10 Things You Should Know About Credit Scores

YOUR CREDIT SCORE IS ONE OF THE FACTORS LENDERS CONSIDER WHEN YOU APPLY FOR A LOAN, MORTGAGE, OR CREDIT CARD, OR EVEN SIGN UP FOR A CELL PHONE PLAN. Although most consumers have credit scores, there are a lot of myths and misinformation about what influences them.

1. **What's in a number?** A credit score is a three-digit number used by lenders to evaluate your ability to repay debt on time. It's not the same as a credit report—that's a list of your credit accounts and activity used to calculate your credit score.

2. **Information such as your age, income, and employment status don't count toward your score.** Lenders may consider personal information such as salary and employment history when deciding whether to approve you for a loan, but these aren't factored into your credit score.

3. **Higher is better.** You may actually have multiple credit scores because there are several companies that provide them, each with varying calculations and ranges. FICO scores tend to be the most common and their base scores range from 300 to 850. A score around 750 or higher means you're more likely to get approved for new credit with better (lower) interest rates or terms (see page 2).

4. **Always pay on time.** Few things worry lenders more than unreliable repayments. That's why your payment history—whether you've paid on time or are prone to making late payments—is the biggest component of your credit score (35% of it according to FICO,[1] one of the most well-known providers of credit scores).

5. **Leave yourself some wiggle room.** The second-largest part of your credit score (30%) is how much you owe. Using too much of your available credit limit can make lenders nervous that you're in over your head. Keeping usage low and consistent (below 30% of your credit limit, if possible) and paying off credit cards as soon as possible after big purchases can help reduce negative impacts on your score.

6. **Give it some time.** The length of your credit history is the third-largest component of your credit score (15%). This includes the age of your various accounts and how long it's been since you used some accounts. However, you can still have a high score even if you're relatively new to using credit, assuming you use credit regularly and make payments on time.

7. **There's such a thing as too new.** Opening too many new accounts in a short amount of time can raise a red flag (10% of your score). However, shopping around for the best rate on a single loan generally doesn't cause concern. In such a case, all the activity in a short time is ultimately considered one event once you take out the loan and only one new account is added to your credit report.

8. **Variety is the spice of life.** For the final 10% of your score, lenders like to see that you can responsibly manage a mix of different credit types, such as revolving (credit cards), retail accounts, and installment loans (mortgages, car loans, etc). You don't need one of each, but having accounts in several categories helps boost your score.

9. **Stay in the know.** You can request your credit score from credit bureaus such as Experian, TransUnion, and Equifax, but you'll likely have to pay for it. You can check it for free through services such as Credit Karma and Credit Sesame, and many bank and credit card companies have started offering free credit scores as a perk. Checking your own score doesn't lower it—this is a common myth.

10. **If you need help, don't be afraid to ask for it.** Having too much debt can lower your credit score, which can prevent you from getting the best interest rates and ultimately cost you more money in the long term. A financial advisor can help you come up with a strategy to pay off your debt and improve your credit score over time.

[1] Source: www.myfico.com, 3/19

What Makes a Credit Score Good or Bad?

FICO Credit Score Ranges and Corresponding Categories

Credit Score	Rating	% of Americans	Impact on Financial Life
800-850	Exceptional	19.9%	Applicants with scores in this range are at the top of the list for the best rates from lenders.
740-799	Very Good	18.2%	Applicants with scores here are likely to receive better than average rates from lenders.
670-739	Good	21.5%	Only 8% of applicants in this score range are likely to become seriously delinquent in the future.
580-669	Fair	20.2%	Applicants with scores in this range are considered to be subprime borrowers.
300-579	Very Poor	17%	Credit applicants may be required to pay a fee or deposit, and applicants with this rating may not be approved for credit at all.

Data sources: Experian and Hartford Funds, as of 3/19.

If you have questions about your credit score or want to improve your current score, talk to your financial advisor.

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