

The Components of Credit Scores

BY RICHARD THRIPP

APRIL 27, 2016

PRESENTED IN FULFILLMENT OF:

TOASTMASTERS ADVANCED COMMUNICATION SERIES

TECHNICAL PRESENTATIONS

PROJECT 1: THE TECHNICAL BRIEFING

What are Credit Scores?

What are *credit scores*?

- Scores based on your credit reports
- Used when considering you for new credit cards, mortgages, and auto loans
- A factor in decisions by some **employers, landlords, banks, and auto insurance companies**

Who maintains credit reports?

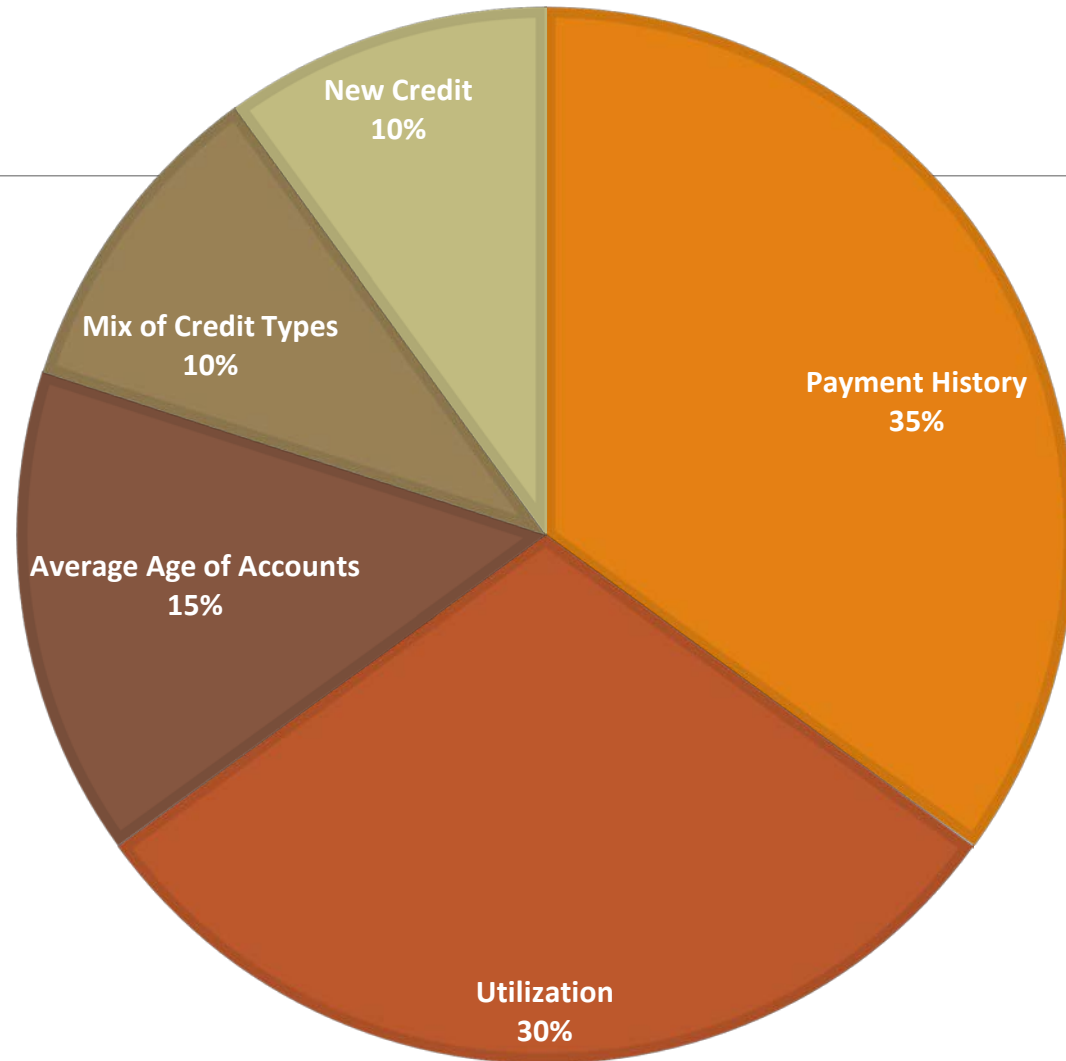
- Three credit bureaus:
 - Equifax
 - Experian
 - TransUnion
- Reports and FICO scores may differ between bureaus

What is a FICO score?

- A credit scoring model developed in 1989 by Fair, Isaac, & Co.
- Calculated from credit report(s)
- Range: 300–850; 700+ is “good”
- Typically cannot be obtained for free

Components of Credit Scores

COMPONENTS OF FICO CREDIT SCORES



What does this mean?

Most important:
Payment History and Utilization—65%

Don't miss payments!

Rule of thumb: use less than 30% of your available credit lines.

Payment History—35%

- Includes personal credit cards, mortgages, auto loans, and student loans
- Excludes all other bills **unless delinquent** and referred to collections
- Paying just the minimum payment on a credit card is **exactly the same** as paying in full for the purposes of this component
- **Being more than 90 days late is very bad**

Utilization—30%

- How much of your credit lines are you using?
- Lower utilization (below 30%) = better
- Only relevant to credit cards
- Usually based on statement balances
- High impact and can change frequently
- Looks at total credit usage and individual credit lines, to some extent

Average Age of Accounts—15%

- Includes your oldest account and the average (mean) age of all your accounts
- Most relevant to credit cards
- Older = better
- Don't cancel credit cards if no annual fee

Mix of Credit Types—10%

- Your credit score **improves mildly** if you have a mix of credit cards, mortgages, auto loans, and student loans
- You can still have a great score (e.g., high 700s) with credit cards alone

New Credit—10%

- “Hard” credit inquiries occur when you are applying for credit
- Creditors might inquire at 1–3 bureau(s)
- These inquiries mildly hurt your scores for about 6 months and disappear after 2 years
- Avoid applying for credit cards for 6–12 months before getting/refinancing a mortgage

What's missing from FICO scores?

- Job, income, employment history
- Utility bills and rent payments
- Assets and credit limits
- However, credit limits and employment may be on your credit reports (based on your prior self-reports) and often factor into credit issuance decisions

Concluding Thoughts

FICO and “FAKO” scores

- The FICO “classic” score was described here and is the most widely used score, but there are others such as FICO mortgage and auto scores, which are infrequently used
- Credit Karma, Credit Sesame, and others usually provide “FAKO” scores which may not match your FICO scores

Building your credit *belvedere*

- A *belvedere* is an Italian term meaning “beautiful sight” and also can refer to an overlook point similar to a watchtower
- Build your credit belvedere by being informed
- Request your free credit report from www.AnnualCreditReport.com
- Know your interest rates, terms, and balances

Plan ahead