

# Getting a perfect credit score

What's up, it's Graham Stephan here! I'm so glad that you've taken a step towards getting an amazing credit score. In here, you will learn:

1. Why do you need a good credit score?
2. What is hurting your credit score?
3. How to get your credit score and review it
4. How to get a credit score of 800 and beyond!

Let's get started!

## Why do you need a good credit score?

I have been investing for 15 years. When I started out, I didn't have much capital and had to obsessively save every dollar to buy my first rental property. What helped me accelerate my journey was building a great credit score.

Having a good credit score is like having free money – and in a time where interest rates are high, shaving a few points off your interest rate can save you thousands of dollars! It could be for buying your dream home, buying a new car, or any other purpose, but having perfect credit is a superpower that will work everywhere. You get loans at the lowest possible rates and are instantly approved for new credit cards with attractive rewards.

I have a credit score of over 800 now – and I will teach you how you can get there too.

# What is hurting your credit score?

Before you try to increase your credit score, it's important to understand how it works and what parameters go into calculating your credit score.

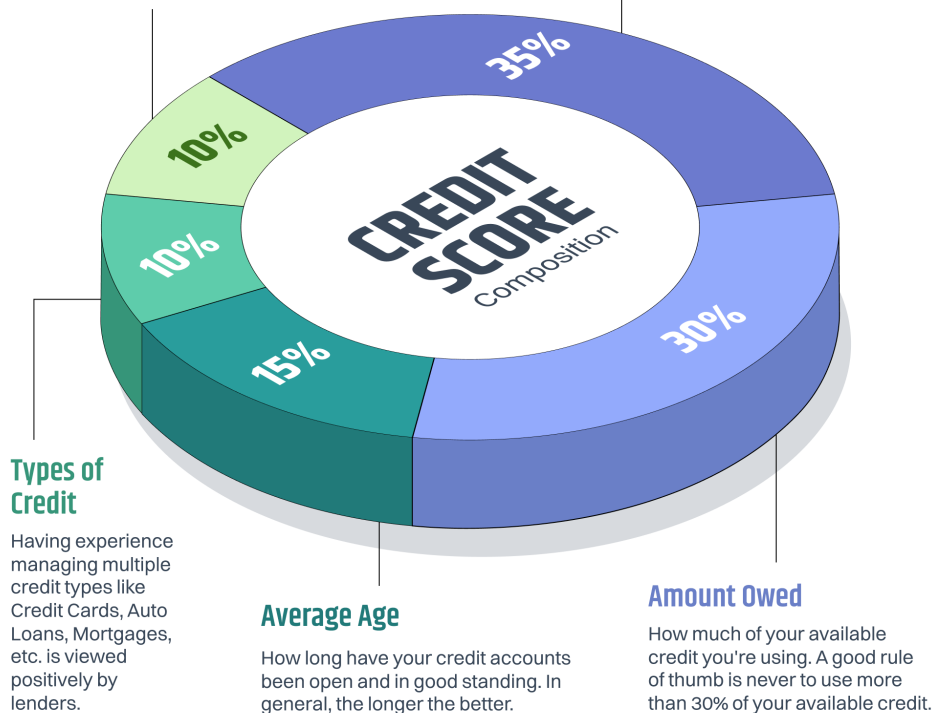
## What goes into your CREDIT SCORE?

### Credit Inquiries

The more times you apply for a new line of credit, the lower your score will be as lenders will see you as a potentially risky borrower. The good news is that credit inquiries impact your credit score only for a few months.

### Payment History

The biggest contributing factor is whether you pay your bills on time. If you miss a payment, it will stay on your record for 7 years.



### Types of Credit

Having experience managing multiple credit types like Credit Cards, Auto Loans, Mortgages, etc. is viewed positively by lenders.

### Average Age

How long have your credit accounts been open and in good standing. In general, the longer the better.

### Amount Owed

How much of your available credit you're using. A good rule of thumb is never to use more than 30% of your available credit.



@GrahamStephan

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There are five factors that are taken into account in decreasing order of importance:

1. Payment history

2. Utilization (amount owed)
3. Average age
4. Types of credit
5. Credit inquiries

Let's dig a little deeper into each one of them.

