

Do you know what your credit score is? Why is it important? A credit score is important to establish as a young adult, improve upon once you have established, and also to maintain throughout your life. It is important because your credit score may be checked by your lenders, employers, landlords, and insurers to determine employment, financial responsibility, and rates. Knowing your credit score lets you know where you stand and is the first step in improving it. Let's take a look at basic fundamentals of a credit score.

What is a credit score?

Credit scores are the result of mathematical formulas using the information in your credit report to calculate a value which suggests how likely you are to pay your bills in the future. The credit scores you get from different companies will not be the same. There are a number of reasons for that:

- Different companies may use credit reporting bureaus, and may even send information on different days. This means on any given day the information that one company reports may differ from what another company reports.

How do I achieve and maintain a good credit score?

Answer: There is no secret formula to building a strong credit score, but here are guidelines that can help.

- Pay your loans on time, every time - Set up automatic payments, or set up electronic reminders. If you've missed payments, get current and stay current.
- Don't get close to your credit limit - Experts advise keeping your use of credit at no more than 30% your total credit limit. Credit score models look at how close you are to being "maxed out", so try to keep your balances low compared to your total credit limit. If you consolidate some credit card balances onto one card, it may hurt your credit score if this means you are using a high percentage of your total credit limit. Paying off the balance each month helps get you the best scores.
- A long credit history will help your score - Scores are based on experience over time. The more experience your credit report shows with paying your loans on time, the more information there is to determine whether you are a good credit recipient.
- Only apply for credit that you need - Credit scoring formulas look at your recent credit activity as a signal of your need for credit. If you apply for a lot of credit over a short period of time, it may appear to lenders that your economic circumstances have changed negatively.
- Fact-check your credit reports - If you spot suspected errors, dispute them. If you have old credit card accounts you are not using, keep an eye on them to make sure thieves aren't using them.
- How many credit accounts do you have and what kinds of accounts are they? - Although it is generally considered a plus to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many scoring systems consider the type of credit accounts you have. For example, under some scoring models, loans from finance companies may have a negative effect on your credit score.

Tip:

If you are new to credit, consider getting a product designed to help you establish and build credit. Financial institutions have developed an array of products and services, such as secured credit cards and credit builder loans, tailored to helping consumers new to credit to establish and build credit. Ask a UCU representative about our credit building products today!

HELPFUL RESOURCES

You can retrieve your free credit report from: annualcreditreport.com

For more information on consumer protection and credit reports visit: consumer.ftc.gov
consumerfinance.gov/ask-cfpb/category-credit-cards/