

# Give yourself some credit

Using credit wisely can strengthen your financial stability.

## What is credit?

Credit is part of your financial power. It helps you buy the things you need now based on your promise to pay later.

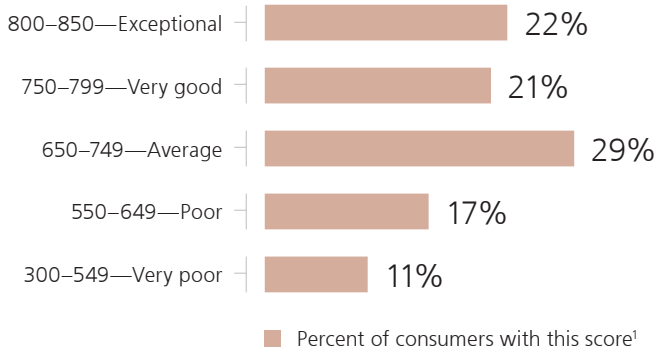
How you have used credit in the past is one factor that can determine your ability to borrow money in the future.

## Decoding credit scores

Your credit score is your reputation as a borrower and rates how likely you are to repay borrowed money as promised. Lenders use credit scores in deciding whether or not to loan money. A good credit score can make it easier to obtain loans, open new cards and secure low interest rates.

Credit scores are determined by your credit report, which is a detailed history of your past use of credit. There are multiple scoring models, but the most well known is a FICO® Score, which can range from 300 to 850. The higher your score, the more likely it is that you'll be able to borrow at favorable terms.

### FICO® Scores



## Factors that affect your credit score<sup>2</sup>



35%

### Payment history

Whether or not you have paid lenders on time in the past is the most significant factor that affects your score.



30%

### Amounts owed

Using only a small portion of your credit limit generally helps your score, while maxing out or carrying a balance on many cards may hurt your score.



15%

### Length of credit history

A longer credit history is generally better because it gives lenders more information about what type of borrower you are.



10%

### Credit mix

Having managed different types of credit, such as credit cards and a mortgage, can help your score.



10%

### New credit

Applying for many new credit cards or loans generally hurts your score.

<sup>1</sup>Dornhelm, Ethan, "Average U.S. FICO Score Ticks Up to 706," Fair Isaac Corporation, Sept. 10, 2019. <https://www.fico.com/blogs/average-u-s-fico-score-ticks-706>.  
<sup>2</sup>"What's in my FICO® Scores," Fair Isaac Corporation. [www.myfico.com/credit-education/whats-in-your-credit-score](http://www.myfico.com/credit-education/whats-in-your-credit-score).

## Tips for boosting your credit score



Always pay bills on time.



Try to pay off balances in full each month. If you can't, make at least the minimum payment.



Don't use more than 30% of your available credit on a given card or line of credit (such as \$300 on a card with a \$1,000 credit limit).



Avoid unnecessary credit inquiries, and apply for new credit cards only when you need them.



Don't close old cards, even if you no longer use them, because the longer history of old cards can help your score.



Check your credit score for changes and your credit report for errors at least once a year.

## Why good credit is so important

Building a good credit history can have wide-ranging impacts on your life. Lenders may use your credit history to determine whether or not to lend money to you and at what rate. If you are applying for a mortgage, a better interest rate could lower your monthly payments and reduce the total interest you pay over the life of your loan.

Your credit history can also affect non-financial aspects of your life. Landlords may use your credit score in deciding whether or not to rent to you. Insurance companies sometimes use scores in calculating premiums. In some cases, employers may consider your credit history when considering you for employment.

With good credit, you have one less thing to worry about.

### Key takeaways

- Credit refers to your ability to borrow money now to repay later.
- Your credit score is your reputation as a borrower. It can help determine if you can borrow money and at what interest rate.
- The most significant factors affecting your credit score are whether or not you have repaid debts on time and how much of your available credit you use.
- Paying off balances in full each month and avoiding unnecessary credit applications can help your credit score.
- Your credit score can affect many areas of your life and may be used not only by lenders but also by prospective landlords and employers.

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