5 Factors That Decide Your Credit Score

Credit scores range between 200 and 800, with scores above 620 considered desirable for obtaining a mortgage. The following factors affect your score:

1. **Your payment history.** Did you pay your credit card obligations on time? If they were late, then how late? Bankruptcy filing, liens, and collection activity also impact your history.

2. **How much you owe.** If you owe a great deal of money on numerous accounts, it can indicate that you are overextended. However, it’s a good thing if you have a good proportion of balances to total credit limits.

3. **The length of your credit history.** In general, the longer you have had accounts opened, the better. The average consumer's oldest obligation is 14 years old, indicating that he or she has been managing credit for some time, according to Fair Isaac Corp., and only one in 20 consumers have credit histories shorter than 2 years.

4. **How much new credit you have.** New credit, either installment payments or new credit cards, are considered more risky, even if you pay them promptly.

5. **The types of credit you use.** Generally, it’s desirable to have more than one type of credit — installment loans, credit cards, and a mortgage, for example.

For more on evaluating and understanding your credit score, visit www.myfico.com

What You Can Do to Improve Your Credit

Credit scores, along with your overall income and debt, are big factors in determining whether you’ll qualify for a loan and what your loan terms will be. So, keep your credit score high by doing the following:

1. Check for and correct any errors in your credit report. Mistakes happen, and you could be paying for someone else’s poor financial management.

2. Pay down credit card bills. If possible, pay off the entire balance every month. Transferring credit card debt from one card to another could lower your score.

3. Don’t charge your credit cards to the maximum limit.

4. Wait 12 months after credit difficulties to apply for a mortgage. You’re penalized less for problems after a year.

5. Don’t order items for your new home on credit — such as appliances and furniture — until after the loan is approved. The amounts will add to your debt.

6. Don't open new credit card accounts before applying for a mortgage. Too much available credit can lower your score.

7. Shop for mortgage rates all at once. Too many credit applications can lower your score, but multiple inquiries from the same type of lender are counted as one inquiry if submitted over a short period of time.

8. Avoid finance companies. Even if you pay the loan on time, the interest is high and it will probably be considered a sign of poor credit management.

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