



## Turning the Corner on Credit

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Your 3-digit “FICO” credit score is one of most important measures of your financial health. But what determines your score and how can you improve it?

The Fair Isaac Corporation looks at information in your credit report and calculates your FICO score using a proprietary formula. Your score is commonly used by creditors to determine your overall credit risk when it comes to things like applying for a mortgage or car loan.

Each major credit bureau in the U.S. (Experian, TransUnion and Equifax) uses Fair Isaac’s technology to calculate a FICO score for any borrower. The better your credit score, the more likely you are to have your loan approved and receive more favorable interest rates. A score of 720 or higher is generally considered “excellent credit” by lenders.

### **The Five Factors of FICO:**

To create your credit score, FICO looks at these five factors and weighs them by a certain percentage. If you’re trying to improve your FICO score, focus on one or more of these areas.

#### **Payment history: 35%**

This component of your FICO score is the most heavily weighted. The best way to manage it is simple – pay your bills on time and get current on any past due accounts. If you can’t, don’t hesitate to talk to your lender and work something out.

#### **Amounts owed: 30%**

Since this component is also more highly weighted, it’s important to keep your credit card balances low as a percentage of your credit limit. Generally speaking, a balance of 30% or lower is considered best. For a card with a \$10,000 limit, make sure any balance you have is no more than \$3,000.

#### **Length of credit: 15%**

The longer your track record is of maintaining good credit and paying back loans and credit cards, the better. If you are younger, start building credit as soon as possible. If you are farther along in your financial life, consider keeping current accounts open - even if you currently have a zero balance.

#### **New credit: 10%**

You should avoid opening several new accounts to take advantage of special offers such as airline miles or cash-backs on purchases. Having too much credit capacity can actually make you more of a credit risk.

## **Type of credit: 10%**

Managing a variety of loan types can get you a higher FICO score. Lenders will consider you an experienced borrower if you have, for example, a mortgage, a car loan, a couple credit cards and a student loan. If all you have is credit card debt, you will be considered inexperienced and score lower.

To learn more, please visit the link below:

<https://www.myfico.com/credit-education/what-is-a-fico-score>

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