

How Your Credit Score is Formulated

Your credit worthiness is most often expressed in terms of a FICO score from 300 to 850. These scores are computed by a patented algorithm—a closely guarded complex mathematical equation developed by the Fair Isaac Corporation that considers 40 components of your credit history. Scores of 760 or above are considered golden and the median American credit scores, according to Fair Isaac is 723. (The average FICO score however is variously quoted by different sources as somewhere in the upper 600 's) In Spring 2008, Fair Isaac rolled out a new and improved algorithm designed to divide even more definitively the creditworthy haves from the have-nots.

Although the specifics of how the FICO score is formulated are far from transparent, here are the broad brush strokes.

1. YOUR PAYMENT HISTORY - 35% of your score. A track record of on-time payments boost your score. Late payments, charge-offs, and bankruptcies drag it down.
 2. HOW MUCH YOU OWE - 30% of your score. The less you owe compared to your credit limit, the higher your scores. FICO takes into account what you owe on all your accounts, the number of accounts with existing balances and how much of your available credit you' re using.
 3. LENGTH OF YOUR CREDIT HISTORY - 15% of your score. A longer history increases your score, however, you can earn a high score even with a short history if you demonstrate responsible credit handling.
1. NEW CREDIT - 10% of your score. Opening new credit accounts affects your score. However, FICO distinguishes between applying for many sources of credit and comparison shopping for a single loan. MORAL: To avoid lowering your score if your are rate shopping, finish your search within 30 days.
 2. OTHER FACTORS - 10% of your score. Variables that impact our score include your mix of credit types, such as personal lines of credit, credit cards and installment loans such as a mortgage or car loan.

How to get your credit report. Thanks to a U.S. federal law, you 're entitled to one free credit report per year from each of the three nationwide consumer credit reporting companies—Equifax, Experian, and TransUnion. Although these reports are free, you 'll have to pay to get the magic number— your actual credit score. The cost can vary, Experian, for example, charges \$7.95.

Order your free credit reports: **Visit** www.annualcreditreport.com, the only web site authorized by the Federal Trade Commission. **Call** 877-322-8228 or **Write** to Annual Credit Report, Request Service, P.O. Box 105281, Atlanta, GA 303-5281

Source: U.S. General Services Administration, bankrate.com, and Alliant Credit Union "connections"

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