FINANCIAL WELLNESS SERIES

How to Manage Your Credit Score—and Improve It

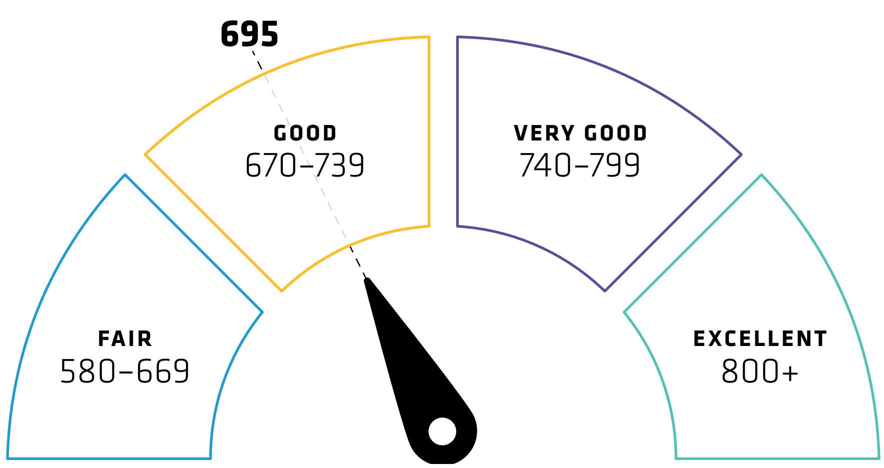
Tackling the Simple Score That Can Have a Big Impact on Your Life

What's a credit score? Or a credit report? We see them popping up all the time in TV commercials, but how do they really work—and why do they matter to you?

Today, credit plays a vital role in what we buy and the financial decisions we make. Most of us don't have piles of money lying around, so we need to borrow to buy—a car, a home, even an appliance. But before financial institutions lend you the money, they need to get comfortable with how strong your finances are. Healthy credit not only smooths the process but also can save you money.

Lenders will likely head straight for your credit score, which they'll find inside your credit report. It's a report that details your credit history—payments, lines of credit, public records on bankruptcies, even a list of who else has checked out your credit. The three major credit-reporting agencies—Equifax, Experian and TransUnion—offer credit reports, which also include your personal credit score.

That score, a three-digit number based on the information in the credit report, helps lenders and creditors quickly assess the risk of doing business with you. Higher scores mean you're less likely to default on loans, credit cards or other borrowing. Lower scores, by contrast, indicate higher risk. Credit scores range from 300 to 850 and may vary among age groups and income levels. The average US credit score is 695.[1]



1 VantageScore as of September 2022

How Your Credit Score Can Affect Your Life

A good credit score is critical to obtain the best possible interest rates when qualifying for credit cards or loans. But your credit score influences many more aspects of your life than you may realize—from the place you live to the car you drive.

Where You Live

Whether you're looking to buy or rent, your credit score can affect where you decide to call home.

Before buying a house, you'll have to apply for a mortgage loan. If your credit score is low, the mortgage lender may think it's too risky and reject your loan application. If you are approved for a mortgage, your credit may impact the interest rate you have to pay. High, strong credit scores may lead to lower rates, while low credit scores could result in higher rates. Both can affect your monthly mortgage payment.

Even if you're looking to rent an apartment instead of buy a house, your credit score is still an important part of the equation. Renting a property is considered a loan, and your landlord or management company can use your credit score to decide whether to rent to you.

Buying a Car

Your credit score also matters when you need a loan to buy a car, affecting whether you qualify for the loan, the amount you can borrow and the interest rate. A higher credit rating may qualify you to borrow more at a lower rate; if your score is on the low side, your choices may be limited. Lenders may turn you away entirely or charge a higher interest rate, which will raise not only your monthly car payments but also the total amount you pay on the loan over time.

Setting Up Utilities

It may surprise you that your credit history—specifically how you've paid your bills in the past—matters even when setting up utility services such as gas, electricity, water, cable and phone service. Think of it this way: when the electric company turns on your service before you pay your first monthly bill, it's essentially floating you the money. Before flipping the switch, the company will check your credit. Good credit makes it easier for you to get service; poor credit may pose a challenge.

Business Loans

If you dream of starting your own business, that's certainly a worthy life goal—and your credit score could have something to say about it. Building a business can be a sizable undertaking, often requiring a large amount of cash that you might not have on hand. Applying for a small business loan can help you fill the gap, but to qualify—and be one step closer to your business goals—you'll need to have a strong enough credit score.

Employment

During the hiring process, employers can run credit checks to see if you've been financially responsible—especially if you're going to be trusted with the company's finances or assets. Potential employers can check your credit report, not your credit score, though some jurisdictions prohibit employers from doing this. If your debt level is too high, you may find it harder to land a job. If you're already employed, your credit report might also influence whether you earn a promotion or raise.

What You Can Do to Boost Your Credit

A good credit score can bring important benefits such as lower interest rates on credit cards and loans—and can even have an impact on where you live and work. That's why it's important to build a good credit history early—and work hard to keep it that way.

Is your credit score not where you want it to be? Here are four steps you can take right now to start boosting that all-important number.

Pay Your Bills on Time

Your payment history is a main factor in calculating your credit score, so maintaining a long history of paying on time can bolster your score. Stay on top of all your bills, not just your loans and credit cards. Set up automatic payments to help avoid missing a payment. Payments that are late by 30 days or more can be reported to the credit bureaus, which can hurt your score.

Limit Your Credit Applications

Every time you apply for a new line of credit, it can lead to a hard inquiry—a lender or creditor asking to view your full credit report to decide whether to lend to you. Any type of hard inquiry is reported on your credit report, which can nudge down your credit score. Multiple hard inquiries in a short period of time may cause a dramatic decline in your score.

Borrow What You Can Afford

Overcharging a credit card or taking out a loan that's too big is one of the quickest ways to get into debt and credit trouble. Borrowing only what you know you can repay is not only a great way to build a good credit history, but it also shows lenders and creditors that you're financially responsible.

Check Your Credit Score Regularly

You should check your credit report at least once a year to make sure it's up to date and correct based on your activities. You can request a free credit report from the three reporting bureaus—Equifax, Experian and TransUnion—every 12 months.

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