What to Make of Your Credit Score

After a certain point, higher credit scores don't win lower interest rates.

By Elizabeth Razzi, Kiplinger, October 1, 2004

Smart borrowers know that a good credit rating will get them a lower interest rate. But how good does your record have to be to get the best rates?

Most Kiplinger readers can expect to find that their scores are good enough, thank you very much. In fact, half of all consumers have sufficiently high scores to earn them the best interest rates.

The top possible score is 850 -- but you needn't aim for that. "Obtaining 800 is probably unrealistic," says Craig Watts, consumer affairs manager for Fair, Isaac & Co., the company that compiles the FICO scores that most lenders use when making lending decisions. "Anything better than the mid 700s is fine," he says. "You're going to be offered the best interest rate." A median score usually falls in the 720-to-725 range, meaning half of us fall above that point, half below.

If you want to know exactly where you stand, you can buy a standard report from Fair Isaac's Web site.
http://www.myfico.com/Products/Products.aspx?fire=1
The report includes your FICO score, along with an explanation of the codes that describe your weaknesses and some suggestions on how to improve the numbers. You'll also get a copy of your credit report from the Equifax credit bureau.

If you want to track your progress in improving your score over the course of a year, a subscription will get you four reports for $50. Of course, if you're at the top of the heap already -- with a score of 720 or better -- who cares? If your score falls below that level, though, you can use a free calculator on the site to see how much interest you would save by improving your number.

Breaking it down

We found that borrowers with FICO scores in the second-best tier (700 to 719) stand to realize only modest savings by climbing into the top tier. For example, on a 30-year, fixed-rate home mortgage for $250,000, raising your score from the 700-to-719 category to the top slot would save you only $20

per month. Granted, that comes to $7,200 over 30 years.
Those with even lower scores because of late payments or because they already have a lot of debt have the most to gain by improving their numbers. On that $250,000 mortgage, someone in the top bracket would pay $106 a month less than a borrower with a 675-to-699 score.
For a four-year, $20,000 car loan, raising your score from 690 to 720 would save only $7 per month; raising it from the lower category to 720 or better would save $26 a month -- enough to gas up your SUV.

Now the bad news: Improving your score can take years. The quickest fixes come when you spot errors in your credit report. If you report an error to the credit bureau and lender, you should be able to raise your score with little delay. But amending your credit patterns takes longer.
If you've had minor problems -- say, an outstanding balance is a tad high -- you might be able to pay it down and see some improvement over six months to a year. But fixing big blemishes, such as paying credit card bills 30 days late, takes time. "It's very hard to improve substantially in six months," says Watts. "If you work three or four years at it, it is possible to improve your scores substantially."

Keep that in mind before you sign up for a year's subscription to your FICO score. Web sites that pitch free credit scores, give you your score only if you agree to a 30-day trial of their credit-monitoring services. If you don't opt out in time, they'll charge you for a year's worth of service.