LJJ Financial Coaching

A Clearer Path to Financial Peace

Understanding FICO Scores

What is your FICO score made of?

- It's a three-digit number (typically 300–850) that lenders use to evaluate how likely you are to repay borrowed money.
- It's made up of five key factors: Payment History, Amounts Owed, Length of Credit History, Credit Mix, and New Credit.

Five Factors Explained:

- **Payment History (35%) – "Do you pay on time?"**
    - This is the most important part of your score.
    - It looks at whether you've paid past credit accounts on time.
    - Late payments, collections, and bankruptcies hurt your score
    - Consistently paying on time helps build strong credit

- **Amounts Owed (30%) – "How much do you owe?"**
    - This considers how much debt you currently have, especially compared to your credit limits.
    - High balances relative to limits can lower your score
    - Lower balances improve your score

- **Length of Credit History (15%) – "How long have you had credit?"**
    - This measures how long your accounts have been open.
    - Older accounts help your score
    - A longer credit history shows stability

- **Credit Mix (10%) – "What types of credit do you have?"**
    - This looks at the variety of credit accounts you use.
        - Examples: credit cards, auto loans, mortgages
    - A mix of different types can slightly boost your score

- **New Credit (10%) – "How often do you apply for credit?"**
    - This tracks recent credit inquiries and newly opened accounts.
    - Too many applications in a short time can lower your score
    - Opening several accounts quickly can be seen as risky