



What Does Your Credit Score Say About Your Financial Health?

Your credit score, the three-digit number lenders use to help measure your credit worthiness, has the power to save—or cost you—thousands of dollars in interest over your lifetime. That's because your score impacts how much lenders may allow you to borrow and the interest rate you will pay on those loans. For example, a low credit score can result in paying thousands more for the same car that someone with a higher score is able to finance at a lower interest rate. When it comes to mortgages, which are often financed over 30 years, paying a higher interest rate can cost borrowers tens of thousands more over the life of the loan.

That's money you could be using to pay for other important goals, such as saving for your retirement, a child's education, or paying down debt, which can impact your overall financial health. That's why it's so important to understand the factors that go into determining your score and the steps you can take now to improve or maintain a strong credit score.

How is your credit score determined?

More than 30 years ago, the Fair Isaac Corporation (FICO) introduced FICO® Scores to provide an industry-wide standard for scoring creditworthiness that was fair to both lenders and consumers.¹ The formula used to calculate your score takes multiple factors into account, such as your payment history, credit utilization ratio, credit history, credit mix, and more. While multiple versions of FICO scores exist, the one most widely used by lenders and the three national credit bureaus (Experian, Equifax and TransUnion) has a base score range between 300 and 850.² A score above 670 is generally considered good, while anything above 800 is considered excellent.³

Where can you find your score?

Many financial institutions provide customers with free access to their credit scores, which are subject to change monthly. The national credit bureaus provide access to your credit scores and your credit report, which is a record of your credit history. Typically, you're entitled to one free copy of your credit report every 12 months from each of the credit reporting companies. However, during the COVID-19 pandemic, all three credit bureaus agreed to offer *free weekly* credit reports online.⁴ To order your free credit reports, visit AnnualCreditReport.com, the only federal government-authorized website for obtaining free credit reports.

It's important to check your credit reports at least annually to make sure they are error-free and there have been no fraudulent attempts to open credit in your name. Each credit bureau provides instructions on its website for correcting errors or disputing entries on your reports.

How can you improve your score?

Some of the best sources of information to help strengthen your credit are the same organizations that determine and monitor your scores, including the three national credit bureaus and myFICO.com. Each of these organizations provide free online educational content to help consumers protect and improve their credit scores. For example, Experian recommends the following four steps:⁵

1. **Make at least the minimum payment and make all debt payments on time.** Even a single late payment can hurt your credit score, and it will stay on your credit report for up to seven years. If you think you may miss a payment, reach out to your creditors as quickly as possible to see if they can work with you or offer hardship options.
2. **Keep your credit card balances low.** Your credit utilization rate is an important scoring factor that compares the current balance and credit limit of revolving accounts, such as credit cards. For example, if you have a total of \$10,000 in credit available on two credit cards, and a balance of \$5,000 on one, your credit utilization rate is 50%—you're using half of the total credit you have available. Those with excellent credit scores tend to have an overall utilization rate in the single digits.
3. **Open accounts that will be reported to the credit bureaus.** If you only have a few credit accounts, make sure those you do open are the types of accounts that will be added to your credit report to help build your credit. These could be installment accounts, such as student, auto, home or personal loans, or revolving accounts, such as credit cards, and lines of credit. Certain accounts, such as medical payment plans, private loans or secured debit cards are typically not reported to the credit bureaus.
4. **Only apply for credit when you need it.** Applying for a new line of credit, such as a credit card or loan can lead to a hard inquiry, which means that a creditor has requested to look at your credit file to determine how much risk you pose as a borrower. While the impact is often minimal, applying for many different types of loans or credit cards during a short period could lead to a larger score drop. However, most credit scoring models will treat inquiries about the same type of loan within a 30-day period, such as a mortgage, student, or auto loan, as one inquiry, because they understand that people are seeking the best possible rate.⁶

While a strong credit score can be an important indicator of overall financial health, it's only one consideration when it comes to determining financial fitness. If you're seeking ways to improve your financial health, contact the office to schedule time to talk.

¹ <https://www.myfico.com/credit-education/what-is-a-fico-score>

² <https://www.myfico.com/credit-education/credit-scores/fico-score-versions>

³ <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/>

⁴ <https://www.annualcreditreport.com/requestReport/landingPage.action>

⁵ <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/#s6>

⁶ <https://www.experian.com/blogs/ask-experian/are-my-mortgage-inquiries-hurting-my-credit-scores/>

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