

Improving Your Credit Score

FICO scores are based on specific credit history, with hundreds of inputs used to find your score.

There are 5 main parts of your credit score:

1. Payment History: 35% of your credit score

Payment history measures how you've paid on your debts. Payment history is the largest part of your credit score because if you've recently missed payments your creditors, it's likely those missed payments will continue, and may lead to default. Payment history also measures how "severe" a missed payment has been. An item in collection is worse than an item paid 30 days late.

2. Amounts Owed: 30% of your credit score

Amounts owed measures how "maxed out" you are. It is the second-largest part of your credit score because a person that is maxed out has no safety valve in the event of a crisis. Amounts owed is not about the dollar amount you're borrowing — it's about the dollar amount you're borrowing relative to the amount available to you.

3. Credit History Length: 15% of your credit score

Your credit history is your track record with respect to managing credit. It matters in the FICO model because "experienced users of credit" are viewed differently from new users. Similar to the hiring process for a job, the credit bureaus want to see that this isn't your first experience.

4. New Credit: 10% of your credit score

This category accounts for your recent attempts to secure new credit. In general, the more credit for which you've applied, the more damage it will do to your credit score. This is more true for credit cards than for mortgage applications. A consumer in search of new credit cards is presumed to "need" more credit lines.

5. Types of Credit: 10% of your credit score

The type of credit you carry matters and not all credit types are the same. Installment loans such as mortgage loans and student loans, for example, are considered "better" than credit cards and charge cards. This is because installment loans eventually pay down to zero. Consumer cards, by contrast, can only go up.

Marissa Corbo, ABR, CDPE
Water Pointe Realty Group
Direct: 772-528-6914
Email: Marissa@waterpointe.com