoid making late payments, if at all possible. Timely loan payments are what a potential lender will look for first on your credit report and they are the primary factor in the computation of your credit score.

One possible way of making sure your payments are timely is to arrange for automatic online payments, watching to see that there is adequate money in your account to cover the payments. (Online banking customers at Bank of America also qualify for the convenience of a free Mobile Banking service; it allows you to check all your accounts, pay bills, transfer funds and locate ATM machines anytime, anywhere.)

Step Two: Maintain a growing savings account so that when an expense arises that would have otherwise exceeded your ability to pay with cash; you no longer have to pull out your credit card or take out a new loan. Instead, you can borrow from your savings account, which is the same as borrowing from yourself.

Step Three: Limit your overall debt. Ideally, you should use only a few credit cards. According to most financial advisors, **you should also make certain you don't borrow/use more than about 30% of the card's available credit line.** Thus, if the card allows you to borrow a total of \$10,000, limit yourself to using no more than \$3,000 on that card. Above all, do not borrow beyond the card's limit.

What cards should you hold, then? It's an individual decision, but three or four of the major credit cards will do. Visa®, MasterCard®, Discover®, and American Express® are good choices for most borrowers.

Why aren't any gas station cards or department store cards included in the list? They are often more expensive, with limitations on their uses and small credit ceilings, and you simply don't need them if you have a few of the major cards. Still, there may be situations where specialty cards (travel or cash-back rewards cards, for example) work well for you.

Step Four: Review your credit report at least once a year. (You can access your free report from the major credit reporting agencies quickly and easily by calling 877-322-8228 or by visiting www.annualcreditreport.com.) There are three reasons to do this:

- First, you may have forgotten to make a payment at some point, failing to notice a delinquent payment letter from a creditor. Or you may have made another mistake that you were not aware.
- Second, the credit reporting agency may have made a mistake. Nearly one in four credit reports contain errors, most of them small and easily overlooked. For example, your payment records could have been mixed with those of another debtor who shares your name, but doesn't share your responsible payment habits. Report any errors to the agency in writing; credit reporting agencies are required by law to work with you on correcting them.
- Third, you may discover evidence of a credit thief's work. If debts have grown mysteriously, or the names on accounts have changed, or if any other irregularities show up, you will want to act on correcting the damage as quickly as possible.