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## Get Your Credit in Check

As the country works its way out of the recent recession and aftershocks, I've noticed consumers being more and more conscious of their credit score. It is no secret that many financial institutions nationally had let their lending standards lax, and therefore people with less than desirable credit histories could qualify for loans that otherwise wouldn't have been available. Those days are now gone and some recent studies have suggested that lenders nationally have raised their standards by 20 to 40 points over the past year.

In this country, the most widespread measure of a person's credit history is the FICO score (developed by the Fair Isaac Corporation) and they range from 300 to 850 depending on the rating agency. The three most utilized rating agencies by financial institutions are Experian, Equifax, and TransUnion. Your score will be different with each agency because they each collect slightly different information and not all financial institutions report your history to all three. You can view your report once a year from each of these 3 main reporting bureaus at [www.annualcreditreport.com](http://www.annualcreditreport.com) at no cost.

Your score is calculated based on five major factors: payment history, the relationship between your current balances and credit limits on revolving debt, the length of your credit history, the types of credit you have had, and the number of times you have applied for credit. Late payments will hurt your score more than anything and therefore this is the most important factor to lenders. When financial institutions lend money, they want and expect to get paid back according to the contract you sign and have little tolerance for delinquency. The second most important factor, according to the rating agencies, is your credit utilization. This refers to the relationship between your current balances and the total amount you have available. If a lender sees that you are tapped out on all sources of credit, they may not be willing to provide anymore.

The remaining three categories have a lesser overall impact. The length of your credit history is next in line in terms of importance and the longer you have properly managed your financial affairs the better. Having a good mix of credit types including term (such as a car loan) and revolving debt (credit card or HELOC) shows that you can manage different credit structures at the same time. The number of times financial institutions have made an inquiry to your report is measured because it may show that you only use credit when needed or cannot pass up any offer.

So why is this all so important? At some point, the vast majority of people will need or want to borrow money for something and your score is very important part of the lending decision depending on the institution. Some base their decision solely on the score while others may place less importance on it and only let it determine the rate you qualify for. Additionally, telecommunication, insurance, property management and even some utility companies will factor your history into the services they provide. While you may still be able to get a cell phone or rent an apartment with a poor history and low score, don't be surprised if a large security deposit is required to do so.

A good score and solid payment history will help you get the best rates available. Every institution has its own standards but typically a score of 750-760 and above is needed to get the best terms and rates. Lower scores will result in higher interest expense and possibly a denial of your financing request.

Next time I will discuss what not to do with your credit and how you can improve your situation if you've made some mistakes in the past. Please feel free to contact me with any questions or comments you may have by email at [mdaily@p-s-b.com](mailto:mdaily@p-s-b.com) or by phone at 309-385-4375.



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