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How is your FICO score calculated?

FICO scores, which are widely used to assess creditworthiness, are based on several key factors. Each factor has a different weight in the overall score calculation. Here's a breakdown of what makes up a FICO score:

1. **Payment History (35%):** This is the most significant factor. It tracks whether you've paid your bills on time. Late payments, bankruptcies, and other derogatory marks can negatively impact this component.
2. **Credit Utilization (30%):** This measures the amount of credit you're using relative to your total available credit. It's calculated by dividing your total credit card balances by your total credit limits. Lower utilization rates are generally better for your score.
3. **Length of Credit History (15%):** This factor considers how long your credit accounts have been active. A longer credit history can be beneficial, as it provides more data on your credit behavior. It includes the age of your oldest account, the age of your newest account, and the average age of all your accounts.
4. **Types of Credit in Use (10%):** This assesses the variety of credit accounts you have, such as credit cards, retail accounts, installment loans, and mortgages. A diverse mix of credit types can be beneficial.
5. **New Credit (10%):** This looks at recent credit inquiries and newly opened accounts. Frequent applications for new credit can be seen as risky behavior and can impact your score negatively. However, a few inquiries or new accounts over time generally have a smaller effect.

Each factor is designed to provide a comprehensive view of your credit behavior and risk level. By understanding these components, you can better manage your credit and work towards improving your FICO score.



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FICO scores typically range from 300 to 850. Here's a general breakdown of the score ranges and their meanings:

1. 300-579: Poor

- **Description:** This range indicates a higher risk for lenders. Individuals in this category might have difficulty obtaining credit or may face higher interest rates if they do get approved.
- **Common Characteristics:** Likely to have a history of missed payments, high credit utilization, and possibly derogatory marks such as collections or bankruptcies.

2. 580-669: Fair

- **Description:** Scores in this range are considered less risky than those in the poor category but may still face challenges in securing favorable credit terms. You might receive higher interest rates or less favorable credit offers.
- **Common Characteristics:** May have some late payments or higher credit utilization but does not necessarily include severe negative marks.

3. 670-739: Good

- **Description:** This range is considered a favorable credit score. Individuals with scores in this range are generally eligible for good credit terms and lower interest rates.
- **Common Characteristics:** Generally have a positive payment history, moderate credit utilization, and a mix of credit accounts.

4. 740-799: Very Good

- **Description:** Scores in this range reflect a strong credit history. People with these scores are likely to receive the best credit terms and lowest interest rates.
- **Common Characteristics:** Excellent payment history, low credit utilization, and a solid mix of credit types.

5. 800-850: Excellent

- **Description:** This is the highest score range, indicating a very low risk to lenders. Individuals with scores in this range can access the best credit offers and interest rates.
- **Common Characteristics:** Impeccable payment history, very low credit utilization, and a long history of responsible credit management.



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Having good credit is important for several reasons:

1. **Better Interest Rates:** Good credit scores typically lead to lower interest rates on loans and credit cards. This can save you significant amounts of money over time, especially on large loans like mortgages or auto loans.
2. **Easier Approval:** With good credit, you're more likely to be approved for loans, credit cards, and rental applications. Lenders and landlords view a strong credit history as a sign of reliability.
3. **Higher Credit Limits:** Good credit can lead to higher credit limits on credit cards, providing more financial flexibility and helping to keep your credit utilization low.
4. **Insurance Premiums:** In some cases, good credit can lower your insurance premiums. Insurance companies often use credit scores to determine risk levels.
5. **Employment Opportunities:** Some employers check credit scores as part of their hiring process, particularly for positions that involve financial responsibilities. A good credit history can be a positive factor in job applications.
6. **Renting and Housing:** Landlords often check credit scores as part of the rental application process. A good credit score can make it easier to secure a rental and sometimes lead to better rental terms.
7. **Financial Security:** Good credit can be a buffer against financial emergencies. It may provide access to credit cards or lines of credit that can help cover unexpected expenses.
8. **Negotiation Power:** With good credit, you might have more leverage to negotiate better terms on loans, credit cards, and even some services..

Maintaining a higher FICO score can provide better financial opportunities and lower costs for borrowing. If your score is lower than you'd like, focusing on improving payment history, reducing credit utilization, and maintaining a good mix of credit types can help raise your score over time.