How FICO Scores Work

- Credit Yak Basics

Your FICO score is calculated by a computer algorithm that evaluates many sources and types of information on your credit report when you apply for credit. By analyzing the information and patterns in your credit profile to patterns in millions of past credit reports, your FICO score provides lenders a consistent and reliable assessment of how risky it may be to lend you money.
The FICO SCORE has a range of 300-850, with 300 representing an extremely high credit risk and 850 representing an extremely low credit risk.
When a lender receives a FICO score, key "score factors" are delivered with the score. These key score factors are the top factors that affected the score. Credit Strong provides you with the top two factors that are currently impacting your FICO credit score.
FICO's research shows that people with a high FICO score tend to:

- Make all payments on time each month
- Keep credit card balances low
- Apply for new credit only when needed
- Establish a long credit history

The following is a more detailed description of each category provided by FICO, with a detailed breakdown of each category. As you review this information, keep in mind that:

- FICO scores take into consideration all of these categories, not just one or two.
- The importance of any factor (piece of information) depends on the information in your entire credit report.
- FICO scores look only at the credit-related information on a credit report.
- FICO scores consider both positive and negative information on a credit report.

DIY Credit Repair: The Go-To Guide For Fixing Your Credit

Hiring a credit repair company to resolve the issues dragging down your credit score can be *expensive*. According to Forbes, most people pay anywhere from

$60 to $200 a month for a minimum of six months while a credit repair service works on fixing your credit.
Professional credit repair sells you on removing negative items, but there's nothing they're doing that you can't do yourself. There are also no guarantees they'll be able to provide results.
Why spend thousands to potentially have no change on your credit report?
While many credit repair organizations are effective and can save you time and hassle, become one of the many people who have learned DIY credit repair can save you money and put you in control of your own credit destiny.

Consider this your credit repair guide. (Download Our Free Ebook as well)

Step 1: Get Your Credit Reports

To get started with fixing your credit, you'll need to pull your credit report. There are three major consumer credit bureaus – TransUnion, Equifax, and Experian.
The information each bureau has in your profile may not always be the same. In addition to discrepancies on what is in your profile, each bureau calculates your score slightly differently.
This is because some creditors report to all three credit bureaus, but not all companies do. Some only report to one or two of the major credit reporting agencies. So it's important to check what's on each one.
To save time, pull all three of your free credit reports from www.annualcreditreport.com. You're able to get a free credit report each year.
Experian and Equifax also offer *free* tools to view your credit score and reporting information. This makes it much easier and less costly to plan your credit repair journey.
You might be wondering where your credit score falls once you pull your reports from Experian, TransUnion, and Equifax. Credit scores range from 300 up to 850. A score of 670 or higher is considered 'Good' credit. That can qualify you for great credit cards and mortgage rates.
If your score is a step lower, between 580-669, it's considered 'Fair' credit. Below that range is 'Poor' credit.

Step 2: Make A List

Before reviewing your credit reports, make a list of your existing debts and the details for each. This helps you verify that each of the reported accounts on your credit history belongs there and is accurate. It'll also come in handy later in the credit repair process when eliminating debt.
You might end up pulling out financial records to make sure you're not missing anything. A lot of information can also be found within your online financial accounts. Make sure you consider credit cards, personal loans, mortgages, student loans, car loans, and collection accounts. For each account, you'll want to gather specific information (if applicable):

- Account numbers
- Credit limits
- Loan amounts
- Monthly payments
- Credit card balances
- Interest rates

All in all, it'll look something like this:

List Example

Account	Loan Amount	Credit Limit	Current Balance
Credit Card #1	None	$5,000	$3,000
Credit Card #2	None	$2,000	$1,000
Mortgage	$200,000	None	$150,000
Student loan	$52,000	None	$23,000
Collection account	None	None	$790

So when you're ready to review your credit reports, you'll know exactly what to look for and what looks out of place.

Step 3: Review Your Credit Report

After pulling your credit reports, it's time to review each one in detail. Use the list you put together in step two to ensure each account recorded on your credit history belongs to you. You also want to check that all the entries contain accurate information.

Make sure the account balances and credit limits are correct. Verify the account numbers are all correct as well. Review the payment history for each account listed to make sure on-time payments weren't recorded as late payments.

If any public records are reported, make sure they're accurate. Review your loan amounts to make sure those are right too. Any misinformation here could negatively impact your credit profile and your resulting credit score.

Do you notice multiple accounts you didn't sign up for? You might be a victim of identity theft. This is a very serious issue and needs to be addressed immediate-

ly. Place a freeze on your credit and start working with the credit bureaus to report and dispute the fraudulent information.
If all of the information is correct, that's great! You'll be able to skip the next step and start working on the other factors playing into your credit score.
If you find errors in your credit history, it can't stay there. It's time to file a dispute.

