

It Helps to Know the Score

Sound Advice from

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If you are like most people, you have several numbers stored in your memory. Some are more critical than others, such as alarm codes, phone numbers, or your spouse's birthday. But, one of the most useful numbers in your life is your credit rating, or more specifically, your FICO score.

A FICO score is a credit score developed by Fair Isaac & Co. There are actually three FICO scores for you computed by data provided by each of the three bureaus: Experian, Trans Union and Equifax.

In simple terms, a high credit score means lower interest rates for you as a borrower. The savings of just one or two interest points can add up to hundreds of thousands of dollars for you over time.

Your credit rating, which can range from the worst possible score of a 300 to a perfect 850, is determined by a number of factors. This data can be grouped into five categories: Payment history, amounts owed, length of credit history, new credit, and type of credit used.

The efficiency of credit scoring has made big improvements in the credit process. These include allowing people to get loans faster, increasing the amount of available credit, lowering the price of credit, and making the decision criteria more objective than subjective.

Using credit scoring, lenders can focus only on the facts related to credit risk, rather than their personal feelings. Factors like your gender, race, religion, nationality and marital status are not considered by credit scoring.

If you have had poor credit performance in the past, credit scoring doesn't let that haunt you forever. Past credit problems fade as time passes and as recent good payment patterns show up on your credit report.

Generally, people with high FICO scores consistently pay bills on time, keep balances low on credit cards, and apply for new credit accounts only as needed. Likewise, delinquent payments can devastate your score. Missing even one payment can knock 50 to 100 points off a good score.

Here are some misconceptions regarding credit scoring:

My FICO score will decrease if I request a copy of my credit report. These types of inquiries may appear on your credit report, but they are not included in your FICO score.

Credit counseling will hurt my credit score. Credit counseling probably won't hurt your credit score. It used to, but a few years ago Fair Isaac discovered that people in

debt-repayment plans were no more likely to default or go bankrupt than other consumers.

Closing my credit card accounts will improve my score. Shutting down credit accounts lowers the total credit available to you and makes any balances you have loom larger in credit score calculations. In addition, if you close your oldest accounts, it can actually shorten the length of your reported credit history and make you seem less credit-worthy.

My FICO score will automatically improve if I pay all my credit card balances off in full each month. Your credit-card issuer takes a look at your account once every month and reports the outstanding balance on that day to the credit bureaus. This snapshot doesn't reflect whether you pay off that balance a few days later or whether you carry it from month to month.

The Fair and Accurate Credit Transactions Act of 2003 entitles you to a free credit report from each major credit bureau once a year. You can order your credit report online from annualcreditreport.com and receive them all within 10 days. For the most detailed explanations on your FICO scores, go to the credit education area at myfico.com.

It's smart to request a report from a different agency every four months so you stagger the reports over a year. That way, if there's bad information in one, you'll spot it sooner.