



Building Good Credit

Chances are you've heard ads on television telling you to check your credit score. But what is a credit score, and why does it matter?

A good credit score helps you to get better interest rates on home or car loans. Your credit history can determine whether you get a good job, a decent apartment or reasonable rates on insurance. Lenders and others use credit scores to determine how likely you are to make payments on time. Building a good credit history is more important than ever.

Check your credit report.

It's important to make sure your credit report is accurate. You can order a free credit report annually from each of the major credit reporting agencies. Order online at www.annualcreditreport.com or call 1-877-322-8228. The free report will not include your credit score.

What is a credit score?

A credit score is like a grade for the way you use credit. The two most common credit scores are FICO and VantageScore. FICO scores range between 300 and 850. Lenders like to see FICO scores above 700. VantageScores range between 501 and 990. VantageScores are ranked A through F. A-level scores (901 – 990) are the best. VantageScores of 600 fall in the “F” category.

Parts of a FICO score:

- **35% – Payment history.** Remember to pay on time with no negative items, such as bankruptcies or delinquencies.
- **30% – Amounts owed.** These are amounts due, types of accounts due and available credit.
- **15% – Length of credit history.** This represents how long the accounts have been open.
- **10% – New credit.** This represents how many of your accounts are new.

- **10% – Types of credit used.** These are a variety of types of credit, including installment and revolving.

Parts of a VantageScore:

- **32% – Payment history.** This represents your repayment behavior.
- **23% – Utilization.** This is the amount of debt compared to available credit.
- **15% – Balances.** These are current and delinquent amounts.
- **13% – Depth of credit.** This is the length of your credit history and types of credit.
- **10% – Recent credit.** This represents new accounts and inquiries.
- **7% – Available credit.** This is the amount of credit you have available.

What's not in your score?

By law, credit scores may not consider your race, color, religion, national origin, sex, marital status and whether you receive public assistance or exercise any consumer right under the federal Equal Credit Opportunity Act or the Fair Credit Reporting Act.



Strategies for Building a Good Credit History

- Check your credit report.** You can get one free credit report from each of the major credit reporting agencies each year. They don't have to be ordered all at once. Check with a different agency every three to four months to check your progress. The three major credit reporting agencies are Equifax, Experian and TransUnion. Access reports from all three at www.annualcreditreport.com or by calling 1-877-322-8228.
- Address negative issues or misinformation on your credit report.** It's easy to fill out a form that contests any incorrect information. You may find that there are small balances that you have overlooked that can be paid off in a short amount of time.
- Know your score.** It's a good idea to check your credit scores from multiple agencies, especially before applying for a loan. Each credit reporting agency may have different information on you, depending on which companies have contacted them. Your credit scores may vary.
- Pay bills on time.** Even if you have a history of late payments, you can make a fresh start. Start paying your bills on time and your credit score will begin to improve. You'll also save money by avoiding late charges.
- Pay more than the minimum.** Making only minimum payments will cost more in the long run. Interest charges add up and can take years to pay off. High levels of credit card debt can hurt your score.
- Don't "max out" your credit cards.** The total amount you owe is compared to your total amount of credit available. Keep balances at less than 30% of the credit limit for each account. The more you owe compared to your limit, the lower your score will be.
- Be cautious about closing accounts.** Closing older accounts can shorten your length of credit history. Also, closing accounts can reduce the amount of available credit. Close old, unused accounts only if you can do so while maintaining your length of credit history and a strong debt-to-available-credit ratio.
- Be cautious about opening accounts.** Lenders check your credit report every time you apply for a loan or credit card. Many "inquiries" into your credit report can make it look like you're taking on lots of new debt. Multiple inquiries for a single loan are okay, though. Shop for car or home loans during a short period of time such as 30 days.

References

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