THE BASICS

# How Your Credit Score Is Calculated

Here's the formula for success no matter which model lenders use.

YOUR CREDIT SCORE—THE three-digit number that creditors use to evaluate the risk when they lend you money—helps determine which loans or interest rates you qualify for and how much you'll pay. Landlords, utilities and cell-phone companies may also check your score before doing business with you.

Dozens of credit scores may be attached to your name, including versions tailored to specific industries, such as auto lending. However, the two big consumer credit scoring models—FICO (which is used by the majority of lenders) and VantageScore (a newer model created by the three major credit bureaus)—value similar behaviors when calculating your score, even if they weight those factors differently. Both grade your creditworthiness on a scale of 300 to 850, with a score of 750 or above generally considered good enough to qualify for the best rates. You can check your VantageScore free at CreditKarma.com and your FICO score at Discover's Credit Scorecard (see kiplinger.com/links/creditcheck).

**On-time payments.** Both FICO and VantageScore prize on-time payments above any other factor. As long as you pay at least the minimum due each month, your payment history will stay clean (though you will rack up interest on your balance). Lenders typically don't report a late payment to the credit bureaus until it's more than 30 days overdue. If you make a late payment, it won't haunt you forever: The impact on your credit score will diminish as long as you consistently pay your bills on time.

**Limits on your credit usage.** Your credit utilization ratio is the amount you owe on your credit cards as a proportion of the total limit on each card, as well as the total limit for all of your cards in aggregate. VantageScore advises consumers to keep their utilization ratios below 30%, but "the lower the better," says Barry Paperno, who answers credit questions at his website, SpeakingOfCredit.com. He suggests aiming for a utilization of 1% to 9%, rather than zero, because you can pick up a few more points by showing you are managing your credit well.

You can improve your utilization ratio by spending less on your credit card and by asking your issuer to raise your limit. Applying for a new card would also increase your available credit (but having too many accounts showing balances can lower your score).

Most credit card issuers report the balance from your monthly statement to the credit bureaus. To make that balance appear lower, dole out a few mid-cycle payments or pay off your bill shortly before the closing date for your monthly statement.

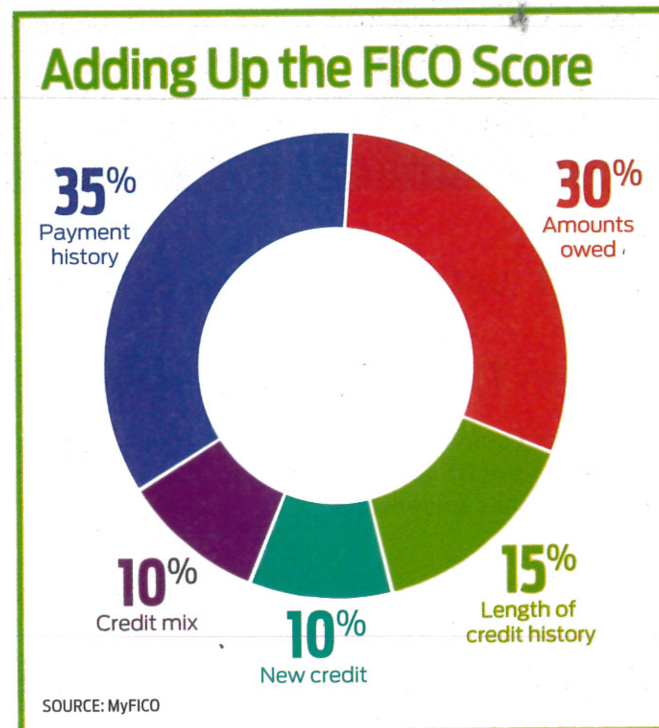
**A long track record.** This slice of your score considers the age of your oldest account and the average age of all your accounts. Opening new cards may improve your credit utilization ratio, but it also lowers the average age of revolving accounts, which lowers your score.

Note that a closed account in good standing remains in your credit history for 10 years, so you'll benefit from your track record; however, keeping no-fee credit cards open (and using them now and then) is smart to help your utilization ratio stay low.

**Other factors.** A mix of revolving and installment loans also boosts your score. But don't overdo it when applying for new credit. Having "hard inquiries" on your credit report from potential lenders will temporarily shave points from your score. When you're shopping for a mortgage, student loan or auto loan, inquiries made within a certain time period, typically between two weeks and 45 days, count as one inquiry. MIRIAM CROSS

mcross@kiplinger.com

## Adding Up the FICO Score




SOURCE: MyFICO