

# Credit Scores: Making them work for you!

Courtesy of American Financial Solutions



A credit score is a complex mathematical model that evaluates many types of information in a credit file to help lenders estimate the risk they incur by lending someone money or providing them with a service like. Lenders use the credit score to determine whether a person qualifies for a loan, credit card or service and to determine the rates. Generally, the higher the score, the less risk the person represents and the better rates they will receive.

At this time, Experian, Equifax, or TransUnion will provide you with a credit score for nominal fee. Consider purchasing your credit scores if you are planning a major purchase, such as a house or car. The bank or mortgage company you choose will determine your interest rate depending on how your credit score.

Items not included in your credit score include;

- Your race, ethnic status or marital status.
- Your age.
- Your income.
- The interest rate you are paying on a credit card.

Here is what does makes up your credit score;

1. 35% Payment History
2. 30% Amounts Owed
3. 15% Length of Credit History
4. 10% New Credit
5. 10% Types of Credit Used

Payment history has the biggest impact on your score. Paying bills on time is critical to maintaining good credit. If you cannot pay a bill on time, contact the lender and set-up a plan to get caught up as soon as possible.

The second biggest influence on your score is how much you owe on your accounts. On debt like credit and store cards, the maximum balance owing should be 30% - 50% or less of the available credit limit. For example, if your credit card has a limit of \$1,000, the highest balance you should carry on that card is \$500. Any higher and you run the risk of damaging your score.

Length of your credit history and new types of credit refer to how long you have had accounts open or how long it has been since you opened new accounts. These categories also take into account how long the specific type of account has been open. Opening numerous accounts at the same time may appear risky and may reflect negatively in your score. Having an account on your credit report that shows a long history of on-time repayments benefits your score. The last piece of the score looks at the different types of credit you use. Having a mix of types of credit such as installment loans, credit or store cards, mortgage, and auto loans can be important in showing your ability to handle debt.

Creating and maintaining good credit is a balancing act. Your score reflects only the information found in your credit report, so it is important to check the information in your reports at least once a year through <http://www.annualcreditreport.com/> or by phone 1-877-322-8228. For more help understanding your credit score or credit report, contact an accredited credit counselor at 1-888-282-5899 or <http://www.myfinancialgoals.org/>. You can also access additional FICO score information at [www.myfico.com](http://www.myfico.com).