

# Credit Score Repair Tips

How FICO® Scores and Debt Affect Your Big Picture



## What is a FICO® Score?

A FICO score is a number that companies granting credit use to assess an applicant's risk. The higher the FICO score, the lower the risk. FICO is short for Fair, Isaac and Company, which develops the mathematical formulas used to produce these scores. From the interest rate and features you are offered on a credit card to your ability to qualify for a mortgage, your FICO score plays a large part in the bank's decision-making process. A good score can have banks competing for your business when you apply for a loan. A bad score may mean that you won't qualify for your auto loan, mortgage or credit card – or if you do, you may only be offered high rates, which will cost you extra money each month.

## What Factors Make Up Your FICO Credit Score?

Your score is based on a compilation of many bits of information. No one piece of information or factor alone will determine your score. The importance of any factor depends on the overall information in your credit report. That's why it's important to retain good overall credit history and make repairs when needed.

## 1. Payment History

- ▶ Payment information on specific types of accounts
- ▶ Presence of adverse public records such as bankruptcy, lawsuits, liens, collection items and/or delinquency
- ▶ Level of delinquency
- ▶ Amount past due on delinquent items
- ▶ Lapsed time of past due items, adverse public records, or collection items
- ▶ Number of past due items on file
- ▶ Number of accounts paid as agreed

## 2. Amounts Owed

- ▶ Amount owed on accounts – sometimes specific types of accounts or type of balance
- ▶ Number of accounts with balances
- ▶ Proportion of credit lines used (percentage of total credit limits)
- ▶ Proportion of installment loan amounts still owed

## 3. Length Of Credit History

- ▶ Age of open accounts by specific type of account
- ▶ Time since account activity

## 4. New Credit

- ▶ Number and proportion of accounts that are recently opened – by type of account and recent credit inquiries
- ▶ Time since recent account opening(s), by type of account, and time since credit inquiry(s)
- ▶ Re-establishment of positive credit history following past payment problems

## 5. Types Of Credit Used

- ▶ Number of various types of accounts (credit cards, retail accounts, installment loans, mortgage, consumer finance accounts, etc.)



## Tips For Repairing Your Credit Score

### How to Repair Your Credit and Improve Your FICO Credit Score

The best advice for rebuilding credit is to manage it responsibly over time. If you haven't done that, then you need to repair your credit history before you see credit score improvement. Use these five tips to assist with the credit repair process:

#### 1. Check Your Credit Report

Start at the beginning: your credit report. If you haven't already, request a free copy of your credit report from a reputable company. It's best to use a company that checks all three major credit bureaus:

- ▶ Equifax [equifax.com](https://www.equifax.com)
- ▶ Experian [experian.com](https://www.experian.com)
- ▶ TransUnion [transunion.com](https://www.transunion.com)

If you find errors on any of your reports, dispute them with the credit bureau and reporting agency. For example:

- ▶ Make sure that there are no late payments incorrectly listed for any of your accounts.
- ▶ Verify that the amounts owed for each of your open accounts are correct.

#### 2. Pay Your Bills On Time

Paying your bills on time is one of the biggest contributing factors to your credit score. We could all use reminders in our busy days. Here are some ways to set up reliable reminders and schedules for important payments:

- ▶ Some banks offer payment reminders through their online portals that can send you an email or text message when a payment is due.
- ▶ Enroll in automatic payments through your credit card and loan providers to have payments automatically debited from your bank account.

#### 3. Control Your Spending

Credit cards have made it very easy to live beyond our means. You can quickly lose control of your spending by pulling out your credit card every time you make a purchase, resulting in overwhelming

debt. If you're overspending, create (and stick to!) a monthly budget to help you identify where you can cut back. Prioritize the bills that need to get paid and allocate money for the right time of the month to make sure they get paid on time. If you need help getting organized, you may want to consider an online banking option. There are also many other online budgeting resources available through banks for your personal use.

#### 4. Reduce the Amount of Debt You Owe

This will obviously take time and is easier said than done. Use the following advice to work on this:

- ▶ Stop using your credit cards! Learn to say "no" when you don't have available cash.
- ▶ Make as tight a budget as you can and stick to it.
- ▶ Make a list of all of your accounts and then determine the interest rates at which they are being charged. Allocate most of your available budget for paying off the highest interest accounts first, while still maintaining minimum payments on your other accounts.
- ▶ Talk to your creditors. They may be willing to reduce your payments or your interest rate. It's worth a try.
- ▶ Pay more than your minimum payments. Even a little more each month can help reduce debt a lot faster.
- ▶ Increase your income. Get a part-time job, hold a yard sale, etc. Consider what you can do to come up with more money to pay off your debt.

#### 5. Start Fresh

After your debts are paid off, you'll need to start building a new and better credit history. Only take on small amounts of debt that you can pay off every month and devise a plan that correlates with your budget for making that happen. Over time, the record of those on-time payments will be proof of your new credit habits, therefore improving your credit score.