Credit Scores

Credit scores sound simple—it's just a three-digit number, right? But understanding how credit scores are calculated can be a complex undertaking. Don't worry, here is a break down the complexities which can help you understand how these numbers are calculated and how they affect you and your credit score.

Below are five factors that go into calculating your credit score.

1. **Payment history:** The record that demonstrates whether or not you make timely payments on your account. It accounts for 35% of your credit score. As this is the largest component of your calculation, it is critically important that you as a debtor make sure to comply with the terms of the creditor.

2. **Credit utilization:** The percentage of your available credit you have used. A lower credit utilization ratio is better. This accounts for 30% of your credit score. In simple terms-Just because you have a line of credit or credit cards, does not mean that you should use them to their limits. Keeping the amount of credit, you use to 10% or less will not negatively impact your credit score. Utilizing 75% or more of your credit available will dramatically have a negative impact to your credit score.

3. **Age of credit:** How long you've had credit and how old your accounts are. It accounts for 15% of your credit score. The longer you have an active account the better it is for your credit score. Making sure that you practice good credit utilization and make your payments on time for at least 7 years or more is important. The longer (7 year or more) you have credit in good standing the better the positive impact to your credit score.

4. **Types of accounts:** The diversity of your credit mix. This accounts for 10% of your credit score. People with top credit scores often carry a diverse portfolio of credit accounts, which might include a car loan, credit card, student loan, mortgage, or other credit products. Credit scoring considers the types of accounts and how many of each you have as an indication of how well you manage a wide range of credit products.

5. **Application history:** How many times you have applied for various forms of credit in the past two years. This accounts for the last 10% of your credit score. Hard inquiries are when you apply for a new line of credit, such as a credit card or loan. It means that a creditor has requested to look at your credit file to determine how much risk you pose as a borrower. If you have 2 or less hard inquiries within a running 2-year period, the more positive impact to your credit. If you have 5 or more hard inquires in the same running 2-year period, this will negatively impact your credit score in a big way.