



# MONEY WISE

VALUING PEOPLE. VALUING MONEY.  
MANAGING IN TOUGH TIMES INITIATIVE



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## THIS MONTH'S TOPIC:

# KEEPING SCORE? WHAT YOUR CREDIT SCORE SAYS ABOUT YOU

Your credit score tells lenders and other businesses how likely you are to pay back debts on time. A higher score will improve your chances of getting a better offer on a loan, insurance, utilities, housing, and more. But, while this number is important, it might not be free to access. And you have more than one score. Scores for different purposes are calculated different ways.

### What goes into a credit score?

FICO, or Fair Isaac Corporation, is the largest company that provides software for calculating credit scores. FICO has shared the relative weights of the five categories that make up a score at [http://bit.ly/ukFCS\\_MWficofactors](http://bit.ly/ukFCS_MWficofactors).

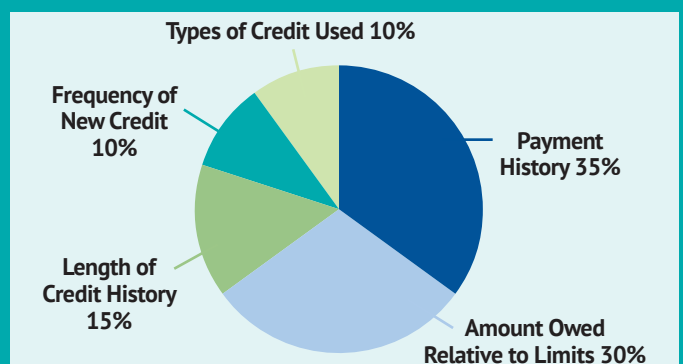
The biggest influence on a credit score is payment history. Creditors want to know if you're reliable. They look to your report to see if you **pay your bills on time regularly**.

The next biggest influence is the amount of money owed relative to your credit limit. Only use a small portion of your available credit at a

time. In other words, **don't "max out" your credit cards** or lines of credit. **Pay as much as you can on your debts** and keep that credit available. If you've had debt sent to collection, a foreclosure, or a bankruptcy, it may impact your credit score for several years.

The rest of the score is made up of three categories: length of credit history, frequency of new credit, and types of credit used. Credit history looks at how long you've had accounts open, so **don't close accounts** unless there is a compelling reason to do so.

### Factors that influence a credit score





On the other hand, **don't open accounts unless you truly need them.** Opening too many accounts in a short period of time may cause you to look like a riskier consumer. The types of credit used considers whether you **have various types of credit**, such as credit cards, installment loans, mortgage loans, or school loans.

### What is a “good” credit score?

Most credit scores range from 300 to 850, however many different scoring models may be used. Your score is based your credit report, so it is important to check and make sure all information is correct. You can get one free credit report every 12 months from each of the three credit bureaus – Equifax, Experian, and TransUnion. Go to [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877-322-8228. You may dispute information you believe is incorrect or too old to be included. Most negative information can be removed after seven years.

If your score is under 600, your credit may be considered “poor” and you may not get approved for a loan or unsecured credit card. “Fair” and “good” scores can be anywhere in the 600s to mid-700s. These scores may be good enough to get you approved for credit, but you might not get the best terms. Still, you should be able to shop around and compare options between lenders. Generally, scores over 740 are considered

“very good” and scores over 800 are considered “excellent.” These scores may lead to better rates and more options in repayment periods and other terms.

However, there is no “magic number” that guarantees better rates and terms, and everyone’s situation is different. Each lender has different strategies to determine credit risk, interest rates, and terms.

### How do you know what your score is?

Your free annual report does not include your score. You may purchase your score, but know that it may not be the same score lenders would use. Other groups may claim to offer a “free” credit score, but it’s not truly free if you must sign up for a program or purchase a product.

However, sometimes your score is free. When you apply for new credit, the lender may disclose your score. Some credit card and loan companies will share your credit score with your monthly statement or online. Scores may be available to those seeing a non-profit credit counselor. The CFPB recently published a list of organizations that may offer free credit scores at [http://bit.ly/ukFCS\\_MWfreecreditscores](http://bit.ly/ukFCS_MWfreecreditscores).

If you want to improve your score, it may take time. Concentrate on paying bills on time, paying down balances, and resist taking on new debt, and you may be well on your way to a better score.

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