



Extension News Column

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Free Credit Reports

It has become increasingly difficult in our world to do without credit. A credit card allows you to easily pay for items, but can also cost you a great deal of money.

More than that, your credit score determines not only what you spend on any money you borrow, but also what you spend on insurance and a host of other seemingly unrelated expenditures.

How is a credit score determined? Knowing what determines the score will help you maintain a good credit score.

A credit score may be anywhere from 300 to 850 with lenders looking at 300 as those with the most risk and 850 as those that are most secure. The higher the number, the better the loan rates. Someone with a score of under 500 is not likely to get any kind of a loan. About 60% of people have scores of 700 and above.

The score is determined by the Fair Issac Corporation, hence the name, FICO score. It uses a specific formula to come up with the number on your credit report. It is made up of five parts:

- How you pay your bills—35%. Having a history of paying your bill on time is the most important factor here. Since it is the largest part of the equation, your main priority should be here.
- Amount owed—30%. This measures the amount of credit you owe in relation to the total of how much credit you have available. The less credit you use out of the amount you have available, the better you look to the credit bureaus.
- Length of credit history—15%. A list of credit accounts opened for a long time should help your number. For this reason, think before you cancel your credit cards. Instead of canceling the account, cut the card up and leave the account open, that is unless leaving the account open costs you a monthly or annual fee.
- New credit—10%. Opening several new accounts in a short period of time can lower your score.
- Types of credit—10%. The mix of credit cards, retail accounts, finance company loans, and mortgage loans is considered.

So what is your score?

Though we always knew that there was a score that banks looked at to determine our ability to pay money back, the idea that we know an actual number has just been available to the public for the last few years. There are three main creditreporting agencies—Equifax, Experian, and Transunion. You can request a free credit report from each of these agencies each year. Free credit reports can be obtained through each of these agencies, but the easiest way is to go to www.annualcreditreport.com, the authorized central source. You can request it online, but make sure you go to the right website. There are lots of websites that have similar URLs, and many of them have a cost. So do the homework yourself.

If you don't need it immediately, call 877-322-8227 or print the request and mail it to the indicated address. Phone and mail requests are processed within 15 days.

Smart consumers stagger their requests. Get one in January from Equifax, in May from Experian, and in September from Transunion. This way, you can keep track of your progress if you are trying to improve your score. Next week's column will talk about how to improve your score.