Your Credit Score

Credit Scores were developed by the Fair Isaac Corporation (FICO) and are commonly called FICO scores. The idea behind FICO is to look at all factors that might affect a borrower's ability to repay a loan and come up with a number to represent it.

FICO scores range from 300 to 850; the higher the better the score. Each credit bureau, TransUnion, Experian and Equifax, uses their own information and FICO's system to develop their own credit score. Your credit score with each bureau may vary by as much as 50 points.

You probably know that you can receive a free credit report every year from the three major credit bureaus. The only federally authorized site to get your free credit report is www.creditreport.com . However, this free credit report does not include your credit score. Credit scores are available for purchase from http://www.myfico.com/ for $15.95.

If you would like to estimate how your credit score stacks up, take this handy quiz developed by FICO.

1. How long ago did you open your first credit account?
   a. 6 months to 5 years — 5 points
   b. 5 to 20 years — 8 points
   c. More than 20 years — 10 points
2. How many loans or credit cards have you applied for in the past year?
   a. 0 - 2 — 10 points
   b. 3 – 6 — 5 points
   c. 7 or more — 1 point
3. What is your total credit card balance?
   a. I have no credit cards — 5 points
   b. $0 - $999 — 10 points
   c. $1,000 - $4,999 — 6 points
   d. $5,000 - $19,999 — 3 points
   e. $20,000 or more — 1 point
4. When did you last miss a loan or credit card payment?
   a. Never — 10 points
   b. Within the last year — 1 point
   c. One to four years ago — 3 points
   d. More than four years ago — 5 points
5. Have you gone through any of the following in the past ten years? Bankruptcy, tax lien, foreclosure, repossession or contact by a collection agency?
   a. Yes — 1 point
   b. No — 10 points

How did you score?

35 – 50 points Good. You should be able to get the best rates available on a loan.

20 – 34 points Fair. You can get loans, but may have to pay higher interest rates.

5 – 19 points Poor. You can get credit cards, but may have trouble getting an auto or home loan.

How to Improve Your Credit Score

Check your credit report at all three bureaus, Experian, TransUnion and Equifax. You get one free report from each every year, so request a report from a different bureau every four months.

Check the report for mistakes in data; social security number, birth date, addresses. Some studies suggest that over 70% of credit reports contain some kind of error. Report any errors to the bureau that generated the report.

Report timing can be important. If a recent report does not show that a credit card balance has been repaid, it can affect a current loan application. In such cases, ask the loan officer to get a "rapid rescore" to get the latest report and score.

Payment History accounts for 35% of your credit score. Where possible, set up automatic payments to make sure you never miss one.

Total debt accounts for 30% of your credit score. This is figured as a ratio between your current balance to the total amount you could borrow. The best strategy is to keep this ratio as low as possible; the people with the best credit scores use no more than 9% of their available credit.

Duration accounts for 15% of your credit score. Avoid opening new accounts and make use of older ones, if possible. To avoid having a card cancelled from lack of use, set up an automatic payment for a utility or service.

New credit requests account for 10% of your credit score. If you anticipate taking out a number of new loans or credit cards, try to do it in the same 45 day period so they count as a single inquiry.

The types of credit can affect your score by 10%. If you can, when given the choice between a major credit card or a department store card, choose the major credit card.