Title:
Credit Repair - Maintain the Correct Debt To Credit Ratio

Word Count:
421

Summary:
Many people believe that paying off their credit cards every month is a good idea. And if you are trying to stay out of debt, then I would have to agree with you. If you are trying to build credit and look good to your creditors, then paying off your credit cards every month is actually a bad idea...

Keywords:
credit debt finance

Article Body:
Many people believe that paying off their credit cards every month is a good idea. And if you are trying to stay out of debt, then I would have to agree with you. If you are trying to build credit and look good to your creditors, then paying off your credit cards every month is actually a bad idea. Let me explain.

Creditors and lenders don’t make there money from annual fees on credit cards. They make there money on the interest that you pay each month. If you are paying off your balances each month, the creditors and lenders aren’t making any money. Creditors want to see someone that can maintain a balance each month and make payments on time. This goes a long way in showing your credit worthiness and actually is built into the algorithm that calculates your credit score.

Your debt to credit ratio is very simple to calculate. Suppose you have a credit card with a $10,000 limit. If your balance on this card is $2500 then your debt to credit ratio would be 25%. A good ratio to maintain to help raise your score would be between 30-35%.
Your ratio is based on all your credit card limits and balances and combined. This actually gives you some flexibility.

If you had a limit on one card of $5000 and a balance of $3250 then your debt to credit ratio would be around 75%. To fix this you could pay off a big portion of your balance or you could ask the creditor to raise your limit to $10,000. The latter costs you no money but alters your ratio to around 35%. With multiple cards there are many combinations to achieve a good credit ratio by upping the limits on some cards and paying down others. I think you get the idea.

It may not be necessary to maintain this high ratio on your credit cards all the time. Use this technique to build your credit fast. If you will soon be in the market to get a home loan or auto loan, perhaps begin moving towards this ratio several months before shopping for a loan. Once you get a loan you can let this ratio go down to something more manageable.

This is just one little technique that can have huge ramifications on your credit score. I hope it helps. And remember to make all your payments on time. This can’t be stressed enough. Those 30 and 60 day late payments will kill your credit faster than you can repair it. Good luck!