

## 5 Things You Need to Know About Your Credit Score

You might be wondering, “What is my credit score?” Because credit is so important in your life, it is important that you understand the basics about your personal credit rating (or FICO score). Your credit score matters because it determines whether or not you are approved for a credit card, a mortgage, a car loan or any other type of loan.

### **What is a credit score?**

Your credit score is a three-digit number that indicates your creditworthiness. Creditors use your credit score to determine how likely you will repay your debts in a timely manner. Lenders want to be paid, so if your score indicates that you are a reliable borrower, you have a better chance to be approved for a loan.

### **Here are 5 things that you should know about your credit score:**

#### **#1 - We all have several different credit scores.**

Each consumer has multiple credit scores. Most of us have our credit information stored and calculated at the three major credit bureaus: TransUnion, Equifax and Experian. All three major bureaus will calculate your credit score independently from each other. Although they generally look at the same credit history, each score might be slightly different.

According to [Fair Isaac](#), 90% of “top” U.S. lenders use FICO scores. The lowest FICO score is 300 and the highest is 850. The higher the number the better credit you have. A FICO score over 740 is considered excellent credit and will qualify you for the best rates. If your score is under 650, you will pay higher interest rates.

#### **#2 - There are several factors that make up your credit score.**

Credit scores are calculated from many different places. Credit scores are based on positive and negative financial activities. For example, a late payment will negatively impact your credit score while making payments on time will improve your credit score.

### **FICO scores are calculated based on the following:**

- **Payment history.** Do you pay your loans and bills on time?
- **Amounts owed.** How many accounts do you owe money on? What types of debts do you have? What is your credit utilization rate? Your credit utilization rate is calculated based on what percentage of your available credit you use.
- **Length of credit history.** How long have your credit lines been open? The longer your credit history the better.

- **New credit.** How many new credit lines have you opened? Opening too many accounts in too short of a time frame is considered a sign of risk and will lower your score.
- **Credit mix.** Do you have a variety of credit accounts? It is best to have a mix of accounts, including, credit cards, mortgage and a car loan.

### #3 - There are many ways to improve your credit.

The bad news is that it takes time to build or repair your credit. The good news is that you can always improve your credit score.

#### You can improve your credit the following ways:

- **Check your credit report.** You should check for errors and inaccuracies. If you see any errors, dispute them with the credit bureaus.
- **Pay your bills on time.** If you have difficulty making payments, communicate with your lenders.
- **Set up automatic payments** with your bank to avoid late payments.
- **Reduce the amount of debt.**
- **Keep credit card balances low.**
- **Pay off debts** instead of moving them around.
- After you have paid off a loan, check to make sure that it was removed from your credit report.
- **Don't cancel unused credit cards.** Keep them open and use them for small amounts once or twice each year.
- **Don't open new credit card accounts if you don't need them.** New accounts will lower your credit age and will lower your credit score.

### #4 - You can get your credit report free

The Fair and Accurate Credit Transactions Act of 2003 gives you the right to get a free credit report every year from each of the three credit bureaus. A great place to get your free credit report is [annualcreditreport.com](http://annualcreditreport.com). It is the official site to get your free annual credit reports. Don't be fooled by look-alike websites.

There are many places that claim to give you a free credit report. Unfortunately, some of them are scammers.

#### Here is how to avoid them:

- Websites that offer free credit reports don't advertise. Never click on an ad for a free credit report.
- A truly free credit report should not require payment or a credit card number. If someone is asking for your credit card to give you a free credit report, walk away.

- Don't sign up for a subscription service to get your credit report.
- Avoid links and email attachments offering free credit reports.
- Only use the official free credit report website [AnnualCreditReport.com](https://www.annualcreditreport.com).

#### **#5 - What else will lenders check beside your credit score?**

Your credit score is very important when you apply for a loan, but it is not the only important factor. Your credit score tells lenders how you have handled your bills and debts in the past.

**Lenders also consider several other important factors, beside your credit score, before they approve you for a loan:**

- **Debt-to-income ratio.** Your debt-to-income ratio is all of your monthly debt payments divided by your gross monthly income. It is one of the most important numbers for mortgage lenders. In general, lenders prefer your debt-to-income ratio to be 43% or under.
- **Employment history.** Lenders prefer borrowers with a two year plus job history. Lenders believe that if you have been employed for the past two years, it is less likely that you will lose your job. If you have been unemployed in the past couple of years, it might be more difficult for you to get a loan.
- **Savings.** To qualify for the best interest rates, make sure you have enough savings. Some lenders require you to have enough savings to make 2-4 monthly payments.
- **Down payment.** In simple terms, a larger down payment means a lower interest rate. Borrowers who make larger down payments are considered less risky.

Your credit score determines whether or not you will be approved for a credit card, car loan or a mortgage. Your score also determines what interest rates you will get on these loans. You might also need your credit score to rent an apartment one day. A bad credit score will cost you more. Keep your credit score high.