Your Credit Score

What Is It and What Does It Mean?

Credit is one of those things that can seem great at first, but it can quickly get out of control if you are unsure how to manage it. The biggest misconception about credit is that it is a bad thing and you should have none. Without credit, you would have a hard time renting a car when your car is in the shop or getting a hotel room when your vehicle breaks down. Good credit allows you to buy the vehicle you need and the house you want. Instead of running away from credit, it is smarter to develop good credit habits early and use those habits to enhance your financial life.

The primary factors in determining your credit score are:

- **Whether or not you pay your bills on time and in full each month.** This affects approximately 35 percent of your credit score.
- **The ratio of your outstanding debt to your income.** This will comprise approximately 30 percent of your credit score.
- **How long you have had a credit history.** This affects approximately 15 percent of your credit score.
- **The types of credit accounts you are currently using and how often you use those accounts**. This will impact approximately 10 percent of your credit score.
- **The frequency with which inquiries are made against your credit profile** and the number of new accounts added to your profile in a short period of time. This will also impact approximately 10 percent of your credit score.

FICO scores range from 300 to 850. Here is what they mean to a lender:

- Excellent: Over 750
- Very Good: 720 or more
- Good: 660 to 720
- Needs work: 600 to 660
- Poor: Less than 620

Organizations and individuals who will make decisions based on your credit score include:

- Credit card companies
- Auto dealers
- Mortgage bankers
- Insurance companies
- Landlords
- Employers

Here are some tips for managing your credit:

- **Keep track of your spending.** Keep track of the checks you've written, debit and credit card transactions, and ATM card usage. Review your monthly statements when they arrive and report any possible discrepancies immediately.
- **Don't exceed your credit limit on lines of credit and credit cards.** Your available credit is how much credit you have left on a line of credit or credit card; it is your credit limit minus your outstanding balance. Be careful to keep your spending below this amount. Following the "20/10 Rule," it is a good practice not to let your credit card debt exceed more than 20% of your total yearly income after taxes. And each month, don't have more than 10% of your monthly take-home pay in credit card payments.
- **Have an emergency fund.** Keep at least a 15% cushion of available credit in case of emergency. Or better yet, keep an emergency savings fund of three to six months' living expenses in a liquid, interest-earning account. That way, if you lose your job or have a big unexpected expense, you don't have to borrow more than you're comfortable repaying.
- **Pay what you owe.** Always pay at least your minimum monthly payment on time every month. By paying more than the minimum – or better yet the full balance each month, you will reduce your finance charges. Be sure not to skip any payments.
- **Make timely payments.** Timely payment is one of the best ways to establish yourself as a good credit risk to future lenders.
- **Be organized.** Put all your bills in one place so you don't lose them or forget about them. Keep a list of the bills you have due, and if it will make it easier for you to remember to pay them, make them due on the same day each month. (Contact your lender to see if you can change your payment due date.)
- **Pay attention to the payment due dates.** Mail your payment — or schedule an online payment through Bill Pay — at least a week before the due date.
- **Sign up for automatic payments.** Using automatic loan payments from your checking account is a simple, convenient way to regularly make your payments. Be sure to schedule them according to your pay schedule to ensure you have enough funds for the payment when it is drafted.
- **Keep your contact information current.** If you're moving, remember to fill out the change of address form on your statement or update it online to ensure that your statement goes to your new address.
- **Stay in touch with your creditors**. Contact your lenders immediately if you fall behind on your payments. Most creditors are willing to set up alternative payment options, especially if you inform them right away of your situation.