What are The Keys to a Perfect Credit Score

A few weeks ago Tim Coffman asked me if I would publish an article he wrote. At first I was hesitant. Most of our posts at Wealth and Wisdom are focused on self help and entrepreneurship. The more I considered, the more I realized filled in an area that I don’t spend much time on….personal finance. So I looked at his article more closely and was impressed, and even though I mastered personal finance 101 years ago, his article taught me something new.

Everyone talks about credit scores, but few of us fully understand them. While most people know it’s important to pay bills on time (and not to apply for too many cards) there is actually far more to a perfect credit score than just that. More importantly, it’s not something we can afford to remain ignorant of. The strength of your credit score influences how good of a deal you get on mortgages, car loans and - increasingly - whether you get a job or not. It also takes time to build a good credit score (or rehabilitate a poor one.)

Here are the keys to a perfect score:

The Keys At a Glance

An MSN Money article on the anatomy of a Fair Issac credit score gives a quick breakdown of the individual components of a credit score (and how much each one counts for.) That breakdown is:

- Payment history (35% of the rating)
- Length of credit history (15%)
- New credit (10%)
- Types of credit used (10%)
- Debt (30%)

The lowest possible score is 300; the highest, 850. What jumps out immediately (or should) is that your income is **not** a factor. “A person can have a very high income and never pay their bills,” according to Craig Watts, public affairs manager for Fair Isaac. Never forget that your credit score is a measure of your creditworthiness, not your overall financial position in life.

Payment History

(quaziefoto)

The biggest deciding factor in your credit score is your **payment history**. Very simply: you want to fit the profile of someone who pays their bills on time. Late payments that are reported by creditors (as virtually all of them are) go into your credit report as negative entries. Accumulate too many, and it will knock points off of your score when it is pulled by someone you are trying to borrow from.

(Credit scores, by the way, are not static, unchanging numbers. According to Fair Issac, they are re-calculated each time a prospective creditor pulls your report.)

Length of Credit History

(DeclanTM**)**

When it comes to your credit score, it is not just the **strength** of your history that matters, but **how long** you've had credit. By making this 15% of your score, the credit bureaus are essentially saying "anyone can demonstrate good credit for a few weeks or months - what we're looking for is someone who has paid creditors promptly for a long time." That's why it pays to have at least one credit card that you have faithfully used and repaid for a number of years.

New Credit

(orphanjones)

Another 10% of your score is determined by **new credit**. If you are the kind of person who constantly applies for and obtains new credit, this can harm your score (at least in the short-term.) It is also harmful to have excessive numbers of **hard inquires** into your credit report. Hard inquires are when you give lenders permission to pull your credit report. Soft inquiries, which are when you look at your own report or score, are not harmful.

Types of Credit Used

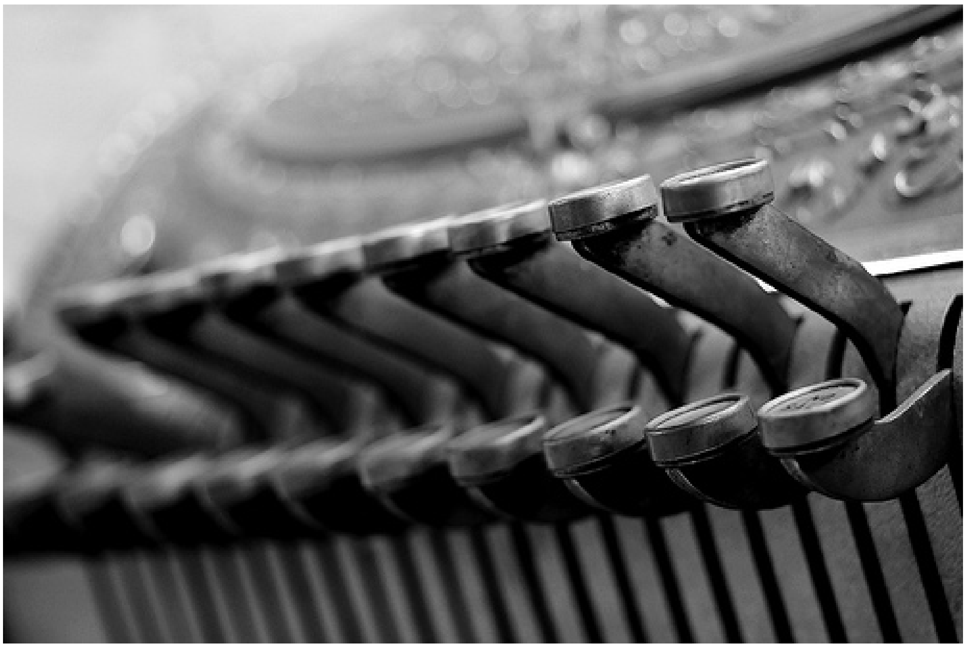
(ndrwfgg)

Another important and rarely discussed factor in your credit score is **diversity of credit** (or how many types of credit you've had.) Your credit score will never be as high as it could be if you've only ever had a credit card, or only ever had a car loan. Rather, the credit scoring formulas like to see that you have responsibly repaid several different kinds of debt during the course of your financial life. Thus, a "perfect" score might include:

- One or more long-held, frequently-used, always paid on time credit cards
- A successfully repaid (or in the process of being repaid) auto loan
- A successfully repaid (or in the process of being repaid) mortgage
- Successfully repaid student loans
- Other types of debt

Note, of course, that you should not incur debt for no other reason than building your credit score. Do not rush to finance a car, for instance, of you had no pre-existing plans to buy a vehicle. Just keep in mind that it does help to have multiple sources of credit on your report.

Debt


(tibchris)

Finally (and very importantly) 30% of your credit score is how much **debt** you currently have. Another way to state it is: how much of your available credit are you currently using? Remember, again, the **purpose** of credit scores: to help creditors decide whether they should lend you money (and if so, at what interest rates.) It is a way for creditors to judge risk. Keeping this in mind, it's no surprise that how much money you already owe makes a big difference in whether someone would want to lend you even more.

As a general rule, the less debt you currently have, the higher your credit score will be. Strive to keep credit card balances at 25% or less of their limits.

About the Author: *Tim Coffman is a freelance writer for Quicken. Quicken offers a* budget worksheet *that makes money management easy. Quicken's products help people get their spending under control with helpful* budgeting *tips.*

You can also find this article published on What are The Keys to a Perfect Credit Score, and on the tag pages Wealth.