



business & money

BY LONNIE HARDY

Credit Cards and Credit Scores

Every year, credit card companies mail millions of "pre-approval" solicitations attempting to "capture" new customers. Shamelessly, their "Siren call" uses a variety of psychological ploys to draw us in.

Most of us receive at least several such enticements every month; and, for every million solicitations mailed, about 6,000 or so responses are received. Doesn't seem like a great return, right? But, wait. If, say, 3,000 of these responses result in the issuance of new cards that each generate \$50 in monthly finance charges, the issuer will gain new revenue of \$150,000 per month, or, \$1.8 million per year. And, with many millions of mailings per year -- the numbers are staggering. (Not to mention the estimated \$15 billion in late fees, over-the-limit fees and membership fees assessed each year.)

In setting interest rates, credit card companies (as well as most other lenders) refer to your "FICO" credit score ("FICO" is the acronym for Fair Isaac Corporation, the company who provides the best known scoring system). Your FICO scores are calculated primarily by three credit-reporting agencies - Experian, Transunion and Equifax - based on your credit history. Scores range from 350 to 850, with 850 being the most credit worthy. Scores are computed using complex and mysterious algorithms that consider five weighted attributes:

- Payment History - weight 35 percent.
- Amounts Owed - weight 30 percent.
- Length Of Credit History - weight 15 percent.
- New Credit Accounts Open - weight 10 percent.
- Types Of Credit Used - weight 10 percent.

Interestingly, your level of income and financial assets are not considered. Generally, scores above 700 are considered good, but the higher your score, the better. And low scores can cause you to be denied credit or, at best, cost you heavily in higher interest rates. For instance, one borrower's low score will cost him an extra \$200,000 over the life of his 30-year mortgage; another low scorer will pay an extra \$4,000 on his 36-month auto loan.

There are many sources from which you can obtain your scores and suggestions on how to improve them. One of them is Fair Isaac Corporation's own website, www.myfico.com. Failing to aggressively manage your FICO scores can prove to be very foolish; and, as it has been written, "a fool and his money are soon parted."

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