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Credit Scores Are Vital to Your Financial Health

A credit score is a number that helps lenders and others predict how likely you are to make your credit payments on time. Each score is based on the information then in your credit report.

Why Do Your Scores Matter?

Credit scores affect whether you can get credit and what you pay for credit cards, auto loans, mortgages and other kinds of credit. For most kinds of credit scores, higher scores mean you are more likely to be approved and pay a lower interest rate on new credit.

Want to rent an apartment? Without good scores, your apartment application may be turned down by the landlord. Your scores also may determine how big a deposit you will have to pay for telephone, electricity or natural gas service.

Lenders look at your scores all the time. They look at your scores when deciding, for example, whether to change your interest rate or credit limit on a credit card, or whether to send you an offer through the mail. Having good credit scores makes your financial dealings a lot easier and can save you money in lower interest rates. That's why they are a vital part of your financial health.

Consider a couple who is looking to buy their first house.
Let's say they want a thirty-year mortgage loan and their FICO credit scores are **720**. They could qualify for a mortgage with a low 5.5 percent interest rate*. But if their scores are **580**, they probably would pay 8.5 percent* or more -- that's at least 3 full percentage points more in interest. On a $100,000 mortgage loan, that 3 point difference will cost them $2,400 dollars a year, adding up to $72,000 dollars more over the loan's 30-year lifetime. **Your credit scores do matter.** *Interest rates are subject to change. These rates were offered by lenders in 2005.

What is a Good Score?

When lenders talk about "your score," they usually mean the FICO® score developed by Fair Isaac Corporation. It is today's most commonly used scoring system. FICO scores range from 300-850, and most people score in the 600s and 700s (higher FICO scores are better). Lenders buy your FICO score from three national credit reporting agencies (also called credit bureaus): Equifax, Experian and TransUnion.

In the eyes of most lenders, FICO credit scores above 700 are very good and a sign of good financial health. FICO scores below 600 indicate high risk to lenders and could lead lenders to charge you much higher rates or turn down your credit application.

Not Just One Score

There are many types of credit scores. They are developed by independent companies, credit reporting agencies, and even some lenders. As a rule, the higher the score, the better.

- **Each credit reporting agency calculates your score** and each score may be different because the credit history each agency has about you may be different. Lenders may make a credit card or auto loan decision based on a single agency's score, although others such as mortgage lenders often will look at all three scores.
- **Your credit score changes** when your information changes at that credit reporting agency. This is good news! It means you can improve a poor score over time by improving how you handle credit.
- **Many insurance companies use something similar** when setting your insurance rates, called a "credit-based insurance score." You may be able to improve your insurance score by improving how you handle credit, which in turn may lower your premium payments on auto or homeowners insurance.
- **Some credit scores offered to consumers are just estimates** and are different from the credit risk scores lenders actually use, although they may appear similar. Consumer reporting agencies and other companies sometimes use an estimated score to illustrate a consumer's general level of credit risk. How might you tell whether a score is estimated? Ask the company if the score is used by most lenders. If it isn't, it is likely to be an estimated score.

Five Parts to Your FICO Credit Scores

As a rule, credit scores analyze the credit-related information on your credit report. How they do this varies. Since FICO scores are frequently used, here is how these scores assess what is on your credit report.

1. **Your payment history – about 35% of a FICO score**
   Have you paid your credit accounts on time? Late payments, bankruptcies, and other negative items can hurt your credit score. But a solid record of on-time payments helps your score.

2. **How much you owe – about 30% of a FICO score**
FICO scores look at the amounts you owe on all your accounts, the number of accounts with balances, and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

3. **Length of your credit history – about 15% of a FICO score**
A longer credit history will increase your score. However, you can get a high score with a short credit history if the rest of your credit report shows responsible credit management.

4. **New credit – about 10% of a FICO score**
If you have recently applied for or opened new credit accounts, your credit score will weigh this fact against the rest of your credit history. FICO scores distinguish between a search for a single loan and a search for many new credit lines, in part by the length of time over which inquiries occur. If you need a loan, do your rate shopping within a focused period of time, such as 30 days, to avoid lowering your FICO score.

5. **Other factors – about 10% of a FICO score**
Several minor factors also can influence your score. For example, having a mix of credit types on your credit report – credit cards, installment loans such as a mortgage or auto loan, and personal lines of credit – is normal for people with longer credit histories and can add slightly to their scores.

Learn Your Scores Soon

It's now easy to get your credit scores to check your financial health. Different sources provide credit scores to consumers via the Internet, telephone or U.S. Mail. For most scores, you will need to pay a small amount. You also will be asked to prove your identity to make sure your financial information isn't given to the wrong person.

Here are recommended places you can get your scores:

Source	Cost	Description	Score range
ANNUAL CREDIT REPORT SERVICE Congress recently established this outlet to make it easier for consumers to get their credit reports and credit scores from the three national credit reporting agencies.	The price for credit scores is being determined by the [Federal Trade Commission Credit]()	Each credit reporting agency offers a different type of credit score	FICO score via: Equifax 300-850 Experian score 330-830

Web:www.annualcreditreport.com **Phone:** 1 877 322 8228 **U.S. Mail:** Annual Credit Report Request Service P. O. Box 105281 Atlanta, GA 30348-5281	Reports and Scoring. One free credit report per year from each credit reporting agency.	to consumers.	TransUnion score 150-934
MYFICO.COM The consumer Internet site of Fair Isaac Corporation which developed the FICO score. **Web:** www.myfico.com	$14.95 for one FICO score and credit report. $44.85 for all three FICO scores and credit reports from the three credit reporting agencies (2005 pricing).	This score is most often used by lenders. It lets you see how prospective lenders would evaluate your credit history.	FICO score from Equifax, Experian and/or Trans Union 300-850
INDIVIDUAL CREDIT REPORTING AGENCIES: Equifax **Web:** www.equifax.com **Phone:** 1 800 685 1111 Experian **Web:** www.experian.com **Phone:** 1 866 200 6020 TransUnion **Web:** www.transunion.com **Phone:** 1 800-888-4213	Prices for credit scores with credit reports vary from $14.95 to $34.95 (2005 pricing).	Each credit reporting agency offers a different type of credit score to consumers.	FICO score via: Equifax 300-850 Experian score 330-830 TransUnion score 150-934
MORTGAGE LENDERS	Credit Score is free when applying for mortgage or home equity loan.	This score will likely be the actual score used to evaluate your application. Ask your lender to be sure.	FICO score from Equifax, Experian or Trans Union 300-850

Boosting Your Scores

Your credit scores change when new information is reported by your creditors. So your scores will improve over time when you manage your credit responsibly.

Here are some general ways to improve your credit scores:

- **Pay your bills on time.** Delinquent payments and collections can really hurt your score.
- **Keep balances low on credit cards.** High debt levels can hurt your score.
- **Pay off debt rather than moving it between credit cards.** The most effective way to improve your score in this area is to pay down your revolving credit.
- **Apply for and open new credit accounts only when you need them.**
- **Check your credit report regularly for accuracy** and contact the creditor and credit reporting agency to correct any errors.
- **If you have missed payments, get current and stay current.** The longer you pay your bills on time, the better your score.

*This publication has been prepared by Consumer Federation of America and FICO, and was reviewed by the Federal Citizen Information Center.