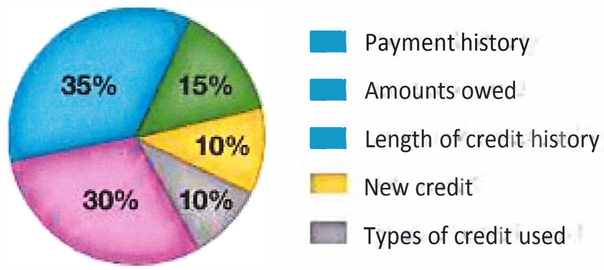
Class 2: Understanding FICO Scores

Finding HOME

FICO scores are your **credit rating** Most lenders **base approval** on them

They range from 300-850, **higher is better**
Higher scores mean **lower interest rates**

FICO scores are calculated based on your rating in **five general categories**




**35%** = based on payment history (on-time pays or delinquencies) More weight on current pay history
**30%** = capacity
**15%** = length of credit
**10%** = accumulation of debt in the last 12-18 months
# of inquiries
opening dates
**10%** = mix of credit
installment (raises) vs. revolving (lowers)
# of finance company loans the lower the score

## What actions will hurt the score?

- Missing payments (regardless of $ amounts... It takes 24 months to restore credit of one late pay)
- Credit cards at capacity (i.e. maxing out credit cards)
- Closing credit cards out ( this lowers available capacity and the eliminates the history)
- Shopping for credit excessively
- Opening up numerous trades in a short time period
- Having more revolving loans in relation to installment loans
- Borrowing from finance companies
- Transferring Balances

## What doesn't affect the score?

- Debt ratio
- Income
- Length of residence
- Length of employment
- Criminal Record or Personal Information

## Approximate credit weight for each year.

- 40% = current to 12 months
- 30% = 13-24 months
- 20% = 25 - 36 months
- 10% = 37+ months

## How to improve the score?

- Pay down on credlt cards
- Do not close credit cards because capacity will decrease
- Continue to make payments on time ( older late pays will become less significant with time)
- Slow down on opening new accounts
- Acquire a solid credit history with years of experience

## Why credit scores are important?

- Obtaining additional credit at preferred rates
- Better insurance rates
- Employment opportunities