Your Family Finances

Playing By The Numbers: Know And Understand Your Credit Score

(NAPSA)—You probably know that if your vision is 20/20, that's good, and that a cholesterol level over 200 is bad; but do you know your credit score and what it means?

If not, you're not alone. A recent survey conducted by the Consumer Federation of America (CFA) and Providian Financial found that almost half of Americans never have obtained their credit score. Only about a third of consumers understand that credit scores measure the risk of not repaying a loan. Only 10 percent of consumers knew what constituted a good or bad score.

"This lack of knowledge is troubling because a credit score can affect your life in important ways," says Stephen Brobeck, CFA executive director. Lenders may use your score to decide if you're a good risk for a mortgage, car loan or credit card; landlords and cell phone companies may use it to decide whether you're a good bet as a tenant or customer. If you get credit, your score may determine the rate.

According to the Web site myFICO.com, on a $150,000, 30-year, fixed-rate mortgage, with a FICO score of 500 to 559, you could qualify for an interest rate of 9.29 percent, at a monthly payment of $1,238. Score above 700 and you'd pay 5.79 percent, $879 monthly. That's a savings of $359 a month—more than $4,000 a year.

Educating yourself about credit scores is an important step toward managing your financial future. Here's what you need to know:

A credit score is a snapshot of your credit risk at a particular time. It measures how likely you are to repay a loan. The most

widely used credit scores are FICO scores, named for Fair Isaac Company, which invented them. FICO scores range from a low of about 300 to a high of 850. Most people are between 620 and 780. Credit scores are based on credit history; they don't consider income, age, sex, education level, marital status, race or religion.

Your score is based on five categories of information:

Payment history: Having paid past credit accounts on time indicates you're more likely to do so in the future.

Amount of debt: Having credit accounts and owing money on them is not necessarily bad but owing a lot of money on many accounts may indicate a person is overextended and a poor risk.

Credit history: An established credit history will boost your score. Establish a credit history by opening a credit account in your own name and using it responsibly.

New debt: Shopping for the best products and terms is common but opening several new accounts in a short time may indicate greater risk, especially if you don't have an established credit history.

A healthy mix: Most people who are financially established have a mix of credit accounts, from retail accounts to installment loans to mortgage loans.

Many banks, financial services Web sites and credit-reporting agencies offer FICO score delivery services for a fee. Top-ten credit card issuer Providian (www.providian.com) gives all cardholders free access to their credit score each month. Chris Lewis, executive vice president of Public Policy for Providian, explained, "Many people don't understand that they create their credit score, based on their credit behavior. Learning your score is the first step toward making it better."

Even if you've had trouble in the past, you can improve your credit score through a few simple steps:

- Pay your bills regularly and on time. If you missed payments, get current and stay there.
- Keep balances comfortably below your credit limit.
- Don't open accounts you don't need.
- If you have trouble making ends meet, contact your creditors or see a legitimate credit counselor. Don't wait until it's too late.
- Check your credit report from each credit-reporting agency annually, especially if you're considering a large purchase such as a house or car. Request a copy from www.equifax.com, www.experian.com and www.transunion.com.

Read your report carefully. If you find an error, report it to the appropriate agency and request that it be corrected.