

3 Simple Steps to Better Personal Credit Management

The rough economy and its slow recovery have had marked effects on many people's personal finances. One example: Many Americans are leaning harder on their credit cards. Doing so puts them at greater risk for not only overextending that credit, but also falling victim to fraud as their account numbers go into wider circulation.

And if you happen to be a business owner, the risk is even greater. In composing loan agreements, banks are increasingly looking into a company owner's personal credit history, including personal guarantees.

The good news is that everyone — business owner or otherwise — can create a relatively simple credit management plan. Here are three steps to follow:

1. Know the agencies — and keep in touch. You've probably heard the names before, but they bear repeating: TransUnion (<http://www.transunion.com>), Equifax (<http://www.equifax.com>) and Experian (<http://www.experian.com>). These are the three major agencies from which you can request a credit report.

Under the Fair and Accurate Credit Transactions Act, you may obtain one free copy of your credit report annually from each of these agencies. This is a key first step to managing your credit. To ensure better awareness throughout the year, request a report from one of the agencies once every four months. This way, you'll be able to track any changes to your credit history.

2. Check your score (and more). Each time you review your credit reports, look at a couple of things. First, check your credit score. If you're at 750 or higher, you're in excellent shape and should continue managing your credit as you've been doing. But if you're drifting into the 500s, you're headed for trouble and need to reassess your credit practices.

Second, look for discrepancies and fraud. To dispute anything, you'll need to provide supporting documentation and a letter of explanation to all three credit agencies. Be sure to challenge any inaccuracies within 60 days.

3. Keep your balances low and your lines open. With your credit history and score, move forward into the spending year armed with some best practices. For starters, to the extent possible, keep your balances low on credit cards. If you run balances that exceed 50% of your credit line on an account, your credit score will likely suffer.

Also, don't make the mistake of closing down credit lines once you've paid them off. Your credit score is partly based on how many lines of credit you can keep open and in good standing. So hide a credit card away if you must, but don't shut it down unless you feel it's simply too great a temptation to spend more than you should.