Welcome to your financial fitness minute. Your credit score. There are a lot of misconceptions about credit scores and how they're calculated. While the actual algorithms are highly complicated, the factors that go into determining your score aren't. There are five basic parts of the FICO score. That's the score most lenders use. Your FICO score is somewhere between 300 and 850. A higher score indicates that you are considered a less-risky borrower than someone with a lower score. The first and most important component is your payment history. Thirty-five percent of your score is based on you've paid your bills. As you may imagine, on-time payments will result in a higher score, while late payments and collection accounts will damage your score. The fact that you missed one payment three years ago doesn't mean your score is ruined, however. Recent, frequent, or severe lateness will lower your score more than the occasionally mild payment mishap. The second element of your score is your total balances, relative to the limits on your revolving accounts, like credit cards. Simply put, the less you owe on your revolving accounts, the higher your score. Many people are surprised that this makes up a full 30 percent of the FICO score. Not using any credit at all, though, can result in no score at all. The third factor is the length of your credit history. It's 15 percent of your score. The older your accounts become, and the longer you have used credit, the better. Fourth is new credit. This makes up ten percent of your score. Basically, this is the number and proportion of recently opened accounts, and the number of inquires, which are the times you've applied for credit. Many people are concerned about applying for credit and it lowering the score. This is a small part of the entire picture, however. And in cases in which many people shop for credit -- like for auto or mortgage loans -- generally multiply applications within a short time frame will only count as one inquiry. The final ten percent is types of credit. There are two different types of credit. Revolving, like credit cards. And installment, like loans. Having a variety of accounts will show that you can handle different types of credit, and generally boost your score. Thank you for joining us for this financial fitness minute.

[End of Audio]