DEBTMANAGERS

We manage your debt so you can mange your life.

Understand your credit score

Call us Toll Free
1 800 774-5779

What is your credit score?

Back in the 1960s, with the explosion of consumer credit, people who lent money needed a way to quickly see whether or not you were likely to pay it back. An American company called Fair Isaac came up with a set of rules to help lenders predict just that.

The Fair Isaac Company devised a formula that gave lenders a single number. This number became widely known as the FICO score. Today, people who rate your credit take a look at this score, or one very similar to it, whenever you apply for a loan or a new credit card.

Your credit score matters because it helps lenders decide whether you'll get that loan when you do apply. Even more important, it affects the interest rate you'll pay on borrowed money. So when you're taking out a car loan, or a mortgage, the interest rate you pay on borrowed money can translate into thousands—even tens of thousands of dollars.

Your credit score will range between 300 at the low end and 850 at the high end. If your score falls below 600, lenders may take a second look at your application for credit. So, just how do credit agencies figure out your number?

What do they look at?

Credit rating agencies, such as Equifax and Trans Union, look at several factors before they come up with your score. Here's how it works:

35 per cent of your score depends on your bill payment history. If you miss a few bill payments, your credit score falls.

30 per cent of your score depends on how much money you owe today. If you max out your credit cards, your score falls. Experts recommend you keep your credit card balances below a third of the limit. So if your limit is $1,000, keep your balance under $300. This shows lenders you use credit responsibly, and not as a substitute for cash flow.

15 per cent of your score depends on how long you have been a borrower. If you received your first credit card six months ago, your score won't be as high as for somebody who has had credit for ten years. This is important if you decide you want to close credit accounts. Closing out older accounts may cause your credit score to fall, as this action effectively shortens your credit history.

10 per cent of your score depends on how much new credit you have taken out recently. Frequent application for credit in the recent past shows lenders you may be having cash flow trouble. If you have made a number of new applications your credit score may fall.

10 per cent of your score depends on the type of credit you are using. Mortages, car loans, retail revolving credit—all rate differently with lenders. Although this is not a big factor, it will have an impact on your credit score.

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