

## *Understanding the score*

**In today's market, good credit scores are becoming more and more important. Below are some tips to help you understand and improve your score. As always, please call me with any questions or concerns.**

### *What makes up the score?*

- 35% = based on payment history (i.e. on-time pays or delinquencies)
  - More weight on current pay history (reference right side of sheet)
- 30% + capacity (capacity is King)
- 15% = length of credit
- 10% = mix of credit
  - Installment (raises) vs. revolving (lowers)
- 10% = accumulation of debt in the last 12-18 months
  - # Of inquiries
  - Opening dates

### *What actions will hurt the score?*

- Missing payments (regardless of \$ amounts... It will take 24 months to restore credit with on late payment)
- Credit cards at capacity (i.e. maxing out credit cards)
- Closing credit cards out (This lowers available capacity)
- Shopping for credit excessively
- Opening up numerous trades in a short time period
- Having more revolving loans in relation to installment loans
- Borrowing from finance companies

### *What doesn't affect the score?*

- Debt ratio
- Income
- Length of residence
- Length of employment

### *Approximate Credit Weight for each year...*

- 40% = current to 12 months
- 30% = 13-24 months
- 20% = 25-36 months
- 10% = 37 + months

### *How to improve the score?*

- Pay down on credit cards
- Do not close credit cards because capacity will decrease
- Continue to make payments on time (older late pays will become less significant with time)
- Slow down on opening new accounts
- Acquire a solid credit history with years of experience
- Moving revolving debt to installment debt