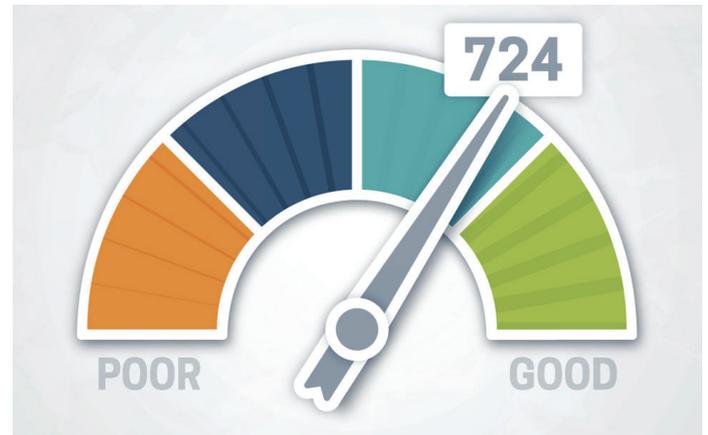


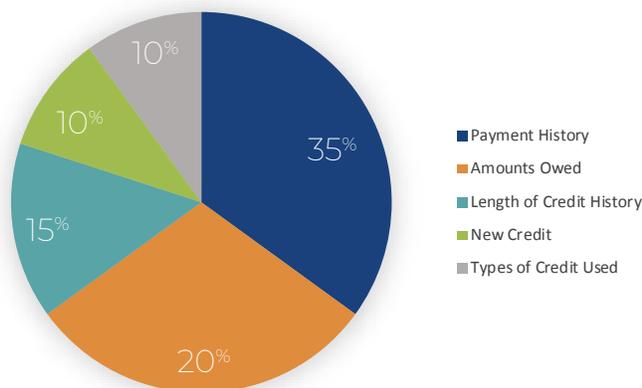
# Understanding-- and Improving-- Your Credit Score



Whether you are applying for a credit card, car loan or mortgage, your credit score is critical in determining if you can get the credit, how much you can get and what you'll pay for it.

The most widely used credit scores are FICO® Scores, those generated by the Fair Issac Corporation. In fact, more than 90% of top lenders use FICO® Scores to help them make consumer credit decisions.<sup>1</sup> FICO® Scores are calculated based on information supplied by three major credit reporting agencies – Equifax, Experian, and TransUnion – which generate scores using a proprietary formula that assigns weightings to the five main factors illustrated below.

## Weighting the Factors in Your Score



Source: myFICO.com, retrieved July 2018

**Payment history.** Timely payments are an important component of your credit score. Using your credit responsibly and paying bills on time are great ways to maintain a good credit score.

**Amounts owed.** This factor reflects the percentage of your available credit that you are using. High credit utilization can be a warning sign of credit risk.

**Length of credit history.** Your credit history is a significant contributor to your credit score. Accordingly, the average age of your credit accounts can be a strong indication of your credit history. Care should be used in keeping old accounts open and in good standing.

**New credit.** While opening one new credit card might be normal, opening several in a short span of time could be a warning sign to potential creditors that something is amiss in your financial life.

**Types of credit used.** Both the total number of credit accounts you have and the mix of credit you have will affect your credit score. A healthy mix of revolving credit cards, charge cards, installment loans and mortgages will also impact your credit score.

## What is a “Good” Credit Score?

A typical credit score will range between 300 and 850 points. Generally speaking, the higher the score, the lower the risk, and the better the pricing you may be offered. The differences can be significant.

For instance, at current rates, a borrower with a credit score of between 760 and 850 might expect to pay a rate of 4.162% on a 30-year, \$300,000 fixed-rate mortgage, according to myFICO.com's Loan Savings Calculator. By contrast, an individual with a score between 620 and 639 might expect a rate of 5.731%, which amounts to an extra \$287 monthly payment and about \$103,200 more in total interest paid over the life of the mortgage.<sup>2</sup>

Keep in mind, however, that lenders differ and there are many additional factors that they may use to determine your actual interest rates.

## Tracking Your Score

U.S. consumers are entitled to a free credit report each year from all three credit reporting agencies mentioned above. You can request your reports at [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com).

Unlike credit reports, however, your credit score is not free. You can purchase your score from one of the agencies or from myFICO.com.

## Improving Your Score

Here are some time-proven tips for raising a credit score and maintaining it once it improves:

- ★ Pay your accounts on time and keep your balances low. Lenders typically look for a proven track record of making timely payments.
- ★ Be conservative in the amount of available credit you use at any given time. Your “utilization ratio” is the amount you owe in relation to the amount of credit available to you. Try to keep that ratio below 30%.
- ★ Hold on to older, unused accounts. The longer the account has been open and managed successfully, the higher your score will be.
- ★ Maintain a diversified credit mix. If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of loans from finance companies.

## Footnotes/Disclaimers

1. Source: myFICO.com, retrieved July 2018.
2. Source: myFICO.com, Loan Savings Calculator. July 16, 2018. Rates are averages based on thousands of financial lenders, conducted daily by Informa Research Services, Inc.

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