



Understanding Your Credit

From getting approved for a loan to lower interest rates, there are many benefits to improving your credit. Use this tip sheet to learn about the factors that affect your credit score and how you can improve your score (and overall financial health).

How Is My Credit Score Calculated

The higher your credit score, the better. A high score indicates lower perceived risk to lenders. Your score is developed using credit data that is grouped into five categories:

- 40% Payment History**
Pay your debts on time. This is the single most important factor in your credit score.
- 23% Credit Usage**
Having a low credit usage percentage indicates you are not overextended and are more likely to make on-time payments. Keeping the overall balance low is good for your score, and credit cards with low balances are even better.
- 21% Credit Age**
In general, a longer credit history will increase your score. Closing credit cards you have had for a long time can adversely affect your score.
- 11% Account Mix**
It's beneficial to have different types of credit (credit cards, installment loans, auto loans, mortgage loans etc.).
- 5% Inquiries**
Hard inquiries happen when applying for new loans or credit cards and will show on your credit report. Many recent hard inquiries indicate you are in the market to borrow and lenders will be less likely to loan you money.

Steps for Improving Your Score

Now that you understand what makes up a credit score, you can start building stronger credit. Remember that building credit is a marathon, not a sprint and it will take time. But with patience and commitment to managing your credit over time, it can be done!

1. Get Your Current Credit Report

Visit annualcreditreport.com to see where you stand and check for errors. If you find something that you think is incorrect, use our resource on handling Credit Report Disputes.

2. Reduce the Amount of Debt You Owe

Work with your financial coach to develop a budget and plan for paying off expenses. After all, payment history is the biggest factor in determining your credit score.

3. Start Practicing Your New Healthy Credit Habits

Put what you are learning into practice by opening new accounts sparingly, managing credit card use responsibly and keeping credit card balances low.

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Deficient	Unfavorable	Good	Very Good	Exceptional