



Credit Scores and You

Know Your Credit Scores | Improve Your Credit Scores | Save Money

- ❖ **When you apply for credit or a loan, the creditor wants to know how much risk they are taking on by loaning you money or opening an account** – Your personal credit history is a major component of evaluating that risk. Therefore, you want to look at your credit report regularly to make sure it is correct. It can be obtained from each credit reporting agency for free once a year.
- ❖ **Your credit score may also be used in other important areas in your life** – Insurance companies can use them to decide what your premium should be. Employers can use them to evaluate you as a job candidate. Landlords can use them to decide if you would be a good tenant. *But it is important to realize that no one is allowed to see your credit report or your credit score without first getting your written permission.*
- ❖ **There are three major credit bureaus which report on your credit history** – Experian, TransUnion and Equifax. Each one receives monthly payment history from your current lenders and credit card companies, as well as balance, credit limit and account history. The history includes delinquent payments, collections, charge-offs, bankruptcies, settlement or dispute status as well tax liens or court judgments against you. This information is used to develop a credit score which typically ranges between 500 (a low or poor score) and 800 (a high or strong score).
- ❖ **By law, incorrect information must be deleted from your credit report** – you can dispute errors with the credit bureaus or directly with the company reporting the information. Also, negative information must be deleted from your report after 7 years (with the exception of bankruptcy which remains for 10 years). As the payment and credit information reported on you changes, and as time passes, your credit score will change as well.
- ❖ **Improving your credit score creates more options for you** – it can affect the interest rate for a home mortgage, the amount of an insurance premium, qualification for promotional auto loan programs, or access to less expensive cell phone plan.

Examples

- On a 3 year car loan, your monthly payment could be **\$100 lower** if you have a credit score of 720 rather than a credit score of 589.
- On a 30 year mortgage, your monthly payment could be **\$1,100 lower** if you have a credit score of 720 rather than a credit score of 589.

Scores can be improved many ways – but a positive payment history over the past two years, especially over the past twelve months, has the most effect on a score. Opening too many new accounts, having outstanding balances that are more than half the limit on credit card accounts, or not having any credit or lending activity in the last two years will all lower your credit score, even if you have a good history of making payments on time.

For more information on credit scores, refer to www.myfico.com and to www.Mass.gov (click on the For Residents tab, and click on Credit/Debt/Finances}. Both sites provide additional information on how to manage your credit, understanding your credit score, how to correct errors which affect your score, and how to obtain a free report from each credit bureau.