



MONEYWISE

VALUING PEOPLE. VALUING MONEY.

VOLUME 13 • ISSUE 10

THIS MONTH'S TOPIC: UNDERSTANDING YOUR CREDIT SCORE

Do you know your credit score? Credit scores provide lenders with an estimation of your ability to pay back borrowed money. Credit scores often shape the terms of any loans we receive, such as auto loans, mortgages, or credit cards. To understand your credit score, it is important to understand the individual components that make up credit scores and the reasoning behind them.

CREDIT SCORE COMPONENTS

Calculating a credit score uses five categories:

- **Payment history** is the largest part of your credit score. More than a third, 35%, of your score is from your history of late and on-time payments. Consistent on-time payments can increase your score, while late payments often have a negative effect.
- **Amounts owed** is the second largest part, accounting for 30% of a credit score. This section consists of several factors: How much debt do you have overall? How much of your available credit are you using (such as on credit cards)? How many accounts do you have open?
- **Length of credit history** makes up 15% of your credit score. This category considers how long your accounts have been open. While other categories show how well you have been



managing credit, this category shows how long you have been managing credit. If possible, keep long-standing accounts open — even if they go unused. Having a longer credit history may help you appear more reliable than consumers new to using credit.

- **New credit** accounts for 10% of a credit score. This category looks at the number of new accounts you have opened. Opening new accounts may briefly lower your credit score. It is wise to limit new accounts to only what is necessary for your current financial situation.
- **Credit mix** makes up 10% of your credit score and considers the different kinds of credit you are using. For example, do you have a mortgage, an auto loan, and two credit cards? Do you have five credit cards only?



CREDIT REPORTS PROVIDE DETAILED INFORMATION ABOUT YOUR CREDIT USE OVER TIME



CREDIT SCORE MEANING

Credit scores may range from 300 to 850. Higher scores signal that a borrower is lower risk to default on the loan and is more likely to pay on time. A higher score may allow you to receive lower interest rates when borrowing money. Each credit bureau uses a slightly different method to calculate your credit score, so your score may differ slightly between bureaus. *There are five general categories of scores ranging from poor to excellent or exceptional.* Each bureau may differ slightly in how they categorize credit scores. Generally, FICO credit scores are:

800-850: Exceptional, **740-799:** Very Good
670-739: Good, **580-669:** Fair, **300-579:** Poor

CREDIT REPORTS

Credit reports provide detailed information about your credit use over time. Three main credit bureaus provide credit reports: Equifax, Experian, and TransUnion. Federal law allows everyone to request one free credit report from each bureau per year at <https://www.annualcreditreport.com>. Note, this is the only federally authorized source from which to receive free credit reports. Be wary of other sites or companies when pulling your credit report or disclosing personal financial information.

Credit reports may include information such as the types and balances of accounts, dates the accounts were opened, and payment history for the account. Inquiry information also is shown, letting you know who has requested your credit report. Credit report inquiries are often run when applying for a loan or opening a new account. If you have filed for bankruptcy, this information is also included.

Sometimes the credit reporting bureaus make mistakes. If something seems wrong on your credit report, report it to the bureau. Inaccuracies may be in error, or they could be a sign of fraud or identity theft. Always promptly report suspected errors so they can be corrected or investigated. For information about reporting and disputing false information on your credit report, visit <https://consumer.ftc.gov/articles/disputing-errors-your-credit-reports>.

REFERENCES:

https://files.consumerfinance.gov/f/documents/cfpb_building_block_activities_all-about-credit-scores_handout.pdf

<https://www.usa.gov/credit-reports>

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