

## Understanding More about Your Credit Report

### How is the credit score determined?

There are five major factors that go into determining a credit score and each percentage is weighted according to importance<sup>1</sup>

- 35% = Payment History
- 30% = Amounts Owed/Balances Carried
- 15% = Length of Credit History
- 10% = Mix of Accounts/Types of Credit Used
- 10% = Inquiries/New Credit

### Payment History: 35%

Your payment history is the most important factor reviewed when determining your credit score. A good payment history shows that debts have been paid as agreed and on-time. The most recent six months is the time period most carefully scrutinized. Therefore, a poor payment history in the past, followed by a recent and consistent demonstration of responsible use of credit will help to rebuild a good credit history and will help to improve your credit score. The highest weight tends to be on the item with the highest payment history; typically, if you have one, this is a mortgage.

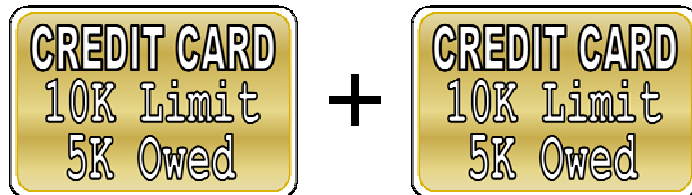
### Balances Carried/Amounts Owed: 30%

What you carry for credit balances is important, but it is also judged against how much credit is available to you on that line of credit. The best thing to do is to keep credit card balances as low as possible. From there, review what your outstanding balance is vs. the credit available on that line. Are you maxed-out or close to it? This can impact your credit score negatively.

But, assuming a good payment history, consider this. . .



- Total limit is 10K
- Total debt is 10K
- Line is maxed out
- More of a negative impact on score



- Total limit is 20K
- Total debt is 10K
- Total debt is the same, but lines are not maxed out
- Less of a negative impact on score

This is more of a factor with revolving debt, such as credit cards. Installment debt, as in a mortgage or car loan, is less of a factor because the line is always being paid down, with the amount owed decreasing.

### Length of Credit History: 15%

The length of your credit history is important because it shows your established payment habits (good and bad). A long credit history can result in a higher score and if it is paid as agreed, it is likely to impact the credit score positively. Open lines of credit with a long, positive history and NO balances tend to impact a credit score even more positively. What does this mean? Contrary to the advice of years ago, if you have credit lines no longer in use, but they have a long, established history of good payment, keep them open. They're probably giving you a better credit score and closing them could result in a negative impact on your score.

### Mix of Accounts & Types of Credit Used: 10%

It is ideal to have a mix of both installment and revolving credit. Having a mix demonstrates your ability to pay, as agreed, on different types of terms.

With installment credit, you have a set loan amount and you pay back a specified amount over a specified period of time and the balance owed decreases. Examples of this are mortgages, car loans, and student loans.

Revolving credit involves a line of credit which is available to you. As you pay down your balance owed, that money becomes available to you again as credit. An example of this is a credit card.

A good mix may be a mortgage, an auto loan, and 3-5 credit cards.

Something to note—a Home Equity Line of Credit with a balance below \$40K may report as a revolving account, rather than as a mortgage.

### **Inquiries & New Credit: 10%**

Because consumers often shop around for their best options for things like mortgages and auto loans, there may be several credit inquiries within a short period of time. To prevent multiple negative hits to the credit score for so many inquiries, multiple reports pulled for a mortgage (or auto loan) within a 45 day period will impact the credit score as if there had been only one inquiry. (One inquiry averages about five negative points.) Also, only the first ten inquiries count each year; after ten, they should not impact the credit score.

But what about all of those inquiries which are not initiated by you, the consumer? Fortunately, there are several types of inquiries which do not impact the credit score. They include job-related, insurance, utility, promotional (pre-approved credit card offers), and account review inquiries. Additionally, you are entitled to obtain a personal copy of your credit report each year, with no impact to your score. The authorized provider is [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com).

### **Can repairs be made?**

Yes, they can! Errors in credit reporting are, unfortunately, more common than any of us would like. And they can hurt your credit score. For this reason, it is good practice to request your free credit report each year and review it carefully. If you see errors, it is essential that you take the proper steps to correct them; it may take some time and effort and it's much better to be proactive than to have to do it when you are applying for credit.

Inaccurate information on your credit report can be repaired. You may need to provide supporting documentation and, sometimes, it can take some time. But it's a worthwhile investment of your time; blemished credit can be quite costly, resulting in higher interest rates on mortgages, auto loans, credit cards, and more.

Information that is accurate, but negative, can be repaired only with the passage of time and demonstration of consistent, good, responsible use of credit. Be wary of companies that promise to “repair” your credit—many actually make it worse!

### **Can you take steps, on your own, to improve your score?**

Yes! If you have had problems in the past, the first step is to establish good habits for use of credit and repayment. Before you use credit, think about how and when you'll be able to repay it. Then find a payment system that works for you, whether it is sitting down once or twice a month to pay all of your bills or getting e-mail or calendar alerts—whatever works for you to ensure that all payments are made as agreed.

Pay any past due accounts. What does “past due” mean? If it's one day late, it is past due. (Judgments and collections are a different category altogether and may have specific terms, unique to the consumer and the situation.)

Get rid of late payments by calling the creditor and request that they are removed. Be sure to get every detail in writing. Note that, if you have some recent blemishes on the account, they may not be willing to do this for you.

Request credit limit increases, based on your credit history, every six months. Remember, a low balance relative to a high limit is a good thing. If temptation is too great, though, and you cannot manage this without running up your balances, this may not be a good option for you. Also, ask if a credit report will be pulled. If it will be, don't proceed as the impact to your score might not outweigh the benefit.

Keep old accounts with a good history active by using them periodically and paying them off immediately so you do not carry a balance. No balance on an account with an excellent history works to your advantage!

<sup>1</sup> What's In Your FICO Score. (n.d.). Retrieved from <http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx>