

## YOUR CREDIT SCORE – AN IMPORTANT NUMBER TO KNOW AND MONITOR

By Jane M. Winand, Chief, Legal Assistance Division

Most consumers are in the dark about their credit score – what it is, how it can affect future credit, how it is calculated, and what they can do to improve it. Your credit score is the number that the lenders and other businesses use to determine your creditworthiness. From this number, creditors can decide how much, if any, money they will lend you, and at what interest rate. Your credit score affects just about every aspect of your financial world.

The credit score is a three-digit number, usually between 300 and 850. The higher the score, the better, with lenders loaning you money at a lower interest rate. For example, if you were borrowing \$216,000 to purchase a house using a 30-year, fixed-rate mortgage, a person with a credit score of 760 will be given an interest rate of 6.273% and have a monthly mortgage payment of \$1,333. However, a person with a credit score of 620 will have the same loan at 8.086% with a monthly mortgage payment of \$1,598. The high credit score holder will pay \$265.00 less per month on the mortgage payment. That is a savings of \$3,180.00 per year, and a savings of \$95,299.00 over the life of the loan, just for having a good credit score. Thus, if your credit score is low, it is essential that you do what you can to improve your credit score. Furthermore, if your credit score is already high, it is important that you maintain good credit so that your score stays high.

Your credit score can affect your rates for home and automobile insurance. Landlords may use your credit score to determine whether to rent to you. A low credit score may even affect your chances of getting a job, since some employers consider this number to be an indicator of your character and future job performance. A bad credit score could keep lenders from loaning you money, or could result in such a high interest rate that future credit could be out of your reach.

So how is this crucial number derived? Credit scoring is a complex process with heavy emphasis on the timeliness of your bill payments and the length of your credit history. The typical time frame for consideration is the previous 24 months, and the credit score is recalculated each time a lender requests a current number. The most widely-used scoring system, known as FICO scores, is maintained by the Fair Isaac Corporation, although the big three credit reporting companies – Equifax, Experian and TransUnion – have created VantageScore, an attempt to standardize the credit scoring system.

Although your credit history determines your credit score, it is possible to change your number. You must be patient, however. It may take a year or more for your efforts to have a significant impact on your credit score. Furthermore, major factors such as a personal bankruptcy or several bill payments that are over three months overdue can have a long-lasting affect on your score. Here are some strategies to improve your credit score:

1. Pay your bills on time. Opt for automatic payments or keep a strict budget to ensure that payments are made within the time limits. Timeliness of bill payments accounts for approximately one-third of your credit score.
2. Keep your credit balances at no more than 30% of your credit limit. Better yet, pay your balance each month. The closer you are to the credit limit on an account, the lower your credit score.

3. Keep your credit history in place. Do not cancel credit cards. Do pay your balance each month. A long-standing credit account that is paid off is better for your score than a credit account that you just obtained. Having no credit history at all can result in a low score.
4. Don't apply for too many credit accounts. Part of your credit score takes into account how many lenders have asked for your credit report. If there are many creditors asking for your credit report, you may be desperately seeking more credit to bail yourself out of financial troubles.
5. Be careful about the kinds of credit that you use. Secured loans such as mortgages and car loans are preferred. Unsecured loans such as credit cards are considered to be risky.

A substantial number of credit reports contain erroneous information that could have a detrimental affect on your credit score. You should closely monitor your credit history and immediately take steps to correct incorrect entries. If you are contemplating a major purchase such as a home or vehicle, you should be checking your credit history months beforehand so that you will have time to fix any problems. The Fair Credit Reporting Act requires each of the nationwide consumer reporting companies – Equifax, Experian, and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. You are also entitled to a free copy of your credit report if you have been denied credit and the company denying you credit informs you that the denial was as a result of an entry on your credit report, or if you are the victim of fraud, are unemployed, or are on welfare. You can order your free annual credit report online at [www.annualcreditreport.com](http://www.annualcreditreport.com), by calling 1-877-322-8228, or by completing the Annual Credit Report Request Form found at [www.ftc.gov/bcp/online/include/requestformfinal.pdf](http://www.ftc.gov/bcp/online/include/requestformfinal.pdf) and mailing the form to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. The Federal Trade Commission advises consumers who order their free annual credit reports online to be sure to correctly spell [www.annualcreditreport.com](http://www.annualcreditreport.com) or link to it from the Federal Trade Commission's website at [www.ftc.gov](http://www.ftc.gov) to avoid being misdirected to other websites that offer supposedly free reports, but only with the purchase of other products. While consumers may be offered additional products or services while on the authorized website, they are not required to make a purchase to receive their free annual credit report. Although you may obtain a free credit report each year, the credit score does not come with the free report. You must purchase your credit score from the each of the three credit reporting agencies.

Should you have any additional questions regarding consumer issues, you may call the Fort Meade Legal Assistance Office and make an appointment to speak with an attorney. The number is (301) 677-9762.