

MAKING SENSE OF YOUR CREDIT SCORE

Understanding the value of your credit score and taking steps to maximize your credit rating are important for improving your financial health.



Anyone who has ever applied for a loan to purchase a car or house has encountered their credit score. This elusive figure can be perplexing, a three-digit assessment of your credit worthiness that has the potential to impact your financial health. We offer insights into understanding your credit score and taking steps to improve it.

Why Credit?

If you want to buy a house or automobile and need to take out a loan, or you wish to take out a credit card to pay for purchases over time, it's important to have a positive credit history.

There are some general concepts that can help you manage your credit and establish a positive credit history:

- Charge only items that you can pay off in a month or two.
- Do not pay only the minimum amount on your credit card bill; this will incur interest on the balance, which has the potential to erode your credit.
- Pay your bills on time.
- Use your credit for larger purchases rather than on small non-durables, such as restaurant meals.

What's In a Number?

You can get a general sense of your credit worthiness by checking your credit score. The score commonly used by lenders is FICO, a three-digit number from 300 to 850. It fluctuates continually, reflecting the interest rate of your credit cards, outstanding loans, and even a lack of credit.

A score of 700 or above is considered good by many lending standards. You can request a copy of your credit score (there is a small fee) from the three major credit reporting companies, Experian, Equifax, and TransUnion. The score is a snapshot that captures your credit history and current financial status.

Credit Worthiness

Check your credit report once or twice each year, making sure that there are no errors, while using it as a tool to make sure that you're paying your bills on time and staying within your established credit limits. Such actions will help increase your credit score. You can receive a free copy of your credit report once each year from AnnualCreditReport.com.

If you spot any errors, report the discrepancies to the appropriate credit bureaus (the report may differ among the three). They are required to take reasonable steps to correct any errors.

Your credit report will generally include the following (in addition to your personal information):

- Your employer's name and contact details, along with your income
- Those parties that have requested your credit history in the past six months
- A list of your charge cards and mortgages, along with their terms and payment history
- Your maximum charge amount for each card, your current debts with repayment details, and how many times you have made a delinquent payment
- Past accounts that are paid in full
- Repossessions, liens, bankruptcies, foreclosures, and court judgments against you for money
- Debtor names
- All debts cosigned to you
- Bill disputes

Important Disclosures

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Current law allows delinquent payments to remain in your report for no more than seven years, and bankruptcies for no more than 10 years. There are special rules related to medical bills.

Establishing Credit

If you are a first-time credit seeker — someone applying for a credit card or loan, for instance — you may have to establish your credit score, which you can do in several ways, including by getting a secured credit card or becoming an authorized user of someone else's card.

Improve Your Score

Not satisfied with your credit score and want to increase it? There are a number of steps you can take, like paying your bills on time, decreasing the amount of debt you carry, and staying within your established credit limits.

By overseeing your credit history and managing your credit score, you are taking important steps to improving your overall financial health.

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