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The Key To Understanding Your FICO Score

Why do we have FICO Scores, anyway?

The FICO Score program was set up to answer this question: What's the likelihood this person will have a 90-day late payment in the next 24 months? Score range is 300-850.

Six things you need to know about your Score

1. Ratios for how credit is judged: Here's a breakdown of how they determine your FICO Score:

- *35% by your payment history*
- *30% by your balances*
- *15% by your credit history*
- *10% by the type of credit you hold*
- *10% by the inquiries on your report*

How you pay your bills and how much you keep on credit is crucial to building and maintaining a good score. It's important that you handle your credit responsibly, have a plan for paying your bills on time and keep your credit card balances low. Now, let's talk about how these items determine your score…

2. Payment History: Three factors are considered here: **How recent? How frequent? How severe?**

If a late payment happened 0-6 months ago, the score is hit the hardest. On the 7th month after the late payment, the score starts a slow recovery process that can take 24 months or longer!

On the positive side, the longer you have open accounts with good payment history in your credit profile, the better your score will be. Don't close those old accounts! If you have to close an account, pay or transfer the balance first.

3. Credit Balances: The **"How leveraged are you?"** ratio. If you have a credit card with a $10,000 limit, your score suffers if you carry a balance above 75% of that limit. 50% is bad too, but not as much. The **magic number** is **30%** or less. Keep this in mind, too: the computer doesn't do this per credit card, but for **all open revolving credit cards** on your report. All the limits are added together and divided by the balances to get your ratios. So it's better to have 3-5 revolving credit cards open with high limits on your report than just 1 or 2.

By the way, **it is actually better to have a small balance on your cards reported to the 3 credit bureaus than a zero balance**. What! Carry a balance and pay finance charges to have a better score? No, here's the deal: the computer doesn't have a memory about these things, and if a card always has a zero balance, it won't always report the positive record to the bureaus. Try this: charge some things on the 3-5 cards you already have open (key phrase: **already** open). Then, make sure your payment arrives near the due date. It is my experience that credit card companies will report your payment information to the bureaus **before** your payment due date. This way, the 3 bureaus get a record of your good payment
history, and you pay your balance in full with no finance charges. After 2 months of doing this, you score should be a bit higher (Please contact me for a more detailed explanation).

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4. Credit History: Make sure all your accounts are in good standing, and remember, with revolving accounts, older is better. Any time you apply for a new account, your score will drop for one of these reasons:

- You have no payment history for it;
- You transferred a balance to another card, hitting the new card's high limit;
- You have no history with this account, and they had to make an inquiry to qualify you;

Planning is key when opening new accounts. Please call me, and we will find the most effective time-line for opening a new account.

5. Type of Credit Held: Credit analysts have found that people with finance company installment accounts (e.g., Rooms 2 Go), or who rent-to-own are most likely to have a 90 day late payment in the next 24 months. I fear even mentioning this since several of my friends work in these industries (sorry guys!).

I'm not saying that you should avoid renting-to-own or that you should not take advantage of great deals, like 2 years with no interest payments. Just keep in mind how these deals may impact your score if you're planning a significant purchase. (This factor only affects 10% of your credit score, so it has a lower impact on your score.)

6. Inquiries on Your Report: Your report is judged by inquiries made in the last 12 months. You're allowed about 5 to 7 inquiries in that period, depending on your credit score range. Strong credit history? You can have around 7 inquiries without negatively impacting your score much. With weak credit history, you get less "free inquiries". There are two types of Inquiries:
Self-Requested inquiries occur when you apply for credit. These can lower your score each inquiry.

Credit Offer inquiries occur when companies evaluate you for credit offers. They do this before they mail you those wonderful pre-approved letters. These do not impact your score.

Why does your score drop when you have a lot of inquiries within a short timeframe? The computer is worried that you will soon take on too much debt. By lowering your Credit Score, it believes it is helping you—you'll be turned down for the credit you wanted until your Score recovers. Neat, huh?

About Me, The Writer

As a top-producing mortgage planner in Frisco, I've had the pleasure of assisting more than 70+ families each year in buying or refinancing their personal slice of the American Dream. My experience working with people just like you to help them secure their financing objectives has provided me a great sense of fulfillment. I love helping people reach their goals. I'm ready to bring my enthusiasm and experience to the mission of helping you with yours.

Find out more at: www.GetTheFicoFacts.com

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