

How to improve my credit?

Fact: A FICO score is a credit score developed by Fair Isaac & Co. Credit scoring is a method of determining the likelihood that credit users will pay their bills. Fair, Isaac began its pioneering work with credit scoring in the late 1950s and, since then, scoring has become widely accepted by lenders as a reliable means of credit evaluation. A credit score attempts to condense a borrower's credit history into a single number. Fair, Isaac & Co. and the credit bureaus do not reveal how these scores are computed. The Federal Trade Commission has ruled this to be acceptable.

Credit scores are calculated by using scoring models and mathematical tables that assign points for different pieces of information which best predict future credit performance. Developing these models involves studying how thousands, even millions, of people have used credit. Score-model developers find predictive factors in the data that have proven to indicate future credit performance. Models can be developed from different sources of data. Credit-bureau models are developed from information in consumer credit-bureau reports.

Credit scores analyze a borrower's credit history considering numerous factors such as:

- Late payments
- The amount of time credit has been established
- The amount of credit used versus the amount of credit available
- Length of time at present residence
- Employment history
- Negative credit information such as bankruptcies, charge-offs, collections, etc.

There are really three FICO scores computed by data provided by each of the three bureaus—Experian, Trans Union and Equifax. Some lenders use one of these three scores, while other lenders may use the middle score.

How can I improve my score? While it is difficult to increase your score over the short run, here are some tips to increase your score over a period of time.

- Pay your bills on time. Late payments and collections can have a serious impact on your score.
- Do not apply for credit frequently. Having a large number of inquiries on your credit report can worsen your score.
- Reduce your credit-card balances. If you are "maxed" out on your credit cards, this will affect your credit score negatively.
- If you have limited credit, obtain additional credit. Not having sufficient credit can negatively impact your score.

What if there is an error on my credit report? If you see an error on your report, report it to the credit bureau. The three major bureaus in the U.S., Equifax (1-800-685-1111), Trans Union (1-800-916-8800) and Experian (1-888-397-3742) all have procedures for correcting information promptly. Alternatively, your mortgage company may help you correct this problem as well.