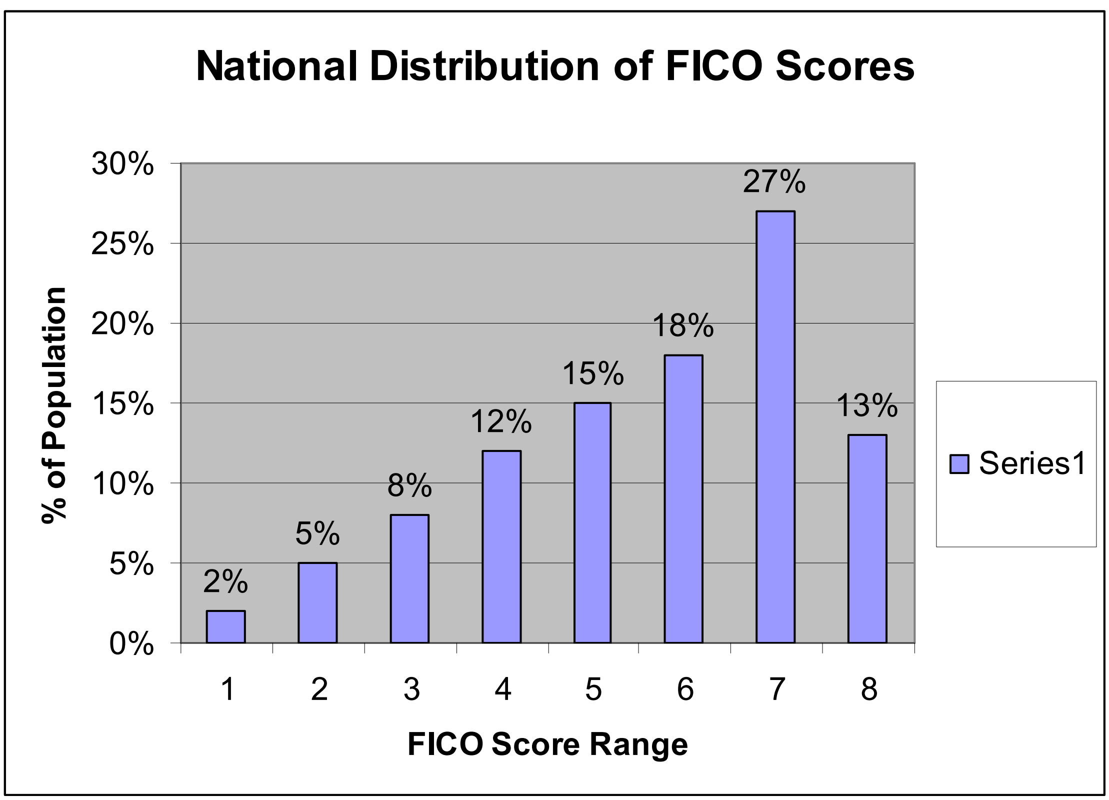
How to improve your FICO Score in perilous times
By Blair Ball

When you're applying for credit—whether it's a credit card, a car loan, a personal loan or a mortgage—lenders want to know your credit risk level.
In other words, "If I give this person a loan or credit card, how likely is it that I will get paid back on time?" There are three major credit reporting agencies (Equifax, Experian and TransUnion) in the United States that maintain records of your use of credit and other information about you. These records are called credit reports, and lenders will want to check your credit report when you apply for credit. In most cases, lenders will also want to know your credit score.

What is a credit score?

A credit score is a number that summarizes your credit risk, based on a snapshot of your credit report at a particular point in time. A credit score helps lenders evaluate your credit report and estimate your credit risk.
The most widely used credit scores are FICO® scores, the credit scores created by Fair Isaac Corporation. Lenders can buy FICO® scores from all three major credit reporting agencies. Lenders use FICO® scores to help them make billions of credit decisions every year. Fair Isaac develops FICO® scores based solely on information in consumer credit reports maintained at the credit reporting agencies. Your credit score influences the credit that's available to you and the terms (interest rate, etc.) that lenders offer you. It's a vital part of your credit health.

