CREDIT SCORES: WHAT YOU NEED TO KNOW

By Jennifer Barrett, *New York Times*

You may not have checked your credit score lately, but there's a good chance someone else has. If you have applied for a mortgage or a loan — or even received a credit card offer in the mail — someone accessed that three-digit number to help determine the amount you can borrow and the interest you'll owe on it.

So what goes into this all-important score? And how can you make sure you've got a good one? The term credit score usually refers to your FICO score, a number based on a formula developed by the Fair Isaac Corporation. Fair Isaac looks at a summary of all your credit accounts and payment history. If you've got a mortgage, a MasterCard or a Macy's account, it will be included in the report, as will late or missed payments. FICO scores range from 300 to 850, and Fair Isaac calculates them for each of the three big credit-reporting agencies: Equifax, Experian and TransUnion. That's one reason why your FICO score with each may differ slightly. Generally speaking, the higher your score, the more money you can borrow and the less you'll pay for the loan.

Here's how your score is determined:

» **35 percent** is determined by your payment history. Do you regularly pay your bills or fines on time to any creditor that submits your information to the credit bureau? Even unpaid library fines, medical bills or parking tickets may appear here.

» **30 percent** is based on the amounts you owe each of your creditors, and how that compares with the total credit available to you or the total loan amount you took out. If you're maxing out your credit cards, your score may suffer.

» **15 percent** is based on the length of your credit history, both how long you've had each account and how long it's been since you had any activity on those accounts. The fewer and older the accounts, the better (assuming you've made timely payments).

» **10 percent** is based on how many accounts you've recently opened compared with the total number of your accounts, as well as the number of recent inquiries on your report made by lenders to whom you've applied for credit. Your score can drop if it looks as if you're seeking several new sources of credit — a sign that you may be in financial trouble. (If a lender initiates an inquiry about your credit report without your knowledge, though, it should not affect your score.) Shopping around for an auto loan or mortgage shouldn't hurt, if you keep your search to six weeks or less. But every inquiry you trigger when you apply for a credit card can affect your score, says Craig Watts, a spokesman for Fair Isaac. So be selective.

» T**he final 10 percent** is determined by the types of credit used. Having installment debt — like a mortgage, in which you pay a fixed amount each month — demonstrates that you can manage a large loan. But how you handle revolving debt, like credit cards, tends to carry more weight since it's seen as more predictive of future behavior. (You can pay off the balance each month or just the minimum, for example, charge to the limit of your cards or rarely use them.)

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For the best rates on a loan or credit card, you want a score that's above 700, at least. To achieve that, make sure to pay all your bills on time. It's also a good idea to have at least one credit card you plan to use for a long time, but not too many. Keep a low balance — generally less than one-third of your total credit limit. Of course, it's best to pay off your balance entirely each month. And stay on top of the information in your reports.

You can get a free copy of your credit report from each of the three major credit agencies once a year. Be sure to order it through annualcreditreport.com, the only authorized online site under federal law. If you notice information that's inaccurate, you can submit a request for removal online at Equifax, , Experian or TransUnion. Or submit your request by mail. Be sure to specify what information you think is inaccurate and why, and include any documents that support your argument. Ask in writing that the information be corrected or removed from your report. By law, the bureaus must investigate your complaint, usually within 30 days, and give you a response in writing (or via e-mail, if your request was made online) and a free copy of your report, if the information is changed as a result. Your score should reflect that change shortly after. To see your actual score, you'll generally have to pay. You can go through Equifax, Experian or TransUnion directly, but be aware that the score you order may be one developed by the agencies themselves, like the TransUnion TransRisk New Account Score, Experian Plus or VantageScore. These are different than the FICO scores lenders generally use when they evaluate your loan applications. Myfico.com offers two reasonably priced options on its site. The $15.95 FICO Standard package (as of December 2008) gives you 30-day access to one FICO score and a credit report from one of the three major credit agencies. The $47.85 FICO Credit Complete package gives you 30-day access to your FICO scores and credit reports from all three major agencies. Myfico.com and other sites also offer services that monitor your score and report for a monthly fee (ranging from about $4.95 a month for myFico's quarterly report to $6.65 a month for TransUnion's Credit Monitoring Service).

Whether you need to monitor your credit that often is debatable. For most, a close look at the free annual reports from each bureau is probably enough. But if you plan to apply for a loan or credit card, check your score and report at least a couple of months beforehand. Not only will you be aware of how creditworthy you are, you'll also have time to remove any errors you spot and make sure your score reflects the changes before you fill out any applications.

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