

## **FICO Scores and Your Credit Rating**

With an ever changing market, it has become imperative to be aware of your credit score, also known as your FICO score. Although the number helps to financially define you, many people are not sure what it is or how it is calculated.

The initials FICO stand for Fair Isaac Co., a business established in the 1960s. The company was the first to offer its unique credit scoring services to the financial industry. By giving the estimated credit risk of borrowers a numerical ranking, the company made it easy to get a quick, reliable snapshot of a consumer's credit worthiness or risk. Ever since then, the FICO score has been a vital tool for the financial industry.

FICO scores range from 300-850 and the better your credit, the higher your score. Good credit has its perks, including preferential rates on loans. A low score, on the other hand, can mean paying higher rates or being denied completely.

The score is based on five main factors:

- Payment history, or whether you make timely and complete payments, makes up 35 percent of the score.
- Amounts owed to creditors, or your debt-to-income ratio, account for 30 percent of the score.
- The number of years you've had established credit makes up 15 percent.
- New credit influences the score 10 percent.
- The type of credit you use accounts for 10 percent.

The "big three" national credit reporting agencies, Equifax, TransUnion, and Experian, share information with FICO to help keep credit scores updated and accurate. By accessing their web pages and answering a few questions you can view their reports and determine the health of your credit.

Delinquent payments and big outstanding balances can have a significant negative impact on your score. Pay on time and keep balances low to help raise your score. If you suspect mistakes in your credit report, ask to see it and check it for errors. Reporting those to credit agencies can help clear up blemishes and improve your overall score.