

THE IMPORTANCE OF Credit Scores

WHAT IS A CREDIT SCORE?

A credit score is a number that shows how likely you are to repay debts on time. The United States has set up this system to evaluate payment history much quicker and more equitably across individuals living and working in this country.

The most common credit score system is called FICO, created by the Fair Isaac Corporation.

WHY IS A CREDIT SCORE IMPORTANT?

Credit Cards: Good scores can get you credit cards with better rewards, higher limits, and lower interest rates.

Loans: Banks use credit scores to decide if they will give you a loan and what interest rate you will pay.

Renting: Landlords check credit scores to see if you will pay rent on time.

Car Insurance: Some companies use credit scores to set your insurance rates.

HOW TO BUILD CREDIT

Get a Credit Card:

Joint Credit Card: Share a card with someone who has good credit.

Secured Credit Card: Pay a deposit to get a card.

Starter Credit Card: Get a basic card from your financial institution.

Credit Builder Loan:

Some banks and credit unions offer loans that help you build credit by making regular payments.



HOW IS A CREDIT SCORE CALCULATED (NUMBERS BELOW ADD UP TO 100%)?

Payment History (35%):

- This component looks at how well you paid back previous debts on time.
- Includes late payments, bankruptcies, and collections.

Credit Usage (30%):

- Measures how much credit you use compared to your credit limit.
- Lower usage is better.

Account Age (15%):

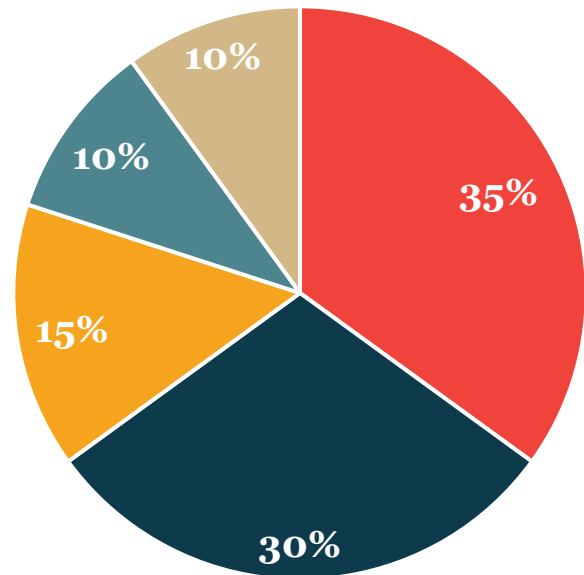
- The longer your credit history, the better.
- Shows that you can make payments over time

Credit Inquiries (10%):

- **Hard Inquiries:** When you apply for new credit, it can lower your score.
- **Soft Inquiries:** Checking your own credit does not affect your score.

Number of Accounts (10%):

- It looks better to have various types of accounts.



The following healthy financial habits will help you with your credit score:

1. Always pay your bills on time.
2. Keep your credit card balances low.
3. Check your credit report regularly.