

Building Good Credit

Solve the Money Mystery

Check Your Credit Report.

It's important to make sure your credit report is accurate. You can order a free credit report annually from each of the major credit reporting agencies. Order online at www.annualcreditreport.com or call 1-877-322-8228. The free report will not include your credit score.

What is a Credit Score?

A credit score is like a grade for the way you use credit. The two most common credit scores are FICO and VantageScore. FICO scores range between 300 and 850, the higher the better. Lenders generally offer the best interest rates to people with scores of 720 and above. Consumers with low scores will pay higher interest rates or may not qualify for loans to credit cards.

Parts of a FICO Score:

- 35% – Payment history. Remember to pay on time with no negative items, such as bankruptcies or delinquencies.
- 30% – Amounts owed. These are amounts due, types of accounts due and available credit.
- 15% – Length of credit history. This represents how long the accounts have been open.
- 10% – New credit. This represents how many of your accounts are new.
- 10% – Types of credit used. These are a variety of types of credit, including installment and revolving.

Chances are you've seen ads telling you to check your credit score. But what is a credit score, and why does it matter?

A good credit score helps you to get better interest rates on home or car loans. Your credit history can determine whether you get a good job, a decent apartment or reasonable rates on insurance. Lenders and others use credit scores to determine how likely you are to make payments on time.

Parts of a VantageScore:

- **Payment history.** This represents your repayment behavior.
- **Depth of credit.** This is the length of your credit history and types of credit.
- **Utilization.** This is the amount of debt compared to available credit.
- **Balances.** These are current and delinquent amounts.
- **Recent credit.** This represents new accounts and inquiries.
- **Available credit.** This is the amount of credit you have available.

What's not in your Score?

To ensure equal access to credit, creditors must not consider certain factors when making a credit determination. These factors include Race, color, religion, national origin, sex (including sexual orientation and gender identity), marital status, age, whether all (or part) of a person's income comes from public assistance, whether the applicant has in good faith acted on one of their rights under the federal credit laws (like if you exercised your right to dispute errors in your credit report).



**DIVISION OF AGRICULTURE
RESEARCH & EXTENSION**

University of Arkansas System

Strategies for Building a Good Credit History

- I've checked my credit report recently.** You can get free weekly credit reports from each of the major credit reporting agencies. The three major credit reporting agencies are Equifax, Experian and TransUnion. Access reports from all three at www.annualcreditreport.com or by calling 1-877-322-8228.
- I address negative issues or misinformation on my credit report.** Pay off balances that are overdue. If you see incorrect information, be sure to notify the credit reporting agency.
- I know my credit score.** Check your credit score, especially before applying for a loan. Each credit reporting agency may have different information about you, depending on which lenders have reported to them. Your credit scores can vary.
- I pay bills on time.** Even if you have a history of late payments, you can make a fresh start. Start paying your bills on time and your credit score will improve. You'll also save money by avoiding late charges.
- I pay more than the minimum.** Making only minimum payments will cost more in the long run. Interest charges add up and can take years to pay off. High levels of credit card debt can hurt your score.
- I keep credit card balances low.** Don't "max out" your credit cards. The total amount you owe is compared to your total amount of credit available. Keep balances at less than 30% of the credit limit for each account. The more you owe compared to your limit, the lower your score will be.
- I am cautious about closing accounts.** Closing older accounts can shorten your length of credit history. Also, closing accounts can reduce the amount of available credit. Close old, unused accounts only if you can do so while maintaining your length of credit history and a strong debt-to-available-credit ratio.
- I am cautious about opening accounts.** Lenders check your credit report every time you apply for a loan or credit card. Many "hard inquiries" into your credit report can make it look like you're taking on lots of new debt. Multiple inquiries for a single loan are okay, though. Shop for car or home loans during a short period of time such as 30 days. "Soft inquiries" happen when you check your own scores or when lenders pre-approve you for a credit card or other loan. Soft inquiries don't affect your score.

Contributors

FCS Agents who assisted with the previous Money Talks series and The Great Money Mystery series; Megan Wells, M.S., Program Associate University of Arkansas System Division of Agriculture Cooperative Extension Service.

Author

Laura Hendrix, Ph.D., Accredited Financial Counselor®, Associate Professor – Personal Finance, University of Arkansas System Division of Agriculture Cooperative Extension Service.

References

Annual Credit Report, www.annualcreditreport.com.
Understanding Your FICO Score, www.myfico.com/CreditEducation
About VantageScore and Consumer FAQ's, www.vantagescore.com
5 Tips: Improving Your Credit Score, Federal Reserve,
https://www.federalreserve.gov/pubs/creditscore/creditscoretips_2.pdf