

What Is a FICO Score and How Do I Make It Work for Me?

Whether or not you receive a loan and what interest rate you get on your credit card may be determined by something called a FICO score. Named for Fair, Isaac & Co., a California-based company that developed the credit score, the FICO score is the most widely used scoring method to determine credit worthiness.

Scores range from approximately 300 to 800 and are provided to lenders by the three credit bureaus, Equifax, Experian, and TransUnion. You also have access to your FICO scores, but will be charged a fee by each credit agency providing your report.

According to Fair Isaac, the credit scores of the American public are divided as follows:

- 499 and below 1 percent
- 500-549 5 percent
- 550-599 7 percent
- 600-649 11 percent
- 650-699 16 percent
- 700-749 20 percent
- 749-799 29 percent
- 800 and above 11 percent

A score of 720 or higher will probably get you the best interest rates on a home mortgage. Your credit card company looks at your credit score to decide whether or not to raise your credit limit or charge you a higher interest rate. The higher your credit score, the better you look to lenders and the lower your interest rates.

Raising your FICO score can make a big difference to your wallet. Some basic actions you can take to improve your score include paying your bills on time, lowering your account balances, and not taking on new debt.

Around the time you intend to apply for a loan, several factors can decrease your FICO score and, therefore, your ability to qualify for credit and low interest rates. First, order copies of your credit report from all three bureaus and correct any errors you find. Be sure that balances you have paid down are reflected on the report, along with closed accounts and settlements.

It's important to get your credit scores from all three credit reporting agencies. Each bureau may have different information about you as reported by retailers and creditors. Clerical errors at a particular agency may also result in a varying score. Lenders often look at all three FICO scores, and rather than using the average of the three scores, they may use the middle score to determine your credit worthiness. Finding out what this middle score is and doing what you can to raise it is to your advantage.

Second, pay what you can on your debt rather than moving it around. Consolidating your credit card debt may be tempting, but it could lower your FICO score. Here's why: keeping your account balances between 25% and 50% of your available credit, signals a responsible borrower. For example, if you have a credit card with a \$2000 limit, you should keep your debt below \$1000. The ratio of your credit card balance to your credit card limit will increase if you pile all of your debt into a couple of accounts, rather than keeping it spread out over several.

If you have three credit cards with limits of \$2000 each, and you owe a balance of \$1500 on all three combined, you have a total credit limit of \$6000 on which you owe a balance of \$1500. That's a debt to credit limit ratio of 25%. But if you consolidate your \$1500 debt into one card with a \$2000 limit, you increase your debt to credit limit ratio to 75%, an unfavorable factor in your overall credit score. For this reason, the best solution is to simply pay off your existing cards as quickly as possible.

Also important in making the most of your FICO score near loan time is keeping unused accounts open, for the same reason as listed above. Your debt to credit limit ratio will rise drastically if you close your unused accounts. Wait until you have secured your loan to trim inactive accounts from your credit report. Also refrain from applying for any new accounts during this time.

Paying off your debt in a timely manner, building a solid credit history over a lengthy period of time, and erasing errors from your credit reports can all help you make the most of your FICO score and, in the end, make the most of your money.

Resources:

Equifax 800 525-6285 <http://www.equifax.com> Experian 888 397-3742
<http://www.experian.com> TransUnion 800 680-7298 <http://www.tuc.com>
Applicant Screening <http://www.apscreen.com>