What Is a Credit Score?

A credit score is a number that indicates how likely it is that you will pay your bills on time. It is calculated using information from your bill-paying history, current unpaid debt, amount and type of loans you have, how long you have had your loans open, how much of your available credit you are using, new applications for loans, and whether you have had an account sent to collections, a foreclosure, or a bankruptcy. This also includes how long ago the collections, foreclosure, and/or bankruptcy occurred.

Financial institutions use this score as one of the factors to decide whether or not to give you a loan, such as a mortgage, credit card, auto-loan, etc. It is also used to determine what interest rate to charge you based on the likelihood of timely payments. This means if you have a lower credit score you most likely will end up paying more for loans. Apartment or other housing rentals may also require a credit score in order to qualify to rent them.

Building a Credit Score

- **Build Your Credit File -** Every time you open a credit account, the information is reported to the major credit bureaus. It is important to do so responsibly and only if the amount can be paid back. It will only hurt your credit if you can not. A credit card secured by a savings or checking account is a great way to start.
- **Don't Miss Payments -** Payment history is one of the most important factors in calculating your credit score. Late payments will quickly drop your score and remain on your credit report for 7 years.
- **Catch up on Past-Due Accounts -** The longer you're late, the worse it is for your credit score. Having your accounts current is good for your score, and the sooner you get there, the better.
- **Pay Down Revolving Account Balances –**Even when you're current on bills, having a high balance on credit cards and revolving lines of credit negatively affects your score. The more credit you have available to you that's not used, the better it is for your score.
- **Limit How Often You Apply for New Accounts -** While you may need to apply for loans to build your credit score, applying for too many new loans in a short period can hurt it. Average age of accounts and inquiries are minor compared to other factors, but you'll still want to be cautious.

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Credit Reporting Agencies

The three main, and largest nationwide, credit reporting agencies are Equifax, Experian, and TransUnion. These three credit reporting agencies are most likely the ones that supply your credit information when you apply for a loan, insurance, or even a new job. There are other credit reporting agencies that are smaller and more tailored to certain industries, but these three are most often and widely used.

Keep in mind that credit scores vary depending on from which reporting agency you are getting the score. That is because not all creditors report to all three, some may only report to one or two. This means some payment history may be included in one score that is not included in another.

It is recommended that you check your credit score at least annually. This way you can make sure everything is reporting correctly and monitor your progress as well as see what may need to be done to improve your score.