FICO® scores are the best-known and most widely used credit scores.
Most credit scores used in the US and Canada are produced from software developed by Fair Isaac Corporation. FICO® scores are provided to lenders by the three major credit reporting agencies: Equifax, Experian and TransUnion. When lenders order your credit report, they can also buy a FICO® score that is based on the information in the report. That FICO® score is calculated by a mathematical equation that evaluates many types of information from your credit report at that agency. By comparing this information to the patterns in hundreds of thousands of past credit reports, the FICO® score estimates your level of future credit risk. In order for a FICO® score to be calculated on your credit report, the report must contain enough information—and enough recent information—on which to base a score. Generally, that means you must have at least one account that has been open for six months or longer, and at least one account that has been reported to the credit reporting agency within the last six months. FICO® scores provide a reliable guide to future risk based solely on credit report data. FICO® scores have a 300–850® score range. The higher the score, the lower the risk. But no score says whether a specific individual will be a "good" or "bad"customer. And while many lenders use FICO® scores to help them make lending decisions, each lender has its own strategy, including the level of risk it finds acceptable for a given credit product. There is no single "cutoff score" used by all lenders.



1 = up to 499 2 = 500-549 3 = 550-599 4 = 600-649 5 = 650-699 6 = 700-749 7 = 750-799 8 = 800=+

What a FICO Score Considers

Listed on the next few pages are the five main categories of information that FICO® scores evaluate, along with their general level of importance.

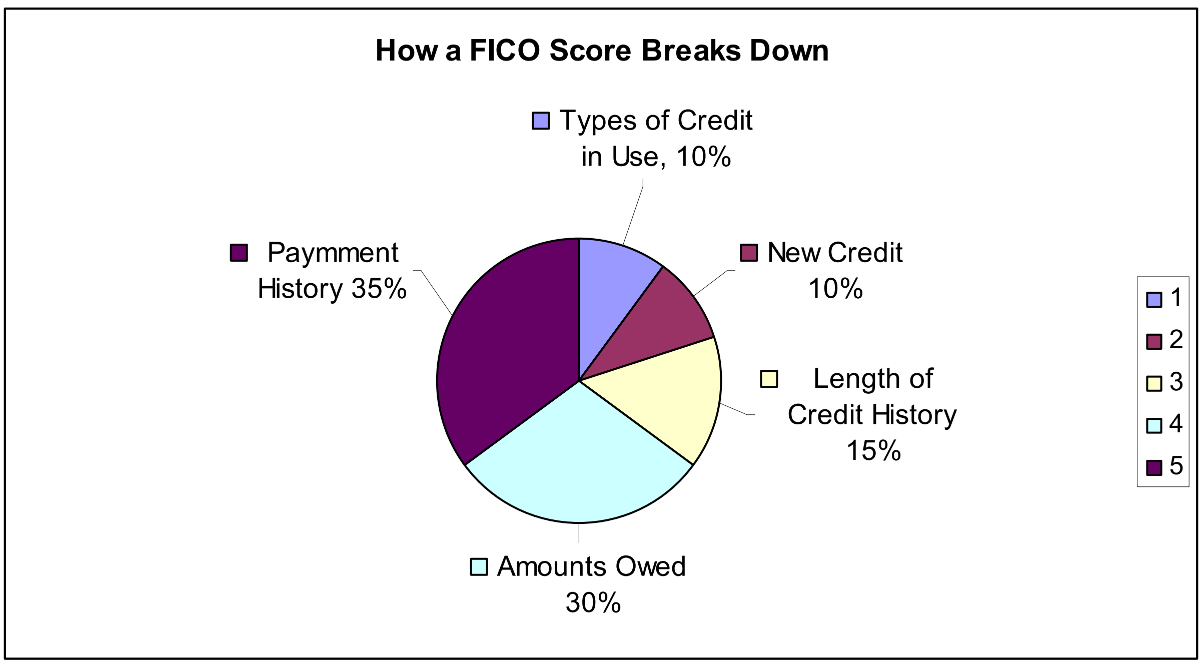
Within these categories is a complete list of the information that goes into a FICO® score. Please note that:

A FICO® score takes into consideration all these categories of information, not just one or two.
No one piece of information or factor alone will determine your FICO® score.

The importance of any factor depends on the overall information in your credit report.
For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your FICO® score. Therefore, it's impossible to measure the exact impact of a single factor without looking at your entire report—even the levels of importance shown in the diagram below are for the general population, and will be different for different credit profiles.

