

## *Financially Speaking*

With Trisha Arndt, CFP®

### What really goes into your credit score

I was supposed to work at the Spin the Wheel event at Hometown Days recently. I volunteered for a two hour time slot on Saturday and literally planned my weekend around it. I had every intention of fulfilling my obligation and even offering to stay longer if needed.

Unfortunately, the severe weather intervened and I found myself over 20 miles away at my scheduled start time. A couple of quick phone calls assured me that things were under control (and perhaps being shut down for safety reasons) so I decided take care of a couple of errands instead.

Read: I assuaged my guilt by doing some shopping.

As I prepared to check out I overheard the person in front of me trying to fend off the high pressure pitch to open a store credit card. It always sounds enticing but what kind of effect does having multiple such cards have on your credit score?

The credit scoring system was developed by the Fair Isaac Corporation back in the 1960's (hence the term "FICO" score). Technically you have three FICO scores – one for each of the three major credit reporting agencies.

There are a lot of myths floating around about what goes into a credit score and it is important that you understand at least the basics so that you can make good decisions about your credit. A higher credit score can make a huge difference when applying for any type of loan – not just in the approval process but also in the determination of what your interest rate will be.

One of the most common misconceptions is that as long as you pay your bills on time you will have a high score. While certainly very important for a variety of reasons and a critical component of the FICO score, payment history actually accounts for only 35% of your overall score. They also look at the amount of debt you owe (30% of score), the length of your credit history (15% of score), the number of credit accounts you've recently opened (10% of score) and the types of credit you use (10% of score).

People often assume that having a lower number of credit accounts would automatically improve their score. Not necessarily. More positive history is generally good for your score so having a number of accounts isn't necessarily a bad thing. It can be better for your score in fact to maintain a few accounts with balances between 25 percent and 35 percent of the available credit than to have only one but be maxed out.

Remember too that your FICO score doesn't consider your net worth or income level – it only looks at your past borrowing history.

I know a young man who has always been extremely careful with his money. He has always been a good saver and has paid cash for virtually every major purchase he has ever made. Because he has always been so financially responsible it came as a real shock to him when he went to finance the purchase of a bobcat and found out that he couldn't get a loan. Why? Because he basically had no credit history and therefore had a very low FICO score.

Knowing your FICO score and what goes into it can be very important parts of your financial life. I advise people to check their report and their score regularly. Remember that while the number of credit inquiries you have can negatively impact your score that does not apply when you check your own score – so feel free to check it often.

To access your free annual credit report and your FICO score (available for a small fee) go to [www.freecreditreport.com](http://www.freecreditreport.com). To learn more about how scores are calculated visit [www.myfico.com](http://www.myfico.com).

With just a small investment of time you will be able to make smarter credit decisions and take proactive steps to increase your score.

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