

## The FICO Score

What is a FICO score? You may have heard the term, but do you really know what it is?

A FICO score is commonly used throughout the lending industry to quickly identify whether a potential applicant is creditworthy. So when you apply for a credit card, mortgage, or a bank loan, the creditor will check both your credit report and your FICO score. The initials are derived from the scoring system developed by Fair Isaac and Co.

Your FICO score is calculated using several different variables that can be grouped into five categories. Each category makes up a percentage of your score. Below are the FICO score categories:

**Payment History:** 35% of your score. Lenders want to know your past track record with other loans and credit.

**Amounts Owed:** 30% of your score. Depending on the amounts owed, it can mean the consumer is overextended. This factor determines if you can currently manage more credit responsibly.

**Length of Credit History:** 15% of your score. A longer, positive, credit history will increase your score.

**New Credit:** 10% of your score. Opening several new accounts, or having many inquiries into your credit history in a short period of time, will affect your chances of qualifying for credit.

**What Types of Credit You Use:** 10% of your score. This factor takes into consideration the mix of credit cards, loans, finance accounts and mortgages you have.

This information is averaged into a three-digit number. These scores can range from 300 to 850. As you can imagine, a high score will allow you to get a better interest rate than if you had a low score. A low FICO score can actually prevent you from qualifying for credit.

You can check your score by ordering your credit reports from the three main credit reporting bureaus, TransUnion, Experian and Equifax. Under the Fair and Accurate Credit Transactions Act, each consumer is entitled to one free credit report a year from each of the three major credit reporting agencies. For information on how to obtain your report call, 877-322-8228. Be sure to request the score with the report.

If you find yourself with a low score, there are ways you can improve it. Pay your bills on time and keep your balances low on your credit cards. It's best if your credit balance is 25% or less of your credit limit. Don't apply for more credit than you need. Excessive inquiries on your credit report can lower your score. (An inquiry basically shows that a creditor or potential creditor ran your credit report). Also, too many open accounts on your credit report can be viewed as a credit risk to potential lenders.

For more information about FICO scores, visit <http://www.myfico.com>.

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### About the Author

Deborah McNaughton is an author and credit expert. She is founder of Financial Victory Institute, which specializes in financial education. Deborah has programs to train individuals to become credit consultants and teach financial seminars. Visit <http://www.financialvictory.com> or call 714-993-1171.