Your FICO® score looks only at credit information in your credit report.
Lenders often look at other information when making a credit decision, however, including your income, how long you have worked at your present job and what type of credit you are requesting.

Your FICO® score considers both positive and negative information in your credit report.
Late payments will lower your FICO® score, but establishing or re-establishing a good track record of making payments on time will raise your score.



I. Payment History

What is your track record?
Approximately 35% of your FICO® score is based on this category.

The first thing any lender would want to know is whether you have paid past credit accounts on time. This is also one of the most important factors in a FICO® score. Late payments are not an automatic "score killer." An overall good credit picture can outweigh one or two instances of, say, and late credit card payments. But having no late payments in your credit report doesn't mean you will get a "perfect score." Some 60%–65% of credit reports show no late payments at all. Your payment history is just one piece of information used in calculating your FICO® score. Your FICO® score takes into account:

FICO® TIPS

- **Pay your bills on time.**

Delinquent payments and collections can have a major negative impact on your FICO® score.

- **If you have missed payments, get current and stay current.**

The longer you pay your bills on time, the better your FICO® score.

■ **Be aware that paying off a collection account, or closing an account on which you previously missed a payment, will not remove it from your credit report.**
Your FICO® score will still consider this information, because it reflects your past credit pattern.

■ **If you are having trouble making ends meet, contact your creditors or see a legitimate credit counselor.**
This won't improve your FICO® score immediately, but if you can begin to manage your credit and pay on time, your score should get better over time. And seeking assistance from a legitimate credit counseling service will not hurt your FICO® score.

II. Amounts Owed

How much is too much?

Approximately 30% of your FICO® score is based on this category.

FICO® TIPS

■ **Keep balances low on credit cards and other "revolving credit."**
High outstanding debt can lower your FICO® score.

■ **Pay off debt rather than moving it around.**
The most effective way to improve your FICO® score in this area is by paying down your revolving credit.

■ **Don't close unused credit cards as a short-term strategy to raise your FICO® score.**
Owing the same amount but having fewer open accounts may lower your FICO® score.

■ **Don't open a number of new credit cards that you don't need, just to increase your available credit.**
This approach could backfire and actually lower your FICO® score.

■ **Avoid credit repair agencies that charge a fee to improve your FICO® score by removing negative, but accurate, information from your credit reports.**
No one can force credit reporting agencies or lenders to remove accurate information from a credit report. Credit repair companies often take your money without delivering what they promise, or provide only temporary improvements of your score, sometimes by removing accurate information that will reappear later.

III. Length of Credit History

How established is yours?

Approximately 15% of your FICO® score is based on this category.

In general, a longer credit history will increase your FICO® score. However, even people who have not been using credit long may get high FICO® scores, depending on how the rest of the credit report looks. Your FICO® score takes into account:

- **How long your credit accounts have been established, in general.**

Your FICO® score considers the age of your oldest account, the age of your newest account and an average age of all your accounts.

- **How long specific credit accounts have been established.**
- **How long it has been since you used certain accounts.**

FICO® TIPS

■ **If you have been managing credit for a short time, don't open a lot of new accounts too rapidly.**
New accounts will lower your average account age, which will have a larger effect on your FICO® score if you don't have a lot of other credit information. Even if you have used credit for a long time, opening a new account can still lower your FICO® score.

IV. New Credit

Are you taking on more debt?

Approximately 10% of your FICO® score is based on this category.

FICO® TIPS

■ **Do your rate shopping for a given auto or mortgage loan within a short period of time.**
FICO® scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur.

■ **Be careful about opening new accounts that you don't need.**

Opening new accounts can lower your FICO® score in the short term. Beware of discounts or low interest rates being offered to entice you to open a new charge account that you don't need.

- **Re-establish your credit history if you have had problems.**

Opening new accounts responsibly and paying them off on time will raise your FICO® score in the long term.

- **Note that it's OK to request and check your own credit report and your own FICO® score.**

This won't affect your FICO® score, as long as you order your credit report directly from the credit reporting agency or through an organization authorized to provide credit reports.

V. Types of Credit in Use

Is it a "healthy" mix?

Approximately 10% of your FICO® score is based on this category.

