

6 Habits to Help You Use Your Credit Wisely

Keep the health of your credit score top of mind with these six tips

Your credit is a lot like your health. To keep it in good condition, you want to take care of it, minimize risk, watch for warning signs, and make responsible decisions.

Here are six healthy credit habits to help you take control of your finances and establish good credit.

1. Create and stick to a budget.

Start by creating a budget that outlines all of your income and your monthly expenses. This will help you map how much you have available to spend, and how much debt you can afford to take on and repay.

2. Borrow only what you can afford to pay back

Show future lenders they can depend on you by borrowing only as much money as you can afford to pay back. A general rule of thumb is to spend no more than one-third of your income on debt—including mortgages, credit cards, and loans (e.g., car loans, student loans, and lines of credit). If it's helpful, track your spending to make sure that you're staying within your monthly budget.

3. Pay your bills on time

It is very important to pay your bills on time every month. Not only will you avoid late fees, but a large part of your credit score depends on how timely you are with bill payments.

4. Carry credit card balances responsibly

Sometimes, you might not be able to pay your balance in full. It's okay to carry a balance on your card, but if you do, be sure that you're making payments on time each month, are paying more than the minimum payment whenever possible, and aiming to keep your balance below around 30 percent of your credit limit at any time. Even if you pay your balance in full each month, getting too near to your credit limit can be a flag to potential lenders.

5. Check your credit reports at least once each year

Keep an eye on your credit reports. This will help you catch and correct potentially costly errors such as fraudulent accounts you don't recognize, loans you've paid off but still show up as "open," and any incorrect personal information such as your address, employer, or marital status.

6. Take advantage of technology and tools to avoid credit pitfalls

Many credit card companies and banks offer free, easy-to-use tools help keep you in control of your accounts. These can include

- Online, mobile and phone access to your account, and bill payment options
- Statement alerts by text, e-mail, or phone
- Instant, free transfers to and from your other accounts
- Free transfers to your account from most other banks and brokerage firms