Pomegranate Financial

Refresh & Simplify
Your Financial Life

Newsletter

Volume I Issue 4 | June 2022

10 Tactics To Build Credit Quickly (In Order of Priority)

1) Make payments on-time, every time (call your financial institution and/or credit agency to fix any missed payments due)

Set up auto-pay to make sure at least the minimum is always paid. If finances are tight, set up a reminder for the credit card due date. If you have any missed payments due, call your financial institution and/or credit agency to see what you can do to fix it.

2) Apply for a Secure credit card that reports to all three major credit bureaus

Secure means you are using your own money, say $500, as collateral for your line of credit. Most secure cards don't have an annual fee and they help you build your credit quickly. That $500 is not accessible to you since the company holds it as collateral.

3) Remove or add an authorized user like a spouse to help build or fix credit

Do you have a friend or family member as an authorized user on your credit card? If they don't use your card properly or help pay off your balance then they may be affecting your score negatively. Consider removing them to help your score. Or maybe you need help building credit? A friend or family member can add you as an authorized user to help you.

4) Make credit card payments weekly or bi-weekly (keeping balances low through billing cycle)

Each credit agency pulls your information at different times of the month. Therefore, it's easier to make weekly or bi-weekly payments in order to keep your balances low. For example, let's say you pay off your credit card balance of $10,000 on the 20th of the month, but the credit agency pulls your information on the 19th of the month. Even though you paid off your whole balance before your due date, your credit score may be reduced because of when the agency pulled your information.

5) Apply for loans/credit cards strategically to reduce multiple inquiries.

Don't apply for loans/credit out of curiosity. Make sure the financial decision makes sense for you and will help. Multiple inquiries can negatively affect your score. For example, if you are thinking about buying a house in a few months - hold off on getting your credit pulled and look at your scores from TransUnion, Equifax, and Experian. Then talk to a mortgage lender about the effect your credit score can have. Apply for the mortgage loan once you are serious - that way you aren't having multiple unnecessary credit inquiries.

6) Consider opening different types of accounts if financially helpful (ex. getting a lease, loan, or credit card)

Over time it may make sense to apply for a lease, finance an auto loan, or apply for a new credit card. Know that the more you have diverse types of debt, the better it can be for your credit score. This shows companies that you can pay different types of loans.

7) Reduce your credit utilization to below 30%, 10% if you can, and ideally <5%.

Your credit utilization is your credit card balances divided by the total amount you can put on your credit card(s). The lower the better for your credit score - I've even seen an improvement on a credit score made between 1% and 0% credit utilization!

8) Request an increase for your line(s) of credit to decrease your credit utilization & increase financial flexibility.

Talk to your financial institution to request an increase to your line of credit. This may lead to a hard inquiry on your credit score, but might be worth it if it increases your credit score by decreasing your credit utilization.

9) Update your financial information with the credit card company (ex. increase in salary).

You can update your financial institution about a recent wage increase, new job, or household income. Call or get online to provide the update and it may lead to an increase in your credit limit. This in turn can decrease your credit utilization and increase your credit score.

10) Try using a Credit Simulator to see the potential effect on your credit score before making a decision.

There are various websites that provide a credit simulator to test how each of your actions affect your credit score. For example, by paying off $5,000 of credit card debt, then your credit score might increase by X amount of points.

Here is a link to an article titled '13 Ways to Build Credit' by Mia Taylor where I am quoted under the 6th way.

You can also see the July 2022 newsletter about Credit Cards & Rewards.

I love using NerdWallet to monitor by credit score. It shows you how your credit score is impacted, the history of your credit score (while you have an account), and provides a credit simulator.

NerdWallet also allows you to compare different credit cards. A great credit score is key to obtaining greater financial flexibility through lower interest rates, better payment terms (rent, cell phone, utilities, etc.), and larger lines of credit. So good credit opens up opportunities for you and can save you thousands of dollars over the course of your life.

However, please note that a great credit score is not ALWAYS required, but rather it is ALWAYS important when applying for debt. What I mean is don't increase your stress just because your credit score is lower. Rather plan on when you may need to apply for debt and then create a plan so that you can have a solid credit score by the time you apply for that debt.

One example would be in applying for an auto loan. You know that in 6 months or sooner you may need a new car. Then you need to get a plan and follow the tactics above to bump up your credit score.

Another example would be using 0% interest credit cards to finance a large purchase or say a tax bill you owe. By using the 0% interest credit card you will save more in interest, but it will hurt your credit score. If you can plan this so that you won't need to apply for any debt/credit cards in the near future, then you can work it out to save a lot more money in interest.

Blake Jones, CFP®, EA
PomegranateFinancial.com
PomegranateFinancial@gmail.com