FICO® TIPS

- **Apply for and open new credit accounts only as needed.**

Don't open accounts just to have a better credit mix— it probably won't raise your FICO® score.

- **Have credit cards—but manage them responsibly.**

In general, having credit cards and installment loans (and making timely payments) will raise your FICO® score. People with no credit cards, for example, tend to be higher risk than people who have managed credit cards responsibly.

- **Note that closing an account doesn't make it go away.**

A closed account will still show up on your credit report, and its history will be considered by your FICO® score.

- **Payment information on many types of accounts.**

These will include credit cards (such as Visa, MasterCard, American Express and Discover), retail accounts (credit from stores where you do business, such as department store credit cards), installment loans (loans where you make regular payments, such as car loans), finance company accounts and mortgage loans.

- **Public record and collection items—reports of events such as bankruptcies, foreclosures, suits, wage attachments, liens and judgments.**

These are considered quite serious, although older items and items with small amounts will count less than more recent items or those with larger amounts. Bankruptcies will stay on your credit report for 7–10 years, depending on the type.

- **Details on late or missed payments ("delinquencies") and public record and collection items.**

The FICO® score considers how late they were, how much was owed, how recently they occurred and how many there are. A 60-day late payment is not as significant as a 90-day late payment, in and of itself. But recency and frequency count, too. A 60-day late payment made just a month ago will affect a score more than a 90-day late payment from five years ago.

- **How many accounts show no late payments.**

A good track record on most of your credit accounts will increase your FICO® score.
This is why the FICO® score counts inquiries— requests a lender makes for your credit report or score when you apply for credit. FICO® scores consider inquiries very carefully, as not all inquiries are related to credit risk. There are three important facts about inquiries to note here:

- **Inquiries usually have a small impact.**

For most people, one additional credit inquiry will take less than five points off their FICO® score. However, inquiries can have a greater impact if you have few accounts or a short credit history. Large numbers of inquiries also mean greater risk: People with six inquiries or more on their credit reports can be up to eight times more likely to declare bankruptcy than people with no inquiries on their reports.

- **Many kinds of inquiries are ignored completely.**

Your FICO® score does not count an inquiry when you order your credit report or credit score from a credit reporting agency or from another company that provides this information to consumers. Also, the FICO® score does not count inquiries a lender has made for your credit report or score in order to make you a "pre-approved" credit offer, or to review your account with them, even though you may see these inquiries on your credit report. Inquiries that are marked as coming from employers are not counted either.

- **The score allows for "rate shopping."**

If you're looking for a mortgage or an auto loan, you may want to check with several lenders to find the best rate. This can cause multiple lenders to request your credit report, even though you're only looking for one loan. To compensate for this, FICO® scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. When you need an auto or home loan, you can avoid lowering your FICO® score by doing your rate shopping within a short period of time, such as 14 days.

Because your FICO® score is based on information in your credit reports, it is important to make sure that the information in your credit report is accurate.

You should review your credit report from each credit reporting agency at least once a year and especially before making a large purchase, such as a house or car. You have the right to obtain one free copy of your credit report a year from each of the three major credit reporting agencies.

For more information, contact the Annual Credit Report
Request Service at:
P.O. Box 105281
Atlanta, GA 30348-5281
1 877 FACT ACT (1 877 322 8228)
www.annualcreditreport.com

If you report an error to a credit reporting agency, it must investigate and respond to you within 30 days. In addition, if you are in the process of applying for a loan, immediately notify your lender of any incorrect information in your report. You can also dispute any errors by contacting the credit reporting agencies directly:

- Equifax:

(800) 685-1111, www.equifax.com

- Experian (formerly TRW):

(888) 397-3742, www.experian.com

- TransUnion:

(800) 888-4213, www.transunion.com

Fair Isaac is not a credit reporting agency, it does not maintain credit information on individuals and it cannot correct credit report errors. If you want to correct errors, you need to contact the credit reporting agencies, not Fair Isaac.

HOW CAN MISTAKES GET ON MY CREDIT REPORT?

If your credit report contains errors, it is often because the report is incomplete, or contains information about someone else. This typically happens because:

- You applied for credit under different names
- Someone made a clerical error in reading or entering name or address information from a hand-written application.
- You gave an inaccurate Social Security number, or the number was misread by the lender.
- Loan or credit card information was inadvertently applied to the wrong account.