

Understanding Your Credit Score

Before making a major purchase such as a home or automobile, there are two reports you should check—your credit report and your credit score.

While most US consumers are familiar with their credit report, some consumers may not be as familiar with their credit score, also known as their FICO score.

Your credit score includes information about your past credit history, bill paying, number of credit accounts and outstanding debt. These factors are then compiled into a statistical system that creditors use to determine your credit worthiness. This system awards points for each factor and helps predict how likely you are to repay a debt. The points are added to create your credit score.

Credit scoring models are complex, but cannot include certain characteristics like race, sex, national origin, religion, or marital status. While age can be a factor, a scoring system must give equal treatment to elderly applicants. Your credit score may also include information from a credit application such as occupation, length of employment and whether you own or rent your home.

Credit scores range from 300-850 with higher scores going to those individuals who are considered better credit risks. The national median credit score is 723. If your score is less than 620, obtaining loans and new credit may prove difficult.

To improve your credit score, consider the following:

- Pay your bills on time. Payment history makes up 35-percent of your total credit score. Late payments will negatively impact your score.
- To avoid worrying about late payments, you might consider choosing direct debit from your checking account to pay mortgage, auto, utilities and other monthly bills.
- Pay down your debts and try not to add new charges to your credit cards. The more debt you pay off, the better your credit score.
- If you intend to make a major purchase within the next year, start paying off your debt now.
- While too much credit can negatively impact your credit score, too little credit can have the same impact. You want enough credit history to prove that you are a responsible credit risk.

Don't worry about those dozens of credit card offers you receive in the mail each month. While they are very annoying, they will not hurt your credit score, unless you apply for all of them and incur new debt.

It is a good idea to review your credit report at least once a year. By September 1, all US consumers can obtain one free credit report each year. To order your free annual report, click on www.annualcreditreport.com or call 1.877.322.8228. You will need to provide your name, address, Social Security number and date of birth.

A word of caution. If you receive an e-mail or pop-up ad claiming it's from www.annualcreditreport.com or any of the three nationwide consumer reporting companies or if you receive a phone call offering you a free credit report, do not respond. It is probably a scam. Make sure you initiate the contact.

Note: The above mentioned credit report does not include your credit score. To obtain your credit score a charge will be incurred.

This information is provided as a public service by the Missouri Independent Bankers Association and Community State Bank of Missouri.