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Your credit score – why it matters and how it works

By LUCAS BUCL

In the United States, credit is everywhere. We hear about it all the time, from how to get approved for it, protect it, and manage it. Credit is simply the ability of a person to receive goods or services today with a promise to pay for them at a later day. A credit score is an attempt to measure or evaluate the creditworthiness of a person. In other words, they are trying to figure out how likely a person is to pay their debts back, and on time.

An individual's credit score has become increasingly more important in our society. Credit scores impact the ability to borrow money and the terms at which lenders are willing to make loans. It is also used in decision-making about home or apartment rental applications, job applications, auto and other insurance rates, cell phone contracts, and even the ability to hook up utilities without a cash deposit.

Given how critical the credit score has become, it is important to understand the components of it. The most common credit score is the one offered by the Fair Issac Corporation (FICO).

The components of the FICO score are as follows:

1. Payment history – 35 percent
2. Amount owed -- 30 percent
3. Length of credit history -- 15 percent
4. Types of credit used -- 10 percent
5. New credit -- 10 percent

For more details on each of these components, check out [myfico.com](http://www.myfico.com). (Hyperlink: <http://www.myfico.com/crediteducation/whatsinyourscore.aspx>)

The credit history information that goes into the scoring formula comes from one of the three major credit bureau companies. Those are Experian, Equifax, and TransUnion. As a consumer, you have the right to access your credit information with these companies for free. In fact, it is a federal law. There are a lot of companies out there that offer to sell you credit score or a monitoring service to access your credit information. This is not necessary in order to access your credit history.

We believe the best and easiest way to review your credit information with these credit bureaus is to visit www.annualcreditreport.com. You should consider pulling your credit information with all three of these credit bureaus once a year and reviewing for accuracy. This is also a great preventative measure against identity theft, as you can be alerted to activity that you did not initiate.

If you are looking to improve your credit score, here are five tips that we believe can help:

1. Pay your bills on time every month.
2. Build credit history to show responsible use with different types of credit This may mean using a credit card or taking out a small loan instead of paying with cash.
3. Avoid taking out a large number of cards or lines of credit. You probably don't need a store credit card for every place you shop!
4. Keep an eye on your credit used to credit available ratio. It is best to keep this under 50 percent.
5. Dispute and clear up any incorrectly reported items on your credit reports.

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