Get to Know Your Credit Score

What is a **credit score**?

A credit score is typically a three-digit number between 300-850 that is intended to represent your risk of default on the payment of your bills. It is based on the information contained in your credit reports.

Financial institutions use credit scoring models like VantageScore to calculate your credit score. That score, together with other information, is used to make decisions about which consumers to approve for loans and what terms to offer.

Why it **matters**

Do you want to buy a house? Buy a car? Start up a business? A credit score is an everyday component of life and it is also key to helping you achieve your dreams. Institutions that lend money — banks, credit card companies, financing companies, credit unions, and mortgage lenders, just to name a few — can use your credit score to help assess your creditworthiness. Lenders are not the only ones who may use your credit score. Companies like cell phone and utility providers and landlords may also check your credit score.

How a **strong credit score** can help you

In general, borrowers with higher scores can get credit more easily and at more favorable rates. It can help put thousands of dollars back in your pocket.

Why you have **different** credit scores

The mathematical formula used to calculate your credit score is called a credit scoring model, which aims to measure the likelihood that you may default (i.e., go 90 or more days late) on a loan payment.

These models:

Analyze
various credit behaviors, such as how regularly you pay your bills on time.

Compare
your behavior with other borrowers to assess how likely you are to make timely loan repayments.

Credit scores may differ from one score provider to the next because different lenders use different credit scoring models. Since a score is based on credit files, which are frequently updated, your credit score may fluctuate over time. The impact that the information in your credit files has on your credit scores will change over time as well. Of course, not all factors will have the same impact on your VantageScore credit score.

VantageScore

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What **impacts** a credit score

Action	Lender interpretation...	Score impact
Pays bills on time	Wisely handling debt	Improvement
Low credit utilization	Sufficient access to credit, unlikely to need additional funds	Improvement
Mature accounts	Experienced credit user	Improvement
Uses diverse range of loan products	Experience with different types of repayment requirements	Improvement
Inquiry about a new loan	Why the need for credit - exposure or normal expansion?	Small drop
Opens a new loan	Why the need for credit - exposure or normal expansion?	Small drop
New accounts	Will consumer effectively manage new credit?	Small drop
Maxes out credit card (high utilization)	Tipping point: potential for significant exposure	Drop
Pays late - first time	Tipping point: potential for significant exposure	Drop
Pays multiple loans late	All credit at risk	Larger drop
Miss multiple payments on a loan (3 or more)	All credit at risk	Larger drop
Charge off	Default	Major score drop
Foreclosure	Default	Major score drop
Bankruptcy	Default	Maximum score drop, extended time impact

LOW RISK

HIGH RISK

What **does not** impact your credit score

Many things don't factor into the VantageScore credit scoring models including race, ethnicity, religion, nationality, gender, marital status, age, salary, occupation, title, employer, employment history, where you live, or even your total assets.

6 steps that may **improve** your credit score

It's much more important to focus on improving what's in your credit report rather than obsessing over your credit score because a credit score is reflective of the data already in your credit file. As a result, the key to a better credit score is to start practicing prudent credit habits right now, which will in the future result in more positive credit file data to be scored.

Note: The information in your credit file changes when a lender provides an update on the status of one of your credit accounts, such as whether you have made payments on time, how much credit you have now used, or how much credit you have available. As data in a consumer's credit file ages, its predictive value diminishes as it is replaced by more current data which is more reflective of your most recent credit practices — both of which also causes changes in a credit score.

Pay your bills on time. How promptly you pay your bills has the strongest influence on your VantageScore credit score. If possible, pay accounts well in advance of the due date and pay more than the minimum amount due.

Maintain well-balanced credit habits. Don't overindulge in opening new credit accounts, but don't be afraid to diversify your accounts.

30 %

Keep your outstanding balances low. A good rule of thumb? Keep balances below 30 percent of the entire credit limit you have on any credit card or revolving credit account. Pay more than the minimum payment due when you can.

Reduce your total debt. It is not necessarily bad to owe some money. But it is not good to owe too much money. Consider paying down some of your outstanding loans.

Build up a credit history. Maintaining a timely payment history for a mix of accounts (e.g., credit cards, auto, mortgage) over a longer period of time can improve your score. If possible, pay your accounts early so you do not risk missing a deadline and making a late payment.

Apply for credit only when you need it. Do not open too many accounts too frequently and avoid opening multiple accounts within a short time span.

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