Step 4: Dispute Errors

Credit report errors happen more often than you think. According to the Federal Trade Commission, one in four consumers found errors on their credit reports impacting their credit score.
Five percent of consumers in the FTC study had errors that caused them to qualify for less than favorable terms on new credit and loans. Don't let an error cost you extra money in interest and make it seem like you have bad credit.
The Fair Credit Reporting Act grants you the right to dispute incorrect information on your credit report. With technology, the process is easy. There are two ways you can dispute negative entries:

- File a dispute through the credit reporting agency.
- Contact the creditor that furnished the inaccurate information.

The creditor who reported the negative entry is also known as the furnisher. If you choose to dispute with them, you can use the dispute letter provided by the Consumer Financial Protection Bureau (CFPB). You'll typically have to use old-fashioned mail for this one.
Filing a dispute through the credit bureaus tends to be a bit easier since they all have online dispute portals.
Looking for where to place your dispute?
Below are the details for each credit bureau's dispute process. For a detailed guide on disputing inaccurate information on your credit report, check out our step-by-step guide on how to dispute credit card errors.

Credit Bureau Dispute Information

Credit Bureau Dispute Information

Credit Bureau	Dispute Mailing Address and Form	Online Disputes	Phone Number for Disputes
Experian	Experian's Dispute Request Form ExperianP.O. Box 4500Allen, TX 75013	Experian's Online Dispute	(888) 397-3742
Equifax	Equifax's Dispute Request Form Equifax Information Services LLCP.O. Box 740256Atlanta, GA 30348-0256	Equifax's Online Dispute	(866) 349-5191
TransUnion	TransUnion's Dispute Form TransUnion LLCConsumer Dispute CenterP.O. Box 2000Chester, PA 19016	TransUnion's Online Dispute	(800) 916-8800

Step 5: Pay Bills On Time

Once you get errors out of the way, there's one less thing standing between moving from bad credit to good credit. Next is working on your payment history. One of the keys to DIY credit repair is consistently making your monthly payments on time. Unfortunately there's no shortcut here – the longer you show good payment history, the better off you'll be.

Your payment history tells potential lenders how likely you are to repay your debts. It makes up 35% of your credit score. When you miss a payment or make a late payment, it can stay on your credit report for seven to ten years.

This dramatically impacts your credit score. It also stands in the way of getting new credit accounts at lower interest rates and better terms. There are a few ways to make this happen.

- Make a plan to catch up on any past due bills
- Create a living budget
- Prioritize your most important payment obligations
- Schedule your bills on auto-pay

Catching up on late bills will help you create a clean slate with your payment history. Combine that with a solid budget and you're on a roll!

You'll also have to prioritize the important expenses to be paid first. Your mortgage or rent, car loan, credit card debt, and other monthly payments come before entertainment or hobby purchases.

Once you've nailed those principles, start scheduling your bills on auto-pay to avoid missing or forgetting due dates.

Step 6: Pay Down Credit Cards

Your credit utilization ratio is worth 30% of your credit score, which makes it the second largest percentage of your score. Your credit utilization rate refers to the revolving credit balances you keep compared to your credit limits.

If you have a credit card with a limit of $10,000 and it has a balance of $4,500 you'd have a credit utilization of 45%. Most credit pros suggest having a credit utilization below 10%. When you look at your list from step two, are your credit card balances close to their limit?

If so, there are a few ways to approach this:

- Look for debt consolidation options. Apply for a personal loan, a balance transfer, or a home equity loan to help you pay off credit card debt faster.
- Use the snowball or avalanche method. Arrange your debt payments to make repaying quicker and easier. (Here's where step two comes in handy.)
- Set up credit limit alerts. Your credit card issuer can send you alerts when you're close to your credit limit. All you have to do is set them up.
- Consider credit counseling. If you feel overwhelmed with debt, credit counseling services might be able to help you develop a repayment plan.

Step 7: Think Before Applying For New Credit

If you've gotten this far in fixing your credit, you've done a lot of work. Repaying debts, straightening out your monthly payments, disputing errors, and reviewing your credit history with a fine-toothed comb – great job!

Don't ruin your hard work by being careless with new credit applications. Anytime you apply for new credit a lender will perform what is called a 'hard inquiry.' The inquiry stays on your credit for two years. It can also drop your credit score up to five points.

If you have too many new credit inquiries at the same time it discourages potential lenders from approving you. Why? Because applying for new accounts left and right signals financial troubles to them.

Use your credit wisely and only apply for the credit accounts you *need*. Save your hard inquiries for when it really matters (for example, when a landlord, mortgage lender, auto lender, or bank is considering your application).

Step 8: Try To Increase Your Credit Limits (To Decrease Credit Utilization)

Other than paying down your revolving debts, there are other ways to decrease your credit utilization. The better your credit utilization is, the closer you are to getting out of bad credit. One of the easier steps to take is asking your credit card issuers for higher credit limits.

Many times the approval for this depends on your payment history with the credit card company. Depending on the card issuer, this might also create a hard inquiry. Not for all of them though.

If you do get approved for a higher credit limit, remember the goal is to *decrease* your credit utilization. So avoid putting yourself in additional debt – just because your limit has gone up doesn't mean you should use the extra line.