How to have (and maintain) perfect credit

Roughly 1% of the population has perfect credit, i.e. a FICO score of 850 (on a scale of 300 to 850). Folks with such a high credit score all have the following traits in common:

- Between four and six revolving accounts (this means credit cards).
- At least one "installment" trade line (e.g., a mortgage or automobile loan) in good standing.
- Several accounts around 20 years old with a long history of positive use. (To get a score above 800, you need 10 years of positive account history.)
- Around 30 years of credit use.
- No late payments (or other serious account errors) for at least the past seven years.
- Very few credit inquiries (no more than 1-3 in a six-month period).
- No derogatory notations -- collections, bankruptcies, liens, judgments, etc.)
- Debt levels on credit accounts of less than 35% of their overall credit limit.

In other words: Long but sparse use of several accounts without any payment issues along the way. Reality is, it is very unrealistic to have a perfect credit score. However that doesn't mean you can't work towards a better credit rating.

Now that you know their simple secret…
Here's what *you* can do to follow their lead and improve your credit rating and keep it stellar for life:

See what everyone's saying about you:
Three major credit-reporting agencies are keeping tabs on what you do with your credit and finances. At least once a year (and a few months before entering into any major loan), review your credit reports from Equifax, Experian and TransUnion. You are entitled to one free copy from each bureau once a year.

Fix all typos and errors:
Since your credit record spans almost a decade of your borrowing activity, it makes sense that errors sometimes turn up. In fact, a recent study showed that 79% of all credit reports contain errors. Some common credit-reporting errors include out-of-date addresses, closed accounts being shown as open, credit lines not reported at the correct amount, and erroneous information.

Change your ways, immediately:
Self-inflicted credit wounds (such as a history of late payments, defaults, and irresponsible behavior in general) will fade from your record over time. Since the most recent behavior on your reports carry more weight than old news, vow that from this day forward you will be a financial upright citizen, and over time your score will grow.

Remember that a credit card is not cash. It represents money you do not have:
Even though you have been approved credit by a bank, a store, etc (Visa, MasterCard, Sears, Kmart, etc.) to borrow thousands of dollars, you don't actually have thousands of dollars to spend, which leads nicely to the next rule…

Ignore anyone's rules on what should be an "acceptable" amount of debt:
Your debt-to-income ratio is the measure of how much debt you carry to how much money (after taxes) you have coming in. In the world of lending, it is acceptable to carry 25% of your income in debt. That ratio is still very high. You might want to consider trying to keep your debt (including car loans) to 15% or less of your after-tax income.

In summary:
Based on the above information, you can see that the trick to keeping your credit score high is to keep your spending under control, pay your bills on time, and don’t apply for credit too often. Follow these rules and your credit score will start to rise.

Know the benefits of a high score

What a low credit score really costs you

Your monthly loan/credit card payments can easily be 40% higher with a low score! A higher credit score can save you an enormous amount of money by qualifying you for a lower mortgage interest rate (and by letting you qualify in the first place). According to Fair Isaac (at the time of this writing), lenders would probably demand a 5.5% percent interest rate on a $300,000, 30-year fixed mortgage for a borrower with a credit score between 500 and 579. That's a $1,700 monthly payment for principal and interest. But a score above 760 would qualify you for about a 3.3 percent rate - with a payment of $1,300 a month. That's savings of $500 each month - and more than $100,000 over the life of the loan!

This chart illustrates just how much a low credit score can cost you over the life of a loan:

YOUR CREDIT SCORE	*ADDITIONAL COST TO YOU
720+	$0
700-719	$7,000
675-699	$30,100
620-674	$86,450
560-619	$143,640
500-559	$287,200

*Based on a 30 year $200K loan @ 5.6% interest

How your credit score affects your interest rate

FICO stands for Fair, Issac & Co. They're the folks who created the mathematical formula used to calculate what is commonly called the FICO score. This three-digit number is a big determinant in whether or not you get a mortgage or any other type of loan. FICO helps banks, credit card issuers, auto loan companies, and other lenders decide if you're a credit risk. The higher your score, the more likely you'll be approved for a mortgage (and the lower your rate will be). Here is the average rate/score breakdown:

YOUR CREDIT SCORE	*INTEREST RATE
720+	6.089%
700-719	6.214%
675-699	6.751%
620-674	7.901%
560-619	8.531%
500-559	9.289%

*Rates change, so check for current ones.
As you can see, a credit score of 720 or higher is the magic number to hit.