

What Makes up a Credit Score?

FICO scores are based on specific credit history, with hundreds of inputs used to find your score. There are 5 main parts of your credit score.

Payment History : 35% of your credit score

Payment history measures how you've paid on your debts. Payment history is the largest part of your credit score because if you've recently missed payments your creditors, it's likely those missed payments will continue, and may lead to default. Payment history also measures how "severe" a missed payment has been. An item in collection is worse than an item paid 30 days late.

Tips to improve : Make payments on time, all the time — even items in dispute. Pay the bill and worry about refunds later.

Amounts Owed : 30% of your credit score

Amounts owed measures how "maxed out" you are. Amounts owed is the second-largest part of your credit score because a person that is maxed out has no safety valve in the event of a crisis. Amounts owed is not about the dollar amount you're borrowing — it's about the dollar amount you're borrowing relative to the amount available to you.

Tips to improve : Don't close out "old" credit cards, and don't lower your available credit limits. Having access to credit is good.

Quick Tips

✓ Keep Clear Of Credit Limits

Carrying a \$500 balance on a \$500-limit credit card is bad for your FICO. You're "maxed out". Carrying \$500 on a \$5,000-limit credit card, however, is *good* for FICO. You're far from your limit. Keep balance ratios under 30% for best results.

✓ Resist "Cash Register" Offers

Many retail stores offer discounts for "opening up a store charge card". The discounts are tempting, ranging up to 25% of your purchase price. To receive your discount, however, you'll be subject to a credit inquiry for a charge card that will be nearly maxed-out from the outset. These are each negative forces on your FICO. If you're buying a home sometime soon, you may save more money by passing on the in-store offer.



Credit History Length: 15% of your credit score

Your credit history is your track record with respect to managing credit. Credit history matters in the FICO model because "experienced users of credit" are viewed differently from new users of credit. Similar to the hiring process for a job, the credit bureaus want to see this isn't your first experience.

Tips to improve : Don't close cards with "history". You need them to show you're experienced with credit.

Tip:

Don't close "old", no-fee credit cards when you're done with them. Instead, use them periodically, and pay your balances in full. This builds credit history and credit length.

New Credit : 10% of your credit score

This category accounts for your recent attempts to secure new credit. In general, the more credit for which you've applied, the more damage it will do to your credit score. This is more true for credit cards than for mortgage applications. A consumer in search of new credit cards is presumed to "need" more credit lines.

Tips to improve : When you shop for a mortgage, multiple credit checks can count as a single credit inquiry, protecting your credit score.

Types of Credit : 10% of your credit score

The type of credit you carry matters and not all credit types are the same. Installment loans such as mortgage loans and student loans, for example, are considered "better" than credit cards and charge cards. This is because installment loans eventually pay down to zero. Consumer cards, by contrast, can only go up.

Tips to improve : Don't carry an abundance of store charge cards. Interest rates are high and the FICO model looks unfavorably upon them.