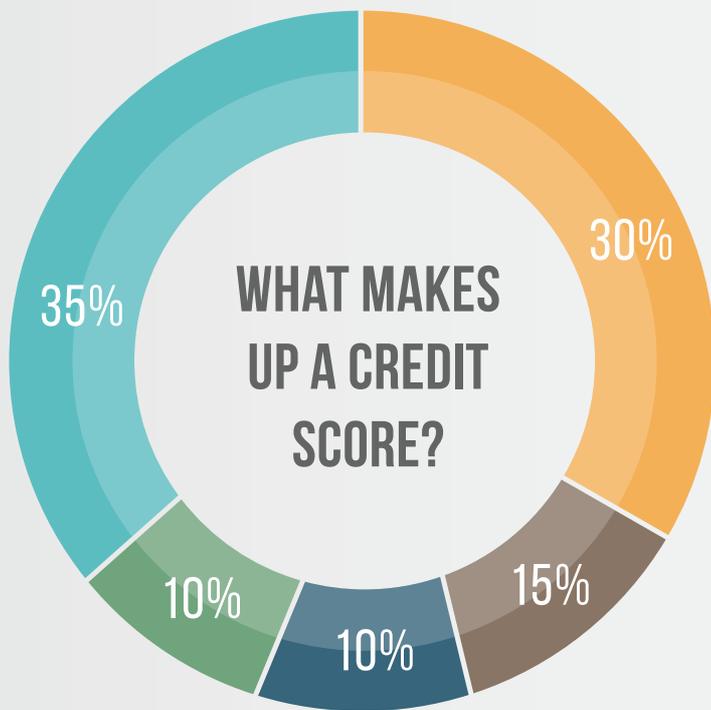




# YOUR CREDIT SCORE: DECODED

Understanding the “secret sauce” behind your credit score can help you build a strong score and a healthy credit report. We’re going to explain the 5 major FICO uses to determine your score.



-  PAYMENT HISTORY
-  HOW MUCH YOU OWE
-  LENGTH OF CREDIT HISTORY
-  NEW CREDIT
-  TYPES OF CREDIT IN USE

## 35% PAYMENT HISTORY

This is the single most important part of your credit score. FICO looks at how many on-time payments you make and how many payments you miss. Every time you make a payment on time, you help you score. On the flip side, this also means that **MISSING** a payment is the most damaging thing you can do to your credit score.



Once you are 30 days late on a payment, you will be reported to the credit bureau. The longer you go without paying, the bigger the impact on your score.

## ! RED ALERT

A single missed payment (of 30 days or more) can take anywhere from 60 to 110 points off your score. Most negative information, including missed payments and accounts sent to collections, will stay on your credit report for 7 years.



## PRO TIP

There is a big myth that you have to borrow money and pay interest to get a good score. That is completely false! So long as you use your credit card and then pay that statement balance in full, your score will benefit.

# 30% AMOUNT OWED

This part of your credit score will look at how much debt you have across ALL of your accounts. If you have a lot of credit card debt, your score can be hit badly. It may sound strange but the key to having a good credit score is having a lot of available credit and not using it.

### Your "utilization rate" explained:

Really, what FICO is looking at here is your utilization rate. This is very important to understand. It's how much debt you owe versus your total available credit across all of your cards.

To calculate your utilization rate, add up all of your current statement balances and divide that number by your total credit limits.



### EXAMPLE:

Sandra has 4 credit cards with a total available credit limit of \$40,000. Currently, she has total balance of \$20,000 across all four cards.

$$\$20,000 \div \$40,000 = 50\% \text{ utilization rate}$$

WHAT IS THE IDEAL UTILIZATION RATE? **30%** OR LOWER

## PRO TIP



If you use every bit of credit made available to you, then it looks like you do not have self-restraint. Maxing out all of your credit cards is a big warning sign to lenders. If you are able to restrain yourself and have a lot of available credit (that you do not use), then you are showing self-discipline.

## 15% LENGTH OF CREDIT HISTORY



FICO likes to see that you have a long history of good credit behavior. It will look at the age of your oldest account, as well as the average age of all of your accounts. This is the easiest part of the credit score to get right.

### PRO TIP

Even if you no longer use a credit card, do not close it. It will lower the average age of your credit history and can actually hurt your score.

## 10% TYPES OF CREDIT IN USE



FICO wants to see that you can handle different types of credit responsibly. An ideal mix of credit includes revolving debt like credit cards and installment loans like a mortgage or auto loan.

### PRO TIP

The simplest product to have in your credit mix is a credit card. If you have a credit card and manage it well, then you will be rewarded.

## 10% NEW CREDIT

A new credit application can shave 10 to 20 points off your score. That's because opening up a lot of new credit in a short period of time sends a warning signal to the credit bureau.

That being said, you should not be afraid to apply for new credit because you fear it will hurt your score badly — especially if there are better deals out there that could save you money.



## SOME COMMON MYTHS

— **Checking my own credit report will hurt my score: FALSE!**

If you check your own credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com), it will not hurt your score. You can also get easy access to some of your credit reports through sites like Credit Karma.

— **If I shop around for a good mortgage or auto loan rate, my score will get crushed: FALSE!**

Multiple inquiries for a mortgage or auto loan are usually treated as a single inquiry if you complete them in a set period of time (typically within 45 days).

— **If I shop around for a balance transfer credit card, my score will get crushed: FALSE!**

If your score does decline, it probably will not decline by much. You can expect 10-20 points per credit application.

## 2 QUICK STEPS TO BUILDING AND KEEPING A GOOD CREDIT SCORE

- 1 Use your credit card every month, but keep your utilization well below 30%. In other words, never charge more than 30% of your available credit. You can reduce your utilization by (a) paying down your debt and (b) increasing the credit that you have available
- 2 Make your payments on time every month.

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If you repeat these two things over time, you will eventually have a score above 700. **Download our Debt Free Forever Guide!** It's FREE and will help get you back on track.