1. **Payment History:** The single largest contributing factor to your credit score is your **payment history**. It just means that you pay your bill always on time as agreed. If you end up missing a payment, it could stay on your report for **a whopping 7 years!** But the good news is that, when it comes to paying off a credit card on time, it just means *paying the minimum due amount* (most of the time around ~\$25-50) and not the full balance.  
So, even in the worst-case scenario where you can't pay off your credit card in full, just make the minimum payment and your credit score will stay intact. I **HIGHLY** recommend you set up an autopay for the minimum amount every single month so that you will never be late on a payment.
2. **Amount Owed aka "Utilization":** This parameter evaluates how much credit you have available vs how much of it you are actually using. If you usually max out your card by going on a shopping spree, it will lower your credit score because you are seen as a riskier borrower.

Monthly Spend	Available Credit Limit	Utilization
\$1,000	\$1,000	100%
\$1,000	\$100,000	1%



*It's not the dollar amount that you spend you should be concerned with, but the percentage of credit that you use. In the above example, in both cases, you are spending \$1k, but when you have a higher credit limit, your utilization is much lower.*

3. **Average age:** No, it's not your age that the credit algorithm is worried about. It's how long you have had your **credit accounts open and in good standing**. The longer your credit history, the more comfortable banks are in giving you loans.



It's the average age of credit history that's considered and not the total age. For example, if you had just one credit card that you took 4 years back, then your average age would be four years, but if you got a new card recently, then your average age would drop to 2 years.

4. **Types of Credit:** This parameter evaluates whether you have multiple types of loans. It's just to prove to the lenders that you are a financially independent adult who can handle a range of credit types including Credit Cards, Auto Loans, Mortgages, etc. One added benefit of having multiple types of credit is that your

overall utilization would be on the lower side which again positively affects your score.

5. **Credit Inquiries:** Finally, the last 10% of your credit score is impacted by the number of times you apply for a new line of credit. This is shown as a '**hard inquiry**' on your report. In general, the more hard inquiries you have, the lower your score will be. This is because lenders will be concerned that you are actively trying to seek multiple new loans and credit lines and you are seen as a potentially risky borrower. Personally, I am not so worried about the credit inquiries part as it only impacts the score temporarily (a few months at most).

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## How to get and review your Credit Score

Before we go trying to improve our score, we have to first know what our current Credit Score is. There are multiple websites that can help you here.

- [Credit Karma](#)
- [Credit Sesame](#)
- [Annual Credit Report](#) (*you can check only once a year*)



**Pro tip** – *If any website ever ask you to pay for your Credit Report, just click out of it. There is no need to pay for information that's freely available.*

When you review the report, you can see which items can be improved, and usually, it's going to be one of these – don't worry, I'll tell you how to solve each one of these:

1. **You don't have enough credit** – If you are relatively new to the credit world, you might not have had enough time to get a credit card and make on-time payments. Your credit score isn't high just because there is not enough history on your account.
2. **Late Payments** – This is a big one. If you have a late payment, it's going to stay on your report for 7 years & severely affect your credit score!

3. **Collections** – I am not going to lie. If you have an account in collection, it's pretty bad. Collections occur when you're so late on a payment (*usually more than 180 days*) that the lender just gives up and sells the debt to a collection agency – you know, the folks who call you non-stop to get you to pay.
4. **High Balance/Maxed out Credit Lines** – If you max out your credit line, lenders see you as a bigger risk and it will drag your score down. If you thought of overcoming this by using “Buy Now, Pay Later” EMI schemes, these are also being tracked by the Credit agencies now.
5. **Bankruptcies/Foreclosures** – This should be an obvious one, but sometimes, marks like this are accidentally left longer than they should. One other possibility is a mistake by the credit agencies or an identity theft – all of which could impact your score without you even knowing it. This is why its extremely important to review your credit report frequently.



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## 800 and beyond!

Now that we know what goes into making up the credit score and what your current credit score is, we can explore the various ways in which you can improve it – that too for free!

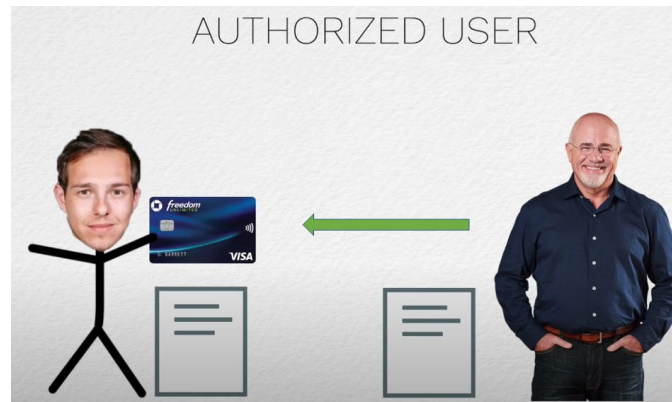
There are five ways to raise your credit score:

1. Become an authorized user
2. Pay down your existing balance
3. Experian Boost
4. Remove Late Payments and Delinquencies
5. Don't close out your old accounts

Let's dive deeper into each one:

## 1. Become an Authorized User

If you don't have enough credit, and you want to increase your score immediately, the best method is to become what's called as an 'authorized user'.



