

Taking Steps to Boost Your Credit Score

Knowledge is key when financing a vehicle

According to a consumer survey conducted for Americans Well-informed on Automobile Retailing Economics (AWARE), 80 percent of consumers know their credit history affects the rate at which they can finance an automobile.

While this is good news, according to a report released last month by the Consumer Federation of America (CFA) in partnership with Washington Mutual (WaMu), consumers mistakenly believe that factors other than how you've handled previous credit affects your credit score.

For example, according to the CFA and WaMu survey, 74 percent of consumers incorrectly believe that scores are influenced by income; 41 percent believe age affects credit scores; and 19 percent even cited ethnicity as factor that affects a credit score.

Essentially, your credit score is a numerical representation of your credit history. It is not influenced by factors such as ethnicity or income. It is a measure of how you've previously handled credit. It takes into account information such as your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts. Using a statistical formula, these credit factors are translated into points. A total number of points — a credit score — is calculated to help predict your creditworthiness.

Your credit history – and therefore your credit score – is an important factor that helps determine the rate at which you can finance an automobile. Other factors that affect your annual percentage rate (APR) include prevailing rates, the amount financed, the terms of the financing contract, the down payment amount, the vehicle make and model, competition, market conditions and special offers.

Since a credit score is an important yardstick finance companies use to determine the risk of lending you money, it's important to understand steps you can take to improve your score or, hopefully, keep it at a high number.

Below are tips from AWARE to help those interested in boosting their credit score.

Know Your Credit Report: Consumers are entitled to one free credit report each year from each of the three national credit reporting bureaus. Go to www.annualcreditreport.com to access a free copy of your credit report annually to ensure there are no errors and that the information available to lenders is accurate.

Keep it Simple: Understand the importance of credit history. Put simply, to establish strong credit you must pay your bills on time and never use all of your available revolving credit.

Get off on the Right Foot: If you are starting out, build good credit the right way. Set up a checking and savings account to demonstrate stability to finance companies. Also, you may choose to apply for a credit card or store credit. If you do so, ensure all your payments are made on time.

It's Not too Late to Repair Poor Credit: If you have made mistakes in the past, identify problem areas that exist in your credit report and take steps to recover from these mistakes. For example, you may choose to set up a payment plan to pay off any outstanding credit card or store credit balances you're carrying.

Pay Off Debt Rather than Move it Around: Pay off the balance on your credit card – even if you must do so slowly – rather than moving it from one credit card to another. By always making payments on time, you are demonstrating responsible borrowing habits to finance companies.

These tips were brought to you by AWARE, a non-profit organization seeking to build a greater understanding about how auto financing works. AWARE is supported by leaders of the vehicle financing industry, and is perhaps the only resource that focuses exclusively on auto financing education in materials, a Web site, and other educational offerings that are entirely free of marketing, advertising, or sales efforts. Visit www.AutoFinancing101.org for financing calculators, tips, and other free educational materials.