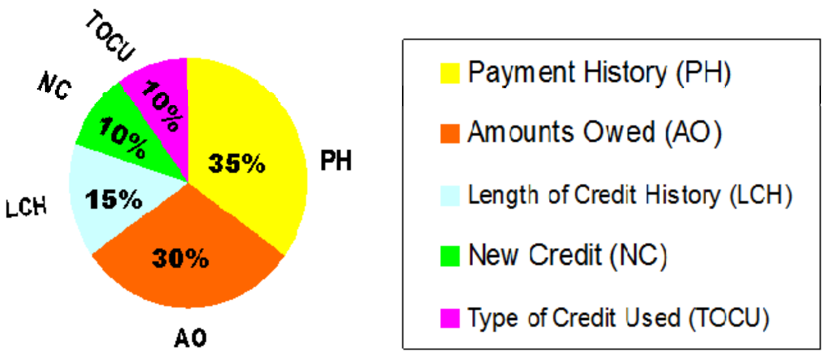
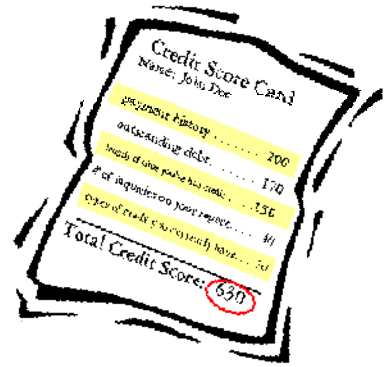
Know Your Score

Many people have heard about credit scores, however, are unclear of what is in the score, how to improve a credit score and how it helps you financially. The information calculated in a credit score comes from 5 different areas: payment history; amounts owed; length of credit history; and types of credit used.

How do each of these factors fit into a score?





The percentages are based on the importance of the five categories for the general population. Depending on your personal length of credit usage, depends on the overall decision.

1. Payment History - *What is your record of payments?* 35% approximately.

Lenders want to know whether you have paid your credit accounts on time. This is also one of the most important factors in a credit score.

Late payments are not an automatic "score killer." An overall good credit picture can override one or two instances of a late credit and payment. Having no late payments in your credit report doesn't mean you will get a "perfect score."

Some 60% - 65% of credit reports show no late payments at all. The payment history is just one component.

What is considered:

- Payment information on many types of accounts (credit cards, retail accounts, finance company accounts, mortgage and installment loans.)
- Public record information such as bankruptcy, judgments, suits, wage attachments, liens, collection items and for delinquency (past due items.)
- Amount past due on delinquent accounts or collections items.
- Time since past due items, adverse public records (if any) or collection items (if any).
- Number of past due items on file.
- Number of accounts paid as agreed.

2. Amounts Owed - *How much is too much?* 30% approximately.

Yes, it is ok to owe money on your accounts. It does not mean you are a high risk borrower with a low score. However, owing a great deal of money on many accounts may indicate to a creditor that a person could be overextended, and have a greater chance of being late or not make a payment at all. Part of the scoring process is to determine how much is <u>too</u> much.

What is taken into account:

- Amount owed on all accounts.
- Amount owing on specific types of accounts, such as credit cards and installment loans.
- Lack of a specific type of balance on certain accounts - having a small balance without missing a payment shows you manage credit responsibly. On the other hand, closing unused credit accounts show zero balances and that are in good standing will not raise your score.
- The number of accounts you have with a balance.
- Total credit line being used on credit cards and other credit accounts.
- Installment loan account balance in relation to the original loan amount. Being able to pay off installment loans is a good sign that a person is able and willing to manage and repay debt.

3. Length of credit history - *Are you established users?* 15% approximately.

In general, a longer credit history will increase your score. However, you could have a high score with a short credit history, depending on the remainder of the credit report looks.

- How long your credit accounts have been established.
- How long specific credit accounts have been established.
- How long it has been since certain accounts have been used.

4. New Credit - *How much debt are you taking on?* 10% approximately.

If you are shopping for a new rate versus many that is distinguished in the scoring. However, research has shown that if you open several credit accounts in a short period of time, it does represent a greater risk. This is especially true for people who do not have a long history of established credit.

What is considered in the scoring:

- How many new accounts have been opened.
- How long it has been since you opened a new account.
- How many credit inquiries have been made into your account.
- The length of time since a credit inquiry (s) was made.
- How your credit history looks following past payment problems. Are you able to re-establish on time payments after a period of late payments?

5. Types of credit used - *Are you diversified?* 10% approximately.

The score looks at:

- How many accounts you have along with how they vary.

Your score is very important to your personal financial security. Having a good score is encouraging when new credit is applied for. Your score is based on a combination of factors - not one piece of information will determine your score. Also, your score is determined by what the credit reporting agencies have collected on your credit report. A lender may still look at additional factors such as your income from your present job and the kind of credit you are requesting.

Ways to improve your score:

- Pay your bills on time.
- Pay down your debt - steadily.
- If you have missed a payment or two, get current and stay current.
- Check your credit reports and correct any inaccurate items.
- Be aware that paying off a collection account or closing an account on which you previously missed a payment, will not remove it from your credit report.
- Limit how frequently you apply for new credit.
- Don't close unused credit cards as a short term strategy to raise your score. Close the wrong one and it can shorten your credit history.
- Do your rate shopping for a given auto or mortgage loan within a focused period of time.
- Apply for and open new credit accounts, only as needed. Do not open accounts to create diversity.

References:

Kelly, N., The ABC's of Credit Scoring

"Understanding Your Credit Score", University Credit Union, Maine

"What's In Your Credit Score", FICO