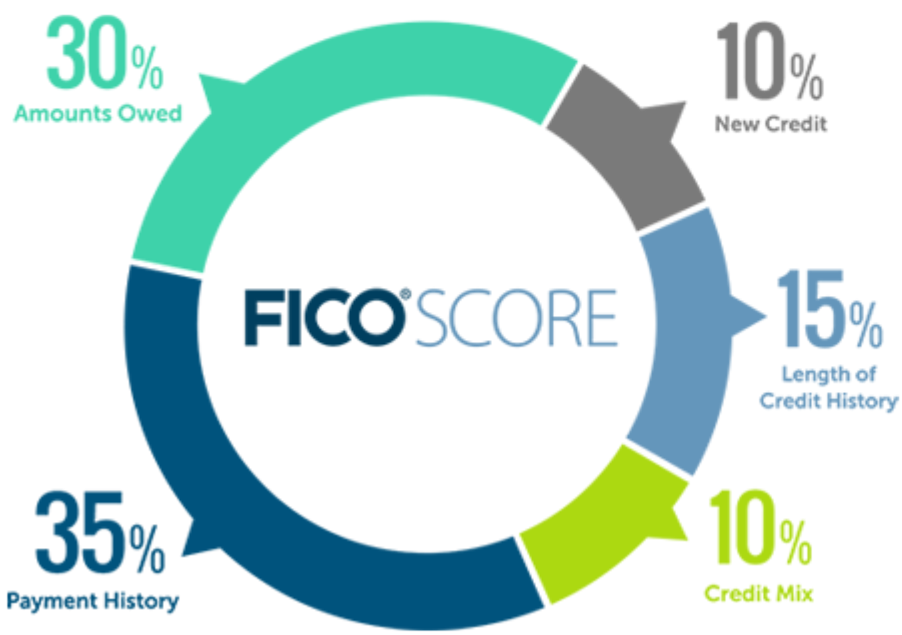
Many people of "creditworthy" age know what a FICO® score is. For those who aren't sure: a FICO Score is the number that represents a borrower's creditworthiness. It is based on the data within his or her credit report(s). That number, in turn, is used by 90% of top lenders to determine how much credit they'll offer a borrower and at what interest rate. In essence, it's a "guide" for lenders to assess the risk of loaning money to individuals.

That's it. We're done. There's nothing else you need to know about a FICO Score, right? Well, not exactly.

Knowing your score is critical to understanding your financial picture. However, it's also important to understand how that score came about, how it's calculated and what you might've done (or haven't done) that has given you the score you have today.

What makes up a FICO Score?

From a diagrammatical perspective, the breakdown of factors that make up a FICO® Score looks like this:



FICO® Score Breakdown

It's important to know that the percentages above are based on the importance for the general population. For particular groups, such as people who have not been using credit long, the importance of these categories may be different.

Payment History – 35%

As you might expect, the repayment of past debt is a major factor in the calculation of credit scores. It helps determine future long-term payment behavior. Both revolving credit (i.e. credit cards) and installment loans (i.e. mortgage) are included in payment history calculations. Although installment loans take a bit more precedence over revolving credit. That's why one of the best ways to improve or maintain a good score is to make consistent, on-time payments.

Amounts Owed – 30%

This category is basically credit utilization or the percentage of available credit being used/borrowed. Credit score formulas "see" borrowers who constantly reach or exceed their credit limit as a potential risk. That is why it's a good idea to keep low credit card balances and not overextend your credit utilization ratio.

Length of Credit History – 15%

This factor is based on the length of time all credit accounts have been open. It also includes the timeframe since an account's most recent transaction. Newer credit users could have a more difficult time achieving a high score than those who have a credit history. Since those with a longer credit history have more data on which to base their payment history.

Credit Mix – 10%

FICO® Scores consider the combination of credit cards, retail accounts, installment loans, finance company accounts and mortgage loans. Credit mix is not a crucial factor in determining your FICO Score unless there's very little other information from which to base a score.

New Credit – 10%

Today's higher use of credit factors into FICO® Score calculations. Still, opening several new credit accounts in a short period of time can signify greater risk – especially for borrowers with a short credit history. So how one shops for credit and within what timeframe can affect a FICO Score in a number of ways.

Knowing what factors make up your FICO® Score is a great help toward understanding how your financial actions can impact your financial future. This information can also help you improve your score (if it needs improvement) and make the most out of the credit you have.