This is when someone else with an extensive (*and good*) credit history **adds you as an authorized user to their credit card**. All of a sudden, their credit history shows up with your account. This is also known as “Credit Piggybacking” and is one of the fastest ways to improve your credit.

However, there are some ‘catches’ here that you should be aware of.

- Some credit reporting agencies are catching up to this, and aren't reporting the authorized accounts to all 3 credit bureaus. As of now, it appears as though Capital One, Discover, Bank of America, and Wells Fargo are the accounts that transfer over the entire past history while other credit cards will only show the history beginning at the time you became an authorized user. So make sure you do your research ahead of time so that you can transfer the entire history to your report.
- It's extremely important that you **carefully choose the person who will add you as an authorized user** as it's not just the good parts that get transferred over. His/Her entire history will get transferred over to your account including late payments and maxed out credit cards if any! Make sure that the person who adds you is someone whom you trust and who has an excellent credit standing for the past 4-5 years.

## 2. Pay down your balances

Another quick-fire way to improve your credit is to **pay off the existing balance** so that your overall utilization comes down (*Remember that utilization contributes 30% to your score*)! Ideally, you should be trying to keep your utilization under 10%. This will have the biggest impact on your credit score in the shortest period of time. If you pay down your credit card balance, **the improvement in your score is reflected in just 2-4 weeks.**

If you can't pay off your card, another 'hack' here is just getting a new credit card. As we discussed in the beginning, utilization is based on the total limit, and adding a new card will improve your total limit, bringing down your utilization %. This is why **I recommend opening up as many no annual fee credit cards as you can** so that the utilization is kept well below 10% (This might impact your average credit age, but utilization has a higher weightage in the credit score).

## 3. Experian Boost

As we saw, when calculating the credit score, a large portion of that score is calculated based on the number of on-time payments, your account history, and the type of loan that you have used. Obviously, this requires you to open multiple credit lines, pay them all off on time and keep the utilization low – all of this is pretty difficult to keep track of. **Experian Boost aims to fix that** and I feel most of you would qualify.

**This isn't sponsored**, but Experian Boost is a totally free, opt-in service that tracks on-time phone and utility payments and adds them as a parameter for calculating your credit score. If you make your payments on time, Experian Boost can help you boost up your credit score pretty fast.

## 4. Remove Late Payments and Delinquencies

First things first, if you have any kind of late payment now, **minimize this window right now and pay it off** if possible. The impact on your credit score gets worse as time goes on. A 90-day late payment will affect your credit score much worse than a 60-day late payment, and so on...

Any time you miss a payment or it gets sent to collections, it's going to absolutely destroy your credit score. But, **not all hope is lost if you work to resolve it**. It's always worth trying to negotiate the terms of the debt and see if you can get back your account to current.



This means **reaching out to the lender to see if you can work out a repayment plan**. The fact is that if the lender barely makes pennies on the dollar offloading the bad debt, they would rather negotiate with you to get something than nothing! Once you have paid off the debt, but the late payment is still on your credit report – just call them and ask (*really really nicely*) if they can remove it as a courtesy. I have to be clear though that they are not obligated to do this, but

| *If you don't ask, you don't get. – Mahatma Gandhi*

## 5. Don't close out any accounts

One of the biggest mistakes I have seen people making is closing out their old credit card because 'they don't use it anymore'. What you are really doing here is **erasing your oldest trade line** and that will bring down the average length of your credit history significantly.

So as a rule, don't close out any credit cards, even if you are not using them. If they have no annual fee, keep them open and occasionally charge a \$1 amazon gift card to show some activity and that's it. If the card does have an annual fee, you can reach out to the bank for a downgrade to a free card so that you can keep the account open for free.

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If you are able to follow these simple steps, a perfect credit score is absolutely achievable, for totally free and without paying any interest to credit card companies. It's worth mentioning here that even though getting an 800 credit score comes with bragging rights, from a lender's perspective, **anything above 760 will get you the best possible rates**. There is virtually no difference being a 780 or an 800 from the lender's point of view.

Having a good credit score opens up so many opportunities to save you money that wouldn't be possible without a good score. All of this is something you can do yourself, in under an hour, for free and this can save you thousands of dollars down the line!

# Wait!

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