



How Is Your Credit Score?

FICO* Score
*Fair Isaac Co.

The FICO score, invented in 1968, has in a very short time become the single most important indicator used by lenders to predict whether you will repay your debt. The company used to cloak the score in secrecy, but in recent years it has become quite open about its' prized possession.

The score, it says, is largely based on just two factors: **history of paying off debt and "credit utilization"** or the amount of debt you have in relation to your credit limits. Fair Isaac measures this, along with three other factors, applies an algorithm to compare that data with the payment patterns of millions of other Americans and generates the FICO score.

Any number below 500 and you are a financial pariah. Get above 750 where 40 percent of Americans are, and the credit card companies will never stop plying you with offers.

The credit score is determined by five factors, some weighted more than others. If your score is anywhere above 700, do not sweat it. *Keep doing what you are doing.*

For everyone else, here's where to apply a little discipline so you look less like a credit risk:

PAYMENT HISTORY (35 PERCENT) Pay your bills on time. The longer you do that, the faster your score goes up. It is that simple.

AMOUNTS OWED (30 PERCENT) If you have balances, start paying them down to zero starting with the cards carrying the highest interest rate. Consolidating debts onto one card can lower your score because a high ratio of debt to your credit limit, what the industry calls "credit utilization," looks like you are about tapped out.

LENGTH OF CREDIT HISTORY (15 PERCENT) This category trips up people who think they are improving their score by tearing up their credit cards. Do not close any accounts.

It does not hurt to let them sit there, because the longer you have accounts open – assuming you pay on time – the better your score gets.

NEW CREDIT (10 PERCENT) Ignore the come-ons from stores offering a discount if you open a charge account. Taking out more credit makes you look short of cash. But do not worry about shopping around for a loan. Inquiries from potential lenders hitting credit bureaus within a 30-day period aren't harmful.

TYPES OF CREDIT USED (10 PERCENT) Crazy as it sounds, if you have some debt you look better than someone who has none. So do use a credit card. If you have some small amount of installment debt – as dumb as that is to do – it can help to raise your score a bit.

Damon Darlin, New York Times – August 27, 2005