Your Credit Score

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Even if you are no longer in school you are still being graded. Your grade, also known as a credit score, determines the interest rate you will pay for borrowing money. Your credit score can also affect how much money you pay for car or homeowners insurance, where you can rent an apartment or open a bank account, and could also affect your ability to be hired for some types of jobs.

When someone refers to your credit score they are referring to your FICO score. FICO scores were developed by Fair Isaac Corporation. Each of the three major credit reporting agencies (Equifax, TransUnion, & Experian) uses a different FICO score. So you actually have three FICO scores. According to Fair Isaac they try to make the different scores as consistent as possible. They say differences in scores occur if the credit reporting agencies have collected and stored different information in your credit file. Credit scores range from 300 - 850. Scores of 720 or better are considered very good and scores below 600 not so good.

The following are the five major factors that affect your credit score and how much weight each carries:

Payment history – about 35% of a FICO score. Obviously, paying bills on time is a good way to boost your credit score. If you have fallen behind on payments try to catch up and start paying on time. The longer you pay your bills on time, the better your score.

Amounts owed on loans – about 30% of a FICO score. Owing a great deal of money on many accounts is not a good idea. Carrying a balance of 50% or more of your credit limit on credit cards or having high outstanding balances on installments loans can hurt your score. In order to boost your score try to pay off debt instead of moving it around.

Length of credit history – about 15% of a FICO score. A longer credit history will help your score. If you have been managing credit for a short period of time don't open a lot of new accounts too quickly. Rapid account buildup can make you look risky if you are a new credit user.

New credit – about 10% of a FICO score. Opening up too many credit accounts in a short period of time can hurt your score. FICO scores can tell the difference between a search for a single loan and a search for many new credit lines. If you are shopping for a loan, do your rate shopping within a focused period of time, such as 30 days, to avoid lowering your score. Checking your credit report yourself will not hurt your credit score.

Types of credit in use- about 10% of your FICO score. A history of timely payments on different types of loans such as credit cards and installment loans will help boost your score. However, it is not a good idea to open credit accounts just to have different types of credit. You should only apply for accounts that you need and avoid having too many open lines of credit.

As discussed earlier, when shopping for a loan or insurance it is likely that the company will look at your credit score. You should always ask what affect your score had on your rate. You can also order your three credit scores from Fair Isaac, www.myfico.com or the three major credit reporting agencies.

Source:
Fair Isaac Corporation, www.myfico.com