

Factors That Affect Your Credit Score

Written by Cary P. Yates
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If you've ever applied for a loan, chances are your lender has brought up the subject of your credit score. Many lenders use a FICO® score – a numeric calculation of your credit report calculated by Fair Isaac Corporation – to obtain a fast objective measure of your credit risk. By understanding the factors that can help or hurt your score, you'll have a better understanding of how lenders view you as a credit risk – and how you can improve your score.

Five factors determine your FICO score. The levels of importance shown below are for the general population, and will be different for each individual.

Your payment history: What is your track record? (Approximately 35 percent of your score) The most significant impact on your score is whether you have paid past accounts in a timely manner (on or before the payment was due). However, an overall good credit profile can outweigh a few late payments, and late payments have less impact over time.

Amounts that you owe: How much is too much? (30 percent) Part of the science of credit scoring is determining how much debt is too much. In some cases, having a very small balance without missing payments shows you've managed credit responsibly, and may be slightly better than having no balance at all. While you don't want to have too many accounts open, it's good to have more than one so that you're not using too much of one account's available credit limit. Owing a lot of money on numerous accounts suggest to lenders that you may be overextended and more likely to make late payments – or make no payments at all.

Length of your credit history: How establish is it? (15 percent) In general, a more seasoned

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credit history will increase your FICO score. Lenders want to see that you can responsibly manage your credit accounts over time. However, even those people who have not used credit for an extended period of time may get high scores, depending on how the other information in their credit report appears.

New credit: Are you taking on more debt? (10 percent) Opening several credit accounts in a short period of time can represent a greater risk, especially for those with newer credit histories. According to Fair Isaac Corporation, FICO scores try to distinguish between an attempt to obtain many new credit accounts and an attempt to obtain the best interest rate. FICO scores generally do not associate higher risk with shopping for the best interest rate.

Types of credit in use: Is it a “healthy” mix? (10 percent) Your FICO score will reflect your mix of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans, etc. While a healthy mix will improve your score, it's not necessary to have one of each, and it's not a good idea to open accounts you don't intend to use.

Lenders look at many factors when making a credit decision, including your income, employment history, and the kind of credit you're requesting. Yet none of these factors are included in your FICO score. When a lender receives your FICO score, up to four “score reason codes” are also delivered. If the lender rejects your request for credit, and your FICO score was part of the reason, these score reasons can help you identify why your score wasn't higher.

These score reasons are more useful than the score itself in helping you determine whether your credit report might contain errors, and how you can improve your score over time. However, if you already have a high score (for example, in the mid-700s or higher) some of the reasons may not be very helpful, as they may be marginal factors related to length of credit history, new credit, and types of credit in use.

Before you apply for a loan or credit, obtain a free copy of your credit report from one of the three major credit bureaus – Experian, Equifax and Trans Union – and resolve issues or mistakes on the report before you begin the search for the home or car of your dream. To receive your free credit report online, go to www.annualcreditreport.com, which is the only authorized source for consumers to access their annual credit report online for free. Or you can call (877) 322-8228. Or—you can visit your local Wells Fargo Community Banking store and a banker will walk you through receiving a free credit score today.

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