Like your grade point average, your credit score stays with you the rest of your life.

Source: Your Credit Scores - FICO® and My FICO®

Know Your Credit Score

The credit score is a three-digit number used by lenders to evaluate your creditworthiness or how likely you are to pay your debts. Using these credit scores, lenders determine if you qualify for a loan, what interest rate you will pay, and what credit limit will be set for you. Credit scores are also used to determine your ability to get a car loan, the premium on your auto or homeowners insurance, and even your ability to get a job.

The Fair Isaac Corporation, known as FICO, created the first credit scoring system. Three-fourths of all lenders use FICO scores when considering requests for loan or credit.

How Is My FICO Score Calculated?

The formula used is based on several factors:

- **Payment History (35%)** – This indicates how you have paid your bills in the past.

- **Outstanding Debt (30%)** – This shows how much you owe on your accounts, number of accounts with balances, and how much of your available credit you are using.

- **Length of your Credit History (15%)** – The longer you have credit showing responsible credit management will increase your score.

- **Recent Inquiries on your Report (10%)** – This factor takes into consideration people who are rate shopping for the best mortgage or car loans. The only time shopping really hurts your score is when you have previous recent credit issues, such as late payments or bills sent to collections.

- **Types of Credit in Use (10%)** – The best scores will have a mix of both revolving credit (credit cards) and installment credit (mortgages and car loans). Consumers with a variety of credit accounts are considered to be better credit risks.
What Does the Score Mean?

FICO scores range between 300 and 850. The lower your FICO score, the higher the interest rate you will pay on loans and credit cards. You want your score to be over 620. Credit reporting agencies have their own tools to decide the credit score, but all the scores are developed using similar methods to Fair Isaac. They ensure the most accurate picture of credit risk possible using credit report information.

Your credit score is created from information in your credit report, and it is not part of the report itself. Lenders pay for the service and also support your free annual credit report. As a consumer, you will have to pay to get a copy of your credit score. The cost is about $6.00 from a credit reporting agency.

Below is an example of how interest costs on a loan differ based on your credit score.

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>$1000 loan for 2 years Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>6.165%</td>
<td>$65.33</td>
</tr>
<tr>
<td>700-719</td>
<td>6.290%</td>
<td>$65.26</td>
</tr>
<tr>
<td>675-699</td>
<td>6.828%</td>
<td>$69.71</td>
</tr>
<tr>
<td>620-674</td>
<td>7.978%</td>
<td>$81.79</td>
</tr>
<tr>
<td>560-619</td>
<td>9.980%</td>
<td>$103.34</td>
</tr>
<tr>
<td>500-559</td>
<td>10.695%</td>
<td>$111.16</td>
</tr>
</tbody>
</table>

How Do You Improve Your Credit Score?

1. Know your score in order to know where you stand. The three-digit number is the key to your borrowing power.
2. Check your credit report for accuracy and contact the creditor and credit reporting agency to correct any errors.
3. Review your credit report annually. If you plan to purchase a major item, check your report at least 6 months prior to the purchase to guard against errors and identity theft.
4. Pay your bills on time. If you have missed payments, get current and stay current.
5. Keep balances low on credit cards – below 35% of the limit.
6. Pay off debt rather than moving it between credit cards.
7. Apply for and open new credit accounts only when needed.
8. If you are looking for a loan, do your interest rate shopping within a specific period of time to avoid too many inquiries.

For example, if you are buying a car and go to 4 dealerships in a two-week period, it counts as 1 inquiry instead of 4 inquiries.