

Nine Ways to Improve Your FICO Credit Score and Four Reasons Why You Want To

A Poor Score Costs You More

Everywhere you turn you hear and read about FICO credit scores. Are they really that important if you're not in the market for a loan or credit card? The answer is yes. Four good reasons why you need a good credit score: It determines

1. Whether you'll be approved for credit for mortgages, car loans, installment loans, and credit cards
2. What interest rate you'll get on those loans
3. The cost of your homeowners and car insurance
4. In some cases, whether you get that job offer you've been hoping for

HOW CAN I IMPROVE MY FICO CREDIT SCORE?

With information about what goes into the calculation of your credit score, you can develop your own plan for improving your score. Here are nine ways you can use:

1. Order a copy of your credit report. Review it carefully. Correct any errors.
2. Pay your bills on time.
3. Don't open a lot of new accounts over a short time period, especially if you have a short credit history.
4. Shop for credit over a short period of time. FICO scores distinguish between searching for credit for a specific loan (rate shopping) and searching for lots of different credit lines.
5. If you have a questionable credit history, open a few new credit accounts, use them responsibly, and pay them off on time.
6. Don't open credit accounts you don't intend to use.
7. A credit card or installment loan can raise your score as long as you don't have too high a balance and you pay it off in a timely manner.
8. Keep your balance low in relation to your available credit. If your credit limit is \$10,000, keeping your balance below \$4,500 (45%) will improve your score.
9. Pay off credit card debt rather than move it around to lower rate cards. Moving balances to other credit cards and closing out the old account can hurt your score because it can change the ratio of your total credit card balances to your total available credit lines.

HOW LONG WILL IT TAKE TO IMPROVE MY FICO CREDIT SCORE?

Negative items affect your credit score much quicker than positive items. Late payments can negatively affect your score in just a few months (30-50 points), whereas paying bills on time may take 6 to 12 months to generate a significant improvement in your score.

Types of Credit in Use: 10%--Considers the number of credit accounts and the mix of credit types: credit cards, installment loans, mortgages, and is most important if you don't have a very long credit history.

Payment History: 35%--Takes into account (1) many different types of payments, including mortgages, major credit cards, department store credit cards, car loans, other installment loans such as for furniture, etc., (2) information from public

records, such as bankruptcies, liens, lawsuits, foreclosures, judgments, and wage garnishments, (3) details of any missed or late payments, such as the amount, how long ago it occurred, how late it was.

Amounts Owed: 30%-- (1) The total of all the amounts you owe for all accounts, (2) the mix of amounts owed (credit cards versus installment loans, for example), (3) the number of accounts that have balances, (4) how much of your total credit available on credit cards and installment loans you're using (the closer you are to maxing out your available credit, the more negative the impact on your score), and (5) how much of the original balance borrowed you still owe on installment loans, like your car loan.

Length of Credit History: 15%--As long as you don't have negative information in your file, the longer your credit history, the higher your score.

New Credit: 10%-- (1) How many new credit accounts you've opened recently, (2) how long it's been since you opened a new credit account, (3) how many requests you've made for credit recently, (4) how long it's been since lenders have requested credit information on you, and (5) how good your recent credit history has been.

Credit Score Rating Scale

	FICO SCORE	VANTAGE SCORE*
Excellent	720-850	901-990
Good	700-719	801-900
Fair	620-699	701-800
Bad	350-619	501-700

*VANTAGE Score developed by Experian, Equifax and Transunion, also based on the 5 listed discriminators

IDENTITY THEFT: Each year, millions of Americans have their identity stolen. While there are no guarantees about avoiding identity theft, it's important for you to. Practice the three Ds:

DETER identity thieves by safeguarding your information.

DETECT suspicious activity by routinely monitoring your financial accounts and billing statements and credit reports.

DEFEND against ID theft as soon as you suspect a problem.

Read the Federal Trade Commission's [Fighting Back Against Identity Theft](#)

Sources: <http://financialplan.about.com/od/creditreportsandscores/a/ImproveFICO.htm>

www.myfico.com

www.saveandinvest.org

www.ftc.gov