MONEY MATTERS

Get Credit for Making Smart Financial Decisions

(NAPSA)—You're faced with a dilemma. It's the end of the month and you have a stack of bills due. You were hoping to go on a special weekend getaway with friends, but don't have the money to pay all your bills and enjoy the trip. You realize something has got to give, so you decide to skip a payment on your credit card to have money for the weekend. It's only 30 days, you say to yourself, and you plan to really get serious about paying down your bills after this month.

That decision could cost you thousands of dollars.

"Making late payments is really the number-one way that consumers can damage their credit report and credit score," says Chaomei Chen, head of credit risk for the credit card division of Seattle-based Washington Mutual. "Conversely, making on-time payments is the easiest way to increase a consumer's credit score over time."

Keeping Score On Your Credit Score

Credit scores are derived from information found in your credit reports, which are maintained independently by each of the three major bureaus—TransUnion, Equifax and Experian. The data is run through a mathematical formula to produce your "FICO" score. Fair Isaac Corporation

Don't be late in paying your bills. Even one late credit card payment can cause a credit score to fall up to 100 points.

(FICO) invented and popularized the methodology for determining consumer credit risk. Most FICO scores run between 300 and 850. The higher the score, the better, because consumers with high scores are offered the lowest interest rates for homes, automobiles and other consumer loans.

Even One Late Payment Can Hurt

Chen pointed out that only one late credit card payment could have a negligible effect on the score of consumers who already have a dramatically low FICO score, and conversely could drop the FICO scores of people who already have very high FICO scores up to 100 points. "That difference in FICO score can add many thousands of dollars in interest payments over the life of a loan. It's in the consumer's best interest to pay bills on time each and every month."

According to Fair Isaac, for a $250,000 home loan, based on recent interest rates, a consumer with a 700 FICO score would have a monthly payment of $1,614 for a 30-year fixed-rate mortgage. A consumer with a 550 credit score would pay an estimated $2,094 a month for the same loan. That's a difference of $480 a month, and $173,000 in additional interest over the life of a 30-year fixed-rate mortgage.

That weekend getaway has become very costly.

In addition to paying bills promptly, Washington Mutual—the only credit card issuer in the U.S. that provides its credit card customers free online access to their FICO scores—recommends other simple ways to increase credit scores, including:

- Pay more than the minimum due on credit card accounts each month.
- Keep the balances on revolving credit accounts below 50% of the credit line.
- Check your credit report at least once per year to ensure that information is being correctly reported.