

Your credit score: What is it and how to raise it

by **Bethany McKinney**

Credit scores and credit reports have become increasingly discussed in the last few years. A credit score is a key factor in loan approvals and the interest rate that you will pay. Understanding what a credit score is and how it is calculated empowers us to increase our credit scores, enabling us greater ability to take advantage of historically low lending rates.

What is a credit score?

A credit score is a number which ranges from 300 to 850. This "score" is computed by a formula that uses the information in a credit report. Then, your credit score is used by lenders to estimate the likelihood that you as a borrower will default on debt: the higher the score, the lower the risk of default. FICO is the most widely recognized type of credit score and is the one used by the majority of mortgage lenders and credit card companies.

What is a "good" credit score?

Until recently, a credit score of 720 was considered to be "very good," but in today's credit-tight environment, the bar has risen and only scores above 760 are considered "very good." Borrowers with a score below 720 are unlikely to qualify for premium credit cards. Mortgage lenders have also changed the standards for borrowers. Before 2008, a score of 620 or higher was enough to qualify for low mortgage rates; today that number is closer to 740. The current low mortgage rates have resulted in a buyer-friendly real estate market, but with increased credit standards more consumers are finding these desirable low rates out of their reach because of their low credit score.

How can I see my credit report?

Credit reports provide all of the information in your credit file that is shared with a potential lender. Federal law mandates that consumers have access to one free credit report each year from each of the three major credit reporting agencies: Equifax, TransUnion, and Experian. To view your credit report, visit www.annualcreditreport.com and follow the steps listed on the website. Depending upon your specific needs, it may be most beneficial to run all three reports at the same time to compare for discrepancies, or to run one report from each of the agencies every four months to track changes. It is important to review your credit report both annually and before large purchases to check for inaccuracies and identity theft.

To view your exact credit score number, you must purchase it from www.myFICO.com. Keep in mind that a report from one of the three reporting agencies (mentioned above) should provide sufficient details to enable you to estimate your score range.

How can I improve my credit score?

Your credit score is based on several factors: payment history, account balances, length of credit history, types of credit used, and new credit inquiries and account openings.

Three simple steps can help to improve your credit score:

- Make every payment on time; late payments lower your score. The longer your history of timely payments, the higher your score.
- Pay down credit card balances. Try to keep your balance below 50% of your available line of credit.



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- Beware when canceling credit cards. A portion of your credit score is based upon how much of your available credit you are using, so having more credit available will lower your ratio of debt to credit. If cards you never use do not charge an annual fee, it is beneficial to keep them in a safe location rather than canceling them.

Educating yourself about your credit score and taking action to improve your scores if necessary can be a powerful step towards financial success.

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